



Financial Supervision Commission Annual Report 2009

Financial Supervision Commission
Annual Report 2009

List of Used Acronyms

ABB – Association of Banks in Bulgaria	LAS – Law on Amendment and Supplement
ABI – Association of Bulgarian Insurers	HIA – Health Insurance Act
ABIRD – Association of Bulgarian Investor Relations Directors	LCI – Law on Credit Institutions
SIPC – Special Investment Purpose Company	FSCA – Financial Supervision Commission Act
CRA – Credit Rating Agencies	LMML – Law on Measures against Money Laundering
ALVHIC – Association of the Licensed Voluntary Health Insurance Companies	HIC – Health Insurance Company
APC – Administrative Procedure Code	LMMAFI – Law on Measures against Market Abuse with Financial Instruments
AEAV – Act for Establishment of Administrative Violations	LPOS – Law on Public Offering of Securities
FIA – Financial Intelligence Agency	MFIA – Markets in Financial Instruments Act
BIRS – Bulgarian Investor Relation Society	IC – Investment Company
BASPIC – Bulgarian Association of Supplementary Pension Insurance Companies	II – Investment Intermediary
BALII – Bulgarian Association of the Licensed Investment Intermediaries	IC – Insurance Code
BAAMC – Bulgarian Association of Asset Management Companies	CPC – Commission for Protection of Competition
GDP – Gross Domestic Product	CIS – Collective Investment Schemes
BNB – Bulgarian National Bank	SIC – Social Insurance Code
BSE – Bulgarian Stock Exchange	FSC – Financial Supervision Commission
GF – Guarantee Fund	MoI – Ministry of Interior
SVPI – Supplementary Voluntary Pension Insurance	IMF – International Monetary Fund
SMPI – Supplementary Mandatory Pension Insurance	PW – Penal Warrant
SPI – Supplementary Pension Insurance	GMS – General Meeting of Shareholders
VPF – Voluntary Pension Fund	CAM – Coercive Administrative Measure
VPFOS – Voluntary Pension Fund with Occupational Schemes	PC – Public Company
CF – Contractual Fund	UCIT – Undertaking for Collective Investment in Transferable Securities
GS – Government Securities	PIC – Pension Insurance Company
EEA – European Economic Area	OPF – Occupational Pension Fund
EC – European Commission	RA – Road Accident
EC – European Community	WB – The World Bank
EP – European Parliament	CEA – Council for European Affairs
IB – Insurance Broker	MC – Management Company
IAU – Internal Audit Unit	UPF – Universal Pension Fund
IC – Insurance Company	SPIF – Supplementary Pension Insurance Fund
ASIPC – Act on Special Investment Purpose Companies	ICF – Investor Compensation Fund
	CD – Central Depository
	CEBS – Committee of European Banking Supervisors
	CEIOPS – Committee of European Insurance and Occupational Pensions Supervisors
	CESR – Committee of European Securities Regulators
	HHI – Herfindahl-Hirschman Index

Useful Links

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

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Chairman's statement

Dear Ladies and Gentlemen,

It is a pleasure for me to present to you the annual report on the activities of the Financial Supervision Commission (FSC) in 2009 – an exceptionally dynamic year for the financial markets both worldwide and in Bulgaria. The shifting of the global financial crisis to the real sector, which has led to a drop in the real growth of the world economy for the first time in 40 years, is a proof of the interrelatedness between the state of the financial markets and the economic development. The financial system and economy of Bulgaria, as an EU Member State, are also following the global financial processes. As a result of the global financial crisis and the slowed down economic activity, the foreign investor interest is declining, the investments in our country shrinking.

In this dynamic situation, the FSC's efforts are directed to preserving the markets integrity and investor confidence. The Commission, in its capacity of a unified authority for regulation and supervision of the non-banking sector, continues to pursue consistent policy, expressed in regulatory, licensing and control activity. In 2009, FSC undertook additional supervisory measures for increasing the requirements to the reporting of the investment intermediaries with regard to the capital adequacy, retaining the obligations of the supervised entities to provide more frequently and more detailed information, introduced with the purpose of exercising prudential control and preserving the financial stability.

The changes in the regulations on international level and the discussed new supervisory architecture placed an accent on the improvement of the FSC's analytical capacity. The building of an expertise for assessment of the systematic risk is an important condition for successfully combining the supervision on macro and micro level. FSC may not be considered isolated from the overall institutional framework and the difficult economic situation puts natural limits and brings awareness of the need for more rational use of the financial resource. The necessary measures were taken for optimization of the authority's expenses, no delinquencies were allowed, the revenues were over performed.

During the past period, the efforts were continued for improvement of the legal framework towards enhancement of the transparency, confidence and efficiency of the financial markets. The number of notifications increased for carrying out of activities on the territory of the country under the freedom to provide services or through the establishment of a branch by European insurers, insurance and investment intermediaries and collective investment schemes registered in Member States which, in turn, demonstrated heightened interest to provision of services on the Bulgarian market. Respectively, similar structures, registered in Bulgaria, declared their willingness to operate on the European market under the "single passport". 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, a member of which it is. A twinning project was successfully launched in Montenegro, jointly with the Bulgarian National Bank and the Netherlands Central Bank.

The report on the FSC's activity is presented in two main parts. The first part covers the FSC activity in its function of a regulatory, licensing and supervisory authority of the non-banking financial sector. This part includes the role of FSC for protection of consumers of non-banking financial services, the European dimension in the Commission's activities, the activities and processes within the international and internal cooperation and the information awareness which FSC provides to the market participants and to the general public as a whole. A review is made of the policy of human resources management, the report on the internal audit activity, the Inspectorate's report as well as the improvements in the field of the information technologies as a significant instrument for enhancement of the efficiency of the Commission's supervisory activity. The budget implementation report gives the financial picture of the FSC's activity in 2009.

The second part of the report presents a market analysis of the development of the non-banking financial sector in Bulgaria, outlining the state of the world and European economic environment and the financial markets. By reason of the interrelatedness between the development of the financial intermediation and the economic activity, a detailed dynamic analysis is made of the economic situation in our country. The overview of the non-banking financial sector presents the trends in the development of the financial intermediation and risks, which the participants in the financial markets faced. Detailed independent analyses are included about the state of the capital, insurance and health insurance markets as well as for the supplementary pension insurance market.

I hope this report to be of interest and useful to the readers.

Petar Chobanov



Part I

FSC's activities in 2009

I. FSC's activities in 2009

1. Regulatory activity

The global financial crisis has directed in a natural way the efforts to stabilization of the capital, insurance and pension insurance market, to greater consumer protection and to the legal framework optimization on the basis of analysis of the market and its participants, as well as of the existing relations between them. Following its strategic goals, in 2009 the Financial Supervision Commission was involved in the elaboration of draft of laws for amendment and supplement to acting laws and codes, regulating the activities of the investment activity, insurance and supplementary pension insurance, as well as a number of sub-statutory acts which already were part of the legal basis.

1.1 Amendments to the legal framework

In 2009 the National Assembly adopted Law on amendment and supplement to the **Law on Public Offering of Securities**¹ (LAS of LPOS), aiming at harmonization of the Bulgarian legislation with the *acquis communautaire*, and in particular with Directive 2007/36/EC of the European Parliament and of the Council of 11.07.2007 on the exercise of certain rights of shareholders of companies admitted to trading on a regulated market.

In view of the significant role of shareholders for the efficient corporate governance of the companies whose securities have been admitted to trading on a regulated market, and the broad foreign participation in these companies, the Directive sets itself as major objectives the strengthening of the shareholders' role, ensuring real exercise of their rights and facilitating the cross-border voting in the general meeting. The LAS of LPOS has introduced in whole the main principles of the Directive and provides measures for ensuring the real exercising of the shareholders' right for access to full and accurate information on the issues which will be deliberated by the general meeting, the right to vote and the right to authorize a person who is to participate and vote on their behalf at the general meeting.

By the adopted by the National Assembly transitional and final provisions to the **Law on amendment and supplement of the Law on Credit Institutions**² (LAS of LCI) amendments and supplements have been made to the Insurance Code, the Markets in Financial Instruments Act (MFIA) and the Law on Public Offering of Securities, whereby the requirements are introduced of Directive 2007/44/EC of the European Parliament and of the Council of 5 September, 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. With the amendments made, the concept of qualifying holding is rendered more precisely, the regulation of the acquisition and increase of the qualifying holding is extended, covering also the acquisition by persons acting in concert. In detail are settled the procedures of the acquisition valuation and the increase of the qualifying holding, as well as its impact on the insurer, reinsurer, the investment intermediary and the management company, introducing also the criteria on the basis of which the valuation will be made.

In the field of insurance, by offering expert solutions, FSC participated in the development of additional texts of the draft law of LAS of LCI. The proposals are along two main lines: 1) the setting up of organization for reporting the insurance claims representing „total damage“, on Auto Casco insurance and on the obligatory Third Party Liability insurance of motorists; and 2) the creation of legal basis for the building of information system for risk assessment, management and control, including also for the issuance of insurance policies under the obligatory Third Party Liability insurance of motorists. The proposed regime for reporting of the total damages has as an object to assist in the prevention and counteraction to crimes, which are perpetrated while using identification numbers of frames and engines of motor vehicles, which suffered injuries, defined as total damages. The established legal basis for the building of an information system for the issue of electronic insurance policies

¹ Am., prom. in SG, iss. 23 from 27.03.2009;

² Am., prom. in SG, iss. 24 from 31.03.2009.

under Third Party Liability insurance of motorists targets at creating conditions for the development of a modern mechanism for the contracting of this obligatory insurance, which is to expedite the accountability of the concluded insurance policies and reduce the volume of errors in the filing of information.

Furthermore, by the Transitional and Final Provisions in the LAS of LCI, supplement was also made to Art.18, para 3 of the Financial Supervision Commission Act. The amendment aimed to extend the Commission's powers to the ability to gather information constituting a bank secret about the assets and operations under bank accounts, related to the execution of transactions with securities, irrespective of the circumstance whether the persons for whom it relates, violated the Bulgarian legislation. The introduced legislative amendment allowed FSC's joining the Multilateral Memorandum of the International Organization of Securities Commissions (IOSCO). With the amendment to Art. 13, para 1, item 19, a recommendation of ECOFIN from 7 Oct., 2008 was fulfilled about the inclusion of European dimension in the mandates of the Member States' supervisory authorities.

In the beginning of 2009, FSC prepared a proposal to the Ministry of Finance of a **draft law for amendment and supplement of the Insurance Code (LAS of IC)**, whereby it was envisaged the requirements to the health insurance companies to be complied with the EU Insurance Directives. This was necessitated by the fact that the activity of voluntary health insurance was identical to the activity of insurers as regards Sickness insurance, due to which the requirements of the insurance directives which directly provide such activities to be regulated by them, had to be applied towards it. In order to bring their activity in line with the proposed new requirements, it was envisaged the existing health insurance companies to apply for the issuance of a license for general insurance on Sickness insurance within a one-year period after the coming of the amendments into effect. In regard to the companies who had not applied for or had not obtained a license for insurer, it was envisaged to be transformed or terminate their activity under the procedure of the Insurance Code. A considerable part of the regulations on voluntary health insurance in the Health Insurance Act were to be repealed. It was admitted the current health insurance companies to retain their business name „health insurance company“, allowing them to carry out activity including payment of compensations for income loss, as a result of accident or sickness, possibility to reinsure the assumed by them risks, as well as to provide financially health services and goods related to the prophylaxis of the insured person, pregnancy, childbirth, etc. Comprehensive regulations were also to be set up for the different forms of health insurance in accordance with the inherent health risks. The introduction of the new terms „medical insurance“ and „insurance against income loss“ was envisaged, which were to follow the accepted international terminology and give more precise description of the offered products.

With the purpose of complying the activities of insurers and reinsurers with the updated requirements of the European legislation for a minimum required capital, also elaborated was a **draft of Law on amendment and supplement to the Insurance Code**. Changes were also proposed in the regime of approval of the budget of the Guarantee Fund (GF), targeting at introduction of more efficient and prudential control over the planning and spending of the GF's funds, creating also conditions on a sub-statutory level, a detailed and transparent budget procedure to be set up in relation to the Fund. With the draft of Law also concrete time-limits are proposed for the filing of information by the insurance brokers with the purpose of guaranteeing the possibility effective sanctions to be imposed in case of failure to submit, or delayed submission of the necessary information, which impedes the supervisory activity carried out by FSC.

FSC was involved in the work of an interagency task force, established by order of the Minister of Labor and Social Policy on the preparation of a **draft Law on amendment and supplement to the Social Insurance Code (SIC)**³. The draft law regulates the transfer of pension rights from and to the pension scheme of the European Communities. Thus national measures are introduced in fulfillment of Regulation (EEC) 31/1962 and Regulation (EAEC) 11/1962, whereby the Staff Regulations of officials and the conditions of employment of the other servants of the European Communities are adopted, and the necessary premises are created for the exercise of the right of transfer of European Communities officials.

3 Am., prom. in SG, iss. 19 from 09.03.2010;

1.2. Amendments to the sub-statutory acts

During the past year, a leading priority in connection with the performance of the FSC's regulatory functions was the elaboration and adoption of sub-statutory acts in the field of the markets of investment, insurance and social security services. The amendments made to the sub-statutory regulations aim at updating of the acting legal framework and enhancement of the efficiency of the administrative regulation and the control of the supervised persons' activities.

Investment activity

In 2009, the following sub-statutory acts regulating the investment activity were adopted:

- **Ordinance on amendment and supplement of Ordinance № 11 from 03.12.2003** on licenses to carry out activity as regulated market, organizer of multilateral trading facility, investment intermediary, investment company, management company and special investment purpose company⁴. The amendments aim at bringing the provisions of the Ordinance in compliance with the amendments to the MFIA and LPOS (made with the transitional provisions of the LAS of the Law on Credit Institutions (prom. In SG, iss. 24 from 31.03.2009), whereby Directive 2007/44/EC as regards the procedural rules and evaluation criteria for the prudential assessment of acquisitions and increase of holdings in credit institutions, insurers, reinsurers and investment intermediaries is transposed). Additional documents have been introduced, required from the person who acquires or increases a qualifying holding in an investment intermediary (respectively management company). The purpose is obtaining enough information to make an assessment of the acquisition with a view to the introduced in the law five criteria, on the basis of which the assessment is made: 1) the reputation of the person; 2) the reputation and experience of the persons who will manage the activity of the investment intermediary; 3) the financial stability of the applicant in terms of the types of services which the investment intermediary offers; 4) effective inclusion of the intermediary in the group, if it becomes part of such as a result of the acquisition, which does not impede the exercising of supervision over it; 5) the connection of the acquisition with crimes such as money laundering and terrorist financing.

In determining the documents, required for evaluation of the above mentioned criteria, the recommendations were taken into consideration of the Committee of European Securities Regulators (CESR), the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) and the Committee of European Banking Supervisors (CEBS) regarding assessment of the acquisition and increase of holdings in the financial sector, according Directive 2007/44/EC.

- **Ordinance on amendment and supplement to Ordinance № 13 from 22 Dec., 2003** on a tender offer for buying and exchange of shares⁵. The amendments adopted aim at bringing the provisions of the Ordinance in compliance with the requirements of the LPOS, with the requirements of Ordinance № 41⁶ and with the applicable European legislation in the field of tender offering. Comprehensive regulation has been introduced of the conditions and procedure for the exercising of the rights under Art. 157a and Art. 157b of the LPOS, with a view to guaranteeing the interests of the majority and minority shareholders and the setting of stable and clear standards for due carrying out of the procedures for shares buying out.

4 Am., prom. in SG, iss. 28 from 14.04.2009.

5 Am., prom. in SG, iss. 13 from 17 Feb., 2009;

6 Ordinance № 41 of 11 June, 2008 on the requirements to the content of the rationale of the prices of the shares of a listed company, including to the application of pricing methods in case of transformation, joint venture contract and commercial offering;

The Ordinance made also amendments to Ordinance № 15⁷, dictated by the necessity of agreeing the texts with the amendments offered in Ordinance № 13, as well as of removing admitted technical errors.

- **Ordinance on amendment and supplement of Ordinance № 35 from 17 Oct., 2006** on the capital adequacy and liquidity of investment intermediaries⁸. A main purpose of the amendments made is the surmounting of the difficulties related first of all to the exercising of supervision over the concentration of the investment intermediaries' exposures. In this connection a supplement has been introduced in the content of the notification which the investment intermediaries are obligated to file with FSC, in the cases when their exposures exceed some of the limits in the Ordinance. Thus, the notification must state besides the reasons that led to the excess, also specific measures as well as concrete deadline for bringing the exposures in compliance with the established limits. If needed, the Deputy Chairperson can set another deadline or obligate the investment intermediary to change the envisaged measures for bringing the exposures in line with the established limits. Amendments have been undertaken in some provisions, whereby some found in the practice imperfections have been removed and the gained experience from the application of the legal regulations has been accounted for. The expected result of the Ordinance application is guaranteeing the protection of the investment intermediaries' interests.
- **Ordinance on amendment and supplement of Ordinance № 38 from 25 July, 2007** on the requirements to the activities of the investment intermediaries⁹. The amendments made have introduced the possibility the investment intermediaries to transfer the financial instruments of clients, with whom they terminated contractual relations, not only on accounts of other intermediaries (respectively other members of the Depository), but also on personal accounts of the customers in the cases when the customer has not concluded a contract with another intermediary. This will release the investment intermediaries from expenses in relation to assets of customers with whom they terminated legal relations, but which the intermediary is compelled to keep on its sub-accounts at the Central Depository. The settlement of the relations between the intermediaries and their customers is a subject of the intermediary's general conditions, or of individual contracts concluded with the customers.

In addition to the normative activity, during the past year FSC adopted one Practice and Guidelines on the application of legal provisions in the field of the capital market.

Insurance and voluntary health insurance

In the field of the insurance and health insurance sector, two Ordinances were elaborated during the reviewed period:

- **Ordinance on amendment and supplement of Ordinance № 32 from 13 Sept., 2006** on the requirements to the organization and activity of the internal control unit of the insurer and of the persons included in an insurance group¹⁰. The amendments made aim to further develop on a sub-statutory level the regime of the internal control and the internal audit for the reinsurers by the implementation of reliable administrative and accounting procedures and adequate mechanisms. The most recent amendments in the field of the internal audit, introduced with the provisions of the Law for the Internal Audit in the Public Sector, have been also reflected in the Ordinance.

7 Ordinance № 15 from 15 May, 2004 for keeping and storing of the registers by the Financial Supervision Commission and the circumstances subject to entry;
8 Am., prom. in SG, iss. 28 from 14.04.2009.
9 Am., prom. in SG, iss. 39 from 26.05.2009;
10 Am., prom. in SG, iss. 4 from 15.01.2010;

- **Ordinance № Iz-41 from 12 Jan., 2009** on the documents and order for drawing them up in case of road traffic accidents and the procedure of communication between the Ministry of the Interior (Mol), the Financial Supervision Commission and the Information Center at the Guarantee Fund (GF)¹¹. It was adopted jointly by the Minister of the Internal Affairs and the FSC, and the draft was prepared by the interagency standing working group on the issues of the obligatory Third Party Liability insurance¹².

The Ordinance laid down the documents which are drawn up upon occurrence of a road traffic accident (RTA), as follows:

1. Statements of acknowledgement for RTAs, drawn up by the bodies of the Ministry of the Interior (Traffic Police), that visited the RTA. The bodies of the Ministry of the Interior draw up two statements of acknowledgement where there are injured persons and incurred property damages.
2. A bilateral statement of acknowledgement for a RTA, which is completed by the participants when an understanding is reached on the circumstances for the RTA and when there is only property damages caused and the motor vehicles can move on their own. The bilateral statement of acknowledgement implements the European bilateral statement of acknowledgement, adopted by the Association of the European Insurers and can be used on the territory of the European Economic Area.

Further, the Ordinance settles the time-limits and the information which is exchanged between the Ministry of the Interior and the Information Center at the GF. The data from the bilateral statements of acknowledgement are provided by the insurers to the Ministry of the Interior through the Information Center at the GF. The Mol, in its turn, provides it with data about the caused RTAs, including by which motor vehicle a RTA was caused and photos from the site of the RTA and the participants therein. The GF, on its web site, shall ensure a possibility for checking up the motor vehicles with which the RTAs were caused. The Ordinance creates the required conditions for efficient exchange of data related to RTAs, and will allow more accurate and effective determination of individual premiums according to that whether the drivers caused RTAs.

Representatives of FSC were involved in the work of a task force to the Ministry of Health on Draft of Ordinance for the general conditions, minimum insurance amount, minimum insurance premium, the procedure and time-limit for insurance of persons on which medical scientific researches are conducted. The Ordinance is in fulfillment of the legal delegation of Art. 201 of the Law on Health.

Furthermore, in 2009, the FSC adopted 4 Guidelines and 2 Practices on the application of statutory and sub-statutory acts in the field of insurance.

Supplementary pension insurance

During the year, the following Ordinances were adopted in the field of the supplementary pension insurance:

- **Ordinance on amendment and supplement of Ordinance № 9 from 19 Nov., 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 of one unit and for the requirements for keeping the individual accounts¹². The amendments made envisage in the cases where till 12:00 hrs on the day of valuation no redemption price of shares, or units, issued by collective investment schemes has been announced, their valuation to be made at the last announced price, the pension insurance company notifying the FSC's Deputy Chairperson of it. The amendment aims at unification of the valuation which the pension insurance companies made for the same shares or units of collective investment schemes. Another amendment relates to subsequent valuation of an investment property at fair value, which is done at the last business day of each quarter by an independent valuator having the legal capacity to make valuation of real property according the Independent Valuers Act. According to the hitherto acting provisions, this valuation was made only twice annually. The change aims at allowing the pension insurance companies to react more flexibly and adequately to the changes in the prices on the real property market.

¹¹ Prom., SG, iss. 8 from 30.01.2009.

¹² Am., prom. in SG, iss. 28 from 14.04.2009.

- **Ordinance on amendment and supplement of Ordinance № 9 from 19 Nov., 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 of one unit and the requirements for keeping the individual accounts¹³. The amendments reflect the experience gained from its implementation and the need of regulation of the way and procedure for valuation of the investments in a new type of financial instrument (infrastructure bonds), admissible according the latest amendments to the SIC (prom. SG, iss. 41 from 2 June, 2009). Extended is the scope of the models included in the Discounted Cash Flow method, which can be used in relation to the shares valuation, as well as the scope of the types of market multipliers, used in the application of the market multipliers method of analogue company. It has been envisaged the new valuation methods and models to begin to be used from 1 Jan., 2010 with a view to achieving comparability of the valuations during the year. Editing of some texts was made, concerning the valuation of shares and units of collective investment schemes, with the purpose of greater clarity and the terminology in the Ordinance was synchronized with that of the MFIA.
- **Ordinance on amendment and supplement of Ordinance № 10 from 26 Nov., 2003** on the requirements to the owner's equity composition structure (capital base) of the pension insurance company and to the minimum liquid funds of the company and of the supplementary pension funds it manages¹⁴. The amendments and supplements to the Ordinance and to the appendixes thereto are editorial and result both from the most recent amendments to the SIC (prom. SG, iss. 41 from 2 June, 2009), and from the necessity of terminological unification of some texts.
- **Ordinance on amendment and supplement of Ordinance № 29 from 12 June, 2006** on the minimum level of credit ratings of banks and on the definition of the countries, regulated markets and securities regulated market indexes under Art. 176, para 2 of the SIC¹⁵. The Ordinance updates the list of the regulated markets in Member States on which securities are traded in which the investing of the pension funds' resources is admissible as well as the indexes of these markets. The cases have also been settled where a bank has been awarded long-term credit ratings by more than one credit rating agency. Then the funds of the supplementary pension insurance fund can be invested in a bank deposit at such bank, if the minimum level of each of the ratings awarded to it satisfies the requirements determined by the Ordinance. A procedure has been envisaged for bringing the investments of a supplementary pension insurance fund in compliance with the statutory requirements, in case that the shares under Art. 176, para 1, item 12, letter "c" of the SIC, or the securities under Art. 176, para 1, item 13 of the SIC cease to meet these requirements due to objective changes in their quality.
- **Ordinance on amendment and supplement of Ordinance № 34 from 4 Oct., 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 transactions¹⁶. The amendments aim at improvement of the requirements to the rules of the pension insurance companies with regard to the procedures of risk monitoring, assessment and management and of the requirements and limitations for the hedging transactions. A requirement has been added, the rules obligatorily to state the used methods for assessment of the hedging effectiveness and the sources of information for that assessment.

13 Am., prom. in SG, iss. 74 from 15.09.2009;

14 Am., prom. in SG, iss. 94 from 27.11.2009;.

15 Am., prom. in SG, iss. 98 from 11.12.2009.

16 Am., prom. in SG, iss. 53 from 11.07.2009

2. Licensing activity, authorization regimes, notifications and certification

2.1. Investment activity

Licensing and authorization activity

The licensing activity constitutes the issuance of a license which is a precondition for pursuing definite types of activities, explicitly provided in the laws regulating the activities of the participants in the Bulgarian capital market. The license (full or partial¹⁷) is an act of an administrative authority (FSC), on the basis of which the applicant willing to carry out the business under a licensing regime, has the right to pursue it.

In 2009, the licensing activity in the filed of investment intermediaries was not intensive, in consequence of which a decline in their total number was recorded, and at the yearend there were 86 Bulgarian investment intermediaries operating in our country. In contrast to that, the licensing activity in the segment of the collective investment schemes was more dynamic. The interest to organization of contractual funds was retained, and their number increased with 9 during the past year. This, in turn, led to the establishment of 2 new management companies and their licensing by FSC. Nevertheless, the activity of the investment community in relation to the services offered of the collective investment schemes was not considerable, which was as a result of the financial crisis that caught up the Bulgarian capital market as well. The activity of issuing licenses for pursuing business in the special investment purpose companies was minimum, similar to the investment intermediaries, where also a decline in the number of the persons carrying out such activity was recorded, to 68 at the end of the period. Dynamics was observed in the public companies and the issuers, but under the influence of the economic crisis a fall was reported in them as well, their total number reaching 385 at the yearend.

Table 1. Licensing activity in relation to the investment community

Supervised entities	Number at 31.12.2008	Change in the period	Issued licenses	Withdrawn licenses	Refusal for the issuance of license	Number at 31.12. 2009
Investment intermediaries, incl.	88	-2	+2*	-4		86
Banks	25					25
Non-banking institutions, incl.	63	-2	+2	-4		61**
partial license*	38	0	+2	-2		38
full license*	25	-2		-2		23
Collective investment schemes	94	+8	+11	-3		102
Investment companies, incl.	11	-1		-1		10
II of open-end type	9	-1		-1		8
II of closed-end type	2					2
Contractual funds	83	+9	+11***	-2		92
Management companies	38	+2	+2		1	40
SIPC, incl.	69	-1	+1	-2		68
SIPC, securitization of receivables	8	-1		-1		7
SIPC, securitization of real estate, incl.	61	-	+1	-1		61
SIPC, (agricultural land)	8					8
Public companies and issuers	391	-6	+20	-26		385

*In the number of the issued and withdrawn licenses, one partially withdrawn (amended) license was also included for carrying out the activity of investment intermediary, that of EFG SECURITIES BULGARIA EAD, in its part for conclusion of transactions for the company's own account. **II K B C SECURITIES, BULGARIAN BRANCH and II PIONEER ASSET MANAGEMENT A.S. pursue business in Bulgaria through a branch under the freedom of establishment, and DIF BROKER – SOCIEDADE CORRETORA, S.A. pursues business by using a tied agent, equalized to a branch, and they were not included in the number of the investment intermediaries. Amended /supplemented was the issued license for carrying out the activity of II to BETA CORP AD, namely to perform additional services under Art. 5, para 3, item 7 of the MFIA within the EU and the European Economic Area and services and activities under Art. 5, para 2, item 5 and the additional services under Art. 5, para 3, item 2 – 7 of the MFIA in third countries. ***Authorization was issued to 8 MCs to organize and manage 11 CFs.

¹⁷ With full license, the investment intermediary can execute transactions for its own account as well as all investment services and activities, listed in Art. 5, para 2 of the MFIA. The required capital in these cases is BGN 1 500 000. An investment intermediary with a partial license cannot execute transactions for its own account in financial instruments and underwriting of issues of financial instruments and/ or the offering for initial sale of financial instruments on the conditions of unconditional and irrevocable obligation for subscription/ acquisition of financial instruments for its own account. The required capital is BGN 250 000.

Investment intermediaries

In connection with the administrative procedures in the licensing activity with regard to the investment intermediaries (IIs), in 2009 work was carried out on 2 pending procedures for the issuing of a license and extension of the scope of the issued license that remained from 2008. During the year, a procedure was opened for the issue of a license for pursuing the business of investment intermediary to one company, which at the end of the reporting period was not concluded. Moreover, the opened procedures for withdrawal of the issued license to pursue business as investment intermediary to three companies were not completed. The issued license to carry out activities of an investment intermediary to a company with a full license was partially withdrawn (amended) in its part concerning transactions for own account, the issued license to pursue business of another company having a partial license was withdrawn, and the issued license of two companies with full license were withdrawn on 22 Dec., 2009, where these decisions of FSC were not effectuated on 31 Dec., 2009. During the year under review, two procedures for withdrawal of the issued license to carry out the activities of investment intermediary were opened and terminated. Furthermore, during the past year, a positive standpoint was issued on a request of the BNB in connection with the licensing of a bank which is to carry out activity as an investment intermediary, as well.

Table 2. Administrative procedures in the IIs licensing activity

	Uncompleted procedures in 2008	Newly opened procedures in 2009	Concluded procedures in 2009	Uncompleted procedures in 2009
Investment intermediaries	2	11	7	6

Individual administrative acts

In 2009, in relation to application of the licensing regimes over the activities of the market participants and the regulated securities market, the Commission issued:

- **20 decisions for approval for election of members of a management body** of investment intermediaries;
- **one refusal for approval for election of a member of a management body** of an investment intermediary;
- **one decision for termination of a procedure for election of a member of a management body** of an investment intermediary;
- **5 approvals** for amendment to the **Rules of BSE – Sofia AD**;
- **approvals** for election of Assen Vassilev Yagodin, Bistra Nikolova Ilkova, Victor Tenchev Papazov, Lyudmila Krusteva Elkova, Todor Lyudmilov Breshkov and Andrei Ivanov Pramov for member of the **Board of Directors of BSE – Sofia AD**.
- **three decisions** for **correction of the admitted manifest error on the ground** of Art. 62, para 2 of the APC.

Received notifications

During the reporting period, notifications were reviewed in the Commission for acquisition of **qualifying holdings from the capital** or from the votes at the IIs General Meeting, or for increase of such participation of:

- CHIMIMPORT INVEST AD for acquisition of a qualifying holding in investment intermediary METRIK AD;
- HOLDING VARNA AD for acquisition of a qualifying holding in investment intermediary REAL FINANCE AD;
- BORISLAV TSONKOV NEDYALKOV for subsequent acquisition of a qualifying holding in investment intermediary FH EVER AD;
- SOFIA OPPORTUNITY OOD for acquisition of a qualifying holding in investment intermediary FIRST FINANCIAL BROKERAGE HOUSE OOD;

- VM CAPITAL OOD for subsequent acquisition of a qualifying holding in investment intermediary CAPITAL FINANCE AD;
- ASTRA INVESTMENT AD;
- ADAMANT CAPITAL PARTNERS AD;
- with CEE SECURITIES AD and BALKAN SECURITIES OOD the procedures were terminated on the applicant's request.

In 2009, the following notifications were reviewed for **transfer, directly or indirectly, of 10 and over 10 per cent of the capital** or of the votes at the II's General Meeting by:

- Bozhidar Ivanov Grigorov, EASYPAY AD and Dragomir Nikolov Nikolchev about transfer of a qualifying holding in investment intermediary METRIK AD;
- BULGARIAN INDUSTRY EOOD for transfer of a qualifying holding in investment intermediary FH EVER AD;
- PRATIKO INTER EOOD about transfer of a qualifying holding in investment intermediary FIRST FINANCIAL BROKERAGE HOUSE OOD.

During the period, amendments to the **general conditions**, applicable to the contracts with customers were reviewed of 16 investment intermediaries.

Notifications

At the end of 2008, the **Notifications by investment intermediaries from Member States**, which intend to pursue business 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 were in total 733 notifications by 610 investment intermediaries. Within the reporting period, 198 notifications by 189 IIs were received in the FSC, 195 of them being under freedom to provide services, one notification was for pursuing business by establishment of a branch under freedom of establishment, and 2 notifications were under freedom to provide services by using a tied agent.

Simultaneously, FSC received **notifications by investment intermediaries from the Republic of Bulgaria**, intending to pursue business on the territory of the European Union. By the end of 2008, the sent notifications, as a whole, on the Commission's side were 9 in number, while for the reporting period only FSC forwarded in total 34 notifications to Member States, from which 29 notifications for pursuing business under the freedom to provide services::

- BULBROKERS EAD – on the territory of Greece, Hungary, Romania and Slovenia;
- DELTASTOCK AD – on the territory of 24 Member States;
- INTERCAPITAL MARKETS AD – on the territory of Poland (the notification procedure is not concluded).

Moreover, 5 notifications were received by investment intermediaries from the Republic of Bulgaria, intending to carry out activity on the territory of Member States through the establishment of a branch under freedom of establishment:

- VARCHEV FINANCE EOOD – on the territory of the United Kingdom (the procedure of notification was terminated on request of the applicant);
- DELTASTOCK AD – on the territory of the United Kingdom and Romania;
- DELTASTOCK AD – on the territory of Spain (the procedure of notification is not concluded);
- GLOBAL MARKETS OOD – on the territory of Hungary (the procedure of notification is not concluded).

Collective investment schemes and management companies

In connection with the administrative procedures in the licensing activity for collective investment schemes and management companies, in 2009 work was carried out on 6 uncompleted procedures in regard to contractual funds (CFs), while during the reporting period 11 new procedures for licensing and 2 procedures for termination of the management of contractual funds were opened. Along with the licensing of the new contractual funds, their prospectuses for public offering of units were also confirmed, as well as they were filed in the register kept by the Commission under Art. 30 of the FSCA.¹⁸ In relation to the management companies (MC), 3 new procedures were opened and concluded during the past year, one of them being a denial for issuance of a license. The trend one MC to organize and manage several contractual funds each continued, the objective in most of the cases being at least one each of the three major CF (conservative, balanced and aggressive) to be established, which are to offer the full range of investment products. With regard to the investment companies, for a next successive year there was no interest registered by the investment community for the licensing of a new company, while during the year the license to pursue business was withdrawn of one IC.

Table 3. Administrative procedures in the licensing activity for ICs, CFs and MCs

	Uncompleted procedures in 2008	Newly opened procedures in 2009	Concluded procedures in 2009	Uncompleted procedures in 2009
Investment companies	-	1	1	-
Contractual funds	6	13	13	6
Management companies	-	3	3	-

Individual administrative acts

With the purpose of protecting the interests of investors, preservation of their confidence in CIS and establishment of compliance with the statutory requirements, the law has regulated the issue of a preliminary authorization, confirmation or approval by FSC, for the performance of certain actions by the supervised persons. In this relation, during the reporting period were issued:

- 11 approvals of amendments to the Articles of Association of 9 investment companies;
- 2 approvals of amendments to the Rules of portfolio valuation and determination of the net asset value of 2 investment companies;
- approval of amendments to Rules of risk assessment and management of one IC;
- approval for replacement of a bank – depository of one IC;
- 13 approvals to 4 management companies for amendments to the contract for depository services with the depository bank and one approval to one MC for replacement of the depository bank;
- one approval for inclusion of a bank in the list of the banks which can be a depository bank;
- 16 approvals of amendments to the Rules of portfolio valuation and determination of the net asset value of 16 CFs;
- 38 approvals of amendments to the Rules of 33 CFs;
- 2 approvals of programs with measures for bringing the assets of contractual funds in compliance with the requirements of the law of 2 CFs;
- 15 approvals of the risk assessment and management rules of 15 CFs.
- approval of prospectuses for public offering of units, along with a Summary for distribution in the Republic of Bulgaria of the units of two investment funds.

Received notifications

In 2009, in total 4 **notifications for acquisition** of a direct qualifying holding in MC were received on the ground of Art. 210, para 5 in relation to Art. 26, para 1 of the MFIA, in the capital of:

- SOMONI ASSET MANAGEMENT AD;
- ASTRA ASSET MANAGEMENT AD;
- CAPITAL MARKETS ASSET MANAGEMENT AD – 2 in number.

The Commission also reviewed drafts of amendments to the rules of two CFs about the admission of new classes of units.

The total number of the **reviewed in FSC advertising materials** during the period was 27. From the reviewed advertising materials about CFs, submitted at FSC by the MCs managing them, 7 **temporary prohibitions** were imposed for their publication and dissemination by 5 management companies.

Notifications

At the end of 2008, the notifications for public offering of CIS from Member States in Bulgaria were overall 8. During the period under review, in FSC **were received notifications** from four **MCs from Member States**, which intend to carry out activity on the territory of the Republic of Bulgaria under the freedom to provide services:

- Natixis Global Associates (Luxembourg);
- DnB NOR Kapitalforvaltning AS (Norway);
- AXA Investment Managers Paris (France);
- KBC Asset Management NV/SA (Belgium).

During the reviewed period, there were also two notifications received in the Commission for termination of the offering of CIS in Bulgaria.

In 2009, no **notifications** were received in FSC **by local management companies**, intending to carry out activity on the territory of Member States, as well as by CIS for public offering of their units in the EU. Thus, the number of the notifications sent by the Commission was retained as two.

Public companies, special investment purpose companies and other securities issuers

In connection with the administrative procedures in the licensing activity for special investment purpose companies, in 2009 work was carried out on one uncompleted procedure for the issue of a license that remained from 2008. During the year, one procedure was opened for the issue of a license to pursue the business of SIPC to one company, which at the end of the reporting period was not completed. Furthermore, during the period, work was also carried out on 3 procedures for the withdrawal of a license of special investment purpose companies, where one of them was terminated and the company retained its license for pursuing business.¹⁹

Table 4. Administrative procedures in the licensing activity of SIPCs

	Uncompleted procedures in 2008	Newly opened procedures in 2009	Concluded procedures in 2009	Uncompleted procedures in 2009
Special investment purpose companies	1	4	4	1

¹⁹

Detailed information about the entered and deleted companies can be found in Annex I.2.1B.

Prospectuses for public offering of securities

During the reporting period, FSC approved prospectuses for **initial public offering of shares** of **13** newly established, as well as already traded on BSE companies. Also approved were one prospectus for public offering of an issue of warrants, one prospectus for public offering of convertible preference shares and **15 prospectuses for admission to trading** on a regulated market of an issue of shares. Approved by the Commission were also **10 prospectuses for admission to trading** on a regulated market of issues of **corporate bonds**. **Refusals for approval** were pronounced in regard to the filed prospectuses for public offering of securities of **one public company and one issuer**²⁰.

During the reporting period, the Commission took decisions for the issue of:

- **approval of supplement to** confirmed by FSC prospectus of a public company;
- **47 approvals of amendments to the Articles of Association of 42 SIPCs;**
- **two refusals for approval of amendments to the Articles of Association of 2 SIPCs;**
- **approval of replacement, in relation to the activity of acquisition, management and maintenance of properties** of an issuer, of servicing companies with a new servicing company;
- **approval of replacement of the depository bank;**
- **approval of selection of a servicing company** for administration and maintenance of the issuer's real properties;
- **approval of replacement of 3 servicing companies** with a new servicing company;
- **approval of replacement, in relation to the activity of providing accounting services,** of a servicing company with a new servicing company;
- **approval of a new servicing company with regard to the activity related to agricultural land consolidation and management of the consolidated real properties;**
- **approval of a new servicing company for the activity of conducting research and analysis about identification of real properties, suitable for development of wind energy parks, and the management of these real properties;**
- **approval of selection of a liquidator** of SIPC;
- three **denials for deletion of companies** from the register under Art. 30, para 1, item 3 of the FSCA;
- three approvals for **transformation by merger of** KIMIMPEX – TRADE AND LEASING EOOD in BULGARIAN TELECOMMUNICATION COMPANY AD; ZMM METALIK AD, CORPORATION UNIMASH AD, UNIMASH INDUSTRIES AD, LASER AND OPTICAL TECHNOLOGIES-2000 AD, METALIK PRIVATE AD and NOREX-1 EOOD in OPTELA – LASER TECHNOLOGIES AD; and of ROYAL RESORTS AD and ROYAL INVESTMENT AD in ENERGONY AD according merger contracts, signed between the companies.

Tender offers for purchase of shares

In the course of the reporting period, 23 tender offers were reviewed, and FSC **pronounced the issue of 15 temporary prohibitions** for the publishing of tender offers. Following 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 17 tender offers** and in practice allowed the publishing of the **tender offers** of:

- LLI EUROMILLS GMBH (city of Vienna, Austria) for the purchase through II RAIFFEISENBANK (BULGARIA) EAD of shares of SOFIA MEL AD (2 decisions for non imposition of final prohibition);
- B G I GROUP ad for redemption of shares from all shareholders of the company with a view to reduction of the company's capital through II INTERCAPITAL MARKETS AD;
- FHC ESTABLISHMENTS (town of Vaduz, Principality of Liechtenstein) for the purchase through II FIRST FINANCIAL BROKERAGE HOUSE OOD of shares of BALKANTOURIST ELIT AD;

- Transmet Holdings International Limited (Cyprus) for the purchase through investment intermediary AVAL IN AD of shares of VELPA – 91 AD;
- CHIMIMPORT INVEST AD for the purchase through II CENTRAL COOPERATIVE BANK AD of shares of ASENOVA KREPOST AD;
- CHIMIMPORT INVEST AD for the purchase through II CENTRAL COOPERATIVE BANK AD of shares of HOLDING ASENOVA KREPOST AD;
- BUSINESS CENTER IZGREV EOOD for the purchase through II CENTRAL COOPERATIVE BANK AD of the shares of SLANTSE STARA ZAGORA TABAK AD;
- ALBENA HOLDING AD for the purchase through II BULBROKERS AD of shares of ALBENA AD;
- BALKANTOURIST LIMITED (town of Vaduz, Principality of Liechtenstein) for the purchase through II FIRST FINANCIAL BROKERAGE HOUSE OOD of shares of RILA BOROVETS AD;
- BALTIMORE EOOD for the purchase through II ASTRA INVESTMENT AD of shares of LAVENA AD;
- SINERGON HOLDING AD for the purchase through II AVAL IN AD of shares of PETAR KARAMINCHEV AD;
- Marcelo Giavarini, Valentina Strokova and BALKAN CHEMICALS EOOD for the purchase through II DEALING FINANCIAL COMPANY AD of shares of BALKAN PROGETTI MANAGEMENT AD;
- Vessela Ognyanova Kyuleva for the purchase through II FIRST FINANCIAL BROKERAGE HOUSE OOD of shares of SERDIKA PROPERTIES REIT;
- STS INVEST HOLDING AD for the purchase through II EURO-FINANCE AD of shares of NEZAVISIMOST-40 AD;
- TREND INVEST AD (town of Vaduz, Principality of Liechtenstein) for the purchase through II FIRST FINANCIAL BROKERAGE HOUSE OOD of shares of SERDIKOM AD;
- Ivan Kalinkov for the purchase through II BULBROKERS EAD of shares of BRYAST – D AD.

The Commission issued **one final prohibition** for publishing of a tender offer of RADITA OOD for the purchase through II FK EVER AD of shares of POLYANITSA AD.

Filed in and deleted securities issues from the Register kept by FSC

In 2009, **14 issues of shares in process of issuing, 35 subsequent issues of shares** (incl. 20 issues issued as a result of increase in capital, 15 issues admitted to trading on a regulated securities markets), **10 issues of corporate bonds** and **11 issues of units** were filed in the register maintained by FSC. For the same period **25 issues of securities** were **deleted** from the public register.

Notification of prospectuses

By the end of 2008, 8 notifications of prospectuses were received in FSC under Art. 18 of the Prospectus Directive, and the notifications during the reviewed period were from:

- BNP Paribas Arbitrage Issuance B.V. (the Netherlands) – notification of prospectus;
- Hewlett-Packard Company (Luxembourg) – notification of prospectus;
- VMware, Inc (Germany) – notification of prospectus;
- Societe Generale (Luxembourg) – 8 supplements to prospectus;
- BNP Paribas Arbitrage Issuance B.V. (the Netherlands) – 6 supplements 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.

2.2. Insurance and voluntary health insurance

Licensing and authorization activity

The licensing activity constitutes the issuance of a license for the carrying out of insurance, reinsurance and health insurance activity. The license of an insurer is issued for insurance and for separate classes of insurances, the procedures of licensing being regulated under the Insurance Code (IC). The scope of the license of an insurer can be extended with an additional license for a class of insurance, and of a reinsurer can be extended by an additional license for new activities.

The health insurance companies are joint-stock companies which are licensed under the Health Insurance Act and are established, carry out their activities and are wound-up under the Commercial Law. The license of the companies carrying out activity of insurance and voluntary health insurance is issued without term.

Table 5. Licensing activity in relation to insurance and voluntary health insurance

Supervised entities	Number as at 31.12.2008	Change during the period	Issued licenses	Withdrawn licenses	Refusal for the issue of a license	Number as at 31.12. 2009
Insurers, incl.	37					37
General (non-life) insurance	20					20
Life insurance	15					15
Mutual insurance co-operative societies	2					2
Branch of a foreign insurer	8	+1				9
Reinsurers for general insurance	1					1
Insurance agents*, incl.	60 194	-6 572				53 622
Legal entities	4 006	+1 914				5 920
Sole proprietors	3 101	+580				3 681
Natural persons	53 087	-9 066				44 021
Health insurance companies	20	+1	+1			21

* Including 836 agents, carrying out agency activity in favor of branches of insurers from Member States. The insurance agents are not licensed, but are subject only to entry in a register of insurance agents.

During the reporting period, there was no increase noted in the number of the licensed insurance and reinsurance companies, their number being respectively 37 insurance companies and 1 reinsurance company at the yearend. From the supervised persons in the field of insurance in 2009, a drop was registered in the insurance agents, as a result of the decline in the number of the natural persons. The licensing activity was not especially active in the segment of the health insurance companies and their number grew to 21 supervised entities as a result of one license granted in 2009

Individual administrative acts

In 2009, in connection with the administrative procedures concerning the insurance companies (ICs), health insurance companies (HICs) and insurance brokers (IBs), work was carried out on 28 uncompleted procedures that remained from 2008 and 166 newly opened procedures. The number of the concluded procedures (179) was bigger than that of the newly opened, which could be taken as an indicator of efficiency of the administrative procedures in the licensing activity during the past year. Thus, as of the end of 2009, the number of the pending procedures decreased to 15, which were transferred for resolving in future periods.

Table 6. Administrative procedures in relation to ICs, HICs and IBs

	Uncompleted procedures in 2008	Newly opened procedures in 2009	Concluded procedures in 2009	Uncompleted procedures in 2009
Insurance companies	1	4	4	1
Health insurance companies	7	15	20	2
Insurance brokers	8	53	54	7
Other procedures	12	94	101	5
TOTAL:	28	166	179	15

In 2009, the following decisions were issued in the application of licensing and authorization regimes under the Insurance Code, the Health Insurance Act and the sub-statutory acts of their implementation:

- decisions for **additional licenses** of ZD BUL INS AD for pursuing business on insurances Vessels – any damage or loss inflicted on sea vessels and Third Party Liability insurance related to the possession and use of vessels;
- authorization for **transfer of the insurance portfolio** from LIFE INSURANCE COMPANY BULGARSKI IMOTI AD to ZAD BULSTRAD LIFE VIENNA INSURANCE GROUP;
- authorization for transformation by merger of A I G BULGARIA INSURANCE COMPANY EAD, into the sole owner of its capital – CHARTIS EUROPE S. A., France;
- decision for the issue of a license for voluntary health insurance to one company;
- authorization for the offering of 5 new health insurance packages on the side of 4 health insurance companies, as well as 13 decisions for approval of changes in already approved health insurance packages;
- one decision for a **refusal to issue an approval** for the offering of new health insurance packages;
- decisions for **the entry** in the FSC's register of **47 new insurance brokers**;
- decisions for **withdrawal** of registration of **6 insurance brokers**;
- denial for entry in the FSC's register of 2 insurance brokers;
- **97** decisions for approval of **members of management and control bodies** and of **heads of internal control offices** of insurance and health insurance companies (68 approvals of members of management and control bodies of insurers, 22 approvals of members of management and control bodies of health insurance companies and 7 approvals of heads of internal control offices);
- decision for **refusal to approve one** person as a **member of a management body of an insurer**;
- decisions **for termination of 2 procedures for approval of heads of internal control offices**;
- one decision for recognizing partial legal capacity of a responsible actuary.

During the reviewed period, 2 **new auditors** were filed in the Commission's register, one auditor getting a refusal for inclusion on the list.

Notifications

During the reporting period, the active notifying on the side of the insurers and insurance intermediaries from EU Member States continued. In 2009, **44** notifications **were received** in the Commission about **insurers from Member States** of their intent to pursue business on the territory of the Republic of Bulgaria under the freedom to provide services, thus they totaled **280**.

During the past year, intention to carry out activity of insurance intermediation on the territory of the Republic of Bulgaria under the freedom to provide services was also expressed by **223 insurance intermediaries from Member States**, whereby their total number increased to **1 151**.

As of the end of 2009, FSC sent in total 7 notifications from **insurers having a seat in the Republic of Bulgaria**, with regard to extension of the territorial coverage in connection with the right of freedom to provide services on the territory of other Member States. These were: ZD EUROINS AD (for all Member States), DZI –

GENERAL INSURANCE AD and ZAD DZI (for Romania), A I G BULGARIA ZD EAD and ZAD BULSTRAD VIENNA INSURANCE GROUP (for Romania and Greece), INTERAMERICAN BULGARIA ZEAD (for Belgium, the Netherlands, Greece and Romania) and ZAD ARMEEZ (for Belgium, France, Germany, Italy, the Netherlands, Denmark, the United Kingdom, Greece, Portugal, Hungary, the Czech Republic, Austria, Finland, Sweden, Cyprus, Poland and Romania)..

In regard to the Bulgarian insurance brokers, in 2009 the Commission sent one notification of pursuance of insurance intermediation under the freedom to provide services on the territory of a Member State, thus their total number becoming 5, namely: I P S 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) and MOBIX BG OOD (for the Netherlands).

One insurer from a Member State availed itself of the right of establishment through its branch on the territory of the Republic of Bulgaria, thus their overall number reached 9, i.e.:

- CARDIFF – NON-LIFE INSURANCE, BULGARIA BRANCH;
- CARDIFF – LIFE INSURANCE, BULGARIA BRANCH;
- ZAD I N G – BRANCH SOFIA;
- Q B E INTERNATIONAL INSURANCE (EUROPE) LIMITED – SOFIA BRANCH;
- CHARTIS EUROPE S.A.;
- COFACE AUSTRIA KREDITVERSICHERUNG AG, AUSTRIA;
- AXERIA PREVOYANCE, FRANCE;
- AXERIA IARD, FRANCE;
- OLYMPIC INSURANCE CO LIMITED, REPUBLIC OF CYPRUS.

2.3. Supplementary pension insurance

Licensing and authorization activity

The licensing activity constitutes the issuance of a license for the realization of certain professional activity, the procedures of licensing the pension insurance companies being regulated under the Social Insurance Code (SIC). The pension license entitles to pursue business of supplementary pension insurance, after the obtaining also of authorization for management of a supplementary pension insurance fund, which is issued for each fund separately.

The company, applying for a license must satisfy the conditions and requirements set forth in the SIC about its type, capital, founders and shareholders and members of management and control bodies. In case of refusal, the applicant can file a new request for the granting of a pension license, not earlier than 6 months after the date of the refusal, and the license itself is issued without term.

Table 7. Licensing activity in relation to the supplementary pension insurance

Supervised entities	Number as at 31.12.2008	Change in the period	Issued licenses	Withdrawn licenses	Refusal for the issue of a license	Number as at 31.12. 2009
Pension insurance companies	10				1	10
Supplementary pension insurance funds	32					32

In 2009, too, the licensing activity of FSC in regard to the pension insurance companies (PICs) was not active. This was due, first of all, to the weak interest on the side of the business to the incorporation of new companies because of the market saturation. In 2009, FSC denied to issue a license to one company-applicant. The total number of the pursuing business pension insurance companies at the yearend remained 10. The number of the managed supplementary pension insurance funds (SPIFs) (universal, occupational, voluntary and voluntary pension fund with occupational schemes) was also retained as 32.

Individual administrative acts

During the year under review, FSC concluded one pending licensing procedure which remained from 2008. In 2009, the newly opened administrative procedures were 50 in number, 5 of them relating to FSC's licensing activity and they all were concluded during the reporting period. As a result of the efficient work on the licensing procedures, there were not any uncompleted procedures, that remained to be resolved in 2010.

Table 8. Administrative procedures with regard to PICs and SPIFs

	Uncompleted procedures in 2008	Newly opened procedures in 2009	Concluded procedures in 2009	Uncompleted procedures in 2009
PICs and SPIFs	1	50	51	-

Within its competences, during the reviewed period the Commission issued the following decisions:

- authorization **for transformation by merger** of PIC LUKOIL GARANT – BULGARIA AD in PIC CCB – SILA AD and respectively of the managed by them pension funds. As a result of the granted authorization for merger, forthcoming in 2010 is reduction of the number of companies to 9, and the funds to 29;
- **three** decisions for withdrawal of the authorization for management of universal, occupational and voluntary pension fund, managed by PIC LUKOIL GARANT – BULGARIA AD;
- **decision** for withdrawal of the pension license of PIC LUKOIL GARANT – BULGARIA AD due to merger in PIC CCB – SILA AD;
- decision for **refusal to issue** a pension license;
- authorization to T B I H FINANCIAL SERVICES GROUP N.V. (the Netherlands), **for change in the shareholding** of the pension insurance company, namely to acquire from the current shareholder BZP GROUP EAD directly 80,29 % of the capital of PIC DOVERIE PLC;
- **8 decisions for determination of the minimum rate of return** from the management of the assets of the universal and occupational pension funds;
- **9** decisions for **approval of amendments and supplements to rules of the organization and activity** of supplementary pension insurance funds;
- **21** decisions for approval of amendments and supplements to **the rules of valuation of the assets and liabilities** of a pension insurance company and of the managed by it supplementary pension insurance funds. A main reason for the made amendments and supplements to the rules was to be brought in compliance with the amendments to **Ordinance № 9** from 19 Nov., 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 of one unit and for the requirements for keeping the individual accounts (am. SG, iss.28 from 14 April, 2009 and iss. 74 from 15 Sept.2009);

- 6 decisions for **approval** of different in type **documents, requirements and model forms**.

Notifications

During the year, there were not any notifications received in FSC for pursuing business on the territory of the Republic of Bulgaria by pension insurance institutions registered in other EU Member State, as well as no notification was received about an intention of a licensed by the Commission pension insurance company to manage an occupational scheme of undertaking securer from other EU Member State. The only notification received till this moment at the Commission was from 2008, by a pension insurance fund from the United Kingdom, where in 2009 the procedure of notification was terminated on the side of the pension insurance fund.

2.4. Certification

In January 2009, FSC carried out examinations for the acquisition of a right to pursue business as a **broker** and as **an investment adviser**. The results of the conducted examinations were as follows:

- **15 candidates had successfully passed the examination for the acquiring of right to carry out activity as a broker;**
- **10 candidates had successfully passed the examination for acquiring the right to carry out activity as an investment advisor.**

During the period, applications were received in the Commission for recognition of acquired qualification of an investment advisor. After consideration of the applications, by FSC's decisions, the acquired qualification was recognized as **satisfying the requirements, included in the thematic scope of the examination** for acquiring the right to carry out activity as and investment advisor, **certified by issued by a competent foreign authority document, to 6 persons.**

Table 9. Dynamics of the certified supervised persons

Supervised persons	2005.	2006	2007	2008.	2009
Investment advisors*	23 (15)	68 (56)	87 (78)	36 (25)	23 (10)
Securities brokers *	-18 (20)	4 (26)	58 (59)	29 (25)	17 (15)
Insurance brokers	27	39	52 (8)	49 (7)	47 (11)
Actuaries			(8)	(9)	2

**The table indicates the total number of the persons who acquired right during the respective year to carry out the defined according the law activity, the persons who obtained the legal capacity in question after successfully passed examination with FSC being indicated in brackets.*The change in the number of persons who possess the relevant qualification included both the issued, and the withdrawn during the reporting period certificates to carry out activity.*

As of 31 December, 2009 there were 362 brokers and **322 investment advisors** filed in the register of the natural persons who under a contract directly execute securities transactions and provide investment advice about securities, kept by the Commission. This number also included **115 persons**, having simultaneously certificates both for brokers and for investment advice.

During the reporting period, one **examination** was held **for insurance brokers**, for which **16** candidates for acquiring a professional qualification sat, and 11 of them passed successfully the examination. In total the licenses issued to insurance brokers in the past year were 47, and the withdrawn certificates for activity – 6, as a result of which their overall number at the yearend increased to 316. Two decisions were also issued for **recognition of legal capacity of a responsible actuary**, whereby their number at the end of 2009 was **47**.

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 examination of the normatively required documents filed by the supervised persons with the Commission. If it establishes any deficiencies or inconsistencies in the submitted documents, FSC demands from the supervised persons to remove or correct them. The Commission exercises control also by **on-site inspections**, which may be planned or thematic, as well as upon signals and complaints received in connection with the activities of the supervised persons.

3.1. Investment activity

The supervision over the investment activity at FSC involves exercising of specialized supervision over the implementation and compliance with the provisions of the laws regulating the investment activity, and the sub-statutory acts of their application, on the side of 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, contractual funds, investment and management companies.

Table 10. Dynamics of the FSC's supervisory activity over the investment community

	2005	2006	2007	2008	2009
Number of supervised entities*	502	577	629	682	683
- II, BSE and CD	90	87	85	90	88
- CIS, MC, SIPC, PC and issuers	412	490	544	592	595
Total inspections	5 425	6 326	14 240	16 803	17 292
- II, BSE and CD	249	1 255	1 694	50	46
- CIS, MC, SIPC, PC and issuers	5 176	5 071	12 546	16 753	17 246
In-site inspections	74	38	64	74	64
- II, BSE and CD	52	19	35	28	30
- CIS, MC, SIPC, PC and issuers	22	19	29	46	34
Issued AEAV	249	186	302	281	281
- II, BSE and CD	129	77	120	69	54
- CIS, MC, SIPC, PC and issuers	120	109	182	212	227
Issued PW	265	97	199	136	158
- II, BSE and CD	197	50	123	59	37
- CIS, MC, SIPC, PC and issuers	68	47	76	77	116
Amount of issued PW (in BGN)		328 400	1 020 300	470 900	540 800
Amount of effectuated PW* (in BGN)	173 400	247 800	396 950	424 800	593 350
Opened procedures for imposition of CAM	575	370	159	579	203
Decision for imposition of CAM **	127	100	0 ***	121	80

* The data are as of 31.12.2009.

** Decision for imposition of CAM is taken in case that the supervised entities fail to comply with the opened procedure for imposition of CAM.

*** In 2007, the supervised entities complied with all requirements, stated in the opened procedures for imposition of coercive administrative measures, and in consequence no decision for imposition of CAM was made.

FSC's supervisory activity in relation to the investment community was extended in 2009 as well, and the number of inspections continued to increase, reaching 17 292 inspections at the yearend. This tendency followed in part the dynamics of increase in the number of the supervised persons, whose overall number reached 683 at the end of 2009. Permanent growth in the last years was also recorded by the issued acts for establishment of administrative violations (AEAV) and penal warrants (PW), related to CIS, MC, SIPC, PC and other issuers. This increase of the violations speaks of more effective supervision, exercised on the FSC's side in the course of the years, which has to continue to be strengthened with the purpose of correcting the supervised persons' behavior towards greater compliance with the legislative framework.

The amount of the effectuated PWs continued to grow, their value reaching BGN 593 350²¹ in 2009. As the percentage of the effectuated PWs remained almost permanent during the years (about 80 % of the issued warrants), the growth in their value in its greater part was influenced by the increase in the size of the pecuniary penalties and property sanctions. That was caused by both the higher minimum penalties (compared with the LPOS), indicated in the effectuated in 2007 Markets in Financial Instruments Act, and the fact that the existing legal framework was applied since certain time. In other words, after the supervised persons were well acquainted with the new legislative framework, more severe property sanctions and pecuniary penalties were applied in case of commitment of offences.

3.1.1. Investment intermediaries

The supervision of the investment intermediaries is carried out by examination and analysis of the reports on capital adequacy and liquidity, the balance sheets and the income statements of the IIs, received on a monthly basis in the FSC. This allows the current financial status of the investment intermediaries to be monitored. Upon establishment of any deficiencies and inconsistencies between the entries on the balance sheet, the income statement and the report on capital adequacy and liquidity, it is required by a letter from the respective IIs to eliminate the errors, filing the corrected documents. Whenever any violations of the statutory requirements for capital adequacy and liquidity are established, additional on-site inspections of the respective investment intermediaries' operation are conducted. The inspections are carried out for establishment of compliance with the Markets in Financial Instruments Act (MFIA), Ordinance № 38 on the requirements to the activities of the investment intermediaries, Ordinance № 35 on the capital adequacy and liquidity of investment intermediaries and conclude with the drawing up of ascertaining protocols and in the cases of breach of the statutory acts – by the drawing up of acts for establishment of administrative violations (AEAV) or with a recommendation for the undertaking of specific measures.

In 2009, FSC carried out **46 inspections**, from which **on site**, in the offices of the respective investment intermediaries, **21** were **planned** and **9 thematic** inspections. In the FSC's premises **12 off-site documentary** inspections were conducted of supervised persons. Besides them, **3** inspections of **brokers** and **1** inspection of a **person that is not** an investment intermediary were completed. The fact should be noted, that from the total number of thematic inspections one was conducted jointly with the State Agency for National Security and one – jointly with the bodies of the Ministry of the Interior.

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The difference in the amount of the issued and effectuated PW is due to the fact that after being issued by FSC, they may be appealed against at the court.

