



# **FINANCIAL SUPERVISION COMMISSION**

# ANNUAL REPORT 2010

## List of Used Acronyms

ABB – Association of Banks in Bulgaria  
ABI – Association of Bulgarian Insurers  
ABIRD – Association of Bulgarian Investor Relations Directors  
SIPC – Special Investment Purpose Company  
CRA – Credit Rating Agencies  
ALVHIC – Association of the Licensed Voluntary Health Insurance Companies  
APC – Administrative Procedure Code  
AEAV – Act for Establishment of Administrative Violations  
FIA – Financial Intelligence Agency  
BIRS – Bulgarian Investor Relation Society  
BASPIC – Bulgarian Association of Supplementary Pension Insurance Companies  
BALII – Bulgarian Association of the Licensed Investment Intermediaries  
BAAMC – Bulgarian Association of Asset Management Companies  
GDP – Gross Domestic Product  
BNB – Bulgarian National Bank  
BSE – Bulgarian Stock Exchange  
GF – Guarantee Fund  
SANS – State Agency for National Security  
SVPI – Supplementary Voluntary Pension Insurance  
SMPI – Supplementary Mandatory Pension Insurance  
SPI – Supplementary Pension Insurance  
VPF – Voluntary Pension Fund  
VPFOS – Voluntary Pension Fund with Occupational Schemes  
CF – Contractual Fund  
GS – Government Securities  
EEA – European Economic Area  
EC – European Commission  
EC – European Community  
EP – European Parliament  
IB – Insurance Broker  
IAU – Internal Audit Unit  
IC – Insurance Company  
ASIPC – Act on Special Investment Purpose Companies  
HIA – Health Insurance Act  
LCI – Law on Credit Institutions  
FSCA – Financial Supervision Commission Act  
LMML – Law on Measures against Money Laundering  
HIC – Health Insurance Company  
LMMAFI – Law on Measures against Market Abuse with Financial Instruments  
LPOS – Law on Public Offering of Securities  
MFIA – Markets in Financial Instruments Act  
IC – Investment Company  
II – Investment Intermediary  
IC – Insurance Code  
CPC – Commission for Protection of Competition  
CIS – Collective Investment Schemes  
SIC – Social Insurance Code  
FSC – Financial Supervision Commission  
MoI – Ministry of Interior  
IMF – International Monetary Fund  
NRA – National Revenue Agency  
PW – Penal Warrant  
GMS – General Meeting of Shareholders

CAM – Coercive Administrative Measure  
 PC – Public Company  
 UCIT – Undertaking for Collective Investment in Transferable Securities  
 PIC – Pension Insurance Company  
 OPF – Occupational Pension Fund  
 RA – Road Accident  
 WB – The World Bank  
 MC – Management Company  
 UPF – Universal Pension Fund  
 SPIF – Supplementary Pension Insurance Fund  
 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	<a href="http://www.bse-sofia.bg">www.bse-sofia.bg</a>
Central Depository AD	<a href="http://www.cdad.bg">www.cdad.bg</a>
Bulgarian National Bank	<a href="http://www.bnb.bg">www.bnb.bg</a>
Ministry of Finance	<a href="http://www.minfin.bg">www.minfin.bg</a>
Council of Ministers	<a href="http://www.government.bg">www.government.bg</a>
Association of Bulgarian Insurers	<a href="http://www.abz.bg">www.abz.bg</a>
National Social Security Institute	<a href="http://www.noi.bg">www.noi.bg</a>
National Statistical Institute	<a href="http://www.nsi.bg">www.nsi.bg</a>
Privatization Agency	<a href="http://www.priv.government.bg">www.priv.government.bg</a>
Investor Compensation Fund	<a href="http://www.sfund-bg.com">www.sfund-bg.com</a>
Guarantee Fund	<a href="http://www.guarantefund.bg">www.guarantefund.bg</a>
Association of Bulgarian Investor Relations Directors	<a href="http://www.abird.info">www.abird.info</a>
Bulgarian Investor Relation Society	<a href="http://www.birsbg.org">www.birsbg.org</a>
Bulgarian Association of Supplementary Pension Insurance Companies	<a href="http://www.assoc.pension.bg">www.assoc.pension.bg</a>
Bulgarian Association of Asset Management Companies	<a href="http://www.baud.bg">www.baud.bg</a>
National Bureau of the Bulgarian Motor Insurers	<a href="http://www.nbbaz.bg">www.nbbaz.bg</a>
Ministry of Labor and Social Policy	<a href="http://www.mlsp.government.bg">www.mlsp.government.bg</a>
Financial Intelligence Agency	<a href="http://www.fia.minfin.bg">www.fia.minfin.bg</a>
Commission for Protection of Competition	<a href="http://www.cpc.bg">www.cpc.bg</a>
European Commission	<a href="http://ec.europa.eu/">http://ec.europa.eu/</a>
Directorate General Internal Market	<a href="http://ec.europa.eu/internal_market/index.htm">internal_market/index.htm</a>
European Parliament	<a href="http://www.europarl.europa.eu">www.europarl.europa.eu</a>
Council of the European Union	<a href="http://www.consilium.europa.eu">www.consilium.europa.eu</a>
European Systemic Risk Board (ESRB)	<a href="http://www.esrb.europa.eu">www.esrb.europa.eu</a>
European Securities and Markets Authority (ESMA)	<a href="http://www.esma.europa.eu">www.esma.europa.eu</a>
European Insurance and Occupational Pensions Authority (EIOPA)	<a href="http://www.eiopa.europa.eu">www.eiopa.europa.eu</a>
European Banking Authority (EBA)	<a href="http://www.eba.europa.eu">www.eba.europa.eu</a>
International Organization of Securities Commissions (IOSCO)	<a href="http://www.iosco.org">www.iosco.org</a>
International Association of Insurance Supervisors (IAIS)	<a href="http://www.iaisweb.org">www.iaisweb.org</a>
International Organization of Pension Supervisors (IOPS)	<a href="http://www.iopsweb.org">www.iopsweb.org</a>
European Central Bank	<a href="http://www.ecb.int">www.ecb.int</a>
International Monetary Fund	<a href="http://www.imf.org">www.imf.org</a>

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## Chairman's statement

Dear Ladies and Gentlemen,

I have the pleasure of presenting to you the 2010 Annual report of the Financial Supervision Commission (FSC), which reflects the overall activities of the Commission in the past year. This was a dynamic year both in national and international aspect, which raised to us, the Commission leadership, a number of issues that required a prompt and adequate reaction. I would like to note that we, as a new membership of the Commission – a Chairman, three Deputy Chairmen and a Member of the Commission, were elected by the Parliament in the middle of last year and were put before the challenge to further perfect and develop the supervisory and control activity of the non-banking financial sector in Bulgaria, as well as to adapt ourselves to the process of change in the European regulatory structure. We have made all efforts to respond appropriately to the responsibility entrusted to us by the Members of Parliament, a proof of which is precisely this report.

It should be taken into consideration that our activity is carried out in the context of the international and national trends in the development of economy and finance. In 2010, the concerns of global depression passed away and the confidence in the economy increased, the real sector beginning again to recover its exhausted stocks. At the same time, a revival of the financial markets was also noted.

In Bulgaria, positive trends in relation to the economic activity were also established, a proof of it being the achieved value added of 0.2% (at basic prices) for our economy in 2010. These trends had an effect on the non-banking financial sector in Bulgaria, as well. Due to the fact that the global financial crisis and the slowdown of the economic activity had affected adversely in different time and to a different extent the separate sectors of the non-banking financial market in the country, their development ran unevenly. Permanent recovery was observed in our supplementary pension insurance, while the capital market was developing at lagging rates, compared to the stock exchanges in Central and East Europe. The life insurance and voluntary health insurance marked a growth in 2010, while the general insurance continued to register decline in the premium income.

In this situation, the FSC efforts were directed to active regulatory, licensing and control activity, a new and major accent in the Commission's activities being the analysis of the risks in the non-banking financial sector. It is for the first time that in a separate part of the report an overview has been made of the non-banking financial sector risks and the risks of the financial sector, the main market trends and risk management have been presented.

Structurally the report on the FSC activity is divided in two main parts, each of them covering different aspects of the Commission's activities. In the first part, the FSC activity is laid down in its function of a regulatory, licensing and supervisory authority of the non-banking financial sector. This part includes the European dimension of the Commission activity, as well as the information awareness, which FSC provides to the market participants and to the general public as a whole. A review has been made of the policy of human resources management, the activities and processes within the international and domestic cooperation, the report on the internal audit activity, the Inspectorate's report, as well as the improvements in the sphere of the information technologies, as an important instrument for increasing the efficiency of the Commission's supervisory activity. The budget implementation report gives the financial picture of the FSC's activity in 2010.

The second part of the report presents a market analysis of the non-banking financial sector development in Bulgaria, outlining the state of the world and European economic environment and the financial markets. In view of the interrelatedness between the development of the financial intermediation and the economic activity, a thorough dynamic analysis has been made of the economic situation in the country.

The overview of the non-banking financial sector presents the trends in the development of the financial intermediation. Comprehensive analyses have been included on the state of the capital, insurance and health insurance markets, as well as of the supplementary pension insurance market.

**Stoyan Mavrodiev**



# I. FSC's activities in 2010

## 1. Regulatory activity

In 2010, the Financial Supervision Commission continued its work directed to stabilization of the capital, insurance and pension insurance market and to greater consumer protection by increasing the volume of control powers, improving the interaction with the European authorities, enhancing the coordination between FSC and the other bodies, institutions and foreign financial regulators. Adhering to its strategic goals, the Financial Supervision Commission was involved in the elaboration of draft laws for amendment and supplement to the acting laws and codes, regulating the activities of 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

#### **Draft Law on amendment and supplement of the Insurance Code<sup>1</sup>**

The main purpose of the amendments made has been complying the insurers and reinsurers activities with the updated requirements of the European legislation for the minimum amount of the guarantee capital.

The amendments relating to increase of the minimum amounts of the insurers' guarantee capital ensued from the provisions of Art. 17a of Council Directive 73/239/EEC on the coordination of laws, regulations and administrative provisions to the taking-up and pursuit of the business of direct insurance other than life insurance, and Art. 30 of Directive 2002/83/EC of the European Parliament and of the Council relating to life assurance, which provide for periodic updating of the minimum amounts of the insurers' guarantee fund in accordance with the change in the European Consumer Price Index (ECPI) relative to its value at 20 March 2002, which has been accepted as base amount. The adaptation is performed by increasing the minimum amounts of the guarantee capital, as stated in the relevant Directives, by the percentage change in ECPI, and the result is rounded up to a multiple of EUR 100 000, provided that since the date of the last update the above index went up by five or more per cent. The valuation is made at 20 March of every calendar year.

These provisions have been introduced in the Bulgarian legislation under § 4, para 1 of the Additional Provisions of the Insurance Code. In its document on the adaptation in accordance with the inflation of certain values, envisaged in the Directives concerning life insurance and on general insurance (published in Official Journal 2009/C 41/01 from 19.02.2009), the European Commission defined an updated amount of the minimum guarantee capital of EUR 3 500 000, or approximately BGN 7 000 000 for insuring companies pursuing life insurance or general insurance for the classes of insurances under Item 10-15 of Section II, letter "A" of Annex № 1 to the Insurance Code. The updated amount of the minimum guarantee capital for the insuring companies which respectively carry out activity of general insurance for other than the above stated classes of insurance, must be EUR 2 300 000, or approximately BGN 4 600 000.

The increase of the minimum amounts of the reinsurers' guarantee capital results from the provision of Art. 41 of Directive 2005/68/EC on reinsurance, which envisaged periodic updating of the minimum amounts of the reinsuring company's guarantee capital according to the ECPI change relative to its value at 10 December 2005, which has been accepted as base amount. The adaptation is performed by increasing the minimum amounts of the guarantee capital under Art. 40 of Directive 2005/68/EC, by the percentage change

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<sup>1</sup> Am., SG, iss. 41 of 2010

in ECPI, and the result is rounded up to a multiple of EUR 100 000, provided that since the date of the last update the above index went up by five or more per cent. The valuation is made as of December of every calendar year, commencing from 2007. This provision has been introduced in the Bulgarian legislation with § 4, para 1 of the Additional Provisions of the Insurance Code. In its document on the adaptation in accordance with the inflation of certain values, envisaged in the Directive on reinsurance (published in Official Journal 2009/C 63/03 from 18.03.2009), the European Commission defined the updated amount of the minimum guarantee capital at EUR 3 200 000, or approximately BGN 6 400 000, for reinsurance undertakings and EUR 1 100 000, or approximately BGN 2 200 000 for the captive reinsurers. With the amendments thus made, the reinsurers' minimum guarantee capital is fixed to the amount of BGN 7 000 000, similar to the adapted minimum amount of the guarantee capital of insurance companies which pursue life insurance or general insurance for the classes of insurance under Item 10-15 of Section II, letter "A" of Annex № 1 to the Insurance Code. The proposition does not contradict the provisions of Directive 2005/68/EC, which contain a requirement for minimum level of the guarantee capital and leave to the Member States the judgment to set higher amounts. The proposal for equalization of the minimum guarantee capital of reinsurers with that of insurers is reasoned with the circumstance that reinsurers are significant financial institutions, as a result of whose activity often volumes of premium income are realized, considerably higher than those of insurers. Along with that, reinsurers have key importance for the insurance markets so far as they assume part of the insurers' risk and thus are a guarantor of their stability. All this substantiates the need of a minimum capital guarantee, which is to be at least equal to the capital requirement applicable to the insurance companies.

The introduced amendments envisage endorsement of the Guarantee Fund's budget, thus making the legal regulation of the Guarantee Fund equal with that of the Investor Compensation Fund, and creating a prudential mechanism for control by the State of the planning of the Guarantee Fund's expenses. The amendments aim to introduce more efficient control over the Guarantee Fund, creating simultaneously through the sub-legislative regulations conditions for comprehensive and transparent budget procedure in relation to the Guarantee Fund, without affecting the independent status of the Fund and its bodies of control and management.

Concrete deadlines were also introduced for submission of the six-monthly and annual statistics and reports by insurance brokers. According to the acting regulations, the insurance brokers submit annual and periodical statistics and reports to the Deputy Chairperson of the Financial Supervision Commission in charge of Insurance Supervision Division. In the Insurance Code, however, the time-limits in which the above stated supervised persons must provide the periodical statistics and reports were not set, in consequence of which there was already judicial practice, according to which omission of the legislator existed, that could not be overcome by the issuance of an order by the Deputy Chairperson. This resulted in impossibility to impose effective sanctions in case of non-submission or delayed submission of the required information and impeded the supervisory activity exercised by the Financial Supervision Commission. The amendments made to Art. 162 aim at surmounting the above indicated omission in the statutory act.

Amendments to the **Financial Supervision Act**<sup>2</sup> were made in 2010, relating mainly to the following spheres – membership and functions of the Commission, status and powers of the Financial Stability Council, coordination and cooperation between the regulatory authorities, protection of consumers of financial services, as well as amendments connected with the European regulations.

The first group of amendments related to the structure and functions of the Financial Supervision Commission.

The membership of the Commission has been reduced, the number of its members coming down to five, where the powers of the Chairman and the Deputy Chairpersons in charge of the relevant Divisions have

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<sup>2</sup> Am., SG, iss. 43 of 2010

been retained. New, specific functions have been assigned to the fourth Member of the Commission in two exceptionally important fields. It has been envisaged this Member to assist for effective and active protection of the interests of consumers of financial instruments and to support the Commission's activity in regard to the analysis of the state, trends and stability of the financial markets, as well as for identification and management of the systemic risks.

The mechanism of constituting the Commission through election by the Parliament has been retained, but in order to avoid in future the possibility of early replacement or of vacuum in the supervision, it has been provided the election of new Members to be made not earlier than two months and not later than one month before the expiration of the term of office of the acting Commission Members.

The requirements to the persons who may be elected as Members of the Commission are heightened, and with the purpose of independence and impartiality, it has been provided that Commission Members, and its officials as well, may not possess a right to vote in the general meeting or a holding in the capital of any supervised person.

In the next place, a number of measures have been introduced along the lines of protection of consumers of financial services.

One of the major objectives of the Financial Supervision Commission according the acting Art. 11, Item 2, is to ensure „stability, integrity and confidence on the financial markets”. One of the elements of the market transparency is the ownership of the supervised persons. The protection of the public interest presumes the financial institutions that manage the public funds to be transparent in respect of their ownership and management. With the most recent amendments to the laws in the field of the financial markets, the requirements of the European legislation have been introduced for assessment of the reputation of the persons, acquiring a significant holding in the financial institutions. These changes, however, concern only cases of future acquisitions and do not cover verification of existing supervised entities. The lack of publicly accessible information about the persons, who stand behind the financial institutions, creates potential risks and obstructs the citizens' right to choose the institution to which to entrust the management of their funds.

In view of the above, in the Transitional and Final Provisions of the Law on amendment and supplement to the Financial Supervision Commission Act, an obligation has been introduced the existing supervised persons, within a three-month period after the Act coming into effect, to provide the Commission with information about their actual owners, and the Commission, in its turn, to make such information public. The Commission will be able to impose the existing in the relevant statutory acts coercive administrative measures on the supervised persons who fail to provide this information.

In regard to all new licensing procedures, with the relevant amendments to the sectoral laws (Markets in Financial Instruments Act, Law on Public Offering of Securities, Health Insurance Act, Insurance Code and the Social Insurance Code), a requirement has been introduced to the persons who wish to obtain a license, to disclose the **actual owners of these shareholders of theirs who own a qualifying holding – 10 and over 10 per cent of the voting rights in the general meeting**. With a view to protection of the public interest and non-admission of instability of the financial system, the possibility has been envisaged the Commission to refuse the granting of a license if the actual owners of the shareholders possessing a qualifying holding cannot be identified.

Furthermore, amendments were made targeting at enhancement of the coordination and cooperation between the regulatory authorities.

For the successful functioning of the financial sector supervision – bank and non-banking, of key importance is the excellent collaboration between the Financial Supervision Commission (FSC) and the Bulgarian National Bank (BNB), as well as between FSC and the other government institutions having relation to the financial markets, both on a domestic and European level. The amendment envisaged to Art.

18, para 7 allows for initiation by the Commission of joint inspections of persons that are simultaneously supervised persons of the Commission and of BNB.

Similarly, for the purpose of improving the supervision efficiency, enhancement of the coordination between FSC and other bodies and institutions has been envisaged, such as SANS, CPC, MoI, foreign financial regulators, etc.

Amendments were also made in relation to the status and functions of **Advisory Council for Financial Stability**.

The Council becomes a permanently acting body and its functions and goals have been broadened considerably. The Council has not only to guarantee the regular exchange of information between the institutions and to agree the regulatory practices, but also to coordinate the policy for ensuring sustainable development of the economy and the financial system of the country. Permanent Members of the Council will be the Minister of Finance, the Governor of the Bulgarian National Bank and the Chairman of the Financial Supervision Commission. On the basis of the information and analyses of the three institutions the Council shall make regular assessment of the state of the financial system and the economy of the country, monitor the systemic risks and the trends on the regional and international markets with a view to maintaining the financial stability and sustainable economic development and to propose relevant measures and policies. The Council joins the representatives of three independent of each other institutions – the Ministry of Finance as part of the executive power, the Bulgarian National Bank and the Financial Supervision Commission as independent from the executive financial regulators, which act with clearly delineated powers and responsibilities, but they have direct relation to the financial policy and stability of the country. Due to it, the close interaction between them, the regular exchange of information and coordination of actions are of exceptional importance.

Amendments were likewise introduced in connection with the effectuated Regulation (EC) № 1060/2009 of the European Parliament and of the Council of 16.09.2009 on **credit rating agencies** and its annex (Regulation № 1060/2009).

## 1.2. Amendments to the sub-statutory acts

In the past 2010, a leading priority in relation to the exercising of the regulatory functions of the Financial Supervision Commission was the elaboration and adoption of sub-statutory acts in the field of the markets of investment, insurance and social insurance services. The amendments introduced in the sub-statutory regulations aimed at updating the acting legal framework and increasing the efficiency of the administrative regulation and control over the supervised persons' activities.

### Investment activity

**Ordinance on amendment and supplement of ORDINANCE № 25 from 22.03.2006 on the requirements for the activities of investment companies and common funds (contractual funds)<sup>3</sup>.**

In Chapter Six, new Section IIIa has been created regarding the requirements for the conclusion of repo transactions for purchase or sale of securities with redemption provision as a technique for effective management of the portfolio of investment companies and contractual funds.

**Ordinance on amendment and supplement of ORDINANCE № 35 from 17.10.2006 on the capital adequacy and the liquidity of investment intermediaries<sup>4</sup>.**

The amendments result from the obligation for transposition in the Bulgarian legislation of the provisions of the following Directives: Directive 2009/111/EC of the European Parliament and of the Council from 16.09.2009 amending Directives 2006/48/EC, 2006/49/EC and 2007/64/EC, Directive 2009/27/EC of the Commission from 7.04.2009 amending certain Annexes to Directive 2006/49/EC of the European Parliament and of the Council, Directive 2009/83/EC of the Commission of 27.07.2009 amending certain Annexes to Directive 2006/48/EC.

Amendments were introduced in the provisions relating to settlement of the large exposures, as well as of some norms related to equity. The matter relating to the interaction and exchange of information between the supervisory authorities from the Member States was further settled in connection with the investment intermediaries' activities.

### Insurance and voluntary health insurance

**Ordinance on amendment and supplement of ORDINANCE № 30 from 19.07.2006 on the requirements for the accounting, form and contents of the financial statements, statistics, reports and supplements of insurers, reinsurers and health insurance companies<sup>5</sup>**

The amendments to Ordinance № 30 aim of introducing additional preventive anti-crisis measures by a statutory requirement for calculation and reporting of the solvency margin and own funds on a quarterly basis and unified reporting of the return premiums and written-off receivables. Under the adopted Ordinance a higher level of unification will be achieved for certain elements of the reports, prepared for supervisory purposes.

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<sup>3</sup> Am., SG, iss. 18 of 2010

<sup>4</sup> Am., SG, iss. 102 of 2010

<sup>5</sup> Am., SG, iss. 49 of 2010

**Ordinance on amendment and supplement of ORDINANCE № 27 of 29.03.2006 on the procedure and methodology of formation of the technical reserves by insurers and reinsurers, and of the health insurance reserves<sup>6</sup>**

The amendments concern the methods of the technical provisions formation on Third Party Liability insurance of motorists. A new, additional reserve has been introduced for Third Party Liability insurance of motorists, the amount of which is bound with the minimum required sum for cover of the risk associated with the use of one motor vehicle and the expected amount of the expenses on the insurance. The formation of this reserve is necessitated by the materialization of increased risk in regard to this insurance, which is a consequence of the considerable growth in the payments, especially in connection with the non-material damages. The uncertainty with regard to the future payments increases still more because of the upsurge of the number and value of claims and the big delay in their submission. The introduction of the additional reserve, based on a minimum amount for cover of the risk and expected amount of future expenses on the insurance, is a proactive measure, directed to the financial stability of the insurance companies and the whole insurance sector, which to a much higher extent guarantees the payment of compensation to the persons who suffered in road traffic accidents.

By the Ordinance, a requirement has also been introduced for the planning of the administrative and acquisition costs of the insurers on the compulsory Third Party Liability insurance.

Specific requirements have been further regulated in regard to the method of formation of the reserve for incurred but unsubmitted claims on Third Party Liability insurance of motorists, which in the past years were defined annually by orders of the FSC Deputy Chairperson in charge of Insurance Supervision Division. Thus, by preliminarily determining the method, greater clarity, stability and predictability will be achieved in the setting aside of the reserves.

For all classes of insurances pursued by the general insurance companies, an obligatory test has been introduced for adequacy of the formed reserve for submitted but unpaid claims, and in case of established inadequacy of the set aside reserve, its amount is increased proportionately to the found shortage. This measure is likewise directed to the financial stability of the insurance sector and protects the rights of consumers of insurance services to obtain adequate indemnity.

**ORDINANCE № 42 on the building up and maintenance of information system for risk assessment, management and control, including for issuance of policies under obligatory insurances according to Art. 249, Item 1 of the Insurance Code<sup>7</sup>**

The Ordinance regulates the requirements to the insurers' information systems and their compatibility with the information systems, registers and databases, created and maintained by the Information Center to the Guarantee Fund. The information system must guarantee correct and accurate entry of the data from the contracts for the compulsory Third Party liability of motorists and border Third Party liability insurance of motorists, as well as from the Green Card certificates. In contrast to the initial project, the requirement for an electronic optical reader by which to be taken the motor vehicle data from the vehicle registration certificate, dropped off. The Ordinance envisages the concluded contracts to be reported to the Information Center and to the Financial Supervision Commission within 24 hours after their conclusion, and corrections of errors made in reporting of a contract to be completed within 48 hours after the contract's conclusion. In the Financial Supervision Commission, there are already provided technical capabilities for daily reporting of the policies, the electronic portal for the receiving information being open 24 hours each day of the week.

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<sup>6</sup> Am., SG, iss. 89 of 2010

<sup>7</sup> Prom., SG, iss. 90 of 2010

The Ordinance targets to assist the building of current and reliable database of the concluded insurances and to guarantee that all policies will be accounted for, at that on the day of their contracting. The Ordinance also sets the time-limits for the information system technical provision, and within a period of six months of its coming into force the insurers must submit to the Commission their technical assignments for their information systems adaptation.

**Ordinance on amendment and supplement of ORDINANCE № Iz-41 of 12.01.2009 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, the Financial Supervision Commission and the Information Center at the Guarantee Fund<sup>8</sup>**

The amendments were dictated by the amendments introduced in the Insurance Code (SG, iss. 24 of 2009) and more specifically by the new provisions of Art. 294, para 6 and 7, according to which any insurance company offering the compulsory Third Party Liability insurance of motorists and/ or an insurance under Item 3 of Section II, letter „A” of Annex № 1 in the Republic of Bulgaria under the right of establishment or freedom to provide services, must submit to the Information Center at the Guarantee Fund on a daily basis statistics of paid compensations on insurances under Item 3 and 10 of Section II, letter „A” of Annex № 1. The statistics contain the information and is filed in format determined in the Ordinances under Art. 125a, para 2 of the Road Traffic Act, in connection with the requirements of the automated data processing system, the authenticity and security of the filed data being guaranteed. The newly created provisions aim at the building up of databases about the paid compensations for total damage with a view to counteraction to crimes, the object of which are motor vehicles which underwent road traffic accidents, defined as total damage.

The content has been determined of the statistic which the insurers pursuing activity of motor vehicle Casco insurance and compulsory Third Party Liability insurance of motorists must submit to the Information Center at the Guarantee Fund. It has been also specified that the statistics must be filed in an electronic way, signed by an electronic signature in format and model form as adopted by the MB of the Guarantee Fund and endorsed by the FSC Deputy Chairperson in charge of Insurance Supervision Division. It has been envisaged the statistic to contain data about the compensations paid for total damages in the previous business day, and in the cases when such compensations were not paid, an empty form is to be filed.

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<sup>8</sup> Am., SG, iss. 94 of 2010

## **2. Review of the risks in the non-banking financial sector**

The Financial Supervision Commission exercises supervision over the financial system of the non-banking financial sector – this is a system, the participants of which are the supervised persons, offering financial products and services, the consumers of these products and services, the market on which they are offered, the activities related to the market infrastructure, the consultancy activity related to the non-banking sector, over which FSC exercises supervision, the public companies and other securities issuers. This system is part of the economy of the country, of the complex EU financial system, of the European and global economy. In the analysis and management of the risk of the non-banking financial sector, FSC has to take into consideration the influence which all involved in the system exert, to make assessment of the impact of the environment and of the economic policy of the Republic of Bulgaria, including of the common economic policy of the EU.

The risk is a probable event, as a result of whose occurrence negative consequences may occur. In the risk management FSC has to establish the risks for the system, arising from all factors that influence it, to make assessment of the probability of occurrence of unfavorable event, as well as of the size of the consequences, envisaging maximum possible losses.

The next step in the risk management is the choice of methods and tools for its performance, i.e. taking such measures, that will allow the probability of unfavorable events' occurrence to be reduced, the consequences to be mitigated in case that the envisaged risk is realized, as well as development of a risk strategy with the purpose of lowering the probability of the risk realization and minimizing the negative consequences in case of occurrence. Risks have to be detected as early as possible, before their realization. In such cases, the consequences are considerably more limited and require much less financial resources for risk handling.

The FSC's aim in risk management is enhancement of the efficiency of the supervision over the non-banking sector through protection against negative influences.

The periodic review and assessment of the measures taken for limiting the unfavorable events is a part of the management process, and respectively, correction of the strategies of risk management. The periodic assessment of the legal regulations which empower FSC to apply the selected tools of risk mitigation is also needed. The FSC activity of risk management is an integral part of its organizational structure and strategy.

### **2.1. Risks in the financial sector**

#### **Systemic approach in defining the risks in the financial sector**

As stated above, FSC exercises supervision over the financial system of the non-banking financial sector, and in particular over the participants in the system – the regulated market, Central Depository, investment intermediaries, investment companies, asset management companies, the natural persons who directly execute transactions in securities and investment advise, public companies and other issuers of securities, insurers, reinsurers, insurance brokers and agents, health insurance companies, supplementary pension insurance companies and the funds managed by them, credit rating agencies.

The systematic approach in determining the risks in the financial sector has developed along two lines. The first line includes assessment of the risk aggregate to which the participants in a given sector are exposed. The second approach represents a horizontal assessment of the development and the impact of given risk on the whole non-banking financial sector. The combination of the two lines of risk assessment allows to be also assessed the systemic risk, which is increasing in case of low competition on a given market segment, or in the offering of certain type of financial services. One of the aspects in the proper assessment of the systemic risk is



the defining of systematically important participants in a given sector of the financial system, whose eventual financial difficulties would lead to considerable economic damages. Another aspect is assessment of the interconnectedness between the financial markets participants, as eventual falling into insolvency of a participant of unsystematic importance for the market, on which such participant operates, may cause avalanche-like negative development of the connected with him other participants in the financial specter. Along these lines, in the second half of 2010 the Financial Supervision Commission undertook the initiative for disclosure of the actual owners of the supervised persons, which ensured greater transparency on the market of non-banking financial services.

### **Major risks for the non-banking financial sector**

Regardless that the environment in which the participants in the system pursue their activity is regulated legislatively, several major risks are permanently inherent to it. In view of the high extent of integration of the financial markets, some of the risks can be caused by external sources, while on others internal factors have greater influence. The environment may create new risks which can generate both single and long-term effects.

*The risks arising from the macroeconomic environment* are associated with the extent of economic stability and the growth perspectives of the national economy, which have direct or indirect influence on the formation and change of the market conditions, as well as of the investment climate. Against the backdrop of the uneven global economic growth, the economic activity in Bulgaria was recovering slowly in 2010. As a result of the aggravated situation on the labor market and lowering of the population's purchasing power, the growth of the domestic consumption was strongly limited. This exerted direct negative effect on the demand of financial and investment services in the non-bank financial sector. In the conditions of uncertainty about the perspectives of the economic development, the households showed greater inclination to precautionary savings for cover of contingent expenses. Due to the slow and uneven recovery of the economic activity in our country, the insurance market as a whole continued to shrink in 2010, a growth in life insurance and reinsurance being observed. The shrunk income reflected on the negative profit of the companies.

*The liquidity risk* arises from the uncertainty whether the companies will be able to pay their liabilities to customers, consumers of their services and products, due to lack of free capital or lack of possibility to release capital, which is invested in illiquid or low liquidity instruments. For instance, regarding the collective investment schemes the falling in impossibility to fulfill their obligations for redemption of the issued units is a substantial problem. The liquidity is an indicator of material importance for the pension funds, the insurance companies, the health insurance companies, the investment intermediaries. These entities in most of the cases invested the collected pecuniary resources in securities, traded on a regulated market. The provision of cash for cover of their current liabilities by closing of positions in securities had especially a negative effect on the capital market, and in particular on fall in prices of the securities traded on the regulated markets. Actively monitored and dynamic buffers of cash or equivalent instruments are needed for the systematically important supervised persons, in order to avoid a liquidity spiral. For the purpose, the identification of the systematically important for the Bulgarian market participants is likewise important, as well as the methodology of their monitoring.

*The credit risk* is connected with the probability the counterparty to the transaction not to be able to pay its liabilities. In 2010, some European Area countries fell into debt crisis, which lowered the confidence in their creditworthiness. Mechanisms and packages were developed for saving the countries in difficulties, aiming at limiting the shifting of the crisis to other states, too, and calming the financial markets. This outside factor for the credit risk increase was substantially limited in Bulgaria, in view of the statutory requirements for our supervised persons' investments in securities, as well as their policy of diversification of their investment portfolios.

As a result of the slowly recovering real sector in Bulgaria, non-servicing was observed of some bond issues, traded on regulated markets, both regarding interest payments and payments of the Principal on the date of maturity, where many of the issuers undertook actions for deferral of the payment on them. Potentially affected by the realization of this risk were all supervised persons that invest funds raised by invertors, consumers of financial product and services, in securities admitted to trading on a regulated market – pension funds, collective investment schemes and insurance companies. The credit risk realization was a signal of financial problems of the companies as a result of the economic crisis. This risk creates problems with the investor trust in the capital markets.

On the other hand, the dynamics of the unserved credits in the bank system had an effect on the insurance sector by means of the financial insurances. The increase of the unattended credits in our country in 2010 reflected on the gross loss ratio of credit, suretyship and miscellaneous financial loss insurances. Nevertheless, their share in the overall structure of the premium income remained small, as well as their share in the total amount of the paid compensations, which limited the negative effect. The decline of the insurance amount for these insurances by 8.5% in the past year can be accepted as an indication of the borrowers' positive expectations for stabilization of their future income.

The falling into insolvency of systematically important or numerous supervised persons could also become a problem for the judiciary, which might undertake large in volume and complexity cases. The probable duration, necessary for resolving such type of cases, causes additional financial stress for the relevant market participants and continues or contributes to an extreme crisis situation.

**The market risk** is risk of losses as a result of decrease in the prices of securities traded on a regulated market, as well as from the drop in prices of real estates. In view of the continuing decline in the real estate prices, even though at slowed down rates, and the sharp exchange dips in 2010, as a consequence of the economic crisis, the investors and consumers of financial products in 2010 had again directed their financial resources to investments that carry lower risk. The investment income in the capital market declined sharply as a result of the drops in the prices of the financial instruments traded on a regulated market, investors having again oriented to deposits in credit institutions, where a strong growth was noted in the citizens and households' deposits. This customer inclination created difficulties and risks for the normal functioning of the non-banking financial sector, reflected on the low liquidity of the regulated market, on the worsening of the financial results of more financial intermediaries – some of them narrowed their activities, such as territorial range and personnel, or fully withdrew from the market. The probability of consolidation or merger of the market participants has increased, which is connected directly with the liquidity and the possibility of arising of cartel relationships, when the number of the market participants reaches a critical low level. The risk from market manipulations also increased.

The change in the **investors inclination for assuming of risk** is also one of the financial markets risks. As a result of the global financial crisis the investors' risk appetite was strongly limited by the concussions on the capital markets and the investments were directed to low-risk, but more secure financial instruments. Due to the high extent of the financial flows liberalization, as a direct effect in Bulgaria was observed withdrawal of the short-term foreign investments, the larger part of which were invested on the capital market. The investors' inclination of assuming certain risk is determined by the trust, which the investors have in a given financial market, by the market's transparency and perspectives on economic development. In 2010, certain recovery was observed of the risk appetite on a global scale, which was expected to reflect positively also on the non-banking financial market in our country.

## **Risks specific to the non-banking sector**

*The political risk* reflects the influence of the political processes in the country on the market and investment conditions, in which the companies carry out their activities. The political risk is measured with the probability of changes with negative reflection on the pursued by the government long-term economic policy, which leads to worsening of the economic climate, the economic entities' financial results and respectively of the realized profitability. This risk may be single with short-term or long-term effect.

Such risk could be identified in 2010 in regard to the occupational pension funds, when a decision was made for transfer of part of the funds accumulated on the insured persons' individual accounts in the occupational pension funds, to the Pensions Fund of the state social security. The discussion around the fate of the occupational pension funds created uncertainty on the pension insurance market, which could have resulted in additional price collapse of securities traded on a regulated market, in case of converting the securities in which the funds had invested into cash, and could have led to the occurrence of systemic risk on the financial market.

*Risk related to compliance with the legal provisions by the supervised persons* – risk of non-compliance with the legal regulations, which may lead to systemic risk and violation of the financial stability. The enhancement of this risk may be due to both systematic violations of the existing legal regulations, and violation because of change in the regulations and insufficient knowledge or preparedness of the supervised persons for compliance with it. The proper identification of the reasons, which generate this risk, will help for its better management. Of special importance for ensuring financial stability is the observance by the supervised persons of the requirements for capital adequacy and solvency margin. It is necessary, the setting up of internal for the supervised entities compliance structures to be encouraged, which will mitigate the risk of non-compliance with the law for the supervised persons, as well as for assisting the FSC.

*Risks, arising from the behavior and activity of the companies* supervised by of FSC occur for the consumers of non-banking financial services. In connection with worsening of the financial situation of some of the participants on the non-banking financial market in 2010, as well as with the reduced volume of activities, part of the supervised entities limited the number of their employees. This circumstance may increase the risk for the quality of the offered services and products, as well as of the required care to be taken not to mislead the consumers in the offering of financial services and products to them. On the supervised entities' side, these circumstances characterize the operating risk, which is a risk of loss, associated with the improper and inappropriate functioning of the supervised entities' internal systems. In the supervisory activity, FSC paid attentions to the management of the operating risk by the supervised persons with the purpose of effective consumer protection.

In the Financial Supervision Commission Act, the Commission has serious legal powers regulated. Despite of these powers, early in 2010 after analysis made of the activity it was established that the financial supervision was insufficient, inadequate and ineffective and the legal powers could not be applied for useful solving of problem situations. The FSC activity, according the analyses made, showed partial and unsatisfactory fulfillment of the goals, underlying the establishment of the regulatory authority. Thus a risk occurred of non-achievement of the goals set to the regulator in the conditions of a financial crisis.

The beginning of the resolving of the established problems was launched with the amendments to the Financial Supervision Commission Act in 2010, and they are FSC strategic goals and have to be solved in a medium-term plan.

## 2.2. Main market trends

The FSC's supervised persons offering financial services and products, as well as the consumers of these services and products in 2010 carried out their activities in unstable macroeconomic environment. The global economy began its recovery in 2010 after the biggest postwar crisis, but the growth was uneven. Bulgaria's economy for the same period was recovering slowly, registering a real growth of 0.2% on annual basis. Due to the fact that the real economy and the financial sector are part of one system, they mutually influence each other, the negative trends in the real economy intensifying in the financial sector. The market conditions and the regulatory environment also reflect on the activity of the economic entities in the non-banking financial sector. The pressure on the non-banking financial sector can be serious, unless the market trend is changed and it is activated.

In 2010, as a whole the companies from the non-banking financial sector closed with worse financial results. A decline was noted in the realized profit in all sectors – capital market, insurance, health insurance, pension insurance. Furthermore, due to liquidity problems on a global scale, a flow of new capitals was lacking to the regulated market and the mutual funds, which for our market is of substantial importance for restoring trade activity and the liquidity of the securities traded on a regulated market.

In 2010, a decline was observed of the stock exchange indices of the Bulgarian regulated market – BSE – SOFIA AD. The BG 40 index dropped by 2,1 % on a year-on-year basis, the SOFIX index by 15,19 %, a BG REIT by 9,71 %. The capitalization of the stock exchange for 2010 shrank by 8,83 % towards the preceding year. A decline was noted also in the new issues admitted to trading on a regulated market. In 2010 they were 36 in comparison with 50 in 2009, including units of contractual funds – 7, increase of capital by rights – 11, and warrants – 2. The low liquidity on the Bulgarian regulated market at the time did not support the share prices rise, and the poor market performance did not lead to a flow of new capitals to the Bulgarian Stock Exchange. The stock exchange turnover shrank by 21,3 %. The worsened financial situation made investors to sell out shares, in order to cover their current expenses.

The amount of assets managed by the asset management companies in 2010 changed compared to the preceding year, a positive trend being observed. The amount of assets of the collective investment schemes increased by 26,4% compared to the preceding period. Growth of assets was also noted with the special investment purpose companies, pursuing securitization of real estate, even though minimum in size of 0,4 % regardless of the continuing drop in prices on the real estate market.

The slow and uneven recovery of the economic activity reflected also on the situation in the insurance sector, but not significantly. In 2010, the premium income of general insurance went down by 5,6 % compared to 2009. But a growth was registered in the life insurance. In 2010, a growth was also registered of the premium income in the reinsurance. A decline was observed of the realized net profit of the insurance sector. In regard to the health insurance in 2010 a 10,5 %, growth was registered in the gross premium income year-on-year but, on the other hand, the companies reported a negative financial result, their losses increasing compared to the previous year.

In 2010, an increase was reported in the assets of all pension funds – in the universal pension funds by 33,1 %, in the occupational pension funds by 14,6 %, and in the voluntary pension funds by 6,0 %.

The fall in the prices of securities, admitted to trading on a regulated market affected negatively the portfolio value of the investment companies, contractual and pension funds, of the insurance companies, of the investment intermediaries. The dip of the securities prices had greatest impact on the net asset value of the collective investment schemes and on the value per one unit of a pension insurance fund.

## 2.3. Risk management

### **FSC's role in the market risks management as a regulator of the market of non-banking financial services**

According to the FSCA, the Commission exercises supervision over the listed in Art. 1, para 2 of the Act persons, providing products and services in the non-banking financial sector. FSC's objective in carrying out supervision in regard to the risk management and consumer interests protection is to exercise adequate and proportionate market oversight, adhering to the major principle that the responsibility for the management of the risk associated with the activities of the supervised entities in connection with the offered by them financial products and services lies with their management bodies, as well as that the responsibility for investing and for the purchase of the offered products and services is borne by the investors and consumers.

FSC pursues its activity of risk management under the regulatory restrictions imposed on it by the laws regulating its activities – FSCA, LPOS, MFIA, ASIPC, LMMAFI, HIA, IC, SIC. The circumstance should also be taken into account that the Commission cannot eliminate all risks and realized losses in the non-banking financial sector. The main accent in the activity of risk management is ensuring financial stability of the system, normal functioning of the market, identification and assessment of the systemic risks, as well as consumer interests protection from the viewpoint of preserving their confidence in the market. In risk management, FSC focuses on the current, extraordinary and potential risks.

Within the risks management, for the purpose of reducing the probability of arising of unfavorable events and minimization of the negative consequences in case of such events occurrence, the following measures were taken:

Amendment and supplement was made to the Financial Supervision Commission Act, promulgated in SG, iss. 43 in 2010, whereby the FSC structure was changed. With this amendment election of a fifth Member of the Commission was provided, with laid down in Art. 3, Item 5 of FSCA functions, namely to support the Financial Supervision Commission in its policy for analysis and assessment of the risk in the financial markets, improvement of the supervisory practice and protection of the interests of the investors, insured and socially insured persons. The management of the market risks by the regulatory authority is a complex and complicated process, which has to be performed jointly by the whole Commission. The Deputy Chairperson in charge of the relevant Divisions receives the first signals regarding the condition of the sectors over which they exercise direct supervision. They have the respective legal powers for the imposition of coercive measures, administrative sanctions and fines. However, with the appointment of a Member of the Commission with special functions of supporting the FSC policy of analysis and assessment of the risks on the financial markets, improvement of the supervisory practice and protection of the interests of investors, the insured and socially insured persons, the possibilities of the Commission for more effective risk management have been enhanced.

With the same amendment from 2010, the introduction of requirements was envisaged, aiming at achieving maximum transparency of the financial markets' participants, the supervised by FSC persons, as well as heightening of the control on the authority's side. In the past 2010, actions were also undertaken with the purpose of developing the functional integration of the supervision over the non-banking financial sector.

### **Actions undertaken with the purpose of direct consumer protection**

Of significant importance for protection of the interests of consumers of financial services and products is that they must receive sufficient information for making informed decisions. The public disclosure of the information about the financial situation of the persons, offering financial products and services, as well as information on the offered by them products and services on the Commission's web site, provides such possibility to them. With the purpose of ensuring current information on the supervised persons, easily accessible and in full volume in one place, a new web page was developed, for which a working group was set up, composed of officials from all units of the Commission.

**Supervision over the market behavior of persons**, offering financial products and services. In reply to the established problem that the complaints and signals of the affected persons were not reviewed by FSC, as well as that no actions were taken in relation to prevention of violations and the consequences of incorrect behavior on the supervised persons' side, with the amendments to the Financial Supervision Commission Act, promulgated in SG, iss. 43 in 2010, the Commission's structure was changed, having envisaged with the change special attention to be given to the FSC policy of financial markets risk analysis and assessment, improvement of the supervisory practice and protection of the interests of investors, insured and socially insured persons. For the purpose, it has been provided one of the Commission Members to support the Commission in its policy in the above-cited field. The handling of the complaints regarding supervised persons' actions was helpful in obtaining a feedback from the market and for a possibility of improving the legislative base and the supervised practices. Based on this information, analysis was conducted of the risks arising from the supervised persons' behavior for the consumers. The measures taken as a result of the received signals from consumers had an effect on the consumers trust recovery, one **necessary** condition for preservation of the financial stability.

### **Strategy for automatic collection, keeping and provision of information on the supervised entities' activities**

Actions were commenced on FSC's side for resolving the problem concerning the preparation of quality analyses of the non-banking financial sector market, for the establishment and securing the functioning of an early warning system for occurrence of unfavorable for the market events, for risk assessment and consumer protection. The first step has been the preparation of strategy for automatic collection, keeping and provision of information about the supervised persons' activities. For enhancement of the efficiency of the supervision exercised over the financial market, including also that concerning the management of the market risks, the procedure of processing the received in FSC information has to be optimized. Relevant database is required, in which the information to be systematized in comparable periods, the base to be replenished in specified time-limits. For this purpose, again, a working group was set up, composed of officials from all units of the Commission, which prepared a strategy for automated collection, storage and provision of data on the supervised persons' activity. The strategy envisages creation of a single electronic portal for receiving of financial and other information from the supervised persons, which is to cover all incoming information flows to the Commission, creation of an electronic case-file of each supervised person, in which to be stored in a chronological order the whole information (public and non-public), received from the said person in FSC,

creation of possibility for exporting the information, received through the single electronic portal, in a standardized form in a single data storehouse, development of a single electronic register of all supervised persons. The implementation of the Single Information System in FSC will assist for the acceleration of the integration processes in the Commission.

### **Improvement of the interaction, constructive dialogue with BNB**

In relation to the problems established in the communication between the institutions, measures were undertaken and in the second half of 2010 the interaction with the Bulgarian National Bank, as a supervisory authority on the bank sector, was improved on a working level. Regular meetings were held for exchange of information in connection with the functioning of the European Systemic Risk Board. Meetings were likewise conducted in connection with the improvement of the information sharing between the institutions, necessary for the purposes of the financial stability.

### **Overcoming the problems arising from the supervision by sectors**

In the second half of the year, measures were taken for expediting the integration processes in the Commission. For the solving of problems of interest to the Commission activity as a whole, working groups were organized with a wide participation of officials from the whole specialized administration – such as these for elaboration of guidelines on the written statements of the actual owners, for working out the tariff of fees collected by FSC, for the development of FSC new web site, for elaboration of strategy for collection, keeping and provision of information on the supervised persons' activities.

### **Strategy for development of the risk analysis and assessment activity**

Part of the process of risk management is the development of risk strategy with the purpose of reducing the probability of risk realization and minimizing the negative consequences in case of occurrence. In this connection, a strategy was elaborated for development of the activity of analysis and assessment of the financial markets risks, improvement of the supervisory practice and protection of the interests of investors, insured and socially insured persons.

In the Commission, measures have been likewise undertaken for the setting up of an early warning system, which are in an early stage of development. In the first stage of the work, analytical framework was developed for monitoring and valuation of the risk from occurrence of systemic crisis in the non-banking financial sector on the basis of methodology for systemic assessment of the financial crisis impact, developed by the European Central Bank.

### **3. Licensing activity, authorization regimes, notifications and certificates**

#### **3.1. Investment activity**

##### **Licensing and authorization activity**

The licensing activity represents the issuing of a license, which is a prerequisite for carrying out of certain types of activities, as explicitly provided in the laws regulating the activities of the participants in the Bulgarian capital market. The license (full or partial<sup>9</sup>) is an act of an administrative authority (FSC), on the basis of which the applicant willing to pursue the business under a licensing regime has the right to carry it out.

In 2010, the licensing activity in the investment intermediaries remained weak, in consequence of which the decline in their total number continued, and at the yearend, there were 80 Bulgarian investment intermediaries operating in the 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 in the past year, authorizations for organization and management of 8 new funds were issued. The interest of the investment community to the offered services of the collective investment schemes marked certain increase, but still as a result of the financial crisis that caught up the Bulgarian capital market as well, the pre-crisis growth levels could not be reached. The activity of issuing licenses for pursuing business in the special investment purpose companies enhanced and a growth was reported in the number of persons carrying out the said activity to 71 at the end of the period. Dynamics was observed in the public companies and issuers, but under the influence of the economic crisis, a fall was likewise recorded in them, their total number reaching 367 at the yearend.

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<sup>9</sup> 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 offering for initial sale of financial instruments on the terms of unconditional and irrevocable obligation for subscription/ acquisition of of financial instruments for its own account. The required capital is BGN 250 000.



**Table 1. Licensing activity in relation to the investment community**

Supervised entities	Number at 31.12. 2009	Change in the period	Issued licenses	Withdrawn licences	Refusal for issuance of license	Number at 31.12. 2010
<b>Investment intermediaries, incl.</b>	<b>87</b>	<b>-7</b>	<b>+2</b>	<b>-9</b>		<b>80</b>
Banks	26	+1	+1			27
Non-banking institutions, incl.	61 <sup>10</sup>	-8	+1	-9		53
<i>partial license*</i>	38	-8	+1	-9		30 <sup>11</sup>
<i>Full license*</i>	23					23
<b>Collective investment schemes</b>	<b>102</b>	<b>+2</b>	<b>+8</b>	<b>-6</b>		<b>104</b>
Investment companies, incl.	10					10
<i>IIs of open-end type</i>	8					8
<i>IIs of closed-end type</i>	2					2
Contractual funds	92	+2	+8 <sup>12</sup>	-6		94
<b>Management companies</b>	<b>40</b>	<b>-6</b>				<b>34</b>
<b>SIPCs, incl.</b>	<b>68</b>	<b>+3</b>	<b>+3</b>		<b>1</b>	<b>71</b>
SIPCs, securitization of receivables	7	+1	+1			8
SIPCs, securitization of real estate, incl.	61	+2	+2			63
<i>SIPCs, (Agricultural land)</i>	8					8
<b>Public Companies and issuers</b>	<b>385</b>	<b>-18</b>	<b>+12</b>	<b>-30</b>		<b>367</b>

## Investment intermediaries

In connection with the administrative procedure in the licensing activity in regard to the investment intermediaries (IIs), in 2010 work was carried out on one pending procedure for the issuing of a license, which remained from 2009. During the year, procedures were opened for the issue of a license for pursuing the business of investment intermediary to two companies, which at the end of the reporting period were not concluded. Furthermore, the procedures opened for withdrawal of the issued license to pursue business as investment intermediary of five companies were not completed. During the period, the issued license for carrying out the activity of investment intermediary was withdrawn to nine companies possessing a partial

<sup>10</sup> II KBC SECURITIES, BRANCH BULGARIA; II PIANEER ASSET MANAGEMENT, A.S. and ALPHA BANK – BRANCH BULGARIA BRANCH pursue business in Bulgaria through a branch under the freedom of establishment, and DIF BROKER – SOCIEDADE CORRETORA, S.A., Portugal, pursues business by using a tied agent, equalized to a branch. These IIs were not included in the number of investment intermediaries.

<sup>11</sup> One of these 30 IIs is with required capital of BGN 100 000, and respectively a license to perform investment services and activities only under Art. 5, para 2, Item 1 and 5 of MFIA, having no right to hold financial instruments and cash of customers.

<sup>12</sup> Authorization to 7 MCs was issued to organize and manage 8 CF.

license, where three of these procedures were opened in the preceding reporting period. For two IIs the issued licenses were withdrawn on FSC initiative, and for the other 7 – on the basis of filed by the respective company application. The issued licenses to two companies with full license were withdrawn on 22.12.2009, but these decisions of FSC came into effect in 2010. During the year under review, one procedure was opened and closed of voluntary denial of a granted license to carry out the activity of investment intermediary. Moreover, in the past year one procedure was opened for change in an investment intermediary's subject of activity, which was not concluded at 31.12.2010.

**Table 2. Administrative procedures in the IIs licensing activity**

	<b>Uncompleted procedures in 2009</b>	<b>Newly opened procedures in 2010</b>	<b>Concluded procedures in 2010</b>	<b>Uncompleted procedures in 2010</b>
<b>Investment intermediaries</b>	6	15	13	8

#### **Individual administrative acts**

In 2010, in connection with the application of the licensing regimes over the activities of the market participants and the regulated securities markets the Commission issued:

- **13 decisions for approval for election as members of a management body** of investment intermediaries;
- **2 refusals for approval for election of members of a management body** of an investment intermediary;
- **2 approvals** for amendment to the **Rules of BSE – Sofia AD**;
- **approvals** for election of Assen Vassilev Yagodin, Lubomir Nikolaev Boyadjiev, Ivan Angelov Takev, Vassil Dimitrov Golemanski and Georgi Ivanov Balgarski for members of the **Board of Directors of BSE – Sofia AD**.

#### **Received notifications**

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

- BOSTON MERCHANT FINANCIAL LTD. (directly) and Pavel Boguslavovich Belogour (indirectly) for acquisition of a qualifying holding in investment intermediary KM INVEST AD;
- FINANCE CONSULTING AD for acquisition of a direct qualifying holding in investment intermediary ABC FINANCE AD;
- MARINER OOD for acquisition of an indirect qualifying holding in investment intermediary BALKAN INVESTMENT COMPANY AD;
- ALTA MAR OOD (directly) and Georgi Kostadinov Georgiev (indirectly) for acquisition of a qualifying holding in investment intermediary BG PROINVEST AD.

At the end of the period under review, in the Commission there were opened and uncompleted procedures for **acquisition of qualifying holdings from the capital** or from the votes at the General Meeting of:

- TBIH FINANCIAL SERVICES GROUP, N.V., the Netherlands, for acquisition of a qualifying holding in investment intermediary TBI INVEST EAD;
- MARINER OOD for acquisition of an indirect qualifying holding in investment intermediary BALKAN INVESTMENT COMPANY AD.

In 2010, notifications were reviewed for **transfer of qualifying holdings** of the II's General Meeting, respectively for reduction of such holding, of:

- MIRAGE BANSKO JSC about transfer of a direct qualifying holding in investment intermediary KM INVEST AD;
- Tanya Ivanova Hristova for transfer of a direct qualifying holding in investment intermediary ABC FINANCE AD;
- Margarita Nikolova Dineva, Zhivko Ivanov Goranov and Dimitar Vachev Dimitrov about transfer of their qualifying direct holdings in EURODEALING AD;
- Nikolay Yalamov about transfer of a direct qualifying holding in CAPMAN AD;
- TBI FINANCIAL SERVICES BULGARIA EAD about transfer of a qualifying holding in investment intermediary TBI INVEST EAD;
- Slavka Georgieva Todorova about reduction of a qualifying holding in investment intermediary MARINER OOD;
- PHL GROUP AG for transfer of an indirect qualifying holding in investment intermediary ABC FINANCE AD.

During the period, amendments to the **general conditions**, applicable to the contracts with customers were reviewed of 15 investment intermediaries.

### **Notifications**

**The notifications by investment intermediaries from Member States**, intending to pursue business on the territory of the Republic of Bulgaria under the freedom to provide services or through the establishment of a branch under freedom of establishment at the end of 2009 were in total 931 notifications by 799 investment intermediaries. Within the reporting period, notification by 243 IIs were received in FSC. The total number of the received notifications was 336, including also supplements to notifications. 329 of them were under freedom to provide services, two notifications were for pursuing business by establishment of a branch under freedom of establishment, and 5 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 2009, the forwarded notification as a whole on the Commission's side were 43 in number. During the period, FSC sent overall 31 notifications to Member States from 6 investment intermediaries for carrying out activity under freedom to provide services, in regard to whom the notification procedure was concluded:

- GLOBAL MARKETS LTD. – on the territory of Poland;
- FK EVER AD – on the territory of Poland;
- ADAMANT CAPITAL PARTNERS AD – on the territory of Romania;
- BULBROKERS EAD – on the territory of Romania;
- FACTORY AD – on the territory of all EU Member States;
- INTERCAPITAL MARKETS AD – on the territory of Poland.

Furthermore, the notification procedure was concluded of the announcement by investment intermediary GLOBAL MARKETS OOD, intending to carry out activity on the territory of Hungary through the establishment of a branch under freedom of establishment:

## Collective investment schemes and management companies

In relation to the administrative procedures in the licensing activity for collective investment schemes and management companies, in 2010 work was carried out on 6 uncompleted procedures in regard to contractual funds (CFs), while during the reporting period 9 new procedures for licensing and 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 approved, which were filed in the register kept by the Commission under Art. 30 of the FSCA.<sup>13</sup> In connection with the management companies (MC), in the past year 8 new procedures were opened and concluded, the larger part of them being for withdrawal of license. The tendency one MC to organize and manage several contractual funds each continued, the objective in most of the cases being at least one of the three major CFs (conservative, balanced and aggressive) to be established, which are to offer the full range of investment products. In 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.

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

	<b>Uncompleted procedures in 2009</b>	<b>Newly opened procedures in 2010</b>	<b>Concluded procedures in 2010</b>	<b>Uncompleted procedures in 2010</b>
<b>Investment companies</b>	-	-	-	-
<b>Contractual funds</b>	6	9	15	-
<b>Management companies</b>	-	8	8	-

### Individual administrative acts

With the purpose of investor interest protection, preservation of their confidence in CIS and establishment of compliance with the statutory requirements, the law regulated the issue of preliminary authorization, confirmation or approval by FSC for the performance of definite actions by the supervised persons. In this relation during the period under review were issued:

- **6 approvals of amendments to the Articles of Association of 6 investment companies;**
- **one approval for change in the Rules of portfolio valuation and determination of the net asset value of an investment company;**
- **3 approvals of changes in the Rules of risk assessment and management of 3 ICs;**
- **approval for replacement of a bank – depository of one IC;**

<sup>13</sup> Detailed information about the organization and management of the new contractual funds can be found in Annex I.2.1A

- 18 approvals of changes in the Rules of portfolio valuation and determination of the asset value of 17 CFs;
- 43 approvals of amendments to the Rules of 34 CFs;
- 28 approvals of the risk assessment and management rules of 28 CFs;
- 13 approvals to 4 management companies for amendments to the contract for depository services with the depository bank and 11 approvals to 4 MCs for replacement of the depository bank.