As a result of the conducted by the Commission inspections, during the year **54 AEA** were drawn up, **which were followed by 37** issued penal warrants to the amount of **BGN 71 600**. The most frequently met **violations** in the field of investment intermediation were the following:

Table 11. Most frequent violations in the field of investment intermediation

Type and ground for the violation	Drawn up AEA		Issued PW*	
	2008	2009	2008	2009
Failure to submit within the legally set term a list of the persons who possess, directly or indirectly, a qualifying holding as well as data about the possessed by them votes at the II's general meeting (Art. 40, para 2, prop. one of the MFIA)	18	5	0	1
Violation of the requirement the II to segregate its financial instruments and cash from those of its customers (Art. 34, para 1, prop. one MFIA)	12	0	4	0
Failure by an II to check at Central Depository AD if the financial instruments to which the sale order relates, are available on the customer's sub-account, if they are blocked and if a pledge is established on them, or a distraint imposed (Art. 35, para 2 Ordinance № 38)	10	1	0	2
Failure on the II's side to undertake the necessary actions to ensure the deposited cash of customers to be kept on individual accounts or on a customers' account, segregated from the II's cash (Art. 29, para 5 Ordinance № 38)	10	0	2	0
Violation of the requirement the amount of equity according a balance sheet not to be less than the minimum amount of the initial capital according the scope of the issued license (Art. 19, para 3 Ordinance № 35)	9	0	0	1
II fails to notify the FSC within the set time-limit of occurred circumstances (Art. 85 of Ordinance № 38)	3	4	1	4
Failure on the side of brokers and investment advisors to notify FSC of the termination of their contracts with II, MC or IC, stating also the ground of termination (Art. 14, para 5 Ordinance № 7)	1	3	1	1
The II's exposure to an individual person or to a group of related persons exceeds 25 % of its equity (Art. 78, para 1 Ordinance №35)	0	16	0	15
Violation of the requirement II to monitor daily its exposures to an individual person or to a group of related persons, as well as to account for the amount of its large exposures with the purpose of limiting the risk from their excessive concentration (Art. 77, para 1 Ordinance №35)	0	7	0	4

* The number of the issued PW for the given year includes both PW issued on the basis of AEA from the same year, and PW issued on the basis of AEA from the previous year. This is due to the fact that the term for issuance of PW is 6 months after the date of drawing up of AEA, according Art. 34, para 3 of the Administrative Violations and Sanctions Act.

In 2009, **26 complaints** against penal warrants and **4 complaints** against individual administrative acts of the Commission were received and completed in the Commission.

With the purpose of prevention and termination of administrative violations, the FSC carries out prudential control, opening procedures for imposition of **coercive administrative measures** (CAM), terminates or applies CAM. During the reviewed period, **7** procedures **were opened** for imposition of CAM, **6 CAM were imposed**, and **1 - terminated**. At the yearend there were not unconcluded procedures.

In reply to the financial crisis...

During the year, FSC undertook additional supervisory measures with regard to the investment intermediaries in connection with the financial crisis. The requirements for their reporting on the capital adequacy were enhanced. It is demanded from them to file their periodical report at FSC on a two-weekly basis instead of on monthly. Furthermore, they were also obligated to submit 5 additional check-ups to it: Structure of the liabilities, Structure of the receivables, Structure of the non-trading book, Structure of the trading book and Customers under contracts for portfolio management.

Information was demanded from 32 IIs, which occupy a major position on the market about: 1) analysis of the substantial risks (market, liquidity, etc.), which they face in the conditions of a financial crisis; 2) short-term strategy for management of these risks; 3) the investment objectives and strategies for management of the trading and non-trading book in a short-term period.

About 15 meetings were additionally held with representatives of intermediaries having at the respective time worsened financial indicators.

3.1.2. Public companies and other issuers of securities, special investment purpose companies, collective investment schemes and management companies

In 2009, experts from the Commission exercised specialized supervision by carrying out off-site control and on-site inspections in relation to the activity of overall 595 supervised entities - 385 public companies and issuers, 68 SIPCs, 40 management companies, 10 investment companies and 92 contractual funds (according data as of 31 Dec., 2009).

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 by the experts of the documents completeness and undertaking subsequent actions for filing the relevant circumstances in the registers maintained by FSC.

Subject to preliminary examination are also the received in the Commission applications for entry of changes in the circumstances relating to the companies, notifications of securities price-sensitive information, notifications of changes in the shareholding, notifications of dividend, as well as many other documents. In 2009, about **3 558** documents were filed on paper with FSC, which were reviewed and processed by the experts and written down in respective directions with the purpose of giving publicity to the relevant circumstances. Further **10 789** 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 **5 472** annual and quarterly reports, consolidated such, monthly reports, supplements thereto, as well as notifications of the current stage of bankruptcy or liquidation procedure of the companies in 2009.

In addition, overall **2 814 examinations** were carried out of the reports and the supplements thereto submitted by the supervised entities at FSC with regard to the completeness and the consistency of the supplied information according the legal requirements. Moreover, about **14 200** further entries were made of the issue value and redemption price of the contractual funds and the investment companies of open-end type.

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 of GMS, taking of lawful decisions by GMS) are examined by the experts in the Commission. For the period under review, **1 739** such thematic documentary inspections were conducted.

In 2009, totally **70** documentary inspections were carried out in connection with applications filed by management companies and investment companies for approval of a programme with measures for bringing the assets of the managed by them CIS in compliance with the requirements of the law. This is required in the cases where the MC or the IC have found out violations of the investment limits in regard to the portfolios of the managed by them CF and IC and such violations are due to reasons beyond their control. As a result of these documentary inspections, FSC issued:

- 63 individual administrative acts, whereby it approved the respective programme with measures for bringing the assets in compliance with the offended legal requirement;
- 5 individual administrative acts, whereby it terminated the opened administrative procedure for approval of the programme;
- 2 individual administrative acts, whereby it did not approve the programme.

In relation to exercising the supervisory functions with regard to disclosure of price-sensitive information concerning securities, there is a process established in FSC 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 LPOS and Ordinance № 2. If there are data about possible legal offences, letters are sent to the respective persons, whereby additional information and documents are demanded and a documentary thematic inspection is conducted. Periodically, (every two weeks) a memorandum is prepared to the Commission Chairman on the accomplished actions in connection with the established process of ongoing monitoring. During the reporting period, **154** such inspections of the available at FSC data were carried out.

In relation to the requirements of Art. 145 of the LPOS for the **disclosure of a shareholding** in the capital of a public company, other issuer of securities or SIPC, the Commission conducts inspection of the information received from Central Depository AD and the notifications made under the above mentioned article of the Law and if needed, undertakes actions. If there are data of possible legal offences, letters of invitation are sent to the respective persons for drawing up of AEAV to them. As a result of the completed during the period **51 thematic inspections** of the available at FSC information and the established breaches of the requirements of the law, AEAV were drawn up under Art. 145 of LPOS.

In 2009, **78 thematic documentary inspections** were conducted of **MCs** for compliance on their side with the provisions of Art. 40 of the MFIA, to inform the Commission of each acquisition or transfer of a qualifying holding within one day of coming to know of it and to provide FSC twice annually (at 30 June and 31 December) within a 10-day period of the indicated dates, with a list of the persons possessing, directly or indirectly, a qualifying holding, as well as data about the held by them votes at the general meeting. Moreover, **210 thematic documentary inspections** of CIS were carried out regarding their obligation to submit at FSC and publish updated full and short-form prospectuses.

In the course of the year, **546 other documentary inspections** were carried out which in their substance were thematic and were conducted on site at FSC. **45** from them were initiated by received complaints and warnings, and **13** were with reference to inquiries of citizens and institutions. Furthermore, FSC self-approached itself upon cases of doubts of legal offences and conducted **302** thorough inspections, for which documents were additionally required in connection with Art. 114 of the LPOS, about conducting of GMS, about data in the reports, appointment of investor relations directors (IRD), etc. Apart from that, **186** examinations and processing of applications were performed for admission to the E-Register. In all 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. Most of 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' interests. 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 the inspections carried out on the basis of a warning or a complaint.

In reply to the financial crisis...

In 2009, in connection with the continuing financial crisis and the instability of the local and international capital markets, the obligation was retained for the management companies to provide to FSC additional information about: 1) number and absolute value of the sold and redeemed units/shares of the managed CFs and ICs; change in NAV, due only to revaluation of assets; 2) volume of cash of the managed CFs and ICs on payment and deposit accounts, as well as information on the banks in which they were opened. This measure was introduced with the purpose of exercising prudential control over the CIS financial stability. The obligation thus introduced dropped off in December 2009 as a result of the stabilization of the CIS financial situation.

On-site inspections

During the reporting period, overall 34 on-site inspections were launched and concluded by the place of the companies' seat, from which:

- 16 planned inspections of 6 SIPC's and 10 companies servicing them;
- 2 planned inspections of MCs and 3 of the managed by them CFs and ICs;
- 4 extraordinary thematic inspections of MCs and 6 of the managed by them CFs and ICs;
- 3 extraordinary thematic inspections of PC's and SIPC's.

One of the above listed on-site inspections of a MC and the managed by it CIS was conducted jointly with the State Agency for National Security. All inspections were completed with the drawing up of ascertaining protocols.

Coercive administrative measures, acts for establishment of administrative violation and penal warrants

Upon established breaches of FSCA, LPOS, ASIPC, MFIA, LMMAFI and the sub-statutory acts of their implementation, the offenders are invited by a letter at FSC for clarification of the factual circumstances and engagement of administrative penal responsibility. If they fail to appear, acts are drawn up to the same for establishment of administrative violations (AEAV) according the provisions of Art. 40 of the Administrative Violations and Sanctions Act, in the absence of the offender.

In 2009, overall **29 AEA**V were drawn up for committed offences in the field of the collective **investment schemes** and the **management companies**. As a result, 5 penal warrants were issued to the amount of **BGN 27 500**. In most cases the violations related to:

Table 12. Most frequent violations in the field of CIS and MC

Type and ground of the violation	Drawn up AEA		Issued PW*	
	2008	2009	2008	2009
Non-fulfillment within the legally set term of the obligation the MC to inform FSC of definite circumstances (Art. 37, para 2 of Ordinance № 26)	3	0	0	0
Failure on the side of MC to submit an annual and quarterly financial statements at FSC within the legally set time-limit (Art. 38 of Ordinance № 26)	1	1	0	0
Failure to submit within the legally set term a list of the persons who possess, directly or indirectly, a qualifying holding as well as data about the held by them votes at the General Meeting of MC (Art. 40, para 2 of MFIA)	0	17	0	1
Violation of the investment limitations on the side of IC and failure to apply a programme with measures for bringing the assets in compliance with the requirements of the law (Art. 196 of LPOS)	1	3	0	0
Failure to submit on the side of IC and CF of quarterly financial statements to FSC and to the general public within the legally set time-limit (Art. 73c, Item 2 of Ordinance № 25)	0	6	0	0

* The number of the issued PW for the year includes both PW issued on the basis of AEA from the same year, and PW issued on the basis of AEA from the previous year. This is due to the fact that the term for issuance of PW is 6 months after the date of drawing up of AEA, according to Art. 34, para 3 of the Administrative Violations and Sanctions Act.

In 2009, the supervised persons filed 5 complaints against the penal warrants. Procedures for application of CAM with the purpose of violations prevention, were not opened during the year.

The acts drawn up for establishment of administrative violation in the **public companies (PCs), SIPC**s and the **other issuers** of securities were **199** in number. During the reviewed period, totally **116 penal warrants** were issued at the amount of **BGN 441 700** for the established with acts offences, the most frequently met being:

Table 13. Most frequent violations in the field of PCs, SIPCs and other issuers

Type and ground of the violation	Drawn up AEAV		Issued PW*	
	2008	2009	2008	2009
Non-submission or submission with delay of annual and quarterly financial statements about the activity of PCs and issuers (Art. 31 of Ordinance № 2)	37	58	23	33
Non-compliance with applied CAM under Art. 212 of LPOS (Art. 221, para 6 of LPOS)	30	9	14	9
Failure to disclose a shareholding in the capital of a public company, other issuer of securities and SIPCs (Art. 145 of LPOS)	10	6	4	5
Conclusion of transactions by the management of the public companies and the securities issuers, exceeding the legally set thresholds, without explicit authorization on the GMS side (Art. 114, para 1 of LPOS)	9	11	1	3
Failure to submit all required materials for GSM and to announce the invitation for GMS to the general public according the procedure established by law (Art. 115 of LPOS)	7	21	1	12
Non-submission or submission with delay of annual and quarterly financial statements for the activity of SIPCs (Art. 40 of Ordinance № 2)	7	6	4	3
Failure to record the full, required by law information about the results of the voting in the minutes from the GMS and to submit the minutes to the FSC and the general public according the procedure and time-limit set by law (Art. 117 LPOS)	0	11	1	9

* The number of the issued PW for the year includes both PW issued on the basis of AEAV from the same year, and PW issued on the basis of AEAV from the previous year. This is due to the fact that the term for issuance of PW is 6 months after the date of drawing up of AEAV, according Art. 34, para 3 of the Administrative Violations and Sanctions Act.

According the dynamics, the most frequently met violations with regard to PCs, SIPCs and other issuers, the number of drawn up AEAV relating to non-compliance with applied CAM, decreased in 2009 compared with the preceding year, which speaks of improvement of the supervised persons' discipline.

During the period, **31 complaints** were received against penal warrants and 2 complaints against an individual administrative act of the Deputy Chairperson in charge of Investment Activity Supervision Division.

Simultaneously, during the year, with the purpose of prevention, FSC **opened 196 procedures** for application of **CAM**. **Terminated were 154** and **applied 74 CAM**, these numbers including also measures whose procedures were opened in 2008. As at the end of 2009, all procedures were concluded.

Besides the above stated inspections, within the reviewed period, FSC also conducted a number of inspections over compliance with the provisions of the Law on Measures against Market Abuse with Financial Instruments, 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 found out offences:

Table 14. Most frequent violations related to unfair trade with securities, market manipulation, inside information and insiders

Type and ground of the violation	Drawn up AEAV		Issued PW*	
	2008	2009	2008	2009
Violation of the obligation on the side of the persons who perform managerial functions in an issuer, and closely related persons, to notify in writing FSC, within the legally set time-limit, of the concluded for their own account transactions to amount over BGN 5000 within one calendar year, with shares issued by the issuer (Art. 16 LMMAFI)	69	18	11	10
Failure on the II's side to fulfill the obligation to act honestly, fairly and in a professional manner in accordance with the best interests of its customers and to inform them of the risks from the transactions with financial instruments (Art. 27, para 2 MFIA)	3	0	3	0
Manipulation of the market in financial instruments through actions and transactions mentioned under Art. 6, para 1, Item 1 of LMMAFI (Art. 11 of LMMAFI)	2	6	3	5
Use by a person of inside information for acquisition or transfer of financial instruments (Art. 8, para 1 in relation to Art. 4, para 1 of LMMAFI)	2	1	2	1
Failure by an investment intermediary to fulfill the obligation to file all orders of its customers in a special register in the succession of their receiving and to execute them while observing this succession (Art. 72, para. 1 LPoS)	2	0	2	0
Non-disclosure by an issuer of inside information directly related to it, under the procedure and within the term set by law (Art. 12 of LMMAFI)	0	1	1	0

* The number of the issued PW for the year includes both PW issued on the basis of AEAV from the same year, and PW issued on the basis of AEAV from the previous year. This is due to the fact that the term for issuance of PW is 6 months after the date of drawing up of AEAV, according Art. 34, para 3 of the Administrative Violations and Sanctions Act.

3.2. Insurance and voluntary health insurance

The supervisory activity which FSC exercises in this field is control over the activity of insurance 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 implementation.

Table 15. Dynamics of the FSC's supervisory activity in insurance and voluntary health insurance

	2005	2006	2007	2008	2009
Supervised persons*, incl.					
Insurance companies	31	36	37	37	37
Reinsurance companies	-	-	-	1	1
Health insurance companies	12	13	15	20	21
Insurance brokers	182	215	235	275	316
Insurance agents		над 31 000	49 802	69 093	53 622
Total inspections, incl.	1482	1434	1568	2010	2309
- on-site inspections	101	32	101	43	68
- inspections by documents**	1381	1402	1467	1967	2241
Issued AEAV	65	71	208	390	335
Issued PW	31	40	93	302	153
Value of effectuated PW (in BGN)	26 400	121 700	266 400	1 675 880	529 360
Opened procedures for CAM		19	26	16	25
Decision for applying CAM***	7	5	8	12	16
Initiated lawsuits		20	49	177	176

*The number of supervised persons does not include the Guarantee Fund. ** The number of conducted inspections by documents includes only the inspections made of the periodical reports and information of the supervised persons and the complaints. *** Decision for applying CAM is taken in case that the supervised persons have failed to comply with the opened procedure for application of CAM.

During the past five years, variable dynamics was observed of the inspections conducted on-site. This was due to the enhanced volume of the carried out off-site inspections, related to the increased number of supervised persons and most of all to the considerable increase in the number of the insurance intermediaries and health insurance companies.

The conducted planned inspections grew in parallel with the number of the conducted joint inspections which were both with other European supervisory authorities on the initiative of the group supervisory authority, and with local institutions (predominantly with the State Agency for National Security). These inspections, in their nature, are thematic and are focused on a definite area, the purpose being to find out the problematic parts as well as to get clearer idea of the organization of the activity.

During the past two years, the number of inspections focused on the internal control system, financial standing, internal organization, risk management and consistency policy in the inspected companies increased. At the same time, the volume of inspections conducted in relation to Third Party Liability insurance of motorists of insurance companies and insurance intermediaries during the campaign on the same insurance, was retained.

The most often met offences, established in exercising the current control, were the following:

- non-observance of the time limit for determination and payment of insurance indemnity, or preparation of a reasoned refusal on submitted insurance claims;
- non-observance by insurers of the time limit for reporting of concluded policies on Third Party Liability insurance of motorists to FSC;
- non-compliance with the requirements to investment and to diversification of the assets for cover of the health insurance reserves.

Off-site control

The off-site supervision is based on annual and periodic reports of the insurers, reinsurers, health insurance companies, the insurance and reinsurance brokers, and the Guarantee Fund, as well as on required additional information for certain spheres of their activities. Through the off-site supervision a full analysis is made of the activity and the results thereof of all supervised persons. As a consequence of the exercised off-site supervision, actions are undertaken for conducting 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 2009, on the basis of annual and periodic financial statements, statistics and demanded additional information, over **2 370 inspections** were carried out (only the number of the inspections of the periodic reports and statistics of the supervised persons and the complaints was 2 241).

On the basis of submitted reinsurance programmes for 2009, **35 opinions** were prepared to the insurance companies. Also, **5 opinions** were drawn up about submitted reports by insurance companies in liquidation and bankruptcy.

Off-site supervision and measures related to the solvency of the insurance, reinsurance and health insurance companies

On the basis of the statistics received from the insurers and health insurance companies at the end of each quarter, about the rate of the solvency margin and the own funds, an inspection is carried out of the way of determination of their size and for compliance with the legal requirements for solvency. In 2009, as a result of the inspections accomplished by documents, deviations were found from the normative requirements for minimum amount of the own funds for **4 insurance companies** and **1 reinsurance company**. In consequence of the applied supervisory measures, 5 plans were submitted for additional raising of own funds, 4 from which are fulfilled at the present time.

During the year, deviation was established for 6 health insurance companies from the statutory requirements of Art. 252 of the Commercial Law about the net asset value. As a result of the applied supervisory measures, all 6 health insurance companies fulfilled the orders and undertook measures for bringing their capital in compliance with the requirements.

Off-site supervision and measures related to the adequacy of the premiums

On the ground of the filed with FSC regular statistics and reports, the technical result for the last three-year periods is defined by classes of insurances. On the basis of these results, at the end of each quarter, an analysis is made of the adequacy of the premiums, while from the insurers with which a negative technical result is established for a certain class of insurance for the above mentioned periods, an explanation is required for the measures which will be undertaken for fulfillment of the legal requirements for conformity of the amount of premiums to the assumed risk and the expenses on the relevant class of insurance.

In view of the negative technical result of the obligatory Third Party Liability insurance of motorists, additional information was demanded from the insurers offering the insurance about the number of the insured motor vehicles by separate categories, according which the premium is differentiated, the average amount of damages, the frequency of the events, the loss ratio. On the basis of these data, the structure of the portfolio was analyzed for each insurer and the average amount of the premium per one MV according the acting tariffs. In summary, the information about the above quoted indicators by separate categories of MVs was provided to the insurers.

From all insurers offering Third Party Liability insurance of motorists, with which the earned premiums proved to be inadequate to cover the incurred claims and the expenses on the insurance (14 from totally 16 companies), on an ongoing basis during the year a plan was required for reaching adequacy of the premiums and change in the tariffs, reflecting the change in the market conditions and trends relating to insurance. In December 2009, CAM were imposed on the companies which failed to take actions to ensure premium adequacy.

Off-site supervision and measures related to the adequacy of the set aside technical provisions

The adequacy of the technical provisions at the end of each quarter is established by a system of indicators and ratios, determined on the basis of the submitted quarterly data. In July 2009, an off-site control recalculation was made of the formed as of 31.12.2008 unearned premium reserve by all non-life insurance companies. Additional information was demanded from some of the insurers about the classes of insurances where substantial differences were found between the obtained result and the amount of the formed reserve. Furthermore, the reserve amount was recalculated for each acting at the end of 2008 policy.

On the basis of the results by classes of insurances for each quarter, an analysis is made of the need of forming unexpired risk reserve and its amount is determined, and this amount is compared with the formed reserve by each insurer at the end of the relevant quarter. AEAV were drawn up for non-formed unexpired risk reserve, or setting aside of less than the required amount,

With regard to the reserve for the claim settlement expenses, information was demanded from the insurers about the types of expenses which were included in this type of reserve, their allocation by classes of insurances and the percent of the individual expenses in the amount of the paid claims. On the basis of the obtained data, analysis was carried out of the adequacy of the formed by the companies reserve.

In connection with the determination of the amount of the reserve for incurred but unsubmitted claims for all classes of insurance, aggregated and published on the FSC's web site information was demanded from the non-life insurance companies, about the number and the value of the submitted and paid till the end of 2008 claims by year of event and year of submission (payment) of the claims. With reference to the applied methods for formation of reserve for incurred but unsubmitted claims on Third Party Liability insurance of motorists, at the end of each quarter information was summarized and provided to the insurers about the amount and number of paid off and submitted claims on the insurance, the value of the development factors, the market share of

each company in the number of the insured MVs and the general for the market amount of the reserve for incurred but unsubmitted claims. FSC approved the applied by the insurers at the end of 2008 and currently in 2009 method of formation of the reserve for incurred but unsubmitted claims on Third Party Liability insurance of motorists.

Risk based supervision and awarding of risk rating to the insurers

With the purpose of exercising risk based supervision, a methodology was developed for determining the risk rating of the individual non-life insurance companies. On the basis of data for the last 5 years, indicators were evaluated, reflecting the separate risks – undewriting risk, investment risk, credit risk, liquidity risk, operating risk, etc. On the basis of a frequency analysis, limit values were defined of each indicator. A risk matrix was drawn up, in which the place of each company was set according to the probability of occurrence of risk and its market impact. In order to improve the assessment of the individual risks, an analysis is necessary to be made and additional data to be collected, and the methodology is to be developed for the insurers pursuing business of life insurance as well as for the health insurance companies.

Off-site supervision related to offered insurance products

A study was conducted of the impact of the financial crisis over the maximum rate of the technical interest under the life insurance contracts, used in the calculation of the premiums and reserves, set at 3,5 %. Information was required and received about the offered by the life insurers products, their specific conditions and the applied technical interest. An opinion was also required from the insurers regarding the need of correction in its maximum rate. As a result of the study carried out, it was established that it was not necessary to correct the maximum rate of the technical interest.

Off-site supervision related to the reporting to FSC by the insurance, reinsurance and health insurance companies

In the last quarter of 2009, opinions and comments were requested from the Association of Bulgarian Insurers (ABI), the Association of the Licensed Voluntary Health Insurance Companies (ALVHIC), all (re)insurance and health insurance companies in connection with assessment of the necessity of making amendments to the provisions of *Ordinance № 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*, or for the practices of its implementation. The requested opinions were provided and on the basis of the results of the study the preparation of proposal for amendment to the Ordinance is forthcoming.

Off-site supervision and measures related to the insurance intermediaries

Upon reviewing the submitted by the insurance brokers reports and statistics for 2008 and for the first half-year of 2009, incorrect distribution was found out of the data on the insurance contracts by classes of insurances, compared to the established such in the IC, incorrect completion of the model forms, failure to submit the report and the statistics in the form of an electronic documents signed by an electronic signature, incorrect presentation of the summarized information. With the purpose of giving clarity with regard to the correct reporting of the insurance brokers' activity to FSC, explanations were prepared which were published on the Commission's web site.

In exercising off-site supervision over the insurance brokers' activity, FSC also carries out monitoring over the application of the **acquis communautaire**, overseeing for compliance with the provisions in relation to pursuing intermediary activity on the territory of other Member States under the freedom to provide services. In this connection additional documents were demanded, related to the activity carried out by the insurance brokers under freedom to provide services as well as to their activity for intermediation of insurers having a seat in other states.

In reply of the financial crisis...

In connection with the financial crisis and with the purpose of early addressing of the eventual effects from it, the following measures were taken:

- insurers to submit additional information about the amount of own funds and the solvency margin for a shorter period (for each quarter);
- the non-life (general) insurance companies to submit on a monthly basis information about the insurance amounts by classes of insurances Credits, Suretyship and Miscellaneous financial loss (financial insurances). On the basis of this information, compared with the information about the premiums, technical provisions and the indemnities, when applying the relevant ratios, it is monitored for early appearance of unfavorable deviations in the development of these insurances. An inspection is also carried out of the general conditions and tariffs of the non-life insurance companies, related to preventive analysis of the trends in the development of the market of financial insurances;
- conducting of stress tests of the insurance companies on a quarterly basis. With regard to one insurer it was found out that the free own funds (the capital buffer) would not cover an eventual loss in case of change in the value of investments as a consequence of unfavorable development of the regulated capital markets, which would result in violation of the requirements for solvency. Preventive measures were taken towards this insurer related to undertaking actions for limitation of the risk and submission of information on the current value of investments in every two weeks.

On-site inspections

In 2009, 68 planned and thematic on-site inspections were conducted (including also unconcluded) of (re) insurance companies, health insurance companies and insurance intermediaries, from which 43 inspections were regarding the obligatory Third Party Liability insurance of motorists. 2 inspections were also carried out of companies on suspicion that they pursued business without having obtained the required authorization.

The tendency which was noticed for the last 5 years is that the number of the conducted joint inspections increased, both on European level (with other European supervisory authorities on the initiative of the group supervisory authority), and on local level on the initiative of the State Agency for National Security (SANS). These inspections were thematic and were focused on a definite area, the purpose being to find the problematic areas and to get more clear idea about the organization of the supervised persons' operation.

During the last two years, the number of inspections grew that were focused on the internal control systems, financial standing, internal organization, risk management and the consistency policies of the inspected companies, while the intensity of the inspections conducted for Third Party Liability insurance of motorists of insurance companies and insurance intermediaries during the campaign on Third Party Liability insurance was preserved.

The FSC's engagement in the organization and conducting of joint European inspections increased.

Inspections of insurance companies and health insurance companies

In 2009, the following inspections were completed:

2 planned and 1 thematic inspections (launched in 2008) relating to insurance companies. The scope of the inspections covered:

- 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) evaluation of the expenses and other operating income; 3) assessment of the liabilities and the process of submission and settlement of claims on the basis of data for all submitted and paid claims for a period not shorter than five years; 4) asset evaluation; 5) assessment of the adequacy of the formed reserve 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 provisions and the financial status, targeted at establishing the trustworthiness of the data presented in the periodic reports and statistics, and at finding out if the formed technical provisions are adequate to meet future liabilities for payment of indemnities;
- inspection of activities which could affect the insurer's organizational and financial stability;

11 inspections (opened in 2009) of 8 insurance companies, of a reinsurance company and of 2 health insurance companies. **9** of the inspections were concluded.

A part of the above stated 11 inspections were carried out jointly with other institutions, namely:

3 joint inspections with the State Agency for National Security (SANS), including 2 inspections of insurance companies and 1 inspection of a health insurance company. The scope of the inspections covered:

- establishment of the fulfillment of the obligations under the Law on Measures against Money Laundering (LMML);
- establishment of the financial status of the insurance companies under the IC;
- inspection of the available cash of the health insurance company under the HIA;

4 thematic joint inspections of non-life insurance, life insurance, reinsurance and health insurance companies, initiated by the Italian supervisory authority (ISVAP) and carried out with the participation of 11 Member States. The purpose of the inspections was assessment of the internal control system, risk management and consistency policy in the inspected companies, enhancing at the same time the cooperation between the different supervisory authorities. Upon the inspection's conclusion, summarized information was prepared for the Italian supervisor about the results of the inspection and statistics for main financial indicators of the inspected companies;

1 joint all-European inspection of a life insurance company – at the end of 2008, a representative of FSC was elected by the Bank of Holland for a member of a European Project Group, which had for an object to organize and assist the conducting of a second joint all-European inspection of one of the life insurance companies. Its scope included checking of the organizational structure, investment policy and risk management of the company. The European Project Group consisted of 4 members – 2 representative of the Bank of Holland, a representative of the Hungarian supervisory authority and a representative of FSC. In 2009, the group made the overall preparation for the inspection of the concerned company in 7 European states. The necessary questionnaires and accompanying documents, model forms of reports, etc. were prepared. In September and October 2009, the joint inspection itself of the company was carried out, while in Bulgaria it ran in early September. After a control meeting held in Amsterdam, at which an overall review was made and comparability of the assessed principles, the inspection concluded, a letter with findings and recommendations being sent to the inspected company. In December, the Bank of Holland delivered to the company the group report, to which the reports of the separate states were also enclosed;

1 thematic inspection of an insurance company, initiated by the supervisory authority of Austria, covering the process of claims settlement and formation of loss reserve under Third Party Liability insurance of motorists and Casco of motor vehicles.

Inspections of insurance intermediaries

For the reviewed period, in total **11 inspections** were conducted of insurance intermediaries, from which:

- **4 thematic inspections** of insurance brokers for the application and conclusion of Land Vehicles insurance in connection with the applied general conditions of the insurance;
- **4 inspection** over compliance with the provisions of the IC and the prevention and detection of legal offences;
- **2 joint inspections with the State Agency for National Security** of 1 insurance agent and 1 insurance broker for establishment of the fulfillment of the obligations under the IC;
- **1 inspection** of an insurance agent in relation to a signal.

Inspections and undertaken measures, related to the obligatory Third Party Liability insurance of motorists

43 inspections were carried out of insurers and insurance intermediaries in relation to Third Party Liability insurance, where the following were checked:

- the offered tariffs for the insurance and their observance;
- the assignment of activities of insurance intermediation to other persons that do not have the right to pursue such business;
- the carrying out of activity as an insurance agent for more than one insurer.

Coercive administrative measures, acts for establishment of administrative violation and penal warrants

As a result of the conducted inspections, ascertaining protocols were drawn up in the cases when no offences were established. In case of offences of the legal regulations, AEAV were drawn up and served and coercive administrative measures were imposed.

In 2009, **335** AEAV were drawn up to supervised persons, from which **236** to **non-life (general) insurance companies**, **14** to **life insurance companies**, **67** to **health insurance companies**, **13** to **insurance brokers** and **5** to **other persons**. The most frequently met violations in the acts and the issued in consequence PW were the following:

Table 16. Most frequent violations in the insurance and voluntary health insurance

Type and ground of the violation	Drawn up AEA		Issued PW*	
	2008	2009	2008	2009
Failure to pay in time submitted claims for payment of insurance indemnities (Art. 107 of the IC)	114	133	121	56
Failure to submit in time information about the concluded contracts on the obligatory Third Party Liability insurance of motorists (Art. 294 and 317a of the IC)	59	6	50	4
Pursuance of business of insurance intermediation by an insurance agent for more than one insurer (Art. 166 of the IC)	47	0	2	0
Non-observed time-limit for pronouncement on a claim under the obligatory Third Party Liability insurance of motorists (Art. 271 of the IC)	27	31	25	11
Non-observance of a time-limit for notification and for submission of annual and periodic reports and statistics by insurance brokers (Art. 162 of the IC)	26	0	31	0
Non-compliance with the requirement the health insurance company to invest the health insurance reserves in definite assets and in definite ratio (Art. 90e of the HIA)	24	7	12	2
A health insurance package other than the licensed one (Art. 105b, HIA)	0	53	0	31
Non-submitted reinsurance programme (Art. 319 of the IC)	0	12	0	0

* The number of the issued PW for the given year includes both PW issued on the basis of AEA from the same year, and PW issued on the basis of AEA from the previous year. This is due to the fact that the term for issuance of PW is 6 months after the date of drawing up of AEA, according Art. 34, para 3 of the Administrative Violations and Sanctions Act.

For the period, **153 penal warrants were issued, 105 of them being to insurance companies, 42 to health insurance companies, 2 to insurance brokers, 3 to insurance agents (2 to natural persons and 1 to a legal entity) and 1 for the Guarantee Fund.** In 2009, administrative sanctions to the amount of **BGN 529 360** were imposed under effectuated penal warrants .

During the period, **26 procedures** for imposition of **CAM** were opened, from which 14 to **non-life insurance companies, 1 to a life insurance company, 9 to health insurance companies, 1 to an insurance broker and 1 to an insurance agent.**

3.3. 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 (SPIFs), with the purpose of protecting the insured persons' interests and guaranteeing the market integrity, is exercised 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. Ascertaining protocols are drawn up of the results from the on-site inspection of the operation of SPIFs, the custodian banks and PICs, respectively the results of the off-site control are systematized in weekly, monthly, quarterly and annual reports, in accordance with the approved Methodology for off-site control and on-site inspections of the activity of PICs and the managed by them SPIFs and the custodian banks under the Social Insurance Code (SIC).

The FSC's supervisory activity in the segment of the supplementary pension insurance continued to grow in 2009, despite the retaining of the supervised entities' number. The total number of inspections surged to 8080, the greatest contribution for which was made by the daily supervision, where the inspections reached 7572. During the past year, the number of the issued AEA did not change substantially, a smaller part of them resulting in issued penal warrants. Despite the drop in the number of the issued penal warrants, their value almost doubled as a consequence of the higher imposed sanctions. The absence of opened procedures for CAM, as well as for decisions for application of CAM in the last two years were an indicator of the effectiveness of the FSC's supervisory activities in the direction of disciplining the supervised entities on the market of the supplementary pension insurance.

Table 17. Dynamics of the FSC's supervisory activity in the supplementary pension insurance

	2005	2006	2007	2008	2009
Supervised entities, incl.	40	41	47	50	50
- Pension insurance companies	8	9	9	10	10
- Supplementary pension insurance funds	24	24	29	32	32
- Custodian banks under the SIC	8	8	9	8	8
Total inspections, incl.	6 461	6 435	7 410	7 442	8 080
- On-site inspections	29	14	16	15	16
- Daily inspections	6 048	6 048	6 972	6 979	7 572
- Periodic inspections	384	373	422	448	492
Issued AEA V	77	39	28	36	34
Issued PW	64	35	32	35	29
Amount of the issued PW	98 100	20 300	105 200	212 000	409 200
Value of the effectuated PW *	55 800	20 100	85 500	112 600	125 300
Opened procedures of CAM	9	1	1	0	0
Decision for applying CAM**	9	1	1	0	0

* In the previous FSC's reports, the data on the value of PW related to the value of the issued during the respective year PW, and not to the PW effectuated during the year. The value of the effectuated PW is always less, as the greatest part of the imposed penalties and property sanctions are appealed, due to which they do not come in effect in the year when they are issued. ** Decision for applying of CAM is taken in case that the supervised entities fail to comply with the opened procedure for applying CAM.

Off-site control

The off-site control is exercised on the basis of the financial statements and check-ups about the activities of 10 PICs, 32 supplementary pension insurance funds (SPIFs) and 8 custodian banks with the following periodicity of submission:

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

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

FSC receives on a daily basis information and reports from the PICs, in an electronic way, on the SPIFs operation, as well as checkups from the custodian banks. In 2009, on the basis of this information **over 7572 daily inspections** and analyses were carried out of the received information on the SPIFs activities 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 valuation of the assets and their proper recording in the PICs and in the registers of the custodian banks. Control was also exercised over the change in the net asset value, the correct deduction of the investment fee in the supplementary mandatory pension insurance funds (SMPIFs) 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 № 9 of FSC.

Periodic control

During the period under review, **120 inspections** were conducted of the submitted monthly, quarterly and annual financial statements and statistics about the activities of each of the ten licensed **PICs** and **372 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 general financial indicators were also analyzed, connected with the PIC capital, assets, income and expenses, the assets, participants and the rate of return of the pension funds.

Monitoring of PIC information and advertising activity

During the year, 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, Art. 180, para 2 and Art. 249 in relation to Art. 180, para 2 of the SIC. During the inspections, no substantial irregularities or omissions were found out. In case of establishment of any incompleteness or irregularities, they were removed in due time.

In reply to the financial crisis...

During the year, the activity of one PIC and the managed by it SPIFs was subject to continuous and thorough monitoring in connection with repeated failure to reach the minimum rate of return in the mandatory funds and jeopardized financial stability of the company. A Programme for financial stabilization of the company and the managed by it SPIFs for a one-year period considered from 1 February, 2009 was required and submitted. In consistence with the adopted by FSC action plan in the conditions of a crisis, it was demanded from the company to file with FSC twice monthly an updated checkup about the amount of equity and of the liquid funds, balance sheet and income statement of the company, considered from the beginning of the month of September 2009.

During the period under review, in relation to established problems in the activities of SPIFs and PICs, meetings were held with the management of some of the companies and a great number of recommendations were given for enhancing the control and making more precise calculations when investing the SPIFs resources.

On-site inspections

In 2009, during the exercised operating control over compliance with the provisions of the SIC and the acting sub-statutory acts, and also with the Law on Measures against Money Laundering and the Rules of implementation thereof, in total **16 on-site inspections** were conducted, from which 6 full planned inspections and 7 thematic in PICs and the managed by them SPIFs. From the thematic inspections 4 were planned and 2 in relation to received signals and information in FSC about admitted offences. One joint inspection was also carried out with the State Agency for National Security. Jointly with Bank Supervision Department of the BNB **3 inspections** were also conducted in **custodian banks**, as a result of which 12 recommendations were given about their operation. All launched inspections were completed before the yearend in consistence with the approved plans of their conducting.

During the accomplished inspections in PICs and the managed by them SPIFs, overall 219 recommendations were given for improvement of the organization of work, protection of the insured persons' interests and risk limitation. During the full planned inspections 151 recommendations were given, and during the thematic inspections - 68. Most numerous were the recommendations in regard to the investment activity (59), the procedures of switching participation and the activities of the insurance intermediaries (39) and the operation of the internal control units (21). The predominant part of the recommendations in relation to the investment activity and the risk aimed at faster overcoming of the heavy consequences of the global financial crisis. All recommendations for undertaking specific actions by PICs were fulfilled within the deadlines set by FSC.

Table 18. Dynamics of the on-site inspections with PICs and SPIFs by subject-theme

Type/subject-theme of the inspection	Years	2005	2006	2007	2008	2009
Total number, incl.:		29	14	16	15	16
Full (compliance with SIC, the sub-statutory acts of its implementation and the LMML)		5	7	8	9	6
Thematic* (compliance with SIC and/ or the sub-statutory acts of its implementation)		21	3	2	3	7
Jointly with BNB (Compliance with SIC and Ordinance № 36 of BNB by the custodian banks)		3	4	6	3	3

* In 2005, 2006 and 2009, parallel inspections were carried out with the bodies of the Financial Intelligence Department with the State Agency for National Security (the former Financial Intelligence Agency), which were included in the total number of the thematic inspections for the respective years as follows: 2005 – 2 inspections; 2006 – 2 inspections; 2009 – 1 inspection.

The dynamics of the completed on-site inspections by PICs and SPIFs showed stabilization of their number at an average of 15 inspections annually from 2006 to the end of 2009. Attentions should be paid to the fact that in 2005, from the total number of 29 on-site inspections, 21 inspections were thematic and only 5 inspections were full. In 2005, the number of thematic inspections was considerably bigger than the thematic inspections carried out in the following years, as in that year a multitude of inspections were completed over compliance with the adopted new sub-statutory acts for implementation of the SIC. As a consequence of the changed in 2006 policy in the supervisory activity on the pension insurance market, whereby the conducting of full inspections was defined a priority, in the next years the number of the thematic inspections dropped to on average 4 inspections yearly, and the full increased to on average 8 inspections yearly. The full inspections cover the overall activity of the pension insurance companies and require a considerable staff resource, as well as a longer period for their accomplishment, which also had an impact on the drop in the total number of the inspections in 2009.

In the period 2005 – 2009, totally 19 inspections were carried out jointly with BNB over compliance with the provisions of the SIC and Ordinance № 36 of BNB by the custodian banks. The largest number of inspections was completed in 2007 in relation to establishment of the fulfillment of the recommendations given to the custodian banks from the preceding inspections, their dynamics being retained at three inspections annually for the last two years.

Coercive administrative measures, acts for establishment of administrative violation and penal warrants

During the year, in total **34 acts** were drawn up **for establishment of administrative violations** of provisions of the SIC and the sub-statutory acts of its implementation. With them 74 violations were established of the normative provisions on supplementary pension insurance. On the basis of the drawn up acts, **29 penal warrants** and **5 resolutions for termination** of the administrative penal files were issued. Summary information on the most common violations is given in the table below:

Table 19. The most frequent violations in the supplementary pension insurance

Type and ground of the violation	Drawn up AEAU		Issued PW*	
	2008	2009	2008	2009
Offering and conclusion of pension insurance contracts in a term outside of the statutorily set one (Art.7, para 1 of Ordinance №3)	6	3	6	2
PIC invested funds of SMPiFs and SVPiFs in securities issued by related to it entities (Art.177, para 1, item 2 of SIC)	5	5	5	5
PIC did not carry out activity in compliance with the Rules of organization and operation of the pension funds (Art.121, para 6 of SIC)	5	2	5	2
PIC invested funds of SMPiFs in bank deposits at banks with credit rating contrary to the statutory requirements and in corporate bonds, other than the statutorily allowed ones (Art.176, para 1, item 5, in relation to Art.176, para 2, item 1 of SIC; Art.176, para 1, item 8 of SIC)	2	4	2	4
PIC failed to bring the assets of SVPiFs in compliance with the statutory requirements and the quantitative limitations of these assets, set forth in the Rules of the respective funds (Art.251a, para 1 of SIC).	1	6	1	4
PIC concluded on behalf and for the account of the managed by it SMPiFs and SVPiFs repo transactions and reverse repo transactions with securities over 5 % of the Fund's assets (Art.179a of SIC)	0	3	0	3

* The number of the issued PW for the given year includes both PW issued on the basis of AEAU from the same year, and PW issued on the basis of AEAU from the previous year. This is due to the fact that the term for issuance of PW is 6 months after the date of drawing up of AEAU, according Art. 34, para 3 of the Administrative Violations and Sanctions Act.

From the total number of acts drawn up in the course of the year, **21 AEAU** were drawn up during the exercised in 2009 **off-site control**, whereby **42 offences** of the SIC were established. The most significant of them were related to:

- failure to observe the regulated in the SIC prohibitions on investing and limitations of the transactions with assets of SPIFs;
- violation of the investment limitations;
- failure to bring the assets of SPIFs in compliance with the quantitative limitations for these assets within a three-month period after the date of the excess;
- failure to exert due diligence in the management of the pension funds resources.

In the course of the conducted on-site inspections in PICs and the managed by them SPIFs, **10 acts** were drawn up from totally 34 AEAU drawn up for 2009, for the establishment of **29 administrative violations**. The most substantial violations found out during the inspections were related to:

- termination of payment of term pensions in a voluntary pension fund before the expiration of the agreed term;
- conclusion of pension insurance contracts in which the fees and deductions were different from those regulated in the Rules of the pension fund;
- failure to forward annual statements from the individual pension accounts of the insured persons.

By the issued penal warrants, penalties and property sanctions were imposed to the total amount of **BGN 409 200**. The imposed property sanctions were at the amount of BGN 400 000, and the imposed penalties on natural persons – BGN 9 200. The amount of the effectuated PWs was BGN 125 300.

From the issued penal warrants, 13 were not appealed against and came into effect. 16 were appealed before the court, 2 of them being effectuated after they were confirmed by the latter. During the year, no **coercive administrative measures** were applied towards pension insurance companies.

4. Protection of consumers of non-banking financial services

In recent year, a lasting tendency has been established in Bulgaria for increase in the consumption of financial services. The current financial crisis placed an accent on the need of ensuring adequate consumer protection as a necessary measure for the development of the financial sector. The high level of consumer protection which can be ensured by good regulations and financial education, may lead to reduction of the financial risk and to contribute to the markets' financial stability.

The consumer protection and enhancement of the public confidence in the use of financial products and services remained one of the strategic objectives of the Financial Supervision Commission. In this connection, FSC strictly followed a policy of ensuring an access to **up-to-date information** about the non-banking financial sector and the market participants as well as of **extending the knowledge** and informedness of the general public.

4.1. Access to financial information

In 2009, the Commission continued to follow the established practice of efficient and timely dissemination of information about the authority's activity in its function of a supervisory and regulatory body, as well as about the markets of non-banking financial services and the market entities. The pursuance of the FSC's information policy is based in whole on the principles of publicity, transparency and equal treatment.

The FSC's **web site** is one of the main channels for dissemination of the public information on all aspects of the Commission's activity, divided in various headings and by markets. Actual news is published on a daily basis about the decisions made by the Commission, as well as summarized statistical data for 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, summarized monthly data in the field of the investment activity, insurance and voluntary health insurance are also posted under the **Statistics** heading. The **Events** heading presents all initiatives of the Commission related to educational programs, seminars, round tables, conferences, discussions, meetings with the business, as well as other public activities. Under the **Questions and Answers** heading, whose focus is directed mainly to the consumers of financial services, concrete cases are considered and answers to questions can be found in the field of insurance, investments and the supplementary pension insurance. During the period, under **EU information** heading, around 200 warnings were published to the investors in Bulgaria from European Institutions, related to abuse on the European markets by unauthorized companies offering different transactions with securities which do not have financial cover.

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 Commission's premises, and through the web site – Electronic Register and Case File-index (**ERiK**) and **News from e-Register**.

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

In 2009 continued the operation of the Call Center²² from which the citizens obtained information on the market participants, on the products and services, as well as consultations on specific cases. In 2009, 5 350 calls were registered in the Call Center and 500 questions were asked by electronic mail, most of them being in the field of the capital market and insurance.

²² In April 2010, the Call Center discontinued its operation, but the Information Center in the Commission's building continued to operate, providing on-site operational verbal and written information about the activity of the supervised persons as well as about the Commission's activity.

FSC issued three publications in 2009 – two printed – an Annual Report and an Official Monthly Bulletin (12 issues) and one monthly electronic bulletin which in synthesized form summarized the supervisory authority's activity. The bulletin was distributed in electronic way and was posted on the FSC web site under **Publications** heading, where the Annual Report and the Official Bulletin were also published.

In addition to its publications and web site, the important aspects of the FSC's activities reach the general public 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 briefings related to publicly significant aspects of 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.

4.2. Educational policy of FSC

In 2009, FSC was once again an initiator of a number of educational events, targeted at enhancement of the financial culture of the general public in relation to the non-bank sector. These initiatives were intended for various social groups and tailored to their specific needs. Again, among the priorities of FSC was the work with students. For the purpose, the authority has developed specialized programmes and modules which assist for the heightening of the financial knowledge of the young people and support their future career orientation.

The seventh issue of the **educational programme for students Development of the Non-banking Financial Sector in Bulgaria** took place From 30 June to 3 July 2009. Having become already a tradition, this programme had great success among the participants and for the seventh successive year registered excellent results for the future professional realization of the young people. By this initiative FSC strengthened itself as a socially responsible institution and contributed to a large extent for active interaction between the young people, the government administration and the business.

In the 2009 educational initiative participated 20 students and 5 teachers from 20 secondary schools for vocational training in economics from all over the country. The programme, organized by FSC, was realized with the cooperation and support of the Ministry of Education and Science and Foundation Atanas Burov.

As a result of the great interest to the educational programme, FSC also developed one-day educational modules. As complement to the curriculum, they aim to support the practical training of students, and usually individual classes from the economic schools in the country participate in these modules.

In 2009, FSC and the industry organizations in the field of the capital market, insurance and pension insurance continued their cooperation. During the year, a number of meetings, discussions and seminars took place on topical subjects 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 discuss in non-formal settings the issues of the day, emerging developments and problems related to the capital market.

In March 2009, FSC jointly with the Bulgarian Association of the Licensed Investment Intermediaries and the Bulgarian Association of Asset Management Companies organized a one-day **seminar for the investment community** on the topic of One year after MiFiD. The event was attended by 120 persons from the internal control departments of the investment intermediaries, management companies and the banks – investment intermediaries.

In 2009, the Public Relations Department organized **two meetings of the communications specialists**, working in the financial sphere, and the financial journalists. Co-organizers of the initiative were the Bulgarian National Bank and the Bank Deposit Guarantee Fund, where the main objective of the meeting was to build up useful professional contacts and thus to assist the more efficient communication and successful interaction.

4.3. Complaints against and inquiries about the supervised persons. Actions taken by FSC

Table 20. Dynamics of the complaints filed with FSC

	2005	2006	2007	2008	2009
Investment Activity Supervision	1245	282	91	298	127
Insurance Supervision	780	565	460	814	943
Social Insurance Supervision	609	291	172	236	226

In 2005, in the field of investment activity the complaints were considerable in volume, which was due to the large number of abuses in securities. For this reason, in the same year ORDINANCE № 1 from 15 Sept., 2003 was supplemented with the requirement upon conclusion of a contract for provision of broker's services, a copy of the ID document of the customer, certified by the latter and by a person from the internal control department, to remain in the investment intermediary's records. As a result of implemented regulatory changes, this problem gradually disappeared in 2006, due to which a sharp drop in the number of the filed complaints was registered. In the period 2007 – 2009, the filed complaints preserved relatively constant volume, their increase in 2008 being due to reduction of the price of the securities traded on Bulgarian Stock Exchange – Sofia AD as a result of the effects of the financial crisis over the Bulgarian capital market.

In the field of insurance, a large number of complaints were recorded in 2005, which was due to the financial problems of two of the insurance companies and their subsequent declaring in bankruptcy. That, in turn, led to substantial decrease in the number of the paid claims. Since 2008, the complaints filed with FSC almost doubled, one of the reasons being the better consumer awareness of their rights as well as the proven effectiveness of FSC in consumer protection. Thus, in 2009 their total number increased significantly to 943.

In 2005, in the field of pension insurance most numerous were the complaints with grievances that the insured persons did not sign and file applications for switching of participation, but such were filed without their knowledge and consent. With the purpose of protection of the insured persons' right to personal choice of a supplementary pension insurance fund, FSC adopted amendments and supplements in Ordinance № 3 on the procedure and manner of switching of participation and transfer of the accumulated funds of an insured person from one SPIF to another relevant fund managed by other PIC. With the amendment to the Ordinance the requirement has been introduced the signature of the insured person on the first copy of the application for switching of participation to be certified by a notary attestation, which is also the administrative guarantee for the certified by the applicant circumstances in the filed application for switching of participation, to the pension insurance company managing the fund to which the person wishes to be transferred. That led to the considerable decrease in the number of complaints in the period from 2006 to 2009.

In 2009, **127 complaints** and **inquiries** of citizens and institutions were received with regard to supervised by FSC persons in the field of the capital markets, 64 of them being in relation to investment intermediaries, 4 complaints concerned collective investment schemes and management companies, and 59 related to public companies, special investment purpose companies and other securities issuers.

The biggest part of the received complaints from citizens were inquiries about the possessed by the persons financial instruments, respectively the operations under their personal accounts, kept by Central Depository AD, and during the year there were single cases of complaints about:

- pursuance of investment intermediary's business without the company to have been granted a license – an inspection was carried out and in consequence AEAV were served;
- compliant by a customer of II in relation to provided services/ trade in securities on an exchange in the U.S.A. – no violations were found out during the inspection;

- complaint by a natural person about refusal of II to make registration at the CD – during the inspection it was found out that the refusal was unfounded;
- complaint by a natural person about decisions of a General Meeting of the shareholders – no violations were found out;
- complaint-inquiry about paid during the years dividend by a specific company.

The respective persons who submitted the complaints and warnings were informed by letters about the results of the inspections.

In 2009, **943 complaints**, relating to the insurance sector were filed with FSC. The most frequently met complaints, established in the review of the complaints, were as follows:

- refusal for payment of insurance indemnity or disagreement with the set indemnity against filed insurance claims with the insurance companies;
- absence of information on the FSC's official web site about concluded policies on Third Party Liability insurance of motorists;
- failure to report in time insurance policies by the insurance intermediaries of the insurance companies.

During the period, **184 complaints** were received from insured persons, **42 warnings** and **18 inquiries** on issues related to the supplementary pension insurance. A large part from the complaints of the insured persons (125 in number) concerned switching of participation and transfer of resources from one to another supplementary pension insurance fund (SPIF), regulated in Ordinance № 3 of FSC, where the main groups of the individuals' complaints were as follows:

- they did not sign and file applications for switching of participation, but such were filed without their knowledge and consent;
- they did not sign the applications for switching of participation in the presence of a notary/ mayor;
- simultaneously signed applications for switching of participation and pension insurance contracts;
- abuse of personal data;
- lack of information about the possibility the funds of the insured persons to decrease and for whose account the risk of their investing was.

With regard to all received complaints inspections by documents were carried out, and where needed, also on-site inspections. Detailed replies to the concretely raised issues were sent to the insured persons, in which explanations were given of the legal regulations on supplementary pension insurance. During the inspections, **3 violations** were found out and **3 AEAV** drawn up.

For all cases of complaints by insured persons that they did not sign an application for switching of participation and/ or a pension insurance contract, FSC notified the bodies of the Prosecutor's Office to conduct an inspection by competence. In case of doubts for violations of the Personal Data Protection Act, FSC informed the Commission for Personal Data Protection.

The major problems raised in the received warnings were connected with:

- non-acceptance of applications for switching of participation;
- pronounced refusals to applications;
- submission of false or misleading information about the activity of another competitive company;
- provision of benefits to insured persons upon or on the occasion of switching of participation.

In connection with established problems during inspections in relation to complaints of insured persons, and for the absence of legal texts, actions were taken for protection of the insured persons' interests, where FSC obligated the pension insurance companies to provide a possibility to the insured persons to make an informed choice of a SVPIF.

5. European dimension in FSC's activity

Focus topic: Report of the de Larosière Group

The financial crisis has exposed important failures in the financial supervision, both in particular cases and in relation to the financial system as a whole. As a result of it, in November 2008 the European Commission initiated the setting up of a High Level Group chaired by Mr. Jacques de Larosière. The purpose of the Group was to prepare recommendations for strengthening the European supervisory framework in the field of the financial markets, to achieve better protection of the citizen interests and rebuild trust in the financial system.

The final report of the Group's activity was presented on 25 February, 2009. The report contained findings and recommendations which covered a wide range of issues in the area of crisis regulation, supervision and management. The report set out an overall and balanced vision for the creation of a new system of European financial supervision. At the core of this new framework will be the strengthening of the cooperation and coordination between national supervisors. *The new European financial supervisory system will function on the basis of a **single set of harmonized rules, obligatory for the supervisory authorities of the EU Member States.***

The report has envisaged the creation of a **European Systemic Risk Council (ESRC)** within the structure of the European Central Bank, with Chairperson: the President of ECB and involving all members of the General Council of ECB/ESCB, the Chairpersons of the European Banking Authority, the European Insurance and Occupational Pensions Authority and the European Securities Authority, and a representative of the EC. It is stipulated this body to have strictly macro-supervisory functions.

The report proposes the establishment of a single **European System of Financial Supervisors (ESFS)** by gradual transformation of the existing Level 3 Committees of Supervisors into new European Supervisory Authorities. The main powers of the new authorities, according to the report, shall include: developing of harmonized legally binding supervisory rules, standards and policies, convergence of the supervisory practices, control and coordination of colleges of supervisors, intermediation in dispute resolution between the separate national supervisory authorities with legally binding nature of the decisions and balanced accounting for the national interests of all parties to the dispute; participation in on-site inspections, close cooperation and interaction with the newly established ESRC.

The **de Larosière report** was widely approved by the various European institutions and in October and November 2009, at meetings of the Council of Ministers in format ECOFIN, four new regulations were adopted through which to a large extent the recommendations of the report were implemented.

5.1. New developments in the EU policy

Directive 2009/138/EC (Solvency II)

On 17 Dec., 2009, Directive 2009/138/EC of the European Parliament and of the Council of 25 November, 2009 on the taking-up and pursuit of the business of insurance and reinsurance was published in the Official Journal of the European Union.

Solvency II is a large-scale project which involves legislative measures at two levels and Level 3 measures, which have the nature of supervision guidelines:

- Framework Directive 2009/138/EC of the European Parliament and of the Council of 25 November, 2009 on the taking-up and pursuit of the business of insurance and reinsurance, which was voted on 22 April, 2009 and published in Official Journal of the European Communities (Level 1);
- Legislative measures at Level 2, which are developed jointly with the European Commission (EC), the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) and with the participation of other stakeholders.

The Solvency II Directive summarizes the provisions of most of the currently acting Directives and simultaneously introduces entirely new requirements to the solvency, corporate governance systems, reporting, public disclosure of information and the supervision over the insurance and reinsurance activity.

CEIOPS has been entrusted by the EC to prepare proposals on Level 2 measures for implementation of Solvency II Directive. The number of these measures is considerable and they cover all aspects of the proposed new regime for assessment of the insurers and reinsurers' solvency. CEIOPS proposals are accompanied with impact assessment with the purpose to provide analytical base, which is to guarantee that the proposals of policies made are justified.

After the preparation of the relevant documents by CEIOPS, a procedure of their adoption was launched by the EC, the measures of implementation, according the Directive, being in the following spheres:

- evaluation of the technical reserves;
- own funds;
- procyclicality;
- reports for supervisory purposes;
- public disclosure of information;
- qualifying holdings;
- normatively required solvency – standard formula;
- normatively required solvency – internal models;
- imposition of measures for increase in the capital;
- actuarial function;
- cooperation and coordination between the supervisory authorities.

In the final stage of the Solvency II project, the preparation by CEIOPS is envisaged of the so called supervisory guidelines (Level 3 measures), which are to allow overall and harmonized implementation of the Directive within the whole European Union. The Level 3 measures, in principle, are not of an obligatory nature. Insofar, however, that it is expected that all Member States take part in their preparation and the opinions of the individual Member States are considered and taken into account in the discussions during the preparation, they are bound with the measures application – on the strength of the agreement reached among them. If, nevertheless, any Member State in consequence fails to apply the adopted measures, then such state has to reason its behavior in details.

This situation will change upon the adoption of Regulations whereby the Supervisory Committees (including the Committee of European Insurance and Occupational Pensions Supervisors) will be transformed into European Agencies, which is expected to be a fact early in 2011.

The Directive came into effect on 6 Jan., 2010. The texts which are subject to transposition by the Member States are listed in Art. 309, the deadline for transposition of these texts being 31 October, 2012.

Directive 2009/65/EC

The new Directive 2009/65/EC on the coordination of the laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) constitutes a recast of Directive 85/611/EEC, considered from 1 July, 2011. The scope of Directive 2009/65/EC covers general basic rules of authorization, supervision, structure and activity of UCITS, established in the Member States as well as rules of the information which such undertakings have to publish.

As part of the texts of the old Directive 85/611/EEC remains in effect (even though their numbering in Directive 2009/65/EC is changed), there is no need for their repeated transposition. The new concepts in the procedure of granting authorization to the UCITS management company in its home Member State guarantee investor protection and the management companies' solvency and contribute to the stability of the financial system. The adopted in the Directive approach aims to ensure substantial harmonization, required for the success of the

mutual recognition of authorizations and of the systems of prudential supervision, so that to allow the granting of one authorization, valid in the whole Community, and the application of the principle of supervision by the home Member State.

For the achievement of a higher level of investor protection, the Directive provides the internal control of each management company to be ensured by means of a system of management by two persons and adequate internal control mechanisms.

The new Directive allows UCITS, within their common investment policy, or for hedging purposes with a view to achieving a definite financial objective or the risk profile, stated in the prospectus, to invest in derivative financial instruments. In order to ensure investor protection, the maximum potential exposure arising from the derivative financial instruments is limited, so that not to exceed the net total value of a UCITS portfolio. Also, to ensure investor protection by disclosure of information, UCITS have to describe the investment strategies, techniques and limitations, applied for their transactions with derivative instruments.

A new development in the regulations of UCITS is the requirement to prepare a document named Key Investor Information. The management companies have to provide the key investor information to the respective persons according the used method of distribution (direct sales or sales through an intermediary). The intermediaries have to provide key investor information to customers and potential customers.

The Directive came into effect on 8 December, 2009 and should be implemented by 30 June, 2011.

Directive 2009/44/EC (Amendments to Directive 98/26/EC)

On 10 June, 2009, Directive 2009/44/EC amending Directive 98/26/EC on settlement finality in payment and securities systems was published in the Official Journal of the European Union. The main amendments to Directive 98/26/EC were related to the development in the area of the market infrastructure after the coming into effect of Directive 2004/39/EC (MiFID) and the European Code of Conduct in clearing and settlement, and in particular, with the increasing number of links between the European settlement systems. With the purpose of adaptation of the legal framework to that market development, the new Directive clarifies the terms “interoperable system”, “system operator”, as well as the responsibility of the system operators.

According the new definition of “interoperable systems”, such systems mean two or more systems whose system operators have entered into an arrangement with one another that involves cross-system execution of transfer orders. In connection with this definition, the term “system operator” has been also introduced – the entity or entities legally responsible for the operation of a system.

Whereas in the case of interoperable systems, a lack of coordination as to which rules apply on the moment of entry and irrevocability may expose participants in one system, or even the system operator itself, to the spill-over effects of a default in another system, the Directive provides that system operators of interoperable systems coordinate their rules on the moment of entry and irrevocability in the systems they operate

The new Directive has also introduced some technical changes in connection with the effectuation of Directive 2004/39/EC (MiFID) and Directive 2006/48/EC (on the credit institutions). A definition has also been introduced of “business day”, which covers both day and night-time settlements.

The Directive came into effect on 30 June, 2009. The deadline for its transposition is 30 December, 2010.

Amendments to Directive 2006/49/EC

On 17 Nov., 2009, Directive 2009/111/EC of the European Parliament and of the Council of 16 September, 2009 amending Directives 2006/48/EC, 2006/49/EC and 2007/64/EC as regards banks affiliated to central institutions, certain own funds items, large exposures, supervisory arrangements and crisis management was published in the Official Journal of the European Union.

The Directive amends thoroughly Directive 2006/48/EC (the Directive on credit institutions), introducing provisions, related to hybrid capital instruments, colleges of supervisors and large exposures to a customer or a group of related customers. The amendments to the Directive on credit institutions necessitates respective amendments to be also made to Directive 2006/49/EC (the Directive on the capital adequacy), in the part regulating the investment intermediaries. Directive 2009/111/EC came into force on 8 Dec., 2009. The deadline for transposition is 31 October, 2010, and the provisions of national law must come into force on 31 December, 2010.