### **Received notifications**

In 2010, overall 8 **notifications for acquisition** of a qualifying holding in MC were reviewed on the ground of Art. 210, para 5 in relation to Art. 26, para 1 of MFIA, in the capital or in the votes at the General Meeting of:

- SOMONI ASSET MANAGEMENT AD (the procedure was instituted in 2009);
- FFBH ASSET MANAGEMENT AD;
- STATUS CAPITAL AD – 2 notifications;
- SAGLASIE ASSET MANAGEMENT AD;
- TBI ASSET MANAGEMENT EAD (the procedure was not completed at the end of 2010);
- AURORA CAPITAL AD (the procedure was not concluded at the end of 2010);
- KD INVESTMENTS EAD (the procedure was not completed at the end of 2010).

During the period, in the Commission notifications for **transfer of qualifying holdings** or from the votes at the MC General Meeting were reviewed, respectively for reduction of such holding, in the following management companies:

- FFBH ASSET MANAGEMENT AD – 3 notifications;
- SOMONI ASSET MANAGEMENT AD;
- STATUS CAPITAL AD;
- SAGLASIE ASSET MANAGEMENT AD – 3 notifications;
- ULTIMA CAPITAL MANAGEMENT EAD.

In the Commission amendments were likewise reviewed to the general conditions applicable to the contracts with customers of MC SAGLASIE ASSET MANAGEMENT AD.

The total number of the **reviewed in FSC advertising materials** during the period was 16. From the reviewed advertising materials about CFs, filed in FSC by the MCs managing them, **9 temporary prohibitions** were imposed for their publication and dissemination by 8 managing companies.

### **Notifications**

The notifications for public offering of CIS from Member States in Bulgaria at the end of 2009 were overall 12 in number. During the period under review, in FSC **notifications were received** from two **MCs from Member States**, which intend to carry out activity on the territory of the Republic of Bulgaria under freedom to provide services:

- SOCIETE GENERALE GESTION (France);
- AMUNDI (France).

In 2010, there were not any **notifications** received in FSC by **local management companies**, intending to carry out activity on the territory of Member States, as well as by CIS, which intend publicly to offer their units in the EU. Thus, the number of notifications forwarded by the Commission was preserved as two.

During the reporting period, in the Commission 6 notifications were also reviewed for offering on the territory of the Republic of Bulgaria of units of sub-funds, managed by:

- EUROBANK EFG FUND MANAGEMENT COMPANY (LUX) S.A.. – 3 notifications;
- BAYERNINVEST LUXEMBOURG S.A.;
- PIONEER FUNDS;
- PIONEER P.F.

One notification was considered, too, for termination of the offering in the Republic of Bulgaria of units of a Fund, managed by PIONEER FUNDS.

## 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 2010 work was carried out on one uncompleted procedure for the issue of a license that remained from 2009. During the year, three further procedures were opened for the issuing of a license to pursue the business of SIPC, a license being granted to two of the companies, and refused to the third company. There were not any procedures pending at the end of the period. During the year under review, there were no procedures opened for withdrawal of license of special investment purpose companies.<sup>14</sup>

**Table 4. Administrative procedures in the licensing activity for SIPC**

	Uncompleted procedures in 2009	Newly opened procedures in 2010	Concluded procedures in 2010	Uncompleted procedures in 2010
Special investment purpose companies	1	3	4	-

### Prospectus for public offering of securities

During the reporting period, FSC approved prospectuses for **initial public offering of shares** of 16 newly established, as well as already traded on BSE companies. One prospectus for public offering of an issue of warrants and 4 **prospectus for admission to trading** on a regulated market of an issue of shares were likewise approved. Approval by the Commission was also given for 8 **prospectuses for admission to trading** on a regulated market of issues of **corporate bonds**. **Refusal of approval** was pronounced in regard to a filed prospectus for public offering of securities of **one issuer**<sup>15</sup>.

<sup>14</sup> Detailed information about the entered and deleted companies can be found in Annex I.2.1B.

<sup>15</sup> Detailed information about the approved prospectuses can be found in Annex I.2.1C.

During the period under review, the Commission took decisions for the issue of:

- **24 approvals of amendments to the Articles of Association of 22 SIPC's;**
- **one refusal for approval of amendments to the Articles of Association of a SIPC;**
- **approval to 4 SIPC's for replacement of depository bank;**
- **approval to one SIPC for replacement a servicing company** with a new servicing company;
- **refusal for approval to one SIPC of replacement of the servicing company** with a new servicing company;
- **approval to one SIPC for replacement of the servicing company** with a new servicing company, **regarding the activity of provision of accounting services;**
- **3 approvals of supplement to confirmed by FAC prospectus of public companies;**
- one decision for **correction of made manifest factual error;**
- 2 approvals for **inclusion of independent controllers** in the list under Art. 123, para 3 of LPOS;
- two approvals for **transformation by merger of SOPHARMA LOGISTICS AD in SOPHARMA TRADING AD**, as well as **VINOPOLY AD in TODOROFF AD** according a merger contract signed between the two companies;
- approval for **transformation of KTI SAEDINENIE AD by spin-off and establishment of single-member joint-stock company ATLAS FINANCE EAD.**

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

In the course of the reporting period, 18 tender offers and 2 offers for redemption of shares were reviewed, where FSC **pronounced the issue of 16 temporary prohibitions** for the publishing of tender offers/ redemption offers. Following review of the received documents and of the registered tender offers, respectively the corrected tender offers, the Commission took decision **not to pronounce a final prohibition on publishing of 17 tender offers** and in practice it was allowed to be published the **tender offers** of:

- ADVENT WATER (LUXEMBOURG) S.A.R.L. for the purchase through II ELANA TRADING AD of shares of DEVIN AD from the other shareholders of the company (2 decisions for non-imposition of final prohibition);
- ALBENA INVEST-HOLDING AD for the purchase of shares from the other shareholders of BULGARIA-29 AD through II BULBROKERS EAD;
- RECORD CAR HOLDING AD for the purchase through II SOFIA INTERNATIONAL SECURITIES AD of shares of BALKANCAR – RECORD AD, from the other shareholder of the company;
- NAPREDAK HOLDING AD for the purchase through investment intermediary DEALING FINANCIAL COMPANY OOD of shares of BALKAN AD from the other shareholders of the company;
- DNG ASSETS PLC for the purchase through II STATUS INVEST AD of shares of IMMOVABLE PROPERTIES SOFIA REIT from the other shareholders of the company;
- RADITA OOD for the purchase through II AVAL IN JSC of shares of POLYANITSA AD from the other shareholders of the company (2 decisions for non-imposition of final prohibition);
- AROMA AD for the purchase through II BULBROKERS EAD of shares of ASTERA COSMETICS AD from the other shareholders of the company;

- ALFA DEVELOPMENTS EAD for the purchase through II BULBROKERS EAD of shares of PIRINHART AD from the other shareholders of the company;
- ALFA ASSETS EOOD for the purchase through II DEALING FINANCIAL COMPANY AD of shares of INTRANSMASH ENGINEERING AD;
- BALKANTOURIST ELIT EAD for the purchase through II FIRST FINANCIAL BROKERAGE HOUSE AD of shares of GRAND HOTEL VARNA AD;
- SEPTONA (Greece) for the purchase through II CAPMAN AD of shares of SEPTONA BULGARIA AD;
- TIM CLUB LTD for the purchase through II CENTRAL COOPERATIVE BANK AD of shares of CAPITAL MANAGEMENT SPV;
- SINTETIKA AD for the purchase through II EURO-FINANCE AD of shares of ETROPAL AD;
- PLASTHIM-T AD for the purchase through II EURO-FINANCE AD of shares of FORMOPLAST AD;
- WHITEBEAM HOLDINGS LIMITED, TIDAL WAVE TRADING LIMITED and POLYCOLOR AD for the purchase through II FIRST FINANCIAL BROKERAGE HOUSE OOD of shares of ORGACHIM AD.

The Commission issued **two final prohibitions** for publishing of a tender offer to:

- LEV CORPORATION AD for the purchase through II FACTORY AD of shares from the other shareholders of LEV INVEST SPA, as well as to,
- WHITEBEAM HOLDINGS LIMITED, TIDAL WAVE TRADING LIMITED and POLYCOLOR AD for the purchase through II FIRST FINANCIAL BROKERAGE HOUSE OOD of shares of ORGACHIM AD.

In 2010, FSC took also a decision **for termination** of a tender offer of BOR IN AD for the purchase through II CAPMAN AD of shares of POLYGRAPHIA AD.

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

In 2010, **26 subsequent issues of shares** (incl. 17 issues issued as a result of increase in the capital in initial public offering, 4 issues issued as a result of increase in the capital with own funds and 5 issues admitted to trading on a regulated securities market), **4 issues of shares as a result of transformation, 2 issues of warrants in process of issuing, 8 issues of corporate bonds and 8 issues of unit** were filed in the Register maintained by FSC. For the same period, **37 issues of securities** were **deleted** from the Commission's Public Register.

### **Notifications**

By the end of 2009, 11 notifications of prospectuses were received in FSC under Art. 18 of the Prospectus Directive, and the notifications during the reviewed period were from:

- Deutsche Telekom (Luxembourg) – notification of prospectus;
- Societe Generale (Luxembourg) – notification of prospectus;
- Hewlett-Packard Company (Luxembourg) – notification of prospectus;
- VMware, Inc (Germany) – notification of prospectus;
- Societe Generale (Luxembourg) – 9 supplements to prospectus;



- BNP Paribas Arbitrage Issuance B.V. (the Netherlands) – 3 supplements to prospectus.

During the period, one public company from the Republic of Bulgaria was admitted to trading on the EU territory, namely INTERCAPITAL PROPERTY DEVELOPMENT REIT.

In 2010, 2 applications were received in the Commission, filed through the Committee of European Securities Regulators for registration of **2 credit rating agencies**, and at the end of the reporting period the procedures were not completed:

- BULGARIAN CREDIT RATING AGENCY AD;
- AGENCY FOR CREDIT RATINGS AND ANALYSES AD.

## 3.2. Insurance and voluntary health insurance

### Licensing and authorization activity

The licensing activity constitutes the issuance of a license for 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 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 license is issued in written form and sets forth exhaustively:

- for insurer – the classes of insurances within the meaning of Annex 1 of the Insurance Code (IC), for which it has the right to pursue insurance;
- for reinsurer – the activities under Art. 29, para 2 of the Insurance Code, for which it can pursue reinsurance.

On proposal of the Deputy Chairperson, the Commission judges whether the requirements for issuance of the requested license were complied with and pronounces a decision latest within a 4-month period after receiving the application.

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, or unless otherwise provided therein.

For the issuance of a license, an application is filed with the Financial Supervision Commission and within a two-month period after the application filing, the Deputy Chairperson of the Commission in charge of Insurance Supervision Division prepares a proposal for the granting or refusal to grant the license and presents it for review to the Commission. If there are no irregularities, the Commission pronounces on the application within a one-month term of the proposal's presenting.

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

Supervised entities	Number as at 31.12. 2009	Change during the period	Issued license	With-drawn licenses	Refusals for issuance of license	Number as at 31.12. 2010
<b>Insurers, incl.</b>	<b>37</b>	<b>-2</b>				<b>35</b>
General (non-life) insurance	20	-1				19
Life insurance	15	-1		-1		14
Mutual insurance co-operative societies	2					2
<i>Branch of a foreign insurer</i>	9					9
<b>Reinsurers for general insurance</b>	<b>1</b>					<b>1</b>
<b>Insurance agents*, incl.</b>	<b>53 622</b>	<b>-9 646</b>				<b>43 976**</b>
Legal entities	5 920	+1 896				7 816
Sole proprietors	3 681	+447				4 128
Natural persons	44 021	-11 989				32 032
<b>Health insurance companies</b>	<b>21</b>	<b>-1</b>		<b>-1</b>		<b>20</b>

\* Including 816 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.

\*\* The allocation in the table is presented by number of agents per insurers. The total number of the registered agents in the electronic register at the end of 2010 was 35 398, incl. 6468 legal persons, 3381 sole proprietors and 25 549 natural persons. The difference in the indicated number is explained by the fact that the insurance agents may intermediate for more than one insurer according the restrictions set forth in the IC.

During the reporting period, a minimum decline was noted in the number of the licensed insurance and reinsurance companies, their number being respectively 35 insurance companies and one reinsurance company at the yearend. The reason for the decrease in the companies pursuing general insurance was the merger of one of the companies into another. From the supervised persons in the field of insurance in 2010, a drop was registered also in the insurance agents as a result of receding number of natural persons. In the segment of the health insurance companies, the licensing activity was not particularly active and their number decreased to 20 supervised entities as a result of one license withdrawal in 2010.

#### **Individual administrative acts**

In 2010, in relation to the administrative procedures concerning the insurance companies (ICs), health insurance companies (HICs) and insurance brokers (IBs) work was carried out on 15 uncompleted procedures that remained from 2009, and 218 newly opened procedures. The number of the concluded procedures (213) was insignificantly smaller than that of the newly opened, which was as a result of the considerable increase of the newly opened procedures in the past year to 218, compared with 166 in 2009. Thus, as of the end of 2010, the number of the pending procedures had a minimum growth to 20, which were transferred for resolving in future periods.

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

	<b>Uncompleted procedures in 2009</b>	<b>Newly opened procedures in 2010</b>	<b>Concluded procedures in 2010</b>	<b>Uncompleted procedures in 2010</b>
<b>Insurance companies</b>	1	104	102	3
<b>Health insurance companies</b>	2	48	50	-
<b>Insurance brokers</b>	7	59	52	14
<b>Other procedures</b>	5	7	9	3
<b>TOTAL:</b>	<b>15</b>	<b>218</b>	<b>213</b>	<b>20</b>

\* In the table with information on procedures in 2010, 96 procedures were included for approval of executive directors, procurators, of members of management and control bodies of insurance and health insurance companies, which in the table with information on the procedures in 2009 were included under Other procedures.

In 2010, the following decisions were issued in application of licensing and authorization regimes under the Insurance Code, the Health Insurance Act and the sub-statutory acts of their implementation:

- **2 decisions for additional license** to ZAD ARMEEZ AD for pursuing business on insurance Railway rolling stock – any damage or loss inflicted on railway rolling stock, and to GROUPAMA LIFE INSURANCE EAD for pursuing business on Unit-linked life insurance, as well **one decision** for termination of procedure instituted for the issue of an additional license for a new class of insurance;
- decision for withdrawal of a license to carry out insurance activity of ZHZK BULGARSKI IMOTI AD;
- decision for withdrawal of a license for voluntary health insurance of UNIQA HEALTH INSURANCE EAD;
- **8 decision whereby acquisition of shareholding in the capital of insurance companies was approved;**
- **2 decisions** for approval of changes in already approved **8 health insurance packages** on the side of 2 health insurance companies;
- decisions for **entry** in the FSC's register of **49 new insurance brokers;**
- decisions for **withdrawal** of registration of **2 insurance brokers;**
- decision for recognizing legal capacity of an insurance broker, acquired in a Member State;
- **79 decision for approval of executive directors, procurators, members of management and control bodies and heads of internal control offices** of insurers and health insurance companies (50 approvals of members of management and control bodies of insurers, 29 approvals of executive directors and members of management and control bodies of health insurance companies and 2 approvals of heads of internal control offices);
- **5 decisions for refusal of approval for members** of management and control bodies of health insurance companies;
- decisions **for termination of 10 procedures for approval of members of management and control bodies;**
- **4 decisions** for recognizing full legal capacity of **responsible actuaries** and one decision for recognition of partial legal capacity of a responsible actuary;

- decisions for **entry of 3 auditors** and **one decision for termination of instituted procedure for inclusion of an auditor** in the list of the registered auditors under the IC.

In the course of the year, the following procedures were considered in the Commission for change of shareholding and change in the amount of capital of insurance and health insurance companies:

- **5** procedures for increase of the shareholding in the capital of insurers;
- **25** procedures for increase in the capital of insurers;
- **2** procedures for acquiring shareholding in health insurance companies;
- **9** procedures about increase in the capital of health insurance companies.

During the reviewed period, **3 new auditors** were filed in the Commission's register, one auditor obtaining a refusal for inclusion on the list.

### Notifications

During the reporting period, the active notification on the side of insurers and insurance intermediaries from EU Member States continued. In 2010, **51 notifications were received** in the Commission concerning insurers **from Member States** of their intent to pursue activity on the territory of the Republic of Bulgaria under freedom to provide services, whereby their total number reached **333**. At this point, **9 of them declared denial** of their intent.

Intention to carry out activity of insurance intermediation on the territory of the Republic of Bulgaria under freedom to provide services in the past year was also stated by **212 insurance intermediaries from Member States**, thus their total number growing to **1439**, from which **74 declared denial** of their intent

During the year, there were **3 notification** sent by the Commission **about insurers having a seat in the Republic of Bulgaria** in regard to extension of the territorial coverage in relation to the right of freedom to provide services on the territory of other Member States. As at the end of 2010, the sent notifications were totally 9, namely: ZD EUROINS AD (for all Member States), DZI – GENERAL INSURANCE AD, ZAD DZI and ZK UNIQA LIFE AD (for Romania), ZAD BULSTRAD VIENNA INSURANCE GROUP (for Romania and Greece), INTERAMERICAN BULGARIA ZAED (for Belgium, the Netherlands, Greece and Romania), 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), ZK LEV INS AD (for France and Italy) and BULGARIAN EXPORT INSURANCE AGENCY (BEIA) EAD (for Germany, France, the United Kingdom, Italy, Spain, Poland, Romania, the Netherlands, Greece, Portugal, Belgium, Czech Republic, Hungary, Sweden, Austria, Denmark, Slovakia, Finland, Ireland, Lithuania, Latvia, Slovenia, Estonia, Cyprus, Luxembourg, Malta, Norway, Iceland and Liechtenstein).

**With regard to the Bulgarian insurance brokers**, in 2010 the Commission sent **9 notifications** of pursuance of insurance intermediation under freedom to provide services on the territory of Member States, thus their total number becoming **13**, namely:

- IPS SERVICES OOD (for the United Kingdom and Romania);
- 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, Czech Republic and Ireland). The insurance broker was deleted from the FSC register in December ;
- MOBIX BG OOD (for the Netherlands);

- ARISTA BROKERS OOD (for Spain, Romania, Greece, Austria, Italy, France, Czech Republic, Hungary, Poland, Belgium, Denmark, the Netherlands, Portugal, Malta and Cyprus);
- EASY INS – FIRST INTERNET INSURANCE BROKER EOOD (for all EU Member States, Norway, Iceland and Liechtenstein);
- GMG BROKERS LTD. (for England, Italy, Germany, France, Austria, Romania, Greece, Poland, the Netherlands, Belgium, Denmark, Czech Republic, Slovakia);
- GENERAL BROKERS AD (for England, Italy, Germany, France, Austria, Romania, Greece, Poland, the Netherlands, Belgium, Denmark, Czech Republic, Slovakia);
- SIGMA AND PARTNERS INSURANCE BROKERS OOD (for Romania and Greece);
- COMPLEX RISK SOLUTIONS EOOD (for Romania, the United Kingdom, France and Greece);
- TOTAL INS – INSURANCE BROKER EOOD (for all EU Member States);
- ING INSURANCE BROKERS OOD (for all EU Member States).

In connection with pursuance of insurance intermediation by **Bulgarian insurance brokers under the right of establishment, 2 notifications** were forwarded, namely:

- ARISTA BROKERS OOD (for Germany);
- SIVOV – GROUP EOOD (for the Czech Republic).

**One insurer from a Member state** availed itself of the right of establishment through its branch on the territory of the Republic of Bulgaria, while another insurer stated a refusal of its intention to carry out insurance activity on the territory of the Republic of Bulgaria, thus their overall number reached **9**, namely:

- CARDIFF – NON-LIFE INSURANCE, BULGARIA BRANCH;
- CARDIFF – LIFE INSURANCE, BULGARIA BRANCH;
- ZAD I N G – BRANCH SOFIA;
- Q B E INSURANCE (EUROPE) LIMITED – SOFIA BRANCH;
- CHARTIS EUROPE S.A.;
- COFACE AUSTRIA KREDITVERSICHERUNG AG, Austria;
- AXERIA IARD, France;
- IC OLYMPIC – BRANCH BULGARIA;
- GRACHER BG INTERNATIONAL KREDIT-UND KAUTIONSMAKLER GMBH & CO.

In connection with fulfillment of the obligation under Art. 44, para 2 of Third Non-life Insurance Directive 92/49/EEC and Art. 49 of Directive 2002/83/EO on life insurance, Insurance Supervision Division provided information to the supervisory authorities of the other Member States about the activities of the Bulgarian insurers in 2009, which availed themselves of freedom to provide services.

### 3.3. Supplementary pension insurance

#### Licensing and authorization activity

The procedures of licensing of the pension insurance companies and granting of authorization to manage a pension fund are regulated in the Social Insurance Code (SIC). The license is issued, or respectively – withdrawn by the Financial Supervision Commission as a collective body. It entitles to pursue business of supplementary pension insurance after the obtaining of authorization for management of supplementary pension insurance fund. The authorization is issued individually for each fund by the Deputy Chairperson of the Commission in charge of Social Insurance Supervision Division.

The company applying for license must satisfy the requirements set forth in SIC about its type, capital, founders, shareholders and members of management and control bodies. For the issuance of authorization for management of a pension fund, the company submits the envisaged by law documents, whereby it defines the rules of the fund's operation and certifies the availability of the conditions for carrying out such activity.

**Table 7. Licensing and authorization activity in relation to supplementary pension insurance**

Supervised persons	Number as at 31.12.2009	Change in the period	Issued licenses/authorizations for carrying out activity	Withdrawn licenses/authorizations for carrying out activity	Refusal for the issue of a license/authorization for carrying out activity	Number as at 31.12. 2010
<b>Pension insurance companies</b>	<b>10</b>	<b>-1</b>		<b>-1</b>		<b>9</b>
<b>Total supplementary pension insurance funds, incl.:</b>	<b>32</b>	<b>-3</b>		<b>-3</b>		<b>29</b>
<i>Supplementary mandatory pension insurance funds, incl.:</i>	<i>20</i>	<i>-2</i>		<i>-2</i>		<i>18</i>
<i>-universal pension funds (UPF)</i>	<i>10</i>	<i>-1</i>		<i>-1</i>		<i>9</i>
<i>- occupational pension funds (OPF)</i>	<i>10</i>	<i>-1</i>		<i>-1</i>		<i>9</i>
<i>Supplementary voluntary pension funds, incl.</i>	<i>12</i>	<i>-1</i>		<i>-1</i>		<i>11</i>
<i>-supplementary voluntary pension insurance funds (VPF)</i>	<i>10</i>	<i>-1</i>		<i>-1</i>		<i>9</i>
<i>-supplementary voluntary pension insurance funds with occupational schemes</i>	<i>2</i>					<i>2</i>

In 2010, there were no applications for the issuance of pension licenses and for pension funds management received in the Commission. This was due, first of all, to the circumstance that the market of this type of financial services reached a comparatively high degree of saturation.

On the ground of the issued by FSC in the second half of 2009 authorization for transformation by merger of PIC LUKOIL GARANT – BULGARIA AD in PIC CCB – SILA AD and after entry of the transformation in the commercial register, according the SIC provisions, it was proceeded to a procedure of official withdrawal of the pension license of the dissolved pension insurance company, which concluded in February 2010. The authorizations for management of the three pension funds established by PIC LUKOIL GARANT – BULGARIA AD were officially withdrawn, as well. As a result of it, the total number of the pension insurance companies pursuing business at the year end was 9, while the number of the managed supplementary pension insurance funds (SPIFs) (universal, occupational, voluntary and voluntary pension fund with occupational schemes) was 29.

### **Individual administrative acts**

During the year under review, requests were reviewed on procedures concerning a number of aspects of the activities of the pension insurance companies and the managed by them pension funds. In these procedures, all presented documents were examined and their lawfulness was assessed. In case of any irregularities or discrepancies found in the documents or the information, submitted at the supervisory authority, their elimination was required from the company within a set time-limit. After final assessment of all documents, information and circumstances under the relevant file in their aggregate, the FSC Deputy Chairperson in charge of Social Insurance Supervision Division, issues an individual administrative act, where the solving of the issue is of his competence, respectively – presents a proposal to the Commission as a collective body, when it is empowered to pronounce on the case.

The newly opened administrative procedures in 2010, which concluded with the issuance of an individual administrative act, were 29 in number, and those, which concluded with orders for filing into the registers kept by FSC – over 200. Considerable part of the activities in Social Insurance Supervision Division was directed to review and statement of opinions on received inquiries, elaboration of drafts of statutory acts, preparation for participation in a number of internal and international meetings, seminars, working groups, committees and commissions on European level, etc., drawing up of replies to questions, guidelines, questionnaires, inquiries, brochures, studies of the public feelings, etc. In the beginning of 2010, seven procedures were concluded commenced in 2009, which related to the procedures for recognition of legal capacity of a responsible actuary, or to admission to examination for recognition of such capacity. In observance of the deadlines set by law, one procedure commenced in 2010 remained to be resolved in 2011.

**Table 8. Administrative procedures with regard to PICs and SPIFs**

	<b>Uncompleted procedures in 2009</b>	<b>Newly opened procedures in 2010</b>	<b>Concluded procedures in 2010</b>	<b>Uncompleted procedures in 2010</b>
<b>PICs and SPIFs</b>	7	29	35	1

Within its competences, during the reviewed period the Financial Supervision Commission, or respectively the FSC Deputy Chairperson in charge of Social Insurance Supervision Division, pronounced:

- One decision for **withdrawal of the pension license** for carrying out activity of supplementary pension insurance;
- 2 decisions for **change in the indirect shareholding**<sup>16</sup> of a pension insurance company;

<sup>16</sup> In the SIC, there are introduced certain requirements to the shareholders of pension insurance companies, which own significant part of their capital - 10 and over 10 per cent. In this connection, a procedures has been envisaged for obtaining preliminarily

- **8 decision for determining the minimum rate of return<sup>17</sup>** from the management of the assets of the universal and occupational pension funds;
- **13 decisions for approval of amendments and supplements to rules of the organization and activity<sup>18</sup>** of supplementary pension insurance funds;
- one decision for change in the **requirements to the advertising and written information materials** of the pension funds and of the pension insurance companies. The change arised from amendments made to the SIC;
- one decision for approval of model forms of **applications for obtaining authorization for acquisition or increase of shareholding** in a pension insurance company. The approval of the new model forms and the enclosed thereto written statements became necessary due to the requirement their content to be brought in compliance with the amendments to the SIC, demanding the disclosure of the actual owners of the respective applicant;
- one decision for **determination of technical interest rate and biometrical mortality tables**, which are to be applied by the pension insurance companies in the calculation of their pension reserves as at 31.12.2010;
- 9 decisions for recognizing legal capacity of **responsible actuary** on the basis of documents, as well as for admission to examination for recognition of such legal capacity;
- 200 orders **for filing in the registers maintained by FSC** (register of the supplementary social insurance companies and the funds manages by them, register of the social insurance intermediaries, register of the occupational schemes and register of the persons having recognized legal capacity of responsible actuary).

## Notifications

During the year, there were not any notifications received in FSC for carrying out activity on the territory of the Republic of Bulgaria by pension insurance institutions registered in other EU Member State, as well as there was not any notification received about intention of a licensed by the Commission pension insurance company to manage an occupational scheme of an undertaking securer from another EU Member State.

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authorization by the Deputy Chairperson of the Commission in the cases of direct ot indirect acquisition or increase of a large shareholding. In the course of the procedure, verification and analysis is made of all circumstances concerning the fulfillment of the statutory requirements, additional information and documents are demanded from the stakeholders, other competent bodies are approach, if needed. Finally, the existence of a ground is assessed for issue of authorization or for denial to issue authorization.

<sup>17</sup> By the end of every month, following the reporting quarter, the Commission's Deputy Chairperson in charge of Social Insurance Supervision Division announces separately for the universal and for the occupational pension funds the minimum rate of return from the management of their assets for the preceding 24-month period on a year-on-year basis.

<sup>18</sup> The pension insurance companies carry out their activity of supplementary pension insurance according the provisions of SIC and in accordance with their articles of association and the Rules of the organization and activity of the managed funds (the Rules). The law sets forth the Rules minimum content, having provided a special procedure for approval of the amendments and supplements thereto by the Deputy Chairperson in charge of the Social Insurance Supervision Division. In the course of the procedure, legal and economic analysis is conducted, assessing the corrfornity of the texts to the acting legal provisions, as well as the existence of guarantees that the amended texts will not jeopardize the interests of the insured persons and the pensioners. Where needed, additional information and documents are required from the company and/or remarks are given for removal of the discrepancies, provided such were found out in the process of the inspection. After assessment of all data and the circumstances in their aggregate, the Deputy Chairperson issues a decision for approval or for refusal to approve the amendments and supplements of the respective Rules.



### 3.4. Certification

In August and September 2010, FSC conducted examinations for the acquisition of right to pursue business as a **broker** and as an **investment advisor**. 37 persons were admitted to the examination for acquiring the right to carry out activity of broker in August, and FSC admitted 27 persons to the examination for acquiring the right to carry out activity of investment advisor in September. The results of the examinations carried out were as follows:

- **13** candidates had successfully passed the examination for acquiring the right to carry out activity as a broker;
- **8** 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 review of the applications, by decision of FSC 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 an investment advisor, **certified by a documents issued by a competent foreign authority, to 18 persons.**

**Table 9. Dynamics of the certified supervised persons**

Supervised persons	2006	2007	2008	2009	2010
Investment advisors*	68 (56)	87 (78)	36 (25)	23 (10)	18(8)
Securities brokers*	4 (26)	58 (59)	29 (25)	17 (15)	(13)
Insurance brokers	39	52 (8)	49 (7)	47 (11)	25(24)
Actuaries		(8)	(9)	2	2(6)

\*In the table, the total number of the persons is indicated who acquired right during the respective year to carry out the defined under the law activity, the persons who obtained the relevant legal capacity after successfully passed examination with FSC being indicated in brackets.

In the change of the number of persons, who possessed the relevant qualification, both the issued and the withdrawn during the reporting period certificates to carry out activity were included.

At 31 December 2010, 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, there were filed **375 brokers and 348 investment advisors.**

During the period under review, one **examination** was held **for insurance brokers**, for which **30** candidates for acquiring professional qualification sat, and 24 of them passed successfully the examination. In total the licenses issued to insurance brokers in the past year were 49, and the withdrawn authorizations for activity – 2, as a result of which their overall number at the yearend increased to 363. In the past year, one examination was also conducted for recognition of legal capacity of a responsible actuary, for which 15 candidates sat, from which 6 passes successfully the examination. Furthermore, legal capacity of a responsible actuary was recognized on the basis of documents to two other persons, whereby their total number at the end of 2010 grew to **55**.

## 4. 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 statutorily required documents, filed by the supervised persons with the Commission. If it established any deficiencies or inconsistencies in the submitted documents, FSC demands from the supervised persons to eliminate or correct them. The Commission also exercises control by **on-site inspections**, which can be planned or thematic, as well as upon signals and complaints received in relation to the supervised persons' activities.

### 4.1. Investment activity

The supervision over the investment activity in 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 9. Dynamics of the FSC's supervisory activity over the investment community**

	2006	2007	2008	2009	2010
<b>Number of supervised entities</b>	<b>577</b>	<b>629</b>	<b>682</b>	<b>683</b>	<b>661</b>
- II, BSE and CD	87	85	90	88	82
- CIS, MC, SIPC, PC and issuers	490	544	592	595	579
<b>Total inspections</b>	<b>6 326</b>	<b>14 240</b>	<b>19 431</b>	<b>20 106</b>	<b>18 843</b>
- II, BSE and CD	1 255	1 694	50	46	38
- CIS, MC, SIPC, PC and issuers	5 071	12 546	19 381	20 060	18 805
<b>On-site inspections</b>	<b>38</b>	<b>64</b>	<b>74</b>	<b>64</b>	<b>65</b>
- II, BSE and CD	19	35	28	30	8
- CIS, MC, SIPC, MC and issuers	19	29	46	34	57
<b>Issued AEA V</b>	<b>186</b>	<b>302</b>	<b>281</b>	<b>281</b>	<b>405</b>
- II, BSE and CD	77	120	69	54	63
- CIS, MC, SIPC, PC and issuers	109	182	212	227	342
<b>Issued PW</b>	<b>97</b>	<b>199</b>	<b>136</b>	<b>158</b>	<b>275</b>
- II, BSE and CD	50	123	59	37	46
- CIS, MC, SIPC, PC and issuers	47	76	77	116	229

<b>Amount of issued PW (in BGN)</b>	<b>328 400</b>	<b>1 020 300</b>	<b>470 900</b>	<b>540 800</b>	<b>977 650</b>
<b>Amount of effectuated PW * (in BGN)</b>	<b>247 800</b>	<b>396 950</b>	<b>424 800</b>	<b>593 350</b>	<b>564 750</b>
<b>Decision for imposition of CAM **</b>	<b>100</b>	<b>0 ***</b>	<b>121</b>	<b>80</b>	<b>99</b>

\* The data are as of 31.12.2010. \*\*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.

In 2010, the FSC supervisory activity in regard to the investment community diminished, considering the slight fall which the number of inspections realized (from 20 106 inspections in 2009 to 18 843 in 2010). This trend followed logically the drop in the number of the supervised persons, which reached 661 at the end of 2010. Permanent growth in the last years was recorded in 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 detected violations was indicative of the more effective supervision, exercised on the FSC's side in the course of the years, which might 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 marked a slight decline, their value reaching BGN 564 750<sup>19</sup> in 2010. 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 the period 2006-2009 in its greatest part was influenced by the increase in the size of the pecuniary penalties and property sanctions. The reasons for that were both the higher minimum penalties (compared with LPOS), specified in the effectuated in 2007 Markets in Financial Instruments Act, and the fact that the existing legal framework had been applied for a certain period of time. In other words, after the supervised persons were already well acquainted with the new legislative framework, more severe property sanctions and pecuniary penalties were applied in case of commitment of offences.

#### 4.1.1. Investment intermediaries

The supervision of the investment intermediaries is carried out by examining and analysis of the reports on capital adequacy and liquidity, the balance sheets and the income statements of IIs, received on a monthly basis in FSC. To these reports, in connection with the financial crisis, the Commission continued to require 5 additional statistics from the intermediaries: Structure of liabilities, Structure of receivables, Structure of the non-trading book, Structure of the trading book and Customers under contracts for portfolio management. All these reports allow monitoring of the current financial situation of the investment intermediaries. Upon establishment of any deficiencies and inconsistencies between the entries on the balance sheet, income statement and the report on the capital adequacy and liquidity, it is demanded by letters 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 violation (AEAV) or with a recommendation for the undertaking of specific measures.

<sup>19</sup> 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.

In 2010, FSC carried out in total **38 inspections**, from which **on site**, in the offices of the respective investment intermediaries **8 planned** inspections, conducted according a preliminarily prepared schedule. Additionally, **13 thematic** inspections were carried out in connection with concrete signals. **On the FSC premises, 17 off-site documentary** inspections of supervised persons were conducted. The total number of the inspections includes also **one** inspection of a **person that did not have a license for executing transactions with securities**. Moreover, the fact should be noted that one of the inspections was conducted jointly with the State Agency for National Security.

As a result of the inspections conducted by the Commission, during the year **63 AEAV** were drawn up, which were followed by **46** issued penal warrants to the amount of **BGN 88 600**. The most frequently met violations in the field of investment intermediation were the following:

**Table 10. Most frequent violations in the field of II**

Type and ground for the violation	Drawn up AEAV		Issued PW*	
	2009	2010	2009	2010
Violation of the requirement II to account for the amount of its exposures with the purpose of limiting the risk from their excessive concentration and to inform FSC of any newly arisen large exposure or of any increase over 20 % of a large exposure (Art. 77, para 1, para 2 and para 3 of Ordinance № 35)	7	17	4	16
The II's exposure to an individual person or to a group of related persons exceeds 25 % of its equity, or II failed to notify FSC of exposure which exceeded the maximum allowed threshold (Art. 78, para 1, para 2 and para 4 of Ordinance № 35)	16	12	15	8
Non-observed threshold of the cash on current or deposit accounts, whose minimum amount is 70 % of all the II's cash (Art. 20, para 2 of Ordinance № 35)	6	8	0	11
Violation of the requirement II to perform accurately the customer's orders (Art. 36, para 1, Item 1, prop. 1 of Ordinance № 38)	0	5	0	1
Violation of the requirement II to submit on a monthly basis at FSC and at the Investor Compensation Fund information about the customer assets (Art. 77m, para 11 of LPOS)	0	4	0	1
II fails to notify FSC within the set time-limit of occurred circumstances (Art. 85 of Ordinance № 38)	4	3	4	0
Failure on the side of brokers and investment advisors to notify FSC of the termination of their contracts with II, MC or IC (Art. 14, para 5 of Ordinance № 7)	3	3	1	2
Violation of the requirement II to notify its customers of the withdrawn license, to transfer the customer assets to another II within the time-limit set by law and to inform FSC about the transferred assets in the set term (Art. 22, para 1, para 2 and para 4 of the MFIA)	0	3	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 on the held by them votes at the IIs' general meeting (Art. 40, para 2 of the MFIA)	5	2	1	1

\* The number of the issued PW for the given 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 to Art. 34, para. 3 of the Administrative Violations and Sanctions Act.

In 2010, **24 complaints** against penal warranted issued by FSC were received in the Commission.

With the purpose of prevention and termination of administrative violations, FSC carries out prudential control, opening procedures for imposition of **coercive administrative measures (CAM)**, terminates or applies CAM. During the period under review **8** procedures **were opened** for imposition of CAM, **5 CAM were imposed**, and **3 - terminated**. At the year end, there were not any unconcluded procedures.

#### **4.1.2. Public companies and other issuers of securities, special investment purpose companies, investment companies, collective investment schemes and management companies**

In 2010, experts from the Commission exercised specialized supervision by carrying out off-site control and on-site inspections in relation to the activity of overall 587 supervised entities - 367 public companies and issuers, 72 SIPC's (including one company the license of which was withdrawn, but it was not yet deleted from the register), 34 management companies, 11 investment companies (including one company the license of which was withdrawn, but it was not yet deleted from the register), 95 contractual funds (including one fund for which the authorization of the MC to manage it was withdrawn, but it was not yet deleted from the register) and 8 foreign CIS.

#### **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 publicly disclosed by the supervised persons information. 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, judging by the experts of the documents completeness and undertaking subsequent actions for filing of the relevant circumstances in the registers maintained by FSC.

Subject to preliminary examination are also the received in the Commission reports, applications for entry of changes in the circumstances relating to the companies, notifications of securities price-sensitive information, notification of changes in the shareholding, notifications of dividends, as well as many other documents. In 2010, about **4479** documents were filed on paper with FSC, which were reviewed and processed by the experts and on the basis of them **3222** entries were made in respective orders with the purpose of giving publicity to these circumstances. Further **9152** documents were reviewed and processed, which were sent to FSC through the E-Register system. On the basis of the above mentioned documents, during the reporting period, entry in the FSC's registers was made and respectively inspection conducted of **6274** annual and quarterly reports, consolidated reports, monthly reports, supplements thereto, as well as notifications of the current stage of bankruptcy and liquidation procedure of the companies, reports of the trustee of bondholders in bond issues in 2010.

In addition, overall **2850 examinations** were carried out of the reports and supplements thereto submitted by the supervised entities at FSC with regard to completeness according the legal requirements and consistency of the supplied information. Examination were performed of about **19 826** further forms for issue value and redemption price of the contractual funds and the investment companies of open-end type and the correctly filed ones were entered in the register.

Besides the above stated circumstances, actions were realized for publishing on the FSC's web site of **56** updated prospectuses and financial statements of foreign CIS, which received notification for pursuing business on the territory of the Republic of Bulgaria.

All received in 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 announcement at the Commercial Register, materials, reasoned reports, minutes of GMS, taking of lawful decisions by GMS) are examined by the experts of the Commission. For the period under review, **1435** such thematic documentary inspections were conducted. After their completion, the information from the documents is subject to entry in the register of the public companies and other issuers of securities, maintained by FSC

In 2010, totally **36** 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 when MC or 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 for 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;
- **2** individual administrative acts, whereby it terminated the opened administrative procedure for approval of a programme with measures for bringing the assets in compliance with the offended legal requirement.

In connection with 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 persons 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 conformity with the requirements of LPOS and Ordinance № 2. If there are any 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. On a monthly basis a memorandum is prepared to the Deputy Chairperson in charge of Investment Activity Supervision Division on the accomplished actions in connection with the established process of ongoing monitoring of the publicly disclosed by the companies information. During the reporting period, **167** 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 submitted under the above mentioned article of the Law and if needed, undertakes actions. If there are data of possible legal offences, letters of invitations are sent to the respective persons for drawing up of AEAV. As a result of the completed during the period **70 thematic inspections** of the information available in FSC and the established breaches of the requirements of Art. 145 of LPOS, 20 AEAV were drawn up.

In 2010, **71 thematic documentary inspections** were conducted of **MCs** over 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 on the held by them votes at the general meeting. Moreover,

312 **thematic documentary inspections** of **CIS** were carried out regarding their obligation to submit at FSC and publish updated full and short-form prospectuses.

For the period, the department in FSC dealing with market abuse investigation conducted **42 inspections** (5 of which were begun in 2009) over compliance with the provisions of the **Law on Measures against Market Abuse with Financial Instruments** (LMMAFI) in connection with the prohibitions of unfair trade with securities, market manipulation, inside information and insiders. At the end of 2010, 9 further inspections were in process of conclusion.

It should be noted that for the year FSC completed **6** extraordinary thematic inspections of PCs, which due to their comprehensive specifics required significantly larger time and expert resource than the customary inspections.

In the course of the year, **185 other documentary inspections** were carried out, which in their substance were thematic and were conducted on site at FSC. **16** from them were initiated by received complaints and warnings, and **6** were with reference to inquiries of citizens and institutions. Furthermore, FSC self-appraised itself in cases of suspicion for legal offences and conducted **108** thorough inspections, for which documents were additionally required in connection with Art. 114 of the LPOS, about holding of GMS, about data in the reports, appointment of investor relations directors (IRD), etc. Apart from that, **55** examinations and processing of applications were performed for admission to the E-Register.

Usually, in the conducted thematic documentary inspections, additional documents, clarification or explanation are required from the respective supervised person, additional check-ups are 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 are closed with memorandums to the Deputy Chairperson in charge of Investment Activity Supervision Division, whereby she is informed about the findings of the inspections carried out and the undertaking of relevant actions – engagement of administrative penal responsibility, undertaking of concrete actions with the purpose of protecting the shareholders' interests. The inspections where no violations have been established, are completed only with the gathering of evidentiary material. The relevant persons are informed by letters of the results of the inspections carried out on the basis of a warning or a complaint.

## **On-site inspections**

During the reporting period, overall **51** on-site inspections were launched and concluded at the place of the companies' seat, from which:

- **17** planned inspections of 6 SIPC and 11 companies servicing them;
- **2** thematic inspections of one SIPC and one company servicing it;
- **5** planned inspections of MCs and **19** of the managed by them CFs and ICs;
- **2** extraordinary thematic inspections of MCs and **6** of the managed by them CFs and ICs.

Regarding the concluded inspections ascertaining protocols were drawn up and/ or memorandums were prepared.

## 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 supervised persons are invited by letter at FSC for clarification of the factual circumstances and engagement of administrative penal responsibility. If they fail to appear, acts for establishment of administrative violations (AEAV) are drawn up according the provisions of Art. 40 of the Administrative Violations and Sanctions Act, in the absence of the offender. These acts are sent to be delivered by letter to the respective municipality.

In 2010, overall **16 AEA** were drawn up for committed offences in the field of the **collective investment schemes** and the **management companies**. As a result, **12 penal warrants** were issued to the amount o **BGN 84 000**. In most of the cases the violations were related to:

**Table 11. Most frequent violations in the field of CIS and MC**

Type and ground of the violation	Drawn up AEA		Issued PW*	
	2009	2010	2009	2010
Violation of the investment limitations on the side of MC, failure to inform FSC for surpassed investment limitation and non-applying of a program with measures for bringing the assets in compliance with the provisions of the law (Art. 196 of LPOS)	3	8	0	5
Performance of activity on the MC's side beyond its license (Art. 202, para 7 of LPOS)	1	4	1	3
Failure on the side of MC to submit an annual and quarterly financial statements at FSC within the legally set time-limit (Art. 38 pf Ordinance № 26)	1	1	0	1
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)	17	0	1	1
Failure on the side of IC and CF to submit quarterly financial statements to FSC and to the general public within the legally set time-limit (Art. 73c, Item 2 of Ordinance № 25)	6	0	0	0

\*The number of the issued PW for the definite 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.

The acts drawn up for establishment of administrative violations in the **public companies (PCs)**, **SIPCs** and the **other issuers** of securities were **222** in number. During the reviewed period, totally **127 penal warrants** were issued to the amount of **BGN 507 500** for the established by acts offences, the most frequently met being:



**Table 12. Most frequent violations in the field of PCs, SIPC and other issuers**

Type and ground of the violation	Drawn up AEA V		Issued PW*	
	2009	2010	2009	2010
Non-submission or submission with delay of annual and/ or quarterly financial statements for the activity of PCs and the issuers (Art. 31 of Ordinance № 2)	58	64	33	42
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)	21	20	12	11
Failure to disclose a shareholding in the capital of a public company, other issuer of securities and SIPC within the time-limit set by law (Art. 145 and Art. 148 of LPOS)	13	20	9	9
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, para 1, 2 and 3 of LPOS)	11	18	9	9
Non-compliance with applied CAM under Art. 212 of LPOS (Art. 221, para 6 of LPOS)	9	16	9	8
Failure to notify of the changes occurred in the articles of association, in the management and control bodies of a PC or an issuer, of decision made for the company's transformation, of other occurred circumstance within the time-limit set by law (Art. 100y para 1 and 2 of LPOS)	5	16	5	7
Submission of an unaudited annual financial statements about the activity of PCs and other issuers of securities (Art. 32, para 1 of Ordinance № 2)	0	16	0	8
Conclusion of transactions by the management of the public companies and the issuers of securities, exceeding the thresholds set by law, without express authorization on the GMS side (Art. 114, para 1 and 2 of LPOS)	11	9	3	4
Non-submission or submission with delay of annual and quarterly financial statements about the SIPC activity (Art. 40 of Ordinance № 2)	6	9	3	5

\*The number of the issued PW for the definite year includes both PW issued on the basis of AEA V from the same year, and PW issued on the basis of AEA V 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 V, according to Art. 34, para 3 of the Administrative Violations and Sanctions Act.

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 prohibition for **unfair trade with securities, market manipulation, inside information and insiders**. As a result of the inspections, **102 AEA V** were drawn up and **90 PW** to the amount of **BGN 297 550** were issued, the most frequent violations being stated in the table below:

**Table 13. Most frequent violation related to unfair trade with securities, market manipulation, inside information and insiders**

Type and ground of the violation	Drawn up AEA V		Issued PW*	
	2009	2010	2009	2010
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 account transactions to amount over BGN 5000 within one calendar year with shares issued by the issuer (Art. 16 of LMMAFI)	18	89	10	79
Manipulation of the market in financial instruments through execution of transactions or giving orders, creating incorrect or misleading picture about the demand, offer or price of financial instruments, or fixing the price of certain financial instruments on an unusual or artificial level (Art.11 in relation to Art. 6, para 1, Item 1 of LMMAFI)	6	9	5	9
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)	1	3	0	1

\*The number of the issued PW for the definite year includes both PW issued on the basis of AEA V from the same year, and PW issued on the basis of AEA V 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 V, according to Art. 34, para 3 of the Administrative Violations and Sanctions Act.

During the period, **54 complaints** were received against penal warrants of the Deputy Chairperson in charge of Investment Activity Supervision Division, relating to public companies, issuers of securities, SIPC's, ICs, CISs and MCs.

Simultaneously, during the year, with the purpose of prevention and termination of administrative violations, FSC **applied 94 coercive administrative measures (CAM)** as a result of an opened procedure for application of CAM towards supervised persons. The applied CAMs were related to obligating the company to present a financial statement, to remove the deficiencies in the submitted financial statement of the activity, not to subject to voting an item on the agenda of the convened GMS, to undertake concrete actions, etc.

## 4.2. Insurance and voluntary health insurance

The supervisory activity which FSC exercises in this field involves control over the activity of the insurers, reinsurers, health insurance companies, insurance and reinsurance intermediaries and the Guarantee Fund over compliance with the provisions of the Insurance Code and the Health Insurance Act as well as the instruments of their implementation.

**Table 14. Dynamics of the FSC's supervisory activity in insurance and voluntary health insurance**

	2006	2007	2008	2009	2010
Supervised persons*, incl.					
Insurance companies	36	37	37	37	35
Reinsurance companies	-	-	1	1	1
Health insurance companies	13	15	20	21	20
Insurance brokers	215	235	275	316	363
Insurance agents	over 31 000	49 802	69 093	53 622	43 976
Total inspections, incl.	1 434	1 568	2 010	2 309	2 535
- on-site inspections	32	101	43	68	72
- inspections by documents**	1 402	1 467	1 967	2 241	2 463
Issued AEAV	71	208	390	335	887
Issued PW	40	93	302	153	267
Value of effectuated PW (BGN)	121 700	266 400	1 675 880	529 360	2 442 500
Opened CAM procedures	19	26	16	25	148
Decision for applying CAM***	5	8	12	16	4
Initiated lawsuits	20	49	177	176	125

\*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 statistics 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.

### 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 demanded additional information about certain fields 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 legal requirements. In 2010, on the basis of annual and periodic financial statements, statistics and received complaints, **2463 inspections** were conducted by documents.

On the basis of the submitted reinsurance programmes for 2010, **35 opinions** were prepared to the insurance companies. Further, **7 opinions** were drawn up in relation to submitted reports by insurance companies in liquidation and bankruptcy.

### **Off-site supervision and measures related to insurers, reinsurers and health insurance companies**

#### *Off-site supervision and measures related to the solvency of the insurers, reinsurers and health insurance companies*

On the basis of the statistics received at the end of each quarter from the insurers and health insurance companies on the size of the solvency margin and own funds, an inspection is carried out of the manner of determining their size and over compliance with the legal requirements for solvency. As a result of the inspections accomplished by documents, in 2010 deviations were found from the normative requirements for minimum amount of the own funds of **4 insurance companies**. In consequence of the applied supervisory measures, **4 plans for additional raising of own funds** were presented, which were subsequently fulfilled.

During the year, deviation was established of **8 insurance** and **8 health insurance** companies from the statutory requirements of Art. 252 of the Commercial Law about the net asset value, i.e. shortage of net asset value compared to the amount of the registered capital. As a result of the applied supervisory measures, the companies fulfilled the orders and undertook measures for bringing their capital in accordance with the requirements.

#### *Off-site supervision and measures related to the adequacy of 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, and from the insurers where a negative technical result is found of a certain class of insurance for the above mentioned periods, an explanation is demanded for the measures which will be undertaken for the fulfillment of the legal requirements for conformity of the premium amount to the assumed risk and the expenses on the relevant classes of insurances.

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 and the loss ratio. On the basis of these data, for each insurer the portfolio structure was analyzed and the average amount of the premium per one MV according the acting tariffs. In summary form the information about the above cited indicators by separate categories of MVs was provided to the insurers. On the basis of these data, as well as on the basis of aggregated for the whole market

data about the claims paid in connection with material and non-material damages, FSC defined (as a product of the average amount of the occurred claims and the frequency of the events for the respective year) the average risk premium by types of MVs, necessary for calculation of the amount of the reserve under Art. 11a of Ordinance № 27 on the procedure and methodology for formation of the technical reserves by insurers and reinsurers, and of the health insurance reserves. By the defined risk premium, each insurer offering the compulsory Third Party Liability insurance of motorists, determines the need of formation of additional reserve to the unearned premium reserve and calculates the amount of the required additional reserve.

From all insurers offering Third Party Liability insurance of motorists, for which the earned premiums proved to be inadequate to cover the occurred claims and the expenses on the insurance, 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 November and December 2010, CAM were imposed on 5 companies which offered the insurance at premiums, inadequate to cover the risks and costs (including the costs of formation of sufficient in size technical provisions).

In connection with established attempts for the imposition of practices of uneven distribution and collection of the due insurance premium in deferred payment for the compulsory Third Party Liability insurance of motorists, an order was issued by FSC. The purpose of the order was not to allow circumvention of rules of premium adequacy, which could create unfavorable conditions or prerequisites for violation of the insolvency of an insurer or a group of insurers, and to preserve the market transparency and predictability. In this way FSC protected in time both the insurers against possible harmful consequences, and the consumers of their services.

#### 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 2010, an off-site control recalculation was made of the formed as of 31.12.2008 and 31.12.2009 unearned premium reserve (in the part of submitted but unpaid claims, and incurred but unsubmitted claims) of all non-life insurance companies. Additional information was demanded from some of the insurers on the classes of insurances where substantial differences were found between the formed reserve and the obtained result of the reserve amount on the basis of the filed periodical information about the value of the submitted, paid and pending claims, for each claim and the amount of reserve at the end of 2008 and 2009 was recalculated. In 12 companies understatement was established of the amount of the reserve for submitted but unpaid claims, for which AEAVs were drawn up. The total number of the issued acts was over 40, taking into account that acts were drawn up for each period (31.12.2008 or 31.12.2009) and for each individual class of insurance, with which shortage in the formed reserve was found.

On the basis of the results by classes of insurances, an analysis was made of the need of forming unexpired risk reserve and its amount was determined, and that amount was compared with the reserve formed by every insurer at the end of the relevant period. **3 AEAV** were drawn up for failure to form unexpired risk reserve or setting aside less than the required amount.

In connection with the determination of the amount of reserve for incurred but unsubmitted claims on Third Party Liability Insurance of motorists, at the end of every quarter information is summarized and provided to the insurers about the amount and number of the paid off and submitted claims under the insurance, the value of the development factors, the market share of each company in the number of the insured motor vehicles and the total for the market amount of the reserve for incurred but unsubmitted claims. FSC approved the applied by the insurers at the end of 2009 and currently in 2010 methods of formation of the reserve for incurred but unsubmitted claims on the said insurance.

During the year, an inspection was conducted of the adequacy of the formed by the insurers reserve fund in regard to credit insurance, as well as the lawful use of the resources from the set aside reserve fund. **3 AEAV** were drawn up for offences of the legal provisions.

Decisions were likewise issued for approval of the used by some insurers and health insurance companies method for formation of the reserve for incurred but unsubmitted claims under Art. 9, para 2, Item 3 of Ordinance № 27, as well as of requested by the supervised entities alteration of the method used for the technical reserves formation.

In 2010, from all health insurance companies data were required about the value and number of the submitted and paid claims, according the month of the event occurrence and the month of submission (payment) of the claim. The generalized data were published on the FSC web site and were available to the health insurance companies for testing the reserve adequacy or use of market coefficients in the formation of the reserve for incurred but unsubmitted claims, in case of data insufficiency because of short historical experience or a small portfolio.

#### *Additional measures, related to the off-site supervision*

In connection with the adopted proactive approach for monitoring some aspects of the insurer's activities, which can prove to be really influenced by the crisis, the non-life (general) insurance companies continued to submit on a monthly basis information on the insurance amounts by the 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, with applying of the relevant ratios, it was monitored for early manifestation of unfavourable deviations in the development of these insurances.

In 2010, a test for sufficiency was conducted of the free own funds of the re/insurers and of the health insurance companies to assume eventual losses in case of change in the value of certain categories of investments. The impact on the supervised persons' solvency was studied in case of decrease in the value of investments in shares and bonds, in case of unfavorable development of the market of national debt, in case of unfavorable development of the real estate market, as well as the impact originating from the indirect exposures. Further information was demanded from two insurance companies about certain categories of investments, as well as about the measures which they intend to undertake with a view to minimizing the risk.

#### **Off-site supervision and measures related to the insurance intermediaries**

In the reviews made of the presented by the insurance brokers reports and statistics for 2009 and for the first half-year of 2010, incorrect distribution was found out of the data about the insurance contracts by classes of insurances compared to the these laid down in the Insurance Code, incorrect completion of the model forms, failure to submit the report and the statistics in the form of an electronic document signed by an electronic signature, incorrect presentation of summarized information. Letters (overall 127 in number) were sent to all brokers for whom non-observance of the requirements was established, to eliminate the discrepancies.

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 freedom to provide services.

## On-site inspections

In 2010, **72 on-site inspections** (concluded and unconcluded) were conducted of insurers, health insurance companies and insurance intermediaries, from which 32 inspections were regarding the obligatory Third Party Liability insurance of motorists.

The trend that was noted in the last 5 years, was 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.

The FSC's engagement in the organization and conducting of joint European inspections increased, as well as in the realization of cooperation with other institutions at national level. Thus for instance in 2010 in the course of the conducted inspections, meetings were held with audit companies, with representatives of the National Revenue Agency (NRA), State Agency for National Security (SANS) and the Sofia Prosecutor's Office.

### Inspections of insurance companies and health insurance companies

In 2010:

- **one planned and one thematic inspection** of insurers were completed (launched before the beginning of 2010 and covering the overall state of the insurance companies);
- **13 inspections were opened** of insurers and health insurance companies, from which **6 were completed**.

The scope of the planned inspections, conducted of insurers included:

- inspection of the overall state 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.

**Three** of the inspections were carried out jointly with SANS in fulfillment of the scheme of operations under Art. 32, para 1, Item 10 of the IC in connection with the measures for prevention of money laundering (inspections of insurance companies and one inspection of a health insurance company).

### **Involvement in joint inspections with European insurance supervision authorities, exchange of information and active participation in the Coordination committees for insurance groups supervision**

In 2010, FSC carried out an inspection of the actions undertaken by the companies of the GENERALI Group in connection with fulfillment of the recommendations from the conducted joint inspection with the Italian supervisory authority (ISVAP) in 2009. Upon accomplishing the inspection Bulgaria was the only country, member of the Coordination committee of the group that made full evaluation of the tasks assigned on the ISVAP side in 2009, as well as in 2010.

Bulgaria also took part in the meetings of the coordination committees for supervision in the following insurance groups:

- KBC Group (represented in Bulgaria by DZI- GENERAL INSURANCE EAD, ZAD DZI and DZI- HEALTH INSURANCE AD);
- ALLIANZ Group (represented in Bulgaria by ZAD ALLIANZ BULGARIA AD, ZAD ALLIANZ BULGARIA LIFE AD and ZAD ENERGIA);
- GROUPAMA (represented in Bulgaria BY GROUPAMA INSURANCE EAD and GROUPAMA LIFE INSURANCE EAD);
- GENERALI (represented in Bulgaria by GENERALI INSURANCE AD, GENERALI LIFE INSURANCE AD, GENERALI ZAKRILA HEALTH INSURANCE AD and GP REINSURANCE EAD).