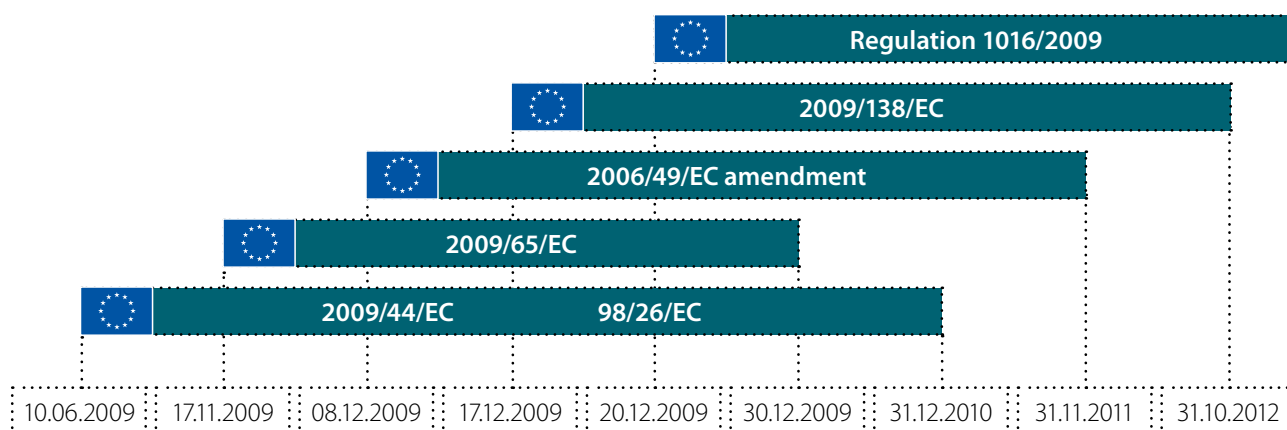
Regulation № 1060/2009

The new Regulation creates a **general framework of rules with regard to the Credit Rating Agencies and enhancement of the quality of credit ratings**, which are used by the financial institutions and persons, whose conduct is regulated by harmonized rules in the EU. To guarantee the high level of investors and users' confidence, the credit rating agencies which award credit ratings in the Community, will be subject to registration. **Such registration is the main pre-condition for that the credit rating agencies to award credit ratings, intended for use for regulatory purposes.** The supervision over the credit rating agencies will be carried out by the competent authority of the home Member State, in cooperation with the competent authorities of the other concerned Member States through the respective college of supervisors and while ensuring appropriate participation of CESR.

Regulation № 1060/2009 came into effect on 20 Dec., 2009. The regulation has to be applied since that date, except for the provisions about:

- the obligation to use credit ratings for regulatory purposes only if they are awarded by agencies which are established in the Community and are registered in compliance with the Regulation. This obligation shall apply from 7 December, 2010.
- the procedure of recognition of credit ratings awarded in a third country. These provisions shall apply from 7 June, 2011.

New moments of EU policy (publication and deadline for transposition)



Recommendation 2009/384/EC

The preamble to Recommendation 2009/384/EC on remuneration policies in the financial services sector states that one of the main causes of the global crisis has been excessive risk-taking in particular in banks and investment firms. The pursued until now policy of remuneration setting in the financial services sector is considered to be one of the pre-conditions (even though not the most important), that induced excessive risk-taking by the participants on the financial markets. Part of the applied remuneration practices tended to reward short-term profit and gave staff incentives to pursue unduly risky activities which provided higher income in the short term while exposing financial undertakings to higher potential losses in the longer term.

The new Recommendation envisages the remuneration policy to aim at aligning the personal objectives of staff members with the long-term interests of the financial undertaking concerned. The assessment of the performance-based components of remuneration should be based on longer-term performance and take into account the outstanding risks associated with the performance.

The formulated in Recommendation 2009/384/EC principles shall apply to all financial undertakings (credit institutions, investment intermediaries, insurance and reinsurance companies), having their registered office or their head office in the territory of the relevant Member State. The main principles introduced by Recommendation 2009/384/EC are related to the determination of the remunerations (Section II), disclosure (Section III) and supervision (Section IV).

Recommendation 2009/385/EC complementing Recommendations 2004/913/EC and 2005/162/EC

The main objective of the amended at this stage Recommendations (2004/913/EC and 2005/162/EC as regards the regime for the remuneration of directors of listed companies) is to ensure transparency of remuneration practices for directors of companies whose securities are admitted to trading on a regulated market, shareholder control on the remuneration policy, effective and independent supervision and at least advisory role of the remuneration committee (established according the provisions of Recommendation 2005/162/EC). At this stage, EC took a decision that the existing regime for the remuneration of directors of listed companies should be strengthened by principles which are complementary to those contained in Recommendation 2004/913/EC and Recommendation 2005/162/EC. In the complementing recommendations, the issues related to the remuneration policy are set forth in Section II, and the new developments in the regulations about the remuneration committee are laid down in Section III.

The structure of directors' remuneration should promote the long-term sustainability of the company and ensure that remuneration is based on performance. Therefore, variable components of remuneration should be linked to predetermined and measurable performance criteria, including criteria of a non-financial nature.

Proposals for Regulations on the new European Supervisory Authorities – ESMA – European Securities and Markets Authority and EIOPA – European Insurance and Occupational Pensions Authority

The proposals for Regulations for establishment of ESMA and EIOPA aim at improvement of the internal market's operation in the EU, including also through improvement of the supervision and regulation in the financial sphere, more efficient protection of consumers of financial services interests, achievement of security and stability of the financial system, making better the coordination and unification of the supervisory practices among the national supervisors. The new European Supervisory Authorities in the field of the non-banking financial sector – ESMA and EIOPA (ESA) will be an instrument for the achievement of these objectives. It is envisaged ESA to undertake broader tasks and responsibilities, both for drafting of legislation, and for the imposition of concrete measures with regard to the national supervisors and with regard to the participants on the financial market. It has been also proposed, the new Authorities to be empowered to pronounce in case of disagreements between their members, as well as to make assessments of the capacity and practices of the national supervisory authorities and to give recommendations for the improvement of these practices.

ESA will take over all of the functions of the existing Level 3 Committees, and in addition they will have considerably higher responsibilities, defined legal powers and greater authority. The more substantial competences of ESMA and EIOPA are the following:

- Development of technical standards - these standards constitute an efficient instrument for strengthening of Level 3 of the Lamfalussy structure, which presently is limited to the adoption of non-binding guidance. The draft technical standards will be adopted by ESMA and EIOPA by a qualified majority of the members. The legal regime of the Community requires the European Commission to approve these draft standards in the form of regulations or decisions, in order that direct legal consequences to arise from them;
- Powers for ensuring the consistent application of the Community rules – a mechanism is established, which is to monitor for divergence by the national supervisory authorities from the existing legislation in the Community (including the technical standards). This mechanism consists of three separate steps:
 - the new ESA will investigate these cases on their own initiative or upon request from one or more national supervisors or from the Commission and, if necessary, adopt a recommendation for actions, addressed to the relevant national supervisor;
 - if the recommendation is not taken into account, the European Commission may, after being informed by ESA, on its own initiative take a decision whereby to require from the national supervisory body to either take specific action, or to refrain from actions. Within ten working days of receiving the decision, the national supervisor will inform the Commission and ESA about the measures it has undertaken or intends to undertake, to apply this decision;
 - in case where the supervisory authority fails to take into account a decision of ESMA or EIOPA, ESA may, as a final measure, adopt decision directly applicable to financial institutions, while complying with the directly applicable to them Community legislation (for instance, regulations). This measure is applied, without affecting the Commission's powers to fulfill its own decision.
- Settlement of disagreements between national supervisors – a mechanism is offered which is to ensure that the respective national supervisory authorities take into account to a sufficient extent the interests of other Member States, including within the colleges of supervisors. If a national supervisory authority does not agree with the procedure or the nature of action or inaction on the side of other supervisory authority in the area, in which according the relevant legislature cooperation, coordination or joint decision-making are required, ESA may resolve the disagreement between the national supervisors, the decision of the European authority being binding on them.
- Collection of information – on request of ESA, the national supervisory authorities and other Member State's public bodies will be obligated to provide to ESMA and EIOPA the whole information which they need to fulfill the duties assigned to them.

Each of the new European Supervisory Authorities will consist of:

- Board of Supervisors – the principal decision-making organ of ESA and as such, it will be responsible for the adoption of drafts of technical standards, positions, recommendations and decisions;
- Management Board – will ensure that ESA carries out its mission and performs the tasks assigned to it. In particular, MB will be responsible for the preparation of the Authority's work program, adoption of the Rules of procedure, as well as will play a central role in the adoption of its budget;
- Chairperson and Executive Director – each ESA will be represented by a full time, independent Chairperson, who will be responsible for the preparation of the work of the Board of Supervisors and will preside over the meetings both of the Board of Supervisors, and of the Management Board. The current activity of the ESA will be managed by an Executive Director, who will also be a full-time, independent professional;

- Board of Appeal – The appeal system will ensure that any natural or legal person, including the national supervisory authorities, may appeal at first instance before the Boards of Appeal an ESA decision.

It is expected the adoption of the new Regulations on the European Supervisory Authorities to enhance the quality and consistency of national supervision, strengthen oversight of cross-border groups and establish a European single rule book applicable to all the financial market participants in the Single Market.

5.2. Committees at European level

The financial crises has once again proved the necessity of effective cooperation and exchange of information between the European supervisory authorities within the built up comitology process. In its capacity of a regulatory and supervisory authority, FSC participates in the work of Level II Committees (the European Securities Committee (ESC) and the European Insurance and Occupational Pensions Committee (EIOPC)) and Level III (the Committee of the European Securities Regulators (CESR) and the Committee of the European Insurance and Occupational Pensions Supervisors (CEIOPS)). During the past year, the Commission took part in the work of all Committees, whose member it is, as well as in the task forces with them, through its representatives.

Main developments in the CESR operation

At its plenary meeting, held on 16 Oct., 2009, CESR adopted a resolution for change in the structure of the groups operating within the Committee.

Until that time, there were separated more than 70 groups (temporary, permanent, expert, and other). The purpose of the reorganization of the groups in the Committee was more powers to be given for decision-taking and responsibilities at a group level. Thus, the participants in the Committee's plenary meetings may deal mainly with debatable and strategic issues, such for instance as the CESR annual program and budget.

After the reorganization, the status of the working groups has been heightened from expert to ***Standing Committees*** with respectively increased seniority of the representation by the Member States, so that the experts therein to be able to take decisions on the spot and assume responsibilities on behalf of their Authority for the purposes of reaching a consensus. The current CESR's working groups and sub-groups, which mainly followed the subjects of the Directives in the industry, are transformed in 2 panels, 8 standing committees (on thematic basis), 3 task forces with specific mandate, 2 technical support groups and 5 operational networks.

It is expected this change to result in decrease in the unnecessary overlapping in the operation of the hitherto acting working groups, as well as in enhancement of the groups' capacity to provide the product of their work in the preliminarily set time-limits.

After the adoption of the resolution for change in the structure of the operational groups, functioning in CESR are:

Panels:

- Review Panel;
- Mediation Panel.

Permanent Standing Committees:

- Corporate reporting CESR-FIN;
- Corporate Finance;
- Credit Rating Agencies;
- CESR-Pol;
- Secondary Markets;
- Post trading;
- Investor Protection and Intermediaries;
- Investment Management.

Task Forces (temporary groups)

- Post- ECOFIN;
- Mutual Recognition;
- Retail Investment Products.

Technical/ support groups

- Economic and Markets Analysis;
- IT Management.

Operational networks

- Legal Network;
- Supervisory Culture;
- Takeover Bids;
- Communications;
- Retail Investors.

The FSC's representatives took an active part during the discussions in relation to the change in the operational groups in CESR. As a consequence of the modified structure and functions of the operational groups, FSC has also introduced a change in its internal organization of work, so that the seniority of the main representatives of the Commission in the CESR standing committees to be adequate to the new responsibilities of the Committees.

Main developments in the CEIOPS operation

In June 2009, FSC hosted the regular meeting of the Internal Models Expert Group with CEIOPS. The meeting was attended by 30 representatives from various European insurance supervisory authorities. Subject of discussion were the Level 2 measures for implementation of the Solvency II Framework Directive. These measures represent detailed requirements to the use of internal models for calculation of the required capital of the insurers and their approval by the supervisory authorities, including the interaction between the supervisors, when the approval of internal models is concerned that will be applied by the whole insurance group.

Furthermore, FSC took part in the self-assessment exercise for application of the protocols on exchange of information, conducted by the Review Panel with CEIOPS. Two questionnaires were completed and sent to the CEIOPS Secretariat:

- questionnaire in relation to the review of the application of the Revised Siena Protocol (General Protocol on the interaction of the insurance supervisory authorities of the EU Member States);

- questionnaire in relation to the review of the application of the Helsinki Protocol (Protocol on the interaction of the supervisory authorities of the EU Member States in connection with the implementation of Directive 98/78/EC on the supplementary supervision of insurance undertakings in an insurance group).

Along with that, FSC prepared and sent to the Task Force on Insurance Guarantee Schemes with CEIOPS, replies to a Questionnaire related to study of the insurance guarantee schemes in the European Economic Area Member States.

In addition, the Commission also participated in a CEIOPS' study with regard to the supervisory measures undertaken in relation to the financial crisis. Information was submitted on the forms of counteractions undertaken at national level.

FSC also took part in the preparation of replies to questionnaires, forwarded by the European Insurance and Occupational Pensions Committee (EIOPS) and the Committee of the European Insurance and Occupational Pensions Supervisors (CEIOPS):

- questionnaire related to the implementation of Art. 5 of Directive 2004/113/EC;
- questionnaire on the exchange of staff;
- questionnaire on the complaints lodged against the supervised persons;
- questionnaire for supervisory authorities on the corporate governance in the financial institutions;
- questionnaire concerning the internal models.

During the year, quantitative and qualitative information was prepared and sent to CEIOPS about the insurance market development in Bulgaria in 2008, for the purposes of conducting an analysis of the financial integrity and development of the European insurance industry.

FSC has one main representative each in all new CESR's panels, task forces and committees, as well as one representative each in the hitherto acting twenty one working groups of CEIOPS. The FSC's representatives on the Committees are responsible for protection of the interests of the participants from the Bulgarian non-banking financial sector, as well as for strengthening the FSC's reputation as a competent authority in the decision-taking processes in CESR and in CEIOPS.

6. International cooperation and cooperation with local institutions

Focus topic: IOSCO Multilateral Memorandum

At its meeting held on 28 Oct., 2009, FSC took a decision for the signing of the Multilateral Memorandum of Understanding concerning Cooperation and Exchange of Information of the International Organization of Securities Commissions (the IOSCO Memorandum). The Memorandum is an international recognition for a quality supervisory framework in the securities field and allows the authorities that have signed it, to exchange supervisory information between themselves and thus to prosecute and detect legal offences outside the borders of their own jurisdiction. This possibility is of exceptionally significant importance for the supervision in the conditions of globalizing financial markets. After a thorough review of the updated information and further detailed examination of the Bulgarian legislation and the FSC's supervisory practices, the IOSCO Screening Group extended an invitation to FSC to join the Memorandum.

The Memorandum, in its present wording, was prepared in May 2002 and in the next few years this document was recognized as the **highest global standard for effective international cooperation in the securities field**. Until now 55 states joined the Memorandum, among which 19 EU member states, USA, India, China and Japan. A very important group of countries that signed the IOSCO Memorandum were also a number of offshore centers. By virtue of the Memorandum, the supervisory authorities in these centers are also obligated to disclose information about the companies registered in their jurisdictions, including also data on the ownership structure in such companies.

As early as in 2005, after a two-year period of assessment of our candidature, FSC was accepted as a non-full member of the Memorandum. To be able to become a full member of the agreement (and respectively, to be able to exchange information with its other members), FSC should have been vested with greater powers and possibilities for an access to information, satisfying the requirements of the Memorandum. This necessitated a number of amendments to the FSCA, the latest of which was adopted by the Parliament early in 2009 (prom. SG, iss. 24 in 2009). After the effectuation of the latest amendments to the legislation, in April this year, FSC renewed its application and obtained an approval.

6.1. International cooperation

In view of the globalization of the financial markets and the conditions of the current crisis, the cooperation within international organizations and relations with international financial institutions are of special importance for Bulgaria. The Financial Supervision Commission seeks to be actively involved in international initiatives, aimed at creating optimum conditions for coming out of the crisis and equivalent terms of treatment of the non-banking 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 a member of the **International Organization of Securities Commissions - IOSCO**. In 2009, the Chairman of FSC signed the Multilateral Memorandum of Understanding concerning Cooperation and Exchange of Information of the International Organization of Securities Commissions (the IOSCO Memorandum), the Commission thus achieving one of its most important international objectives. FSC also takes part in the work of IOSCO as a member of the Emerging Markets Committee and the European Regional Committee.

In 2009, FSC was also actively involved in the work and the organized forums in its capacity of a full member of the **International Association of Insurance Supervisors - IAIS**. In October 2009, the 16th annual conference of the Association was held, at which an accent was placed on the financial crisis and the future

of the insurance markets. The topics which were discussed considered the insurance as a means of social and economic development.

The Commission is a member-founder of the **International Organization of Pension Supervisors – IOPS**. In 2009, a representative of FSC participated in the meeting of the IOPS Technical Committee, where the supervisory measures and actions were discussed, undertaken by the supervisory authorities of the IOPS member states, in reply to the current financial crisis. The main accent was placed on the strengthened coordination and interaction between the pension supervisors and the governments in the individual states, with the purpose of discussing and undertaking adequate measures for preservation of the confidence in the fully funded pension system.

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 (WB)**. The cooperation with these organizations is connected to a large extent with the exchange of information and experience in relation to their function to oversee and analyze the development and functioning of the capital, insurance and supplementary pension insurance markets.

During the period under review, meetings were held with representatives of **the World Bank**. The main topics of these meetings were the outstanding issues from the report on consumer protection, prepared by the WB with the assistance of FSC and other institutions. At one of the meetings, issues were deliberated related to a survey on MiFID, conducted by the WB, in which the Commission's assistance was once again sought.

In the end of 2009, a meeting was held with the **IMF**, during which the trends of development on the three markets were considered, with an accent on the capital market development and the progress in the **Financial Sector Assessment Program (FSAP)**. Also discussed were measures for coping with the situation, including legal amendments that were prepared by FSC – the draft of Insurance Code, amendments to FSC's Ordinances and in the Law on Public Offering of Securities.

6.2. International projects and initiatives

In 2009, FSC continued its active policy in regard to strengthening its administrative capacity, on the one hand, and on the other, the building up of stable relations of cooperation with the supervisory authorities in Southeast Europe. This policy was successfully realized by the fulfillment of projects, financed by the European Union (EU), mainly within three twinning projects.

■ **Twinning project BG/2007/IB/EC/02 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 of the Financial Supervision Commission and is co-financed by the EU Transition Facility. It is performed jointly with the Ministry of Economy and Finance of Italy, State Treasury Directorate, as well as several their partners, such as Banca d'Italia (the Central Bank of Italy), CONSOB (National Securities Commission), ISVAP (Institute for Supervision of Insurance) and COVIP (Pension Funds Supervision Commission).

The Project is with duration of 12 month and is at the amount of 495 000 Euro, from which 450 000 Euro are provided by the EU and 45 000 Euro are financed by the national budget.

The major objectives of the Project include achievement of a fully functional 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 in the Project's work plan 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 were envisaged which are to strengthen the FSC's administrative capacity in the context of the amendments to the legislation at European level (in particular, the development of the Solvency II draft), as well as to make representatives of the business, mass media and other interested parties familiar with the latest developments in the insurance and pension insurance supervision, necessitated by these amendments.

The official Project launch took place in Sofia on 30 October, 2009 and was combined with the holding of a conference on the topic of The Reply to the Crisis on the Regulators' Side / Strengthening of the Supervision by Sharing Experience. As lecturers in the Conference participated high-ranking representatives of the European Commission, the Committee of European Securities Regulators (CESR), as well as of all Italian financial supervision authorities.

By the end of 2009, within the Project, FSC jointly with the Ministry of Economy and Finance of Italy, organized and conducted trainings and seminars directed not only to the Commission's staff, but also to the supervised persons, representatives of the business, mass media and other interested persons.

The fulfillment of Twinning Project BG/2007/IB/EC/02 will conclude at the end of September, 2010.

■ **Twinning project MN 08 IB FI 01 Strengthening of the Supervisory and Regulatory Capacity of the Financial Regulatory Authorities**

The fulfillment of Twinning Project MN 08 IB FI 01 is financed within the EU Programme Instrument for Pre-accession Assistance (IPA) in Montenegro for 2008. The Project is to the amount of 1.2 million Euro and with duration of 18 months. Beneficiaries under the Project are the Central Bank, the Securities Commission and the Insurance Supervision Agency of Montenegro. The Twinning Project is realized by a consortium of three partners, including the Bulgarian National Bank (a Lead Partner), the Netherlands Central Bank and the Financial Supervision Commission.

The activities within component 2 of the Project's work plan are focused on strengthening of the administrative capacity of the Securities Commission of Montenegro and their fulfillment has been assigned to the Financial Supervision Commission. The component includes 21 activities, whose realization aims at transposition of the European Directives in the field of financial supervision over the capital and pension market, improvement of the supervisory practices and increasing the public awareness of the capital and pension market.

The official launch of the Project took place on 15 December, 2009 in the city of Podgorica, Montenegro. By the end of 2009, the FSC's experts accomplished two expert missions in the city of Podgorica, whose purpose was training of the Montenegrin experts in the area of the European legislative process and consulted them on the establishment of a national coordination mechanism in connection with the process of pre-accession to the EU, including preparation of tables on the transposition of the Directives in the EU. The Bulgarian experts were also entrusted with an additional task, to prepare a Report on the difference between the Montenegrin legislation and practice in the field of the financial supervision over the capital and pension market and these of the EU.

■ **Twinning project BA 07 IB FI 01 EU Support for Sustainable Capacity Building of the Insurance Agency of Bosnia and Herzegovina, the Insurance Supervisory Agency of the Federation of Bosnia and Herzegovina and the Insurance Agency of the Republic of Serbia**

In reply to the candidature of the Financial Supervision Commission to fulfill Twinning Project BA 07 IB FI 01, EU Support for Sustainable Capacity Building of the Insurance Agency of Bosnia and Herzegovina, the Insurance Supervisory Agency of the Federation of Bosnia and Herzegovina and the Insurance Agency of the Republic of

Serbia, on 28 April, 2009 the EU Delegation in Bosnia and Herzegovina sent a notification that the Commission was selected as a partner by a EU Member State. The Project is financed within the EU Programmed Instrument for Pre-accession Assistance (IPA) for 2007 and is to the total amount of 800 000 Euro. The Project will be fulfilled in 2010 and 2011 and is directed mainly to the following:

- strengthening of the administrative capacity of the insurance agencies;
- development of the information exchange of data and statistical services;
- development of the regulatory and supervisory practices;
- civil liability insurance and interaction with the Green Card Bureau.

The Project provides the secondment of a Resident Twinning Adviser in the city of Podgorica, Bosnia and Herzegovina, for the whole period of its fulfillment. The Resident Twinning Adviser bears responsibility for the organization and successful carrying out of the activities from the Project's work plan. The approved work plan of the Projects includes over forty activities which are divided in four components. By the wish of one of the beneficiaries (Insurance Agency of Bosnia and Herzegovina), six activities were included in the Project directed to development of the Agency functions in the field of the export insurance and experts from the Bulgarian Export Insurance Agency (BEIA) were invited to participate in the Project. The attracting of external experts (local and foreign) is an often met practice in the fulfillment of twinning projects with the purpose of ensuring an exchange of experience and good practices from other supervisory authorities.

The Twinning Project BA 07 IB FI 01 is the third project in which FSC participates as a supervisory authority which delivers its experience and supports authorities from other states in the exercise of their supervisory activity. The signing of the contract for the project implementation is indicative of the positive assessment on the EU side in regard to the operation of the Bulgarian supervisory authority. As a result of its activity, FSC has established itself as a competent EU partner in the region of Southeast Europe and as the most active Bulgarian institution in the realization of twinning projects with third countries.

6.3. Cooperation with local institutions

With the objective of enhancing the efficiency of the control and regulation over the financial system in Bulgaria, from its establishment to the present time, FSC maintains and deepens its cooperation and active interaction with multitude of state authorities and national organizations. The realized cooperation involves the conducting of joint inspections, consultations and rendering of expert assistance in 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, carrying out of joint seminars, etc.

In 2009, Investment Activity Supervision Division discussed with representatives of the SIPC's and the investment community, amendments to the Act on Special Investment Purpose Companies. Furthermore, working meetings and seminars were held with the Bulgarian Investor Relation Society (BIRS) and the Association of Bulgarian Investor Relations Directors (ABIRD) in relation to the amendments to the LPOS and the practical application of the relevant provisions concerning the holding of the General Meeting of shareholders.

The exchange of information was directed to improvement of the content and correctness of the periodically disclosed information with the purpose of heightening the trust in the market as a whole. Exchange of information was carried out with the BSE, Bulgarian Association of the Licensed Investment Intermediaries (BALII), Bulgarian Association of the Asset Management Companies (BAAMC), BIRS, ABIRD, where clarifications were given for the practical application of the amendments to the legislation relating to the capital market.

In 2009, a working meeting was held between experts from the Registry Agency and FSC experts, at which problems were discussed concerning the operating communication at expert level between the officials from

the two institutions, as well as problems related to the amendments to the LPOS, concerning the convening of GMS of the public companies, and in particular, the extended volume of the minimum required content of the text of the invitation, as well as the new points in connection with the authorization for participation at the GMS of these companies. Also discussed was a proposal for the setting up of a channel for data transfer between the two institutions. As a result of the working meeting held, an announcement was published on the FSC's web site about the requirements of the Registry Agency in connection with the certifying of the proxies' representative authority, upon declaring the entry, deletion of circumstances, or the declaring of acts under the public company's file at the Commercial Register.

Experts from Investment Activity Supervision Division took part as lecturers at a seminar – training of investor relation directors on the topic of Transparency in the Activity of Public Companies and Protection of the Shareholder Rights, organized by the Bulgarian Association of the Industrial Capital and the Association of Bulgarian Investor Relations Directors (ABIRD) under Project: Strengthening capacity of civil society structures for corporate governance improvement and corporate social responsibility development. Besides, they also participated in Annual International Investor Relations Conference and their annual awards, organized by ABIRD, as well as in a Project: Enhancing the knowledge and skills for quality and efficient communication in disclosure of information to the state regulatory authorities and the investment community under Operational Program Administrative Capacity, fulfilled by Foundation Atanas Burov and the Bulgarian Investor Relation Society. Experts from the Division also took part in presentation on the topic of Reflection of the Principles of Good Corporate Governance in the Legal Regulations of the Republic of Bulgaria.

In 2009, the Insurance Supervision Division participated in the work of an interagency task force having the assignment to formulate a common position of the Republic of Bulgaria on a Letter of the European Commission, Internal Market and Services Directorate General, whereby questions were raised related to the characteristics and the legal regulation of the companies pursuing business of voluntary health insurance.

In the process of elaboration of the additional texts which were introduced to the Law on amendment and supplement of the Law on Credit Institutions, between first and second reading, meetings were held of the Standing Task Force on the issues of the obligatory Third Party Liability insurance of motorists with representatives of the Insurance Supervision Division, the Ministry of the Interior, the insurance community, the Guarantee Fund and the National Bureau of Bulgarian Motor Insurers. The Standing Task Force considered, on the proposal of the Ministry of the Interior, proposals for reforming the system of sanctioning in cases of driving a vehicle without concluded obligatory Third Party Liability insurance of motorists, including by the introduction of a special contribution in favor of the Guarantee Fund for each day when the motor vehicle was without concluded and acting obligatory insurance.

In connection with issues raised on the side of an insurance company about the presence of collision between the provisions of the Insurance Code which obligate the insurer to disclose data on vehicles to the Information Center with the Guarantee Fund and the provisions of the acting legislation, regulating the conclusion of the obligatory Third Party Liability insurance of motorists, under the procedure of „special public procurement orders“, a meeting was held at FSC of representatives of the insurance company, the Guarantee Fund, Chief Directorate Security Police, the Ministry of the Interior, the Ministry of Defense and FSC. In the course of the discussion held, an analysis of the raised problems was made and the necessary measures envisaged. In 2009, actions were taken for the formation of a task force with representatives of the Guarantee Fund and of the insurers, carrying out activity of the mandatory Third Party Liability insurance of motorists **for the building up of an information system for risk assessment, management and control, incl. for the issue of policies according to the requirement of Art. 295a of the IC.**

During the reviewed period, representatives of the Division were included in the membership of a task force for preparation of draft Ordinance on the general conditions of the minimum amount of insurance, the minimum insurance premium, the procedure and term of carrying out insurance under Art. 201 of the Health Act.

A working group was established between representatives of FSC and BNB, which worked on the issues related to the supplementary supervision of financial conglomerates and the forthcoming amendments to the Financial Conglomerates Directive.

In connection with the performed by Social Insurance Supervision Division activities and functions, an ongoing exchange of information continued to be carried out with the purpose of improving the content and correctness of the information regularly disclosed by the supervised persons, increasing the transparency and integrity of the financial market as a whole, and hence heightening the confidence in the sector. In 2009, a meeting was organized and held with representatives of all PICs on problems related to payment of a term pension. In regard to issues raised during the meeting, concerning the accounting and tax treatment of the funds paid by PICs for term pensions, an official opinion was requested by a letter to the MF and after its receiving, PICs were informed accordingly.

For the purposes of the exercised by FSC supervision, information is also being exchanged with BSE – Sofia AD, Central Depository AD, the Privatization Agency, Bulgarian National Bank, State Agency for National Security, Ministry of the Interior and the courts. The collaboration with the Ministry of the Interior was especially intensive in the field of the mandatory Third Party Liability insurance of motorists. Correspondence is also being exchanged with the Ministry regarding the availability of data for perpetuated violations and crimes in trade with financial instruments. Provision of information and referral to public prosecution are realized in connection with complaints received at FSC and conducted inspections.

Through the signed in 2003 Memorandum with BNB, it has become possible to improve the coordination between FSC and BNB on matters of mutual interest in the field of the oversight of the participants on the financial markets, namely, the exercise of their supervisory functions, perfection of the practice of strict application of the laws, assistance for improvement of the legal framework regulating the activities of the supervised by them persons, etc.

The Memorandum signed the same year with the State Agency for National Security (former Financial Intelligence Agency) with the Ministry of Finance, and the instruction thereto, envisage the contracting parties to cooperate with each other in the 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 that require the fulfillment of joint actions. A very important aspect of the agreements concluded by FSC is the possibility envisaged for the conducting of joint inspections 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, which results in enhancement of the quality and efficiency of the administrative services.

The FSC's major strategic goals, related to the human resources management are:

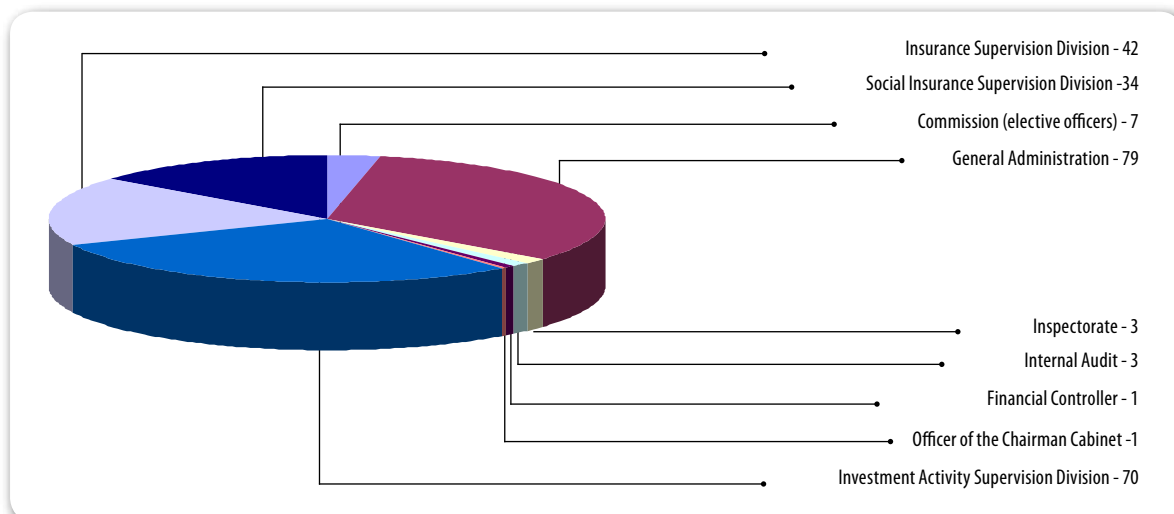
- the human resources management to become a priority and purposeful process for selection of officials, their training, motivation and growth by creation of new modern policy in relation to human resources;
- efficient fulfillment of the organizational objectives with rational use of the public funds, based on the understanding that people are the key factor for the institutional prestige and competitive advantages in any organization;
- effective human resources management by improvement of the quality of performance and operating perfection in favor of the public interest;
- creation of career growth opportunities for the managerial staff, bearers of values and models of behavior who contribute to the prestige of the FSC's work;
- the stimulation of teamwork and continuity in task planning and fulfillment, considering the significant effect from improvement of the quality and perfection of the human resources management system;
- improvement of corporate governance, increasing the professionalism and qualification of the officials on the basis of comparative analyses;
- development of objective systems of assessment, remuneration and motivation of the individual contribution of the officials.

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. According the adopted in 2007 Rules of the Structure and Operation, the payroll number of FSC staff is 240 positions. The number of the employed persons increased to 231 in 2009, the share of the unoccupied positions decreasing to 4% from the total number of 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.

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. Since 2009, there are seven directorates functioning in the FSC General Administration, after the Economic and Financial Stability Directorate was added in the organizational chart. The main functions of this directorate are the carrying out of analyses of the major sectors of the Bulgarian economy, monitoring the state of the international financial markets, preparation of general assumptions and forecasts for the development of the Bulgarian economy, systemic risk analysis and assessment and developing of early warning system

Figure 1. Allocation of FSC's staff by structural units in 2009

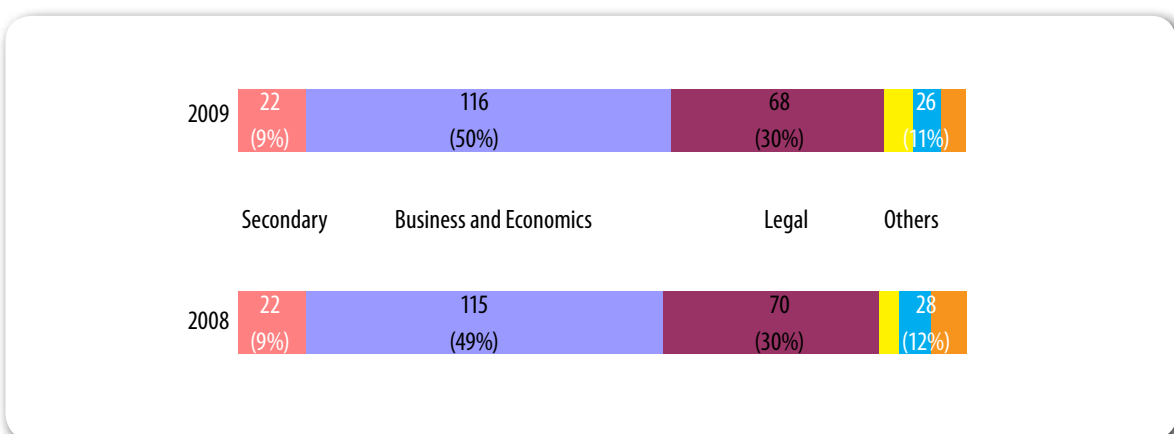


In 2009, the organizational needs of human resources were identified by effective planning and the actions for their satisfying were formulated through the development of respective plans for personnel selection, training and development, labor remuneration, work performance assessment, improvement of 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 structure of the personnel by level of education and type of education was consistent with the FSC's objectives and tasks, the employees with higher education predominating, being 91% of those employed in 2009, and the share of the employees with secondary education remained unchanged (9%). Nearly 10% of the experts with higher education also possessed further qualification – a scientific degree/ title, second higher education, etc. The employees with higher education, having a Master's degree were 95% of the total number of staff with completed higher education.

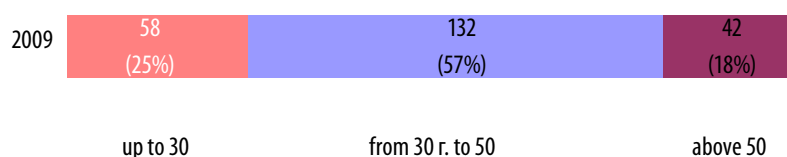
During the year under review, the distribution of the FSC's staff by type of education was preserved, the percentage of employees with education in economics increasing insignificantly to 50 %, and the percentage of employees with education in law remained 30%²³. From the employees with other higher education, 4% were in natural and mathematical sciences and informatics, and 7% - other higher education.

Figure 2. Dynamics of the FSC staff structure by education



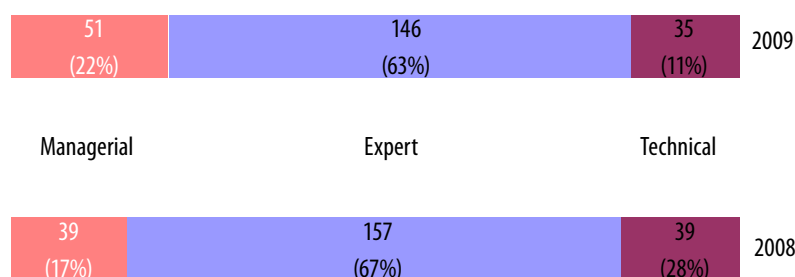
In 2009, a smooth shifting was observed of the **age group** towards a higher age group, as a result of retaining already formed specialists, the average age of the FSC staff increasing to 38 years.

Figure 3. Dynamics in the staff structure by age



In FSC's **professional structure**, the share of experts predominated which in 2009 constituted 63% of the total number of employees. The number of staff in leading positions grew to 51 persons, and the technical personnel decreased to 35 persons. Two thirds of those in leading positions were within age group from 31 to 50 years, followed by managers at age over 50 (24%) and the smallest percentage belonged to young managers up to 30 (10%).

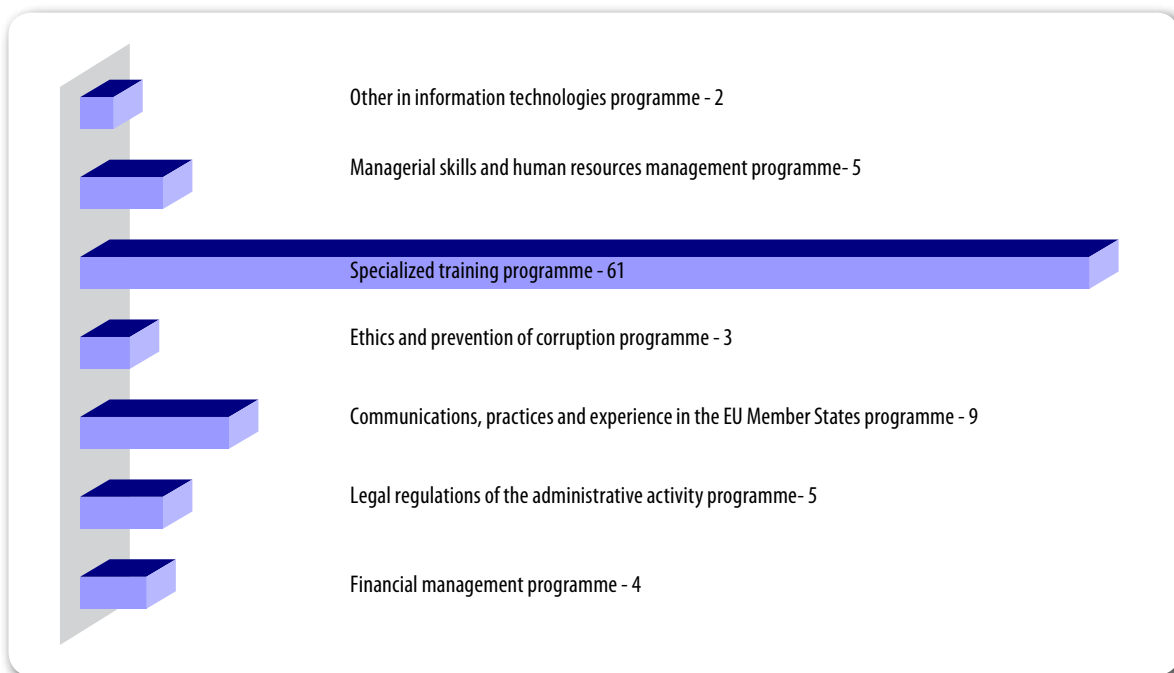
Figure 4. Dynamics in the staff structure by position held



In 2009, 81% of the planned funds for the employees' specialized training were utilized. In view of the educational process needs, FSC developed beneficial partnership relations with a number of national and international institutions.

During the period under review, 89 employees of FSC participated in **various forms of training and qualification extension**, which was over three times less than the staff that underwent training in the preceding year. Considering the unfavorable economic and financial factors in 2009, FSC exerted efforts for heightening the level of competence of its employees. In 2009, most trainings were carried out under the Specialized Training Programmes (61 employees), followed by Communications, Practices and Experience in the EU Member States programme, where 9 employees were trained.

Figure 5. Number of persons undergone training in the relevant field



The system for stimulation of the personnel is focused on the long-term individual working performance, which guarantees that the employees' achievements 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.

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 in FSC. 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 required qualities 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.

8. Development of the information technologies for the purposes of the supervision

In 2009, the development of the information technologies' infrastructure in the Financial Supervision Commission went on under the sign of sustainability and safe-keeping of investments. Following the current tendencies of the information technologies development, the Commission continued to develop and integrate its software systems.

The implementation of new developments assists the enhancement of the institution's work efficiency. A lot was achieved along the lines of integration of the heterogeneous information systems, coordination of the activities between the individual directorates and divisions within the Commission, automation of the routine activities, carried out by its experts, of the information filing and processing required for the supervision exercising.

In 2009, the system of the overall documentation turnover and organization of the group working environment was supplemented and improved, as well as the single Datawarehouse, generating information from all data bases built up in FSC.

A public e-Register operates in the Commission. Since its commissioning in 2008, the need of filing documents on paper has dropped off, as the signed by a universal electronic signature within the meaning of the Electronic Document and Electronic Signature Act, forms of e-Register have the validity of the filed and hand signed documents. This has contributed to ensuring faster access to the securities market and realization of the Commission's endeavor to terminate the attempts for financial abuses through insider trading, by means of timely disclosure of information.

In 2009, FSC has provided the possibility to improve the quality of communication for the participants on the capital market in the fulfillment of their legal obligations for disclosure of information. A technological procedure was developed for exchange of communications between the Commission and the information intermediaries with the purpose of entry of data in the FSC's electronic register. The single information supply system was launched in July, 2009. Following the system implementation, a large number of data entries have been registered by supervised persons made with the assistance of media agencies.

FSC's web page registered a great number of visits by various groups of consumers, representatives of the media and the general public. It has a new vision, greater functionality and provides more information and statistics about the Commission's activities and the non-banking financial sector. Every year the web page is enriched with new modules and additional content. Updating of the web site's vision and content is being maintained by using the modern achievements in the information technologies.

In 2009, the successful development continued of the register of the insured motor vehicles, which also got bigger publicity. Though it, verifications can be made from the FSC's web site of the existence or non-existence of the mandatory Third Party Liability insurances by different criteria.

In November 2009, a change was introduced on the web page in heading Value per One Pension Unit. Under the heading Rate of Return, information is already published about the rate of return of the supplementary pension insurance funds, regardless of the way of access to the heading.

The Commission is oriented to a single platform for electronic processing of the data flow exchange/ storage. For the purpose, a technical assignment was prepared for designing and building of information system for receiving and processing of the daily and monthly reporting by the entities supervised by the Social Insurance Supervision Division.

During the past year, a new internal web page was developed, servicing the day-to-day activities of all officials. It provides support information and links to the main internal information systems for general use, links of frequently used web sites, contains thematic distribution of documents and information by divisions as well as general internal documents.

The active participation continued of our country and of FSC in the activities of the relevant European regulatory bodies. In compliance with the provisions of the Markets in Financial Instruments Directive, the old TREM system has been successfully updated by a new renovated version which includes the entry of new codes for exchange of transactions on several major derivative markets. The new version of TREM (2.0) also included improvements in relation to the „purity“ of the fed data.

9. FSC's budget execution report for 2009

Pursuant to the Financial Supervision Commission Act, the Commission is a budget supported legal person²⁴ with its own budget, which is a part of the state budget of the Republic of Bulgaria²⁵. 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 2009, the realized **own revenues** were at the amount of **BGN 4 003 680**, which exceeded the planned revenues for the year by 29,99 %. The biggest percent in the structure of own revenues (72,63 %) was held by the **state fees**, which are levied under the Tariff of Fees, collected by FSC under Art. 27 of FSCA. They amounted at **BGN 2 907 820**. 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 1 083 283**, which formed 27,06 % of the own revenues. **The other revenues** (0,31 %) in 2009 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 revenues from scraps. Their total amount was **BGN 12 577**.

In 2009, financing at the amount of BGN 7 514 was received under the FSC's budget in connection with the fulfillment of Twinning Project Strengthening of the Supervisory and Regulatory Capacity of the Financial Regulators in Montenegro, a lead partner in which is the Bulgarian National Bank, and FSC participates as a junior partner in the Project fulfillment.

In connection with completion of the fulfillment of Twinning Light Project Support to the Insurance Agency of Bosnia and Herzegovina, for which FSC received financing from the European Union in 2008, an unspent sum to the amount of BGN 46 682 was reimbursed after financial certification of the report and a submitted debit note by the European Commission. The reimbursed amount was recorded as reduction of the revenue section in the cash execution report of the FSC's budget for 2009.

In order to cover the expense section of the budget, during the year the Commission used 49,31 % its own revenues, 50,60 % subsidy from the republican budget and 0,09 % financing from the European Union. The Commission incurred **expenses** to the total amount of **BGN 8 040 520**, including expenses on salaries, remunerations to the personnel and social security contributions, administrative expenses for maintenance of the institution and fulfillment of the Twinning 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 and renovation of the computer and hardware equipment.

²⁴ According Art. 2, para 3 of FSCA
²⁵ According Art. 28 of FSCA

10. Report on the FSC's Internal Audit activity for 2009

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 2009, the internal audit activity in the Commission was carried out by three internal auditors, including the head of the internal audit. In planning and fulfillment of the audit commitments, first of all the functional approach was applied, where subject of audit were main FSC's activities performed by the three Divisions. The benefit which the audit activity carries by using this approach is encouragement of the implementation of single internal procedures and popularization of the good practices. The IAU reports provided information and comparative analyses for the accomplishment of the respective activity, the level of control, the admitted omissions and the good performance of the different divisions. The problems thus established and the recommendations given were brought to the knowledge of the FSC leadership and the persons in charge of structural units, pursuing similar functions.

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

- audit with the purpose of assessment of the effectiveness of the activities for maintenance of the FSC's public registers for the period from 1 Jan., 2008 to 31 May, 2009. The audit covered the process of entry of circumstances in the public registers of the three divisions, the building up and commissioning of the new automated system for dissemination of information from the e-Register and announcement of data in the old electronic register ERiK;
- audit of the revenues from fees under Art. 27 of the FSCA for the period from 1 Jan., 2009 to 30 Sept., 2009. The audit commitment was with the purpose of assessment of the statutory possibilities for the introduction of new fees for licensing and authorization procedures and for exercising general financial supervision, whereby the FSC's budget execution for 2010 would be ensured, and assessment of the efficiency in the administration and control of the Commission's fees. The audit covered review of the legal framework regulating the fees collected by FSC, the budget process for 2009 and 2010, payment, accounting for and control of the state fees, collection of the arrears from past years and reimbursement of overpaid or unduly paid state fees;
- follow-up audit of the fulfillment of the recommendations from a preceding audit commitment with the purpose of improving the activities of management and disposal of the FSC's property;
- follow-up audit of the fulfillment of the recommendations from a preceding audit commitment with the purpose of improving the activity of sending FSC's officials on business trips abroad.

In 2009, the internal auditors accomplished the following consultation commitments:

- assisting the FSC's leadership in the development of a Risk Management Strategy and preparation of a **Risk – register** for 2009, containing the most substantial risks which could jeopardize the achievement of the Commission's goals during the year;
- 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 (FMCS) in FSC for 2008;
- analysis of the need for and assistance in the development of new rules in compliance with the requirements of the Public Procurement Act and the Financial Management and Control in the Public Sector Act.

For the period 1 January, 2009 – 31 December, 2009 the internal auditors accomplished unofficial audit commitments of consulting, the most significant of which were related to participation in working meetings and discussions of drafts for amendment to sub-statutory acts and internal documents, regulating the FSC activities (Ordinance № 32 on the requirements to the organization and activity of the internal control unit of an insurer, reinsurer and of the persons included in an insurance or reinsurance group; FSC Development Strategy for 2010 – 2012; Internal rules for determination of participants and reporting of the business trips abroad).

All audit commitments underlying the IAU 2009 Annual Plan were fulfilled. As a result of the audit activity, the following major conclusions can be made for the functioning of the financial management and control systems:

- there are very well functioning FMCS in the FSC;
- there is an adequate and efficient management process put in place in the Commission, part of which is the planning of the objectives, setting the priorities, conducting of periodical inspections of the fulfillment and reporting the results to the leadership. As a result of it, the objectives set up to FSC as a whole were achieved;
- an adequate risk management process was put in place in the FSC, as a result of which the most substantial risks were identified and assessed that could jeopardize the achievement of the Commission's objective in 2009 and the leadership chose an appropriate reaction to the risk;
- the implemented control activities, as a whole, are carried out with adequate efficiency and ensure compliance with the legislation, the internal acts and the contracts;
- the accountability and the applied control mechanisms ensured the creation and provision of reliable and comprehensive financial and operational information;
- the directorates from the three major divisions and from the general administration of FSC fulfilled their functional duties at the required level;
- effective internal control is exercised in FSC, which ensures the safeguarding of the assets and information and acts preventively against thefts, losses, destruction and other unlawful actions.

With a view to improvement of the audited processes, the internal audit gave in total 17 recommendations, all of which were accepted by the FSC leadership. The IAU supported the leadership in regard to the monitoring over the recommendations' fulfillment, rendering assistance for the drawing up of action plans for their fulfillment, maintaining a single data base of the given recommendations, applying procedures for control of the results' status and by the regular reports on the IAU's activities, submitted information to the FSC Chairman about the actions taken in fulfillment of the recommendations. As a results of the conducted inspections and the follow-up audits, the conclusion can be drawn that as a whole the recommendations of the internal audit are fulfilled.

With the purpose of providing reasonable assurance, that the internal audit pursues its functions in an effective and efficient 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 heads of the audited structures.

In 2009, the strengthening of the IAU administrative capacity was achieved by increase in the number of the internal auditors (from two to three internal auditors, considered as of 1 Jan., 2009) and extension of the professional knowledge and skills by the development and fulfillment of a training plan, conformed to the individual needs of the auditors and the financial possibilities of the Commission.

11. Report of the Inspectorate

The Inspectorate is a specialized structural unit with the Financial Supervision Commission, established under Protocol № 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. It is directly subordinated to the Chairman of the Commission and proposes measures for elimination of the established violations and for improvement of the work of the FSC's staff.

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

- complex inspection over the activity of the officials from Regulatory Regimes Directorate with Investment Activity Supervision Division in 2008;
- thematic inspection over the off-site control carried out by the officials from Control Activity Directorate with Social Insurance Supervision Division in 2008;
- thematic inspection over compliance by the officials from the FSC's Administration with the provisions of Art. 12 of the Law on Prevention and Disclosure of Conflict of Interests;
- complex inspection over the activity of the officials from Regulatory Policy and Analyses Directorate with Insurance Supervision Division in 2008;
- thematic inspection over the proposals and opinions related to the regulatory policy, and drafts of individual administrative acts, prepared by the officials from Regulatory Regimes and Risk Assessment Directorate with Social Insurance Supervision Division in 2008.



Part II

Market analysis of the non-banking financial sector

II. Market analysis of the non-banking financial sector

1. External environment and economic activity

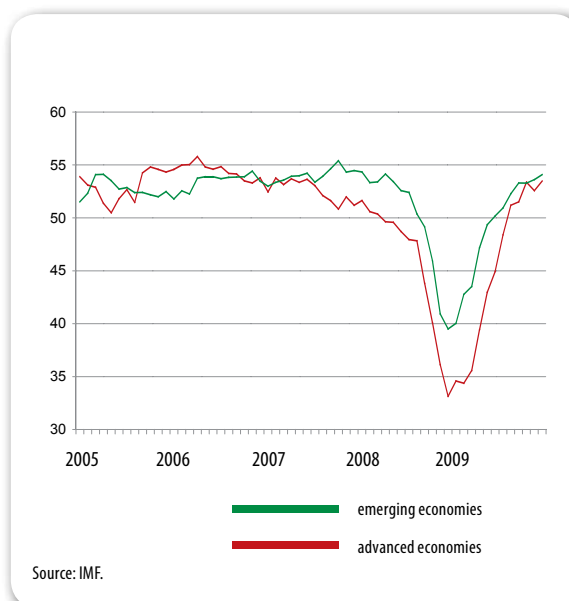
1.1 External environment

The negative effects of the global financial crisis since the end of 2007 spread over the real sector in 2009, the GDP growth for the world economy registering a negative value of -0.6% for the first time in 40 years. The rescue of large systematically important financial institutions, as well as the application of fiscal stimuli for limiting the negative effects on the economic activity, resulted in deepening of the fiscal disbalances. In the second half of the past year stabilization of the financial markets was observed as well optimism regarding the economic activity recovery, an eventual fast recovery hiding risks to the sustainable economic development. The lack of adherence to a sustainable fiscal policy within the Euro Area put to the test the stability of the single European currency.

At the end of 2009, the first positive signals appeared for stabilization of the economic activity on a global scale, after the leading indicators of the international business climate turned the negative trend into positive direction. Despite that the conjuncture in the industry of the advanced economies was more affected by the deepening of the economic crisis early in the past year, its prospects for faster recovery equalized their positions with the emerging economies²⁶.

Increase of the optimism was noted about the production, employment and the new orders, the higher expectations for the development in the industry than in the services sector, measured by the index PMI (Purchasing Manager Index), placing in uncertainty the sustainable recovery of the world economy.

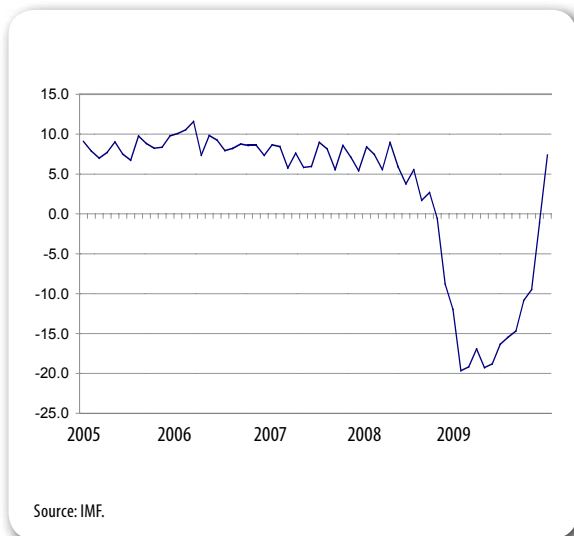
Figure 1. PMI index of manufacturing



In 2009, the dynamics of the world trade volume entered a phase of negative growths, which it succeeded to turn up at the yearend, when it registered an annual growth rate of 7.4% in December. The economic activity in the Asian economies was characterized with quicker rates of recovery than the USA and the Euro Area, the growths of the advanced countries intensifying at the yearend.

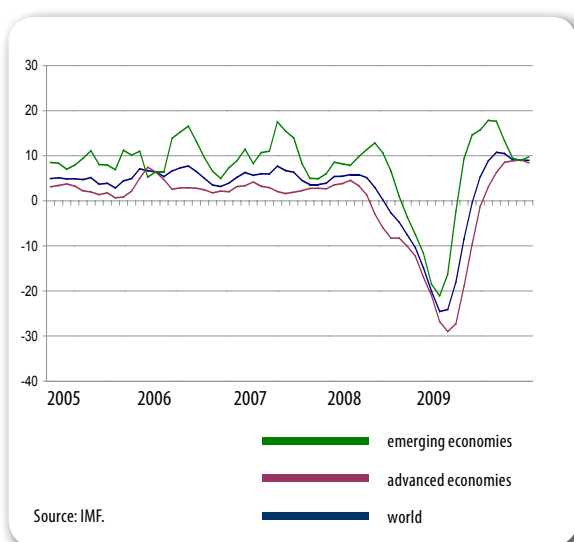
26 According to IMF methodology the group of advanced economies comprises of Australia, Canada, Czech Republic, Denmark, Euro Area, Hong Kong SAR, Israel, Japan, Korea, New Zealand, Norway, Singapore, Sweden, Switzerland, Taiwan Province of China, United Kingdom and the United States, while the group of emerging economies is represented by Argentina, Brazil, Bulgaria, Chile, China, Colombia, Estonia, Hungary, India, Indonesia, Latvia, Lithuania, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Romania, Russia, South Africa, Thailand, Turkey, Ukraine, and Venezuela.

Figure 2. World trade volume



The industrial production which was most strongly affected by the global economic crisis also showed signs of recovery in the second half of 2009, recording positive rates of change. The emerging economies, where the direct negative effects of the crisis were reflected to a lesser extent, recorded a growth of 9.8% on a year-on-year basis, while the advanced countries registered lesser growth rates of the industrial production (8.4%).

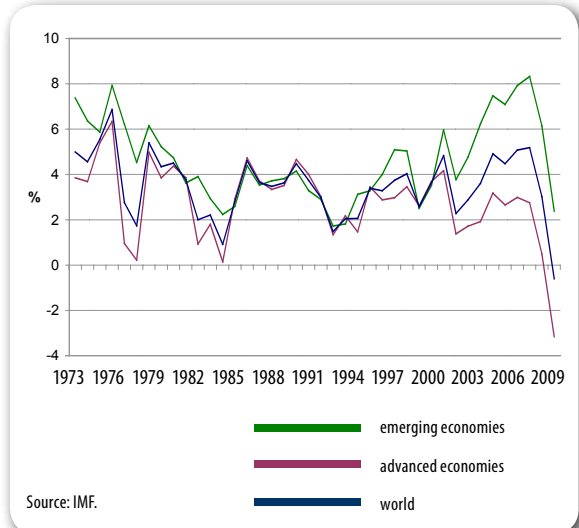
Figure 3. Industrial production



The deepening of the economic crisis early in the past year led to a negative growth of the world economy of -0.6% in real terms, which occurred for the first time in 40 years. Due to the big drop in the industrial production, the advanced economies

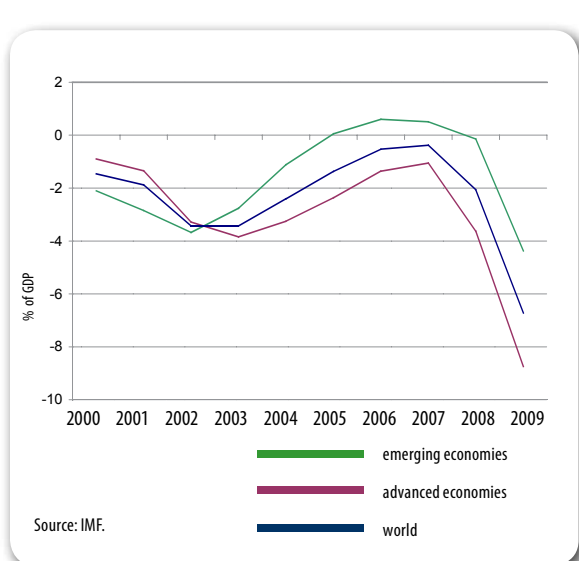
reported a GDP shrinkage of -3.2%, and the emerging markets reduced their positive growths to 3.4%.

Figure 4. Real GDP growth



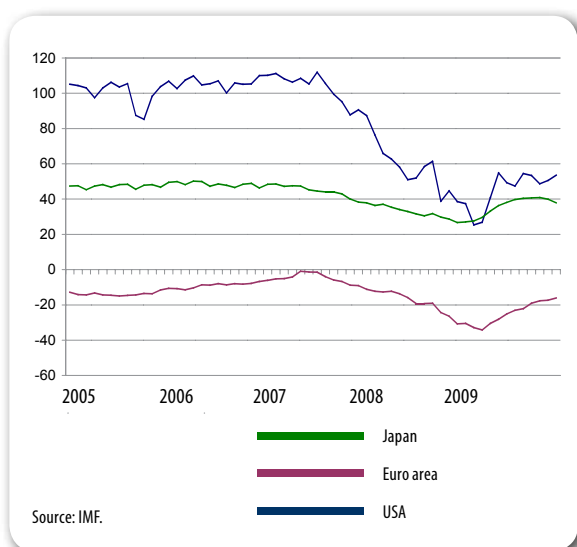
As a result of government intervention for rescue of systematically important financial institutions, the state of the public finances worsened as early as in 2008, which was noticed most of all in the USA and some European countries and reflected on the big budget deficit of -3.6% in the advanced economies. The deepening of the fiscal disbalances in the past year also involved the developing countries (-4.4%), which was due, on the one hand, to the slowed down economic activity, having direct impact on the revenue section of the budget, and on the other hand, due to the fiscal stimuli for reducing the negative effects on the real sector.

Figure 5. Fiscal balance



As a result of the financial and economic crisis, the consumer confidence also worsened at the beginning of 2009, the biggest decline in confidence being recorded in the USA. Despite the indications for optimism among the consumers in the second half of the year in Japan and the Euro Area, households in the USA remained more pessimistic about the fast recovery of the economy to its pre-crisis levels.

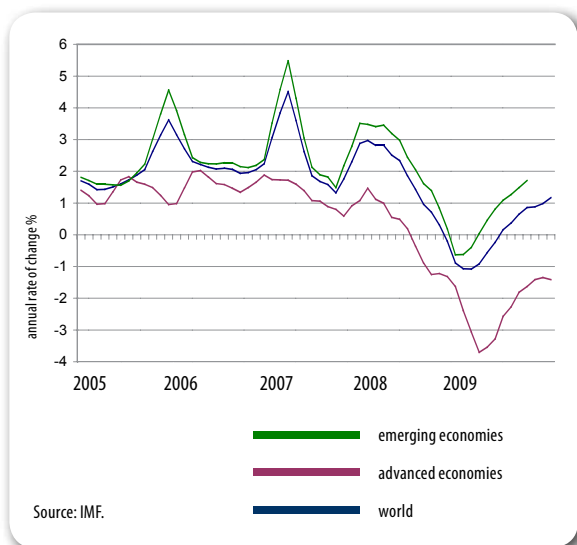
Figure 6. Consumer confidence index



Note: The Consumer confidence index in Japan is a diffusion index, where values bigger than 50 show improvement in the consumer confidence.

The pessimism among the consumers is related most of all to the development of the labor market, where the unemployment increased in 2009.