In 2010 information was provided to the group supervisory authorities of HDI, VIENNA INSURANCE GROUP, UNIQA, ALLIANZ, KBC, GENERALI AND ALLIANZ in connection with the fulfillment of the CEIOPS action plan for the coordination committees of the insurance groups.

The supervisory authority of Slovenia, which was a leading supervisory authority, was notified in relation to findings made as a result of conducted inspection of ZD KD LIFE AD (part of a Slovenian financial group).

### **Exercising of supplementary supervision of the insurance groups**

In relation to exercise of supplementary supervision of insurance groups, a first meeting was organized and held of the Coordination Committee of EUROINS INSURANCE GROUP. According the CEIOPS requirements, a communication strategy of the Committee, an action plan in extreme situations and a plan of the activity in 2010 were prepared. Representatives of the supervisory authorities of the other Member States in the Committee took part in the meeting, namely Romania and Macedonia. In the last day of the meeting, representatives of EUROINS INSURANCE GROUP also took part, acquainting the participants with the Group and its reinsurance policy.



### Inspections of insurance intermediaries

For the reviewed period, in total **25 inspections** were carried out of insurance intermediaries, from which:

- **23 thematic inspections** over compliance with the provisions of the Insurance Code and prevention and detection of legal offences;
- **2 inspections of insurance agents** on the basis of a signal.

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

**32 inspections** were completed of insurers and insurance intermediaries in relation to Third Party Liability Insurance of motorists, in which the following were checked:

- the offered insurance tariffs and their observance;
- the assignment of activities of insurance intermediation to other persons having no right to pursue such business;
- carrying out of activity as an insurance agent for more than one insurer.

### Coercive administrative measures, acts for establishment of administrative violations and penal warrants

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

In 2010, **887 AEAV** were drawn up to supervised persons, from which **797 to non-life (general) insurance companies**, **15 to life insurance companies**, **14 to health insurance companies**, **14 to insurance brokers** and **47 to other persons**. The most frequently met violations in the acts and the subsequently issued PWs are the following:

**Table 15. Most frequent violation in the insurance and voluntary health insurance**

Type and ground of the violation	Drawn up AEAV		Issued PW*	
	2009	2010	2009	2010
Failure to pay in time submitted claims for payment of insurance indemnities (Art. 107 of the IC)	133	93	56	102
Failure to submit in time information about the concluded contracts for the obligatory Third Party Liability insurance of motorists (Art. 294 and 317a of the IC)	6	575	4	87
Non-observed time-limit for pronouncement on a claim under the obligatory Third Party Liability insurance of motorists (Art. 271 of the IC)	31	46	11	35
Pursuance of business by the company, without being filed into the FSC's register (Art. 312, para 4, Item 1 of the IC)	5	42	1	2
Understated reserves (Art. 69, para 2 in relation to Art. 68, para 2, Item 2 of the IC)	8	33	6	-

\*The number of the issued PW for the definite 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 to Art. 34, para 3 of the Administrative Violations and Sanctions Act.

For the period, **267 penal warrants** were issued, **247 of them being to non-life insurance companies, 9 to life insurance companies, 7 to health insurance companies, 3 to insurance brokers** and others. In 2010, administrative sanctions to the amount of **BGN 2 442 500** were imposed under effectuated penal warrants.

During the reporting year, **148 procedures** for imposition of **CAM** were opened, from which **38 to non-life insurance companies, one to a life insurance company, 2 to a health insurance company and 107 to insurance brokers**. The most often imposed CAMs were statement of an order **to undertake concrete actions** (for example, submission of documents) (**108 CAM**) and an order given to an insurance company **to pronounce on filed with it insurance claim** (**38 CAM**).

### 4.3. Supplementary pension insurance

The supervisory activity over the lawful carrying out of the activity of the pension insurance companies (PICs) and the managed by them supplementary pension insurance funds (SPIFs) with the purpose of protection of the insured persons' interests and guaranteeing the market integrity, is exercised by conducting off-site control, on-site inspections and inspections on the basis of complaints of insured persons and signals of PICs. For the lawful pursuance 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 of 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 endorsed *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).

**Table 16. Dynamics of the FSC's supervisory activity in the supplementary pension insurance**

	2006	2007	2008	2009	2010
Supervised entities, incl.	41	47	50	50	45
- pension insurance companies	9	9	10	10	9
- supplementary pension insurance funds	24	29	32	32	28
- custodian banks under the SIC	8	9	8	8	8
Total inspections, incl.	6 435	7 410	7 442	8 080	7 652
- on-site inspections	14	16	15	16	7
- daily inspections	6 048	6 972	6 979	7 572	7 201
- periodic inspections	373	422	448	492	444
Issued AEA V	39	28	36	34	23
Issued PW	35	32	35	29	19
Amount of issued PW	20 300	105 200	212 000	409 200	173 200
Amount of effectuated PW*	20 100	85 500	112 600	125 300	260 800
Opened procedures of CAM	1	1	0	0	0
Decision for applying CAM**	1	1	0	0	0

\* In the previous FSC reports, the data on PW value 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 to effect in the year in which 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.

The volume of the FSC's supervisory activity in the segment of the supplementary pension insurance marked a decrease in 2010, due to reduction of the number of the supervised persons after the merger of one pension insurance company into another. The total number of the inspections declined to 7652, as biggest share was held by the daily supervision, where the inspections reached 7201 in number. The lack of opened procedures for CAM, as well as of decisions for CAM imposition in the last three years were an indicator of the effectiveness of the FSC's supervisory activity in the direction of disciplining the supervised persons on the supplementary pension insurance market.

### Off-site control

The off-site control is exercised on the basis of the financial statements and statistics about the activities of 9 PICs, 28 supplementary pension insurance funds and 8 custodian banks with the following periodicity of submission:

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

### Daily control

FSC receives on a daily basis in an electronic way statistics and reports from the PICs about the SPIFs operation, as well as information from the custodian banks. On the basis of these statistics in 2010 **over 7152 daily inspections** and analyses were carried out of the received information on the SPIFs activities and the custodian banks regarding the lawfulness of the concluded transactions with pension funds' assets, the ratio of investments in the separate types of financial instruments towards the pension funds' assets, the way of carrying out valuation of the assets and their proper recording in the PICs and in the registers of the custodian banks. During the year, **49 extraordinary inspections** were completed, related to problems arisen in the exercise of the on-going control. 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 (SMPIDs) and the correct defining of the number of units corresponding to the received and withdrawn amounts, and the value of one unit, as well as the disclosure of information on the value per one unit according the procedure and within the time-limits provided under Ordinance № 9 of FSC.

### Periodic control

During the period under review, **108 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 **336 inspections** of the filed monthly, quarterly and annual financial statements and information about the managed by the pension companies **SPIFs**. In the Methodology, the normative and general financial indicators have been set for the PICs and SPIFs operation, which were calculated and analyzed in the exercised periodic control. The levels of the normatively provided indicators were established for each PIC, such as capital adequacy, liquidity, etc., through which the lawful carrying out of the PIC activities was

monitored. Simultaneously, the general financial indicators were also analyzed, relating to the capital, assets, income and expenses of PICs, the assets, participants and rate of return of the pension funds.

### Monitoring of the information and advertising activity of PICs

During the year, **108 monthly inspections** were conducted of the PICs web site 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, any substantial irregularities or omissions were not found out. In case of establishment of any incompleteness or irregularities, they were removed in due time.

### On-site inspections

During the exercised operating control in 2010 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 **7 on-site inspections** were conducted, from which 5 full planned inspections and 2 thematic in PICs and the managed by them SPIFs. The thematic inspections were in connection with received in FSC information about committed offences on the side of pension insurance companies. All launched inspections were completed before the yearend in accordance with the endorsed plans for their carrying out.

In connection with the accomplished inspections in PICs and the managed by them SPIFs, overall **124 recommendations** were given, mainly for improvement of the organization of work, protection of the insured persons' interests and limitation of the risk. During the full planned inspections 113 recommendations were given, and as a result of the thematic inspections - 11. Most numerous were the recommendations in regard to the investment activity (39), the management bodies' activity (12), contractual relations with the insured persons and the operation of the internal control units (9). A 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. FSC was informed within the set deadlines of all undertaken concrete actions by PICs in connection with the fulfillment of the made recommendations.

**Table 17. Dynamics of the on-site inspections at PICs and SPIFs by subject-theme**

Years Type/ subject-theme of inspection	2006	2007	2008	2009	2010
<b>Total number, incl.:</b>	14	16	15	16	7
<b>Full</b> (compliance with SIC, the sub-statutory acts of its implementation and the LMML)	7	8	9	6	5
<b>Thematic*</b> (compliance with SIC and/ or the sub-statutory acts of its implementation)	3	2	3	7	2
<b>Jointly with BNB</b> (compliance with SIC and Ordinance № 36 of BNB by the custodian banks)	4	6	3	3	-

- In 2006 and 2009, parallel inspections were carried out with the officials of the Financial Intelligence Department at 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: 2006 – 2 inspections; 2009 – one inspection.

The dynamics of the completed on-site inspections in PICs and the managed by them SPIFs showed gravitation of their number around 15 inspections annually from 2006 to the end of 2009. For the reporting 2010 year the number of inspections decreased to 7, including 5 full inspections, covering the overall activity of the pension insurance companies and requiring considerable staff resource, as well as a longer period for their accomplishment. The decrease in the number of the conducted inspections was due to several factors, the most significant of them being the reduced number of the staff and the longer inspected period.

In the period 2006 – 2010, totally 15 inspections were carried out jointly with the Bulgarian National Bank over compliance with the provisions of Ordinance № 36 of BNB by the custodian banks. The decline in the inspections conducted in the custodian banks was due to, on the one side, the limited staff resource and redirection of the Directorate's efforts to conducting inspections of PICs and SPIFs and, on the other, to the diminishing of the need of their conducting. The reason for that was the fact that all custodian banks were inspected several times in the last years, which resulted in their considerably better organization of operation in regard to their custodian activity.

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

During the year, **23 acts** were drawn up **for establishment of administrative violations** of provisions of SIC and the sub-statutory acts of its implementation. With them in total **42 violations** were established, 37 of them were of the Social Insurance Code and 5 violations of Ordinance № 3 of FSC. On the basis of the drawn up acts **19 penal warrants** were issued (the penal warrants under 4 of the drawn up AEAV were issued in the beginning of January 2011). Generalized information on the most common violations is given in the table below:

**Table 18. Most frequent violations in the supplementary pension insurance**

Type and ground of the violation	Drawn up AEAV		Issued PW*	
	2009	2010	2009	2010
PIC invested resources of SMPIFs and SVPIFs in securities issued by the Fund's custodian bank, by the investment intermediary executing the transactions in securities, or related to them entities (Art. 177, para 1, Item 3 of the SIC)	0	6	0	2
PIC did not carry out activity in compliance with the Rules of organization and operation of the pension funds (Art.121, para.6 of the SIC)	2	5	2	5
PIC invested resources of SMPIFs and SVPIFs in securities issued by related to it entities (Art. 177, para 1, Item 2 of SIC)	5	2	5	2
PIC offered and concluded pension insurance contracts in a term outside of the statutory set one (Art. 7, para 1 of Ordinance № 3)	3	1	2	2

PIC pronounced with refusal for switching of participation, not taking into consideration all submitted with the objection of the insured person written evidence (Art. 6, para 7 of Ordinance № 3)	0	1	0	1
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- The number of the issued PW for the given 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 to Art. 34, para 3 of the Administrative Violations and Sanctions Act. For this reason the number of the drawn up AEAV and the number of the issued PW within one and same calendar year is different for some of the violations.

From the total number of acts drawn up during the year, **11 AEAV** were drawn up during the exercised in 2010 **off-site control**, whereby **23 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.

In the course of the conducted **on-site inspections** in PICs and the managed by them SPIFs, **10 acts** were drawn up from totally 23 AEAV drawn up for 2010. With them **17 administrative violations** were established, the most substantial from them concerned:

- termination of payment of fixed-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.

During the conducted **inspections by documents in connection with received signals**, **2 AEAV** were drawn up, one of which was to a pension insurance intermediary and the other – to a legal entity.

The most substantial offences, found out during the inspections related to:

- activity of PIC management bodies, which was not in conformity with the articles of association of the pension company;
- failure on PIC's side to exercise due diligence and actions which were not in the interest of the insured persons;
- pronouncement of improper refusals for switching of insured persons from one to another SPIF, infringing in this way their rights.

Under the issued during the year penal warrants, penalties and property sanctions were imposed to the total amount of **BGN 173 200**. The imposed property sanctions on PICs were at the amount of BGN 170 000, and the imposed penalties on natural persons – BGN 3200. The amount of the effectuated PWs was BGN 260 800.

From the issued penal warrants, 5 were not appealed against and came into effect. These appealed to the court were 14 and the procedures for them were not concluded yet at the end of 2010.

During the period under review, there were not any complaints received against decisions of the Deputy Chairman in charge of Social Insurance Supervision.

During the year, there were no **coercive administrative measures** applied towards pension insurance companies. The recommendations given by FSC for undertaking of specific actions on the PIC side in

connection with established violations or established necessity of performing certain actions in the interest of the insured persons, were fulfilled within the set time-limits.

#### **4.4. Complaints against decisions of the FSC Deputy Chairpersons**

During the year, FSC reviewed **11 administrative files of complaints** against decisions of its Deputy Chairpersons under the procedure of Art. 13, para 4 of FSCA. The Commission, in its capacity of a higher standing administrative body, rejected the complaints as unjustified in 7 of the cases, and in 4 of them it cancelled the Deputy Chairpersons decisions as wrongful.

In the field of insurance the complaints against the decisions of the Deputy Chairperson in charge of Insurance Supervision Division were related to applied coercive administrative measures under:

- Art. 302, para 1, Item 1 and 4 of the Insurance Code (IC) in relation to Art. 271, para 2 in relation to Art. 1 of the IC;
- Art. 302, para 2, Item 1 of the IC;
- Art. 99n, para 2, Item 1 of the Health Insurance Act,

as well as to denial to issue an approval to a candidate for a member of the supervisory board of a supervised person.

In the field of investment activity supervision, the complaints against the decisions of the Deputy Chairperson in charge of Investment Activity Supervision Division were connected with applied coercive administrative measures under Art. 212, para 1, Item 1 of the LPOS, as well as with issued acts for establishment of exigible public state receivable of owed annual fee for the exercise of general financial supervision for 2009.

In the exercise of the powers of the Member of the Commission under Art. 3, Item 5 of the FSCA in the capacity of rapporteur for the complaints investigation, recommendations were also given to the respective administrative body that issued the appealed act, in relation to improvement of the practices of application of the administrative and procedural rules in the procedure for issuance of individual administrative acts, as well as with a view to enhancing the efficiency of the imposed by the supervisory authority coercive measures.

## 5. Protection of consumers of non-banking financial services

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

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 **extending the knowledge** and awareness of the general public.

### 5.1. Access to financial information

In 2010, FSC 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 FSC information policy is based wholly on the principles of publicity, transparency and equitableness.

The FSC **web site** is one of the main sources for distribution of the public information, related to the Commission's operation. To facilitate consumers the information is systematized in headings. Actual news is published on a daily basis about the decisions made by the Commission, amendments to the legislative framework relating to the non-bank financial sector, administrative documents, summarized statistical data on the three types of markets – capital, insurance and pension insurance market.

The published on the web site statistical data – summarized monthly data in the field of insurance and voluntary health insurance, quarterly reports on the activity of the supplementary pension insurance, as well as statistical data of the capital market, annual statistics of the three segments in the non-banking financial field are of particular importance for the specialized and general public.

All initiatives of the Commission related to educational programs, seminars, round tables, conferences, discussions, meetings with the business, as well as other public activities are presented under the **Events** heading. The **Questions and Answers** heading has been set up especially for the consumers of financial services, where concrete cases are considered. In this heading answers and questions can be found in the field of insurance, investments and the supplementary pension insurance. Under **EU information** heading, during the year 201 warnings were published to the investors in Bulgaria from European Institutions, relating to abuse of the European markets by unauthorized companies offering different transactions with securities, which do not have financial cover.

Detailed information on the supervised persons – status, contacts, periodic reports, notifications of dividends, imposed pecuniary sanctions, etc. is provided through the **public register**. It is 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 compulsory Third Party Liability insurance of motorists**. A possibility is provided through the portal for verification of the existence or non-existence of Third Party Liability insurance of motorists. This is done by entry of the motor vehicle's registration number.



In 2010, FSC issued two **publications** – an Annual Report and an electronic edition of the Official Monthly Bulletin (12 issues), which in synthesized form summarized the supervisory authority's activity. The two publications were posted on the FSC web site under the **Publications** heading.

In addition to its publications and web site, the important aspects of the FSC's activities reach the general public also **through the media**. Public Relations Department pursued active communication with the mass media. Information was provided to the journalists on a daily basis, interviews and press conferences were organized 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 market participants.

## 5.2. Educational policy of FSC

FSC is one of the few state institutions, which set as its priority the organization 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. In this connection, it should be emphasized that FSC is the only state institution which is engaged in an educational programme for students. The initiative takes place once annually and has already become a tradition. For the purpose, the authority has developed specialized programmes and modules, which assist for heightening of the financial knowledge of the young people and support their future career orientation.

From 7 to 11 September 2010, the educational programme Non-banking Financial Sector in Bulgaria took place for the eighth consecutive time for students from secondary schools for vocational training in economics in the country, organized by the Financial Supervision Commission, the Ministry of Education, Youth and Science and Atanas Burov Foundation. This programme has great success not only among the students and the teachers, but also among the general public. By this initiative FSC has strengthened itself as socially responsible institution, which contributes for the active interaction between the young people, the government administration and the business.

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

University students are another target group on which FSC has focused its attention in connection with its educational initiatives. In this relation, on 16 and 17 November 2010 in the city of Svishtov a seminar was held on the topic of Current Trends in the Non-banking Financial Sector in Bulgaria, organized by the Financial Supervision Commission and the Students Council with D.A. Tsenov Academy of Economics. The event aroused great interest and it was attended by over 100 students and lecturers from Svishtov.

### **Other initiatives oriented to various professional groups, related to presentation of the Commission's activity and enhancement of the consumer financial culture**

In May 2010, the next eighth successive meeting was organized 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. The meeting was attended by around 70 public relations specialists and journalist, representatives of all national media. The main purpose of this meeting was to build up useful professional contacts and thus to assist the more efficient communication and successful interaction between the different financial institutions.

In June 2010 journalists from 11 states visited FSC and were acquainted with the activity and structure of the Commission, the specifics of the three divisions in charge of the insurance, pension insurance and capital market.

In 2010, FSC continued its cooperation with the industry organizations in the field of the capital market, insurance and pension insurance. A number of meetings, discussions and seminars took place on topical subjects and issues related to the development of these markets.

Along the lines of the joint Twinning Project BG/07/IB/EC/02 with the Ministry of Economy and Finance of Italy, FSC organized a number of events for the industry organizations and external publics.

On 26 February 2010, a seminar was held on the subject-theme of The impact of the Market Abuse Directive on the media and the obligation for disclosure of issuers' information. Lecturers were one of the most eminent Italian specialists on the issues of detection of financial abuses, such as market manipulation and insider trading. Participants in the event were representatives of the Ministry of Finance, BSE, the investment community, the sectoral associations, the media as well as experts from FSC.

The seminar on the topic of Corporate Governance which took place on 9 June 2010, gathered representatives of the public companies in Bulgaria, of all industry organizations from the non-banking financial sector as well as lecturers and students from the economic universities, experts from FSC and journalists.

A considerable interest among the professional public and the media was aroused by the conference held on 29 June 2010 on the topic of Enhancement of the Investment Culture of the Financial Services Consumers in Bulgaria. Lecturers at the conference were representatives of the Central Bank of Italy, of the securities, insurance and pension insurance regulators of Italy and lecturers from the Higher School of Insurance and Finance.

A seminar in the field of insurance in implementation of the joint Twinning Project was conducted on 15 and 16 July, 2010 on the subject-theme Fifth Quantitative Study of the impact of the new regulation Solvency II (QIS 5) with lecturers from the Italian Institute for Supervision of Insurance.

On 13 December 2010 a conference was held on the subject-theme of Security and Insurance Fraud Prevention, organized by the Financial Supervision Commission, the Ministry of Interior and the Association of Bulgarian Insurers, which aroused high interest. The forum was opened by the Minister of Interior Tsvetan Tsvetanov and by the FSC Chairman Stoyan Mavrodiev.

With a view to informing the general public, FSC jointly with other state and industry institutions organizes public events on key and topical issues.

### 5.3. Complaints and inquiries about the supervised persons. Actions taken by FSC

**Table 18. Dynamics of the complaints filed with FSC**

	2006	2007	2008	2009	2010
Investment Activity Supervision	282	91	298	127	218
Insurance Supervision	565	460	814	943	1095
Pension Insurance Supervision	291	172	236	226	513

The major part of the received complaints in 2010 in the field of the capital markets were related to transfer of the ownership over financial instruments without the knowledge of their holders, respectively request for making verifications of the held by the complainant financial instruments. A substantial part of these complaints concerned disposal actions effected in a period before more than 3 to 5 years, connected with the activity of supervised persons that currently were with a withdrawn license. Another part of the complaints related to actions performed by the management bodies of the public companies in breach of the legal provisions, or omissions on their side, as well as to unlawfully taken decisions by the GMS of public companies.

Detailed inspections were carried out for each received complaint, in which additional information and documents were gathered. Counter inspections were likewise conducted through other persons and institutions. For each complaint a reply was sent back to the complainants within the legally set time-limits, while for a part of them, in accordance with the findings made by FSC, other institutions and persons were also approached – the Prosecutor’s office, NRA, SANS, MoI, etc.

In 2010, **1095 complaints** concerning the insurance sector were filed with FSC. Most frequently met grievances established in the complaints’ review were the following:

- delayed pronouncement of a decision of an insurance company on submitted claims by consumers of insurance services;
- refusal for payment of insurance compensation or disagreement with the amount of the set compensation on insurance claims raised to the insurance companies;
- failure to provide sufficient information.

In this connection, the Commission undertook measures directed at strengthening the financial stability of the market of the compulsory Third Party Liability insurance of motorists and protection of the rights and interests both of the persons who suffered material and non-material damages as a result of road traffic accidents, and of the persons who concluded in good faith the compulsory insurance. The aim was a final and unequivocal endorsement of the above mentioned insurance as a standardized and unified product, the applying to which of provisions other than the statutorily provided, is inadmissible.

The said measures included the issuance of two orders in connection with the necessity of undertaking timely measures against the established vicious practices on the market of the compulsory Third Party Liability insurance of motorists, which prohibited the following:

- provision on the side of the insurance companies or the insurance intermediaries, offering the compulsory Third party Liability insurance of motorists, of goods, services or benefits in any

whatever form, as well as offering of commissions, bonuses and/ or deductions in any whatever form, outside of the envisaged in the tariff of the respective insurer;

- conclusion of contracts (incl. for advertising services, consultations, etc.) with related or other persons, aiming at concealing the provision of the above listed benefits;
- the provision on the side of the insurance intermediaries of commissions, deductions, bonuses and other benefits within their commission remuneration;
- the provision on the side of the insurance companies of intermediary remunerations in any whatever form (incl. for advertising services, consultations, etc.), exceeding the acquisition commission envisaged in the insurance-technical plan.

For the period under review, **417 complaints** were received from insured persons and **96 signals** from pension insurance companies. Some of the complaints (47 of the total number) were sent to FSC as attachments to warning of PIC. The number of the complaints and warnings received in FSC during the year increased almost twice compared to the preceding 2009. A large part of the complaints were on model forms, i.e. preliminarily prepared and printed texts, in which the persons only insert their names and addresses.

A predominant part of the complaints of the insured persons (337 in number) related to switching of participation and transfer of sums from one into another supplementary pension insurance fund (SPIFs), regulated under Ordinance № 3 of FSC, the main groups of complaints by the persons being the following:

- 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 applications for switching of participation and pension insurance contracts were signed;
- no information was given to them of the fee due upon transfer of funds from one into another SPIF.

The necessary for the inspection documents and explanations were required for all received complaints. After their receiving in FSC, inspections were conducted on the basis of which findings were prepared. Detailed replies were sent in due time to the insured persons, in which according to the specifics of the complaints, clarifications were given in regard to the legal regulations on supplementary pension insurance, and detailed replies were also given to the concretely raised questions. In all cases, where after the inspection carried out and with a view to the assertions of the insured persons a judgment was made that there was justified doubt for a perpetrated crime, signals were sent to the Prosecutor's Office for the conducting of inspections by competence.

Simultaneously, the received from PIC signals were also inspected, and FSC opinion was expressed in regard to each of them, and where necessary concrete directions were given to take actions for their bringing in compliance with the statutory requirements, or with the purpose of protection of the insured persons. In two of the carried out inspections in connection with received signals, violation on the side of PICs and their pension insurance intermediaries were found out, for which acts for establishment of administrative violations were drawn up.

The main groups of problems raised in the received signals by PICs were related again to the switching of participation and transfer of resources of the insured persons. They most often concerned:

- 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.

In connection with the problems found out in regard to the complaints and signals, with the purpose of protection of the insured persons' interest and termination of the found negative practices in the PICs activity, FSC has elaborated a Draft for amendment and supplement of Ordinance № 3 from 24.09.2003, which is forthcoming to be presented for consideration by the Commission.

## 6. European dimension in FSC's activity

### Focus topic: The new European supervisory and regulatory authorities

On 1 January 2011 four new European Regulations have come into effect, which will have substantial impact over the work of FSC. With the new Regulations, four new European authorities have been set up, which will have significant supervisory and regulatory powers in the field of financial supervision. The new authorities are:

- European Securities and Markets Authority – ESMA;
- European Insurance and Occupational Pensions Authority – EIOPA;
- European Systemic Risk Board – ESRB, which will monitor and assess the potential risks to the financial stability, arisen from the macroeconomic environment and from the changes in the financial system as a whole;
- European Banking Authority – EBA.

As an institution engaged in the supervision over the capital market, the insurance and social insurance sector, FSC is a member in three of the four newly set up authorities (ESMA, EIOPA и ESRB). ESMA and EIOPA act within the scope of the main Directives in the field of securities and insurance. ESMA has also supervisory powers in the field of the credit rating agencies. ESRB is responsible for the exercising of prudential supervision at the macro level over the financial system within the EU, with a view to contribute to the prevention or reduction of the systemic risks for the financial stability in the Union.

#### ESMA and EIOPA

ESMA and EIOPA are Union bodies with seats respectively in Paris and Frankfurt with legal personality. Among the main tasks of the powers of ESMA and EIOPA are:

- to contribute to consistent application of legally binding Union acts, in particular by contributing to the creation of a common supervisory culture;
- to organize and conduct peer review analyses of competent authorities, including issuing guidelines and recommendations and identifying best practices;
- ensuring effective and consistent supervision of financial market participants;
- to collect the necessary information concerning financial market participants;
- to publish on their website, and to update regularly, information on registered financial market participants;
- to develop draft regulatory technical standards and draft implementing technical standard. This power is of exceptional importance, as after these standards are endorsed by the EC, they will be **legally binding** and shall repeal the national regulation contradicting them. In the case of ESMA, the authority can commence to issue technical standards as early as from the beginning of 2011, while EIOPA is expected to begin to issue such acts after the expiration of the period for transposition of Solvency II Directive (31.10.2012);
- to adopt guidelines and recommendations – these acts are not legally binding, the national authorities and the financial market participants must make every effort to comply with these guidelines and recommendations;
- to take **individual decisions, addressed to competent authorities**;
- in case that the national competent authorities do not comply with the decisions of ESMA and EIOPA, the latter may take **individual decisions addressed to financial market participants**;

- temporarily ***to prohibit or restrict certain financial activities***, that threaten the orderly functioning and integrity of the financial markets;
- ESMA will exercise exclusive supervisory powers in regard to structures whose activities are of all-European significance. At this stage, these are the credit rating agencies, but it is expected in future supervision of the registers for OTC derivative transactions (trade repositories) to be included, as well.

In order to further improve the consistency in the supervision work, as well as to establish whether the national authorities apply properly the European legislation, ESMA and EIOPA periodically organize and **conduct preer reviews of the national supervisors**.

If it is found out that a national supervisory authority has failed to apply the European legislation (***including the technical standards prepared by ESMA and EIOPA***) or applies it incorrectly, the Authorities act according the following procedure:

- ESMA and EIOPA conduct an investigation of the case. FSC is obligated to provide all necessary information;
- Within two months after the investigation beginning, the Authorities will address a recommendation to FSC, setting out the actions whose undertaking is necessary to comply with Union law;
- Within ten working days of receipt of the recommendation, FSC informs the Authorities of the steps it has taken or intends to take, to ensure compliance with Union law;
- If within one month from receipt of the Authority's recommendation, FSC has not ensured compliance with Union law, the EC will present formal opinion, obligating the competent authority to take the actions necessary to comply with Union law;
- If FSC does not comply with the EC's opinion within the set by it time-limit, EC may undertake action according to Article 258 of the Treaty of Lisbon (penal procedure against Bulgaria). Apart from it, ESMA and EIOPA adopt an individual decision, directed to a specific market participant, requiring such participant to take the necessary actions to comply with its obligations under Union law (including the cessation of any practice).

## ESRB

ESRB is a body of the European Union with a seat in Frankfurt. Among the main tasks and powers of the Authority are:

- determining and/or collecting and analyzing all the relevant and necessary information;
- identifying and prioritizing systemic risks;
- issuing warning where such systemic risks are deemed significant, and where appropriate, making those warnings public;
- issuing recommendations for remedial action in response to the risks identified, and where appropriate, making these recommendations public;
- when the ESRB determines that an emergency situation may arise, it issues a confidential warning, addressed to the Council and providing the Council with an assessment of the situation, in order to enable the Council to assess the need to adopt a decisions addressed to the European Supervisory Authorities (ESAs), determining the existence of an extraordinary situation;
- monitoring the follow-up to warnings and recommendations;
- to cooperate closely with all other parties to the European System of Financial Supervisors;
- participating, where appropriate, in the Joint Committee of the European Supervisory Authorities.

## 6.1. New developments in the EU policy

### Directive 2010/73/EU

On 11.12.2010, in the Official Journal of the European Union, Directive 2010/73/EU of the European Parliament and of the Council of 24 November 2010 was published, amending Directives 2003/71/EC on the prospectus to be published when securities are offered to the public or admitted to trading and Directive 2004/109/EC on harmonization of the transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market.

The adoption of Directive 2010/73/EU aims to simplify and improve the application of Directives 2003/71/EC and 2004/109/EC, increase their efficiency and enhance the international competitiveness of the European Union. The purpose of the amendments is to ensure greater investor protection, consumer confidence, efficiency, clarity and legal certainty, as well as the dropping of some unjustified burdensome obligations, which increase the expenses and affect the efficiency in the process of raising of funds from the securities market.

The more important among the amendments are concretization of the manner of calculation of the limits of the maximum offered amounts of securities at the EU level, increase of the role of the summary prospectus, unification of the definition of a qualified investor with that of the Markets in Financial Instruments Directive (MiFID), simplification of the regime of the schemes for provision of shares to the employed persons, etc.

The deadline for transposition of the Directive is **1 July 2012**.

### Directive 2010/76/EU

On 14.12.2010, in the Official Journal of the European Union, Directive 2010/76/EU of the European Parliament and of the Council of 24 November 2010 was published amending Directives 2006/48/EC and 2006/49/EC as regards capital requirements for the trading book and re-securitizations and the supervisory review of remuneration policies.

The main objectives of the Directives are the following:

- stricter capital requirements for coverage of the risks from investment in the resecuritization instruments;
- change in the way in which the credit institutions measure the risks associated with their trading book;
- disclosure of more information about their trading book;
- establishment of policies and practices for the remunerations in the credit institutions, which should not stimulate the admission of high risks on the side of the management or the brokers;
- sanctioning of the credit institutions whose remuneration policies and practices do not meet the new requirements;
- public disclosure and periodic updating (at least once annually) of the remuneration policies and practices of the credit institutions for these categories of staff, whose professional activities have a material impact on their risk profile.

The principles set out in Commission Recommendation of 30 April 2009 on the remuneration policies in the financial services sector and in Commission Recommendation of 30 April 2009 complementing Recommendation 2004/913/EC and Recommendation 2005/162/EC as regards the regime for the remuneration of directors of companies whose securities have been admitted to trading on a regulated market,



are consistent with the principles underlying this Directive regarding sound remuneration policies, and complement them.

In order to guarantee their full effectiveness and in order to avoid any discriminatory effect in their application, the provisions on remunerations, laid down in the Directive must be applied to remuneration due on the basis of contracts concluded before the date of transposition in the Bulgarian legislation and awarded and paid after that date. Moreover, in order to guarantee effective risk management, in respect of periods still characterized by a high degree of financial instability, and in order to avoid any risk of circumvention of the provisions, it is necessary to apply them to remuneration awarded, but not yet paid for services provided in 2010.

The deadline for implementation of the Directive is **31 December 2011**, with the exception of the explicitly listed rules therein, whose time-limit for implementation is **1 January 2011**. The concerned exceptions relate mainly to:

- the supplements concerning the remuneration policies and practices and the related public disclosures at least once annually;
- the amount of own funds which the credit institutions, calculating risk-weighted exposure amount according to the Internal Ratings-based Approach, must ensure by 31 December 2011; the amount of own funds, which the credit institutions must provide in the calculation of their own operational risk capital requirements – by 31 December 2011;
- extension of the deadline (31 December 2012), to which the exposure weighted average LGD (loss given default) for all retail exposures, secured by residential properties, and not benefiting from guarantees from central governments, must not be lower than 10 %;
- modification in part of the definitions of the listed eligible assets for securing the so called „Covered bonds” according to the Standardized Approach in Annex VI of Directive 2006/48/EC;
- change in the percent which the credit institutions have to assign in determining the loss given default for covered bonds.

### **Directive 2010/78/EU**

On 15.12.2010, in the Official Journal of the European Union, Directive 2010/78/EU of the European Parliament and of the Council of 24 November was published, amending Directives 98/26/EC, 2002/87/EC, 2003/6/EC, 2003/41/EC, 2003/71/EC, 2004/39/EC, 2004/109/EC, 2005/60/EC, 2006/48/EC, 2006/49/EC and 2009/65/EC in respect of the powers of the European Supervisory Authority (European Banking Authority), the European Supervisory Authority (European Insurance and Occupational Pensions Authority) and the European Supervisory Authority (European Securities and Markets Authority).

The adoption of Directive 2010/78/EU (the so called Omnibus Directive) aims at ensuring efficient functioning of the European System of Financial Supervisors by introduction of amendments to the Directives on financial services, especially as regards the scope of the common competences, which are stated in the Regulations on the establishment of the new Supervisory Authorities. With this Directive, further harmonization is ensured of the supervisory rules and practices through the introduction of legally binding technical standards and facilitating the exchange of information about the supervision on macro level between the European Supervisory Authorities, whenever necessary.

The deadline for transposition of the Directive is **31 December 2011**.

### **Directive 2010/42/EU**

On 10.07.2010, in the Official Journal of the European Union, Directive 2010/42/EC of the Commission of 1 July 2010 was published, implementing Directive 2009/65/EC of the European Parliament and of the Council as regards certain provisions concerning fund merger, master-feeder structures and notification procedure. Among the major objectives of the Directive are:

- to ensure guarantees for effective exchange of information between the merging and receiving UCITS in mergers, as well as between the master UCITS and feeder UCITS;
- to ensure provisions, which will allow the undertakings to save costs and to reduce the administrative burden upon agreements between the master and feeder UCITS;
- in the agreements between the masters and feeder UCITS, appropriate procedures to be envisaged for reply to the inquiries and complaints by the unit-holders;
- guaranteeing the possibility, feeder UCITS not to prevent the holders of units therein to require their redemption in the cases of liquidation, merger or division of the master UCITS.

The time-limit for transposition of the Directive is **30 June 2011**.

### **Directive 2010/43/EU**

On 10.07.2010, in the Official Journal of the European Union, Directive 2010/43/EU of the Commission of 1 July 2010 was published, implementing Directive 2009/65/EC of the European Parliament and of the Council as regards organizational requirements, conflicts of interest, conduct of business, risk management and content of the agreement between a depository and a management company.

This Directive sets forth the rules of application of Directive 2009/65/EC:

- specifying the procedures and the organizational measures, which the management companies of UCITS must ensure in connection with the requirement of Directive 2009/65/EC for stable administrative and accounting organizational arrangement, provisions for control and security in the field of electronic data processing, as well as adequate mechanisms of internal control;
- establishing criteria for acting honestly and fairly, with due care, skill and diligence in the best interests of UCITS and the criteria for determining the type of conflict of interests;
- concerning the particulars that need to be included in the agreement between the depository and the management company, and
- concerning the risk management processes.

The deadline for the Directive's transposition is **30 June 2011**.

### **Regulation 583/2010/EU**

Commission Regulation (EU) № 583/2010 of 1 July 2010, implementing Directive 2009/65/EC of the European Parliament and of the Council as regards key investor information and conditions to be met when providing key investor information or the prospectus on a durable medium other than paper or by means of a website.

The Regulation is directly applicable and comes into force on 30 July 2010, but its implementation is postponed until **1 July 2011**.

### **Regulation 584/2010/EU**

Commission Regulation (EU) № 584/2010 of 1 July 2010 implementing Directive 2009/65/EC of the European Parliament and the Council as regards the form and content of the standard notification letter and UCITS attestation, the use of electronic communication between competent authorities for the purpose of notification and procedures for on-the-spot verifications and investigations and the exchange of information between competent authorities.

The Regulation is directly applicable and comes into force on 30 July 2010, but its implementation is postponed until **1 July 2011**.

**Directives 2010/42/EU and 2010/43/EU and Regulations 583/2010/EU and 584/2010/EU** represent Level 2 implementing measures for of Directive 2009/65/EC (UCITS IV). The two new Directives and the two Regulations were elaborated by EC after consultation with the Committee of European Securities Regulators (CESR) and include detailed provisions about the key investor information document, the rules of the activity of the management companies of UCITS, funds merger, the notification procedure and the supervisory cooperation.

### **Regulation 1092/2010/ EU**

On 15.12.2010, in the Official Journal of the European Union, Regulation 1092/2010/EU of the European Parliament and of the Council of 24 November 2010 was published on European Union macro-prudential oversight of the financial system and establishing a European Systemic Risk Board.

With the Regulation, a European Systemic Risk Board (ESRB) has been established. The ESRB task will be to monitor and assess systemic risk in normal conditions for the purpose of mitigating the exposure of the system to the risk of failure of systemic components and enhancing the financial system's resilience to shocks. ESRB will contribute to ensuring financial stability and mitigating the negative impacts on the internal market and real economy. In order to accomplish its objectives, ESRB will analyze all the relevant information. The ECB and the national central banks will have a leading role in macro-prudential oversight because of their expertise and their existing responsibilities in regard to the financial stability. The national supervisors will be involved in providing their specific expertise. Accordingly, the Governors of the central banks of the Member States and the Chairpersons of the three new Authorities will be members with voting rights in ESRB. One representative of the competent national authorities of each Member State will attend the meetings of the General Board, without voting rights, and in the case of Bulgaria this is FSC.

The Regulation becomes effective as of the day of its publication in the Official Journal of the European Union.

### **Regulation 1094/2010/ EU**

Regulation (EU) 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), amending Decision 716/2009/EC EO and repealing Commission Decision 2009/77/EC (*published on 15.12.2010*).

## Regulation 1095/2010/EU

Regulation (EU) 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision 716/2009/EC and repealing Commission Decision 2009/77/EC (*published on 15.12.2010*).

By the two Regulations (**1094/2010/EC; 1095/2010/EC**) *two new European Supervisory Authorities are established in the non-banking financial sector, which will replace the hitherto existing Committee of European Securities Regulators (CESR) and the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS):*

- ESMA – European Securities and Markets Authority;
- EIOPA – European Insurance and Occupational Pensions Authority.

The new authorities will take over all of the duties of the existing Level 3 Committees, and in addition, they will have considerably higher responsibilities and respectively greater competences. 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 until now was 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);
- **Settlement of disagreements between national supervisors** – a mechanism is offered by which 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 to the relative legislation, coordination or joint decision-making are required, the European Supervisory Authority (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 carried 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 it will play a central role in the adoption of its budget;
- Chairperson and Executive Director – each ESA shall 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, however, will be managed by an Executive Director, who will also be a full-time, independent professional;

- Board of Appeal – the appeal system will provide possibility any natural or legal person, including the national supervisory authorities, to be able to appeal at first instance before the Board of Appeal an ESA decision

**The Regulations (1094/2010/EC; 1095/2010/EC)** are directly applicable and come into force on 16 December 2010. Their implementation is deferred until **1 January 2011**, when the authorities are established.

## 6.2. Committees at European level

### *Main developments in CESR operation*

In 2010, too, the main tasks of CESR were ensuring integrity of the financial markets, convergence of the supervisory practices, consumer protection and submission of opinions to the European Commission, related with the application of the European legislation in the securities field. The Committee's work in 2010 can be divided into two main directions: drawing up of technical opinion and recommendations, related to the implementation of the major Directives in the capital markets field, and preparation for the effectuation of Regulation 1095/2010 – respectively the establishment of the new Securities and Markets Authority (ESMA).

From viewpoint of the European legislation, CESR work was mainly focused on the review of the Markets in Financial Instruments Directive (MiFID), the draft of Regulation on short sales and the preparation for the implementation of the Regulation on credit rating agencies.

The envisaged amendments to MiFID aim at improving the functioning of the secondary securities markets. In 2010, CESR conducted a series of consultations, which had for a purpose to establish the acting legal framework of trading with equities and instruments, other than equities, the requirements for transparency and the reporting of the transactions. The whole collected information was used by CESR in the drawing up of the opinion, which the Committee presented to EC.

Another important development in the Committee's activity was the publishing of Report on short selling, in which CESR recommended to EC the development of common European legal basis, regulating the information, which has to be disclosed in relation to short selling. In the published document, the Committee expressed its strong opinion that the introduction of a requirement for disclosure of information will result in enhancement of the transparency, which will be of great importance both for the market participants, and the regulatory authorities in periods of crisis.

In 2010, CESR took a number of actions related to the implementation of the new Regulation on the credit rating agencies. The Committee carried out consultations with the market participants on the issues connected with the registration and pan-European supervision of the agencies. In addition, CESR has begun the building up of a central database, which will contain historical information about the ratings awarded by the agencies. The Committee also took actions connected with the assessment of equivalence between the European legal requirements to the credit rating agencies and these of third countries (mainly the USA and Japan).

The second major line in CESR's work in 2010 was the preparation for the transformation of the Committee into new European Supervisory Authority – ESMA. An interim working group was set up (Post ECOFIN Task Force), whose objective was to ensure continuity between the two organizations and technically to prepare the documents concerning CESR closing and ESMA establishment.

### *Main developments in the CEIOPS work*

In 2010, CEIOPS continued its work along the lines of preserving the financial stability in the insurance and occupational pension sector, consumer protection and building the architecture of the new European supervisory financial framework. For the purpose, CEIOPS undertook the following activities:

- commenced the preparation of the so called Supervisory Guidance on the implementation of Solvency II Directive (Level 3 measures). The Level 2 measures for the Directive implementation were approved by the Committee of European Insurance and Occupational Pensions Supervisors and were sent to be reviewed by the European Commission;
- finalized the key aspects for the application of Directive 2003/41/EC on the activities and supervision of the institutions for occupational retirement provision (IORP), preparing a report on the different national approaches in the separation of assets and liabilities in stress situation and analyzing the connection between the supervisory authorities' notification obligations and the supervisory regimes. Along with it, all additional requirements were analyzed, which the host Member State may impose on IORP with cross-border activity. In 2010, the Report on the Market Development was updated in regard to the cross-border activity of IORP within the European Union, taking into consideration the IORP internal control mechanisms and the consequences of the financial crisis on the pension insurance;
- in connection with its duties to the European Economic and Financial Committee, CEIOPS drew up a report on the financial stability in re/insurance and pension insurance sector. The preliminary report was prepared in the spring of 2010, and the final – in the autumn;
- together with the banking supervision, CEIOPS continued to monitor the risks in the field of the European financial conglomerates. Along with that, a pan-European stress test was conducted in the insurance sector as a part of the harmonization process;
- continued to cooperate with the European Commission in regard to the technical aspects of the endorsement of the policy on Packaged Retail Investment Products (PRIPs);
- in the period August – November 2010, the fifth quantitative impact study was conducted of the new regulation Solvency II (the so called QIS5 – Quantitative Impact Study) in all EU Member States, and this was the last possibility of testing the proposed requirements of Solvency II before its implementation.

As with the previous quantitative studies, QIS5 also included quantitative and qualitative elements of Solvency II and covered individual insurance companies and insurance groups.

The main objectives of QIS5 were the following:

- to increase the level of preparedness of the insurance companies and the respective supervisory authorities for the implementation of the new legal regulations;
- the results of the study to be used in the calibration of the standard formula, which to be also reflected in the implementing measures of the Solvency II Directive;
- the results to assist the preparation of the Level 3 measures of the Solvency II Directive (first pillar) in connection with the recommendation on the application of the qualitative requirements.

In the Republic of Bulgaria, 16 companies took part in QIS5 (5 life insurance, 10 general insurance and one voluntary health insurance). The number of the insurers which were involved in the exercise represented 64 % of all companies on the Bulgarian insurance market, for which Solvency II will be applicable, or 68 % of the general insurance market – on the basis of premium income, and 77,5 % of the life insurance market – on the basis of technical provisions.

To facilitate the participants in QIS5, Manual for completion of the QIS5 forms was translated and published in the Bulgarian language on the FSC web site (for individual companies).

In 2010, the results were received from the participation of Insurance Supervision Division in the conducted in 2009 self-assessment exercise for application of the General Protocol determining the ways and forms of interaction between the supervisory authorities of the EU Member States, carried out by the CEIOPS Working Group on control. Insurance Supervision Division filled up and sent to the CEIOPS Secretariat in 2009 a questionnaire in relation to the review of the Protocol's application. The result of the conducted peer review has been that FSC applies the Protocol in consistence with its provisions.

During the past year, in the Financial Supervision Commission, the first meeting was held of the Coordination Committee of the only insurance conglomerate, whose lead supervisory authority is FSC. The meeting was attended by representatives of the supervisory authorities of Macedonia and Romania.

## 7. International cooperation and cooperation with local institutions

### 7.1. International cooperation

The globalization of the financial markets and the consequences of the crisis emphasize the importance of the cooperation of the Financial Supervision Commission with international organizations and financial institutions. FSC participates in multitude of international organizations of the supervisory authorities in the non-banking financial sector. In its capacity of an active member, the Commission is involved in the development of standards and good practices in the whole non-banking financial sector.

The Commission is a member of the three international organizations standard-setters in the securities, insurance and pension insurance sectors, namely **the International Organization of Securities Commissions - IOSCO**, **International Association of Insurance Supervisors – IAIS** and the **International Organisation of Pension Supervisors – IOPS**, and FSC took part in the establishment of the latter. The Commission is also involved in the work of IOSCO as a member of the Emerging Markets Committee and of the European Regional Committee. FSC representatives participate in the forums of these organizations as well as in the working groups, which elaborate the best practices in the field of supervision of the investment, insurance and pension insurance market. In the past year, a major priority of FSC was to continue the harmonization of its legislation and practice with these international standards.

As an institution responsible for the technical aspects of the state policy in the field of the non-banking sector, FSC participates actively in the formation of the Bulgarian position in the negotiations with the **International Monetary Fund (IMF)** and the **World Bank (WB)** and in the preparation of the agreements along the lines of the **World Trade Organization (WTO)**. 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.

FSC is a partner also with the **Organization for Economic Co-operation and Development (OECD)** within the Global Pension Statistics project, led by OECD, providing regularly detailed statistical data on the supplementary pension insurance in Bulgaria.

Another major priority of the Financial Supervision Commission, since as early as its establishment in 2003, is the cooperation with all states on the Balkan Peninsula. Within this priority during the period Memorandum for cooperation on the issues of the supervision of securities and insurance with the Central Bank of the Republic of Kosovo and Memorandum for cooperation in the field of insurance with the Agency for Insurance Supervision of the Republic of Macedonia were signed. Apart from the initiative on the FSC side for the conclusion of memorandums for exchange of information with the states in the region, its cooperation is also expressed in the conducting of trainings under different projects, directed to strengthening the administrative capacity of the relevant institutions in the other states. Furthermore, FSC has always expressed its readiness for assistance on any request for arrangement of a visit for exchange of experience and training of other supervisory authorities from the near countries.



## 7.2. International projects and initiatives

In 2010, FSC continued its active policy in regard to strengthening its administrative capacity, on the one side, and on the other side, the building up of stable relations of cooperation with the supervisory authorities in Southeast Europe. This policy was successfully realized by the implementation of three twinning projects, financed by the European Union (EU).

- **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 was directed to the institutional strengthening of the Financial Supervision Commission and was co-financed by the EU Transition Facility. It was implemented 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 was with duration of 12 months and was to the amount of EUR 495 000, from which EUR 450 000 were provided by EU and EUR 45 000 were financed by the national budget.

The major objectives included the achievement of a fully functional financial services sector as well as reinforcement of the measures for protection against abuse of financial services for money laundering. The Project was directed to further harmonization of the FSC's practices of regulation and supervision with the European practices and covered the activities of the three divisions: Investment Activity Supervision Division, Insurance Supervision Division and Social Insurance Supervision Division. More than fifty, exceptionally well prepared and motivated experts from Italy and from other Member States conducted a number of useful trainings and seminars for the FSC officials in the area of markets integration, application of *acquis communautaire*, the challenges of the Lamfalussy process and the current European initiatives. Part of the seminars were also attended by representatives of the business, media and other interested parties, which gave their strongly positive assessment of the organized events and the opportunity provided to them to be acquainted with the latest developments in the supervision.

The official closing of the Project took place on 21 September, 2010 in Sofia and was combined with the holding of a conference on the topic of The new European supervisory authorities and the national supervisors: need of a single legislative framework, common supervisory policy, more active cooperation. The event was opened by the FSC Chairman and by the Ambassador of Italy in Bulgaria, and representatives of the Italian institutions for financial supervision took part in it. The great importance was emphasized of the Twinning Project for FSC in the light of the significant changes, which the EU undertakes for the setting up of a new supervisory framework for the achievement of a single and stable European market of financial services.

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

The Twinning Project is financed within the EU Programme Instrument for Pre-accession Assistance (IPA), Montenegro being the beneficiary party. The Project is to the amount of EUR 1.2 million and with duration of 18 months. The Project is realized by the Bulgarian National Bank as a Lead Partner, the Financial Supervision Commission and the Netherlands Central Bank as a Junior Partner. Beneficiaries under the Project are the Central Bank of Montenegro, the Securities and Exchange Commission and the Insurance Supervision Agency of Montenegro.

The Twinning Project was launched on 30 November 2009, having as an objective to strengthen the capacity of the authorities of the financial sector regulation for the achievement of more effective and efficient oversight of the financial markets in consistence with the *acquis communautaire*.

The Financial Supervision Commission implements component two of the Project's work plan – activities related to the Securities and Exchange Commission in the city of Podgorica. The activities of component two are in the field of the investment and pension supervision. The major objectives are improvement of the supervisory capacity of the Securities Commission of Montenegro, preparation for harmonization of the Montenegrin legislation in the financial services field with the European and enhancement of the financial awareness of the capital market participants in Montenegro.

In 2010, overall 20 activities were accomplished by 40 experts from FSC within 190 days of expert work in the city of Podgorica. Assistance was rendered to the experts from Montenegro for the transposition of more than ten EU Directives in the field of the financial sector. In the first three months of the Project, a report was prepared on the regulatory and institutional framework of the market of securities and the private pension funds of Montenegro (analysis of the differences).

As a result of the good cooperation during the years between FSC and the other supervisory authorities from the EU Member States, the Project was supported by experts from the Federal Financial Supervisory Authority of Germany (BaFin) and from the Securities Markets Commission of Spain (CNMV), who implemented successfully two of the activities under component two.

The obligatory deliverables, underlying the work plan for each of the completed activities, were successfully achieved.

The Project implementation will continue in 2011, too, when its closing is envisaged.

• **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**

Twinning project BA 07 IB FI 01 is financed by the EU Programme Instrument for Pre-accession Assistance (IPA) for 2007 and is to the total amount of EUR 800 000. The Project has duration of 27 months and was launched on 21 April 2010.

The formal objective of the Project is to assist the three insurance agencies of Bosnia and Herzegovina in:

- strengthening of their administrative capacity;
- development of the statistical services and exchange of information;
- development of the regulatory and supervisory practices;
- strengthening of motor third party liability insurance and development of the interaction with the Green Card Bureau.

Indirectly, the Twinning Project is means of assisting the three agencies in the efforts of Bosnia and Herzegovina to become a full member of the EU.

The approved work plan of the Project includes the implementation of 40 different activities, performed in the city of Sarajevo (where the Insurance Agency of Bosnia and Herzegovina is located, and the Insurance Supervisory Agency of the Federation of Bosnia) and in the city of Banja Luka (where the head office of the Insurance Agency of the Republic of Serbia is situated).

A partner of FSC in the Project implementation is the Bulgarian Export Insurance Agency (BEIA), the experts of which are engaged in the issues in the field of export insurance.

In 2010, 18 missions were realized, through which 13 activities were succeeded to be completed fully. In 2011, important steps are forthcoming to be made under the Project for harmonization of the legislature in the insurance field of Bosnia and Herzegovina with the EU law.

Twinning Project BA 07 IB FI 01 is the third project in which FSC participates not as a beneficiary, but as a partner of a Member State. Sharing of experience and supporting institutions from other states in the exercise of their supervisory activity is an important commitment for FSC, which establishes it 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.

### **7.3. 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 realization of 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 the context of the preparation of Bulgaria's positions, presented to the EU authorities on issues related to the financial markets, in 2010 a multitude of expert meetings were held between FSC officials and representatives of BNB and MoF. The purpose of these meeting was both to analyze the overall effect of the proposed by the EC legislative measures, and to reach a unified position of Bulgaria, which to be coordinately presented on all levels of the negotiation process, accompanying the adoption of the European legislation.

Experts from FSC took an active part in the interagency working groups to the Council for European Affairs and in particular in the work of groups: 26 Financial services, 27 Accounting policy and independent financial audit, Ad hoc task force to working group 27, 31 Europe 2020 and working group for amendment to the Financial Conglomerates Directive.

The exchange of information in 2010 of Investment Activity Supervision Division was directed to improvement of the content and correctness of the periodically disclosed information with the purpose of heightening the trust in the markets as a whole. Exchange of information was carried out with BSE, Bulgarian Association of the Asset Management Companies (BAAMC), Bulgarian Investor Relation Society (BIRS), Association of the Bulgarian Investor Relations Directors (ABIRD), where clarifications were given for the practical application of the amendments to the legislation relating to the capital market.

In 2010, representatives of Insurance Supervision Division held regular meetings with the Association of Bulgarian Insurers, Association of the Insurance Brokers in Bulgaria and the Bulgarian Association of Insurance Brokers on issues concerning the challenges and perspectives related to the regulation and supervision of the insurance market and the market of voluntary health insurance. At these meetings special attention was given to the Third Party Liability insurance of motorists. The directions of future actions on the supervisor's side were discussed, related to the insurance, including also amendment to the legal regulations, with a view to ensuring stability and integrity of the insurance market. Regular meetings were also carried out of the Standing Interagency Task Force on the issues of the compulsory Third Party Liability insurance of motorists.

The Financial Supervision Commission, the Ministry of the Interior and the Association of the Bulgarian Insurers organized a conference on the subject-theme Security and Insurance Fraud Prevention, at which the main goals and recommendations were outlined for combating insurance fraud.

During the period under review, representatives of the Division took part in a working meeting with BNB officials on issues related to improvement of the exchange of information between the two institutions, as well as in the work and meetings of the interagency working groups with the Council for European Affairs, where the required information connected with the insurance was regularly and timely submitted.

In connection with the pursued 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, enhancing the transparency and integrity of the financial market as a whole, and hence heightening the confidence in the sector. In April 2010 in the city of Veliko Tarnovo a meeting-round table was conducted on the problems of the supplementary pension insurance, organized by the Bulgarian Association of Supplementary Pension Insurance Companies (BASPIC) and FSC, with the participation of representatives of the National Social Security Institute, the Ministry of Finance and the Ministry of Labor and Social Policy. A presentation was delivered by the FSC representatives on the topic of Regulation of the provision of information about the investment products and of their sale, whereby the participants in the meeting were acquainted with the main problems in the social insurance intermediaries' activity and with the outlined by the EC lines of investor protection enhancement by an adequate to the market realities regulatory framework.

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 compulsory Third Party Liability insurance of motorists. Moreover, correspondence is also being exchanged with the Ministry regarding the availability of data for perpetrated 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 completed 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 in 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, envisages 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 to their field of activity, through exchange of information, setting up of interagency working groups, joint organization of seminars, working meeting and other events.

Considering the necessity for coordination of the activities of FSC and the Ministry of the 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 different organizations.

## 8. Human resources policy

The goals of the human resources management are the attraction, appointment, professional development and retaining of the most appropriate persons for work to the benefit of the Commission and the public interest.

Our resources are directed to the building up of stability and transparency, as well as to enhancement of the work efficiency.

The human resources management is focused on the selection of responsible officials, their training, motivation and growth with the purpose of effective fulfillment of the organizational objectives and formation of a highly qualified team.

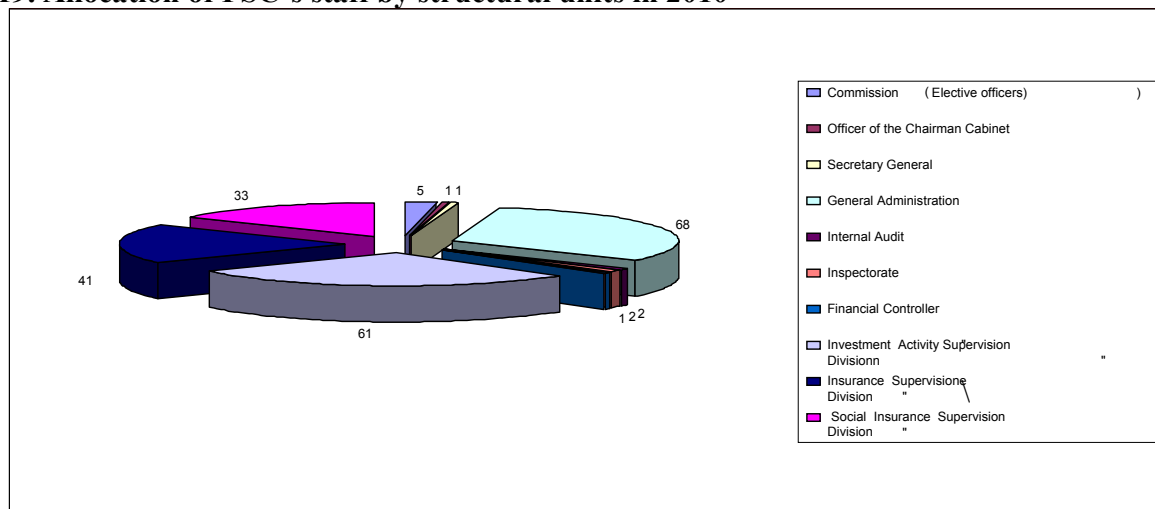
The effective human resources management is based on the understanding that people are our most valuable asset. The FSC success depends on how well our officials deal with the professional challenges. The Commission's culture reflects the values, expectations, relations between the staff, the written and unwritten rules. We promote the communication process and the building up of values such as honesty, precision, loyalty and trust. A key element in our management culture is the teamwork, so that people here can be useful to each other in fulfillment of the assigned to them tasks and maintain good professional relations.