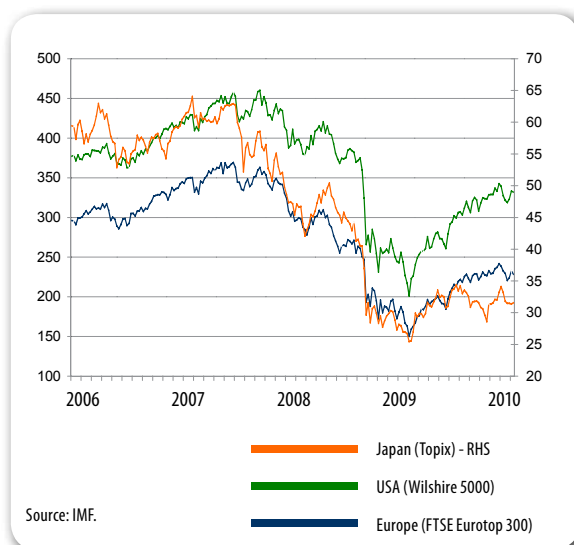
Figure 7. World employment dynamics



Even though the employment on a global plan restored its positive rates of change in the second half of the year (0.8%), which was due mostly to the flexibility of the labor markets in the developing countries (1.5%), it continued to decline in the advanced economies, where at the end of 2009 a decrease of -1.4% was registered on annual base.

In 2009, with regard to the capital markets stabilization was observed, following the big drop in the indexes in October 2008. The shifting of the financial crisis over the real economy affected the state of the traded public companies, the exchange indexes reaching minimum values in March 2009. The optimistic expectations from the second half of the past year for prompt recovery reflected on the improving investment climate and led the indexes in the direction of increase, in spite of the risks which the quick and unsustainable growth hid.

Figure 8. Capital markets in advanced economies

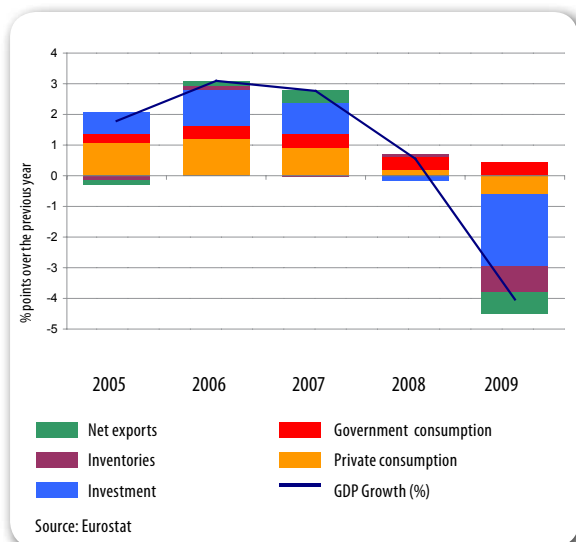


Note: index, January 1990=100.

As part of the advanced economies, in 2009 the Euro Area also registered a negative GDP growth rate of -2.4%. The biggest contribution to the shrinkage had the decrease of investments (-2.8 pp), which was due to the limited financial possibilities for investments and the uncertainty arisen from the financial crisis a year before that. As a result of fiscal stimuli, the government consumption continued to have a positive contribution (0.3 pp), which to a certain extent supported the smaller rate of shrinkage of the

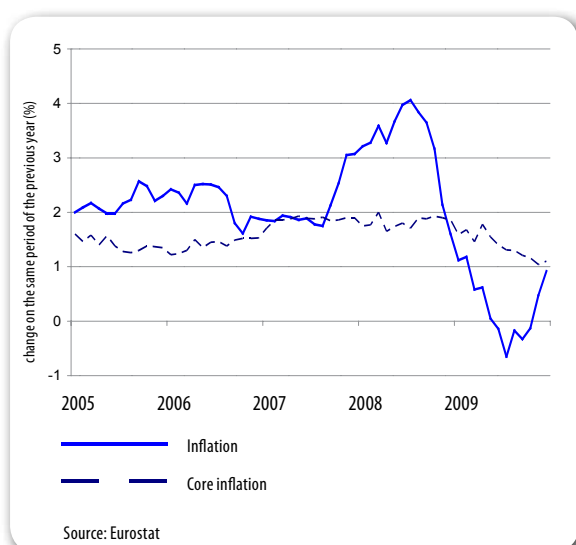
private consumption, whose negative contribution for the GDP growth reached -0.4 percentage points.

Figure 9. Real GDP growth in euro area



As a result of the reduced economic activity and shrunk internal demand, the inflation in the Euro Area began to decrease from the middle of 2008 and reached deflationary values of -0.7% year-on-year, in the middle of the past year. With the consumers' optimistic expectations from the second half of 2009 for quick recovery of the economies in the Euro Area, the inflation promptly came over the negative values and closed the year with 0.9% y/y.

Figure 10. Inflation in euro area

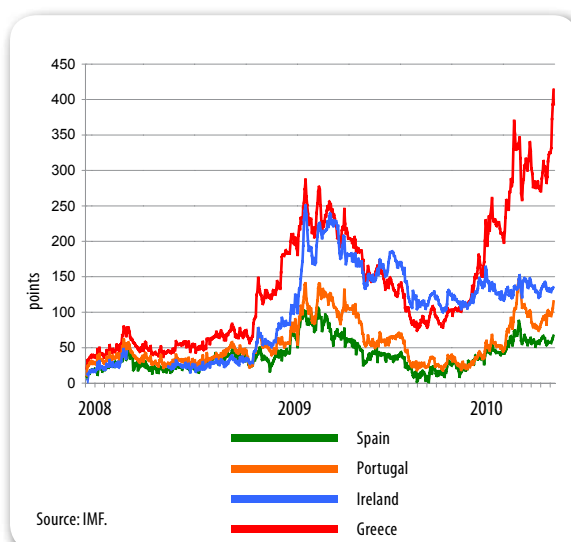


The change in the consumer prices without the prices of the energy commodities, foods, alcohol and

tobacco products²⁷, which was characterized with slighter volatility, decreased in 2009, indicating that there was not yet an ascending trend of the economic activity.

The existence of big fiscal disbalances in the Euro Area Member States was manifested in the past year and put to trial the whole monetary and economic union. In the conditions of limited financing, escalation was observed of the debt problems of Greece, Iceland, Ireland, the United Kingdom, Portugal and Spain, where the long-term interest rates²⁸ exceeded in times these in Germany. The problem with the large public sector and the actual state of the public finances in Greece went out of control and necessitated the application of extraordinary measures for the economy's saving.

Figure 11. European bonds' yields vis-à-vis German bond yield (ten year)

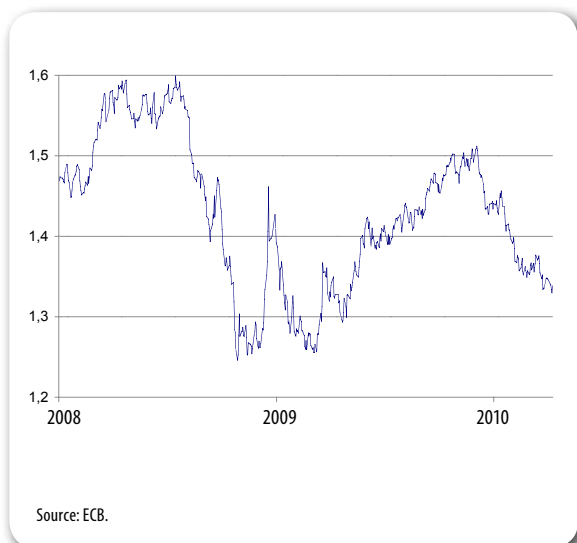


Reflecting the early positive expectations for stabilization of the economic activity, the price of the euro towards the US dollar rose in 2009, following the reached minimum levels at the end of 2008 (USD 1.246). The concerns that the state of the public finances and the ensuing from that problems with the public foreign debt of Greece, could also shift to other Euro Area states, raised the question for the stability of the European currency. The sensitive to bad news financial markets reflected immediately these expectations, the common European currency, taking again the path to depreciation from the end of the past year.

²⁷ This subindex is called core inflation and is cleared of any administrative and cyclic changes in the prices.

²⁸ The long-term interest rates are determined according the 10-year government securities' yield.

Figure 12. USD/EUR exchange rate



As a result of the financial and economic integration, the worsened economic state of the Euro Area shifted also over the countries of Central and East Europe (CEE).

Table 1. Real GDP growth in CEE

	2006	2007	2008	2009
Czech Republic	6.8	6.1	2.5	-4.2
Hungary	4	1	0.6	-6.3
Poland	6.2	6.8	5	1.7
Romania	7.9	6.3	7.3	-7.1
Turkey	6.9	4.7	0.9	-4.7
Serbia	5.6	6.9	5.5	-3
Croatia	4.7	5.5	2.4	-5.8

Note: annual rate of growth (%).

Source: Eurostat, National Statistical Institutes.

The slow down in the rate of investments which is a major factor for the growth in these economies, to the largest extent influenced the negative GDP growths in most countries of the region, the biggest decline being noticed in Romania (-7.1%). Poland was an exception, among the countries with flexible exchange rate it succeeded to retain a positive growth of the internal consumption and respectively, to report a positive GDP growth of 1.7%.

Nevertheless that in the countries of CEE, it was not necessary to rescue financial institutions by nationalization, the fiscal disbalances deepened as a result of the fiscal stimuli for the real sector, the biggest budget deficit being reported by Romania (-8.3% of the GDP). Because of the decrease in the tax revenues, which was a consequence of the slowed down economic activity in the region, the performance of measures was necessitated for reduction of the budget's expense section.

Table 2. Budget deficits in CEE

	2006	2007	2008	2009
Czech Republic	-2.6	-0.7	-2.7	-5.9
Hungary	-9.3	-5	-3.8	-4
Poland	-3.6	-1.9	-3.7	-7.1
Romania	-2.2	-2.5	-5.4	-8.3
Turkey	-0.1	-1.2	-1.8	-5.5
Serbia	1.5	-1.6	-2	-4.2
Croatia	-2.4	-1.6	-1.4	-3.9

Note: Data is reported in % of GDP.

Source: Eurostat, National Statistical Institutes.

Due to the shrunk internal demand and the limited possibilities of financing, the inflation in all CEE countries slowed down its growth rates in 2009. Most quickly that was realized in the Czech Republic, where the inflation dropped from 6.3% in 2008 to 0.6% for the past year. Serbia was the country from the region with the highest rates of inflation, which in 2009 slowed down to 8.4% on a year-on-year basis.

Table 3. Inflation in CEE

	2006	2007	2008	2009
Czech Republic	2.1	3	6.3	0.6
Hungary	4	7.9	6	4
Poland	1.3	2.6	4.2	4
Romania	6.6	4.9	7.9	5.6
Turkey	9.3	8.8	10.4	6.3
Serbia	12.7	6.5	11.7	8.4
Croatia	3.3	2.7	5.8	2.2

Note: Annual average inflation rate (%).

Source: Eurostat, National Statistical Institutes.

The negative effects of the economic crisis on the labor market manifested themselves also in the CEE countries in 2009. Highest level of unemployment was observed in Serbia (16.1%), while the pace of growth of the unemployment rate was biggest in Turkey (2.8 pp). The expectations of the households for increase in the unemployment and the uncertainty in the future incomes, limited the consumers' investment expenses.

Table 4. Unemployment rate in CEE

	2006	2007	2008	2009
Czech Republic	7.2	5.3	4.4	6.7
Hungary	7.5	7.4	7.8	10
Poland	13.9	9.6	7.1	8.2
Romania	7.3	6.4	5.8	6.9
Turkey	8.7	8.8	9.7	12.5
Serbia	20.9	18.1	13.7	16.1
Croatia	11.2	9.6	8.4	9.1

Note: Data is reported at the end of year (% of labor force).

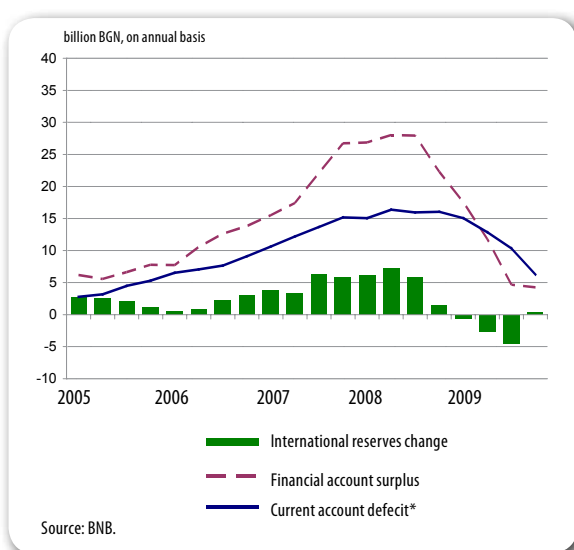
Source: Eurostat, National Statistical Institutes.

1.2 Overview of the economic activity in Bulgaria

The financial crisis affected the economic activity in Bulgaria as well, and in 2009 the real growth of the gross internal product recorded negative values (-5.1%). While the slowdown in the economic activity partly occurred as a correction of the high rates of economic growth in the last few years, which exceeded its potential, the economy's shrinking was due most of all to the indirect effect of the shifting of the financial crisis over the real sector. In the conditions of limited external and internal financing, maintaining fiscal stability placed further limitation on the ability of the Government to stimulate the slowed down economic activity.

As a result of the global financial crisis, the capital inflow in Bulgaria decreased, the growing, in the last five years, financial account surplus beginning to shrink from the middle of 2008. The negative trend was due mainly to the withdrawal of short-term financial flows and the reduction of the long-term investments inflow in the conditions of global financial and economic uncertainty, the surplus in 2009 declining by 80.9% on a year-on-year basis. On the other hand, the shrunk internal consumption in Bulgaria, in parallel with the stabilization of the economies of our major European trade partners, led to contraction of the current account deficit from 24% of the GDP in 2008 to 9.5% in the past year. As a result of these opposite dynamics of development, the BNB's currency reserves increased with BGN 402 million for the past year, at the end of December 2009 their value being BGN 25.3 billion.

Figure 13. Dynamics of the current account, financial account and international reserves



The Net Direct Foreign Investments (DFI) in the country were also affected by the financial crisis, in 2009 their volume reaching Euro 3213 million, which represented a drop of 52% compared to the inflow in the preceding year. Among the DFI components, the reinvested earnings reacted first to the crisis, reaching negative values of Euro -184 million in 2008. the equity capital which accounted for the biggest share in the DFI (approximately 60%), continued to fall and decreased by 28.9% in the past year.

Table 5. FDI dynamics

	2005	2006	2007	2008	2009
Total	3152.1	6221.6	9051.8	6696.5	3212.5
Reinvested earnings	408.7	957.5	1547.2	-183.5	308.5
Equity capital	1789.3	3234.1	4765.2	4129.1	2204.2
Other capital	954.1	2030	2739.5	2751	699.8

Note: Data is reported in million EUR.
Source: BNB.

In the last five years, in the DFI sectoral structure, no change was noted in the sectors which were at the three top places. The distribution of the shares among them, however, was marked by strong dynamics. With the stirring up of the real estate market, this sector became more attractive for foreign investors, and in 2006 it ousted Sector Manufacturing Industry from its top place for three successive years.

Table 6. FDI sectoral structure

	2005	2006	2007	2008	2009
Financial intermediation	21.2	13.3	24.0	24.4	22.9
Other community, social and personal service activities	0.6	1.0	1.0	0.8	-0.6
Manufacturing	27.5	17.3	11.7	9.2	18.3
Hotels and restaurants	1.7	1.7	1.9	1.4	1.5
Real estate, renting and business activities	16.9	28.9	28.7	29.6	20.3
Transport, storage and communication	-3.4	7.2	2.8	-4.1	9.4
Electricity, gas and water supply	9.8	5.7	3.1	3.5	8.0
Construction	5.4	8.1	9.0	9.0	6.1
Not allocated	0.5	0.5	1.8	5.0	5.6
Agriculture, hunting and forestry	0.3	0.4	0.8	1.0	0.3
Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	18.3	15.5	14.5	20.1	7.6
Mining and quarrying	1.2	0.3	0.7	0.0	0.5

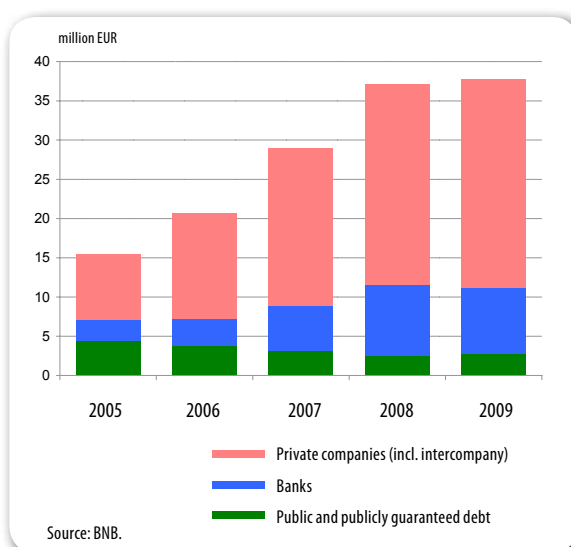
Note: The structure doesn't include sectors with a share of less than 1 %.
Source: BNB.

With the high paces of development of the financial intermediation, related both to the bank crediting, and to the development of the non-banking financial services in Bulgaria, and as a result of the negative corrections in the real estate sector, the share of the attracted by the financial intermediation DFI continuously increased, and in 2009, it occupied the biggest share of 22.9%.

The territorial structure of the net DFI was marked by strong dynamics in the determination of the first three states according to attracted investments. After the decline in the activity of the real estate sector, where in 2007 leading were the United Kingdom and Ireland, in 2008 the share of the investments from Austria, the Netherlands and Germany grew respectively to 17.3%, 15.9% and 11.1%. These states preserved their place among the first three in 2009, too, a leading position being occupied by the Netherlands with around 30.9% of the total DFI amount, followed by Germany (15.2%) and Austria (7.1%).

In 2009, the gross external debt of Bulgaria was stabilized at its levels from the preceding year. Its total amount at the yearend reached Euro 37.7 billion, which was 113% of the GDP. The public and publicly guaranteed debt followed a lasting trend of decline, in the end of 2009 reaching Euro 2.8 billion, or 16% of the GDP.

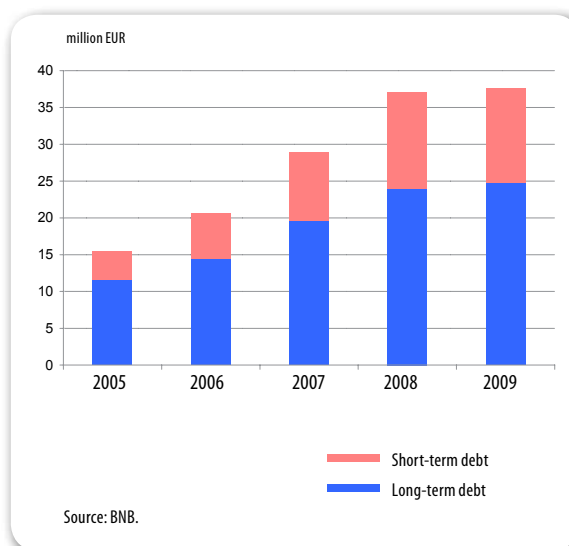
Figure 14. Gross external debt



The biggest share belonged to the private non-bank external debt (70%), the intercompany loans followed a stable growth, caused by the long-term interest of the foreign owners of local enterprises in the Bulgarian economy. The short-term external debt of Bulgaria decreased by Euro 0.3 billion in 2009, the greatest contribution for which belonged to the banks which succeeded to reduce their external liabilities,

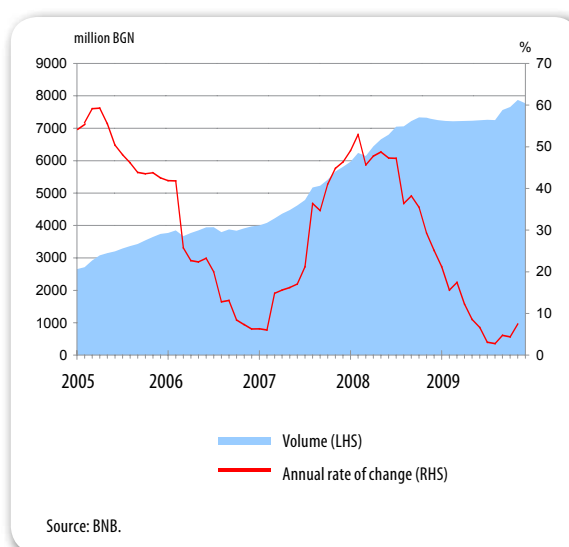
releasing resource from their minimum obligatory reserves.

Figure 15. Maturity structure of gross external debt



The credit activity of the banks in Bulgaria continued to slow down from the beginning of the preceding year, and at the end of 2009 the growth of credits for enterprises was established at around 2% year-on-year, and for the households – at 6%.

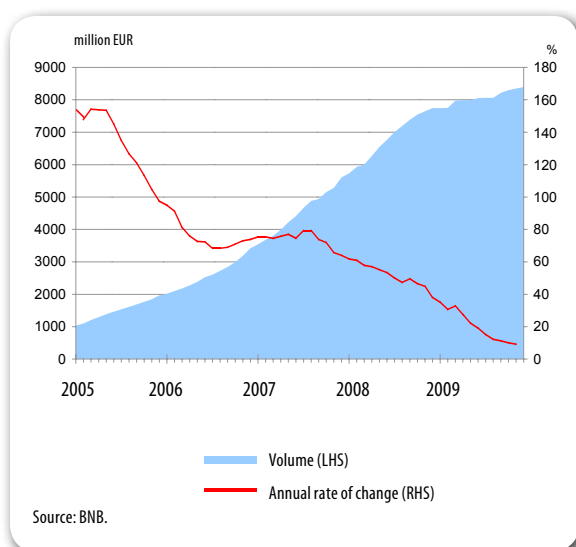
Figure 16. Consumer loans dynamics



The smooth increase of the home loans' volume influenced the slowing down rate of these loans as of the end of 2007. The observed dynamics can be explained rather with the fall of the home prices, which served as collateral of such credits, than with the banks' interest rate policy.

The volume of consumer loans was stabilized from the middle of 2008 to the middle of the past year, when the banks again intensified their activity for the provision of funds to the households for consumer needs, changing their interest rate policy in the direction of decrease.

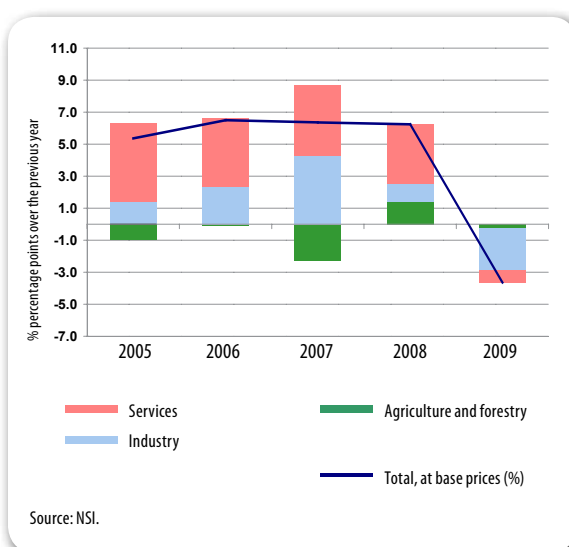
Figure 17. Residential mortgage loans dynamics



The quality of the banks portfolios towards the non-governmental non-financial sector for the last five years was highly dynamic, but nevertheless the share of the bad and restructured credits remained constant at 3% till the end of 2008. Since the beginning of the past year, a tendency to worsening was noted, which was accelerated to an 11% share of the bad and restructured credits in the total volume of the funds granted to the enterprises and the households. A major factor for that worsening was the established unfavorable situation of slowed down economic activity and inter-indebtedness between the economic agents.

Despite that the economic crisis reached Bulgaria with some delay in comparison with the other European economies, it had an impact on all sectors in the country in 2009. The industry was affected to the greatest extent, the index of industrial production recording a drop of 18.3%. Sector Mining and quarrying industry, electric power, gas and water production and distribution registered a fall of the value added of 8.5%, and Construction shrank by 7.2%. As a result of the negative growth rates of the separate industrial sectors, the industry had the greatest contribution (-2.6 pp) to the negative growth of the economy.

Figure 18. Value added growth and contributions by sectors



The Services sector also recorded a considerable fall in 2009, whose contribution to the negative economic growth came to -0.8 percentage points. Most affected by the economic crisis were Trade and Transport services, whose value added went down by 6.2%. Only the sector of Financial intermediation and Real estate activities registered a positive growth of 1.8%.

Table 7. Value added growth and contributions by sectors

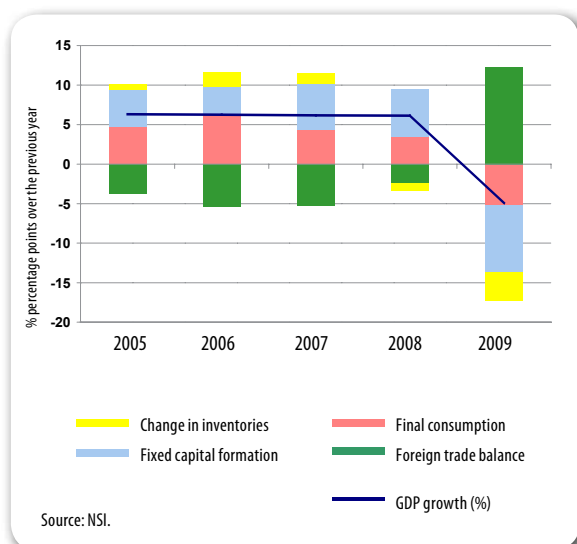
	2005	2006	2007	2008	2009
Total, at base prices	5.3	6.6	6.3	6.1	-3.8
Agriculture and forestry	-1.0	-0.1	-2.3	1.4	-0.2
Industry					
Mining and quarrying	0.1	0.1	-0.2	-0.1	-0.4
Manufacturing	1.2	1.5	2.6	0.4	-1.3
Electricity and central heating	-0.4	0.0	0.7	0.1	-0.2
Construction	0.5	0.8	1.1	0.7	-0.6
Services					
Trade	1.6	0.9	0.6	0.5	-0.6
Hotels and restaurants	0.4	0.0	0.3	0.1	-0.1
Transport and communication	0.4	-0.2	0.5	0.4	-0.7
Financial intermediation	2.2	1.5	1.9	2.3	0.5
Real estate, renting and business activities	0.0	1.8	0.4	0.9	0.2
General government; social security fund	0.5	-0.1	0.4	-0.5	-0.1
Education	0.1	0.2	-0.1	-0.1	0.1
Health and social work	-0.5	-0.2	0.1	0.1	0.1
Other community, social and personal service activities	0.3	0.4	0.3	0.1	-0.1

Note: Data for the total value added is reported as an annual change (%) and contributions in percentage points (p.p.) over the previous year.
Source: NSI.

As a result of the shifting of the negative effects of the crisis over the economic activity, the gross domestic product registered a drop of -5.1% in 2009. Due to the limited possibilities for financing, greatest was the negative effect over the investments, which contracted by -26.9%. In response to the lowered demand, the companies reduced the stocks of materials, goods and produce, which reflected

on the negative change in the inventories, whose contribution to the negative GDP growth amounted to -3.5 percentage points.

Figure 19. Contribution of final consumption components to GDP growth



Among the final consumption components, a positive growth during the past year was marked only by our external trade balance, whose contribution to the GDP was 12.3 pp, reduction of the current account deficit being reported in 2008 as well. These dynamics, on the one hand, was as a result of the shrunk internal demand, which reflected on the negative rates of the import of goods and services in Bulgaria. Biggest fall during the past year were observed in the investment (-39.2%) and energy goods (38.4%). On the other hand, the gradual recovery of the European economies stimulated the export to these major trade partners of Bulgaria, smallest being the drop in the export consumer goods (-3.5%).

Table 8. Contributions of commodity groups to exports and imports growth in 2009

	Export		Import	
	growth, %	contribution, p.p.	growth, %	contribution, p.p.
Consumer goods	-3.5	-0.8	-19.5	-3.4
Raw materials	-25.7	-11.4	-32.9	-11
Investment goods	-23.1	-3.8	-39.2	-10.7
Energy resources	-39.3	-6.5	-38.4	-8.4
Total growth	-22.5		-33.4	

Source: BNB

The final consumption expenses of the households marked a decline of 6.3% in real terms as a result of the uncertainty in the incomes and deferral of expenses to future periods. The Government expenses go not have significant influence over the GDP dynamics, their contribution reaching -0.4 pp.

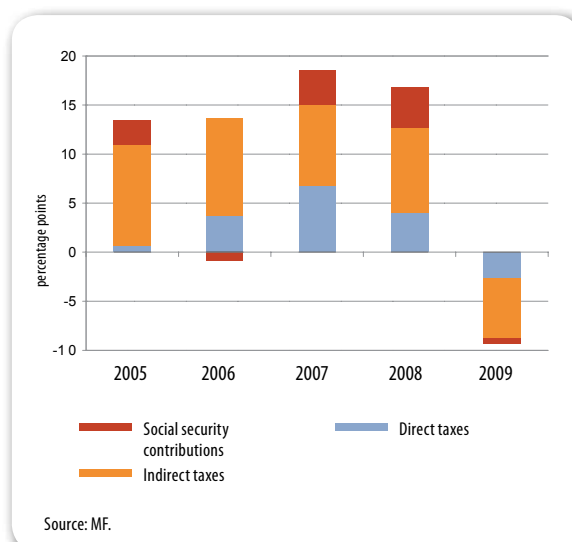
Table 9. GDP and final consumption components growth

	2005	2006	2007	2008	2009
Household consumption	6.1	9.6	5.3	4.9	-6.3
Final government consumption expenditures	0.6	0.1	2.8	1.9	-5.3
Collective consumption	4.1	-2.5	3.4	-1.4	-5.7
Gross fixed capital formation	23.3	14.7	21.7	20.4	-26.9
Export of goods and non-factor services	8.5	8.7	5.2	2.9	-9.8
Import of goods and non-factor services	13.1	14.0	9.9	4.9	-22.3
Rear GDP growth	6.3	6.3	6.2	6.0	-5.0

Note: Data is annual change over the previous year (%).
Source: NSI.

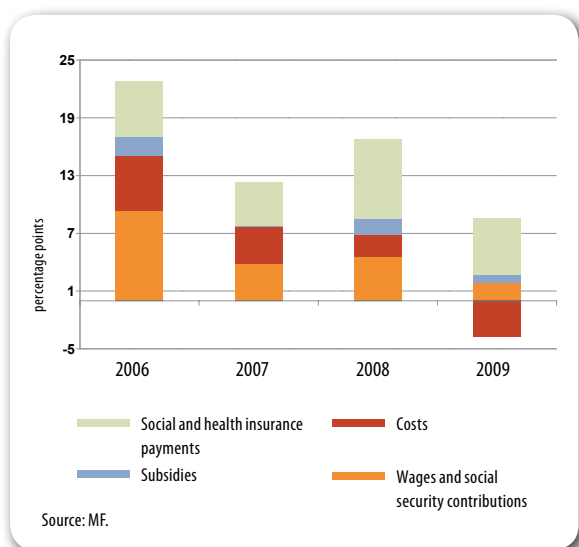
After several consecutive years of budget surpluses, the balance under the consolidated fiscal program in 2009 changed in the negative direction and recorded a deficit of BGN 576.4 million. That change in the state of the public finances was due to the bigger drop in the budget revenues compared with the positive effect of the Government's efforts for limitation of the expense section. The greatest contribution to the decline in revenues belonged to the indirect taxes (-6.1 pp) because of the slowed down economic activity and the contracted internal consumption. As a result of the unfavorable prospects for increase in the incomes, the decrease of the revenues from direct taxes amounted to 11.6% year-on-year.

Figure 20. Contribution of components to the dynamics of tax revenues



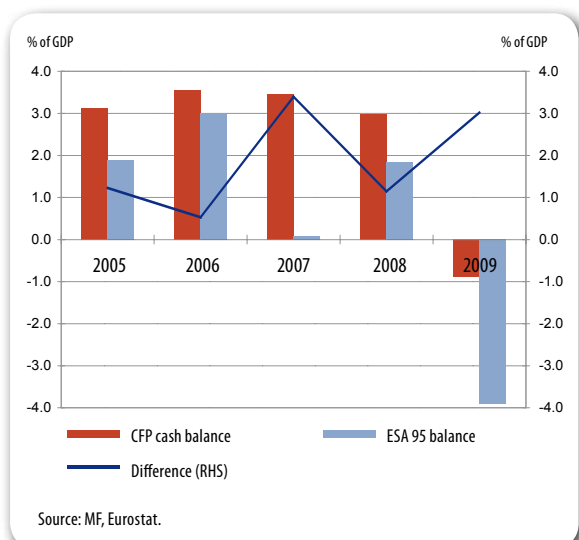
The negative impact of the financial crisis over the public finances necessitated the applying of measures for restriction of the budget expenses. In 2009, biggest decline of 16% was recorded by the capital expenditures, and the effect of the applied measures with regard to the non-interest current expenditures which accounted for around 80% of the total expenditures, was evident most of all in the costs, whose contribution amounted to -3.7 pp.

Figure 21. Contribution of components to the dynamics of non-interest expenditures



The limitation of the expenditures in the end of 2009 was connected predominantly with postponement of assumed in preceding periods payment liabilities. For that reason, a difference occurred between the cash deficit under the Consolidated Fiscal Program (CFP), which amounted to 0.9% of the GDP, and a negative balance of 3.9% according to the European System of Accounts (ESA) 95. Even though such difference was also observed in preceding years²⁹²⁹, it amounted to 3.0 pp for 2009, and the accumulation of liabilities to the non-governmental sector could create difficulties in the concerned companies and sectors of the economy.

Figure 22. Dynamics of CFP cash balance and ESA 95 balance



29 In 2007, 3.3 pp of the difference was due to the operation of the Iraqi debt cancellation, which was reported as a capital transfer under ESA 95.

The tendency of the consumer demand limiting from the end of 2008 continued and deepened in 2009, the households refraining from expenditures for non-food products and for goods of long-term use. The lower consumer growth rate was due mainly to the households' enhanced saving inclination.

Table 10. Dynamics of households expenditures

	2005	2006	2007	2008	2009
Total	7.6	12.6	20.4	12.3	3.7
Total expenditures	6.5	11.3	20.9	12.5	1.7
Consumer expenditures	7.6	11.1	19.5	12.7	2.3
Taxes	2.0	4.6	32.9	23.8	2.3
Regular inter-household transfers	-8.3	0.9	25.0	-5.7	-17.4
Other expenditures	1.1	18.2	29.7	11.5	-0.2
Saving deposits	18.3	41.7	13.0	22.3	25.5
Debt paid out and loan granted	33.7	22.1	14.8	-1.0	33.1

Note: Data is annual change over the previous year (%).
Source: NSI.

In 2009, the households' income continued to grow, even though at slower rates (5%), while as a result of the increased unemployment, the biggest growth was registered by the unemployment benefits (194%). The limited consumer crediting exerted negative influence on the household revenues from loans and credits, and the future income uncertainty reflected on the negative growth of -26.7% of the repaid during the year loans.

Table 11. Dynamics of households income

	2005	2006	2007	2008	2009
Total	3.5	8.6	18.1	10.3	2.7
Total income	3.9	8.1	17.4	11.1	5.0
Interest income	2.3	13.6	27.9	-0.3	-13.8
Loans and credits	-7.8	16.3	24.4	0.4	-48.6
Loan repaid	-11.1	37.5	36.4	0.0	-26.7

Note: Data is annual change over the previous year (%).
Source: NSI.

In 2009, the effects of the economic crisis affected also the labor market in Bulgaria where the employment fell by 2.9%. As a result of the outlined negative tendencies on the labor market, the average annual salary increased at slower rates (8.6%) compared with the preceding years. The shrinkage of the demand for labor force on the side of companies led to surge in the number of unemployed people in the economy, and at the end of 2009 the level of unemployment reached 9.1% (as percent of the labor force).

Table 12. Employment and income dynamics

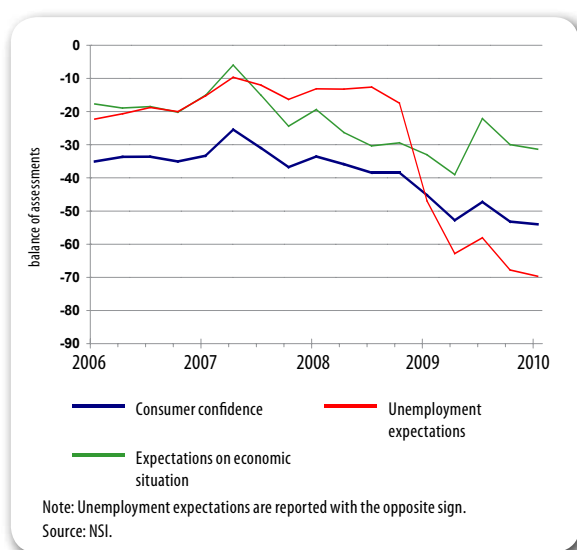
	2005	2006	2007	2008	2009
Employment	2.7	3.3	2.8	3.3	-2.9
Employees	3.7	4.3	3.7	3.7	-3.7
Annual average employees' salary	10.7	11.3	19.5	26.5	8.6
Unemployment*	10.7	9.1	6.9	6.3	9.1

Note: Data is annual change over the previous year (%); * rate of unemployment at the end of the year (% of the labour force).
Source: NSI, Employment Agency.

During the past year, the state of the labor market worsened, the expectations of the economic agents being for subsequent deepening. While the number of the employed persons in the public sector decreased on average by 3% annually for the period from 2005 to 2009, in 2009 the private sector also registered a negative change in the employed of -5.1%.

The consumer confidence worsened since the beginning of the past year, simultaneously with the aggravation of the general economic situation. Since the beginning of 2009, the concerns grew for increase in the unemployment. That, in turn, influenced the expectation for an eventual decline in incomes, as a result of which the households' estimates for the expected financial condition and the future economic situation retained their low levels from the beginning of the year.

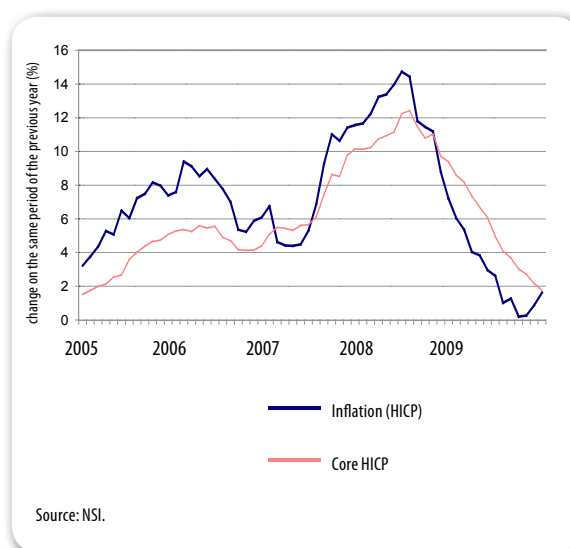
Figure 23. Consumer confidence indicator



The trend from the end of 2008 towards decrease of the inflation, measured by the Harmonized Index of Consumer Prices (HICP), continued also during the past year. After it reached its lowest value of 0.2% on annual basis in September 2009, it picked up to 1.6% at the yearend. In view of the administrative or strongly volatile nature of some goods and services, the inflation without the prices of foods, energy products, the controlled prices and tobacco products (substantial inflation) shows more precisely the effect of the consumer demand on the price behavior. The

dynamics of the substantial inflation is smaller in periods of increase of the general index of consumer prices, which is an indicator of the great contribution of the strongly volatile or controlled prices to the general inflation. Since the beginning of 2009, the substantial inflation decreased at slower rates than the general inflation, which to a certain extent was due to the exclusion of basic effects from the one-time increase of the administrative prices.

Figure 24. Inflation



The food prices had greatest contribution to the inflation, and in 2009 it was in the direction of decrease (-0.7 pp). After in 2008 the services registered highest rate of increase, during the past year they went on maintaining a positive rate of change, whose contribution to the accumulated at the yearend inflation reached 0.9 pp. As a result of the reduced consumer demand for industrial goods, their prices were retained at the level from the end of 2008. Because of the increase of the excise duty on the tobacco products, a one-time inflation effect was noticed in April 2009, their contribution to the annual inflation rate at the yearend amounting to 0.7 pp.

Table 13. Contribution of main goods and services to inflation

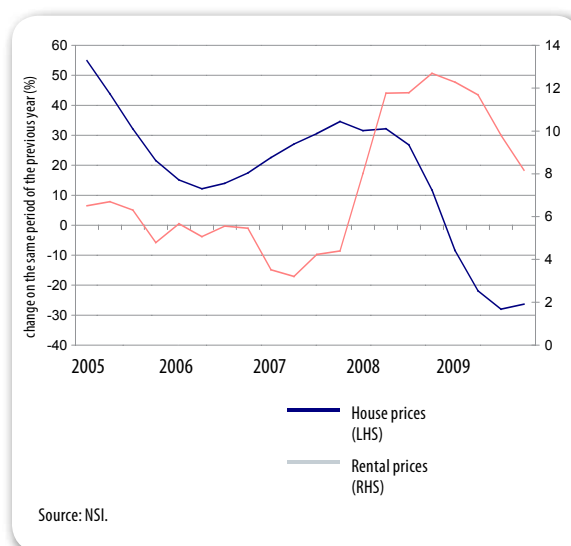
Inflation (%, over Dec. of the previous year)	2007	2008	2009
contribution (p.p.)			
Food	5.1	1.5	-0.7
Processed food	4.1	0.8	-0.4
Unprocessed food	0.9	0.6	-0.3
Services	3.4	3.4	0.9
Catering	2.0	1.6	0.5
Transport services	0.6	0.8	-0.1
Telecommunication	0.0	-0.1	0.0
Other services	0.9	1.1	0.5
Energy products	1.2	-0.8	0.5
Transportation fuels	1.2	-1.0	0.5
Non-energy industrial goods	1.1	1.0	0.0
Administrative prices	1.1	1.7	0.3
Tobacco products	-0.3	0.5	0.7

Source: NSI.

After its high price pick in the first half of 2008, the dynamics of the house prices changed towards decrease. The main reason for that was the weak demand on the households' side, as a result of the uncertainty in their future and the limited possibilities for financing. The dynamics of the rental prices, on the other hand, showed a reverse trend. As an alternative to the purchase of own home, they declined when the home prices grew in 2007. Their behavior changed

from the middle of 2008, when they registered a jump of more than 12% on annual basis, and since the beginning of 2009 they followed the fall in the house prices, but at more moderate rates.

Figure 25. Dynamics of house and rental prices



2. Overview of the non-banking financial sector in Bulgaria

The financial markets are influenced by different risks, and they can be grouped in five main categories: market, credit, liquidity, operating and macroeconomic. The **market** risk is the possibility the value of an investment to decrease due to movements of market factors, such as prices of financial instruments, interest rates, exchange rates, etc. According the origin of the different factors which would lead to deviations from the expected value of an investment, the market risk can be divided into several sub-risks which have different extent of influence over the relevant financial product or market participant. The *interest rate risk* is the possibility the changes in the interest rates to affect adversely the yield or the value of the instrument. The *currency risk* arises from the volatility of the exchange rates, where investments in instruments denominated in foreign currency can be adversely affected by the rise in the price of the foreign currency towards the domestic one. To the market risks is also reckoned the *liquidity risk* which arises in situations when a party interested to sell a given asset cannot do it, as no one on the market wishes to buy this asset.

Besides the market risks, a major risk in the financial system is the **credit** risk which describes the possibility the counterparty not to fulfill deliberately, or to be unable to fulfill the assumed by him commitment under the concluded contract. Another major risk which is specific for the various types of financial intermediation is the **operating**. It is expressed in the possibility direct or indirect losses to be incurred as a result of inadequate internal control, a human act, organization or some other event.

To the above listed specific risks, with great influence is also the **macroeconomic** risk which arises from the mutual relationship between financial intermediation and the economic development. The risks are hidden in the shifting of problems from the real economy to the financial sphere, such for instance as decline in the GDP growth, increase in unemployment, absence of foreign investments, fall in the export, etc.

Before the global financial crisis, the participants on the non-banking financial market in Bulgaria were relatively slightly exposed to the above described risks, a trend being observed of continuous increase in the asset prices, the access to financing was almost without any limitations. The international markets crash which started in the second half of 2007 changed the conditions of financial intermediation in our country, too. The short-term foreign investments reacted first, they withdrew from the country, and the inflow of fresh long-term investments was suspended until stabilization of the conditions on the world markets. The drastic shrinkage of the direct foreign investments that had begun in 2008, continued also during the past year, which placed the participants on the financial markets simultaneously in the conditions of a liquidity and credit risk.

Despite that a financial crisis of the scale of that in the USA was not realized in Bulgaria, the GDP recorded a drop of -5.1% in 2009. The deepening of the problems in the real economy, such as the high inter-company indebtedness, the shrunk internal consumption, the income uncertainty of the households conditioned also risks to the financial markets. The major problem aroused from the lack of fresh money, and in 2009 the

Bulgarian economy continued to undergo a process of quick readjustment to an environment of sharply reduced and more expensive external financing.

In the two years preceding the crisis, the annual rate of credit increase in Bulgaria was one of the highest in Central and East Europe. With the spread of the financial crisis over the real economy, the trend was reversed, the amount of the granted credits decreasing sharply, and the percentage of the unserved credits began to climb. With the uncertainty about the future households' income, the risks for sustainable recovery further increased for the financial intermediaries and the market participants. The increase of the interest rate levels on the deposits with the purpose of attracting fresh money on the banks' side led to intensified shrinkage in the money in circulation and to fall in prices of some financial assets.

The limited internal consumption and the drop in the export, despite of the slower rates in comparison with the import, reflected the reduced economic activity and had an impact on the unemployment increase. That, in turn, enhanced the risk the small and medium investors to withdraw from the capital markets, influenced by the absence of a stable market conjuncture and free funds for investment.

The non-banking financial sector in Bulgaria continued to develop unsustainably after the big fall from the previous year. The lessened confidence in the Bulgarian capital market (in its quality of a developing market) and the continuing decline of the capital inflow in the economy, owing in large part to the withdrawal of the investments from real properties, led to decrease in the major indicators characterizing the non-banking financial sphere.

Due to the limited investor interest, which reflected on price reduction of the securities traded on the Bulgarian capital market, the investment intermediaries' assets registered a decline in the past year. In 2009, the share of the assets of the collective investment schemes (CIS) in the structure of the financial intermediation reported a growth of 0.06 pp, reflecting the positive signals from the stabilization of the financial markets' investment climate from the second half of the year. In the special investment purpose companies (SIPC), a growth of the assets by 1.2%, was observed in the past year, even though that did not lead to increase of their relative share in the financial intermediation.

The economic situation in the past year had a negative impact on the development of the insurance market, where the gross premium written reported a decline to BGN 1 681 million. Following the big decrease of the pension funds' assets in 2008, they marked a growth in 2009, most of them closing the year with positive rate of return and they compensated part of their losses. As a result of this positive development, the share of the pension insurance companies in the sector of financial intermediation increased to 3.86%.

The share of the banking activity in the sphere of the financial intermediation grew relatively, even though at slower rates. This to a large extent was due to the fact that the effects of the financial crisis affected directly the non-banking financial sector in Bulgaria, while the recovery of its activity was delayed owing to the secondary effects of the economic crisis. The potential risk from the credit portfolios aggravation remained in the banking activity, which dominated the financial intermediation in our country, as well as in Continental Europe, because of the slow income growth and the prospects for unemployment increase.

Table 14. Structure of financial intermediation by institutional investors (%)

Indicators	2005	2006	2007	2008	2009
Assets of IIs	3.6	6.19	10.56	6.81	5.46
Assets of CIS	0.26	0.64	1.23	0.4	0.46
Assets of SIPCs	0.35	1.30	1.92	2.00	1.91
Insurance and health insurance premiums	3.46	2.59	2.10	2.26	2.09
Assets of the pension funds	3.02	3.10	3.15	2.84	3.86
Assets of banks	89.32	86.17	81.04	85.69	86.06
TOTAL:	100	100	100	100	100

Source: FSC, BNB.

Despite the different dynamics of development of the financial intermediation sectors, the relative structure of the depth of financial intermediation was preserved. In the past year, the decrease of the market capitalization of the BSE continued, even though at lower rates, a decline of 5.1% being reported in 2009, compared to the preceding year. The realized non-banking financial intermediation in Bulgaria through the stock exchange is traditionally more limited than

the developed bank market, and their structure as a share of the GDP in the past year approximated to their shares in 2005.

Continuation of the trend of decline was also noted in the insurance sector, where the depth of financial intermediation decreased from 2.75% in 2008 to 2.59% in the past year, by reason of the close dependence of the sector on the development of internal macroeconomic environment. Direct factors

for the observed dynamics in the insurance sector were the shrunk internal demand and the uncertainty of the households' income.

On the other hand, the accumulated net assets in the system of the supplementary pension insurance marked a growth of 37.3% y/y, their value at the end

of 2009 being equal to BGN 3 156 million. The positive development in the pension funds was due both to the increased gross revenues from pension insurance contributions, and to the achieved positive rate of return in the asset management.

Table 15. Financial deepening (% of GDP)

	2005	2006	2007	2008	2009
Market capitalization of BSE- Sofia	20.11	31.2	51.29	18.63	17.80
Insurance and health insurance premiums	3.03	2.59	2.71	2.75	2.59
Net assets of the pension funds	2.65	3.09	4.21	3.45	4.76
Assets of the banks	78.31	85.95	104.60	104.20	107.00

Source: FSC, BNB, NSI.

In Bulgaria, while the direct losses from the manifestation of the financial crisis were relatively smaller compared to other European states, the secondary effects from the slowed down economic activity and the worsened general macroeconomic situation from the past year put the financial intermediation, and in particular the non-banking financial sector in the country, before the challenge for sustainable recovery in parallel with the European markets.

The **macroeconomic risks**, arising from the **external environment** began to reduce with the expectations for recovery of the world economy, which impacted positively mostly on the current account deficit shrinkage. In view of our trade integration with the EU Member States, a part of the risks which these countries face will be automatically shifted to Bulgaria, too. The signals for the fragile stabilization of the European economies, the risk from eventual deepening of the shrunk consumption and decline in the growth affected adversely the Bulgarian export and growth in the economy. That, in its turn, enhanced the **liquidity** and **credit** risk, which the financial markets in the country faced.

During the past year, the fiscal disbalances deepening continued and among part of the European states serious problems occurred with the budget deficits. The financing of the budget

shortage and the increased expenditures related to servicing of assumed by the Governments liabilities, put the focus on the development of a **risk**, arising from the **public finance management**. Due to the connection between the public sector and the private banks, this risk may quickly be transferred on the financial markets, which will lead to drop in the investor confidence.

The recovery of the economic activity in Bulgaria depends on the preservation of the macroeconomic stability through a balanced budget, and this is expected to yield positive results with regard to the expectations of the investors on the non-banking financial market in a medium and long-term period. On the other hand, in the conditions of limited crediting, the deferral of due payments of the budget to the business had also its negative effects on the real economy, enhancing the high inter-company indebtedness. The unemployment increase put in uncertainty the households' future incomes, which in turn limited their investment capabilities. In the conditions of financial stabilization of the international markets which was also partly observed in Bulgaria at the end of 2009, the maintenance of **financial and economic stability** is of key significance for the rates of development of the non-banking financial sector in the country.

2.1 Analysis of the participants on the capital market

The state of the financial markets had an effect also on the nature of the capital market in Bulgaria as well as on the behavior of the participants therein. In 2009, only in regard to the public companies and securities issuers which also include the special investment purpose companies, a decline in number was observed compared to the preceding year, while in regard to the non-banking investment intermediaries, collective investment schemes and management companies, there was an increase of the filed supervised entities in the FSC's register.

From all market participants, most significant was the decrease of activity of the investment intermediaries, both with regard to the concluded number of transactions (-48.8%), and with regard to the realized turnover (-59.2%). With the public companies and securities issuers, activation was observed in the number of the issued in 2009 prospectuses for initial public offering of securities, which exceeded the number of the approved prospectuses in the preceding two years taken in aggregate. An evidence of the interest shown on the market participants' side was also the circumstance that during the reviewed period, from the 15 approved prospectuses of issues of shares admitted to trading on a regulated market, 14 were prospectuses of new securities issuers. Considerable was also the activity of the collective investment schemes, where the amount of the possessed by them assets picked up by 16%, compared to 2008. With the special investment purpose companies, a growth was also recorded in the amount of the possessed assets towards 2008, irrespective of their decreased number compared to the previous years.

2.1.1. Investment intermediaries

At the end of 2009, in Bulgaria there were entered in the FSC's register 88 investment intermediaries (IIs), 25 from them were banks, and 63 – non-banking financial institutions. After the initially observed trend of decrease in the non-banking IIs, since September 2007 their number began to increase, stabilizing at 63 from October 2008 to the end of 2009. In the register kept by FSC there were also entered two foreign investment intermediaries, pursuing business through a branch under freedom of establishment and one foreign investment intermediary

carrying out activity on the territory of Bulgaria by the use of a tied agent, made equal to a branch.

According to the issued licenses, IIs – non-bank institutions are divided in two groups: (1) IIs with full license³⁰, for which the required capital is BGN 1 500 000, as at 31 December, 2009 there were filed into the FSC's register 24 IIs with full license, and (2) IIs with partial license³¹, for which the required capital is BGN 250 000. At 31 December, 2009 there were 38 companies with partial license entered in the FSC's register.

Figure 26. Number and assets of non-bank investment intermediaries (IIs)



³⁰ They can perform all investment services and activities, listed in Art. 5, para 2 of MFIA.

³¹ They cannot execute transactions for their own account with financial instruments and underwriting of issues of financial instrument and/ or offering for initial sale of financial instruments in the conditions of unconditional and irrevocable obligation for subscription/ acquiring of financial instruments for their own account..

At 31 December, 2009, the amount of the non-bank investment intermediaries' assets was BGN 4.501 billion, which was a decrease of 18.6% towards the end of 2008, when their amount was BGN 5.530 billion. After achieving its highest value in December 2007, the asset amount of the non-banking IIs began to decrease with the expansion of the global financial crisis, as a result of the limited investor interest and the receding tide of foreign investor capital, which also had an effect on the process of securities traded on the Bulgarian capital market. Upon the appearance of the first positive signals for stabilization of the international financial markets, from March 2009 to the yearend, a trend was observed of stabilization in the total amount of assets.

Within 2009, the concluded transactions in which at least one of the parties was **COBOS** (Client order Book on-line System), through which the trade on BSE – Sofia is monitored in real time and orders are given for conclusion of transactions, which after confirmation by a stockbroker are entered in the trading system of the stock exchange, were about 160 thousand, which represented 80.25% of all transactions concluded on the stock exchange.

Table 16. Transactions and turnover of IIs through COBOS trading system

	2005	2006	2007	2008	2009
Turnover (billion BGN)				4.3	1.7
Number of transactions	122	141	390	333	160

Note: Data is reported in thousand number, unless other is quoted.
Source: FSC.

For the period 31 December, 2008 – 31 December, 2009, a considerable drop was noted in the volume of the concluded transactions by the investment intermediaries, where, except for August 2009, the concluded in 2009 transactions in which at least one of the parties was COBOS, were less than their number in the previous year. One of the main reasons for the observed dynamics was the enhanced prudence on the investors' side. The falling trend in the volume and turnover of the IIs transactions, concluded through the COBOS system, was also determined by the investment activity in the conditions of financial crisis, the highest number of concluded transactions being registered in 2007, when an intensified participation was reported of small investors that use the electronic trading system COBOS.

In 2009, the number of investment intermediaries³², in whose capital there was foreign capital ownership by natural and legal persons (directly and indirectly) from EU Member States remained unchanged at 13.

Table 17. IIs with foreign ownership

	2008		2009	
	Direct	Indirect	Direct	Indirect
EU ownership	6	7	8	5
Third countries' ownership	1	4	1	3

Note: Data is reported at 31 December 2008 and 2009.
Source: FSC.

At the end of 2009, the direct foreign ownership by EU Member States in the capital of the non-banking investment intermediaries was equal to BGN 5.692 million (or 5.65% from their equity), which constituted a growth of 1.12% compared to the end of 2008, when that value was BGN 5.629 million. At 31 December, 2009, the direct foreign ownership of natural and legal persons from third countries in the capital of the non-banking investment intermediaries was BGN 105 thousand, or 0.10% of their capital.

Table 18. Assets, registered capital and equity of IIs

	2008	2009	Change
Full license IIs			
Assets	4 876	3 766	- 22.8%
Registered capital	71	67	- 5.6%
Equity	87	83	- 4.6%
Partial license IIs			
Assets	654	734	12.2%
Registered capital	13	15	5.4%
Equity	17	18	5.9%
Total			
Assets	5 530	4 500	-18.6%
Registered capital	84	82	- 2.4%
Equity	104	101	-2.9%

Note: Data is reported in million BGN unless other is quoted.
The information is at 31 December 2008 and 2009.
Source: FSC.

In 2009, a drop of 22.8% was observed in the asset amount of the investment intermediaries having a full license, which reached BGN 3766 million at the yearend. Reduction was also recorded by the registered capital which declined by 5.6% year-on-year, owing basically to the fact that the licenses of two investment intermediaries were withdrawn in the past year. An increase of 12.2% was observed in the asset amount of the investment intermediaries having a partial license. From the total number of the non-banking investment intermediaries, only one had

³² The data about the investment intermediaries for 2008 are with correction compared to these in the last year's report.

equity less than the minimum required one at the end of 2009.

According to the review and analysis made of the reports on **capital adequacy** of the investment intermediaries, the supervised persons at any time in 2009 possessed a capital base covering the statutory requirements and allowing the covering of the inherent to the activity risks.

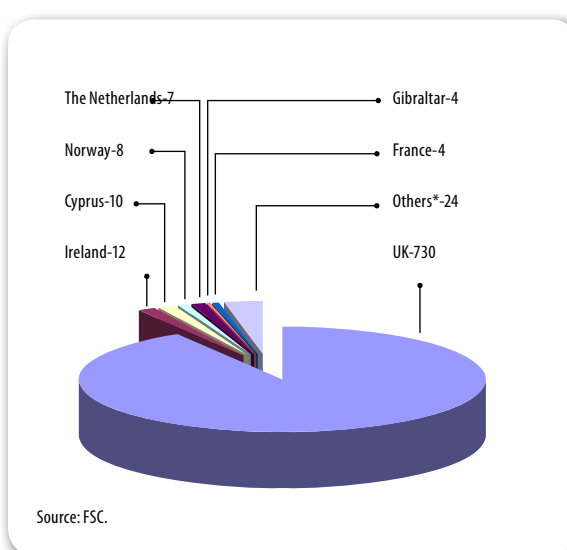
The investment intermediaries have acting rules of their trading books management, the major part of them also apply consistent mechanisms for transfer of exposures between a trading and non-trading book. This allows the investment intermediaries to contain the risk within reasonable limits, regardless of the fluctuation on the market.

In relation to the concentration of investment intermediaries' exposures, between 10 and 20 intermediaries reported large exposures in different periods of 2009. In their main part they were in low-risk instruments, negative tendency being not observed in connection with the entering into exposures to related persons.

At the end of 2009, the amount of the attracted customer assets was BGN 4.131 billion, from which BGN 3.422 billion were of IIs with full license, and BGN 709 million – of IIs with partial license. The four investment intermediaries with the biggest amount of attracted customer assets held BGN 2.542 billion, or 61.54% of the total amount of customer assets held by all investment intermediaries. Although over half of the total amount of customer assets was held by four investment intermediaries, such concentration was not observed with the other investment intermediaries.

In 2009, notifications were received from 198 investment intermediaries from EU Member States which intended to carry out activity on the territory of the Republic of Bulgaria. Their overall number reached 799 at the yearend, the relative territorial distribution of the notifications received from EU member States being retained. It was dominated by notifications of investment intermediaries having a legal seat in the United Kingdom, their number reaching 730 at the yearend, followed by Ireland (12) and Cyprus (10).

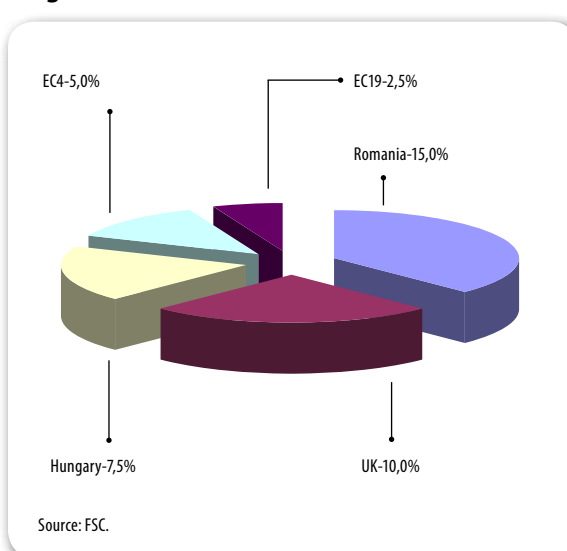
Figure 27. Geographical map of notifications of EU IIs



Note: The Figure shows the territorial distribution of the number of notifications, received from the relevant Member State. * 'Others' include: Greece (3 notifications), the Czech Republic (3), Hungary (3), Germany (3), Slovakia (3), Austria (2), Belgium (1), Malta (1), Estonia (1), Denmark (1), Finland (1), Luxembourg (1) and Romania (1).

In 2009, the number of the sent notifications about investment intermediaries having a legal seat in Bulgaria, intending to carry out activity on the territory of the European Union grew with 34, a year earlier it was 9. The significant increase was an indicator of serious interest on the side of the local IIs for expansion of their activity outside the territory of Bulgaria. Their territorial distribution was comparatively balanced, where greatest was the interest to the markets in Romania (15%), the United Kingdom (10%) and Hungary (7.5%).

Figure 28. Geographical map of notifications of Bulgarian IIs



Note: The figure shows the percent ratio among the states to which notifications were sent by FSC. EU 4 represents a group of 4 Member States (Poland, Greece, Germany and Spain), each of them having a share of 5%, and EU 19 – respectively 19 Member States (Slovenia, the Czech Republic, Austria, Belgium, Denmark, Estonia, Ireland, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Malta, Portugal, Slovakia, Finland, France, the Netherlands and Sweden) each with a share of 2.5%.

FOCUS TOPIC: Dynamics of the exchange indexes and the volumes of the European stock markets

In 2009, the European stock markets offered exceptional dynamics. The indexes of the exchanges in the region registered drops in the first three months of 2009, where in the second and third quarter the first signals began to appear for the coming out of the leading world economies of the recession. In the conditions of financial integration, a large part of stock exchange indexes in Central and East Europe recorded increases in 2009. Strongest was the growth of the main stock exchange measurer in Hungary, BUX, which went up by almost 74% year-on-year. The Bulgarian market lagged behind the recovery rates of a large part of the markets in Southeast, and especially of the stock exchanges from Central Europe, considering also the serious fall of SOFIX of almost 80% in 2008. The main reasons were the low liquidity as well as the lack of foreign investors' interest to the Bulgarian capital market in 2009.