**The Commission's structure and functions** are set out in the Financial Supervision Commission Act and the special laws and sub-statutory acts regulating the investment, insurance and social insurance activities. Since March 2010 the payroll number of FSC staff, according the adopted Rules of the Structure and Operation, is 215 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 department in them are formed on the functional principle in accordance with the main regulatory functions – licensing, supervision and coercive administrative measures. The purpose is optimization of the activity and supervision effectiveness.

An important component of the FSC unified structure is the functioning of well working General Administration, closely related to each of the specialized Divisions and supporting their activity.

**Figure 19. Allocation of FSC's staff by structural units in 2010**



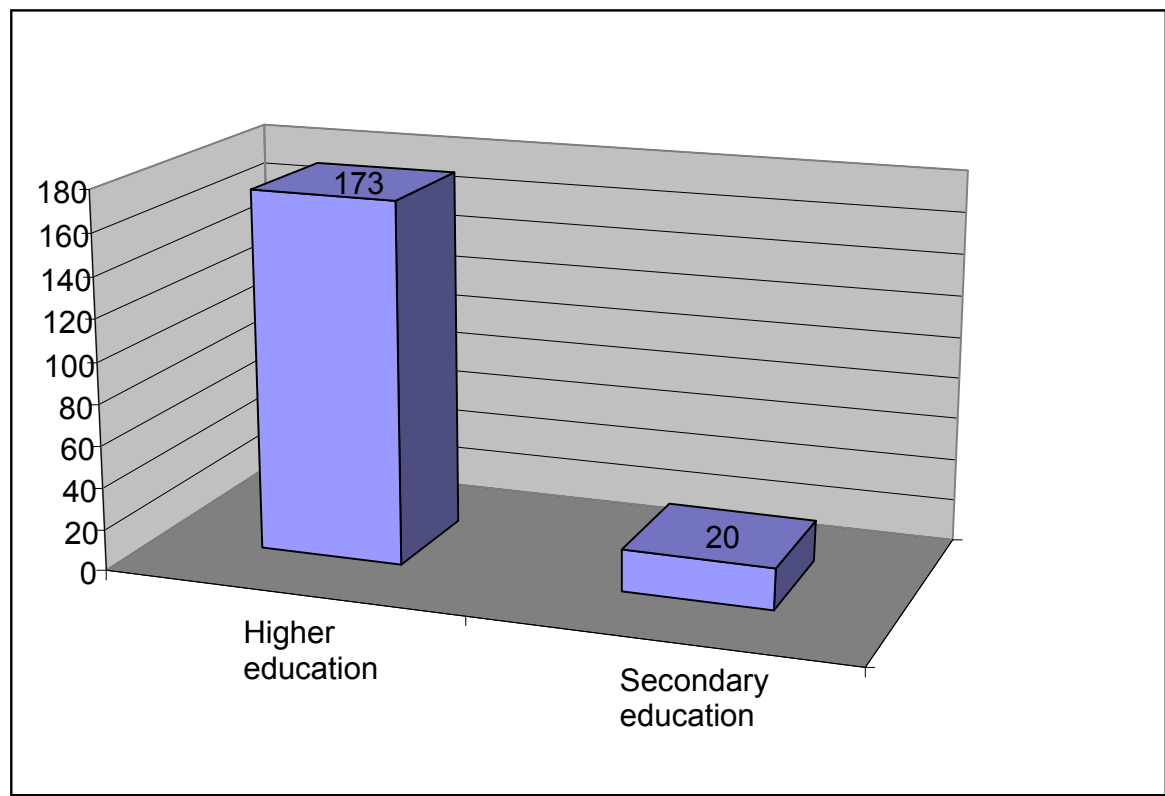
The Financial Supervision Commission is part of the state administration of the Republic of Bulgaria, but in its structure there are no positions set to be held by civil servants. All employment relations are regulated under the Labor Code. This allows some freedom in the applying of policies related to the human resources management and development. In the beginning of 2010, the FSC budget was reduced, which necessitated optimization of the structure and decrease in the staff number.

The distribution 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 90% of those employed in 2010, and the share of employees with secondary education was retained at around 10%.

The achieved high potential of the employees led to maximum realization of the Commission's priority objectives. During the year under review, the distribution of the FSC staff by type of education was preserved, the share of employees with education in economics was 53 %, and the share of employees with education in law was 36%<sup>20</sup>. From the employees with other higher education, 5% were in natural and mathematical sciences and informatics, and 6% - other higher education. The distribution of specialists by level of education and type of education was consistent with the nature of the objectives and tasks assigned by the Commission.

<sup>20</sup> The share was defined based on the average payroll number of FSC's staff at the yearend.

**Figure 20. FSC staff structure by education**

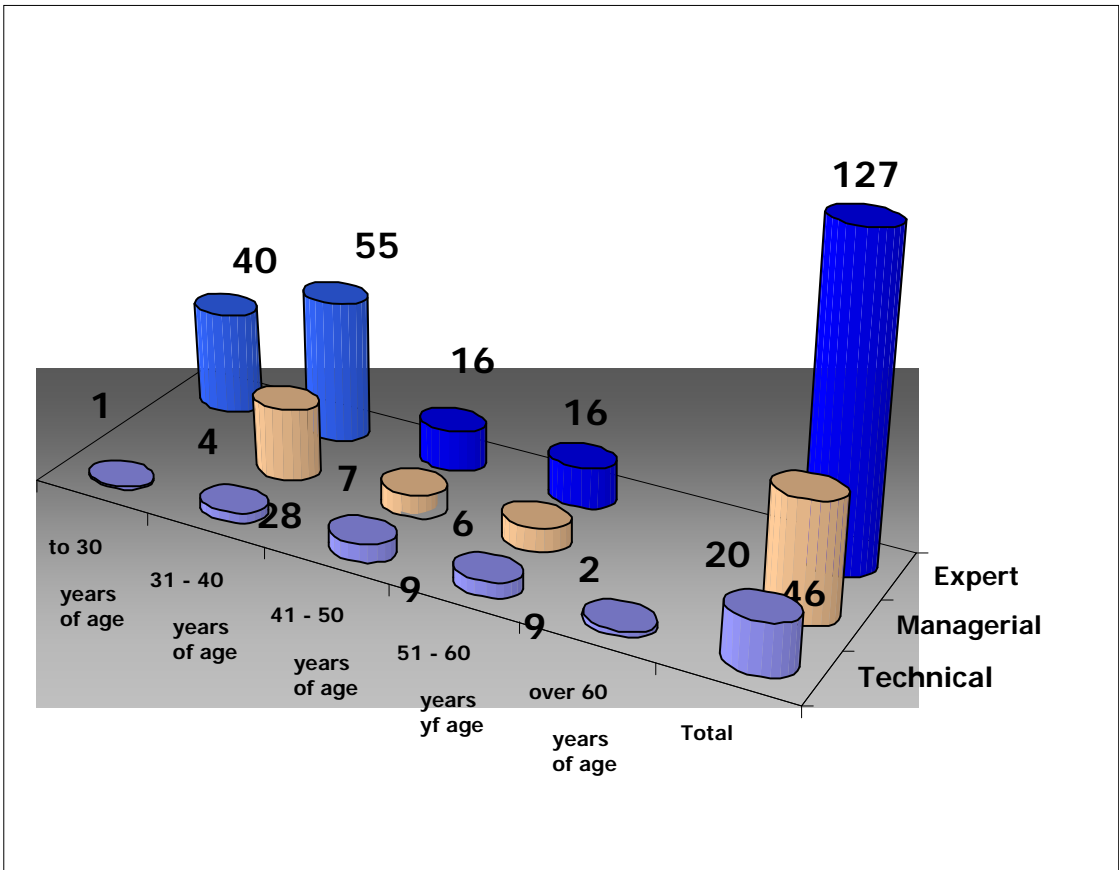


The highest number of employees in FSC were aged 31 to 40 years (87 persons), followed by employees under 30 years of age (41 persons); over the age of 51 (33 persons) and 41-50 years old (32 persons).

In the FSC’s **professional structure**, the total number of staff in leading positions in FSC was 46, the biggest number of them was 31 to 40 years old (28 persons). The expert personnel was 127 persons, 95 of whom aged to 40 years. Employees performing technical positions were 20, most of them – 7 persons being at the age from 41 to 50 years. The age structure and the relative stability of the personnel is a precondition for succession and reproduction of the organizational know-how and skills.



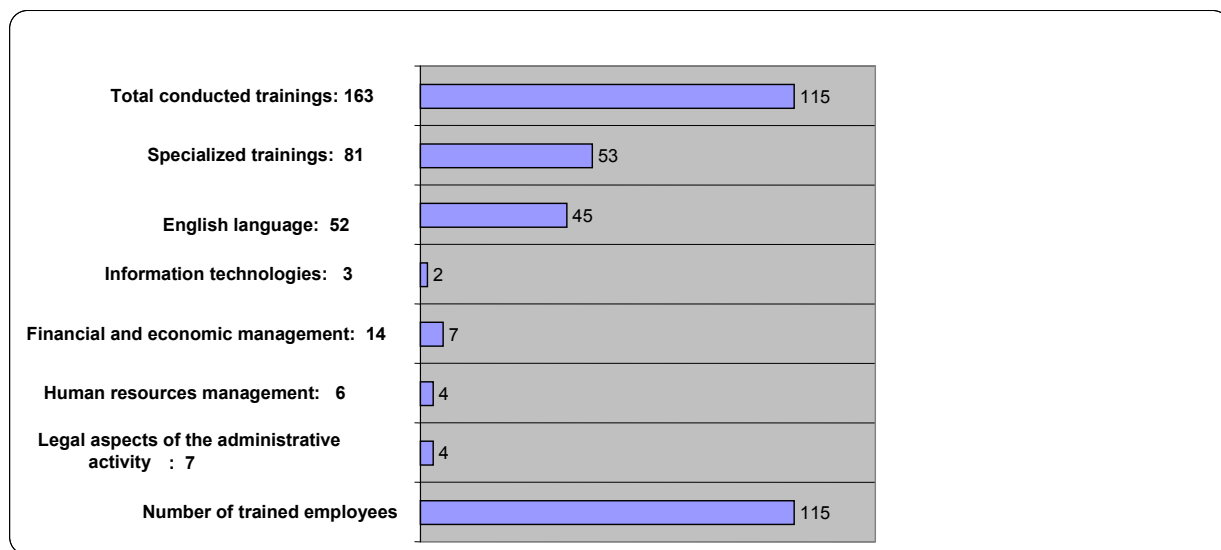
Figure 21. Structure of the personnel by age and position



In 2010, 100% of the funds appropriated for the employees' specialized training were utilized. Human Resources Directorate in close cooperation with the direct management staff in the institution carried out activities for: studying the needs of training, organization and conducting of the respective training programs and assessment of the effectiveness of the held trainings.

During the reporting period, 115 employees of FSC took part in **various form of training and qualification extension**. In view of the educational process needs, FSC developed beneficial partnership relations with a number of institutions, namely – the Institute of Internal Auditors in Bulgaria, the Bulgarian Industrial Association, the National Union of Jurisconsults, the Bulgarian Human Resources Management and Development Association, the Bulgarian Actuarial Society, Publishing House Trud & Pravo, etc. The services were used of well-known specialists and the possibilities of different international projects and donor programmes.

**Figure 22. Number of persons undergone training on the relevant subject-theme**



In FSC there is a procedure for additional stimulation, which assesses the quarterly work performance and is directed predominantly to stimulation of the short-term performance. A priority task in the next calendar year will be the building of a system of assessment, which will be focused on the long-term individual work performance, whereby it will be guaranteed that employees achievements are acknowledged, they are appointed to specific positions and they receive remuneration consistent with their contribution and abilities. The system must assist for encouragement of the staff to perfect their skills and lead to improvement of the work performance and human resources development. The objective is the results of the assessments to be applied for the structure of the career plan, in order the best performing employees to be identified, remunerated accordingly and to be appointed to positions, which will bring the most benefit for FSC.

**The Strategy for the Human Resources Development** is of exceptional importance for the Commission's operation as a modern and efficient supervisory authority. The supervision quality is inextricably bound with the qualities, skills and experience of the employees in FSC. Human resources influence every single aspect in the organization – from the employees' career 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, which will ensure a stimulating working environment, including focused training, possibility employees to face continuously new challenges, acknowledgement and stimulation for exceptional results at work.

The most valuable capital of the Commission is its officials. That is why the main strategy of human resources management is directed to the human development of the separate people with their individuality, knowledge, experience, interests, needs, motivation. The management mechanisms are purposefully connected with the communication development, in order the effectiveness of the teamwork to be increased and the working environment to be improved. The results which we expect (through the human resources influence), are achievement of significance, personal belonging and satisfaction of the personnel.

## 9. Development of the information technologies for the purposes of the supervision

The development of the information technologies infrastructure in the Financial Supervision Commission in 2010 went on under the sign of sustainability and safekeeping of investments. Following the current trends in the information technologies development, the Commission continued to develop and integrate its software systems.

A lot was achieved along the lines of 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 filing and processing of the information required for the supervision exercising.

In 2010, the Project under the Phare programme was supplemented and improved in relation to:

- system of the overall documentation turnover and organization of the group working environment;
- the single Datawarehouse, generating information from all databases built up in FSC.

During the period under review, the current state was maintained of the information in the FSC registers. The data in the e-Register were updated by the supervised persons – public companies and securities issuers (including special investment purpose companies) and by the management companies. The portal is operating without interruption and it contains the latest entered by the supervised persons data. All other circumstances were updated in due time in the ERiK register on the basis of the information submitted in the orders of the divisions. The daily processing and updating continued of the received from the insurance companies information about concluded and amended agency contracts. The FSC web page was renovated in accordance with the received for that orders.

The building up and further development of the internal electronic system for entry of acts for establishment of administrative violations continued successfully. The system allows the respective experts in the Commission to enter data about penal warrants and individual administrative acts and provides possibility of tracking the stages from the issuance to the fulfillment of each administrative penal procedure.

During the year, a multitude of modifications were made in the information system for receiving and processing of the daily reporting of the supervised persons of the Social Insurance Supervision Division, determined by the statutory requirements. A new Exchange server was installed and configured and along with that a machine with professional AntiSpam solution was bought, installed and configured. This created conditions for more efficient work of the officials in FSC.

In 2010, the active involvement continued of our country, and in particular of the Commission, in the activities of the relevant European regulatory authorities. In compliance with the provisions of the Markets in Financial Instruments Directive, the old TREM system was successfully updated by a new renovated version TREM (3.0), which includes:

- acceptance of files on transactions according a new format;
- acceptance of a new type of files about transactions with OTC derivative instruments, realization of control over them and their processing;
- feeding data for BIC codes of companies, MIC codes of the markets, nomenclatures of the countries, currencies and classificator of the types of tools, used in validation of the exchanged data.

Active participation was also taken in the activity of EIOPA in relation to specifying the type, volume and form of the data which will be collected.

The Commission is oriented to a single platform for electronic processing of the exchange/ storage of data flows. The process has been launched of elaboration of a strategy and methodology for the collection, storage and summarizing of the received from the supervised persons data. Active work goes on for the

development of a general framework for the development and organization of a single information system in FSC and optimization of the data flow movement.

## 10. FSC's budget execution report for 2010

According to the Financial Supervision Commission Act, the Commission is a budget supported legal person<sup>21</sup> with its own budget which is a part of the state budget of the Republic of Bulgaria<sup>22</sup>. The activity of the Commission for Public Supervision over the Registered Auditors Activities is also financed through the FSC's budget.

The FSC budget is formed from its own revenues and a subsidy from the central budget. In 2010, the realized **own revenue** from regulatory and supervisory activity of FSC were to the amount of **BGN 5 338 259**, which exceeded the planned revenues for the year by 33,45 %. The biggest share in the structure of the own revenues (51,06 %) was held by the **state fees**, which are received under the Tariff of Fees, collected by FSC on the ground of Art. 27 of the FSCA, in connection with carrying out of activities, issuance of documents and exercising of general financial supervision. They were to the amount of **BGN 2 725 863**. Another source of own revenues were the proceeds from **finances, penalty interest and indemnities**. For the reporting period the proceeds from these on the Commission's account were at the amount of **BGN 2 609 260**, which formed 48,88 % of the own revenues. **The other revenues** (0,06 %) in 2010 were from rented real property and from the sale of competition and tender documentation for the carrying out of procedures under Public Procurement Act. Their total amount was **BGN 3136**.

In 2010, financing was received under the FSC's budget in connection with the implementation of two twinning projects, funded under EU programmes, in whose realization FSC participated, in total to the amount of BGN 854 151:

- Twinning project MN 08 IB FI 01 Strengthening of the Supervisory and Regulatory Capacity of the Financial Regulators in Montenegro, for the implementation of which the received financing in 2010 was to the amount of BGN 297 913. In the fulfillment of this Project FSC participated as a junior partner, and a lead partner was the Bulgarian National Bank;
- 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. The received financing on the Project was BGN 556 238.

To cover the expense section of the budget, the Commission used during the year 73,47 % own revenues, 18,22 % subsidy from the republican budget and 8,31 % financing from the European Union for the implementation of the twinning projects. The Commission incurred **expenses** to the total amount of **BGN 7 266 251**, including expenses for the personnel (salaries, remunerations to the personnel and social security contributions), administrative expenses for maintenance of the institution, annual membership fees in international organizations and the European committees of the national supervisory authorities and expenses for acquisition of long-term tangible and intangible assets. The main purpose of the acquired long-term assets was related to supporting the Commission's administrative activity through the provision of information technologies and renovation of the computer and hardware equipment.

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<sup>21</sup> According to Art. 2, para 2 of FSCA

<sup>22</sup> According to Art. 28 of FSCA

## 11. Report on the FSC's Internal Audit activity for 2010

The audit activity in FSC is carried out in compliance with the provisions of the Internal Audit in the Public Sector Act (IAPSA), 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.

During the reporting period, the internal audit achieved the set objectives, accomplishing the following commitments and activities:

- Identified and assessed the risks in FSC in the strategic annual planning of the internal audit activity and in the fulfilled audit commitments;
- With a view to strengthening the internal control, IAU conducted audit of main activities, assessed with higher risk level for achievement of the goals of the institution.

In 2010, audit commitments were accomplished for provision of assurance with the purpose of assessment of the administrative penal activity of FSC, as well as audit of the lawfulness and economy of the expenses of the Commission for Public Supervision over the Registered Auditors Activities (CPSRAA). The Internal Audit gave overall 22 recommendations for increasing the effectiveness of the internal control and improvement of the audited activities. The IAU recommendations as a whole were accepted by the leadership of the two Commissions and the officials responsible for fulfillment began to take corrective actions.

In planning and fulfillment of the audit commitments, first of all the functional approach was applied, where subject of audit were the main FSC's activities performed by the three Divisions. The benefit which the audit activity carried 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 analysis on the accomplishment of the respective activity, level of control, good performance and omissions made in the different divisions. The problems thus established and the recommendations given were brought to the knowledge of the FSC leadership and to the heads of the structural units, pursuing similar functions.

The IAU assisted the development of the monitoring of the financial management and control systems, accomplishing consultancy commitments, related to the organization of annual self-assessment, the completion of a questionnaire and the preparation of a summarized report on the state of the internal control in the FSC system for 2010.

In the performed audit commitments for provision of assurance, a review and assessment was made of the adequacy of the internal rules of FSC and CPSRAA regulating the audited activities, and where deemed necessary recommendations were given for their updating.

IAU supported the FSC leadership in regard to the monitoring over the fulfillment of the internal audit's recommendations by rendering assistance in the drawing up of the action plans, maintaining a single data base of the recommendations and the planned in connection with them counter actions, applying procedures for control over the results status and reporting regularly to the FSC Chairman about the recommendations, in relation to which actions were envisaged, but insufficiently undertaken.

On request of the Commission Chairman, consulting commitments were accomplished, the more substantial of which are connected with the participation of the head of the internal audit in the work of Working Group 27 Accounting policy and independent financial audit, as well as in the National Conference of the Institute of the Internal Auditors in Bulgaria with delivered presentation on the topic of FSC's role as a regulatory and supervisory authority in the performance of the activities of internal control and internal audit in the non-banking financial sector.

With the purpose of improving the internal audit activity in FSC and in connection with the amendments to the IAPSA (SG, iss. 54/16.07.2010), the Status of the Internal Audit Unit, the Internal Rules

of organization of the work in the IAU and the Program for ensuring and improvement of the audit activity quality were reviewed and updated.

During the period under review, the internal audit activity in the Commission was carried out by two internal auditors, including the head of the internal audit. The strengthening of the administrative capacity in 2010 was achieved through extension of the professional knowledge and skills of the internal auditors by the development and fulfillment of a training plan, conformed to the individual need of the auditors and the financial possibilities of the Commission.

With a view of providing reasonable assurance the IAU pursues its functions in an effective way and in compliance with the acting legislation, current reviews and an annual periodic review of the internal audit activity were performed.

## 12. Report of the Inspectorate

In the period from 01.12.2009 to 30.11.2010, the officials from the Inspectorate with the Financial Supervision Commission, in compliance with the provisions of the Regulations for the Structure and Operation of FSC and the Inspectorate Rules of Procedure, and in fulfillment of orders of the Commission's Chairman, carried out inspections with regard to the activity of the officials from the Commission's Administration, as follows:

- Target inspection in relation to available information for offence of Art. 21 of the Law on Prevention and Detection of Conflict of Interests;
- Thematic inspection in regard to actions undertaken by officials from the Administration of the Financial Supervision Commission in connection with received in 2009 complaints against licensed insurance and health insurance companies;
- Target inspection with reference to received signal in regard to actions undertaken by the FSC officials in connection with received complaint with incoming ref. Nr. 91-02-351/06.04.2010 against ZK UNIQA AD.
- Target inspection regarding actions taken by the Commission's officials in connection with received signal Nr. RG-12-01-13/17.06.2010, given by PIC DOVERIE AD;
- Thematic inspection in relation to actions undertaken by the officials from the Administration of the Financial Supervision Commission in connection with received complaints against licensed pension insurance companies in 2009 and 2010 at the time of the inspection;
- Target inspection in regard to the undertaken actions by FSC officials in connection with the exercised supervision over the activity of the public companies MOSTSTROY AD and HOLDING PATISHTA AD from 2007 to the moment of the inspection.



## II. Market analysis of the non-banking financial sector

### 1. External environment and economic activity

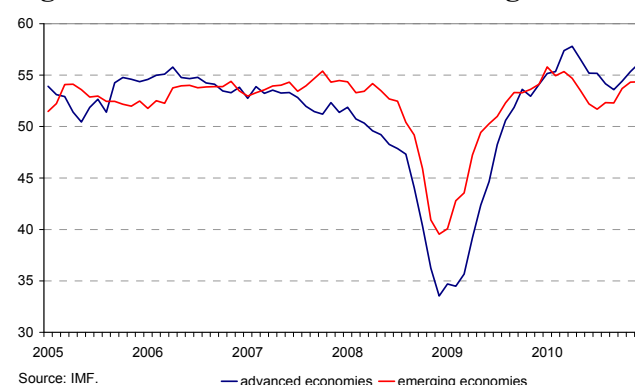
#### 1.1. External environment

In the past year, the economic growth on a global scale entered again in a positive territory and reached 4.9% in the conditions of stabilizing financial markets. The pace of the economic recovery remained considerably unevenly distributed, the emerging economies recovering faster, mostly these of Asia and Latin America. The uneven rates of economic development raise the issue of the sustainability of the economic progress in the developing countries, because of the deepening global imbalances. The public finance management in the advanced countries, and in particular in the Euro area periphery lost certain confidence among the investors and put to the test the stability of the single European currency. The rise of the world prices of major raw materials, energy and food products reflected on the consumer end prices in a number of countries and put to the challenge the monetary policy at low interest rates.

After the concerns for global depression in 2009 passed away and the confidence in the economic recovery increased, the real sector began to replenish again the low stocks. That supported the growth in the industrial production and trade in the first half of 2010. Upon reaching the capacity needed for satisfying the expected demand, the economic development passed to lower growth rates in the second half of the year. Simultaneously, the financial markets recovery and the development perspectives in the developing countries stimulated the investments, new jobs creation and the consumption<sup>23</sup>.

<sup>23</sup> In the IMF methodology, the advanced countries cover Australia, Canada, Czech Republic, Denmark, Euro Area, Hong Kong, Israel, Japan, Korea, New Zealand, Norway, Singapore, Sweden, Switzerland, Taiwan Province of China, United Kingdom and the United States of America, while the group of emerging economies (or newly emerging markets) includes Argentina, Brazil, Bulgaria, Chile, China, Colombia, Estonia, Hungary, India, Indonesia, Latvia, Lithuania, Malaysia, Pakistan, Peru, Philippines, Poland, Romania, Russia, Republic of South Africa, Thailand, Turkey, Ukraine and Venezuela.

**Figure 1. PMI index of manufacturing**

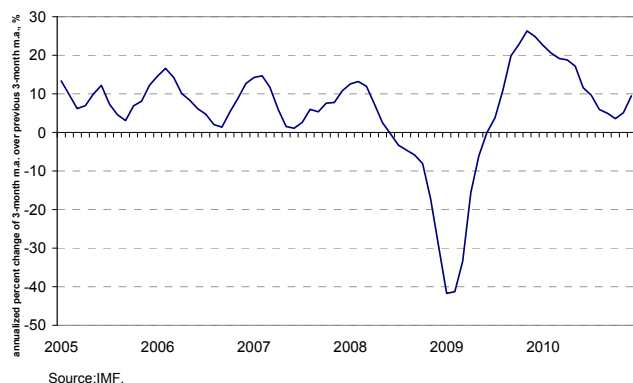


The leading indicators show the reaching of a peak in the economic activity related to the building of stocks as early as March-April 2010. After its slowdown in the second half of the year, heightening of the optimism was noted in regard to the production, employment and the new orders, the PMI index (Purchasing Manager Index) of manufacturing again marked growing rates of change. The positive values of the PMI index for development of the service sector presumed the economic recovery to cover increasingly more sectors of the world economy.

In 2010, the dynamics of the world trade volume followed the cycle of stock building, the import from the developing countries reaching its

pre-crisis levels. The capital flows to the emerging economies continued to record very high volumes, too, while these between the advanced countries remained below their long-term level.

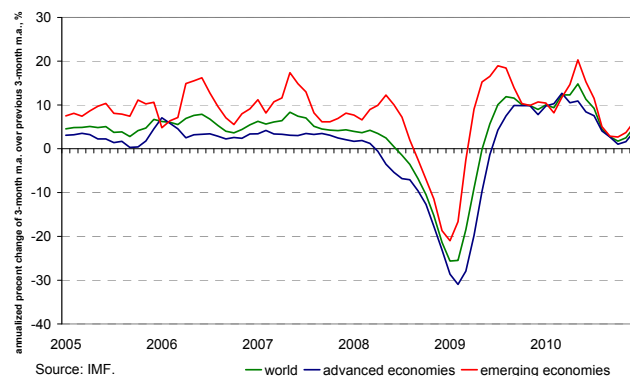
**Figure two 2. World Trade Volume**



Note: CPB trade volume index of the Netherlands Bureau for Economic Policy Analysis.

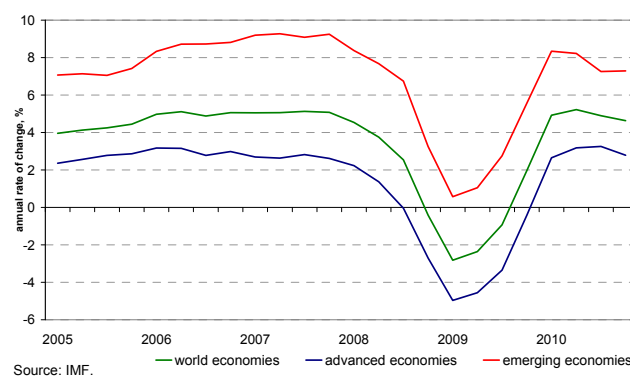
The industrial production, which was most strongly affected by the global economic crisis, recorded a positive growth in 2010. In the advanced countries, the industry recovery was supported by low interest rates policy, eased financial conditions and the comparatively good state of the companies' balances and the perspectives for profit. In the emerging markets, and more especially in Latin America and Asia, the industrial production was stimulated by the accommodative monetary policy, the increased export and prices of major raw materials, as well as the recovery of the foreign investments in some of them.

**Figure 3. Index of the industrial production**



Since the beginning of 2010, the economic growth on a global scale entered in a positive territory and marked a growth of 5.1% on annual basis for the first six months. In the second half of the year a slowdown was recorded to 4.8%, dominated mostly by the emerging economies, where the real growth was retained at 7.3% as a result of the accumulated in the first six months of the year stocks and more slowly recovering consumption. Thus the considerable differences in the growth rate classified the economic recovery as 'two-speed recovery'<sup>24</sup>, where the emerging economies would continue to be far ahead of the advanced economies.