Indicative of the stock exchanges dynamics was also the value of the market capitalization. In 2009, the market capitalization of the stock exchanges in Bucharest, Budapest, Prague and Vienna grew respectively by 64%, 12%, 20% and 38%, while that of BSE-Sofia declined by 5%. One of the main reasons for the decline on BSE-Sofia was due to the reduction of prices of some of the less liquid companies with high market capitalization, which were included in the SOFIX stock exchange index. This, in turn, led to the conclusion of less transactions. Also, the capitalization of the 5 leading companies by this indicator recorded a drop by more than 22% during the year. In 2009, the volume of lots on BSE-Sofia decreased by 34%, and the stock exchanges in Budapest and Prague by 8% and 14% respectively, where from the reviewed stock exchanges, only that in Bucharest marked a growth of 12% in the volume of lots.

In 2009, the financial crisis had also an impact on the turnover – it marked a fall on the stock exchanges in Sofia, Bucharest, Budapest, Prague and Vienna, respectively of 60%, 27%, 14%, 34% and 49%. By way of comparison, the decrease in the realized turnover in 2008 towards 2007 was biggest on the stock exchanges in Sofia and Vienna (by about -75%), the smallest decline of around -16% being reported by the stock exchange in Prague for the same period.

Table 19. BSE-Sofia and other CEE stock exchanges

	2008	2009	Change (%)
BSE-Sofia			
Market capitalisation (million EUR)	6 357	6 031	-5.1
Volume (million of lots)	490	325	-33.8
Turnover (million EUR)	1 089	444	-59.23
Main stock index - SOFIX			19.1
Bucharest Stock Exchange (Romania)			
Market capitalisation (million EUR)	11 630	19 053	63.83
Volume (million of lots)	12 848	14 431	12.3
Turnover (million EUR)	1 644	1 204	-26.7
Main stock index - BET			61.7
Budapest Stock Exchange (Hungary)			
Market capitalisation (million EUR)	57 700	64 540	11.9
Volume (million of lots)	2 972	2 747	-7.6
Turnover (million EUR)	22 944	19 682	-14.2
Main stock index - BUX			73.4
Prague Stock Exchange (Czech Republic)			
Market capitalisation (million EUR)	40 996	48 996	19.5
Volume (million of lots)	1 123	968	-13.8
Turnover (million EUR)	59 962	39 677	-33.8
Main stock index - PX			30.2
Vienna Stock Exchange (Austria)			
Market capitalisation (million EUR)	71 630	98 961	38.2
Volume (million of lots)	-	-	-
Regulated market turnover (million EUR)	145 107	74 691	-48.5
Main stock index - ATX			35.1

Note: The exchange rates are reported at 31.12.2009: 1 EUR = 4.2282 RON (National Bank of Romania), 1 EUR = 26.465 CZK (Czech National Bank), 1 EUR = 270.42 HUF (Hungarian National Bank).
Source: BSE-Sofia, Bucharest Stock Exchange, Budapest Stock Exchange, Prague Stock Exchange, Vienna Stock Exchange.

2.1.2. Collective investment schemes

In 2009, there was no change in the trends from the last five years for increase in the number of the management companies, which at 31 December, 2009 managed the activities of 103 collective investment schemes (CIS): 11 from them were investment companies (IC), and 92 – contractual funds (CF). Most considerable was the increase in the number of CF, which in 2009 grew by 9 and their total number reached 92 companies. Two of the investment companies were of closed-end type (former privatization funds), and 9 – of open-end type.

Because of the lack of any change in the number of ICs during the last five years, the dynamics of the number of CIS was a result, in whole, of the increasing number of CFs. Irrespective of the aggravated market conjuncture in 2008 and 2009, the stable growth of the contractual funds was mainly due to the higher interest on the investors' side to this type of CIS. The main reason for that was that they provide possibility for more easily accessible way of investing the free cash in comparison to the high-risk equities securities and/ or the "expensive" debt financial instruments.

Table 20. Number of MCs, ICs and CFs

	2005	2006	2007	2008	2009
Management Companies (MCs)	13	23	30	38	40
Investment Companies (ICs)	10	11	11	11	11
Contractual Fund (CFs)	15	34	60	83	92

Source: FSC.

In 2009, overall 4 notifications were received in the FSC from companies registered in European states, which intended to pursue business on the territory of the Republic of Bulgaria under freedom to provide services. During the year, there were no notifications received from domestic management companies which intended to carry out activity on the territory of Member States, and from CIS which intended to offer their units publicly in the EU during 2009.

Table 21. Number of foreign CISs

	2005	2006	2007	2008	2009
Mutual Funds - foreign CISs	3	6	18	29	27
Funds/Subfunds	29	39	59	93	84

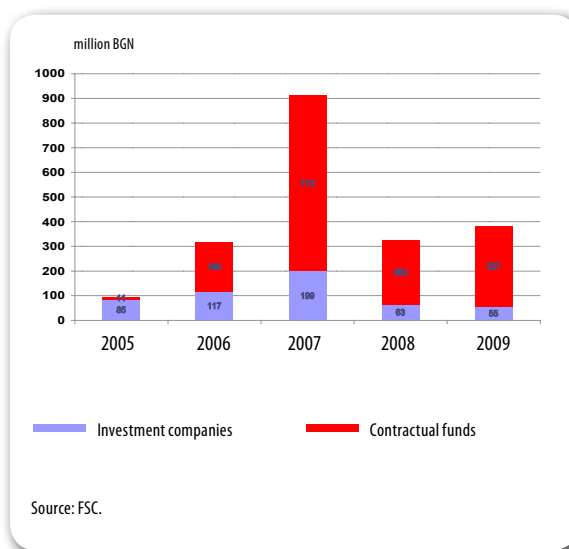
Source: FSC.

With regard to the publicly offered in the country units of funds and subfunds from foreign CIS, by the end of 2008 an increase in their number was observed, respectively also in the number of the foreign mutual funds. In 2009, a fall was registered of 9 foreign CIS, thus their number reached 84 at the yearend. Following the same dynamics, the number of funds and subfunds decreased to 27 during the past year, this decline being a consequence of the diminished interest on the foreign investors' side in

the developing market, such as ours, in the conditions of instability and uncertainty of the international capital markets at the end of 2007.

The movement of the CIS assets can be divided in two periods – before and after the global financial crisis, where by the end of 2007 a trend was noted of surge in the CIS asset value. After their big fall in 2008, they marked a certain growth at the end of 2009, directly reflecting the positive signals of the investment climate stabilization on the financial markets. Greatest contribution to these dynamics belonged to the contractual funds, as at 31 December, 2009 they had attracted assets at the amount of BGN 327 million, up by 24.8% compared to the preceding year.

Figure 29. Total assets of the CISs



In regard to the investment companies, a reduction continued to be observed in the amount of the accumulated by them assets by 13.3%, compared to 2008. The greatest contribution to these dynamics had the investment companies of open-end type, where 85.3% of the total assets of all ICs (BGN 47 million) were concentrated, the drop with them being 18.3%. With regard to the investment companies of

closed-end type a decline of 3.7% was recorded in the amount of the possessed by them assets on a year-on-year basis.

The collective investment schemes are classified in three main groups from viewpoint of risk and yield, and namely – aggressive (high-risk), balanced and conservative (low-risk). In this relation, the number of CIS with aggressive investment strategy was 41, with balanced – 38, and with conservative – 22, and during the reviewed year the number of the newly registered contractual funds with balanced and conservative risk profile exceeded those pursuing aggressive investment policy.

Biggest part of the CIS assets were concentrated in the companies and funds having an aggressive investment portfolio (39.3%), followed by those with balanced investment strategy (33.7%) and collective investment schemes giving preference to the low-risk securities and money market instruments (27%). During the last two years, only the latter registered increase in their holding in relation to the possessed by them assets (from 23.3% for 2008 to 27% in 2009). This was due to the conservative risk appetite of the investors which prefer not to risk by investing their funds in higher-risk financial instruments in the conditions of instability of the financial markets.

Table 22. Assets of CISs

	2005	2006	2007	2008	2009
Cash, incl.	25.6	90.0	197.2	114.0	144.3
Term Deposits	21.9	68.0	156.7	93.2	113.8
Financial assets and instruments, incl.	68.4	221.9	677.8	211.7	234.4
Shares	26.9	138.6	528.6	117.4	153.2
Rights	0.0	0.0	0.0	0.0	2.7
Debt securities	31.7	60.5	89.0	76.0	59.5
Units of CIS	0.0	0.0	0.0	8.8	11.2
Money market instruments	8.3	7.1	6.9	6.1	6.6
Derivatives	0.0	0.0	0.0	0.0	0.0
Other financial instruments	1.5	15.6	53.3	3.3	0.8
Non-financial assets, incl.	1.1	3.9	34.5	2.6	3.7
Receivables	1.1	3.9	34.4	2.3	2.8
Other	0.0	0.2	1.9	0.0	0.0
Total	95.1	316.1	911.4	328.3	382.5

Note: Data is reported in million BGN unless other is quoted. "Other financial instruments" includes foreign securities and compensation instruments for 2005-2008.
Source: FSC.

At 31 December, 2009, the most significant was the percent of investments in equities, which went up by 4.3 pp compared to 2008, from 35.8% in 2008 to 40.1% in 2009. During the reviewed period, in parallel with that, the percent of cash kept by CIS picked up. It should be noted that regardless of the increased during the last year number of CIS having a balanced and conservative profile, the amount of the funds invested in debt securities and money market instruments declined. With regard to the debt securities this decline was by 7.6 pp for 2009, and with the money market instruments – 0.1%. This was dictated by the restructuring of the portfolio of CFs having an aggressive risk profile, which considerably

increased the share of the held by them equity securities (from BGN 66.7 million in 2008 to BGN 98.4 million in 2009). These dynamics had a direct impact also on the value of the considered financial instrument in the aggregate structure of the portfolio of all CIS.

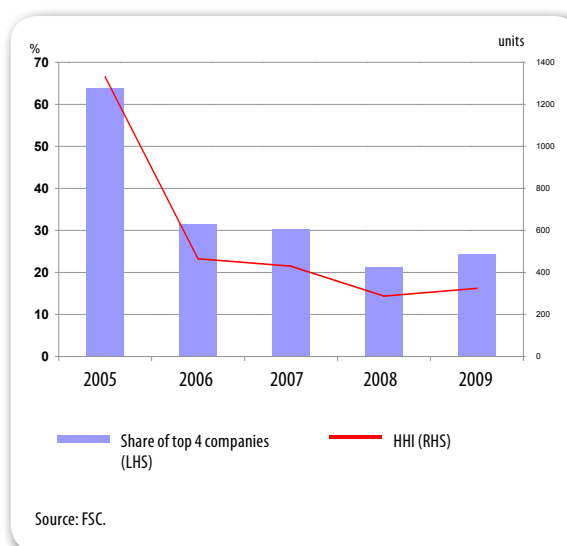
Table 23. Assets' shares of CISs

	2005	2006	2007	2008	2009
Cash, incl.	27	28	22	35	38
Term Deposits	23	22	17	28	30
Financial assets and instruments, incl.	72	70	74	64	61
Shares	28	44	58	36	40
Debt securities	33	19	10	23	16
Units of CIS	0	0	0	3	3
Money market instruments	9	2	1	2	2
Derivatives	0	0	0	0	0
Other financial instruments	2	5	6	1	0
Non-financial assets, incl.	1	1	4	1	1
Receivables	1	1	4	1	1
Other	0	0	0	0	0
Total	100	100	100	100	100

Note: Data is reported in % unless other is quoted. "Other financial instruments" includes foreign securities and compensation instruments for 2005-2008.
Source: FSC.

In 2009, an increase was noticed of the market concentration of CIS, where the values of the Herfindahl – Hirschman Index (HHI)³³ and of the share of the first four companies on the market of collective investment schemes grew from 287, respectively 21% in 2008, to 324 and 24% in 2009. This showed that the competition between the participants on the market diminished as a result of the restructured assets of CIS, which could be explained by the enhanced market influence of part of the companies compared to the others.

Figure 30. Market concentration of CIS services³⁴



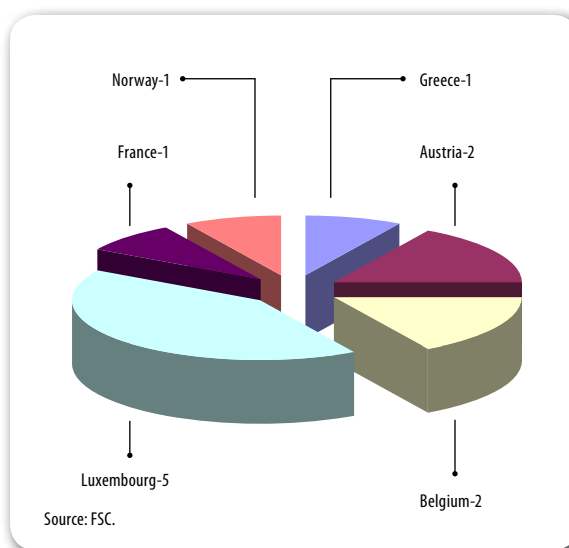
³³ The Herfindahl – Hirschman Index (HHI) is calculated as a sum of the squares of the market share of each participant in the market, its value varying between 0 and 10 000. In case of value below 1000 units, the market is defined as strongly competitive, between 1 000 and 1 800 units – moderate competitive environment, and over 1 800 units – the market is characterized by strong competition.

³⁴ In the part of the report relating to the concentration of the market of services offered by CIS, the assets of ICs and CFs for 2009 were used on an aggregated basis, and not the assets obtained by accumulation of their disaggregated values of each collective investment scheme.

In 2009, the concentration of the market of services offered by the investment companies of open-end type decreased. A leader by market share on the basis of the net assets of an IC of open-end type was Advance Invest AD, which preserved its position from the previous year, its share from the net assets of open-end ICs climbing from 18.5% in 2008 to 18.8% during the past year. Biggest growth was recorded by the net assets of IC Zlaten Lev AD, whose share from the net assets of ICs of open-end-type grew from 10.8% to 13.6% at the end of 2009, thus occupying a second position in the reviewed market. Biggest decline was registered with IC T B I Eurobond AD, the net assets of which shrank to BGN 6.5 million, compared to BGN 11.6 million in 2008. In relation to the closed-end investment companies, despite of the reported drop in the amount of the possessed by them assets of 2.9% year-on-year, compared to the preceding year, there was no considerable change in their share distribution on the market. With regard to the contractual funds, the newly registered CF Raiffeisen (Bulgaria) Money Market Fund occupied the first place on the market with a share of 11.1%, ousting the leader from the previous year CF DSK Balance (6%).

In the end of 2009, at FSC there were registered in total 12 management companies from EU Member States, offering units of 27 CIS with overall 84 funds and sub-funds. Despite their small number, their territorial distribution showed that at the domestic market greatest was the interest to MC registered in Luxembourg (5), followed by those having a legal seat in Austria (2) and Belgium (2).

Figure 31. Geographical map of notifications of MCs from EU



Note: The Figure shows the territorial distribution of the number of notifications received from the relevant Member State.

In 2009, there were not any notifications received from local MC, intending to carry out activity on the territory of Member States, their number was retained at two.

2.1.3. Special investment purpose companies

At the end of 2009, the total number of the licensed special investment purpose companies was 68, from which 7 were engaged in securitization of receivables and 61 in securitization of real estate, 8 of the latter being specialized in transactions with agricultural land. In the end of 2009, the asset value of all special investment purpose companies amounted to BGN 1580 million, which represented 2.4% of the GDP, a growth of nearly 1.2% of the accumulated assets being observed against those in 2008, in spite of the aggravated economic conditions in international and national plan. A direct contribution to that had the increase of the assets of SIPCs carrying out securitization of receivables and the assets of SIPCs carrying out securitization of real estate without agricultural land, which increased respectively by 19.4% and 4.3% compared to 2008.

The accumulated assets of the special investment purpose companies engaging in securitization of real estate grew insignificantly in 2009, their value reaching BGN 1482 million at the yearend³⁵. Biggest increase was registered by the components Investment properties in lands and terrains, which surged by 72.2%, and Properties in process of construction/ acquisition, the growth of which came to 32.8%. Biggest decline was noticed in Cash (54.0%), which was due to the fact and the special investment purpose companies began to invest their free cash in investment properties. Another element from the portfolio of these companies, which declined were Financial assets (39.49%), which was due to drop in prices of the financial instruments as a consequence of the global financial crisis.

Table 24. Assets of SIPC's engaged in securitization of real properties

	2008	2009
Investment properties (land, terrains)	102.6	176.7
Investment properties (buildings, equipment)	457.1	518.4
Investment properties (agricultural land)	336.9	301.2
Properties in process of construction (acquisition)	121.0	160.7
Financial assets	2.2	1.3
Cash	166.9	76.7
Receivable	101.8	79.1
Other	191.3	167.8
Total	1 479.7	1 482.0

Note: Data is reported in million BGN unless other is quoted.
Source: FSC.

In 2009, the assets of the companies engaging in securitization of real properties without agricultural land increased by more than 4% (on annual basis), the greatest contribution to which had the increase of Investment properties in lands and terrains by nearly 60%. The decrease of the assets of SIPC's engaging in securitization in real estate, specialized in agricultural land, at the rate of 7.5%, was due predominantly to the reduction of their cash by nearly 61% y/y.

As a result of the different dynamics of the asset elements of SIPC's engaging in securitization of real properties, a certain rearrangement was noticed in the relative structure of the aggregated assets in 2009. Biggest share (35%) belonged to the assets in buildings and equipment which increased with BGN 61.3 million for the past year. Investment properties in agricultural land preserved their second largest position, although the reported decline of 11% on annual basis. Investment properties in land and terrain came third in the asset relative structure, as a result of their large growth of 72%, compared to 2008, their share in the past year reaching 12%. The considerable reduction of Cash with BGN 90 million determined the smallest share of 5.2% for them in the structure of the aggregated assets of SIPC's engaging in securitization of real estate.

Table 25. Assets structure of SIPC's engaged in securitization of real properties

	SIPC's engaged in securitization of real properties without agricultural land		SIPC's engaged in securitization of real properties and which direct their resources mainly in agricultural land	
	2008	2009	2008	2009
Investment properties (land, terrains)	98.5	156.4	4.1	20.2
Investment properties (buildings, equipment)	394.2	460.7	62.9	57.7
Investment properties (agricultural land)	58.0	13.1	278.9	288.2
Properties in process of construction (acquisition)	119.6	155.4	1.5	5.4
Financial assets	0.2	0.2	2.0	1.1
Cash	64.8	36.4	102.1	40.3
Receivable	84.5	63.5	17.2	15.6
Other	141.0	116.3	50.3	51.5
Total	960.8	1 002.0	518.9	479.9
<i>Change (%)</i>		4.29		-7.52

Note: Data is reported in million BGN unless other is quoted.
Source: FSC.

In the end of 2009, the special investment purpose companies engaging in securitization of receivables had accumulated BGN 98 million, which represented a growth of 19.4% towards the previous year. The main contribution to that belonged to the increases of Receivables of more than 1 year and Receivables less than 1 year, which picked up respectively by 32.1% and 22.8%. The higher growth of the long-term receivables was a positive sign for the development of the assets of SIPC's engaging in securitization of receivables. Opposite dynamics were recorded by Cash, which decreased by 5.3% (similar to SIPC's engaging in securitization of real properties), which showed that the companies invested their free cash in receivables.

Table 26. Assets of SIPC's engaged in securitization of receivables

	2008	2009
Financial assets	30	33
Cash	4	3
Receivables of less than 1 year	19	23
Receivables of more than 1 year	28	38
Other	1	1
Total	82	98
<i>Change (%)</i>		19.41

Note: Data is reported in million BGN unless other is quoted.
Source: FSC.

The opposite dynamics of the elements of the aggregated assets of SIPC's carrying out securitization of receivables, led to change in their relative structure in 2009, compared to the previous year. As a result of the substantial growth of Receivables of more than 1 year, they ranked first, occupying a share of 38.5%. Because of the big fall in the value of the possessed Financial assets at the end of 2009, Financial assets which decreased with BGN 2.6 million, ranked second in the share structure.

Table 27. Assets structure of SIPCs engaged in securitization of receivables

	2008	2009
Financial assets	36.8	33.4
Cash	4.4	3.5
Receivables of less than 1 year	23.3	23.9
Receivables of more than 1 year	34.8	38.5
Other	0.7	0.6
Total	100.0	100.0

Note: Data is reported in % unless other is quoted.
Source: FSC.

For the overall aggregation of SIPC, the registered capital increased by nearly 3.5% year-on-year, which was dominated by its growth of 7.6% in SIPC engaging in securitization of real properties without agricultural land. The dynamics of the equity marked a decline by nearly 2% in 2009, which was due to the realized negative financial result in the companies engaging in securitization of real properties, specialized in agricultural land. At the same time, in total the SIPC assets, as a whole, increased by nearly 1.2%, for which most contributed the growth of 19.4% of the assets of SIPC carrying out securitization of receivables. These opposite-direction dynamics of the equity and the assets predetermined the increase of the financial leverage from 1.66 in 2008 to 1.71 in the past year.

Table 28. Assets, registered capital and equity of SIPC

	Registered capital		Equity		Total assets	
	2008	2009	2008	2009	2008	2009
SIPC engaged in securitization of real properties other than agricultural land	262.8	282.9	496.7	485.6	960.8	1 002.0
SIPC engaged in securitization of real properties (agricultural land)	297.6	297.6	433.3	418.0	518.9	479.9
Total (SIPC engaged in securitization of real properties)	560.4	580.5	930.0	903.6	1 479.7	1 482.0
SIPC engaged in securitization of receivables	6.2	6.0	12.7	22.0	81.8	97.7
Total	566.6	586.6	942.7	925.6	1 561.5	1 579.6
Change (%)		3.52		-1.81		1.18

Note: Data is reported in million BGN unless other is quoted.
Source: FSC.

The equity of two companies grew with more than BGN 1 million in 2009 y/y. As a result of realization of a negative financial result during the past year, 4 special investment purpose companies reduced the amount of their equity below BGN 1 million. In 2009, the dynamics of the SIPC shareholding structure registered a decrease in the held shares of insurance companies (-57% y/y), the legal entities from EU (-28.9%) and other foreign natural persons (-18.6%).

Table 29. Shareholding structure of SIPC

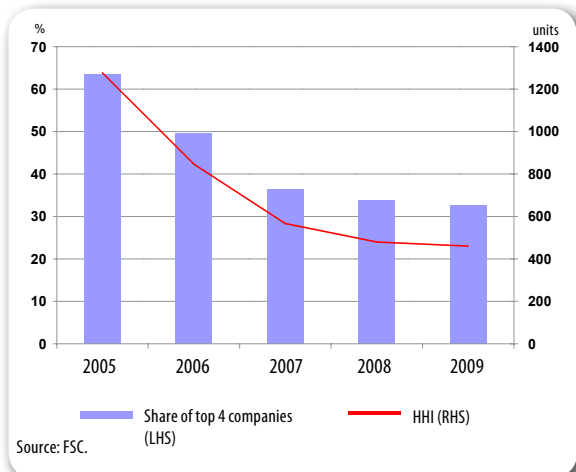
	2008	2009
Investment Intermediaries	8.2	10.8
Collective Investment Schemes	22.5	25.4
Insurance companies	10.3	4.4
Pension funds	59.3	72.4
Other Bulgarian legal entities	192.0	206.7
Bulgarian natural persons	80.0	90.0
Foreign natural persons	6.3	5.1
Legal entities from EU	101.0	71.8
Legal entities from USA	21.6	21.9
Legal entities from third countries	34.2	33.2
Total	535.2	541.8

Note: Data is reported in number of shares held (million number) unless other is quoted.
Source: FSC.

The diminishing of the investor interest among these companies was compensated by growth in the percentage of increase in number of the shares held in SIPC by the investment intermediaries, pension funds and collective investment schemes. The observed opposite directional dynamics had a direct impact on the SIPC relative shareholding structure, where Other Bulgarian legal entities continued to hold most shares in SIPC (38.2%), followed by Bulgarian natural persons (16.6%) and the pension funds, whose percent went up to 13.4% in 2009.

The segment of the special investment purpose companies was characterized with moderate competitive environment, which expanded in time with the entry of new players on the market. As a result of the global financial crisis, the interest in licensing new SIPC diminished, while the values of the Herfindahl – Hirschman Index (HHI)³⁶ were 480 units for 2008, and at the end of 2009 - 460. The relatively smaller in rate drop of 3% in the share of the top four companies during the past year meant that the first top companies retained their leading positions on that segment.

Figure 32. Market concentration of SIPC



Source: FSC.

³⁶ The Herfindahl – Hirschman Index (HHI) is calculated as a sum of the squares of the market share of each participant in the market, its value varying between 0 and 10 000. In case of value below 1000 units, the market is defined as strongly competitive, between 1 000 and 1 800 units – moderate competitive environment, and over 1 800 units – the market is characterized by strong competition.

2.1.4. Public companies and issuers

Overall, all public companies and issuers were 385 during the past year, and compared to the preceding years they were 6 companies less. In 2009, the number of companies filed as public in the register kept by FSC, as well as the issued by them securities issues, were 2. Approved were 15 prospectuses of issuers of shares admitted to trading on a regulated market, 14 from which were prospectuses of new securities issuers. For the same period, 10 prospectuses were entered of an issue of corporate bonds, 4 from which were prospectuses of new securities issuers. The number of the deleted public companies and issuers from the register maintained by FSC under Art. 30, para 1, Item 3 of the FSC Act were 26, and the number of the pronounced refusals for deletion of companies from the register – 3.

Despite the deepening economic crisis, in 2009, 15 prospectuses were approved of initial public offering of securities, which exceeded the number of the approved prospectuses in 2007 and 2008 taken as a whole. The amount of the issues for the past year was BGN 129 million, which was 7 times higher value compared to 2008, but was by 63% less than the value of the issues in 2007. In 2009, 17 tender offers were reviewed, where their number also marked a considerable growth compared to 2008 and approximated its level in 2007. Nevertheless, the turnover (calculated as a total number of shares acquired as a result of the tender offer, multiplied by their price) for the past years was considerably below its level in 2007.

Table 30. Reviewed prospectuses and tender offers

	2007	2008	2009
Prospectus for initial public offering	11	3	15
Amount of issue	351.4	18.4	129.2
Tender offers (number)	19	3	17
Turnover	171.7	2.8	29.6

Note: Data is reported in million BGN unless other is quoted.
Source: FSC.

The market capitalization of the top 10 public companies was approximately 53% in 2009, increasing compared to the preceding year (45%). First by market capitalization was Bulgarian Telecommunications Company AD, whose share as a percent of the total stock exchange capitalization declined from 11.6% in 2008 to 7.8% in the past year. The market capitalization dynamics by individual companies showed that in 2009 there were no companies with market capitalization over BGN 1 billion, while in the preceding years there were 2 companies with such capitalization.

Table 31. Top 10 public companies by market capitalization

Issuer / Market Capitalization	2008	Issuer / Market Capitalization	2009
Bulgarian Telecommunications Company AD - Sofia	1 444.1	Bulgarian Telecommunications Company AD - Sofia	919.7
Petrol AD - Sofia	1 201.6	CB CIBANK AD - Sofia	769.3
CB CIBANK AD - Sofia	769.3	Petrol AD - Sofia	763.7
ZAD DZI - Sofia	725.7	Arco Towers SIPJSC - Sofia	682.5
Arco Towers SIPJSC - Sofia	650.0	ZAD DZI - Sofia	598.3
Corporate Commercial Bank AD - Sofia	390.0	Sopharma AD - Sofia	522.7
Chimimport AD - Sofia	312.0	Chimimport AD - Sofia	405.2
Sopharma AD - Sofia	295.0	Corporate Commercial Bank AD - Sofia	345.0
CB First Investment Bank AD - Sofia	275.4	Railway Infrastructure - Holding AD - Sofia	293.9
Railway Infrastructure - Holding AD - Sofia	236.4	Monbat AD	253.5
Total	6 299.6	Total	5 553.7

Note: Data is reported in million BGN unless other is quoted.
Source: FSC.

In the trade structure of the top 10 leading sectors on BSE – Sofia AD for 2009, first ranked sector Financial intermediation, which increased its share of the realized turnover, concluded transactions and traded off lots. Main reason for that was the transfer of 30% of the capital of Corporate Commercial Bank AD and the further shrinkage of the liquidity in the other sectors. Sector Trade, repair of motor vehicles and motorcycles, personal and household goods increased its weight, owing to the registration of the issue of preference shares of Chimimport AD (with two issues of ordinary and preference shares). Sector Construction ranked third in 2009, the high share in the realized turnover being due to the transfer of the shares of the newly registered company Galata Investment Company (IC) AD.

Table 32. Structure of top 10 economic sectors on the BSE-Sofia

	Transactions (thousand number)		Volume (million of tons)		Turnover (million BGN)	
	2008	2009	2008	2009	2008	2009
Financial intermediation	94.3	65.6	148.6	115.6	604.6	342.5
Trade, repair of motor vehicles and motorcycles, personal and household	43.0	27.8	69.3	35.7	539.7	88.8
Construction	49.8	21.2	3.1	3.4	119.5	53.3
Real estate, renting and business	37.1	16.4	13.9	12.1	67.2	17.9
Manufacture of chemicals, products	33.2	16.0	14.8	16.0	92.8	49.2
Manufacture of electrical, optical and Metallurgy and manufacture of metal	27.1	8.3	6.3	3.2	75.2	12.0
products without manufacturing	20.5	7.3	2.9	1.6	36.0	5.6
Agriculture, hunting and forestry	17.6	7.2	17.1	14.1	37.1	9.7
Manufacture of machinery and equipment without classified in	-	6.2	-	2.7	-	6.7
Mining and quarrying without energy	-	3.6	-	1.1	-	4.1
Other sectors	66.9	19.6	214.5	119.1	557.2	278.0
Total BSE	399.6	199.3	490.4	324.6	2 129.1	868.0

Note: Sectors "Manufacture of machinery and equipment without classified in subsector DL" and "Mining and quarrying without energy sources" are not in the list of top 10 industries for 2008. "Total BSE" is only trading on the regulated market.
Source: FSC.

In 2009, a decline was observed in the shareholding in the capital of the public companies in the following groups of investors: Legal entities from EU, Insurance companies and Foreign natural persons that reduced the held by them shares from public companies. At the same time, there was increase in the investor interest of the Bulgarian legal entities which were not financial institutions and collective investment schemes, whose shares in the public companies grew by BGN 48.8 million

Table 33. Shareholding structure of PCs

	2007	2008	2009
Investment Intermediaries	54 246	30 101	30 070
Collective Investment Schemes	56 156	53 063	63 043
Insurance companies	15 744	16 549	10 588
Pension funds	56	56	56
Other Bulgarian legal entities	1 388 867	1 724 097	1 772 907
Bulgarian natural person	441 953	578 037	591 687
Foreign natural person	43 801	130 169	127 637
Legal entities from EU	289 389	303 420	259 828
Legal entities from USA	90 182	79 330	78 752
Legal entities from third countries	126 380	120 117	116 917
Total	2 506 775	3 034 939	3 051 484

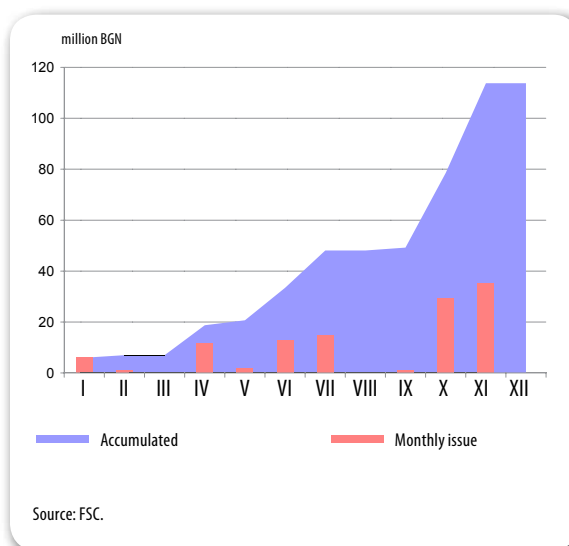
Note: Data is reported in thousand shares unless other is quoted.
Source: FSC.

Nevertheless, the relative shareholding structure in the public companies was preserved during the past year, where the largest share was held by Other Bulgarian legal entities (58.1%), followed by Bulgarian natural persons (19.4%) and Legal entities from EU (8.5%).

The monthly dynamics of the issued bond debt showed increase of the accumulated since the beginning of the year amount from April 2009, when a growth of 168% was registered on a monthly basis in view of its low previous levels. After the weak activity in August and September, the issues of bond debt activated again in October and November, and their total volume reached BGN 113.8 million at the yearend. According the individual characteristics of the separate issues of debt securities in 2009, predominating were the medium-term issues (having

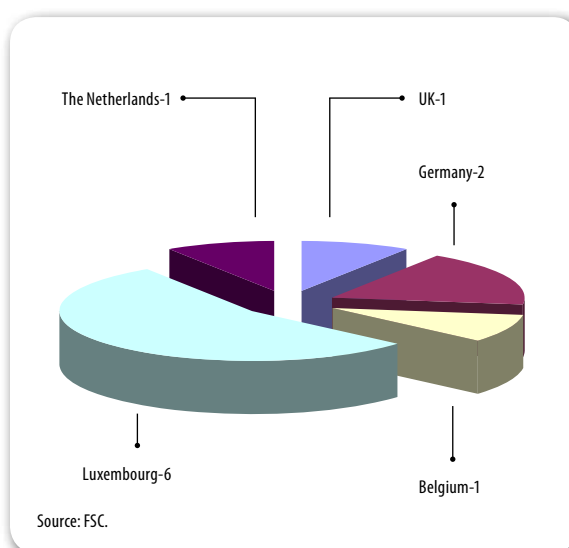
3 and 5 year maturity), denominated in Euro and with fixed coupon interest rate.

Figure 33. Bond debt issues in 2009



In 2009, 3 new prospectuses were notified under Art. 18 of the Prospectus Directive, whereby their total number reached 11 at the yearend. Considering the small number of notifications, their territorial distribution by EU Member States was dominated by the prospectuses from Luxembourg (6), followed by the prospectuses from Germany (2).

Figure 34. Geographical map of notified EC prospectus



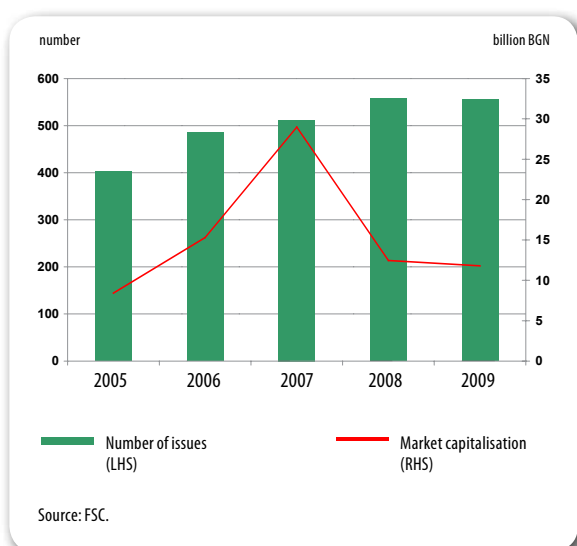
Note: The Figure shows the territorial distribution of the number of notifications received from the relevant EU Member State.

2.1.5. Trading venues

The global financial crisis that began at the end of 2007 continued to have a negative impact on all participants in the developing financial market in Bulgaria. The general trend of decline, but in the direction of stabilization, was also observed from all indicators of activity on BSE-Sofia AD.

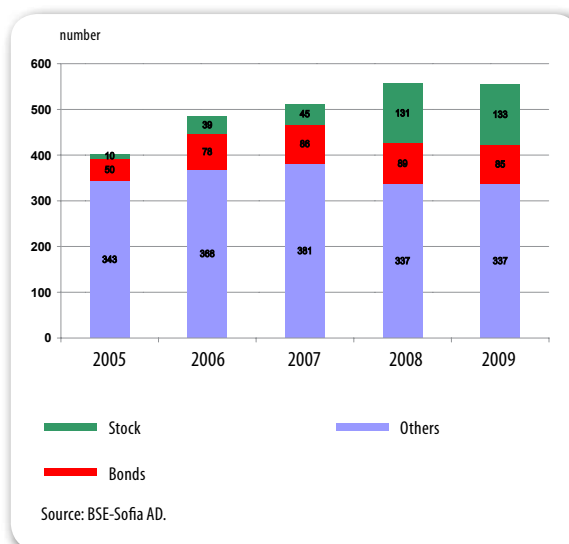
The total market capitalization of BSE-Sofia AD was stabilized at the level of BGN 11.8 million at the end of 2009, and the rate of decline slowed down to 5.1% after its considerable drop in 2008 (more than 2 times). A negative rate of change was also noticed in the number of issues admitted to trading on the regulated market. In 2009, they were considerably reduced to 555 in number, after they registered a stable growth in the preceding four years.

Figure 35. Market capitalization and number of issues



During the past year, the general structure of the admitted to trading issues was preserved. The highest share belonged to equities (60.7% in 2009), followed by bonds (15.3%). The most strongly affected Official Market A in 2008 (fall of nearly 80%), recovered most of its market capitalization compared with the other segments in 2009 (15.9%). The Unofficial Market which traditionally accounts for the biggest share continued to fall and realized a negative rate of change of -11.5%. The second largest by share market (Official Market B – 29.2% in 2009) followed the same direction of development and realized a 4.7% growth.

Figure 36. Issues structure



The value of the market capitalization and the share of Market of SIPC's retained their levels from 2008, where at the end of the past year, the total market capitalization increased by 0.6%, and the share of the market changed immaterially by 0.8%. The greatest contribution to the realized drop of BGN 665 thousand in the total market capitalization in 2009, compared to 2008, had the decrease of the market capitalization of Unofficial Market.

Table 34. Market capitalization

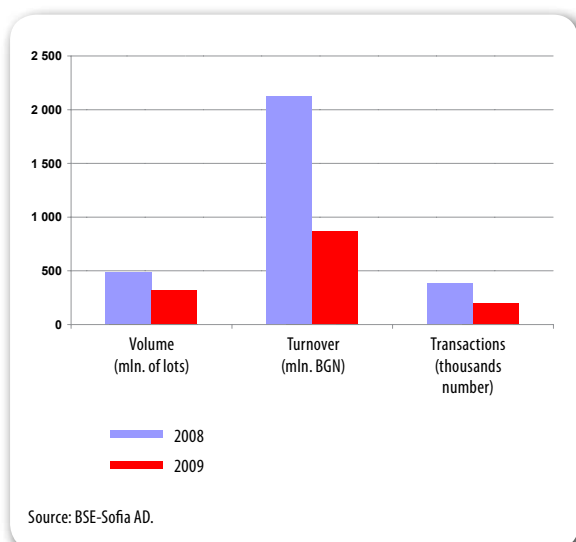
	2005	2006	2007	2008	2009
Official Market A	122	319	837	168	195
Official Market B	688	3 239	7 700	3 291	3 446
Official Market C	1 338	2 084	0	0	0
Unofficial Market	6 286	9 671	20 449	7375	6 546
SIPC's market	0	0	0	1 599	1 609
Total	8 434	15 314	28 987	12 433	11 796

Note: Data is reported in million BGN unless other is quoted.
Source: "BSE-Sofia" AD.

In 2009, the total volume, turnover and number of concluded transactions on regulated and OTC market amounted respectively to 615 mil lots, BGN 1552 mil and 203 thousand transactions. A main reason for the recorded fall, respectively by (-16.6%), (-46.6%) и (-49.4%), compared to 2008, was the general financial instability and the decreasing number of active investors. In 2009, the trade structure was retained, the most traded being equities, followed by trade

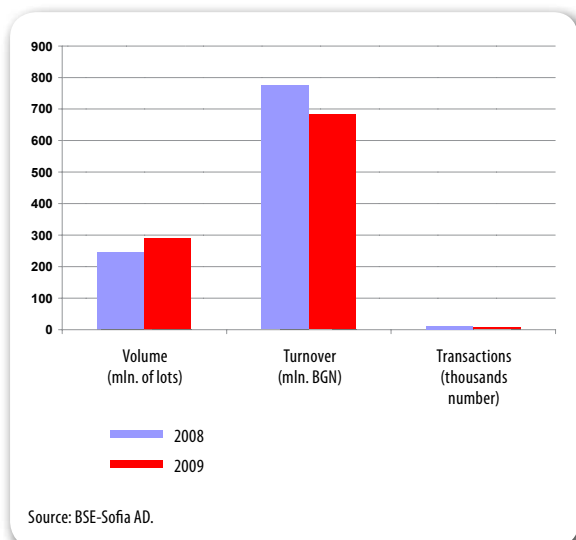
in bonds, where the share of the equities turnover came to 74.8%, and of the number of concluded transactions with them reached 91.5% in the past year. 98.3% of all concluded transactions and 52.8% of the traded off volumes were executed on the regulated market.

Figure 37. Regulated market



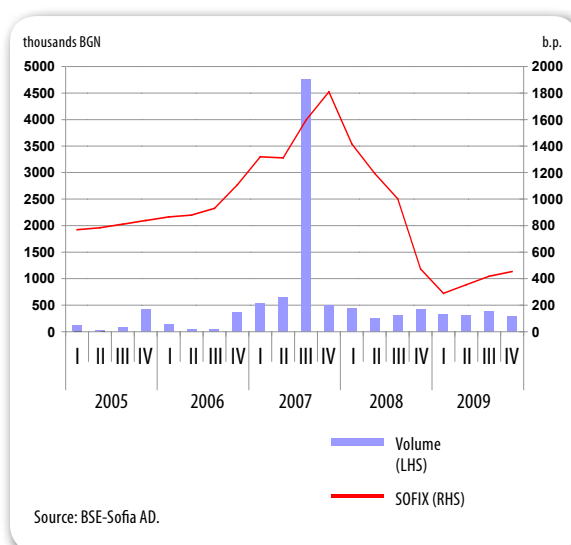
The decrease trend in the market liquidity of the regulated market continued in 2009, as well, where a decline of about 2.4 fold in the turnover was recorded and reduction by -49% of the number of concluded transactions on the regulated market in 2009. Such dynamics were also observed on the OTC market in the turnover (-11.7%) and the number of concluded transactions (-69.4%). An opposite direction of change was registered by the volume of OTC market (17.5%), owing to the relative increase in the transferred volumes of SIPCs and CIS.

Figure 38. OTC market



The market of equities on the operating in Bulgaria regulated market was distinguished for comparatively bigger activity in comparison with other types of markets. The market indexes recording the state of the market were characterized with relatively high volatility. After several consecutive years of growth, caused by the development both of the capital market and the economy, the SOFIX index turned the trend in the direction towards fall from the end of 2007, reacting automatically to the global financial crisis in the conditions of high degree of integration of the financial markets. That negative trend continued till the beginning of 2009, when the SOFIX index registered its lowest point for the last five years (259.95). Since April 2009, the first signals were noted for relative stabilization, and the index behavior in the next year is of great importance for confirmation of the economic agents' expectations for recovery from the financial crisis.

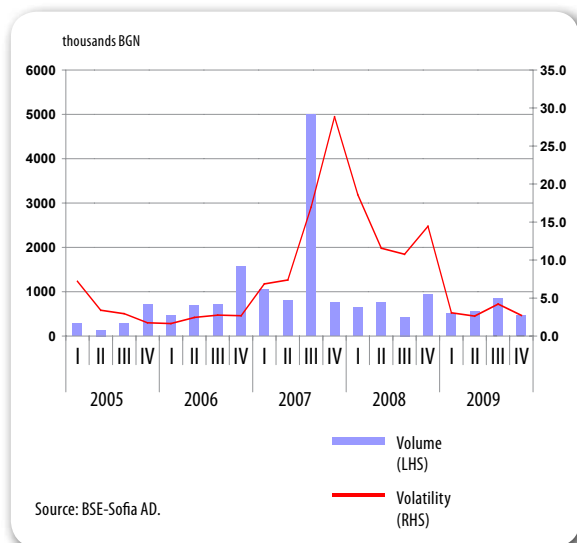
Figure 39. Market index SOFIX



Note: The volume is average daily.

Another market index determined by the regulated market in Bulgaria (BG40) also followed similar trends and dependencies. In 2009, its volatility decreased after which in October 2007, it reached its highest values.

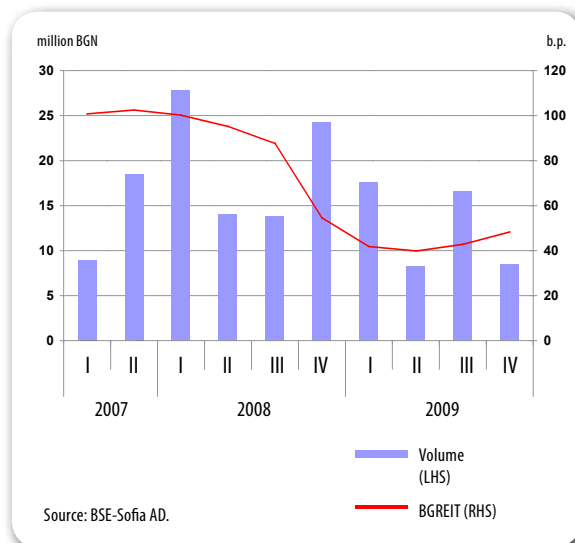
Figure 40. Market index BG40



Note: The volume is average daily.

The bond market was characterized with comparatively weak activity on the secondary market. In the end of 2009, 70 companies raised funds through 90 bond issues, and no concentration of bond issues in one issuer was observed. One company issued 5 issues, two – 3 issues each, and 12 – 2 issues each. Most funds (BGN 117 million) were raised through 2 issues of one issuer, which represented 10.2% of the total market volume (BGN 1.2 billion). At the end of 2009, the average amount of one bond issue was BGN 12.8 million. The bond issues in Euro were 71 in number, or 79% of all issues, followed by a 20% share of the issues in BGN. The bigger part of the bond issues were of corporate bonds (98%) to the total amount of BGN 1.1. billion, the other part being municipal bonds (2%), and the total amount of the issued debt came to BGN 9 million.

Figure 41. Market index BGREIT



Note: The volume is traded off volume per quarter

The markets of the collective investment schemes (CIS) and special investment purpose companies (SIPC) were characterized with the transfer of relatively large volumes, but small in number transactions. The BGREIT index which follows the market dynamics of SIPC, registered its lowest values in 2009 since its creation (3 September, 2007). After the maximum (107.49), which it reached in October 2007, BGREIT entered in a phase of fall. Its lowest value was registered in March 2009 (37.65), after which it gave signals of stabilization, similar to other market indexes. The daily traded off volumes by the companies followed similar dynamics, but with certain delay. Given that their highest value was in February 2008 (BGN 5.8 million), and their minimum (BGN 125) was recorded in November 2009, stabilization is expected in the beginning of next year.

The market of rights followed the general trend of the capital market development, and the market of compensatory instruments was relatively stable and featured temporary rises and subsequent drops.

2.1.6. Central Depository

During the reporting period, the total sum of the assets of Central Depository AD came to BGN 5.7 million, thus their amount increased with BGN 1.2 million compared to 2008. For the whole 2009, there were not registered transactions with uncompleted settlement, and those that underwent settlement were 212 259 in number, the lev equivalence of which amounted to BGN 1627 million, while BSE-Sofia AD cancelled 62 transactions to the total amount of BGN 4.3 million.

2.1.7. Investor Compensation Fund

As of 31 December, 2009, the participants in the Fund were 124, from which 61 investment intermediaries, 23 commercial banks and 40 management companies. In 2009, three intermediaries returned their license back voluntarily and quitted the investor compensation scheme. During the past year, one investment intermediary and one management company were included in the scheme.

In 2009, the Fund's operations were directed first of all to: collection of the contributions owed by the investment intermediaries, management of the Fund's resources in compliance with the Fund's internal rules, gathering and analysis of the information of the investment intermediaries' client assets, initiation of amendments to the statutory acts related to the Fund's activity, active participation in the discussion of amendments to the Directive, regulating the operation of the investor compensation schemes, establishment of new and maintenance of existing contacts with investor compensation schemes from EU Member States.

In 2009, the Fund received the last quarter of the 2008 annual contribution and the first three quarters of the 2009 contribution. The total sum of cash from annual contributions in 2009 amounted to BGN 2.27 million. With regard to the annual contributions transferred after the deadline set by law, the Fund charged default interest according to Art. 77m, para 8 of LPOS, at the amount of BGN 968. At the end of 2009, all intermediaries had transferred the contributions due to the Fund.

At 31 December, 2009 the Fund's resources amounted to BGN 6.88 million, which was with BGN 2.29 million more in comparison with the resources as of 31 December, 2008. The Fund's resources were invested in short-term deposits and government securities, in amounts and proportions determined in the ICF's policy. For the period 1 January – 31 December, 2009 income from the investments was realized of BGN 610 thousand or with BGN 391 thousand more in comparison with the same period of 2008.

As a consequence of the global financial crisis, in 2009 a considerable decline was registered in the value of the client assets, subject to compensation. In view of the complicated economic situation, at the end of 2009 the MB of the Fund decreased the amount of the annual contribution for financial instruments in 2010 to a level of 0.05%. By 2009 the amount of the annual contribution to the Fund was set at the maximum levels of 0.1% and 0.5%, respectively for the financial instruments and the cash.

At 31 December, 2009 the number of investors, subject to compensation from the Fund was 58 957, against 53 048 at 31 December, 2008. At the end of 2009, the total sum of client assets subject to compensation amounted to BGN 1.22 billion.

In 2009, there were no cases of payment of compensations to clients of investment intermediaries.

In the beginning of 2009, the Fund finalized a bilateral agreement with the Polish investor compensation scheme. By virtue of the associated membership of the Fund in EFDI (European Forum of Deposit Insurers), its representatives participated in the annual meeting of the EFDI members and in a working meeting for the investor compensation schemes. It was for the first time that EFDI organized a separate meeting for these schemes. At the meeting attended by representatives of 9 countries, proposals for amendment to the Directive on the investor compensation schemes were discussed. In the end of 2009, the Directive was not amended yet, but the EC continued to require information from the schemes on different matters concerning increase of the compensation limit to the levels provided by the deposit guarantee schemes, shortening the terms for

payment of compensation, establishment of a single European maximum level of protection, possibility for partial payment of compensations, etc.

At 31 December, 2009, the Fund's assets amounted to BGN 7.146 million which was with BGN 2.586 million more compared to the assets as of 31 December, 2008. The biggest increase was in the current assets which at 31 December, 2009 were with BGN 2.591 million more compared to the current assets at 31 December, 2008. At 31 December, 2009 the current liabilities were BGN 26 thousand, or with BGN 17 thousand less than the current assets at 31 December, 2008.

At 31 December, 2009 the profit of the Fund for the year was BGN 329 thousand, while at 31 December, 2008 the Fund reported a loss of BGN 38 thousand. As of 31 December, 2009 the total comprehensive income was BGN 2.603 million, or with BGN 574 thousand more than the total comprehensive income at 31 December, 2008.

As of 31 December, 2009 the capital of the Fund was BGN 7.12 million, or with BGN 2.603 million more compared to the capital at 31 December, 2008. At 31 December, 2009, under item "cash and cash equivalents" the Fund reported BGN 770 thousand, while at 1 January, 2009 the amount under this item was BGN 3.409 million. This decrease was due mainly to cash payments upon acquisition of government securities to the amount of BGN 5.979 million.

2.2 Insurance market and market of voluntary health insurance services

In 2009, a number of economic factors exerted a negative impact on the insurance market development, such as the decreased sale of new motor vehicles, the decline in the lease purchases, the limitation of the credit activity on the side of the financial institutions, the uncertainty about the households' future income, having a direct influence on their inclination for saving by buying and maintaining life insurances, and last but not least, the availability of competitive products on the market, which offer higher profitability (the bank deposits). Notwithstanding the above stated factors, the insurers succeeded in withstanding the financial and economic crisis and had available sufficient funds to ensure their liquidity and solvency. Unlike many other states, in Bulgaria it was not necessary an insurer to obtain state support, in order to ensure its financial stability, while retaining the consumer confidence in the insurers' activities.

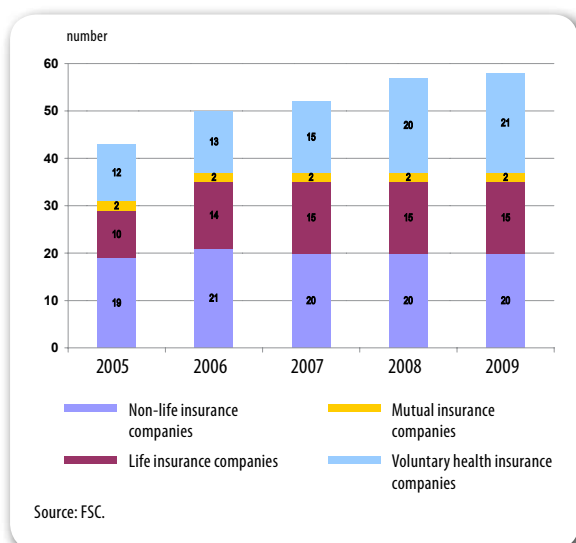
The future development of the insurance market is directly bound with improvement of the macroeconomic environment and the overcoming of the negative effects of the slowed down economic activity, which is a pre-condition for recovery of the high rates of its development.

Characteristic of the voluntary health insurance market (under the existing regulatory provisions) is that it is with strongly limited capabilities (at the end of 2009, the revenues from health insurance premiums was BGN 38.3 million) and a relatively large number of participants. The most logical explanation for that were the existing during the years expectations and uncertainty about the concrete role of the health insurance companies in the health insurance system of the country, as well as the reduced requirements for taking up and pursuing business of voluntary health insurance. The future development of this sector is in direct dependence on the health insurance model which will be adopted and applied in Bulgaria.

In the last three years, the number of the licensed insurers having a legal seat in Bulgaria was preserved, and at the end of 2009 the general (non-life) insurance companies were 20, the life-insurance companies were 15, and the mutual insurance co-operatives

engaging in life insurance were 2. Growing dynamics was reported by the voluntary health insurance companies, whose number reached 21 in the end of the past year.

Figure 42. Insurers and health insurance companies



Note: The data about the insurers cover only these having a legal seat in Bulgaria.

In 2009, the gross premium income, realized by insurers having a legal seat in Bulgaria amounted to BGN 1681 million, which was a decline of 6.8% on annual basis. At the end of 2008 it amounted to BGN 1805 million when Bulgaria ranked among the first states in Europe with a positive nominal growth of the premium income³⁷. During the past year, the insurance penetration (gross premium income as a percent of the GDP) went down to 2.5%, almost returning back to its level in 2006. By way of comparison, in 2008 when the value of this indicator in Bulgaria was 2.7%, Bulgaria ranked among the last five in Europe – before Estonia, Latvia, Greece and Romania. The insurance density (gross premium income per capita of the population) also decreased to BGN 222 in the past years, from BGN 237 in 2008, when according to this indicator we held a last but one place (before Romania) in Europe. In 2009, the gross premium income realized by the companies pursuing business of voluntary health insurance amounted to BGN 38 million and reported a growth of 26.3% y/y. The health insurance density was computed as BGN 5.1 per capita of the population, and the penetration was 0.06%, against reported respectively BGN 4 and 0.05% in 2008.

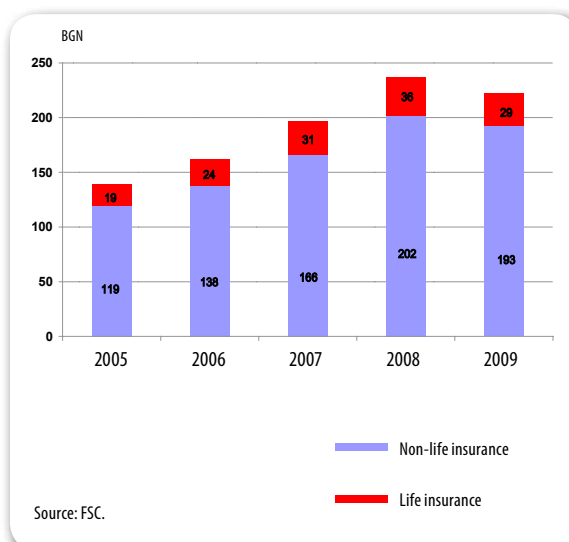
Table 35. Penetration and density of insurance and voluntary health insurance (VHI)

	2005	2006	2007	2008	2009
Gross premium income from insurance (billion BGN)	1 069	1 247	1 505	1 805	1 681
Gross premium income from VHI (million BGN)	18	23	25	30	38
Insurance penetration (%)	2,5	2,5	2,7	2,7	2,5
VHI penetration (%)	0,04	0,05	0,04	0,05	0,06
Insurance density (BGN)	139	162	197	237	222
Health insurance density (BGN)	2,3	2,9	3,3	4,0	5,1

Note: When comparing the data regarding the premium income from insurance, it has to be taken into account that for 2009 the data of AIG Bulgaria Insurance Company PLC is not included.
Source: FSC.

In 2009, the reported gross premium income from general insurance amounted to BGN 1459 million, whereby a fall of 4.9% was realized on a year-on-year basis. The indicator insurance penetration was calculated at 2.2% against 2.3% in 2008, and the insurance density – at BGN 192.9 per capita of the population, compared to a value of BGN 201.7 in 2008. In 2009, the gross premium income written by life insurers amounted to BGN 222 million, a fall of 17.7% being noticed on annual basis. Following the dynamics of the insurance penetration which declined by 0.1 pp during the past year and in the end of 2009 reached 0.3%, the insurance density in the life insurance also decreased in the past year and amounted to BGN 29.4 per capita, against BGN 35.5 for the preceding year.

Figure 43. Insurance density by insurance type



As a result of the recorded average annual inflation of 2.8% in Bulgaria in 2009, the real drop in the gross premium income was calculated at 9% on annual basis, while it was 7% in the general (non-life) insurance and respectively 20% in life insurance³⁸.

37 Sigma № 3/2009 World insurance in 2008: life premiums fall in the industrialised countries - strong growth in the emerging markets, updated December 2009.

38 The real growth has been computed by the Fisher formula: $1 + rn = (1 + rr)(1 + i)$, where rn is the nominal growth, rr is the real growth and i is the inflation growth.

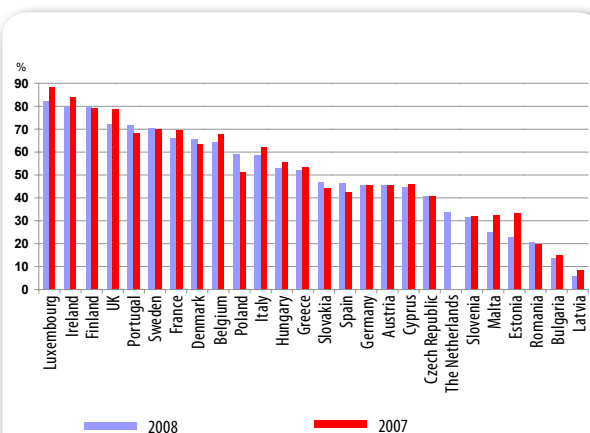
The reported real drop in the gross premium income both in life insurance, and in the non-life insurance, was bigger than the registered real negative growth of the GDP of -5.1%.

In 2008, the insurance premiums in Europe decreased in real terms by -9.9%, registering a real drop of -10.7% in the West European countries, while the states from Central and East Europe recorded a real growth of 9% on annual basis. Following the registered real growth of the premiums, both of non-life and of life insurance, in Europe in 2007, respectively by 1.4% and 9.4%, in 2008 the life insurance premiums declined in real terms by 15.8% on annual basis, and they grew by 0.2% in non-life insurance.

In 2008, the premium income from life insurance in West Europe registered a real fall of 16.3%, which was due to the decreased sale of unit-linked life insurances, as a result of the financial markets crisis since the end of 2007. In 2008, the real decrease of the non-life insurance premiums in the Western European states was by 0.4%, while in Ireland, Italy, Portugal and the United Kingdom they declined by more than 2% on annual basis.

Unlike West Europe, in Central and East Europe the premiums from general (non-life) insurance and life insurance continued to record a real growth, even though in smaller rate, where in 2008 it came to 5.9% on annual basis in non-life insurance and to 18.9% in life insurance. The higher growth in the life insurance premiums was dictated by the development of the market in Poland (registering a real growth of 52.1% on annual basis) which was the biggest life insurance market in Central and East Europe. Actually, the premiums in the other countries of Central Europe decreased (except for Slovakia which also reported a two-digit growth), due to the reduced sale of unit-linked life insurances. Among the East European countries, a two-digit real growth of 20.2% y/y was recorded by Romania, while the premium growth in the other Central European countries was quite lower and in the Czech Republic and Hungary even a fall in real terms was registered ³⁹.

Figure 44. Share of life insurance premium income in the EU



Source: Sigma № 3/2009 World insurance in 2008: life premiums fall in the industrialised countries - strong growth in the emerging markets, Statistical appendix, updated December 2009.

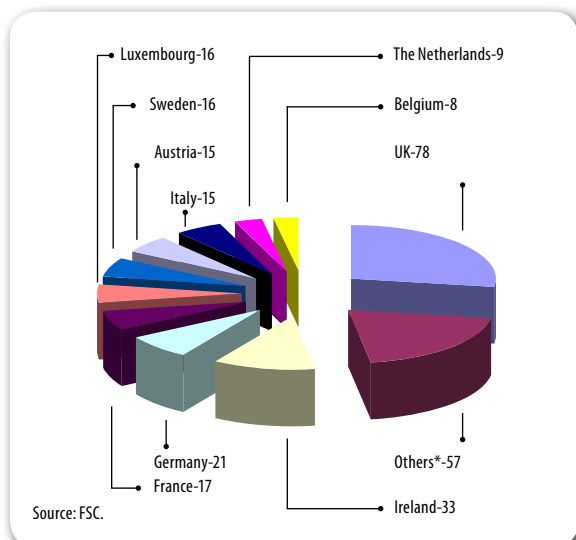
The share of life insurance is one of the indicators reflecting the level of development of the insurance market as a whole. In the industrialized countries life insurance forms more than 50% of the overall insurance business, while in the world this indicator was 57.8% in 2008.

In Bulgaria the insurance market is dominated by the general (non-life) insurance, whose share grew to 86.8% in 2009, compared to 85% at the end of 2008 and 84.4% at the end of 2007, when Bulgaria ranked in one of the last places among the European countries according the share of life insurance in the total insurance business. Life insurance which developed at faster rates than the non-life insurance in the last several years, changed the direction of its development to decrease in 2008 and 2009, as a consequence of the global financial crisis and at the end of 2009 it dropped to 13.2% of the total insurance market. As a result, at the end of 2009 the share of life insurance in the total insurance business declined to 13.2%, against 15% at the end of 2008 and 15.6% at the end of 2007.

In 2009, 44 notifications were received in the Commission of insurance companies (IC) from Member States about their intention to carry out activity on the territory of the Republic of Bulgaria under freedom to provide services, thus their total number reached 280. Their geographical distribution showed predominant interest to the local market of the companies, having a legal seat in the United Kingdom (78), followed by Ireland (33) and Germany (21).

³⁹ A source of the information about the development of the insurance market in Europe is: Sigma № 3/2009 World insurance in 2008: life premiums fall in the industrialised countries - strong growth in the emerging markets, Statistical appendix, updated December 2009.

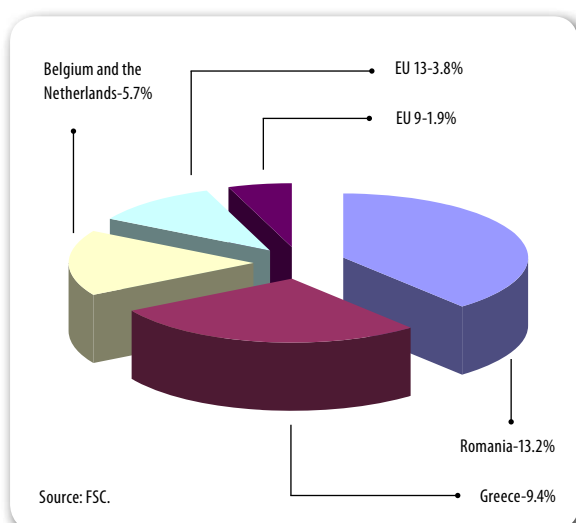
Figure 45. Geographical map of notifications of EU insurance companies



Note: The chart shows the territorial distribution of the number of notifications received from the relevant Member State. *In 'Others' are included: Lichtenstein (7 notifications), Hungary (6), Denmark (6), the Czech Republic (5), Spain (5), Poland (5), Malta (5), Gibraltar /the United Kingdom/ (4), Romania (4), Greece (3), Norway (2), Slovenia (2), Finland (1), Estonia (1) and Lithuania (1).

As of the end of 2009, 7 Bulgarian insurers had notified the Commission of their intention to carry out activity on the territory of EU Member States under the freedom to provide services, and in the past year activity was actually pursued by 3 insurers. The geographical distribution of the notifications from the Bulgarian insurers revealed their lasting interest for broadening of their activity to the neighbor markets of Romania (13.2%) and Greece (9.4%).

Figure 46. Geographical map of notifications of Bulgarian insurance companies

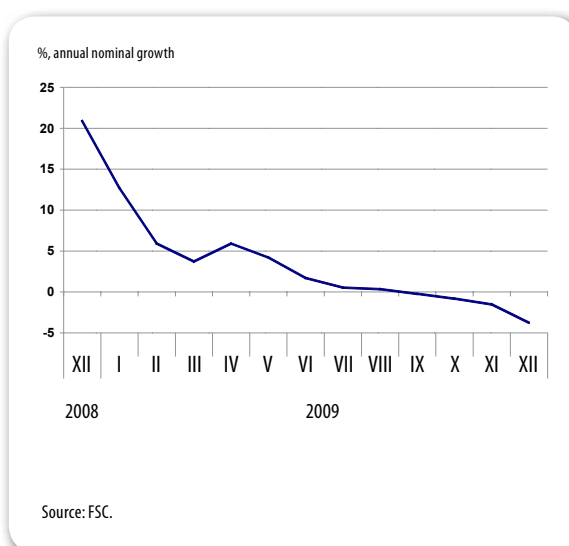


Note: The chart shows the percent ratio between the states to which notifications were sent by FSC. Belgium and the Netherlands have an equal share of 5.7% each, EU 13 are a group of 13 Member States (Austria, the United Kingdom, Germany, Denmark, Italy, Cyprus, Portugal, Poland, Hungary, Finland, France, the Czech Republic and Sweden), each having a share of 3.8%, and EU 9 – respectively 9 Member States (Estonia, Ireland, Spain, Latvia, Lithuania, Luxembourg, Malta, Slovenia and Slovakia) with 1.9% share each.

2.2.1 General (non-life) insurance

In the end of 2009, the gross premium income in non-life insurance amounted to BGN 1459 million.⁴⁰ Nine of the non-life insurance companies reported a fall on annual basis with regard to the realized by them premium income. The gross premium income, written in the separate months in 2009, marked a growth on annual basis from the beginning of the year to the end of August, after which it began to diminish and at the yearend it registered a fall of 3.8% on annual basis.

Figure 47. Gross premium income of non-life insurance

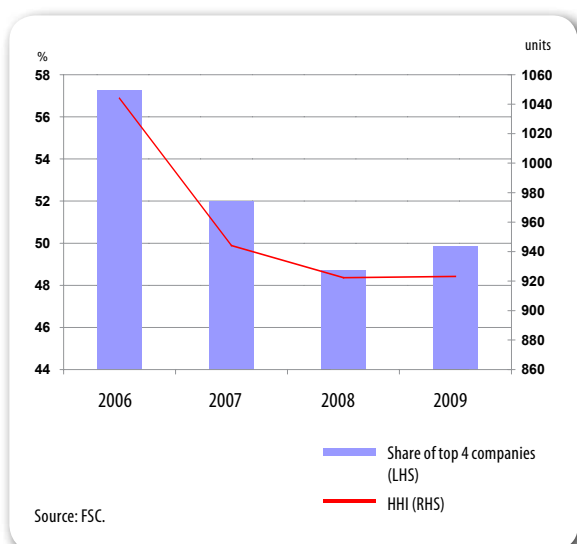


Major factors having an impact on the sector development in 2009, were the shrunk households' consumption under the influence of the increasing unemployment and the decline of the available to them funds. The drop in the sales of new as well as of used motor vehicles, the decline in the lease purchases, the limited crediting on the banks' side affected negatively the demand for most types of non-life products. According data of the Association of Motor Vehicle Manufacturers in Bulgaria, in 2009, the fall in the sale of new motor vehicles was 53.7% compared to a growth of 4.7% in the preceding year and 22.2% in 2007. According to preliminary data of the Bulgarian National Bank (BNB), at the end of December 2009, the receivables of the leasing companies related to financial leasing diminished by 14.8%, and the amount of the concluded in the fourth quarter of 2009 new financial lease contracts amounted to BGN 238.7 million and was by 74.5% less in comparison with the same period of the past year.

⁴⁰ With the purpose of comparability of the information regarding the computations made about rate of development – from the 2008 data these about AIG Bulgaria Insurance Company EAD were excluded.

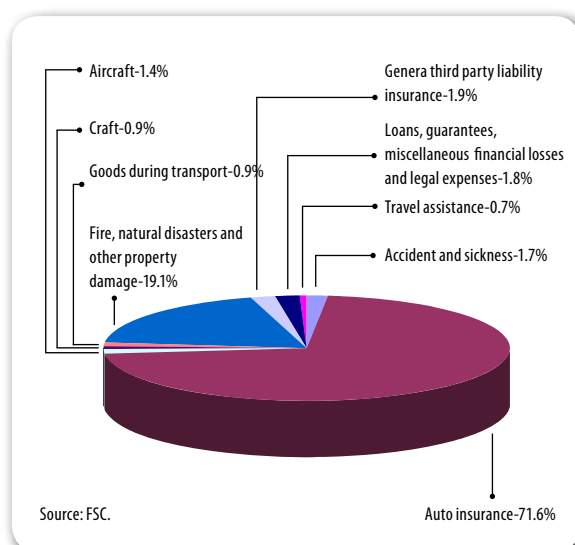
At the end of 2009, the market share of the four companies with realized highest premium income⁴¹ amounted to 49.9% against 48.7% at the end of 2008. During the last years, a trend was outlined towards intensifying the competition on the non-life insurance market and reduction of the concentration. Within one year the dynamics of the indicators of market concentration measured by the share of the top four companies and the Herfindahl – Hirschman Index (HHI)⁴², recorded strongly manifested seasonness, in March the market usually being characterized as medium competitive, and in the end of every year – highly competitive as a result of the continuing campaign nature of the conclusion of the obligatory Third Party Liability insurance of motorists.

Figure 48. Market concentration of non-life insurance



In 2009, a major share of 71.6% in the portfolio structure of the non-life insurance companies was occupied by the motor vehicle insurances, insurance Land vehicles, excluding railway rolling stock accounted for a share of 41.4%, and Third Party Liability insurance related to the possession and use of motor vehicles – respectively 30.2%.

Figure 49. Structure of gross premium income by class of non-life insurance in 2009

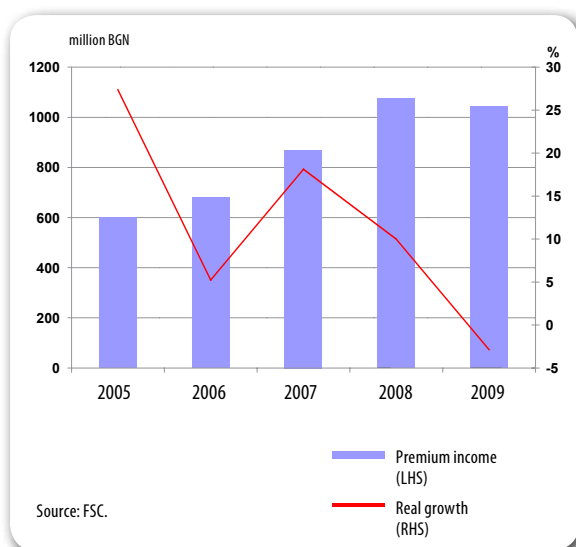


In 2008, the motor insurance in Europe was one of the biggest lines of business, occupying a share of 30%⁴³. The premium income realized by the European motor insurers, amounted to Euro 127.5 billion, marking a fall of 1.8% on annual basis for the first time in the last decade. This is explained with the high level of competition between the insurers and with the drop in sales of new motor vehicles, as a result of the economic effects of the financial crisis. In parallel with the development of the European market, the Bulgarian motor insurance also recorded a fall of 2.9% on annual basis in relation to the realized premium income in 2009, which happened for the first time in the last ten years. Besides in Bulgaria, the premium income in motor insurance registered a decline in 11 more Member States of the European insurance federation (CEA).

⁴¹ These were ZAD Bustard Vienna Insurance Group, DZI-Genral Insurance EAD, ZK Lev Ins AD and ZAD Armeez AD.

⁴² The Herfindahl – Hirschman Index (HHI) is calculated as a sum of the squares of the market share of each participant in the market, its value varying between 0 and 10 000. In case of value below 1000 units, the market is defined as strongly competitive, between 1 000 and 1 800 units – moderate competitive environment, and over 1 800 units – the market is characterized by strong competition.

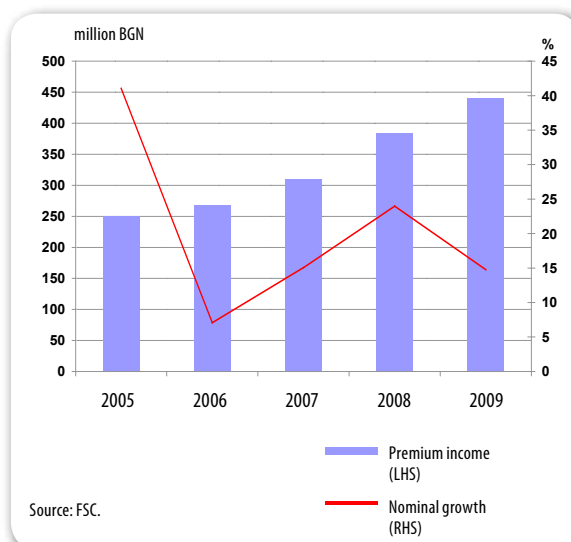
Figure 50. Premium income in motor insurance



Note: The data include insurances Land vehicles, excluding railway rolling stock and Third Party Liability insurance related to the possession and use of motor vehicles.

For the period January - December 2009, the realized premium income from insurance Land vehicles, excluding railway rolling stock amounted to BGN 603 million, a fall of 12.7% being registered on annual basis, compared to a positive growth in the preceding two years of 23.3% in 2008 and 36.6 % in 2007. In the past year, the realized premium income form Third Party Liability insurance related to the possession and use of motor vehicles registered a growth of 14.8% year-on-year and came to BGN 441 million. The premium income of Third Party Liability insurance of motorists amounted to BGN 432 million, of Third Party Liability insurance for third countries (Green Card) – to BGN 4.2 million, of Border Third Party Liability insurance of motorists – BGN 2.7 million and of Third party Liability insurance of carriers – approximately BGN 1.6 million. The share of the top four companies in that insurance was 60.7%. The premium income growth in Third Party Liability insurance related to the possession and use of motor vehicles was explained by the increase with BGN 21 of the average amount of the premium under the one-year contracts for Third Party Liability insurance of motorists, where its amount was BGN 167 in 2009.

Figure 51. Premium income in „Third Party Liability insurance related to the possession and use of motor vehicles“



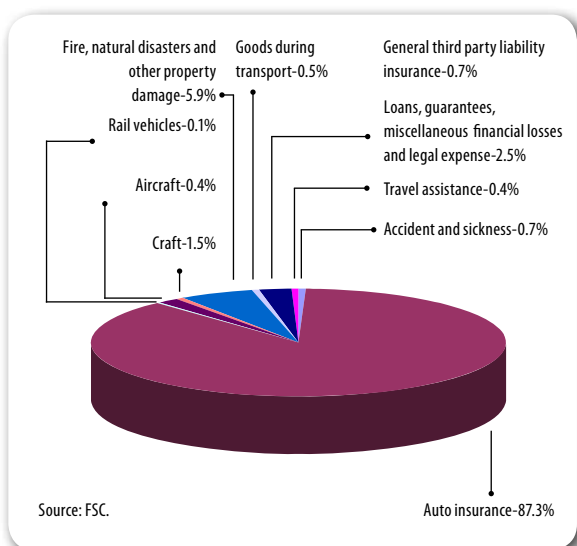
At the end of 2009, in Bulgaria the property insurances (Fire and natural perils and Other property damage) held a share of 19% from the gross premium income, what was also their share on the European insurance market for the previous year. The realized premium income from insurances Fire and natural perils and Other property damage amounted to BGN 278 million and recorded a growth of 11.8% on annual basis, which was more than the growth of 7.5% reported in the preceding year.

In 2009, the premiums ceded to reinsurers were at the amount of BGN 203 million and represented 14% of the gross premium income realized in the sector. The rate of retention increased and was computed at 0.86 against 0.83 a year earlier. In the structure of the ceded premiums to reinsurers by classes of insurances, with largest share were insurances Fire and natural perils (36.1%), Land vehicles, excluding railway rolling stock (16.3%), Other property damage (13.2%) and Third Party Liability insurance related to the possession and use of motor vehicles (10.3%)

The claims incurred in general (non-life) insurance were at the amount of BGN 761 million, a decline of 0.8% being recorded on annual basis. In 2009, the amount of the paid compensations in the general insurance sector increased by 15.1% and amounted to BGN 680 million, where in fourteen of the non-life insurance

companies, the increase in the paid compensation on annual basis surpassed the premium income growth. The recovered sums under reinsurance contracts amounted to BGN 96 million, which was 14.1% of the indemnities paid on non-life insurance in 2009.

Figure 52. Structure of benefits paid by class of non-life insurance in 2009



The biggest share of 87% in the structure of the paid compensations by classes of insurances was held by the motor insurances (Land vehicles, excluding railway rolling stock and Third Party Liability insurance related to the possession and use of motor vehicles) followed by the property insurances (Fire and natural perils and Other property damage), occupying a share of 6%.

In 2009, greatest increase in the amount of the paid compensations on annual basis was reported in insurances Third Party Liability insurance related to the possession and use of vessels (with BGN 48 million), Land vehicles, excluding railway rolling stock (with BGN 43 million) and Miscellaneous financial loss (with BGN 8 million). In the past year, the increase of the paid compensations on annual basis surpassed the premium income growth in ten of the insurances. At the yearend, the gross loss ratio decreased to 0.52, compared to 0.53 a year earlier.

Table 36. Gross loss ratio of non-life insurance

	2008	2009
Accident insurance	0.24	0.17
Sickness insurance	0.55	0.58
Land vehicles, excluding railway rolling stock	0.57	0.61
Railway rolling stock insurance	-0.05	0.12
Aircraft insurance	0.21	0.04
Vessels insurance	0.79	0.51
Loads in transit insurance	0.19	0.31
Fire and natural forces insurance	0.15	0.16
Property damage insurance	0.16	0.15
Third Party Liability insurance related to the possession and use of motor vehicles	0.84	0.72
Third Party Liability insurance related to the possession and use of aircrafts	0	0
Third Party Liability insurance related to the possession and use of vessels	1.23	-0.05
General Third party Liability insurance	0.51	0.13
Credit insurance	0.23	0.29
Suretyship insurance	0.15	-0.03
Miscellaneous financial loss insurance	0.32	0.95
Legal expenses insurance	0	0
Travel assistance insurance	0.22	0.31
Total	0.53	0.52

Source: FSC.

The actually incurred expenses by the non-life insurance companies related to their activities diminished by 1.6% y/y and at the end of 2009 came to BGN 566 million, which constituted 39% of the gross premium income realized in the sector. The acquisition costs amounted to BGN 333 million and represented 58.8% of the total actual expenses incurred, and 22.8% of the realized gross premium income in 2009. From them BGN 287 thousand (86.3%) were acquisition commissions, BGN 15 million (4.5%) were advertising expenses and BGN 30 million were other direct and indirect acquisition costs.

The paid acquisition commissions on insurance Land vehicles, excluding railway rolling stock decreased by 8.6% y/y and at the end of 2009 amounted to BGN 133 million, occupying a share of 53% from the totally incurred actual expenses and 22% from the premium income in this class of insurance.

With regard to Third Party Liability insurance related to the possession and use of motor vehicles, at the end of the reporting period, acquisition commissions were paid at the amount of BGN 92 million, compared to BGN 79 million a year earlier. The paid acquisition commissions occupied a share of 54% of the totally incurred actual expenses on this class of insurance and 21% of the premium income for this class of insurance.

The incurred administrative expenses were at the amount of BGN 172 million, or 30.4% of the totally incurred expenses and 11.8% of the gross premium income. Their value for insurance Land vehicles,

excluding railway rolling stock amounted to BGN 76 million, which was 30% of the totally incurred expenses on this class of insurance and 13% of the premium income on the insurance. The administrative expenses incurred on Third Party Liability insurance related to the possession and use of motor vehicles amounted to BGN 35 million and surged by 46.9% y/y which represented 21% of the totally incurred expenses on this class of insurance and 8% of the premium income on the insurance.

The claims settlement expenses came to BGN 25 million, or 4.4% of the totally incurred expenses. The value of the totally incurred expenses on insurances Third Party Liability related to the possession and use of vessels, Miscellaneous financial loss and Travel assistance amounted to more than 50% of the premium income realized on the respective class of insurance.

At the end of the period under review, the gross expense ratio was computed at 0.37, against 0.36 in the end of 2008.

Table 37. Gross expense ratio of non-life insurance

	2008	2009
Accident insurance	0.49	0.49
Sickness insurance	0.52	0.31
Land vehicles, excluding railway rolling stock	0.37	0.39
Railway rolling stock insurance	0.34	0.11
Aircraft insurance	0.13	0.12
Vessels insurance	0.33	0.38
Loads in transit insurance	0.42	0.45
Fire and natural forces insurance	0.32	0.3
Property damage insurance	0.46	0.47
Third Party Liability insurance related to the possession and use of motor vehicles	0.37	0.37
Third Party Liability insurance related to the possession and use of aircrafts	0.12	0.11
Third Party Liability insurance related to the possession and use of vessels	0.48	0.55
General Third party Liability insurance	0.28	0.29
Credit insurance	0.25	0.27
Suretyship insurance	0.28	0.32
Miscellaneous financial loss insurance	0.45	0.52
Legal expenses insurance	0.21	0.43
Travel assistance insurance	0.51	0.49
Total	0.36	0.37

Source: FSC.

In 2009, the highest gross technical result was registered by insurances Fire and natural perils (BGN 116.3 million), Other property damage (BGN 24.0 million), General Third Party Liability insurance (BGN 16.8 million) and Land vehicles, excluding railway rolling stock (BGN 14.0 million). In the past year, the gross technical result of Third Party Liability insurance related to the possession and use of motor vehicles continued to be negative (BGN -36.8 million), its size

being less, compared to the preceding year (BGN -99.8 million). From sixteen insurers having the right to offer this class of insurance, nine reported a negative gross technical result.

Table 38. Gross technical result of non-life insurance

	2008	2009
Accident insurance	6.9	8.2
Sickness insurance (thousand BGN)	4.9	3.7
Land vehicles, excluding railway rolling stock	26.4	14.0
Railway rolling stock insurance	5.5	0.3
Aircraft insurance	4.5	8.4
Vessels insurance	-2.6	1.1
Loads in transit insurance	7.6	3.6
Fire and natural forces insurance	105.9	116.3
Property damage insurance	25.6	24.0
Third Party Liability insurance related to the possession and use of motor vehicles	-99.8	-36.8
Third Party Liability insurance related to the possession and use of aircrafts	6.4	6.7
Third Party Liability insurance related to the possession and use of vessels	-1.6	1.1
General Third party Liability insurance	7.3	16.8
Credit insurance	11.0	8.7
Suretyship insurance	1.9	2.1
Miscellaneous financial loss insurance	9.9	-10.4
Legal expenses insurance (thousand BGN)	0.3	1.2
Travel assistance insurance	2.7	1.9
Total	117.6	166.1

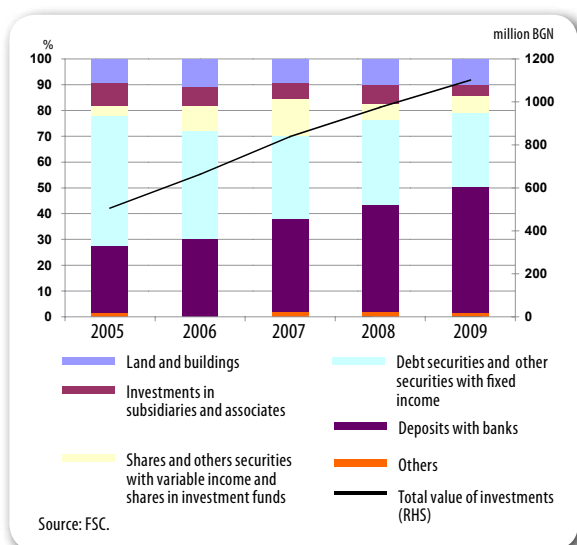
Note: Data is reported in million BGN unless other is quoted. The values are obtained on the basis of accounting for the immediate inherent income and expenses by insurance classes, without taking into account other technical expenses and distributed investment income, reported in the Income Statement. The other technical expenses for 2009 amounted to BGN 159.3 million (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 30.2 million. For 2008 the other technical expenses amounted to BGN 105.75 million, and the distributed investment income amounted to BGN 20.65 million.

Source: FSC.

A negative gross technical result was also reported on Miscellaneous financial loss insurance (BGN -10.4 million), where five from thirteen companies offering this insurance recorded a negative technical result.

At the end of the period under review, the sum of the assets of the non-life insurance companies amounted to BGN 1 811 million, increasing by 11.7% year-on-year. The value of the non-life insurance companies' investments grew by 14.9% in 2009, and amounted to BGN 1 101 million at the yearend, occupying a share of 60.8% from the total asset sum. The biggest share in the structure of the companies' aggregated investment portfolio was held by bank deposits (48.9%), followed by the debt securities and other fixed-income securities (28.7%), 60.7% from which were government securities.

Figure 53. Investment portfolio structure of non-life insurance companies



In the last five years, the share of the investments in land and buildings in the aggregated investment portfolio of the non-life insurance companies remained almost constant around 10%. In 2009, the share of investments in subsidiary, joint and associated undertakings, in which the companies had shareholding, declined to 4%, owing to the sale of a shareholding of one of the non-life insurance companies. As a result of the global crisis on the capital markets, the share of investments in equities and other variable-income securities and investment funds' units of the non-life insurance companies diminished to 7% in the past year. In the last three years, the share of the investments in debt securities and other fixed-income securities in the aggregated investment portfolio remained almost constant, while the share of the investments in bank deposits grew gradually in the course of the years, as a result of the increase in the interest rates on deposit accounts, reaching 49% in the end of 2009.

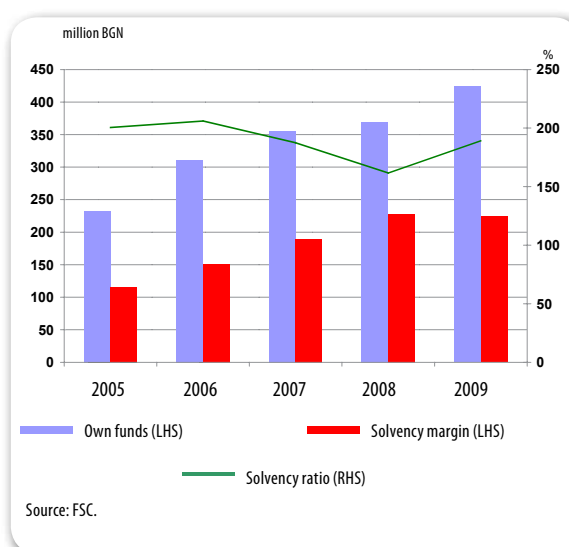
During the past year, the equity of the non-life insurance companies increased by 18.4%, and in the end of 2009 amounted to BGN 519 million. In 2009, the subscribed equity capital increased with BGN 68 million, where for three companies the increase was a result of capitalization of part of their profit from the preceding year.

At the end of 2009, in the ownership structure of the non-life insurance companies, 12 companies were part of 9 European insurance groups, one company was part of European insurance group and an insurance

group having a legal seat in a third country, one company had a shareholding structure including legal entities with legal seats in third countries, the EU and Bulgaria, one company had a shareholding structure including legal entities having seat in third countries and Bulgaria, one company was with a shareholder the state and 3 companies were owned by persons with a legal seat in Bulgaria, one of which was ownership of an insurance group, one – of financial group and one – of other legal entities.

In the end of 2009, the solvency margin of the non-life insurance companies reached BGN 224 million, and their guarantee stock amounted to BGN 136 million. The total amount of the own funds of all non-life insurance companies, reduced with the intangible assets, was BGN 424 million and fully covered the solvency margin and the guarantee stock. The solvency margin cover grew by 27.5 pp, and at the end of the past year it was calculated at 189.1%, which exceeded the level from the beginning of the global financial crisis.

Figure 54. Solvency ratio in non-life insurance



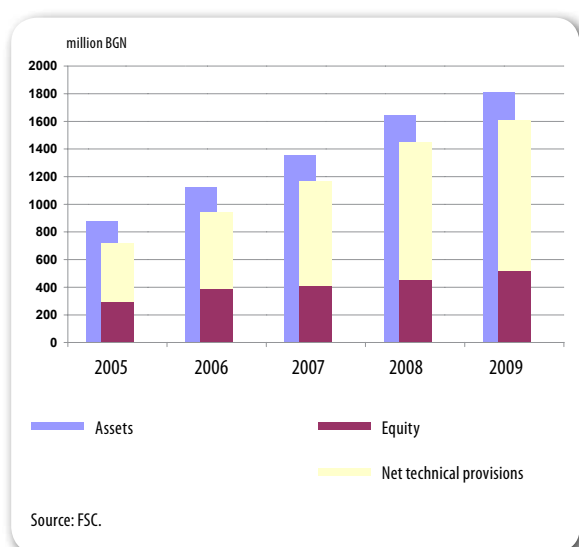
At the end of 2009, the amount of the gross technical provisions, set aside by the non-life insurance companies, for payment of future indemnities, picked up by 7.4% and reached BGN 1273 thousand, and the net technical provisions increased to BGN 1091 million. Greatest share of 56.4% in the gross technical provisions was occupied by the loss reserve, which in the past year grew by 12.8% and came to BGN 718 million.

The loss reserve set aside at the end of 2009 on Third Party Liability insurance related to the possession and use of motor vehicles climbed by 21.4% and reached BGN 513 million, with premium income growth of 14.8% in this class of insurance. The increase of the reserve on this insurance was mainly as a result of the increase by 28.7% of its part for incurred but unsubmitted claims.

At the end of 2009, the size of the unearned premium reserve amounted to BGN 523 million, registering a fall of 1.2% on annual basis. By classes of insurances, biggest reduction of the unearned premium reserve was reported in insurance Land vehicles, excluding railway rolling stock. The size of the unexpired risks reserve grew by 63.1% in the past year and reached BGN 31 million, biggest increase being noted in insurances Third Party Liability related to the possession and use of motor vehicles and Credits.

In the past year, the growth trend of the assets, equity and net technical provisions continued in the general (non-life) insurance sector.

Figure 55. Assets, equity and net technical provisions of non-life insurance companies



The asset amount for cover of the technical provisions came to BGN 1 320 million in the past year, and all non-life insurance companies covered in full the gross amount of their technical provisions set aside at the end of the reporting period. Biggest share in the structure of assets for cover of the technical provisions occupied bank deposits (33.2%),

followed by receivables from insured persons and intermediaries (16.3%).

At the end of 2009, the companies in the general (non-life) insurance sector reported a smaller negative technical result (BGN -7.74 million), compared to the preceding year (BGN -7.99 million), where nine companies closed the period with negative technical result. The main reason for the negative technical result of these companies was the loss on Third Party Liability insurance related to the possession and use of motor vehicles.

The lower costs of investments in 2009, compared to the preceding year, including the lower negative differences from revaluation of the value of investments of the non-life insurance companies, influenced the reported positive net financial result at the amount of BGN 26.7 million, against a negative value of BGN -6 million a year earlier. In consequence of the reported positive financial result, the rate of return of assets, calculated as a ratio between the profit (loss) for the financial period and the total sum of the assets, increased from -0.4% in 2008 to 1.5% in the past year. The return on equity, calculated as a ratio between the profit (loss) for the period and the equity, turned the negative value of -1.4% in the preceding year to 5.1% in 2009.

The realized for the period January-December 2009 revenues from investments by the non-life insurance companies diminished to BGN 26 million and amounted to BGN 93 million at the yearend. The costs of investments declined threefold in comparison with those reported in the same period of last year, and amounted to BGN 23 million, 66% from which were negative differences from revaluation of the investments value, 25% were losses from the investment realization and 9% were costs of investment management. Six of the non-life insurance companies closed 2009 at a loss, where the negative financial result of these companies was in consequence of the negative technical result.

In 2009, the written premium income of the financial insurances recorded a drop of 59.4% y/y and amounted to BGN 25.9 million at the yearend, Credit insurance occupying a share of 46%, Miscellaneous financial loss insurance - 44%, and Suretyship insurance - 10% from the written premium income of the three classes of financial insurances. The market share of the top four companies totally for the three classes of financial insurances was 62.9%.

The incurred claims in the period January – December 2009 were to the amount of BGN 18.1 million, from which BGN 5 million in Credit insurance, BGN 93 thousand in Suretyship insurance and BGN 13.2 million in Miscellaneous financial loss insurance, and overall for the three classes of financial insurance a pick up of 12.8% of the incurred claims was registered on annual basis.

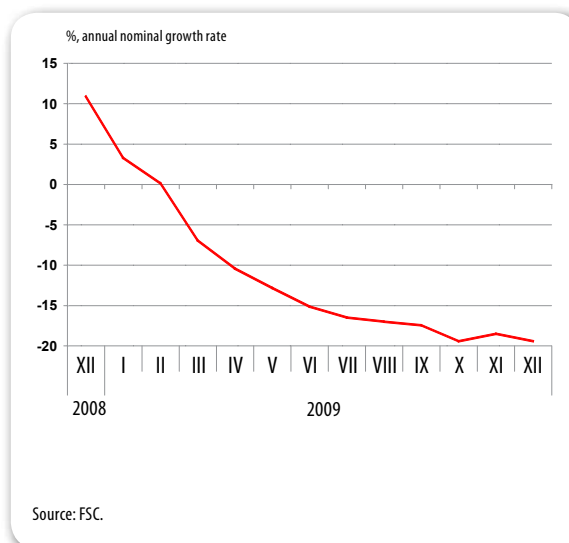
In total the set aside technical provisions of the three classes of financial insurances grew by 3.9% y/y, and at the end of 2009 they amounted to BGN 38.1 million, 65% from which were set aside for Miscellaneous financial loss insurance, 26% set aside for Credit insurance, and 9% - for Suretyship insurance. The total insurance sum for which the risks on acting contracts were covered as of 31 December, 2009 amounted to BGN 2 466 million, from which 32% - in Credit insurance, 3% - in Suretyship insurance and 65% - in Miscellaneous financial loss insurance. In comparison with the previous year, the insurance amount decreased by 36%.

In the end of 2009, the gross technical result for the three classes of financial insurances was respectively BGN 8.7 million of Credit insurance, BGN 2.1 million of Suretyship insurance and negative (BGN -10.4 million) of Miscellaneous financial loss insurance.

2.2.2. Life insurance

The gross premium income written by life insurance companies recorded a fall of 17.7% on annual basis and at the end of 2009 amounted to BGN 222 million. The premium income was realized in full from direct business, i.e. there was no life insurance company that carried out activity of inward reinsurance in 2009. In contrast to the reviewed period, in 2008 a premium income from inward reinsurance was reported at the amount of BGN 670 thousand, realized through the assumption of risks on Accident insurance.

Figure 56. Gross premium income in life insurance



Note: The graph is built up on the basis of growth rate of the gross premium income, reported by classes of insurances in the separate months of 2009, and the difference from the growth rate calculated on the basis of premium income according the income statement, arises from the adopted by some insurance companies accounting policy which involves separation of the deposit component of the premium of Unit-linked Life Insurance and its inclusion in the reserve on this class of insurance.

The gross premium income realized by life insurance companies in 2009 followed a trend to decrease. Its change y/y was positive in the first two months of the year, after which it entered a phase of negative values and reached -19% at the yearend. In the end of 2009, a drop in the premium income on annual basis was reported by ten of the life insurance companies, their aggregate market share amounting to 73.1%.

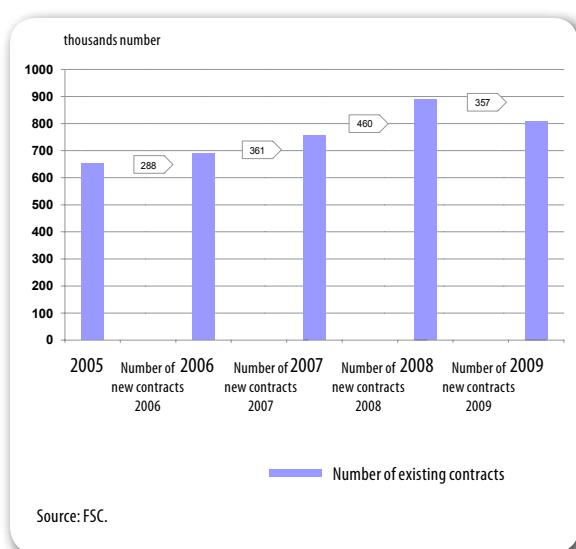
The dynamics of development in the life insurance sector in Bulgaria during the past year was due to several major factors. In the first place, that was the limiting of the credit activity on the side of domestic financial institutions, where at the end of 2009 the growth in the volume of credits granted to the households and non-commercial organizations, servicing the households, declined to 6% on annual basis. A negative effect was also exerted by the uncertainty about the households' future incomes, influencing directly their saving inclination through purchasing and maintaining life insurances. The alternative profitability, offered by competitive products on the market, such as interest on deposits, led to increase in the volume of the deposits of the households and the non-commercial organizations, servicing the households, by 10.9% on annual basis,

which also affected adversely the attractiveness of life insurance.

These factors had their impact on the development of the life insurance market in Bulgaria, along the following two lines. On the one hand, as of 31 December, 2009 the number of the insured persons under acting contracts was reduced to 2527 thousand, against 3373 thousand at the end of the preceding year. On the other hand, the number of the surrendered (terminated) insurance contract, in full or in part, grew by 6.5% on annual basis.

In the end of 2009, the number of the acting contracts was 808 777, the newly concluded contracts decreasing and at the yearend reaching 356 847, which was a little below their number in 2007. As a direct consequence of the reduced number of newly concluded contracts, a drop was also recorded in the size of premiums written under them, they amounted to BGN 95 million at the end of 2009, compared to BGN 134 million under concluded contracts in 2008 and BGN 142 million under concluded contracts in 2007. The number of the acting at the end of 2009 contracts was with 81 thousand less than that of the acting in the end of the preceding year, which was a direct result of the increased number of contracts with expired term and of the early terminated contracts during the reporting period.

Figure 57. Number of new and existing contracts

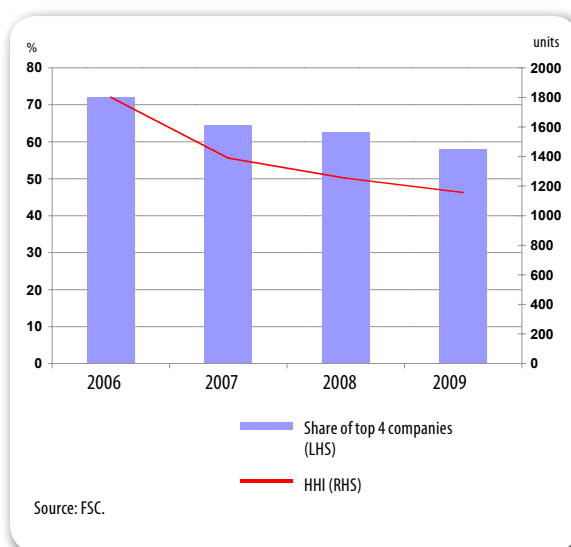


The aggregate market share of the four life insurance companies⁴⁴, which realized highest

⁴⁴ These were ZAD Allianz Bulgaria Life, ZAD DZI, ZAD Bulstrad Life Vienna Insurance Group AD and Alico Bulgaria Life Insurance Company EAD.

premium income in 2009 had been decreasing in the last three years, and at the end of the past year it was stabilized at 58.1%. The concentration of the life insurance market was gradually diminishing, and respectively the competition among the operating on it companies continued to be intensified, which had an impact on the dynamics of the Herfindahl – Hirschman Index (HHI)⁴⁵, the value of which was 1156 in the end of 2009.

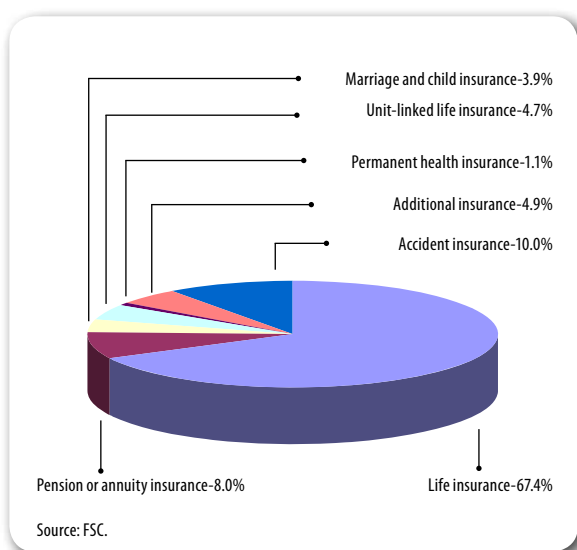
Figure 58. Market concentration of life insurance



With regard to the portfolio structure of life insurance companies by classes of insurances at the end of 2009, a substantial change was not observed in comparison with the preceding year and a major share therein continued to be held by the traditional Life insurance and annuities – 75.5%. It should be noted that 89.4% of the gross premiums from this insurance were formed from the sale of Life insurance, and the other 10.6% - from Pension or annuity insurance. Next in percentage came Accident insurance (10%), Unit-linked life insurance, the share of which in the total portfolio decreased by 1.9 pp, compared to 2008, and Additional insurance, the share of which grew to 4.9%.

⁴⁵ The Herfindahl – Hirschman Index (HHI) is calculated as a sum of the squares of the market share of each participant in the market, its value varying between 0 and 10 000. In case of value below 1000 units, the market is defined as strongly competitive, between 1 000 and 1 800 units – moderate competitive environment, and over 1 800 units – the market is characterized by strong competition.

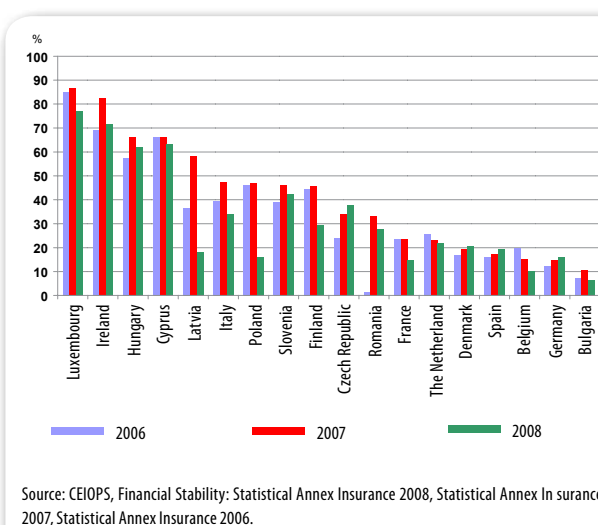
Figure 59. Portfolio structure by class of life insurance in 2009



A growth of 4.1% on annual basis was reported only in the amount of premiums of Marriage and child insurance. In all other classes of life insurances a drop in the premiums was observed on a year-on-year basis, and it was most substantial in Unit-linked life insurance (of 42.7%, or BGN 7.7 million) as a result of the reduced demand. Major was the fall in the premiums under contracts for Unit-linked life insurance, with a single payment of the premium, the fall coming to 78.7% on annual basis, or the decrease was with BGN 6 million in absolute terms, in comparison to 2008. As a result, the share of the single premiums of Unit-linked life insurance, in the total amount of the realized premiums in this insurance diminished from 44.7% in 2008 to 16.4% at the yearend.

In 2008, the financial crisis and the ensuing economic decline had a strong impact on the sales of unit-linked insurance products, especially these with a single premium, which led to big fall in the total premium income of life insurance in countries such as Italy, France, Ireland, where such products were more widely spread. The market with a high share of the contracts with periodical payment of the premiums, such as Germany, proved to be more sustainable. The growth in the sales of some savings products, such as fixed annuities and traditional savings life insurances, was not sufficient to compensate the drop in the premiums in the unit-linked life insurances

Figure 60. Share of unit-linked life insurance in the overall direct life insurance business in Europe



The premiums ceded to reinsurers by the life insurance companies in Bulgaria amounted to BGN 9.7 million in the end of 2009, which represented 4.3% of the gross premium income in the sector. The share of reinsurance for the life insurance companies remained relatively low in the past year as well, and the retention ratio was computed at 0.96 against 0.97 at the end of 2008.

The biggest share in the structure of the ceded premiums to reinsurers by classes of insurances was held by insurances Life insurance and annuities (44.9%), Accident (31.8%) and Additional insurance (17.7%). The greatest part of the premium income, in comparison with the other classes of insurances, was ceded in Permanent life insurance (20.1%), Additional insurance (15.7%) and Accident insurance (13.6%) from the gross premium income realized for these classes of insurances.

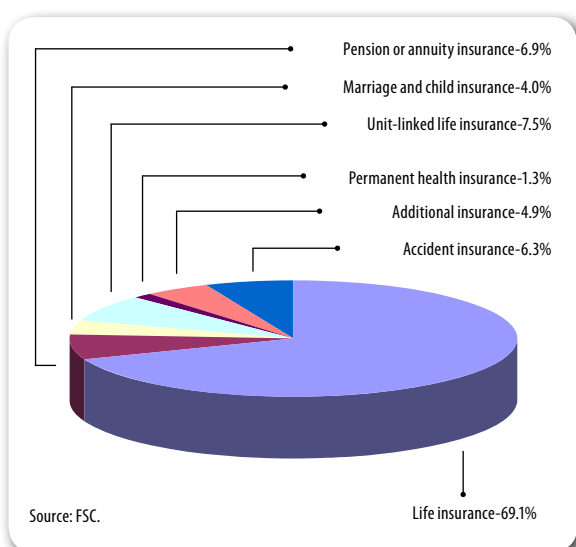
In 2009, the claims paid by life insurance companies amounted to BGN 91 million for totally 77 961 claims, against paid BGN 92 million for overall 86 132 claims in 2008. The paid sums and compensations to cedents under accepted in the preceding year contracts were BGN 200 thousand for Accident insurance.

From the totally paid claims, 47% were under contracts with expired term or with fallen maturity, 21% were the surrenders (under early terminated contract), 12% were the paid sums and compensations for death and 20% were other paid claims. A decline on annual basis was registered both in the number of

claims (9.5%), and in the amount of the paid during the year sums and compensations (1.2%), increase being recorded only in the number of the early terminated contracts (6.5%), and respectively the value of surrenders went up by 56.7%.

Biggest share in the structure of the paid claims was occupied by Life insurance and annuities (76%), within which 90.9% of the payments were for Life insurance, followed by Unit-linked life insurance (7.5%) and Accident (6.3%).

Figure 61. Structure of claims paid by class of life insurance in 2009



Surrenders were reported in Life insurance and annuities, Unit-linked life insurance and Marriage and child insurance, and their overall number grew by 6.5% and was 13 898 in the end of 2009. The surrender values amounted totally to BGN 19.690 million at the end of the past year, against BGN 13 million at the end of 2008. The surrender values in Life insurance and annuities and in Marriage and child insurance surged, respectively with BGN 6.486 million and with BGN 1.859 million, while in Unit-linked life insurance a decrease with BGN 1.218 million was recorded, compared to 2008. The recovered sums and compensations under reinsurance contracts amounted to BGN 2 million, which was 2% of the claims paid in life insurance during the period.

In 2009, the expenses incurred by the life insurance companies in relation to the pursuance of their business diminished by 14.7% on annual basis and at the yearend they amounted totally to BGN 88 million,

which was 39.5% of the gross premium income realized for the period.

The incurred in 2009 acquisition costs decreased on annual basis by 35% and were at the total amount of BGN 33 million. A major part of the total amount of the acquisition costs was formed by the acquisition commissions (BGN 27 million) which went down by 37.1%, compared to 2008. The acquisition costs represented 37.1% of the totally incurred expenses for the period, and 14.7% respectively from the premium income realized in the sector.

In 2009, the administrative expenses grew by 3.1% on annual basis, and at the yearend they were BGN 49 million, which represented 56% of the totally incurred expenses by the life insurance companies and 22.1% of the premium income in the sector. A predominant share of the totally incurred expenses were related to the activity in Life insurance and annuities (70.4%), Accident insurance (14.2%), and Unit-linked life insurance (7.5%).

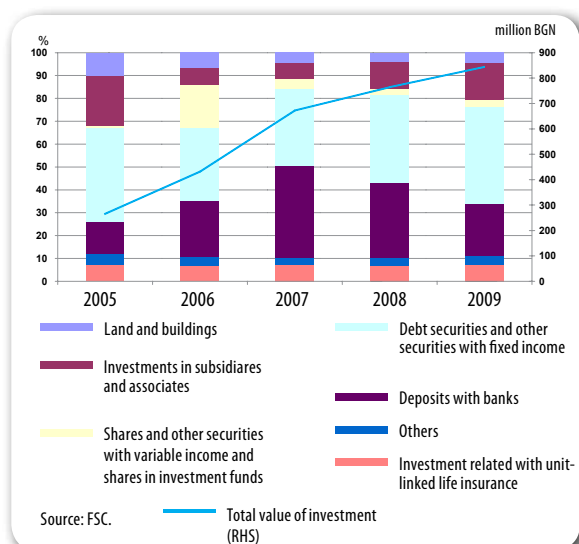
In all life insurances reduction was noticed in the amount of expenses on annual basis, with the exception of Additional insurance and Permanent life insurance, where the expenses made in connection with the activity therein went up, respectively, by 16.3% and 15.9%.

The total asset amount in the life insurance sector increased by 8.4% in 2009, and their value amounted to BGN 976 million at the yearend. The value of investments of life insurance companies was BGN 844 million in the end of 2009, and they represented 86.5% of the total asset amount in the sector. During the past year, the change in the value of investments was calculated at 10.5% on annual basis, where the growth rate slowed down compared to that reported in 2008 (55.8%) and in 2007 (13.7%) as a result of the global financial crisis. In the end of 2009, a major share in the total investment portfolio of the life insurance companies was held by securities issued and guaranteed by the state (24%), bank deposits (22.5%), other debt securities and fixed-income securities (18.8%) and investments in equities and units of subsidiary, joint and associated companies (16.1%).

Greatest growth of 54.5% on annual basis was observed in the value of investments in equities and units of subsidiary, joint and associated companies, and they amounted to BGN 136 million at the end of 2009. At the end of the past year, the debt securities and the other fixed-income securities amounted totally to BGN 361 million (including BGN 203 million

in GS), jumping by 23.9% on annual basis (respectively 24.5% for GS). The bank deposits of the life insurance companies decreased by 24.5% in the past year and at the end of 2009 they reached BGN 190 million. The value of investments in shares and other variable-income securities and the units in investment funds almost did not undergo any change, increasing with BGN 11 thousand in 2009, compared to the preceding year. The amount of investments of Unit-linked life insurance picked up by 16.7% on annual basis and reached BGN 59.6 million in the end of 2009, where these investments constituted 7.1% of the total number of investments in the life insurance sector.

Figure 62. Investment portfolio structure of life insurance companies

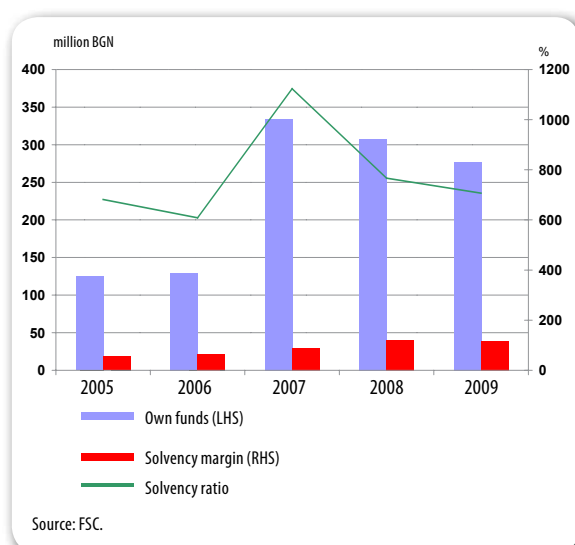


The committed in the life insurance sector equity increased by 7.2% on annual basis and at the end of 2009 it amounted to BGN 447 million. In the end of 2009, the ownership structure of the life insurance companies showed that 9 insurers were part of 8 European insurance groups, 2 insurers were part of European financial groups, one insurer was part of a European financial group and of an insurance group having a legal seat in a third country, one insurer was part of an insurance group from a third country, one insurer was owned by legal entities with seats in a third country and Bulgaria and 3 insurers were owned by legal entities having a seat in Bulgaria, one of these insurers being part of a financial group.

The total amount of the own funds in the life insurance sector, reduced with the intangible assets

amounted to BGN 277 million, while the solvency margin was calculated at BGN 39 million, and the guarantee stock - at BGN 96.5 million. The solvency margin cover with own funds, less the intangibles assets, was 707%. At the end of 2009, all companies had sufficient funds with which to guarantee the fulfillment of their long-term obligations. Only one company did not cover in full the minimum guarantee stock at the amount of BGN 6.4 million, and it had submitted a plan for raising additional funds, which was fulfilled in the first quarter of 2010.

Figure 63. Solvency ratio in life insurance



The life-insurance companies formed the following technical provisions for meeting the assumed by them commitments: Equalization reserve, Loss reserve, Unearned premium reserve, Mathematical reserve, Capitalized value of pensions, Reserve for future participation in the income, Reserves on unit-linked life insurance, Bonus and rebate reserve, Other reserves approved by the Deputy Chairperson or formed according his/her prescription.

The set aside gross technical provisions set aside by the life-insurance companies grew by 10.7% in 2009, amounting to BGN 505 million at the yearend. Increase was observed in the size of all types of reserves, with the exception of Unearned premium reserve, Bonus and rebate reserve and of Other technical provisions. A major share in the gross amount of the technical provisions of life-insurance companies was occupied by the Mathematical reserve, Reserve on unit-lined life insurance and the reserve Capitalized value of

pensions, which came, respectively, to BGN 338 million (66.8% of the total amount of reserves), BGN 54 million (10.7%) and BGN 49 million (9.6%).

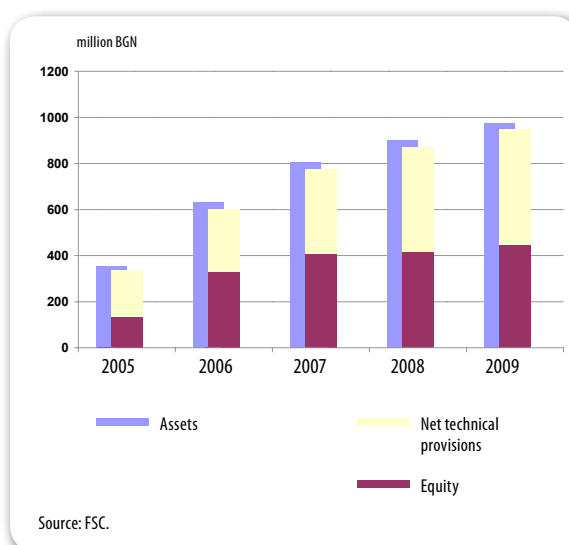
The Mathematical reserve is formed to meet future payments in the long-term life insurance which are of savings nature, where as a result of the financial crisis its increase was slowed down in the last three years and its growth reached 12.3%, or BGN 37 million at the end of 2009. The Capitalized value of pensions is a mathematical reserve, formed to meet future payments on Pension or annuities insurance. This reserve increased with BGN 8.552 million (a growth of 21.3% on annual basis), compared with BGN 12 million a year earlier and BGN 4 million at the end of 2007. On the other hand, the premium income of Pension or annuities insurance recorded a fall of 11.7% in 2009, while a growth of 17.1% was realized in 2008.

The Reserve on unit-linked life insurance is formed for covering the insurer's liabilities under insurance contracts for which the investment risk is borne by the insured or a third –party beneficiaries. The reserves set aside as of the end of 2009 in this class of insurance increased by 5.7% on annual basis (with BGN 2.9 million), which was more than the growth in the previous year (BGN 121 thousand) and less than the change with BGN 18 million in 2007. The considerably smaller increase in the size of the reserve under review in the last two years in comparison with the increase reported in 2007, was a result of the drop of 42.1% in the amount of the gross premium income realized by Unit-linked life insurance at the end of 2009 and of 30.8% in the preceding year, against a reported growth of 86.9% at the end of 2007. The Reserves on unit-linked life insurance held a share of 10.7% in the total amount of reserves.

Another reserve set aside by the life-insurance companies is the Reserve for future participation in the income which is formed for the life insurances with savings element, to cover expected future unfavorable deviations in the income from investments. It is used for supplementing the income for distribution under the insurance contracts, or for replenishment of the shortage of investment income for cover of the technical interest, and at the end of 2009 it amounted to BGN 3.598 million, climbing more than two times on annual basis.

During the past year, the technical provisions, net of reinsurance, continued to increase, amounting to BGN 502 million at the end of 2009.

Figure 64. Assets, equity and net technical provisions of life insurance companies



The value of assets used for cover of the technical provisions of life-insurance companies (without the Reserves on unit-linked life insurance) amounted to BGN 474 million at the end of the past year, increasing by 10.7% on annual basis. The assets for cover of the Reserves on unit-linked life insurance grew by 16.2%, amounting to BGN 59 million in the end of 2009.

In Member States and in third countries, were located 30.6% and 3.2%, respectively, of the overall amount of the assets for cover of the technical provisions (without the Reserves on unit-linked life insurance), their share picking up respectively by 18.7% and 1.6%, compared to the preceding year. Greatest share in the structure of the assets for cover of the technical provisions was held by the GS (44.2%), bank deposits following them (19.1%), and securities admitted to trading on regulated securities markets (13.1%). The asset amount for cover of the Reserves on unit-linked life insurance increased by 16.2% year-on-year, 39.3% of them (BGN 23 million) being located in other Member States at the end of the past year.

In the end of 2009, the technical result in the life insurance was positive and amounted to BGN 12 million, while the technical result in the preceding year was negative (BGN -2 million). Despite of the recorded fall in the size of the earned premiums (-14.8%) and in the size of the income from investments in the technical section of the income statement (-5%), compared to 2008, surpassing reduction was recorded of the expenditure section of the technical report, as

a consequence of which the result of the insurance activity was positive at the end of 2009.

In the end of 2009, the total net financial result, achieved by the life-insurance companies was positive and amounted to BGN 24 million, its higher value, compared to 2008, (BGN 7 million) was a consequence of the recorded positive result from insurance business. The return on assets, calculated as a ratio between the profit (loss) for the respective period and the total asset amount edged up from 0.7% in 2008 to 2.5% in 2009. In 2007, the return on assets was 6.2%.

The return on equity, calculated as a ratio between the profit (loss) for the reporting period and the equity, also grew from 1.6% in 2008 to 5.4% in 2009, but nevertheless it remained below its value in 2007 (12.2%).

2.2.3. Reinsurance

In the past year, business of inward reinsurance was pursued by five non-life insurance companies and one reinsurer, which started to carry out activity since the beginning of 2009. The realized by them premium income during the year amounted to BGN 1371 million, from which BGN 1352 million were written by GP Reinsurance EAD. A major share in the inward reinsurance business was held by insurance Fire and natural perils (28%), followed by insurances Third Party Liability insurance related to the possession and use of motor vehicles (27%) and Land vehicles, excluding railway rolling stock (21.8%).

The compensations paid to cedents amounted to BGN 546 million, from which BGN 544 million were paid by GP Reinsurance EAD. In the structure of the paid compensations, largest share was occupied by insurances Fire and natural perils and Land vehicles, excluding railway rolling stock, with a share of 31.1% from the sum of the compensations paid during the year.

At the end of 2009, the asset amount of GP Reinsurance EAD came to BGN 1084 million, 90% (BGN 976 million) from which was the value of investments. In 2009, the company invested predominantly in debt securities and other fixed-income securities, which occupied a share of 63.1% of the company's investment portfolio. At the yearend, the equity of GP Reinsurance EAD amounted to BGN 346 million, and the set aside technical provisions were BGN 752 million, from which

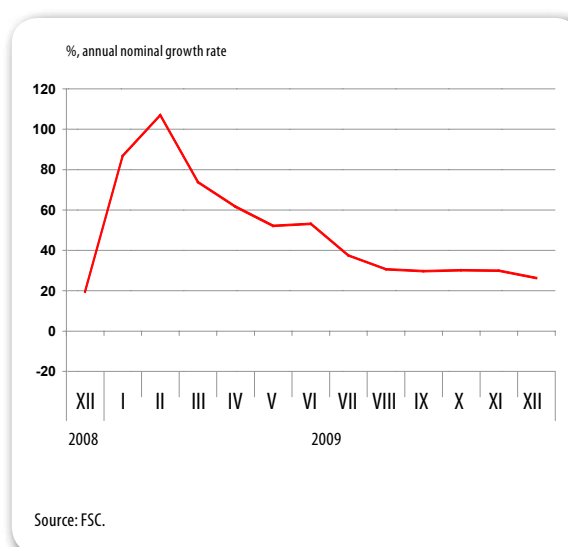
BGN 736 million constituted loss reserve, and BGN 16 million were unearned premium reserve.

At the yearend the technical result of GP Reinsurance EAD was BGN 242 million, and the financial result was BGN 274 million.

2.2.4. Voluntary health insurance

In the end of 2009, the realized premium income by the voluntary health insurance companies increased by 26.2% on annual basis, amounting to BGN 38 million at the yearend. The annual change in the gross premium income, written by months of the past 2009, registered highest growth in the first two months of the year, which in its substantial part was due to change in the accounting policy for the premiums reporting in one health insurance company.

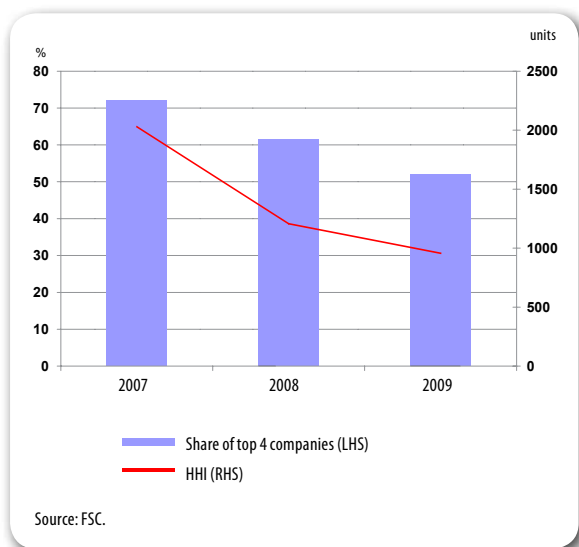
Figure 65. Gross premium income of voluntary health insurance



The market share of the four health insurance companies having highest realized premium income⁴⁶ declined from 61.5% in 2008 to 51.9% in the past year. The value of the HHI index also went down from 1207 units in 2008 to 956 units in 2009, which was indicative of the strong competition existing among the participants in the voluntary health insurance market.

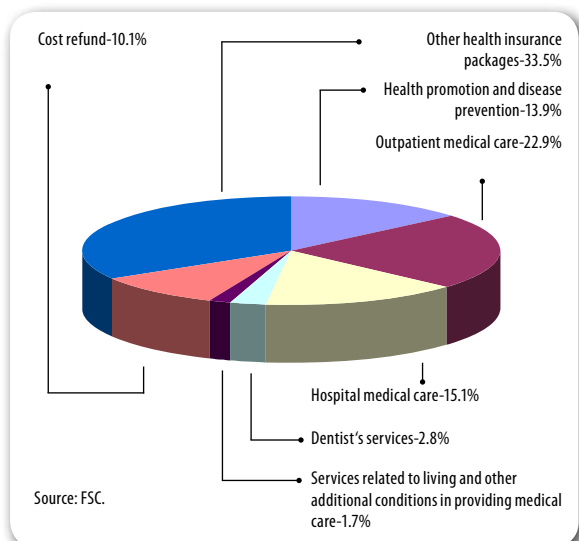
⁴⁶ These were Health Insurance Company Bulgaria Zdrave AD, Generali Zakriia Health Insurance AD, Health Insurance Fund Medico-21 AD and Municipal Health Insurance Fund AD.

Figure 66. Market concentration in voluntary health insurance



In 2009, activity of voluntary health insurance was carried out by twenty (20) companies, seven (7) of which reported a drop in the premium income, compared to the preceding year. A predominant share of 33.5% in the structure of the health insurance companies' portfolio was held by package Other health insurance packages, followed by packages Outpatient medical care (22.9%) and Hospital medical care (15.1%). A fall in the premium income by 1.2% on annual basis was observed only for package Other health insurance packages, while among the packages reporting positive changes on annual basis, highest was the 56.5% growth in Hospital medical care package.

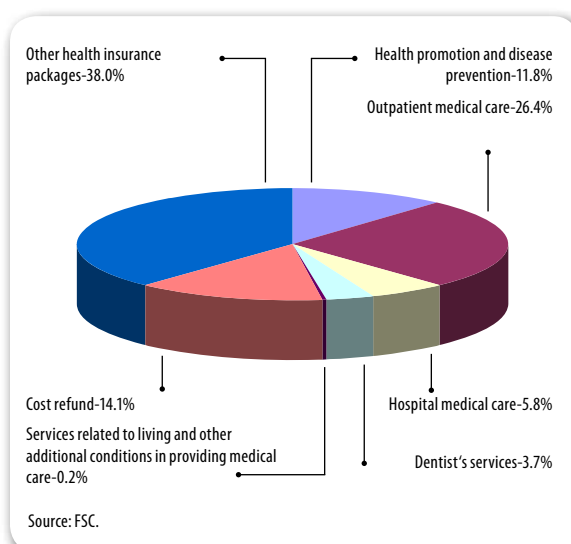
Figure 67. Portfolio structure by health insurance packages in 2009



The acting in the end of 2009 contracts for voluntary health insurance were 8 944, declining compared to the preceding year when their number was 10 158. The health insured persons for the offered health insurance packages also marked a decrease of 50.1%, and their number was 178 thousand persons at the end of 2009.

In the end of 2009, the amount of the claims paid by the health insurance companies amounted to BGN 22 million, against BGN 21 million paid a year earlier, whereby a 3.0% increase was registered. Increase in the paid claims was reported in packages Other health insurance packages (25.1%) and Outpatient medical care (17.3%). In the other packages a decrease was recorded in the paid claims, where biggest decline year-on-year was registered in Dentist's services package (-53.9%).

Figure 68. Structure of claims paid by health insurance packages in 2009



In the structure of the paid claims, biggest share was held by package Other health insurance packages (38%), followed by Outpatient medical care (26.4%) and Cost refund (14.1%). On a year-on-year basis, the premium income's growth rate (26%) outstripped that of the paid claims (3%), the reverse dynamics of bigger increase in the paid claims compared to the premium income growth y/y being observed in 7 of the companies.

The loss ratio went down from 0.72 in 2008 to 0.56 in 2009, its highest values being registered in packages Dentist's services (0.79) and Cost refund (0.73).

Table 39. Loss ratio by health insurance packages

	2008	2009
Health promotion and disease prevention	0.72	0.48
Outpatient medical care	0.85	0.67
Hospital medical care	0.37	0.21
Dentist's services	1.65	0.79
Services related to living and other additional services in providing medical care	0.12	0.06
Cost refund	1.32	0.73
Other health insurance packages	0.58	0.63
Total	0.72	0.56

Source: FSC.

The expenses incurred by the health insurance companies amounted to BGN 17 million (including claim settlement costs), whereby a growth of 24.5% on annual basis was registered. The incurred actual costs represented 44.0% of the reported premium income.

The acquisition costs (the costs stemming from the conclusion or renewal of the health insurance contracts) held a 30% share of the expenses incurred for the period, and the administrative – 68.6%. The acquisition costs constituted 13.2% of the premium income realized in the sector, and the administrative - respectively 30.2%. Greatest share in the totally incurred expenses was occupied by these incurred on package Other health insurance packages (30.3%), and Outpatient medical care package (23.2%). On annual basis, most significant was the increase in the expenses in Hospital medical care package (51.9%).

Table 40. Expense ratio by health insurance packages

	2008	2009
Health promotion and disease prevention	0.45	0.40
Outpatient medical care	0.54	0.44
Hospital medical care	0.53	0.51
Dentist's services	0.53	0.55
Services related to living and other additional services in providing medical care	0.67	0.54
Cost refund	0.41	0.45
Other health insurance packages	0.34	0.39
Total	0.43	0.43

Source: FSC.

In the past year, a positive technical result was realized for three of the health insurance packages. A negative technical result was registered for packages – Other health insurance packages, Outpatient medical care, Dentist's services and Cost refund. Most substantial was the change in package Other health insurance packages, for which a negative technical result of BGN -202 thousand was obtained in 2009, against a positive technical result of BGN 405 thousand in 2008.

Table 41. Technical result by health insurance packages

	2008	2009
Health promotion and disease prevention	-0.6	0.5
Outpatient medical care	-2.7	-1.4
Hospital medical care	0.6	1.5
Dentist's services	-1.1	-0.5
Services related to living and other additional services in providing medical care	0.2	0.2
Cost refund	-2.2	-0.7
Other health insurance packages	0.4	-0.2
Total	-5.4	-0.6

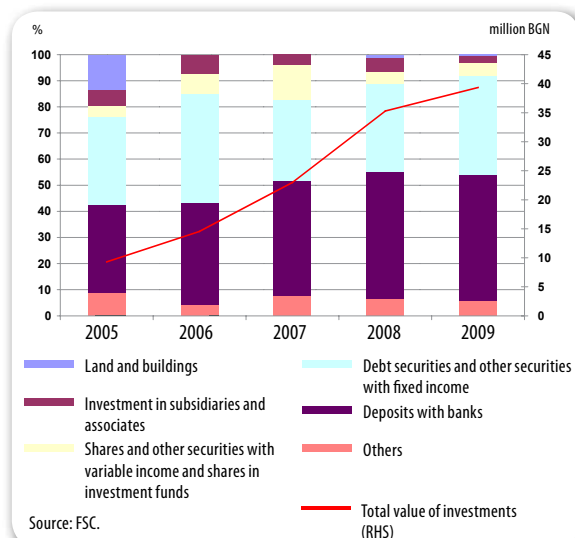
Note: Data is reported in million BGN unless other is quoted.

Source: FSC.

The total asset amount of the health insurance companies grew by 13.8% on annual basis and amounted to BGN 68 million in the end of 2009. The overall amount of the companies' investments was BGN 39 million and picked up by 10.4% towards 2008, the investments representing 58% of the assets of the health insurance companies.

Biggest share in the structure of the aggregated investment portfolio of the health insurance companies was held by bank deposits (48.1%), followed by debt securities and other fixed-income securities, holding a share of 38.1%. In the last five years, a trend was established of increase in the bank deposits as well as in the debt securities and other fixed-income securities, in contrast to the investments in Land and buildings, which diminished at a variable rate, occupying a 0.6% share in 2009.

Figure 69. Investment portfolio structure of voluntary health insurance companies

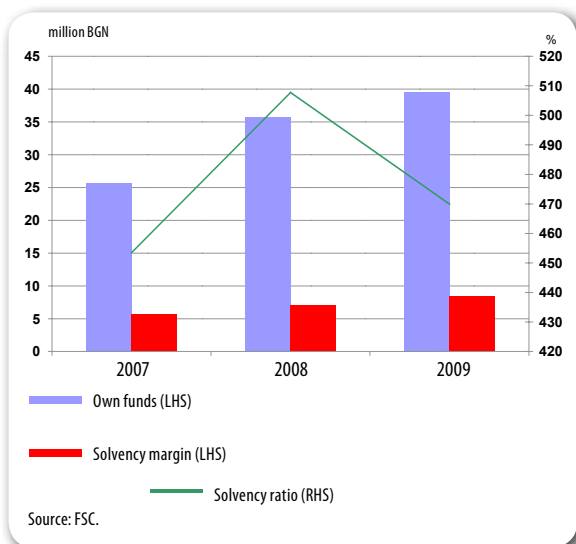


The equity of the health insurance companies increased by 18.2% year-on-year and reached BGN 45 million at the end of 2009. The subscribed share capital of the companies decreased by 4.9% on annual basis due to reduction in the share capital of two of them.

In the end of 2009, the ownership structure of the voluntary health insurance companies represented 14 companies having ownership of legal entities and natural persons from Bulgaria, 4 companies were part of European insurance groups, one company was owned by a legal entity having a legal seat in the EU, and 2 companies were possessed by legal entities with a seat in third countries.

At the end of 2009, the solvency margin and the guarantee stock of the health insurance companies amounted respectively to BGN 8.410 million and BGN 8.239 million. The total amount of the own funds of all companies, reduced with the intangible assets, was BGN 39.514 million and fully covered the solvency margin (470%) and the guarantee capital.

Figure 70. Solvency ratio of voluntary health insurance



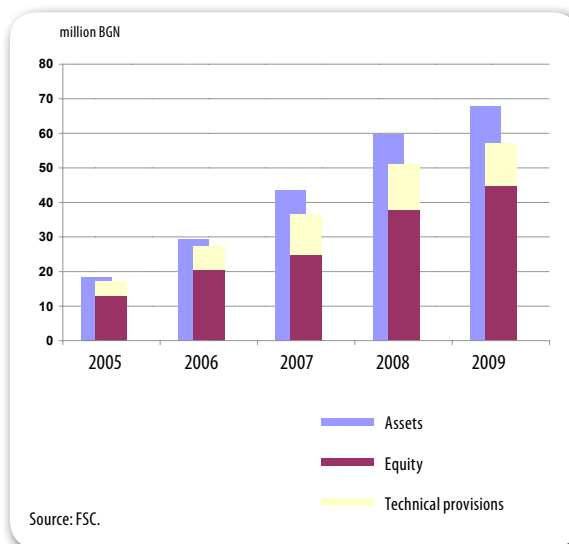
As of the end of 2009, the total sum of the health insurance reserves set aside by the companies pursuing the business of voluntary health insurance, amounted to BGN 12 million, recording a decline of 5.4%, compared to the reserves set aside a year earlier. The unearned premium reserve occupied a biggest share of 68.4% from the totally set aside reserves. The loss reserve held a 20.9% share, decreasing from BGN 3 million in 2008 to BGN 2.6 million in the end of the past year.

In 2009, the asset amount for cover of the health insurance reserves diminished by 13.3% on annual basis, down to BGN 13 million at the yearend. All health insurance companies covered in full the size of their health insurance reserves set aside at the end

of the reporting period. In the structure of the assets for cover of the health insurance reserves, a biggest share of 71.9% was held by the government securities, followed by bank deposits with a 19.6% share.

In 2009, the technical result of the voluntary health insurance business was negative and amounted to BGN -995 thousand, its value decreasing, compared to the preceding year (BGN -6 million). The achieved better technical result was due to the outpacing growth of the earned premiums (31% on annual basis), compared to the increase in the incurred claims (1% on annual basis) and the net operating expenses (23%). A negative technical result in 2009 was reported by 13 of the health insurance companies, while their number was 15 in the preceding year.

Figure 71. Assets, equity and technical provisions of voluntary health insurance companies



The voluntary health insurance companies closed the reporting period at a positive financial result of BGN 220 thousand, after they recorded a negative result of BGN -8 million in the previous year. The highest financial result was a consequence of the achieved better technical result as well as the higher net revenues from investments in the past year. Ten of the companies closed the year at a loss, while in 2008 the companies which reported a negative financial result were 14.

The return on assets, calculated as a ratio between the profit/ loss for the relevant period and the total asset amount, climbed from the negative level of -13.3% in 2008 to 0.3% for the past year. The return on equity, calculated as a ratio between the profit/ loss

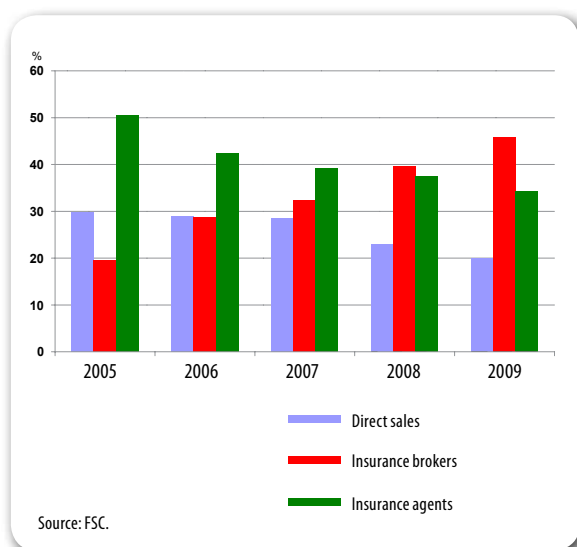
for the reporting period and the equity, also grew from -20.9% in 2008 to 0.5% in 2009.

The investment income of the health insurance companies increased severalfold in 2009, compared to 2008, and in the end of the period under review they amounted to BGN 4 million. In 2009, the investment expenses incurred by the voluntary health insurance companies amounted to BGN 866 thousand, against BGN 2 million at the end of the preceding year 2008.

2.2.5. Distribution channels

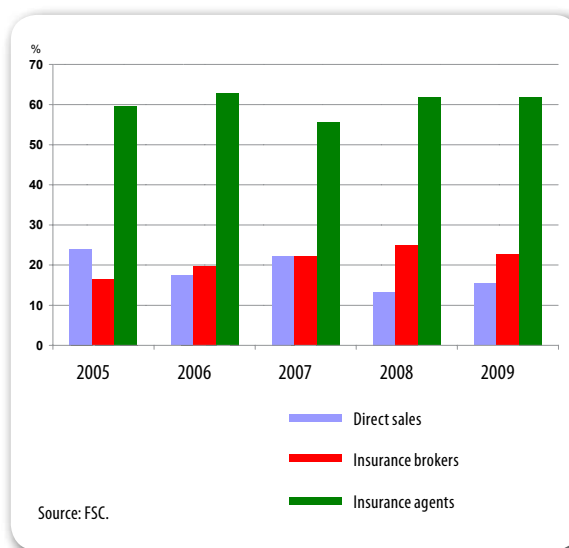
In 2009, a main channel of distribution of the non-life insurance products were the insurance brokers. In the last five years, a trend was observed of reduction in the share of the direct sales and the sales through agents, at the expense of increase of the sales through brokers.

Figure 72. Distribution channels of non-life insurance products



In life insurance, a main channel for distribution of the life insurance products were the insurance agents, which accounted for a 62% share in the structure in 2009, followed by the insurance brokers (23%), and smallest share was held by the direct sales (15%).

Figure 73. Distribution channels of life insurance products



In 2009, the premium income realized through the insurance brokers was at the amount of BGN 706 million, from which BGN 683 million were in favor of insurers having a seat in Bulgaria, BGN 20 million – in favor of insurers with a seat in other state and BGN 3 million in favor of voluntary health insurance companies.

In comparison with 2008, the premium income realized through the insurance brokers in favor of insurance companies with a legal seat in Bulgaria climbed by 7.3%, a growth of 9% being recorded in the non-life insurance, and in the life insurance – a drop of 13%.

In the structure of the realized through insurance brokers premium income in favor of non-life insurance companies, having a seat in Bulgaria, the biggest share was retained by the motor insurances – Land vehicles, excluding railway rolling stock (52.5%) and Third Party Liability insurance related to the possession and use of motor vehicles (28.3%), followed by Fire and natural perils (8.8%) and Other property damages (4.4%). In the life insurance, the realized through the insurance brokers premium income in favor of insurers with a legal seat in Bulgaria was mainly from Life insurance and annuity (89.9%).

In 2009, 53% of the realized premium income through insurance brokers in favor of insurers from other states was for insurers from the United Kingdom and 34% for insurers from France. In 2009, greatest share in the structure of the premium income realized through

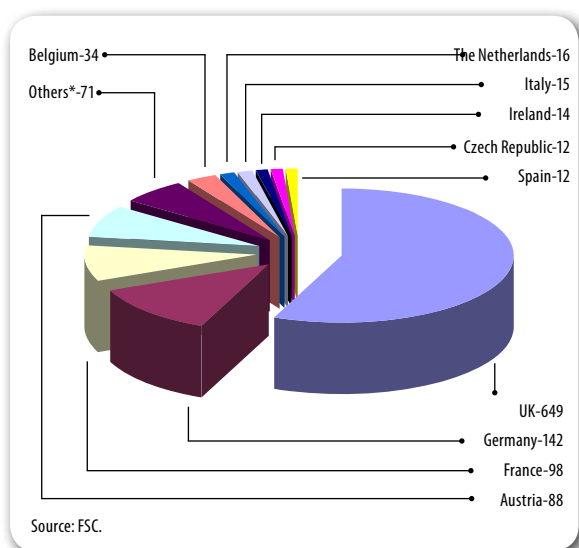
the insurance brokers in favor of insurers from other states was held by insurances Accident (28.6%), Vessels (21.9%) and Fire and Natural perils (14.2%).

The revenues from commissions of the insurance brokers were BGN 172 million, from which BGN 169 million – from the intermediation for insurers with a seat in Bulgaria, BGN 3 million – from the intermediation for insurers from other states and BGN 362 thousand – from intermediation for voluntary health insurance companies. The brokers' commissions towards the realized through them premium income in favor of insurers with seat in Bulgaria were 24.9% in the non-life insurance and 21.9% in life insurance.

In 2009, activity of reinsurance intermediation was carried out by four insurance brokers, the ceded premiums by cedents amounting to BGN 7 million, and the realized revenue from commissions was at the amount of BGN 299 thousand.

In 2009, 223 insurance intermediaries from Member States expressed intention to carry out activity of insurance intermediation on the territory of the Republic of Bulgaria under freedom to provide services, thus their total number increased to 1 151. Following the territorial distribution of the notifications for the insurers, the geographical map of the notifications of the intermediaries was also dominated by insurance intermediaries having a seat in the United Kingdom, and German insurance intermediaries ranked second.

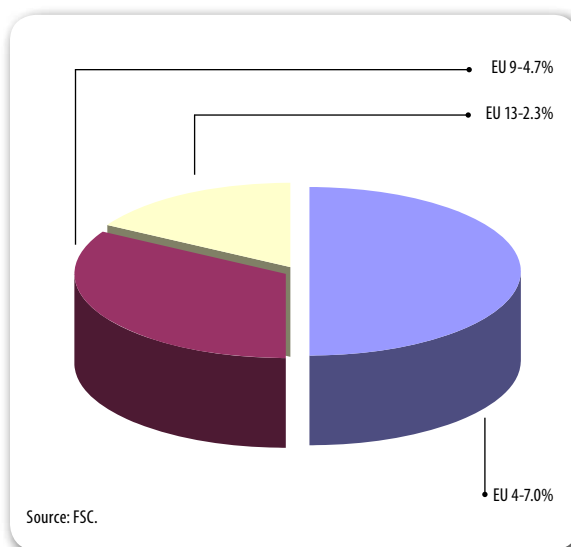
Figure 74. Geographical map of notifications of EU insurance intermediaries



Note: The chart shows the territorial distribution of the number of notifications received from the relevant EU Member State. * 'Others' include: Luxembourg (10 notifications), Sweden (10), Hungary (10), Lichtenstein (8), Greece (7), Slovakia (6), Lithuania (4), Denmark (3), Malta (3), Romania (3), Gibraltar /the United Kingdom/ (2), Cyprus (2), Slovenia (2) and Poland (1).

In regard to the Bulgarian insurance brokers, in 2009 the Commission forwarded one notification for pursuance of insurance intermediation, thus their total number became 5. According the geographical distribution, Austria, the United Kingdom, Greece and the Netherlands were with largest share of 7% each in the territorial distribution of the notifications, which reflected the Bulgarian insurance brokers' preferences for entry in these markets. This distribution was influenced by the limited number of Bulgarian insurance brokers, who extended their activities on the territory of other European states.

Figure 75. Geographical map of notifications of Bulgarian insurance brokers



Note: The chart shows the percent ratio among the states to which notifications were sent by FSC. EU 4 is a group of 4 Member States (Austria, the United Kingdom, Greece and the Netherlands), each holding a 7% share, EU 9 – respectively, 9 Member States (Belgium, Germany, Ireland, Spain, Lithuania, Malta, Romania, France and the Czech Republic) with a share of 4.7% each, and EU 13 is a group of 13 Member States (Denmark, Estonia, Italy, Cyprus, Latvia, Luxembourg, Poland, Portugal, Slovakia, Slovenia, Hungary, Finland and Sweden) with a share of 2.3% each.

2.2.6. Guarantee Fund (GF)

In 2009, the GF's revenues formed by contributions for the mandatory insurances Third Party Liability insurance of motorists and Accident insurance of passengers in public transport vehicles, by fines and pecuniary sanctions, by income from investing the Fund's resources, etc., amounted to BGN 31 million, against BGN 28 million at the end of the same period of the preceding period⁴⁷. The revenues from contributions held the biggest share in the structure of the GF's revenues and were at the amount of BGN 24 million, which represented a 2.3% drop, compared to the revenues from contributions reported for the previous year.

⁴⁷

Data about the Comprehensive income statement and the GF's resources are presented in the annex.

The resources of the Guarantee Fund were spent for payment of compensations to affected persons, administrative and other expenses related to its activity. For the period from 1 January to 31 December, 2009 totally 1 319 claims were submitted to the Fund (1 057 for pecuniary damages and 262 for non-pecuniary damages), of which 282 were denied, 584 were pending and incompleated and 453 were paid.

The compensation expenses marked a growth of 49.3% towards the preceding year and amounted to BGN 5 million on totally 792 claims, including:

- BGN 1380 thousand on 628 pecuniary damages, from which BGN 327 thousand were on 256 claims from previous years.
- BGN 3974 thousand on 164 non-pecuniary damages, from which BGN 2492 thousand on 83 claims from previous years.

The Guarantee Fund closed 2009 at a positive balance of BGN 16 million, against BGN 15.7 million reported in 2008.

As of 31 December, 2009, the resources of the Guarantee Fund amounted to BGN 61 million. Reduced with the sum of the loss reserve at the amount of BGN 11 million, they came to BGN 50 million. 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 3000 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.

The total sum of the invested resources amounted to BGN 59 million, of which bank deposits held the biggest share (54.5%), followed by investments in GS (21.6%), and corporate bonds (non-qualifying) (12.5%).

2.2.7. Security Fund

After the adoption of the Law on Amendment and Supplement to the Insurance Code in November 2007, a Fund was created for securing insurance receivables of the consumers of insurance services in case of bankruptcy of an insurer having a seat in the Republic of Bulgaria, or of an insurer from a third country that registered a branch in our country under the Commercial Law. The Security Fund is a separated account with the Guarantee Fund, which is managed by the bodies of the Guarantee Fund. The Security Fund is financed by annual contributions of the insurers and pays the guaranteed amounts of the insurance receivables under the insurances, according to Art. 311c of the IC.

For the period from 1 January to 31 December, 2009, the revenues of the Security Fund amounted to BGN 7.6 million, including BGN 4.1 million contributions by non-life insurance companies, BGN 1.4 million contributions by life-insurance companies, BGN 106 thousand income from invested funds and BGN 2 million initiation contribution, for the account of the republican budget, made by the state through the Minister of Finance.

In 2009, guaranteed insurance receivables from the Security Fund resources were paid to consumers of insurance services to the total amount of BGN 391 thousand on overall 32 claims (BGN 45 thousand on 17 pecuniary damages and BGN 346 thousand on 15 non-pecuniary damages).

In the end of 2008, the revenues of the Security Fund amounted to BGN 1 367 thousand, and the expenses – to BGN 870 thousand. The Security Fund's resources were invested in compliance with the requirements for safety and permanent liquidity, provided in Art. 311n, para 2 of the IC. As of 31 December, 2009, the Fund's resources amounted to BGN 7689 thousand, from which BGN 7370 thousand were invested in bank deposits, and BGN 319 thousand are available funds. In 2009, the result of the Security Fund's activity amounted to BGN 7192 thousand, against BGN 497 thousand in 2008.

2.3 Social Insurance Market

The supplementary pension insurance is an integral part of the pension system in Bulgaria, it is built on a fully funded principle and is a form of a long-term target saving. It provides a possibility to the insured persons (3 764 958 as of the end of 2009) to receive, in the existence of statutorily determined conditions, along with the “state” pension also an additional pension, raised with the efforts of the person and his employers during the time when such person has actively expended labor. The pension insurance companies (PICs) manage the assets of the supplementary pension insurance funds (SPIFs), investing them in defined by law financial instruments (financial instruments and investment properties) when complying with quantitative limitation for each type of instrument, with the purpose of realization of income and increase of the funds’ assets in a long-term plan.

As a result of the financial crisis which affected negatively the securities markets and the investment properties in 2008, the amount of the net assets (the liabilities to the insured persons), accumulated in the supplementary pension insurance funds decreased to BGN 2299 million. This trend was also preserved in the first quarter of 2009, but was overcome in the next quarters, and at the yearend the net assets exceeded BGN 3 billion.

The future development of the market of supplementary pension insurance in the country depends on perfection of the legal framework, ensuring greater protection of the insured persons, improvement of the macroeconomic environment and surmounting the negative effects of the worsened economic activity, improving the liquidity of our capital market, provision of quality instruments for investing, etc.

Each pension insurance company (PIC) manages one universal pension fund (UPF), one occupational pension fund (OPF) and one voluntary pension fund (VPF). At the end of 2009, 10 companies managed 32 supplementary pension insurance funds (SPIF). Two of them were voluntary pension funds with occupational schemes (VPFOS), where only one of them carried on activity. One OPF and one VPF, managed by company Pension Insurance Institute AD, which was granted a license to pursue business of supplementary pension insurance and authorization for management of funds in 2008, began their activity early in 2009.

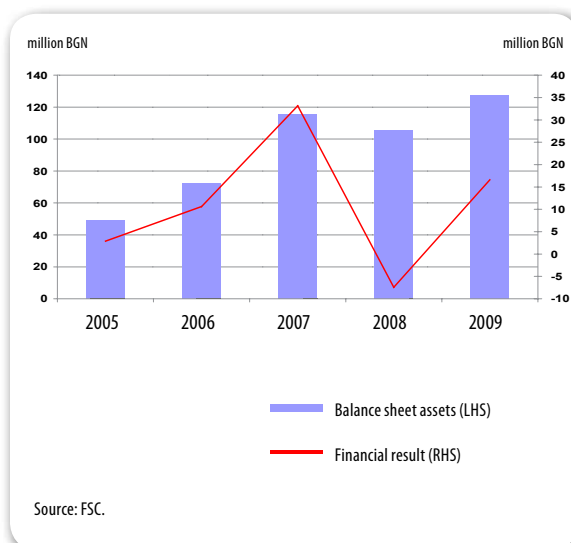
2.3.1 Pension insurance companies

In four of the ten⁴⁸ registered in Bulgaria pension insurance companies, one shareholder possessed over 90% of the capital. In comparison with 2008, a new shareholding structure was recorded of three pension insurance companies (PIC Doverie PLC, PIC Saglasie PLC and PIC Future JSC). Considering the directly owned shares, foreign investors were owners of two pension insurance companies (PIC Doverie PLC and ING PIC PLC)⁴⁹.

Following a certain drop in the PIC balance sheet assets in 2008, in 2009 their amount recovered its growth trend, reaching BGN 128 million at the yearend, which was a growth of 21% towards 2008. Such dynamics was also observed in the PIC overall financial result, which as a consequence of the financial crisis fell to the negative level of BGN -7.4 million in 2008. With the stabilization of the financial markets in the

second half of 2009, it climbed to BGN 16.6 million, ranking immediately after its maximum value of 2007.

Figure 76. Balance sheet assets and financial result of PICs



⁴⁸ Here the decision for transformation by merger of PIC LUKOIL GARANT – BULGARIA PLC into PIC CCB – SILA PLC is not taken account of, as it did not led to actual change at the end of 2009.

⁴⁹ The annex gives a list of the pension insurance companies and their shareholding structure, accounting for their direct ownership.

In 2009, too, PICs continued to maintain a relatively high level of capital adequacy. In 2009, the average value of the capital adequacy grew by 25 percent point and reached a level of 180.2% at the yearend and exceeded by far the statutorily set size of not less than 50 per cent of the minimum capital. The indicator by separate companies varied between 53.9% and 362.6%, save for one company the capital adequacy of which was 465.5%. The increase in the value of capital adequacy was as a result of the realization of higher profits among the most of the companies in the past year.

Table 42. Capital adequacy and liquidity of PICs and SPIFs

	2008	2009
Capital adequacy of PIC (%)	155.2	180.2
Liquidity of PIC (coef.)	42.4	32.4
Liquidity of VPf (coef.)	154.9	176.6
Liquidity of VPfOS (coef.)	11.2	146.8
Liquidity of OPf (coef.)	201.3	234.9
Liquidity of UPf (coef.)	203.9	207.9

Note: The average value of the indicators is calculated as an arithmetic average of the value of the indicators of all PICs and SPIFs
Source: FSC.

The liquid funds of PICs and the managed supplementary pension insurance funds (SPIFs) considerably exceeded the statutorily regulated minimum size. The amount of the set aside with PIC resources reserves for guaranteeing the minimum rate of return in the supplementary mandatory pension insurance funds was in compliance with the statutory provisions, and the funds from the reserves were invested according 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 2009, the supplementary mandatory pension insurance funds (SMPIF) of one pension company set aside a reserve for guaranteeing the minimum rate of return, as the achieved by them rate of return was higher than the announced upper limit of the rate of return of the relevant fund for the 24-month period. One pension company covered, three consecutive quarters in an UPf and one quarter in an OPf, the difference to the minimum rate of return with own funds at the amount of BGN 1590 thousand, as the achieved rate of return by the funds for the respective periods was lower than the announced minimum rate of return for the specific type of Fund. It should be borne in mind that the legal regulations on the minimum rate of return is obsolete and does not guarantee adequate protection of the insured persons'

interest in the SMPIFs, especially in the conditions of a financial and economic crisis.

In the past year, the level of the registered capital coverage for most of the companies was within the limits of 38.7% and 166.3%, with the exception of one pension insurance company, whose own capital covered 363.9% of the registered one. The average value of the indicator for 2009 was improved and reached 131.6%, compared to 123.9% in 2008. The increase in its value was a result of the increase in the reported profit, or decrease in reported losses in 2009, compared to the previous year. A pick-up in the indicator's value compared to the previous year was recorded in seven of the pension companies.

A considerable growth was noted in the return on equity, where the average value of the indicator was 7.3% in 2009, against -19.4% in 2008. Even though seven companies realized profit, and three registered loss, the number of companies in which the return on equity grew, was equal to those in which a decline was reported. The range of the return on equity by separate PICs was wide, its lowest value being -48.7%, and the highest 43.3%.

Table 43. Analysis of PIC equity

	2008	2009
Coverage of registered capital	123.9	131.6
Return on equity	-19.4	7.3

Note: Data is reported in % unless other is quoted. The average value of the indicators is calculated as an arithmetic average of the value of the indicators of all PICs.
Source: FSC.

The level of asset coverage of the managed SPIFs for most of the companies ranged between 2.5% and 10.4%, with the exception of one PIC, the assets of which covered 206.7% of the managed funds' assets. The average value of the indicator for 2009 grew to 25.5%, compared to 8.2% in 2008, which was due to the higher rate of increase 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 seven companies.

Owing to the positive current financial result of the activity in 2009, seven companies had positive return on the assets, and with three PICs the return on assets was negative, which was a result of the reported annual loss. At the end of 2009, the average value of the indicator was 4.1%, compared to -21.4% in 2008. The observed improvement of the profitability was due to increase of the indicator's value in most of the companies, as a result of the realized profit for the year and recorded asset growth. Lowest profitability of the

separate companies was -41.6%, and the highest was 31.2%.

Table 44. Analysis of PIC assets

	2008	2009
Coverage of assets of SPIFs	8.2	25.5
Return on PIC assets	-21.4	4.1
Growth of PIC assets	-9.0	15.6

Note: Data is reported in % unless other is quoted. The average value of the indicators is calculated as an arithmetic average of the value of the indicators of all PICs and SPIFs respectively.
Source: FSC.

In the past year, a larger part of the pension companies had a positive value of the indicator asset growth, and only two remained with negative values. This had an effect on the improvement of the indicator's average value which reached 15.6% against -9.0% in 2008. For the individual companies the indicator asset growth was in the range between -30% and 39.9%, with the exception of one company which reported a 51.6 % growth of the assets.

Table 45. Analysis of PIC income and expenses

	2008	2009
Efficiency of PIC activity	107.4	115.6

Note: Data is reported in % unless other is quoted. The average value of the indicators is calculated as an arithmetic average of the value of the indicators of all PICs.
Source: FSC.

Three companies reported a current operating loss in 2009. The average value of the indicator efficiency of the PIC activity was 115.62% in the past year, an increase of 8.2 percent point being observed towards 2008. This dynamics was owing to enhancement in the efficiency of the activity in seven of the companies, as a result of the higher growth rate of the income, compared to the expenses of the larger part of the companies. The indicator's value by companies was within the range from 55.9% to 150.5%, with the exception of one company whose efficiency reached 187.7%.

Compared to 2008, the revenues of PICs from fees and deductions per one participant in the pension funds increased. Their average value in 2009 amounted to BGN 15.8, against BGN 14.5 for the preceding year. The income of the companies from fees and deductions in 2009 rose at faster rate than the increase of the participants in the managed SPIFs, which was the immediate reason for the indicator's increase. The value of the indicator for the individual companies was within the range between BGN 9.0 and BGN 20.6.

The PICs expenses of the activity per one participant in the managed pension funds decreased with BGN 10.2 in 2009, amounting to BGN 26.0 at the

yearend, against BGN 36.2 in 2008. In regard to the individual companies, the indicator's value climbed in four companies due to increase in the expenses at rate which outpaced the rate of increase of the participants.

Table 46. Fees, deductions and expenses per insured person in SPIFs

	2008	2009
Fees and deductions per insured person in SPIFs	14.5	15.8
Expenses from activity per insured person in SPIFs	36.2	26.0

Note: Data is reported in BGN unless other is quoted. The average value of the indicators is calculated as an arithmetic average of the value of the indicators of all SPIFs.
Source: FSC.

At the end of 2009, the revenues from fees and deductions per BGN 100 of the Fund's assets were between BGN 1.9 and BGN 2.5, the average value of the indicator amounting to BGN 2.2, compared to BGN 2.6 in 2008. The decline of this indicator was insignificant, owing to the bigger assets growth than the increase in the income from fees and deductions.

In the end of 2009, the expenses from the activity per BGN 100 of the Fund's assets varied between BGN 1.1 and BGN 4.9, with the exception of one company, which reported BGN 18.4 expenses from the activity per one hundred leva of assets of SPIFs. The average value of the indicator marked a considerable reduction, amounting to BGN 4.6 in the end of 2009, compared to BGN 7.2 in 2008. The improvement of the indicator was due to the combined effect of increase in the SPIFs assets and lowering of the expenses of some of the companies for management of the SPIFs assets, where its value decreased with regard to nine of the ten companies.

Table 47. Fees, deductions and expenses per BGN 100 of the SPIFs

	2008	2009
Fees and deductions per BGN 100 of the SPIF assets	2.6	2.2
Expenses from activity per BGN 100 of SPIF assets	7.2	4.6

Note: Data is reported in BGN unless other is quoted. The average value of the indicators is calculated as an arithmetic average of the value of the indicators of all SPIFs.
Source: FSC.

During the control exercised over the PICs activity in 2009, no deviations were established from the statutory requirements about the size of the mandatory fees, deducted by the supplementary voluntary pension insurance funds /SVPIFs/ in favor of PICs.

Nine years after the launch of the second pillar of the pension insurance in Bulgaria, all pension insurance companies collect the maximum allowed under SIC rate of the fees for SMPIFs management,

due to the mandatory nature of the pension insurance therein. Regardless that as early as in 2006, the fee paid by the pension insurance companies to the National Revenue Agency for collection of the pension insurance contributions (at the rate of 0.8% of the transferred contributions) dropped off, this did not lead to decrease of the fees for supplementary mandatory pension insurance and in 2009 the price competition between the pension insurance companies existed and intensified only in the sector of the voluntary pension insurance, and the indirect stimulus for lowering the levels of the fees in the mandatory pension insurance (for instance their inclusion as a criterion in the official distribution) did not yield results. An urgent legislative change is necessary in the maximum amount of the fees for the SMPI with a view to the accumulation of bigger funds on the insured persons' lots, which is especially important for the first pensioners in 2015.

The fees deducted in the voluntary funds were lower than the statutorily set maximum sizes – at the VPFs, the average rate of the deductions from the insurance contributions came to 3.7%, compared to 3.4% in 2008, and with the VPFOS – 4.5%, with a statutorily set fee up to 7%. The average rate of the fees from insurance contributions in VPFs grew by 0.3 percent point. The investment fee in VPFs amounted to 8.5%, with statutorily set fee up to 10%, the lower rate of the fee being a result of the realized negative income in the first quarter of 2009 and the changes made towards reduction of the fee in the Rules of the organization and activity of three of the Funds. In 2008 investment fee was not charged, due to recorded negative result of the investment of the resources of all VPFs. The investment fee at VPFOS amounted to 9.9%, and the difference to 10% was as a result of rounding off of the initial values.

Table 48. Investment fee and insurance contributions fee

	2008	2009
Charged investment fee of VPF	0.0	8.5
Charged investment fee of VPFOS	0.0	9.9
Average insurance contributions fee of VPF	3.4	3.7
Average insurance contributions fee of VPFOS	4.1	4.5

Note: Data is reported in % unless other is quoted. The average value of the indicators is calculated as an arithmetic average of the value of the indicators of all VPFs and VPFOSs respectively.
Source: FSC.

2.3.2 Supplementary pension insurance funds

During the year under review, the amount of the SPIFs balance sheet assets grew, which was due

mainly to the revenues from insurance contributions and to the realized positive income from investing the accumulated resources. In 2009, the balance sheet assets of SPIFs increased in total by 37.8% year-on-year, while in 2008 the balance sheet assets of the VPIFs declined by (-1.1%). The rate of change in the assets was different according to types of funds, the increase with the universal funds (UPF) being biggest (50.8%), followed by the occupational funds (OPF) (23.2%). Smallest was the growth in the voluntary funds (VPF), where the increase was by 9.5%. The increase in the assets of the only voluntary pension fund with occupational schemes was most significant (280.4%), owing to the "low base effect", due to the fact that it started its activity in 2008. As a result of the stabilizing investment activity on the capital markets, the assets of all funds increased. The difference in the asset growth of VPFs⁵⁰ in 2009 and 2008 was biggest (38.8 pp), the asset growth turning from negative in 2008 (-29.2%) to positive in 2009.

Table 49. Growth of SPIF assets

	2008	2009
UPF	18.1	50.8
OPF	-11.4	23.2
VPF	-29.2	9.5
VPFOS	-	280.4

Note: Data is reported in % unless other is quoted. The indicator is calculated as a ratio of the change for the year and the initial value at the beginning of the respective year.

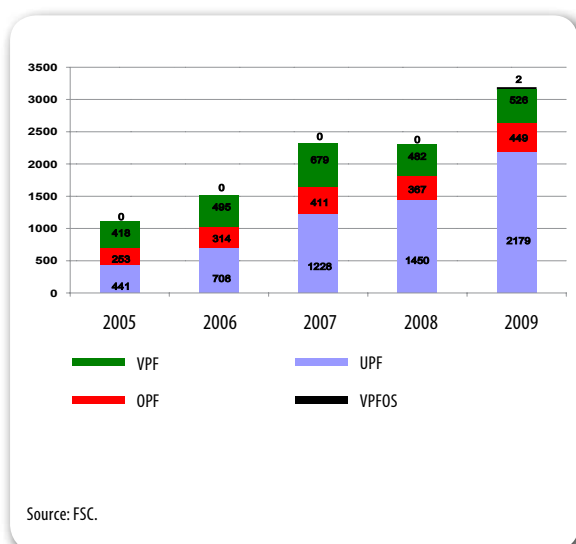
Source: FSC.

As a result of the different growth rate of the balance sheet assets of the different types of SPIFs, a change was observed in the structure of the SPIFs assets in the past year. Greatest share was held by the balance sheet assets of the universal pension funds (69.00%), followed by the voluntary (16.67%), the occupational (14.27%) and 0.06% the voluntary pension fund with occupational schemes (VPFOS). In comparison with 2008, the share of the universal funds in the balance sheet assets grew by 6 percent point at the expense of the shares of the VPFs and the OPFs.

The trends observed in the balance sheet assets were also registered with the net assets (value of liabilities to the insured persons). In 2009, the net assets of the SPIFs picked up by 37.3% on annual basis, while in 2008 they registered a decline (-0.83%). The rate of change in the net assets differs by types of funds, being most significant with the VPFOS because of their low absolute value in 2008 (BGN 454 thousand). Contrary to the trend of decline of the net assets of

the OPFs and the VPFs in 2008, in 2009 a growth was recorded, respectively by 22.4% and 9.3%. In the UPFs the net asset growth increased from 18.0% in 2008 to 50.3% in 2009. In terms of structure, the greatest share was held by the UPFs (69.0%), followed by the VPF (16.7%), OPF (14.2%) and VPFOS (0.1%).

Figure 77. Net assets of SPIFs



The amount of the managed balance sheet assets per one participant in the SPIFs increased in 2009. Excluding the indicator's value for VPFOS, which grew by 239.4% on annual basis, biggest was the growth with the UPFs (39.8%), where at the yearend the indicator's value reached BGN 648.8. The average amount of the managed assets per one participant in OPFs climbed to BGN 1735.6, compared to BGN 1422.68 in 2008. With regard to the voluntary funds the indicator grew at lowest rates (11.2%), reaching an amount of BGN 823.48 in the yearend. The deviations in the average values in the separate companies varied between BGN 355.6 and BGN 1433.4.

Table 50. Managed assets per insured person of SPIFs

	2008	2009
UPF	463.9	648.8
OPF	1422.7	1735.6
VPF	740.3	823.5
VPFOS	109.4	371.4

Note: Data is reported in BGN unless other is quoted. The average value of the indicators is calculated as an arithmetic average of the value of the indicators of the respective SPIFs.
Source: FSC.

The tendency of increase in the gross income from insurance contributions in the SPIFs was retained in 2009, too, although at slower rates (4.4%), in the conditions of the functioning in Bulgaria market of social insurance services. The greatest contribution to that belonged to the gross income in the UPFs owing to their largest share, which grew by 12.9%. On the other hand, the small rate of increase in the indicator's average value was due to the deepening reduction of the gross income in the VPFs, which in 2008 contracted by 33.0%, and in 2009 by further 35.6%. The same dynamics was also observed with the OPFs, the gross income of which registered a 2.7% fall in the past year, following the trend of smaller, even though positive growth rates in 2008.

Table 51. Gross contributions by SPIFs

	2005	2006	2007	2008	2009
UPF	165.8	236.8	410.6	549.8	620.5
OPF	46.9	52.1	64.1	78.5	76.3
VPF	95.4	103.3	154.6	103.6	66.8
VPFOS	-	-	-	0.5	1.3
Total	308.2	392.3	629.3	732.4	764.9

Note: Data is reported in million BGN unless other is quoted.
Source: FSC.

In 2009, the credited and paid amounts decreased by 54.4% in total for all SPIFs. The major contribution to the dynamics of the credited and paid amounts belonged to the amounts paid by the voluntary pension funds, whose share in the total amount was 97% on the average for the last five years. As a result of these dynamics, the ratio 'amounts credited/paid' reached its highest value in 2008 (0.18), while in 2009 it returned to the 2007 levels (0.08). In the conditions of developing supplementary pension insurance market in Bulgaria, which is in accumulation phase, the ratio amounted to 0.11 on the average for the last five years.

Table 52. Amounts credited and paid out by SPIFs

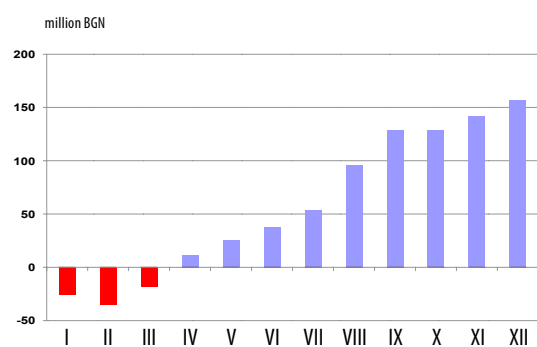
	2005	2006	2007	2008	2009
UPF	0.12	0.25	0.45	0.75	1.11
OPF	0.78	1.02	1.47	1.79	1.87
VPF	28.71	50.93	49.53	126.05	55.63
VPFOS	-	-	-	-	0.03
Total	29.61	52.19	51.45	128.59	58.64

Note: Data is reported in million BGN unless other is quoted.
Source: FSC.

FOCUS TOPIC: Rate of return of the supplementary pension insurance funds in 2009

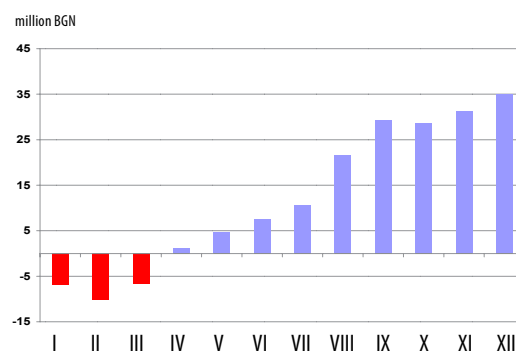
In 2009, the fall in the rate of return of the pension funds compared to that in the previous year, as a result of the global economic crisis, was overcome and the annual rate of return from the management of their assets was positive. The average rate of return, weighted towards the net asset value, of the universal pension funds in 2009 was 7.91%, varying in the individual funds from 5.47% to 13.69%. The rate of return of the occupational funds in 2009 was 7.85%, taking values for the individual funds between 5.17% and 10.74%. The weighted average rate of return of the voluntary pension funds in 2009 was 7.6%, moving by funds in the interval from 2.77% to 9.57%. The reported rate of return of the voluntary pension funds with occupational schemes was 6.03%.

In 2009, the dynamics of the rate of return showed negative values of the income from investment of the resources of the universal funds in the first three months of the year. As of April 2009, this negative trend was surmounted and since that time on, the funds realized a positive and growing investment income, where at the yearend the revenues from investing the resources of the UPFs amounted to BGN 157 million.

Figure 78. Investment income for UPFs

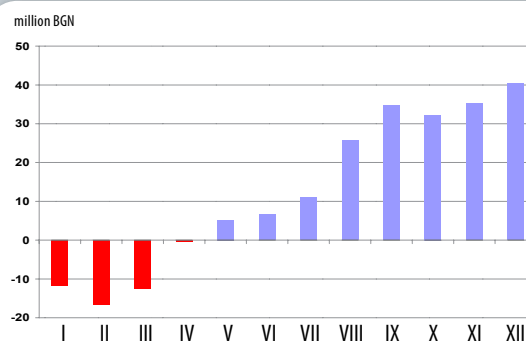
Source: FSC.

The dynamics of the income from investing the resources of the OPFs also followed the trend of the universal funds for the realization of a positive income since the beginning of the second quarter of 2009. The turning point of the negative income again was in April, a factor for that being the positive signals for the capital markets stabilization. At the end of 2009, the accumulated income from the investments of the OPFs resources amounted to BGN 35 million.

Figure 79. Investment income for OPFs

Source: FSC.

In 2009, the income from investing the resources of the voluntary pension funds also followed the general trend. As a result of the more different structure of the aggregated investment portfolio, the change in the negative growth of investment income was realized one month later in comparison with the UPFs and the OPFs.

Figure 80. Investment income for VPFs

Source: FSC.

The positive income from the investment of the resources of the VPFs was with more variable dynamics after the point of its establishment, registering a certain drop on a monthly basis in October. Nevertheless, at the yearend the positive income from investment of the VPFs resources amounted to BGN 40 million.

In 2009, the average rate of return of the managed assets in each type of SPIFs increased as a result of the achieved positive income from investing the fund's resources (see the focus topic Rate of return of the supplementary pension insurance funds in 2009). The growth by types of funds is different, for the UPFs being 0.09 against -0.22 in 2008, for the OPFs it was 0.08 compared to -0.25 in 2008 and for the VPFs it was 0.07, compared to -0.33 in 2008. For all four types of SPIFs, the indicator's values for the individual companies were within the range between 0.06 and 0.10, with the exception of one pension insurance company, whose rate of return of the managed assets in OPFs and UPFs was with ratio respectively 0.12 and 0.14.

Table 53. Rate of return of managed assets of SPIFs

	2008	2009
UPF	-0.22	0.09
OPF	-0.25	0.08
VPF	-0.33	0.07
VPFOS	-1.07	0.08

Note: Data is reported as coefficients. The average value of the indicators is calculated as an arithmetic average of the value of the indicators of the respective SPIFs.

Source: FSC.

During the past year, the participants in SPIFs continued to increase by 3.3%, even though at smaller rates in comparison with 2008 (5.9%). Biggest was the increase of the insured persons in the UPFs, who grew by 4.3%, while the growth of the insured persons in the OPFs was only by 2.6%. In the third pillar of the pension insurance system – the supplementary voluntary pension insurance, a decrease of the number of the insured persons was noted (-1.0%), which was to a large extent due to the negative rate of return of the VPFs in the conditions of the financial crisis.

Table 54. Growth in the number of insured persons by SPIFs

	2008	2009
UPF	6.6	4.3
OPF	6.7	2.6
VPF	1.9	-1.0
VPFOS	-	12.0

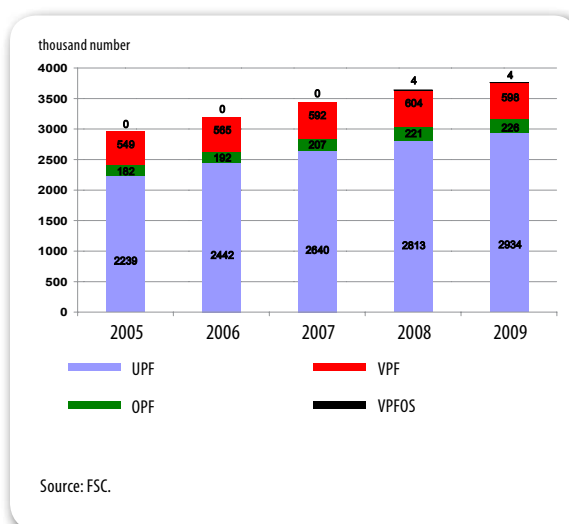
Note: Data is reported in % unless other is quoted. The indicator is calculated as a ratio of the change for the year and the initial value at the beginning of the respective year.

Source: FSC.

The structure of distribution of the insured persons among the supplementary pension insurance funds was preserved relatively unchanged, compared to the preceding year. The greatest share of the insured persons were concentrated in the universal pension funds (77.95%). At the end of 2009, the persons

insured in the voluntary and occupational pension funds held, respectively, a share of 15.89% and 6.03% in the structure of distribution of the insured persons. Smallest remained the share of the insured in the voluntary pension funds with occupational schemes – only 0.13%.

Figure 81. Number of insured persons



The transferred amounts from the individual accounts of the persons who switched their participation in supplementary pension insurance funds grew by 52% in 2009 year-on-year, and the transferred amounts were at the sum of over BGN 88 million. Following the trend through the years, the dynamics of the transferred resources was highest with the UPFs, where they increased by 72.9% in 2009. In the supplementary voluntary pension funds, the transferred amounts decreased by (-53.6%) in 2009.

Table 55. Transferred funds from individual accounts by SPIFs

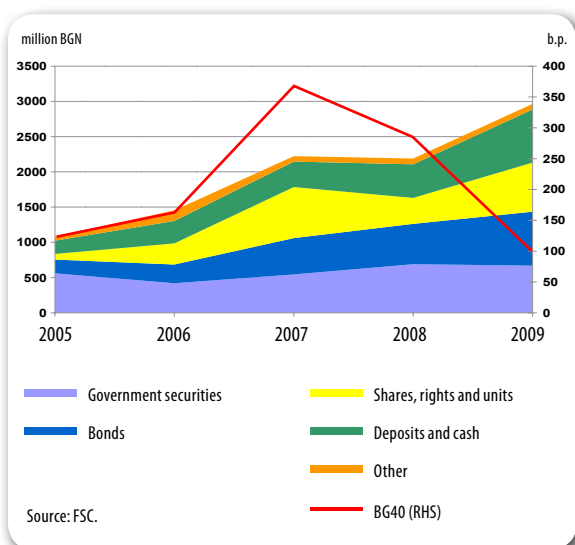
	2005	2006	2007	2008	2009
UPF	10.9	14.1	33.6	38.6	66.7
OPF	12.1	8.6	22.1	16.1	20.1
VPF	2.6	1.7	3.1	3.4	1.6
Total	25.7	24.4	58.8	58.1	88.4

Note: Data is reported in million BGN unless other is quote.
Source: FSC.

In 2009, the SPIFs investments maintained their trend of increase from the years before the financial crisis in Bulgaria, their 35.5% growth in 2009 towards 2008 being commensurate with its values in 2006 and 2007. As a result of the recovered growth rate, the absolute value of the SPIFs investments was BGN 3 billion at the end of 2009. Retained was also the structural division of the invested resources by types of funds, the UPFs being with the highest share (68.79%), followed by the OPFs (14.41%), VPFs (16.75%) and VPFOS (0.05%).

In 2007 the trend of transfer of the invested resources in more risky assets (shares: 32.6%) at the expense of more risk-free (Bulgarian GS: 24.4%, bonds: 23.3% and bank deposits: 16.3%) reached its peak. Major factors for these dynamics were the economic growth during the years, as well as the high earnings, with expected lower risk characteristics. Under the impact of the financial crisis that shifted also over the Bulgarian capital market in 2008, the structure of investments changed towards increase of the share of the more risk-free assets. Upon the first indications for recovery of the investment climate on the financial markets in the second half of 2009, a smooth change was observed in the structure of the SPIFs assets, the share of GS falling to 22.6%, the shares grew to 23.5%, bank deposits reached 25.4% because of the high interest rates, and the bonds relatively retained their percentage, compared to 2008.

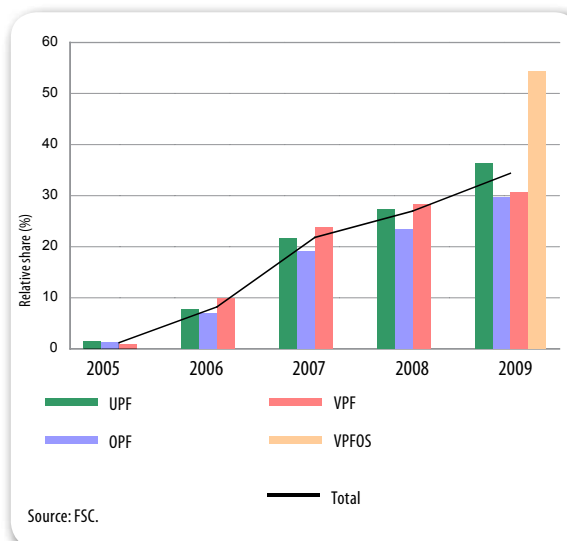
Figure 82. Aggregate investment portfolio structure and BG40



Note: Until 2006 the investments abroad were reported as a separate item, on the chart they are included in Others.

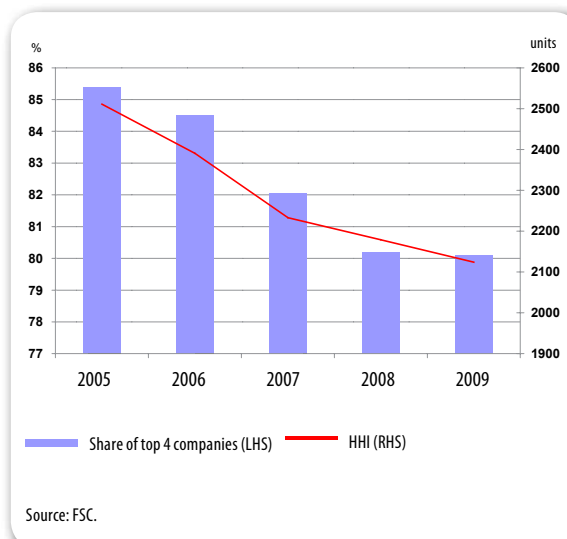
What is noted is the significant increase of the investments abroad, which from 1.22% in 2005 grew to 21.81% in 2007 and reached to 34.38% of the SPIFs balance sheet assets in 2009. This increase was due to several factors – liberalization of the investment regime since the beginning of 2007, lifting of the restriction on investing abroad, Bulgaria's accession to the EU, growth of the fund's assets, and last but not least, the inadequate liquidity of the domestic investments and the lack of sufficiently quality instruments. By reason of it, over one third of the money of the insured persons in 2009 went out of the country, financing the development of foreign economies.

Figure 83. Investments abroad as a percentage of balance sheet assets of SPIFs



At the end of 2009, the share of the top four companies on the market of social insurance services according to their balance assets was at its lowest point (80.1%) for the last five years. The same trend was also marked by The Herfindahl – Hirschman Index (HHI)⁵¹, which declined continuously over the years, reaching a value of 2124, showing still strong concentration on the market of the supplementary pension insurance.

Figure 84. Market concentration of supplementary pension insurance



⁵¹ The Herfindahl – Hirschman Index (HHI) is calculated as a sum of the squares of the market share of each participant in the market, its value varying between 0 and 10 000. In case of value below 1000 units, the market is defined as strongly competitive, between 1 000 and 1 800 units – moderate competitive environment, and over 1 800 units – the market is characterized by strong competition.



Part III

Strategy for Development of the FSC (2010–2012)

III. Strategy for Development of the Financial Supervision Commission (2010 – 2012)

In the exercise of its powers related to the regulation and supervision over the non-banking financial sector for the period 2007 – 2009, the Financial Supervision Commission followed the Development Strategy adopted in 2007. At the end of 2009, the new Strategy for Development of the Financial Supervision Commission for the next three-year period was adopted at a FSC session.

The Strategy of the Financial Supervision Commission (FSC) aims at specifying the main objectives and the relevant approaches for their achievement, to which the state authority for regulation of the non-banking financial sector in the Republic of Bulgaria shall adhere in the exercise of its powers.

Outlined are the basic trends for implementation of effective supervisory activity in a medium-term plan, which aim to unify the regulatory activities within the framework of consistent policy, with preservation of the laid down priorities.

The elaboration of a strategy for efficient supervision targets for harmonizing the regulatory authority's activities with the changing economic environment, the development of the financial activities, products and services and the ensuing amendments to the legal regulations.

In the current period of the supervisory practices unification, the professional challenge which FSC faces is to pursue a regulatory policy which is to be adequate and in consistence with the development of the environment, the single European economic policy and the specifics of the Bulgarian non-banking financial sector.

The renovated strategy takes into account the achieved results and the gained experience from the functioning of the supervision over the securities, regulated markets, insurance, voluntary health insurance and the supplementary pension insurance, the existing international standards and is based on the principle of continuity in the Commission's policies.

Mission

Carrying out of efficient supervision and regulation over the activities of:

- the regulated securities markets, the Central Depository, investment intermediaries, investment and management companies, contractual funds, natural persons performing directly transactions in securities and investment advice, the public companies, special investment purpose companies and the other issuers of securities;
- the insurers, reinsurers, insurance brokers and insurance agents and health insurance companies;
- the supplementary social insurance companies and the funds managed by them;
- financial conglomerates
- for the purpose of protecting the interests of the consumers of non-banking financial services and ensuring stability, predictability, transparency and confidence in the financial markets.

Macroeconomic and institutional environment

The substantial changes in the environment in which the Financial Supervision Commission will carry out its activity in the period 2010-2012 are the new regulatory framework of the single European market and the changed economic conditions necessitating the formation of a new strategic institutional framework for overcoming the crisis and achieving a sustainable growth.

The creation of the European System of Financial Supervisors, consisting of all national supervisory structures, assisted by the European Securities and Markets Authority, the European Insurance and Occupational Pensions Authority and the European Banking Authority, presumes the strengthening of the prudential supervision framework and targets at achieving financial stability, prevention of future crises, harmonization of the regulations and strengthening of the cooperation between the supervisory authorities.

The creation of a European Systemic Risk Board (ESRB) is envisaged, which will monitor for potential risks to the financial stability, arisen from the macroeconomic conjuncture and from the changes in the financial system as a whole.

Logically, the future development of the Bulgarian non-banking financial sector will be dominated by the trends in the development of the common European market.

In the current conditions of uncertainty, originating from the global financial and economic crisis, the Bulgarian non-banking financial sector is characterized with relative stability. There is a potential for dynamic development and the entry of new products and participants on the market as well as for strengthening of the capital markets infrastructure. The recovery of the financial activity and of the investor confidence in the market are the priority objectives of the supervision.

Basic principles

- A balanced regulation and supervision approach, accounting for „costs-benefits”, related to the regulations’ implementation and conformed to the substantial changes in the economic environment;
- Equality, objectivity, orderliness, consistency, impartiality in exercising the supervisory functions;
- Standardization of the supervisory procedures for monitoring and assessment of similar risks in the regulated sector;
- Transparency, predictability, publicity of the activity.

Strategic objectives

- Stability and competitiveness in the functioning of the market of non-banking financial services and protection of consumers by exercising proactive supervision, conformed to the major principles, open for constructive interaction with all stakeholders (prudential supervision on macro and micro level) and assistance for development of the internal regulatory mechanisms and systems;
- Risk-based regulation and supervision;
- Active participation of FSC in the activity of the European Union in the field of regulation and supervision of the non-banking financial sector and integration in the new European architecture of financial regulatory authorities;
- Increase of the public confidence and awareness for the demand and supply of financial products and services, effective coordination and partnership in the development and pursuance of policies;
- The setting up of adequate and flexible structure of FSC, consistent and balanced optimization of the processes, procedures and the used information technologies. Pursuance of effective and purposeful policy for human resources development.

Specific approaches for achievement of the strategic objectives

- **Ensuring stable functioning of the market of non-banking financial services**
 - Pursuance of a supervisory policy based on an ongoing analysis of the market with the purpose of maintaining economic and financial integrity;
 - Identification of potential risks and threats – result of the financial crisis and description of the possible manifestations, ways of prevention and minimization of the effects from them;
 - Development of an early warning system;
 - Timely undertaking of supervisory measures upon indications for occurrence of crises with an origin in the non-banking financial sector;

- Ensuring maximum protection of the consumers of products and services offered by the non-banking financial sector.

■ ***Exercising of proactive supervision, complied with the major principles, open for constructive interaction with all stakeholders***

- Application of balanced supervisory measures, based on the approved international practices in the field of supervision and corporate governance by consistent regulatory policy;
- Adaptation to the integrated European market, improvement of the cooperation, coordination, agreement and trust with the national authorities, with the European institutions and with the participants on the market of non-banking financial products and services;
- Optimization of the off-site supervision as priority in the supervisory activity as well as the procedures of conducting on-site inspections;
- Monitoring and prevention of market anomalies and unlawful conduct on the market of financial instruments as well as realization of better internal interaction between the divisions and the different units in FSC for establishment of abuses by all participants on the market of financial instruments;
- Informing the investment community and the organizations of the market participants of planned by FSC regulatory measures or change in the supervisory policy;
- Active interaction with the professional and public organizations and stimulating the market participants to submit information about systematically occurring difficulties and proposing measures for their overcoming.
- Improvement of the exchange of information and coordination for joint activities with the administrative bodies in Bulgaria, having relation to the supervisory activity on the financial market as well as with the judicial power and the Prosecutor's Office.

■ ***Maintenance of environment stimulating the activity of competitive participants on the financial market and assistance for the development of their self-regulation***

- Ensuring fair and equal treatment of all participants on the market of non-banking financial services, including also of the consumers of services provided by this sector;
- Ensuring local business competitiveness in the conditions of the single European market, through the introduction and establishment of requirements to the supervised entities, comparable to the requirements in the other European states;
- Stimulating the market participants to develop strategies and measures for avoiding the occurrence of systematic risks and overcoming the consequences of their occurrence.
- Maintenance of a regulatory environment, having as its purpose promotion and support of the development of the non-banking financial sector, in accordance with the tendencies in the EU;
- Performance of preliminary assessment of the effect and the establishment of regulatory requirements, resulting in the reduction of the business administrative burden;
- Regular review of the established administrative regimes and provided additional requirements for the supervised entities and undertaking measures for their relief.

■ ***Risk-based regulation and supervision***

- Stage-by-stage development and maintenance of an integrated regulatory framework for the implementation of risk-based supervision by FSC;
- Gaining better knowledge of the different risks, based on a thorough analysis of the past practical experience at local level, as well as on a comparative analysis of the experience of the foreign regulators,

- that adopted this approach, and placing an accent on the most important risks;
 - Development and maintenance of a system assessing the risk for the supervised entities and their monitoring according to the risk they pose for the market for the purpose of assessment update;
 - Application of a risk-oriented approach for supervising the activity of the regulated entities, complied with the economic conjuncture;
 - Development, effective application and perfection of the system (risk matrix) for awarding a risk rating for supervisory purposes to each supervised entity, by assessment of the probability of occurrence of the different types of risks and their effect on the market;
 - Periodic inspection of the risk assessment system for adequacy according to the laid down parameters, as well as its improvement.
- ***Active participation of FSC in the activity of the European Union in the field of regulation and supervision of the non-banking financial sector, integration in the new European architecture of financial regulatory authorities***
- Participation in the process of agreeing the issues concerning the implementation of the new architecture of European financial regulatory and supervisory authorities, as a consequence of the de Larosière report;
 - Active presentation and defense of the FSC's positions at the Level 3 Committees (Committee of European Securities Regulators and the Committee of European Insurance and Occupational Pensions Supervisors until the introduction of the new European regulatory authorities) and at the Level 2 Committees (European Securities Committee and European Insurance and Occupational Pensions Committee). Subsequent active participation in the activities of the new European regulatory and supervisory authorities: European Securities and Markets Authority and European Insurance and Occupational Pensions Authority;
 - Interaction with the institutions of the European Union and participation in the meetings of expert groups with the Council of the European Union and the European Commission on issues related to the non-banking financial sector.
- ***Strengthening FSC's international prestige by maintaining active international positions***
- Participation in the forums of the International Organization of Securities Commissions (IOSCO), as well as development of the possibilities for exchange of supervisory information with the other supervisory authorities within Annex A of the IOSCO Memorandum;
 - Participation in the forums and exchange of information within the International Association of Insurance Supervisors (IAIS) and the International Organization of Pension Supervisors (IOPS);
 - Maintenance of close cooperation with the local regulatory authorities of third countries and applicants for EU membership, with which Bulgaria has increased exchange of financial services, including the arrangement of agreements for cooperation and information sharing with them;
 - Active participation in new projects for institutional strengthening financed under EU programmes and other international donor programs, building up of partnerships with foreign supervisory authorities.
- ***Deepening the integrity within the EU in the exercise of regulatory functions***
- Assistance to the participants in the market of non-banking financial services in their integration on the European market of non-banking financial services and products;
 - Active interaction with the supervised entities, that have initiated a notification procedure, with a view to its timely closing;
 - Implementation of procedures for efficient and timely cooperation and exchange of information between the regulatory authorities of the EU Member States;

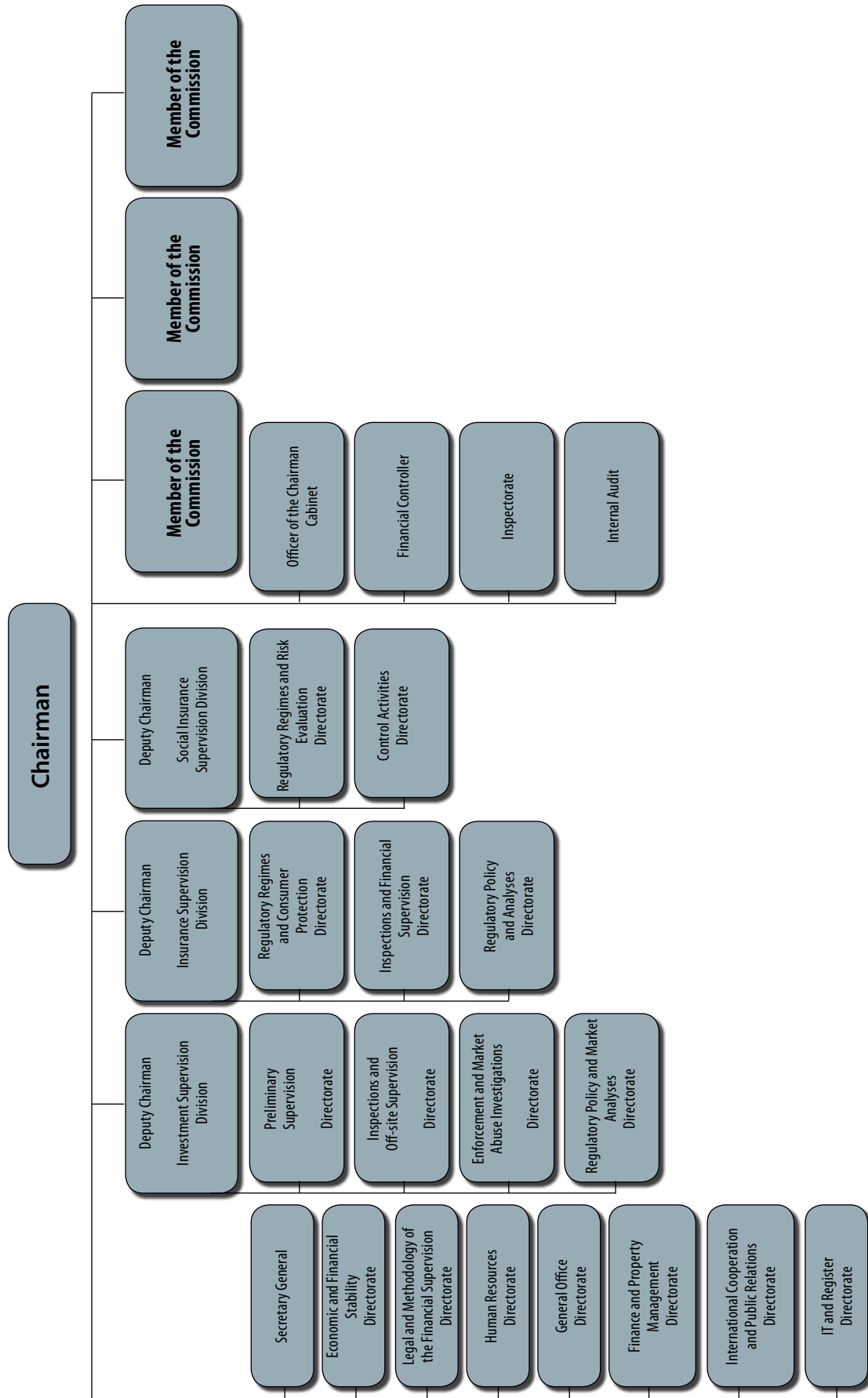
- Increasing the intensity in the information sharing with the relevant competent authorities in the cases of cross-border operating participants in the process of offering non-banking financial services.
- ***Increase of the public confidence in the demand and supply and in financial products and services through raising the general awareness for them***
 - Pursuance of supervisory policy directed to recovery of the demand and the interest in trade with financial instruments;
 - Attracting new participants on the financial market and broadening the offered services and products;
 - Provision of clear and accessible information to the consumers of financial products and services, offered by the non-banking financial sector in observance of the principle of equality;
 - Development of FSC's information policies for enhancement of the financial culture of the consumers of non-banking financial services;
 - Popularizing the FSC's functions, role and activity among the consumers of non-banking financial services.
- ***Policies on interaction with the non-governmental sector, research centers and the media***
 - Creation of a Committee of Stakeholders, through which the industry and non-governmental organizations to be included in the process of improvement of the regulatory environment for the market participants and consumers of non-banking financial services;
 - Maintaining an effective dialogue with the supervised persons and holding of meetings with the management, as well as with their industry organizations whenever substantial problems in the activities are established, with the purpose of their efficient and timely resolving;
 - Development of a procedure for preliminary discussion of the drafts of legislative documents with the interested parties.
- ***Setting up an adequate and flexible FSC structure, consistent and balanced optimization of the processes, procedures and the used information technologies***
 - Increasing the authority's efficiency by team organization of the work and stimulating internal work environment;
 - Development of procedures for resolving issues and problems which concern more than one division through the creation of functional structures and expert groups on the issues and problems, based on close cooperation between the units of the three divisions and the administration;
 - Carrying out of scheduled strategic planning (on an annual basis) as part of the managerial process;
 - Working out a general framework for the development and the organization of a single information system in FSC and optimization of the data flows movement;
 - Information (technological) provision of the transfer to risk-based supervision;
 - Maintaining adequate FSC's technical equipment, in accordance with the tendencies in the IT technologies development;
 - Creation and maintenance of databases for the incoming financial and general economic information, which is to increase the effectiveness of the supervision and analysis of the monitored markets and the participants thereon;
 - Unification, standardization and centralization of the kept registers.
- ***Implementation of effective and purposeful policy and practices on human resources development, oriented to the consumers of non-banking financial services and the non-banking financial sector***
 - Turning the human resources management into a priority and purposeful process for selection of personnel, its training, motivation and growth, by creation of new modern policy in relation to human resources;

- Effective fulfillment of the organizational objectives with rational use of the public means, proceeding from the assumption that people are key factor for the institutional prestige and the competitive advantages of any organization;
- Effective human resources management through improvement of the quality of performance and operative perfection in favor of the public interest;
- Creation of conditions for career growth of leaders, bearers of values and models of conduct, which contribute to the prestige of the FSC's operation;
- Stimulating teamwork and continuity in planning and fulfillment of the tasks, considering the significant effect from improvement of the quality and perfection of the human resources management system;
- Improvement and perfection of the corporate governance, increase of the staff professionalism and qualification on the basis of comparative analysis;
- Development of objective systems for evaluation, payment and stimulation of the individual employee's contribution.

Policy of the strategy resource provision

The supervisory authority must have the required financial, human and information resources, complied with the exercise of the supervision according the applicable legislative documents as well as with the strategic objectives underlying the strategy. A major principle of the policy for resource provision of the supervisory authority's activity is the principle of rational resource management, including a function of planning, application and assessment of the achieved, criteria for the effectiveness measurement and evaluation.

Organizational chart of the FSC



Annexes

Annex I.2.1A. Organization and management of new contractual funds by management companies

Management company	Contractual fund
ULTIMA CAPITAL MANAGEMENT	ULTIMA DIVIDEND
ULTIMA CAPITAL MANAGEMENT	ULTIMA BG 30
NEWWAY ASSET MANAGEMENT	NEWWAY NEW EUROPE
NEWWAY ASSET MANAGEMENT	NEWWAY INDEX PLUS
MUNICIPAL BANK ASSET MANAGEMENT	MUNICIPAL BANK – BALANCED
MUNICIPAL BANK ASSET MANAGEMENT	MUNICIPAL BANK – PERSPECTIVE
OVERON FINANCE	OVERON PRESTO
ELANA FUND MANAGEMENT	ELANA EVROFUND
ALFA ASSET MANAGEMENT	ALFA MONEY MARKET
RAIFFEISEN ASSET MANAGEMENT (BULGARIA)	FUND RAIFFEISEN (BULGARIA) PROTECTED INVESTMENT IN EUR
EXPAT ASSET MANAGEMENT	EXPAT BONDS

Annex I.2.1B. Investment intermediaries, CIS, public companies, issuers and SIPC, entered and deleted in the public register kept by FSC in 2009

Company	Type
Companies that have been granted license in 2009	
TRADEVIL EAD	investment intermediary
ADAMANT CAPITAL MANAGEMENT EAD	management company
INVEST CAPITAL EAD	management company
ALTERON REIT	SIPC
Companies filed as public in the register kept by FSC	
ALTERON REIT	SIPC
ORPHEUS CLUB WELLNESS AD	public company
Companies that obtained refusal for the issue of license during the reporting period	
EUROPE INVEST AD	management company
Companies whose licence was withdrawn in 2009	
BORA INVEST AD	investment intermediary
DZI INVEST AD	investment intermediary
KD SECURITIES AD	investment intermediary
ELANA EVROFUND AD	investment intermediary
EVER INVEST	contractual fund
ZAGORA FINACORP BALANCED FUND	contractual fund
ALFA PROPERTY 1 REIT	SIPC
CAPITAL DIRECT-1 SPV	SIPC
Companies deleted from the register	
<i>Deleted after deletion from the Commercial Register due to completion of procedure of liquidation or bankruptcy</i>	
BUKET AD	public company
ENERGOCABLE AD	public company
KJUSTENDILSKI INDUSTRIALEN PARK AD	public company
STOMANA AD	public company
HYUNDAI FINANCE SPV	Issuer
<i>Deleted after a tender offer carried out under Art. 119, para 1, Item 3 of LPOS</i>	
BALKAN PROGETTI MANAGEMENT EAD	public company
VELPA -91 AD	public company
ZINO AD	public company
INO AD	public company
MESOKOMBINAT-BURGAS AD	public company
NEZAVISIMOST – 40 AD	public company
PETAR KARAMINCHEV AD	public company
RILA – BOROVETS AD	public company
SVINEVADSTVO STAMBOLOVO AD	public company
SERDIKOM AD	public company
FAIRPLAY RESIDENTIAL PROPERTIES 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 filed in the register</i>	
ZAGORA FINACORP BALANCED FUND	issuer
NLB BANK WEST-EAST AD	issuer
DOBRICH MUNICIPALITY	issuer
TARGOVSKA LIGA – NACIONALEN APTECHEN CENTAR AD	issuer
<i>Deleted on their own initiative in the existence of some the circumstances under Art. 18 of Ordinance № 22</i>	
BALKANTOURIST ELITE AD	public company
SOFIA MEL AD	public company
CIGARETTE FACTORY – PLOVDIV AD	public company
<i>Deleted on the initiative of the Deputy Chairperson, § 4, para 2 of the Additional Provisions of Ordinance № 22</i>	
VHIM – ZDRAVE AD	issuer
DARVOOBRABOTVANE – VT AD	issuer
Companies to whom a refusal was issued for deletion from the register	
BALKAN PROGETTI MANAGEMENT EAD	public company
PULP AND PAPER INSTITUTE SA	public company
POLYANITSA AD	public company

Annex I.2.1C. Prospectuses for public offering of securities

Company	Public offering	Type of securities
Approved prospectuses in 2009		
BALKAN AND SEA PROPERTIES REIT	initial	shares
ENERGETICS AND ENERGY SAVINGS FUND – EESV REIT	initial	shares
CAPITAL MANAGEMENT SPV	initial	shares
CCB REAL ESTATE FUND REIT	initial	shares
OPTELA-LASER TECHNOLOGIES AD	initial	shares
BLACK SEA INVESTMENT REIT	initial	shares
ORPHEUS CLUB WELLNESS AD	initial	shares
CHIMIMPORT AD	initial	shares
ZAD BULSTRAD VIENNA INSURANCE GROUP	initial	shares
ARKO TOWERS REIT	initial	shares
HEALTH AND WELLNESS REIT	initial	shares
BULGARIAN RIVER SHIPPING AD	initial	shares
BG AGRO AD	initial	shares
ENEMONA AD	initial	preference convertible shares
ENEMONA AD	initial	warrants
ADVERTISING PRODIGY AD	admission to trading	shares
INTERSKY AD	admission to trading	shares
SOPHARMA AD 1	admission to trading	shares
WELCOME HOLDINGS AD	admission to trading	shares
VITA MI HOLDINGS AD	admission to trading	shares
ENERGONI AD	admission to trading	shares
BRYAST-D AD	admission to trading	shares
GLOBE PHARM AD	admission to trading	shares
ONI HOLDINGS AD	admission to trading	shares
EASY BROKERS AD	admission to trading	shares
BOGATSA.COM AD	admission to trading	shares
MAYFAIR GROUP AD	admission to trading	shares
ITA BULGARIA ENERGY INVESTMENTS AD	admission to trading	shares
GALATA INVESTMENT COMPANY AD	admission to trading	shares
ALFA BULGARIA AD	admission to trading	shares

*The approved prospectus is about admission to trading on a regulated market in the European Union

T B I CREDIT EAD	admission to trading	secured corporate bonds
EUROCREDIT EAD	admission to trading	unconvertible secured corporate bonds
ASENOVA KREPOST AD	admission to trading	unconvertible secured corporate bonds
SOFIA COMMERCE CREDIT GROUP AD	admission to trading	unconvertible secured corporate bonds
E R G CAPITAL – 3 REIT	admission to trading	unconvertible secured corporate bonds
AVTO UNION GROUP EAD	admission to trading	unconvertible unsecured corporate bonds
ALEN MAK AD	admission to trading	unconvertible secured corporate bonds
ALFA FINANCE HOLDING AD	admission to trading	unconvertible secured corporate bonds
HEALTH AND WELLNESS REIT	admission to trading	unconvertible secured corporate bonds
FINANCE CONSULTING AD	admission to trading	unconvertible secured corporate bonds
Prospectuses to which refusal for approval was issued		
SOFIA COMMERCE CREDIT GROUP AD	admission to trading	bonds
ARKO TOWERS REIT	initial	shares

Annex II.2.1A. List of the banks - investment intermediaries

Banks investment intermediaries
ALLIANZ BANK BULGARIA AD
DSK BANK EAD
PIRAEUS BANK BULGARIA AD
BNP PARIBAS /BULGARIA/ AD
BULGARIAN DEVELOPMENT BANK AD
EMPORIKI BANK – BULGARIA EAD
ING BANK N.V. – BRANCH SOFIA
INTERNATIONAL ASSET BANK AD
MKB UNIONBANK AD-SOFIA
UNITED BULGARIAN BANK AD
MUNICIPAL BANK AD
RAIFFEISENBANK /BULGARIA/ EAD
CITIBANK N. A. –SOFIA BRANCH
SOCIETE GENERALE EXPRESSBANK AD
ECONOMIC AND INVESTMENT BANK AD /EIBANK/
CB BULGARIAN-AMERICAN CREDIT BANK AD - SOFIA
CB INVESTBANK AD-SOFIA
CB CORPORATE COMMERCIAL BANK AD - SOFIA
CB FIRST INVESTMENT BANK AD - SOFIA
CB CENTRAL COOPERATIVE BANK AD-SOFIA
TOKUDA BANK AD
D COMMERCE BANK AD
UNICREDIT BULBANK AD
PRIVATE ENTREPRENEURIAL BANK TEXIM AD
EUROBANK E F G BULGARIA AD

Annex II.2.1.3A. Special investment purpose companies with registered capital over BGN 1 million for the period 2008 -2009

Company	Registered capital (BGN thousand)	
	as at 31.12.2008	as at 31.12.2009
ADVANCE-TERRAFUND REIT	85110	85110
BULGARIA REAL ESTATE FUND REIT	60450	60450
ELARG AGRICULTURAL LAND OPPORTUNITY FUND REIT (FORMER ELANA AGRICULTURAL LAND OPPORTUNITY FUND REIT)	59716	59716
FAIRPLAY PROPERTIES REIT	55825	55825
PRIME PROPERTY BG REIT	35707	35707
AGRO FINANCE REIT	32220	32220
AGRICULTURAL LAND FUND MEL INVEST REIT	27962	27962
BENCHMARK PROPERTIES FUND REIT	23395	23395
E R G CAPITAL-3 REIT	21000	21000
BLACK SEA INVESTMENT REIT	14950	20930
AKTIV PROPERTIES REIT	19728	19728
AGROENERGY REIT	18500	18500
BULLAND INVESTMENTS REIT	13018	13018
SOPHARMA PROPERTIES REIT	11700	11700
P R C REIT	5850	11700
PARK REIT	9720	9720
EXCLUSIVE PROPERTY REIT	9452	9452
UNIVERSAL PROPERTIES REIT	6500	6500
BALKAN AND SEA PROPERTIES REIT	650	5333
INTERCAPITAL PROPERTY DEVELOPMENT REIT	4824	4824
EXPAT BETA REIT	4343	4343
E R G CAPITAL -2 REIT	3450	3450
E R G CAPITAL -1 REIT	3000	3000
HEALTH AND WELLNESS REIT	975	2478
CITY DEVELOPMENT REIT	2198	2198
EXPAT PROPERTIES REIT	2000	2000
FORUCOM FUND REAL ESTATES REIT	1810	1810
LIAM REIT	1700	1700
INVEST PROPERTY REIT	1666	1666
INVESTMENT PROPERTIES REIT (FORMER KOLOS-1 REIT)	1603	1603
LYUK REIT	1500	1500
IMOTI DIRECT REIT	0	1500
ENERGETICS AND ENERGY SAVINGS FUND – EESV REIT	972	1303
ALFA CREDIT SPV	1300	1300
CCB REAL ESTATE FUND REIT	650	1077

Annex II.2.1.3B. Special investment purpose companies with equity over BGN 1 million for the period 2008 -2009

Company	Equity (BGN thousand)	
	as at 31.12.2008	as at 31.12.2009
ADVANCE-TERRAFUND REIT	160508	154419
BULGARIA REAL ESTATE FUND REIT	82556	75760
FAIRPLAY PROPERTIES REIT	80139	74515
ELARG AGRICULTURAL LAND OPPORTUNITY FUND REIT (FORMER ELANA AGRICULTURAL LAND OPPORTUNITY FUND REIT)	70975	67868
PRIME PROPERTY BG REIT	64333	53652
AGRO FINANCE REIT	44750	44861
AGRICULTURAL LAND FUND MEL INVEST REIT	33350	35341
BLACK SEA INVESTMENT REIT	27407	33150
BENCHMARK PROPERTIES FUND REIT	31055	28787
AKTIV PROPERTIES REIT	30454	27725
E R G CAPITAL-3 REIT	28405	27338
BALKAN AND SEA PROPERTIES REIT	3903	26233
CCB REAL ESTATE FUND REIT	2317	25305
ARKO TOWERS REIT (FORMER SINGULAR REIT)	21230	24591
AGROENERGY REIT	23258	21694
SOPHARMA PROPERTIES REIT	25920	20961
INTERCAPITAL PROPERTY DEVELOPMENT REIT	16275	20844
P R C REIT	8348	17768
BULLAND INVESTMENTS REIT	17157	17358
UNIVERSAL PROPERTIES REIT	39508	15999
PARK REIT	16204	15772
CAPITAL MANAGEMENT SPV	4218	13870
H B G INVESTMENT PROPERTY FUND REIT	8351	11096
QUANTUM DEVELOPMENTS REIT	9596	10087
EXCLUSIVE PROPERTY REIT	7130	6493
E R G CAPITAL -2 REIT	5792	5623
E R G CAPITAL -1 REIT	4448	4377
EXPAT BETA REIT	4342	3844
INVEST PROPERTY REIT	3546	3597
INVESTMENT PROPERTIES REIT (FORMER KOLOS-1 REIT)	3119	3404
BULGARI RESERVE PROPERTIES REIT	13821	3128
TURIN PROPERTIES REIT	1081	2746
ALFA CREDIT SPV	2979	2494
ALFA PROPERTY 1 REIT	3653	2471
LYUK REIT	2648	2270
ENERGETICS AND ENERGY SAVINGS FUND – EESV REIT	1548	2203
LIAM REIT	2319	2023
EXPAT PROPERTIES REIT	1998	1899
FORUCOM FUND REAL ESTATES REIT	1873	1865
IMOTI DIRECT REIT	0	1493
SOPHARMA BUILDINGS REIT	1455	1454
DIT PROPERTY REIT	1432	1422
BALKAN PROPERTY INSTRUMENTS REIT	530	1211
PALDIN LINER GROUP REIT	1685	1101
ULPINA SPV	923	1014

Annex II. 2.1.4A. Issues of debt securities in 2009

Public company/Issuer	Amount of the issue (BGN thousand)	Number of securities	Currency	Coupon/Interest	Term	Maturity
TBI CREDIT EAD	6000	6000	BGN	8% ANNUAL	36	29.10.2011
EUROCREDIT EAD	1000	1000	BGN	COUPON AT THE RATE OF THE 6-MONTH EURIBOR + A SURCHARGE OF 500 BASIS POINTS, BUT NOT LESS THAN 8% ON ANNUAL BASIS	60	14.12.2011
ASENOVA KREPOST AD	6000	1000	EUR	11 % ON ANNUAL BASIS	72	30.01.2015
SOFIA COMMERCE CREDIT GROUP AD	1000	1000	EUR	10,75 % ON ANNUAL BASIS	36	20.09.2010
ERG CAPITAL-3 REIT	6514	1000	EUR	10 % ON ANNUAL BASIS	36	12.03.2012
AVTO UNION GROUP EAD	7500	1000	EUR	9,5 % ON ANNUAL BASIS	60	14.04.2014
ALEN MAK AD	592	1000	EUR	11 % ON ANNUAL BASIS	27	26.06.2011
HEALTH AND FINANCE REIT	15000	1000	EUR	8,5 % ON ANNUAL BASIS	60	17.03.2014
ALFA FINANCE HOLDING AD	8000	1000	EUR	8,5 % ON ANNUAL BASIS	60	19.05.2014
FINANCE CONSULTING EAD	10000	1000	EUR	9 % ON ANNUAL BASIS	84	19.08.2016

Annex II.2.1.7A. Financial statements of the Investor Compensation Fund for the period 2008 -2009

Financial Status Report for the year ended 31 December, 2009	In BGN thousand as at 31.12.2008	In BGN thousand as at 31.12.2009
ASSETS		
NON-CURRENT ASSETS		
PROPERTY, PLANT AND EQUIPMENT	10	8
INTANGIBLE ASSETS	13	10
TOTAL NON-CURRENT ASSETS	23	18
CURRENT ASSETS		
INTEREST RECEIVABLE	91	241
OTHER RECEIVABLES	3	3
GOVERNMENT SECURITIES	1034	6114
CASH AT BANK	3376	748
CASH IN HAND	33	22
TOTAL CURRENT ASSETS	4537	7128
TOTAL ASSETS	4560	7146
CAPITAL		
COMPENSATION RESERVE	2488	4517
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	2029	2603
TOTAL CAPITAL	4517	7120
LIABILITIES		
CURRENT LIABILITIES		
TRADE LIABILITIES	1	
LIABILITIES TO THE STAFF AND INSURANCE INSTITUTIONS	4	5
PROFIT TAX LIABILITIES		21
OTHER LIABILITIES	38	
TOTAL CURRENT LIABILITIES	43	26
TOTAL CAPITAL AND LIABILITIES	4560	7146
Comprehensive income statement for the year ended 31 December, 2009	In BGN thousand as at 31.12.2008	In BGN thousand as at 31.12.2009
FINANCIAL REVENUES	210	664
EXPENSES FOR MATERIALS	-7	-7
EXPENSES FOR OUTSIDE SERVICES	-66	-74
DEPRECIATION COSTS	-6	-6
EXPENSES REGARDING THE STAFF	-137	-161
FINANCIAL EXPENSES	-24	-57
OTHER EXPENSES	-8	-9
PRE-TAX PROFIT/ LOSS	-38	350
TAX EXPENSES*		-21
RESULT / PROFIT/ LOSS/ FOR THE YEAR	-38	329
OTHER COMPREHENSIVE INCOME		
REVENUES FROM INITIATION AND ANNUAL CONTRIBUTIONS	2067	2274
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	2029	2 603

Note: The Investor Compensation Fund is a tax liable person only with regard to the income received under Art. 12 para 2 of the Corporate Income 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.

Statement of the changes in the own capital for the period 01.01.2009 – 31.12.2009		BGN thousand	
	RESERVES FOR INVESTORS COMPENSATION	TOTAL RESERVES	TOTAL CAPITAL
BALANCE AS OF 01 JANUARY, 2008	2488	2488	2488
CHANGES IN THE ACCOUNTING POLICY, ERRORS, ETC.			
RECALCULATED BALANCE AS OF 01 JANUARY, 2008	2488	2488	2488
CHANGES IN THE OWN CAPITAL FOR 2008			
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	2029	2029	2029
OTHER CHANGES			
BALANCE AS OF 31 DECEMBER, 2008	4517	4517	4517
CHANGES IN THE OWN CAPITAL FOR 2009			
RESULT / PROFIT/ FOR THE YEAR	329	329	329
REVENUES FROM INITIATION AND ANNUAL CONTRIBUTIONS	2274	2274	2274
BALANCE AS OF 31 DECEMBER, 2009	7120	7120	7120

Cash flow statement /under the direct method/ for 2009	BGN thousand the year ended 31.12.2008	BGN thousand the year ended 31.12.2009
CASH FLOWS FROM OPERATING ACTIVITIES		
PROCEEDS FROM INITIATION AND ANNUAL CONTRIBUTIONS BY INVESTORS	2067	2277
AMOUNTS PAID TO INVESTORS*	-	-39
CASH PAYMENTS TO SUPPLIERS	-85	-82
CASH PAYMENTS TO THE STAFF	-117	-140
CASH PAYMENTS FOR SOCIAL SECURITY	-17	-19
CASH PAYMENTS TO THE BUDGET	-1	-1
PAID TAXES ON THE INCOME OF NATURAL PERSONS	-12	-15
NET CASH FLOW GENERATED FROM OPERATING ACTIVITIES	1835	1981
CASH FLOWS FROM INVESTING ACTIVITIES		
PROCEEDS FROM MATURED GOVERNMENT SECURITIES	-	1056
CASH PAYMENTS UPON ACQUISITION OF GOVERNMENT SECURITIES	-1081	-5979
PROCEEDS AGAINST COUPONS OF GOVERNMENT SECURITIES	24	118
INTEREST RECEIVED ON DEPOSITS	153	185
NET CASH FLOW USED IN THE INVESTING ACTIVITIES	-904	-4620
INCREASE IN CASH AND CASH EQUIVALENTS	931	-2639
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	2478	3409
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	3409	770

Note: In item „Amounts paid to investors“ are stated refunded, paid in excess amounts of the annual and initiation contributions of investment intermediaries.

Annex II.2.2.1A. Gross premiums written of non-life insurance companies

Insurers	2009		2008		Growth / Drop (%)
	BGN thousand	Market share (%)	BGN thousand	Market share (%)	
ZAD BULSTRAD VIENNA INSURANCE GROUP	209 490	14.4	221 938	14.6	-5.6
DZI – GENERAL INSURANCE EAD	201 946	13.8	202 151	13.3	-0.1
ZK LEV INS AD	168 057	11.5	158 561	10.5	6.0
ZAD ARMEEZ AD	148 239	10.2	145 968	9.6	1.6
ZAD ALLIANZ BULGARIA	141 757	9.7	165 031	10.9	-14.1
ZD BUL INS AD	130 830	9.0	155 002	10.2	-15.6
ZD EUROINS AD	74 286	5.1	82 345	5.4	-9.8
ZAD ENERGIA	67 226	4.6	57 799	3.8	16.3
ZD UNIKA AD	63 063	4.3	95 974	6.3	-34.3
GENERALI INSURANCE AD	56 984	3.9	62 381	4.1	-8.7
INSURANCE COMPANY BULGARSKI IMOTI AD	50 183	3.4	52 202	3.4	-3.9
ZAD VICTORIA	49 150	3.4	44 127	2.9	11.4
INTERAMERICAN BULGARIA ZEAD	30 447	2.1	20 258	1.3	50.3
MUNICIPAL INSURANCE COMPANY AD	28 772	2.0	14 203	0.9	102.6
HDI ZAD	19 232	1.3	18 860	1.2	2.0
GROUPAMA INSURANCE EAD	6 814	0.5	8 328	0.5	-18.2
UB8-A I G ZD AD	6 814	0.5	5 936	0.4	14.8
BULGARIAN EXPORT INSURANCE AGENCY EAD	5 624	0.4	5 042	0.3	11.5
GRAWE BULGARIA GENERAL INSURANCE EAD	150	0.0	73	0.0	105.5
TOTAL:	1 459 064	100.0	1 516 179	100.0	-3.8

Annex II.2.2.1B. Incurred claims and paid compensations by non-life insurance companies

Insurers	2009				2008			
	Incurred claims (BGN thousand)	Share (%)	Paid claims (BGN thousand)	Share (%)	Incurred claims (BGN thousand)	Share (%)	Paid claims (BGN thousand)	Share (%)
ZAD BULSTRAD VIENNA INSURANCE GROUP	119 575	15.7	115 080	16.9	126 155	19.5	115 389	16.4
DZI – GENERAL INSURANCE EAD	137 039	18.0	112 857	16.6	131 031	16.1	95 084	17.1
ZAD ALLIANZ BULGARIA	64 149	8.4	82 065	12.1	79 839	10.6	62 502	10.4
ZD BUL INS AD	59 653	7.8	60 450	8.9	66 658	10.3	60 553	8.7
ZAD ARMEEZ AD	76 155	10.0	62 130	9.1	59 319	7.8	45 794	7.7
ZK LEV INS AD	74 645	9.8	54 090	8.0	57 879	6.4	37 751	7.5
ZD UNIKA AD	50 628	6.7	53 802	7.9	66 100	9.7	57 020	8.6
ZD EUROINS AD	38 115	5.0	37 862	5.6	46 162	5.8	34 305	6.0
INSURANCE COMPANY BULGARSKI IMOTI AD	40 848	5.4	28 158	4.1	40 779	3.8	22 449	5.3
GENERALI INSURANCE AD	30 986	4.1	27 287	4.0	42 766	4.3	25 377	5.6
ZAD VICTORIA	26 100	3.4	19 426	2.9	22 191	2.4	13 943	2.9
INTERAMERICAN BULGARIA ZEAD	10 728	1.4	9 197	1.4	9 852	1.0	5 846	1.3
HDI ZAD	14 921	2.0	8 179	1.2	9 385	1.2	6 994	1.2
MUNICIPAL INSURANCE COMPANY AD	9 442	1.2	3 838	0.6	2 869	0.4	2 480	0.4
ZAD ENERGIA	3 428	0.5	2 376	0.3	3 988	0.5	2 945	0.5
BULGARIAN EXPORT INSURANCE AGENCY EAD	2 643	0.3	1 876	0.3	1 387	0.3	1 492	0.2
GROUPAMA INSURANCE EAD	1 733	0.2	730	0.1	737	0.0	290	0.1
UBB-A I G ZD AD	511	0.1	269	0.0	614	0.0	217	0.1
GRAWE BULGARIA GENERAL INSURANCE EAD	15	0.0	9	0.0	4	0.0	2	0.0
TOTAL:	761 314	100.0	679 681	100.0	767 715	100.0	590 433	100.0

Annex II.2.2.1C. Technical and financial result of the non-life insurance companies

Insurers	Technical result (BGN thousand)		Financial result (BGN thousand)	
	2009	2008	2009	2008
ZAD ARMEEZ AD	1 439	318	2 975	1 937
ZAD ALLIANZ BULGARIA	12 101	9 928	11 018	9 070
ZAD BULSTRAD VIENNA INSURANCE GROUP	581	1 751	95	2 075
ZD BUL INS AD	8 946	17 043	5 775	9 864
INSURANCE COMPANY BULGARSKI IMOTI AD	-5 309	-5 017	753	-3 642
BULGARIAN EXPORT INSURANCE AGENCY EAD	1 539	1 425	2 449	1 722
ZD UNIKA AD	-5 977	-4 954	-2 168	-3 526
DZI – GENERAL INSURANCE EAD	-32 459	-33 956	-25 173	-23 588
ZD EUROINS AD	-2 631	-10 526	-1 369	-13 407
ZAD ENERGIA	31 636	25 147	24 015	20 695
INTERAMERICAN BULGARIA ZEAD	-1 854	-2 924	-2 301	-2 863
ZK LEV INS AD	-12 100	12 378	7 323	11 842
ZAD VICTORIA	-5 367	-1 525	-3 060	6
MUNICIPAL INSURANCE COMPANY AD	822	118	351	380
GENERALI INSURANCE AD	965	-16 432	5 086	-16 509
HDI ZAD	48	-231	225	199
GROUPAMA INSURANCE EAD	-1 347	556	-963	750
UBB-A I G ZD AD	1 406	-875	1 589	-1 363
GRAWE BULGARIA GENERAL INSURANCE EAD	-175	-219	69	48
TOTAL:	-7 736	-7 995	26 689	-6 310

Annex II.2.2.1D. Asset amount and equity of the non-life insurance companies

Insurers	Asset amount (BGN thousand)		Change (%)	Equity (BGN thousand)		Change (%)
	2009	2008		2009	2008	
ZAD ARMEEZ AD	156 133	140 920	10.8	35 159	31 644	11.1
ZAD ALLIANZ BULGARIA	175 476	178 075	-1.5	54 929	43 320	26.8
ZAD BULSTRAD VIENNA INSURANCE GROUP	236 093	225 621	4.6	59 088	49 382	19.7
ZD BUL INS AD	139 146	137 555	1.2	34 441	36 530	-5.7
INSURANCE COMPANY BULGARSKI IMOTI AD	82 839	60 619	36.7	7 547	6 552	15.2
BULGARIAN EXPORT INSURANCE AGENCY EAD	20 901	17 794	17.5	16 942	14 807	14.4
ZD UNIKA AD	71 391	72 372	-1.4	15 465	17 809	-13.2
DZI – GENERAL INSURANCE EAD	329 306	278 690	18.2	85 606	56 313	52.0
ZD EUROINS AD	62 793	63 200	-0.6	13 628	14 997	-9.1
ZAD ENERGIA	89 601	78 569	14.0	55 015	51 629	6.6
INTERAMERICAN BULGARIA ZEAD	30 294	18 496	63.8	11 176	6 894	62.1
ZK LEV INS AD	192 921	156 257	23.5	57 955	50 632	14.5
ZAD VICTORIA	48 264	41 037	17.6	8 276	11 335	-27.0
MUNICIPAL INSURANCE COMPANY AD	32 324	21 698	49.0	9 943	10 349	-3.9
GENERALI INSURANCE AD	88 527	80 207	10.4	22 237	6 180	259.8
HDI ZAD	21 703	20 653	5.1	7 878	7 653	2.9
GROUPAMA INSURANCE EAD	11 891	11 200	6.2	7 059	7 821	-9.7
UBB-A I GZD AD	13 985	11 725	19.3	9 439	7 692	22.7
GRAWE BULGARIA GENERAL INSURANCE EAD	7451	7 007	6.3	7 295	6 946	5.0
TOTAL:	1 811 039	1 621 695	11.7	519 077	438 485	18.4

Annex II.2.2.2A Gross premiums written of life insurance companies

Insurers	31.12.2009		31.12.2008		Growth / Drop (%)
	BGN thousand	Market share (%)	BGN thousand	Market share (%)	
ZAD ALLIANZ BULGARIA LIFE AD	47 154	21.2	58 948	21.8	-20.0
ZAD DZI	34 686	15.6	40 972	15.2	-15.3
ZAD BULSTRAD LIFE VIENNA INSURANCE GROUP AD	25 026	11.3	24 397	9.0	2.6
ALICO BULGARIA LIFE INSURANCE COMPANY EAD	22 418	10.1	31 818	11.8	-29.5
ZK UNIKA LIFE AD	18 378	8.3	37 784	14.0	-51.4
GRAWE BULGARIA LIFE INSURANCE EAD	15 055	6.8	16 887	6.2	-10.8
UBB – ALICO LIFE INSURANCE COMPANY AD	14 618	6.6	13 074	4.8	11.8
GENERALI LIFE INSURANCE AD	14 059	6.3	18 509	6.8	-24.0
SINDIKALNA VZK	9 993	4.5	7 425	2.7	34.6
GROUPAMA LIFE INSURANCE EAD	6 757	3.0	9 344	3.5	-27.7
ZAD SOGELIFE BULGARIA AD	5 328	2.4	1 768	0.7	201.4
ZD KD LIFE AD	2 340	1.1	2 803	1.0	-16.5
LIFE INSURANCE INSTITUTE AD	1 888	0.8	1 137	0.4	66.1
ZAED CCB LIFE	1 637	0.7	910	0.3	79.9
LIFE INSURANCE COMPANY BULGARSKI IMOTI AD	1 517	0.7	4 152	1.5	-63.5
INTERAMERICAN BULGARIA LIFE INSURANCE EAD	1 404	0.6	60	0.0	2240.0
VZK DOBRUDZHA - M - LIFE	169	0.1	259	0.1	-34.7
TOTAL:	222 427	100.0	270 247	100.0	-17.7

Annex II.2.2.2B. Paid claims by life insurance companies

Insurers	31.12.2009		31.12.2008		Change (%)
	BGN thousand	Share (%)	BGN thousand	Share (%)	
ZAD DZI	24 653	27.1	27 825	30.2	-11.4
ZAD ALLIANZ BULGARIA LIFE AD	18 557	20.4	15 254	16.5	21.7
ZK UNIKA LIFE AD	14 636	16.1	16 434	17.8	-10.9
GENERALI LIFE INSURANCE AD	9 006	9.9	12 984	14.1	-30.6
ZAD BULSTRAD LIFE VIENNA INSURANCE GROUP AD	9 461	10.4	7 842	8.5	20.6
ALICO BULGARIA LIFE INSURANCE COMPANY EAD	4 583	5.0	3 704	4.0	23.7
GRAWE BULGARIA LIFE INSURANCE EAD	1 928	2.1	1 187	1.3	62.4
GROUPAMA LIFE INSURANCE EAD	1 727	1.9	1 158	1.3	49.1
UBB – ALICO LIFE INSURANCE COMPANY AD	2 555	2.8	2 050	2.2	24.6
LIFE INSURANCE COMPANY BULGARSKI IMOTI AD	758	0.8	1 623	1.8	-53.3
SINDIKALNA VZK	585	0.6	624	0.7	-6.3
LIFE INSURANCE INSTITUTE AD	1 313	1.4	744	0.8	76.5
ZAD SOGELIFE BULGARIA AD	563	0.6	60	0.1	838.3
ZAED CCB LIFE	558	0.6	275	0.3	102.9
VZK DOBRUDZHA - M - LIFE	206	0.2	468	0.5	-56.0
ZD KD LIFE AD	36	0.0	2	0.0	1700.0
INTERAMERICAN BULGARIA LIFE INSURANCE EAD	7	0.0	0	0.0	-
TOTAL:	91 132	100.0	92 234	100.0	-1.2

Annex II.2.2.2C. Technical and financial result of life insurance companies

Insurers	TECHNICAL RESULT (BGN thousand)		FINANCIAL RESULT (BGN thousand)	
	2009	2008	2009	2008
ZAD ALLIANZ BULGARIA LIFE AD	11 056	5 855	10 053	5 396
ALICO BULGARIA LIFE INSURANCE COMPANY EAD	7 596	5 302	6 830	4 761
UBB – ALICO LIFE INSURANCE COMPANY AD	3 858	2 974	3 469	2 668
GRAWE BULGARIA LIFE INSURANCE EAD	1 036	1 227	1 309	1 535
LIFE INSURANCE INSTITUTE AD	564	399	9	2
ZK UNIKA LIFE AD	332	2 009	179	1 737
GROUPAMA LIFE INSURANCE EAD	356	-3 849	356	-3 849
ZAD BULSTRAD LIFE VIENNA INSURANCE GROUP AD	212	-2 340	9	-2 195
SINDIKALNA VZK	205	168	183	149
LIFE INSURANCE COMPANY BULGARSKI IMOTI AD	-134	358	-61	313
VZK DOBRUDZHA - M - LIFE	-90	-159	-90	-159
ZAED CCB LIFE	-344	-122	25	12
INTERAMERICAN BULGARIA LIFE INSURANCE EAD	-1 430	-2 170	-773	-1 716
ZAD SOGELIFE BULGARIA AD	-1 435	-1 669	-1 174	-1 533
ZD KD LIFE AD	-1 950	-2 872	-1 939	-2 859
GENERALI LIFE INSURANCE AD	-1 888	-2 049	-1 740	-2 026
ZAD DZI	-6 023	-4 704	7 297	4 354
TOTAL:	11 921	-1 642	23 942	6 590

Annex II.2.2.2D. Asset amount and equity of life insurance companies

Insurers	ASSET AMOUNT (BGN thousand)			EQUITY (BGN thousand)		
	2009	2008	Change (%)	2009	2008	Change (%)
ZAD DZI	387 503	382 616	1.28	285 343	277 679	2.76
ZAD ALLIANZ BULGARIA LIFE AD	237 249	207 986	14.07	35 134	23 637	48.64
ALICO BULGARIA LIFE INSURANCE COMPANY EAD	70 944	57 087	24.27	24 361	17 364	40.29
GRAWE BULGARIA LIFE INSURANCE EAD	60 857	48 948	24.33	11 252	8 459	33.02
ZAD BULSTRAD LIFE VIENNA INSURANCE GROUP AD	51 302	39 177	30.95	9 726	9 584	1.48
ZK UNIKA LIFE AD	29 662	33 704	-11.99	8 705	10 526	-17.30
GENERALI LIFE INSURANCE AD	23 748	26 069	-8.90	5 220	6 511	-19.83
SINDIKALNA VZK	21 547	12 877	67.33	1 048	796	31.66
UBB – ALICO LIFE INSURANCE COMPANY AD	19 458	14 632	32.98	14 091	10 482	34.43
GROUPAMA LIFE INSURANCE EAD	17 642	17 693	-0.29	7 220	6 663	8.35
INTERAMERICAN BULGARIA LIFE INSURANCE EAD	10 905	8 660	25.92	10 102	8 413	20.08
ZAD SOGELIFE BULGARIA AD	10 895	9 701	12.31	7 045	8 132	-13.37
ZD KD LIFE AD	8 262	9 685	-14.69	6 350	7 414	-14.35
LIFE INSURANCE COMPANY BULGARSKI IMOTI AD	8 231	13 845	-40.55	7 813	7 767	0.59
LIFE INSURANCE INSTITUTE AD	8 150	7 909	3.05	6 909	6 900	0.13
ZAED CCB LIFE	7 415	7 050	5.18	6 438	6 413	0.39
VZK DOBRUDZHA - M - LIFE	2 185	2 350	-7.02	661	749	-11.75
TOTAL:	975 956	899 989	8.44	447 417	417 489	7.17

Annex II.2.2.4A. Premium income realized by voluntary health insurance companies

Health insurance companies	31.12.2009		31.12.2008		Growth / Drop (%)
	BGN thousand	Market share (%)	BGN thousand	Market share (%)	
HEALTH INSURANCE COMPANY BULGARIA ZDRAVE AD	5 921	15.5	778	2.6	661.0
GENERALI ZAKRILA HEALTH INSURANCE AD	5 809	15.2	5 809	19.2	0.0
HEALTH INSURANCE FUND MEDICO-21 AD	4 455	11.6	3 662	12.1	21.7
MUNICIPAL HEALTH INSURANCE FUND AD	3 664	9.6	1 088	3.6	236.8
UNITED HEALTH INSURANCE FUND DOVERIE AD	3 163	8.3	2 475	8.2	27.8
VOLUNTARY HEALTH INSURANCE NETWORK – ZDRAVE AD	3 103	8.1	6 344	20.9	-51.1
HEALTH INSURANCE FUND DALLBOGG: ZHIVOT I ZDRAVE EAD	2 764	7.2	546	1.8	406.2
DZI-HEALTH INSURANCE AD	1 544	4.0	2 819	9.3	-45.2
HEALTH INSURANCE COMPANY NADEZHDA AD	1 421	3.7	1 779	5.9	-20.1
EUROINS-HEALTH INSURANCE EAD	1 272	3.3	832	2.7	52.9
TOKUDA HEALTH INSURANCE FUND AD	1 186	3.1	628	2.1	88.9
HEALTH INSURANCE COMPANY BULSTRAD ZDRAVE AD	1 180	3.1	950	3.1	24.2
UNITED HEALTH INSURANCE EAD	1 058	2.8	1 234	4.1	-14.3
HEALTH INSURANCE COMPANY PLANETA AD	500	1.3	241	0.8	107.5
HEALTH INSURANCE INSTITUTE AD	323	0.8	357	1.2	-9.5
HEALTH INSURANCE COMPANY VSEOTDAINOST AD	306	0.8	585	1.9	-47.7
HEALTH INSURANCE COMPANY CCB EAD	294	0.8	42	0.1	600.0
HEALTH INSURANCE FUND VICE MEDICA AD	208	0.5	0	0.0	-
HEALTH INSURANCE FUND PRIME HEALTH AD	76	0.2	128	0.4	-40.6
HEALTH INSURANCE FUND EUROPA AD	11	0.0	0	0.0	-
TOTAL:	38 258	100.0	30 297	100.0	26.3

Annex II.2.2.4B. Incurred claims and paid compensations by voluntary health insurance companies

Health insurance companies	2009				2008			
	Incurred claims (BGN thousand)	Share (%)	Paid claims (BGN thousand)	Share (%)	Incurred claims (BGN thousand)	Share (%)	Paid claims (BGN thousand)	Share (%)
HEALTH INSURANCE COMPANY BULGARIA ZDRAVE AD	2 435	11.4	2 275	10.5	90	0.4	82	0.4
GENERALI ZAKRILA HEALTH INSURANCE AD	3 408	15.9	4 279	19.7	8 747	41.3	9 197	43.6
HEALTH INSURANCE FUND MEDICO-21 AD	2 618	12.2	2 609	12.0	1 823	8.6	1 821	8.6
MUNICIPAL HEALTH INSURANCE FUND AD	900	4.2	767	3.5	51	0.2	46	0.2
UNITED HEALTH INSURANCE FUND DOVERIE AD	2 482	11.6	2 380	10.9	1 930	9.1	1 858	8.8
VOLUNTARY HEALTH INSURANCE NETWORK – ZDRAVE AD	1 630	7.6	1 759	8.1	3 803	18.0	3 604	17.1
HEALTH INSURANCE FUND DALLBOGG-ZHIVOTI ZDRAVE EAD	2 770	12.9	2 620	12.1	2	0.0	0	0.0
DZI-HEALTH INSURANCE AD	1 422	6.6	1 507	6.9	1 734	8.2	1 715	8.1
HEALTH INSURANCE COMPANY NADEZHDA AD	984	4.6	1 039	4.8	856	4.0	764	3.6
EUROINS-HEALTH INSURANCE EAD	458	2.1	428	2.0	367	1.7	356	1.7
TOKUDA HEALTH INSURANCE FUND AD	620	2.9	409	1.9	143	0.7	105	0.5
HEALTH INSURANCE COMPANY BULSTRAD ZDRAVE AD	490	2.3	453	2.1	462	2.2	471	2.2
UNITED HEALTH INSURANCE EAD	454	2.1	451	2.1	349	1.6	301	1.4
HEALTH INSURANCE COMPANY PLANETA AD	65	0.3	65	0.3	140	0.7	140	0.7
HEALTH INSURANCE INSTITUTE AD	9	0.0	16	0.1	257	1.2	241	1.1
HEALTH INSURANCE COMPANY VSEOTDAINOST AD	610	2.8	598	2.8	400	1.9	407	1.9
HEALTH INSURANCE COMPANY CCB EAD	25	0.1	20	0.1	1	0.0	0	0.0
HEALTH INSURANCE FUND VICE MEDICA AD	39	0.2	37	0.2	0	0.0	0	0.0
HEALTH INSURANCE FUND PRIME HEALTH AD	22	0.1	22	0.1	4	0.0	1	0.0
HEALTH INSURANCE FUND EUROPA AD	1	0.0	1	0.0	0	0.0	0	0.0
TOTAL:	21 442	100.0	21 735	100.0	21 159	100.0	21 109	100.0

Annex II. 2.2.4B. Technical and financial result of the health insurance companies

Health insurance companies	TECHNICAL RESULT (BGN thousand)		FINANCIAL RESULT (BGN thousand)	
	2009	2008	2009	2008
HEALTH INSURANCE COMPANY BULSTRAD ZDRAVE AD	-266	-252	-244	-269
HEALTH INSURANCE COMPANY BULGARIA ZDRAVE AD	842	185	945	273
UNITED HEALTH INSURANCE EAD	-414	-235	-245	-173
HEALTH INSURANCE COMPANY VSEOTDAINOST AD	-557	-387	-515	-352
GENERALI ZAKRILA HEALTH INSURANCE AD	-399	-4 968	-141	-5 392
DZI-HEALTH INSURANCE AD	-85	-153	95	-52
UNITED HEALTH INSURANCE FUND DOVERIE AD	-225	-415	-84	-143
VOLUNTARY HEALTH INSURANCE NETWORK – ZDRAVE AD	214	777	-507	-661
HEALTH INSURANCE INSTITUTE AD	-24	-61	88	2
HEALTH INSURANCE FUND MEDICO-21 AD	535	-525	539	-501
HEALTH INSURANCE COMPANY NADEZHDA AD	-37	318	42	274
HEALTH INSURANCE COMPANY PLANETA AD	58	-220	200	-195
EUROINS-HEALTH INSURANCE EAD	208	-710	307	-866
TOKUDA HEALTH INSURANCE FUND AD	160	-65	208	-29
HEALTH INSURANCE COMPANY CCB EAD	-157	-172	245	-178
HEALTH INSURANCE FUND PRIME HEALTH AD	-81	-8	-72	-9
MUNICIPAL HEALTH INSURANCE FUND AD	818	546	743	501
HEALTH INSURANCE FUND DALLBOGG: ZHIVOT I ZDRAVE EAD	-1 223	187	-1 189	3
HEALTH INSURANCE FUND VICE MEDICA AD	-174	-75	-124	-39
HEALTH INSURANCE FUND EUROPA AD	-188	-119	-71	-114
TOTAL:	-995	-6 352	220	-7 920

Annex II.2.2.4D. Asset amount and equity of health insurance companies

Health insurance companies	ASSET AMOUNT			EQUITY		
	2009 (BGN thousand)	2008 (BGN thousand)	Change (%)	2009 (BGN thousand)	2008 (BGN thousand)	Change (%)
HEALTH INSURANCE COMPANY BULSTRAD ZDRAVE AD	2 219	2 129	4.2	1 490	1 582	-5.8
HEALTH INSURANCE COMPANY BULGARIA ZDRAVE AD	8 001	5 257	52.2	5 680	4 752	19.5
UNITED HEALTH INSURANCE EAD	2 024	2 405	-15.8	1 651	1 896	-12.9
HEALTH INSURANCE COMPANY VSEOTDAINOST AD	1 676	2 233	-24.9	1 345	1 559	-13.7
GENERALI ZAKRILA HEALTH INSURANCE AD	10 639	11 231	-5.3	2 050	1 831	12.0
DZI-HEALTH INSURANCE AD	3 712	4 363	-14.9	2 894	2 721	6.4
UNITED HEALTH INSURANCE FUND DOVERIE AD	3 387	3 298	2.7	2 419	2 503	-3.4
VOLUNTARY HEALTH INSURANCE NETWORK – ZDRAVE AD	3 830	4 379	-12.5	2 260	2 787	-18.9
HEALTH INSURANCE INSTITUTE AD	2 322	2 114	9.8	2 113	2 025	4.3
HEALTH INSURANCE FUND MEDICO-21 AD	4 750	4 128	15.1	2 148	1 602	34.1
HEALTH INSURANCE COMPANY NADEZHDA AD	4 027	4 264	-5.6	3 366	3 325	1.2
HEALTH INSURANCE COMPANY PLANETA AD	2 396	2 051	16.8	2 038	1 838	10.9
EUROINS-HEALTH INSURANCE EAD	3 368	3 008	12.0	2 554	2 247	13.7
TOKUDA HEALTH INSURANCE FUND AD	1 893	1 252	51.2	1 255	927	35.4
HEALTH INSURANCE COMPANY CCB EAD	1 492	1 039	43.6	1 067	814	31.1
HEALTH INSURANCE FUND PRIME HEALTH AD	556	683	-18.6	519	591	-12.2
MUNICIPAL HEALTH INSURANCE FUND AD	3 010	1 882	59.9	2 244	1 501	49.5
HEALTH INSURANCE FUND DALLBOGG: ZHIVOT I ZDRAVE EAD	6 148	1 541	299.0	5 466	1 105	394.7
HEALTH INSURANCE FUND VICE MEDICA AD	571	480	19.0	476	461	3.3
HEALTH INSURANCE FUND EUROPA AD	1 831	1 887	-3.0	1 815	1 886	-3.8
TOTAL:	67 852	59 624	13.8	44 850	37 953	18.2

Annex II.2.3.1A. Equity and balance sheet assets of pension insurance companies (PICs). Balance sheet assets and number of persons insured in the supplementary pension insurance funds as of 31.12.2009

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	VPFOS	Total	UPF	OPF	VPF	VPFOS	Total
PIC DOVERIE PLC	23 924	35 946	801 847	165 182	95 817	0	1 062 846	1 021 435	75 814	160 219	0	1 257 468
PIC SAGLASIE PLC	10 666	16 968	259 021	79 984	20 301	0	359 306	383 057	35 702	36 043	0	454 802
PIC DSK-RODINA AD	9 994	12 634	195 114	25 975	35 508	1 771	258 368	309 085	19 253	45 912	4 769	379 019
PIC ALLIANZ BULGARIA PLC	18 193	25 274	466 801	88 165	262 559	0	817 525	569 635	36 426	247 588	0	853 649
ING PIC PLC	4 492	7 621	218 733	25 802	58 613	0	303 148	259 315	16 460	36 040	0	311 815
PIC CCB SULA	9 202	10 505	96 440	14 496	10 292	0	121 228	157 309	13 080	20 799	0	191 188
PIC LUKOIL GARANT- BULGARIA AD	4 839	6 409	96 111	31 508	37 435	0	165 054	119 812	14 296	34 423	0	168 531
PIC FUTURE ISC	2 717	3 182	38 039	4 646	4 909	0	47 594	76 340	5 513	5 404	0	87 257
PIC TOPLINA AD	3 149	3 695	14 959	17 040	3 685	0	35 684	32 293	9 969	11 862	0	54 124
PENSION INSURANCE INSTITUTE AD	5 217	5 271	2 362	161	27	0	2 550	6 643	416	46	0	7 105
TOTAL:	92 393	127 505	2 189 427	452 959	529 146	1 771	3 173 303	2 934 924	226 929	598 336	4 769	3 764 958

Annex II.2.3.1B. Main shareholders in pension insurance companies

PIC	Shareholders	BULSTAT	Percent of shares/ stakes, possessed directly	Percent of shares/ stakes possessed indirectly
PIC DOVERIE PLC	T B I H FINANCIAL SERVICES GROUP N.V.		92.58	
PIC SAGLASIE PLC	CHIMIMPORT AD FINANCE CONSULTING EAD	000627519 103765841	49.42 19.95	
PIC DSK-RODINA AD	DSK BANK AD	121830616	97.00	
PIC ALLIANZ BULGARIA PLC	ALLIANZ BULGARIA HOLDING AD NATSIONALNA ELEKTRICHESKA KOMPANIA EAD	0040812785 0000649348	65.40 34.00	
ING PIC PLC	ING CONTINENTAL EUROPE HOLDING		100.00	
PIC CCB SILA	CCB GROUP ASSET MANAGEMENT EAD CENTRAL COOPERATIVE BANK AD	121749139 831447150	89.26 9.95	99.20 99.20
PIC LUKOIL GARANT –BULGARIA AD	CHIMIMPORT INVEST AD	831541734	84.60	
PIC FUTURE JSC	UNIVERS COMPANY OOD GOLDEN UNION OOD CERAMIC – STYLE OOD BETA TRADING CORPORATION OOD EAST TRADING CORPORATION OOD	130948859 130948827 121551239 130948866 130948811	15.00 15.00 11.04 10.00 10.00	
PIC TOPLINA AD	LM IMPEX EOOD BRIKEL EAD PELA EOOD	122073062 123526494 82078630	46.40 30.00 74.00	
PENSION INSURANCE INSTITUTE AD	EST AD	130524198	25.00	

Annex II.2.3.2A. Structure of the supplementary pension insurance funds' investments

	Universal pension funds (UPF)						Occupational pension funds (OPF)						Voluntary pension funds (VPF)						Voluntary pension funds with occupational schemes (VPFOS)					
	2009			2008			2009			2008			2009			2008			2009			2008		
	amount (BGN thousand)	share (%)		amount (BGN thousand)	share (%)		amount (BGN thousand)	share (%)		amount (BGN thousand)	share (%)		amount (BGN thousand)	share (%)		amount (BGN thousand)	share (%)		amount (BGN thousand)	share (%)		amount (BGN thousand)	share (%)	
Pension funds																								
TOTAL INVESTMENTS, INCLUDING:	2 040 765	100.00		1 378 083	100.0		427 516	100.0		349 012	100.0		496 932	100.0		461 587	100.0		1445	100.0		376	100.0	
DEBT SECURITIES ISSUED OR GUARANTEED BY EU MEMBER STATES, OR THEIR CENTRAL BANKS	503 624	24.68		474 366	34.42		94 991	22.22		103 975	29.79		70 336	14.15		111 388	24.13		991	68.60		296	78.67	
CORPORATE BONDS	451 872	22.14		301 872	21.91		91 610	21.43		75 099	21.52		122 495	24.65		100 792	21.84		-	-		-	-	
MORTGAGE BONDS	24 716	1.21		42 960	3.12		7 090	1.66		12 419	3.56		2 449	0.49		17 592	3.81		-	-		-	-	
MUNICIPAL BONDS	42 516	2.08		14 523	1.05		10 139	2.37		4 509	1.29		11 168	2.25		2 629	0.57		-	-		-	-	
SHARES, RIGHTS AND UNITS, INCL.:	459 536	22.52		200 092	14.52		108 383	25.35		65 196	18.68		129 658	26.09		102 185	22.14		46	3.19		36	9.57	
<i>shares and rights of special investment purpose companies (SIPC)</i>	50 607	2.48		32 597	2.37		16 434	3.84		12 692	3.64		23 319	4.69		20 841	4.51		-	-		-	-	
<i>shares and units of collective investment schemes (CIS)</i>	234 396	11.49		71 788	5.21		45 984	10.76		22 037	6.31		57 130	11.50		34 122	7.39		-	-		-	-	
<i>shares and rights other than these of SIPC and CIS</i>	174 534	8.55		95 708	6.94		45 965	10.75		30 467	8.73		49 209	9.90		47 222	10.23		46	3.19		36	9.57	
BANK DEPOSITS	523 989	25.68		319 623	23.19		105 102	24.58		78 762	22.42		125 274	25.21		78 395	16.98		408	28.21		44	11.76	
INVESTMENT PROPERTIES	34 512	1.69		24 646	1.79		10 200	2.39		9 552	2.74		35 553	7.16		48 607	10.53		-	-		-	-	

Annex II.2.3.2B. Funds, investments (total)

Pension funds	Supplementary pension insurance funds			
	2009		2008	
	amount (BGN thousand)	share (%)	amount (BGN thousand)	share (%)
TOTAL INVESTMENTS, INCLUDING:	2 966 658	100.00	2 189 059	100.00
DEBT SECURITIES ISSUED OR GUARANTEED BY EU MEMBER STATES, OTHER COUNTRIES OR THEIR CENTRAL BANKS	669 943	22.58	690 025	31.52
CORPORATE BONDS	665 978	22.45	477 762	21.83
MORTGAGE BONDS	34 255	1.15	72 971	3.33
MUNICIPAL BONDS	63 823	2.15	21 661	0.99
SHARES, RIGHTS AND UNITS, INCL.:	697 623	23.52	367 509	16.79
<i>shares and rights of special investment purpose companies (SIPC)</i>	90 360	3.05	66 129	3.02
<i>shares and units of collective investment schemes (CIS)</i>	337 510	11.38	127 947	5.85
<i>shares and rights other than these of SIPC and CIS</i>	269 753	9.09	173 433	7.92
BANK DEPOSITS	754 773	25.44	476 325	21.76
INVESTMENT PROPERTIES	80 264	2.71	82 806	3.78

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