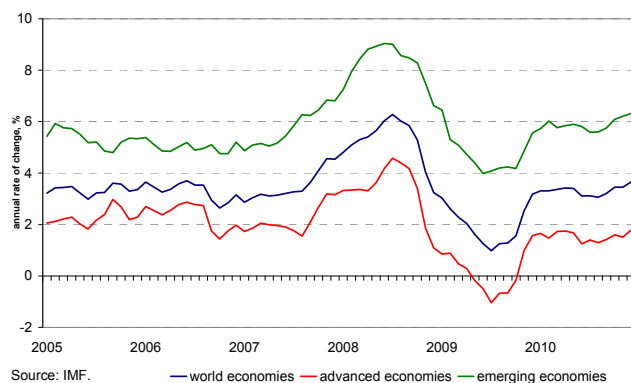
**Figure 4. Real GDP growth**



<sup>24</sup> From the English 'two-speed recovery'.

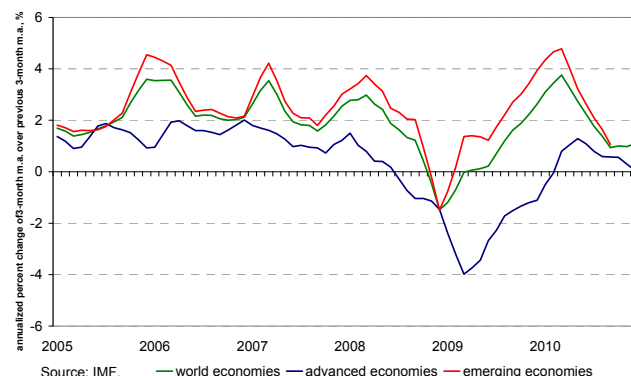
As a result of the rising in the second half of the year prices of main raw materials and food products, the inflation on a global scale began to increase and at the end of 2010 it reached 3.7%. This created inflation pressure most of all among the emerging economies, where the share of these commodities is bigger in view of the households' consumer basket, while in the advanced countries this share was limited by the consumers' higher disposable income. While in the emerging economies there were already available secondary effects on the price rise of other commodities and services, as well as pressure for increase of the salaries, in the larger part of the advanced economies for the time being no inflationary pressure was recorded on the so called core inflation<sup>25</sup>.

**Figure 5. Inflation on a global scale**



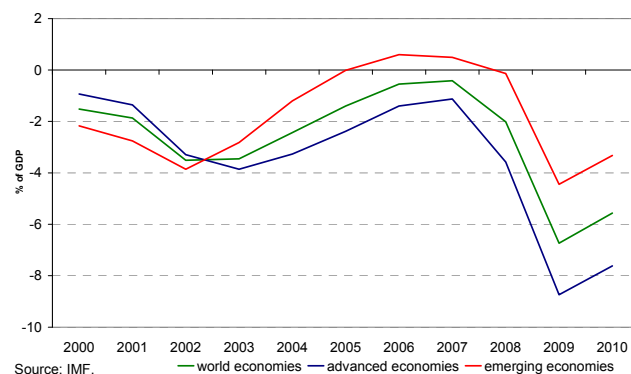
After reaching the maximum growth rates in March-April 2010 of 3.5% year-on-year, the employment continued to record a positive growth, even though slowing down. These dynamics in its bigger part was due to the stock building cycle, but to some extent, it was also a result of the public sector restructuring. The perspectives of significant increase of the employment on a global scale were limited by the expected slower rates of economic development and the lack of structural reforms and stimulation of the labor market.

**Figure 6. World employment dynamics**



After the hard for the public finances 2009, in the past year shrinking of the budget deficits was observed on a global scale. Nevertheless, they remained considerably large, dominated by the deficits in the advanced countries (-7.6% of the GDP). The improvement of the public finance condition proved to be limited by the economic activity slowdown in the second half of the year, which reflected on the lower than expected income section of the budget. To achieve greater collectibility, some countries were compelled to increase the rates of direct and indirect taxes, which, in turn, exerted some pressure on the economic activity.

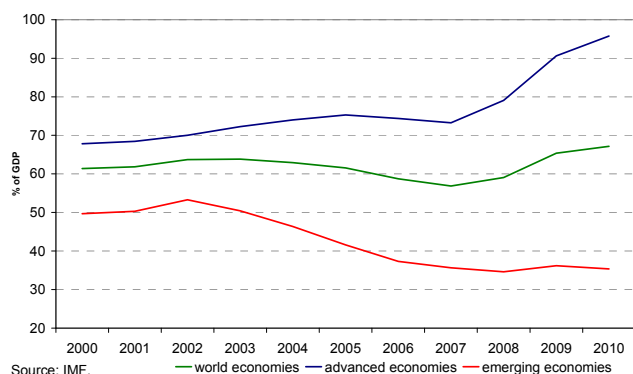
**Figure 7. Public finance balance**



<sup>25</sup> From English core inflation.

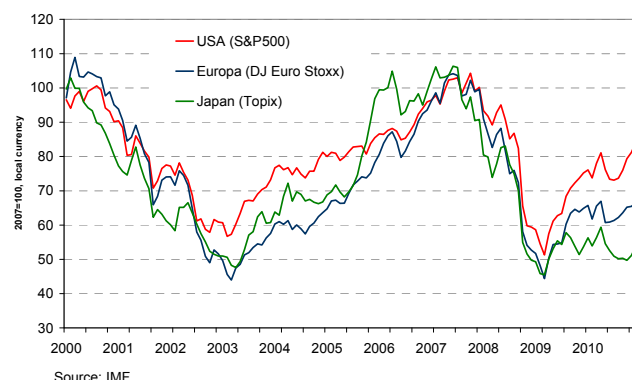
In 2010, the public debt reached historical sizes, climbing up on a global scale to 67.1% of the GDP. As a result of the savings of financial institutions during the crisis, the advanced economies accumulated largest public debt, which in the past year reached 95.8% of GDP. In the Euro Area periphery, crisis situations were materialized, which put to test the stability of the single European currency and necessitated the building of a mechanism for Member States' saving. This questioned the sustainable public finance management and the need of more rigorous rules, as well as of coordinated actions in the Euro Area.

**Figure 8. World public debt**



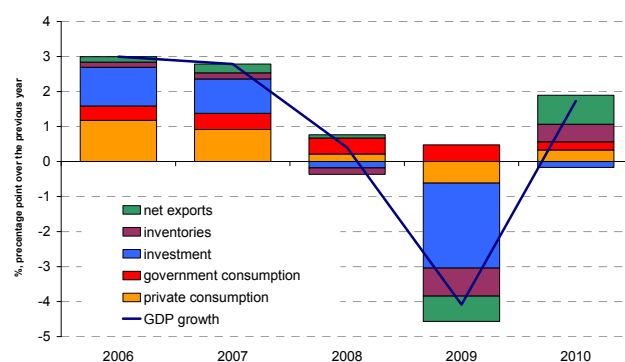
In 2009 the conditions on the international financial markets improved, reflecting the optimistic expectations for economic development and perspectives of profit formation. The prices of shares in the USA and in a number of emerging markets in Asia and Latin America came close to their pre-crisis levels, while these in the Euro Area lagged behind due to the uncertainty about the financial sector development and the public finance vulnerability in the periphery. In Japan, the slower growth of shares is expected to continue because of rise in the yen's value.

**Figure 9. Capital markets in advanced economies**



After the shrinkage of the economic activity in the Euro Area<sup>26</sup> in 2009 by 4.1% in real terms, during the past year it reported a positive growth of 1.7%. The main contribution to that belonged to the net export (0.8 p. p.), stimulated by the bigger external demand, and the change in stocks (0.5 p.p.). The private consumption recovered at slower paces and its contribution to the real GDP growth was approximately 0.3 p.p.

**Figure 9. Real GDP growth in the Euro Area**



Note: The data about 2010 are preliminary.

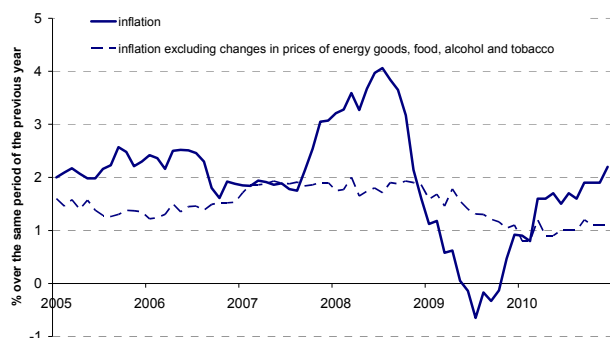
As a result of the measures taken for the public finance restructuring, the government consumption contributed to the real growth of the economies in the Euro Area on the average by 0.2 p.p. Due to the crisis with the public debt in the Euro Area periphery and the uncertainty about the

<sup>26</sup>The Euro Area was considered in the composition of the first 12 Member States.

perspectives of sustainable development, the receding tide of investments continued, even though at slower rates, whose negative contributions was assessed at - 0.2 p.p.

With the economic activity recovery, the inflation in the Euro Area began to calm down smoothly in 2010, remaining below the reference 2% almost until the year end. The rising prices of main raw materials on the international markets, for the time being, exerted only direct effect on the general level of the consumer prices in the Euro Area, the effect being limited by the small share of these commodities and services. The core inflation<sup>27</sup> or the change in the process of commodities and services without foods, energy commodities, alcohol and tobacco products reached 1.1% y/y at the year end and did not exert inflationary pressure on the incomes. With lasting retaining of the high price levels on the international markets, the inflationary pressure in the Euro Area will increase and will create expectations for more active anti-inflation policy on the ECB side.

**Figure 11. Inflation in the Euro Area**

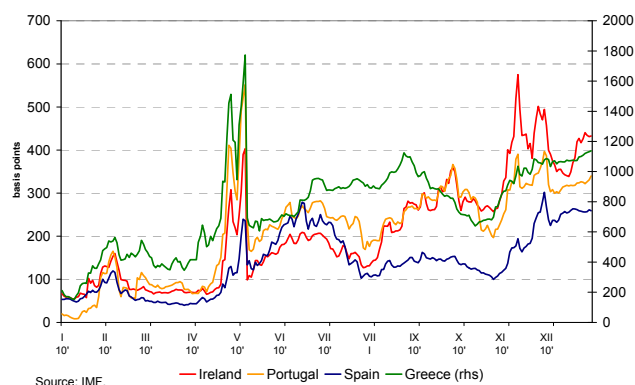


Source: Eurostat.

2010 will remain in the Euro Area history as the most difficult year in the public debt management. After the surprisingly big revision of the budget deficit of Greece to 12.7% of GDP for 2009 and the unrealistic scenario for its reduction below 3% until 2012, the credit rating of the country was decreased. The problems with the fiscal consolidation of Greece affected adversely

the moods on the financial markets for the growing concerns of similar development in other European countries with worsened fiscal indicators. The credit risk premium of the government bonds of Greece vis-a-vis the German in the 2-year maturity sector jumped to 1773 b.p., followed by these of Portugal, Spain and Ireland.

**Figure 12. Spread on 2-year GS of Greece, Spain, Portugal and Ireland vis-à-vis the German securities**



Source: IMF.

In negotiations with the EC, ECB and the IMF a new, more realistic stabilization programme for Greece was announced, aiming at overcoming the excessive budget deficit until 2014, while in this period the country will receive a loan from the IMF and from the Euro Area countries to the amount of EUR 110 billion. Moreover, the ECOFIN Council in cooperation with the IMF adopted a package of extraordinary measures, which included the setting up of European Financial Stabilization Mechanism, to prevent the crisis from shifting to other EU countries. As early as in November, Ireland became the second member state of the Euro Area, which resorted to the saving package of fiscal consolidation and stabilization of the bank system.

<sup>27</sup> From the English. Core inflation.

Reflecting the unstable public finance management in some countries of the Euro Area, the Euro began to lose support of the financial markets already at the end of 2009. The crisis with the national debt in Greece, the lack of concrete mechanisms and the long debates between the countries for the financial aid realization, put the single European currency under pressure. As a result of it, around the middle of 2010, the Euro reached its lowest value of USD 1.194 per Euro for the preceding 5 years. The positive data about the Euro Area economic recovery increased the willingness of assuming risk on the Forex market, but due to the availability of tension on the markets of government securities in the Euro Area, the Euro hesitantly regained part of its positions.

**Figure 13. USD/ EUR exchange rate**



As a result of the financial and economic integration, the improving economic situation of the Euro Area also shifted to the countries of Central and East Europe (CEE). The recovery of the economic activity in these countries in 2010 was uneven, highest growth being recorded by Turkey (8.2%) and Poland (3.8%). The economies of Romania and Croatia continued to contract, respectively by 1.3% and 1.4%, although at slower rate. The main driving force of the growth was the export, while the private consumption was recovering slowly because of the pressure exerted by the increasing unemployment.

**Table 1. Real GDP growth in CEE**

	2007	2008	2009	2010
Czech Republic	6.1	2.5	-4.1	2.3
Hungary	1.0	0.6	-6.3	1.2
Poland	6.8	5.1	1.7	3.8
Romania	6.3	7.1	-7.1	-1.3
Turkey	4.7	0.7	-4.7	8.2
Serbia	6.9	5.5	-3.1	1.8
Croatia	5.5	2.4	-5.8	-1.4

Note : Data is annual change over the previous year (%). Data for 2010 is preliminary.

Source: Eurostat, National Statistical Institutes.

All countries from the region continued to report budget deficits in 2010. As a result of measures taken for the public finance restructuring, the budget deficits in most of the countries shrank. Limited by the lower than the expected collectibility of the tax revenues and the lack of restrictive measures on the fiscal expenses, the budget deficit in Poland, Croatia and Serbia broadened respectively to -7.9%, -6.5% and -4.5% of GDP. This put to the challenge the sustainable public finance management in the conditions of instability of the international markets of government bonds.

**Table 2. Budget deficit in CEE**

	2007	2008	2009	2010
Czech Republic	-0.7	-2.1	-5.8	-4.8
Hungary	-5.0	-3.4	-3.9	-3.0
Poland	-1.9	-3.6	-7.2	-7.9
Romania	-2.5	-4.9	-7.4	-6.5
Turkey	-1.2	-1.8	-5.5	-3.6
Serbia	-1.6	-2.6	-4.3	-4.5
Croatia	-1.6	-1.4	-3.9	-6.5

Note: Data is reported in % of GDP.

Source: Eurostat, National Statistical Institutes.

With the increase of the international prices of major raw materials, food and energy products, the inflation in most of the CEE countries accelerated in the past year. The lower inflation rates in comparison with the preceding year in Serbia and Croatia were predominantly due to lack of pressure on the side of the internal demand. The average annual inflation in Poland declined to 2.6% as a result of the pursued in the second half of 2010 active anti-inflation policy.



**Table 3. Inflation in CEE**

	2007	2008	2009	2010
Czech Republic	3.0	6.3	1.0	1.5
Hungary	7.9	6.0	4.2	4.9
Poland	2.6	4.2	3.5	2.6
Romania	4.9	7.9	5.6	6.1
Turkey	8.8	10.4	6.3	8.6
Serbia	6.5	11.7	8.4	6.3
Croatia	2.7	5.8	2.4	1.1

Note: Annual average inflation rate (%).

Source: Eurostat, National Statistical Institutes.

The negative effects of the economic crisis in 2009 continued to influence the labor market in the CEE countries. The level of unemployment climbed up in the whole region during the past year, highest level of unemployment as percent of the workforce being recorded in Serbia (20%). The only exception is Turkey, where a decline in the level of unemployment was observed by 2.1 p.p.

on average annual basis as a result of the fast economic recovery. The households' expectations for increase in the unemployment and the uncertainty in the future incomes limited the consumer investment expenses.

**Table 4. Unemployment rate in CEE**

	2007	2008	2009	2010
Czech Republic	6.6	5.5	8.1	9.0
Hungary	7.3	7.8	9.8	11.1
Poland	12.7	9.8	11.0	12.3
Romania	4.3	4.0	6.3	7.6
Turkey	9.9	11.0	14.0	11.9
Serbia	18.1	13.7	16.1	20.0
Croatia	9.6	8.4	9.4	12.0

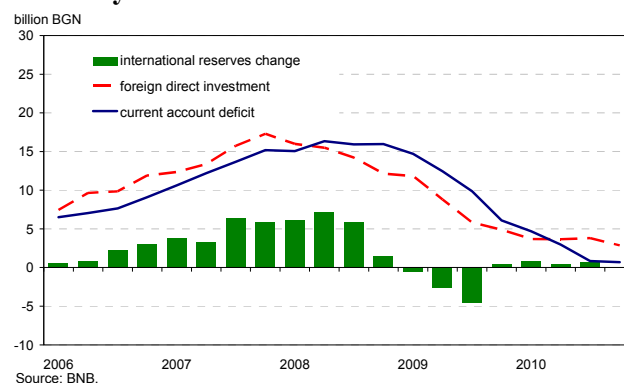
Note: Data is reported annual average (% of labor force).

Source: Eurostat, National Statistical Institutes.

## 1.2. Overview of the economic activity in Bulgaria

After the decline of 5.5% in 2009, the economic activity in Bulgaria was recovering slowly in the past year. The weak, but positive real GDP growth of 0.2% was owing mainly to the recovery of the export oriented sectors. The domestic demand continued to lag behind, to which both the increased unemployment and the contracting of the households' income contributed. In the conditions of limited external and internal financing, the maintenance of fiscal stability placed further limitation on the possibility the government to stimulate the retarded economic activity. Nevertheless, the consumer confidence was improving, considering the optimistic expectations for the development of the economic situation in 2011.

The improvement of the current account in the balance of payments in 2010 continued, a deficit of 365.3 million Euro being recorded for the period January – December. Main factors for these dynamics were the economic recovery of our major trade partners from the European Union and the more slowly recovering internal demand. The stabilization of the foreign capital inflows ensured the full cover of the current account deficit, which shrank to 0.5% of GDP.

**Figure 14. Dynamics of the current account, foreign direct investments and foreign currency reserves**

As a result of that positive development, the foreign currency reserves of BNB grew with BGN 113 million for the past year, and at the end of December 2010 their amount was BGN 25.4 billion.

The volume of the net foreign direct investments (FDI) in the country during the past year was 1638 million Euro, their amount in the end of 2010 coming to 35 901 million Euro. Recovery of the reinvested profit (as a component of FDI) was noted in our country, which after two years of reporting of negative values reached a volume of 209 million Euro in the past year. The equity capital, which held the biggest share in FDI, slowed down its rates of decline on annual basis from -54.0% in 2009 to -21.0% in 2010.

**Table 5. FDI dynamics**

	2007	2008	2009	2010
Total	9051.8	6727.8	2412.2	1638.6
Reinvested earnings	1547.2	-183.5	-269	208.7
Equity capital	4765.2	4110.3	1889.6	1492.7
Other capital	2739.5	2801	791.7	-62.8

Note: Data is reported in million EUR.

Source: BNB.

In the past year, there was no change noted in the FDI sectoral structure, compared to the preceding three years. A leading sector according to attracted net foreign investments in 2010 was the manufacturing industry with a share of 35.9% from the total FDI volume, followed by sector Manufacture and distribution of electricity and heat energy, gaseous fuels and water (16.5%) and sector Transport, storage and communications, respectively with 15.4%.

**Table 6. FDI sectoral structure**

	2007	2008	2009	2010
Financial intermediation	24.0	24.9	28.2	9.8
Other community, social and personal service activities	1.0	0.9	-1.0	1.8
Manufacturing	11.7	9.3	-9.1	35.9
Hotels and restaurants	1.9	1.5	2.4	2.1
Real estate, renting and business activities	28.7	31.2	21.8	11.1
Transport, storage and communication	2.8	-4.0	11.2	15.4
Electricity, gas and water supply	3.1	3.5	12.7	16.5
Construction	9.0	9.1	11.5	2.4
Not allocated	1.8	2.9	3.4	4.9
Agriculture, hunting and forestry	0.8	1.0	1.0	0.4
Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	14.5	19.7	15.8	-0.8
Mining and quarrying	0.7	0.0	1.9	0.5

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

Source: BNB.

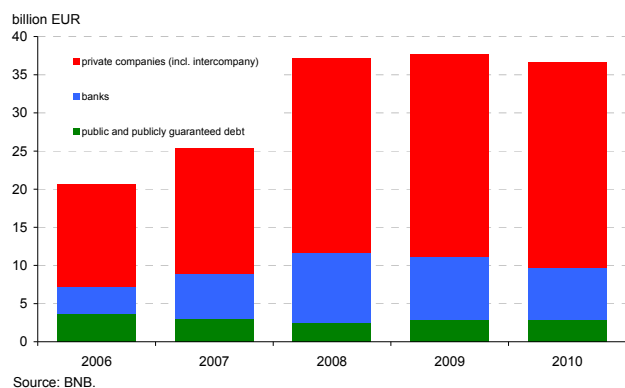
Owing to the standstill on the real estate market and the weak flow of foreign capitals to the financial sector, these sectors reached shares respectively of 11.1% and 9.8% in the FDI volume in 2010, and occupied accordingly fourth and fifth place in the sectoral structure of the foreign direct investments.

The distribution by countries shows that the most FDI in 2010 were attracted from the Netherlands (1509 million Euro), Belgium (193 million Euro) and Germany (147 million Euro). The volume of the attracted from the Netherlands investments dominated in the overall FDI volume, reaching a record high share of 92.1%. The negative value of the net investments attracted from Austria (-751 million Euro) and the United Kingdom (-187 million Euro), was as a result of net payments, related to revolving credits.

The amount of the gross external debt of the country decreased and in the end of 2010 it was 36.9 billion Euro, which came to 102% of GDP. The reduction of 2.8% on a year-on-year basis was due to the shrinking of the external debt of the bank sector by 18.1%, which contributed by – 4.0 p.p. The public and publicly guaranteed external debt amounted to 4.3 billion Euro and remained one of the lowest in the European Union, representing 11.9% of GDP.

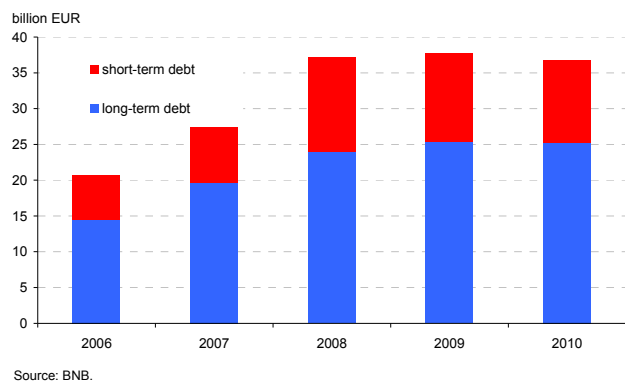
**Figure 15. Gross external debt**





The biggest share belonged to the private non-bank external debt (73%), the intercompany loans preserving their large size as a result of the long-term foreign investments in the Bulgarian economy. The maturity structure of the external debt remained without substantial change in the past year, the long-term external debt holding biggest share (68.6%). The external debt reduction was observed in all maturity sectors, the short-term external debt decreasing with 825 million Euro, and the long term respectively with 219 million Euro.

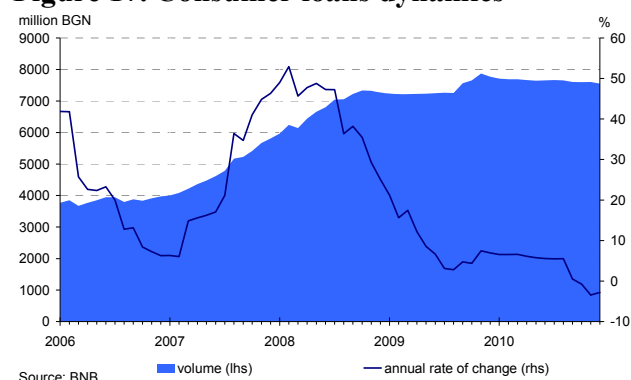
**Figure 16. Maturity structure of gross external debt**



The credit activity of the banks in Bulgaria continued to slow down, and at the end of 2010 the growth of credits (without overdraft) for the enterprises was established at around 3.8% year-on-year, and for the households – at 0.3%. The volume of consumer loans was relatively stable during the whole past year, both due to the weak demand at the current interest rate levels, and due

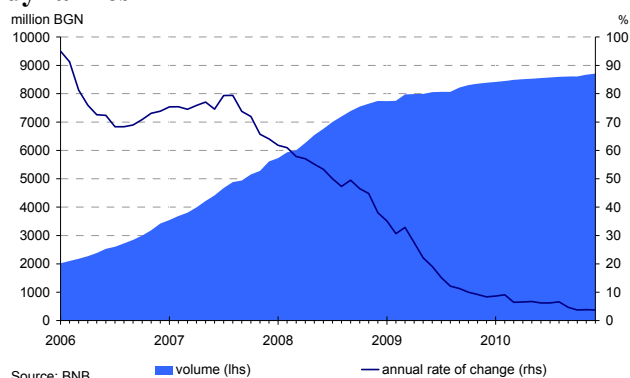
to the low credit capacity of the households in the conditions of uncertain future incomes. The consumer loans growth in the end of 2010 recorded negative values of -2.8% on a year-on-year basis, which was entirely owing to the base effect from the same period of the previous year, when the banks intensified their activities for the provision of funds to the households for consumer needs through attractive interest rate offers.

**Figure 17. Consumer loans dynamics**



During the past year, the volume of home loans continued to increase smoothly, and their amount at the end of 2010 was BGN 8.7 billion. The observed dynamics of the home loans volume reflected on the slowed down growth of these loans, which at the year end reached 3.8% year-on-year. The dynamics of the home loans reflected the state of the residential housing market, where the dropping in the home prices in 2010 slowed down.

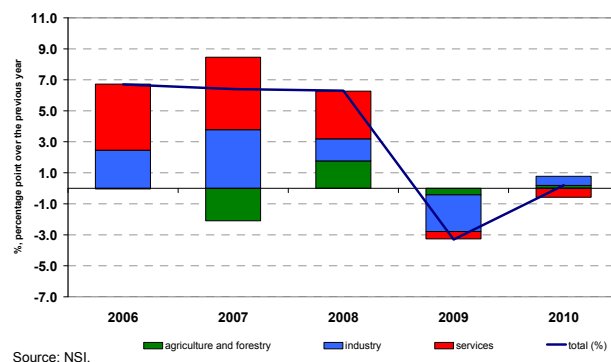
**Figure 18. Residential mortgage loans dynamics**



The quality of the banks portfolio towards the non-governmental non-financial sector continued to record worsening in the past year. The share of the bad and restructured credits reached 18.1% of the total share of the loans granted to the enterprises and households in 2010, where the share of the exposures with delinquency over 90 days in the gross credits (without these to the credit institutions) went up to 11.9%. A major factor for that worsening was the slowly recovering economic activity, the high inter-indebtedness between the economic agents and the uncertainty about the future incomes.

One year after the economic crisis reached Bulgaria and affected adversely all sectors, the economic activity in our country began slowly to recover, the total value-added for the economy (at basic prices) was 0.2% in 2010. The agriculture and forestry reported a high positive value-added growth of 3.9%, but their contribution to the total value-added in the economy amounted to 0.2 p.p.

**Figure 19. Value added dynamics and contribution by sectors**



The industry, which in 2009 was affected to the greatest extent, marked a value-added growth of 1.9%. These dynamics was dominated by development of sector Mining and quarrying industry, electric power, gas and water production and distribution, whose contribution to the value-added in the economy for 2010 was 0.5 p.p. Construction also marked a positive growth, even though in smaller sizes (0.9%), whose contribution amounted to 0.1 p.p.

The services sector preserved the negative value-added growth, which in 2010 came to -0.9%. This was directly due to the decline in the value added of sectors State government, education, health care and other services and non-governmental organizations' activity (-2.7%) and of sectors trade, repair of automobiles and household appliances, hotels, hostels and public catering, transport and communications (-1.8%). Only the sector of financial intermediation and real estate operations continued to record a positive growth, even though at slower paces, of 1.3%. As a result of these multidirectional dynamics, the negative contribution of the services amounted to -0.6 p.p. in the total value-added in the economy in 2010.

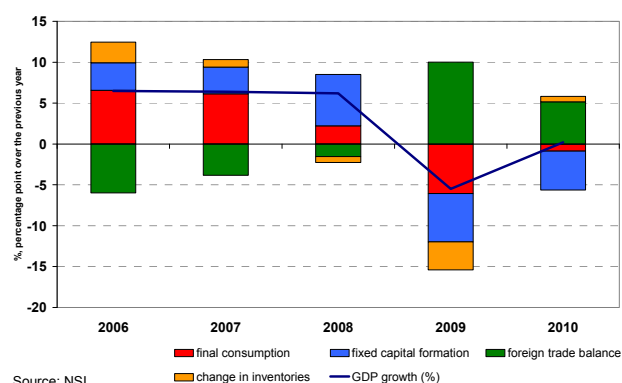
**Table 7. Value added dynamics and contribution by sectors**

	2007	2008	2009	2010
<b>Total, at base prices</b>	<b>6.4</b>	<b>6.3</b>	<b>-3.3</b>	<b>0.2</b>
Contribution by:				
Agriculture and forestry	-2.1	1.8	-0.4	0.2
Manufacturing, Mining and quarrying ; Electricity, gas and water supply	2.8	0.7	-1.4	0.5
Construction	0.9	0.8	-1.0	0.1
Trade, repair of motor vehicles and household goods; Hotels and restaurants; Transport and communications	1.6	1.0	-0.6	-0.4
Financial intermediation; Real estate, renting and business activities	2.3	2.1	0.4	0.3
General government and social security fund; Education; Health and social work; Other community social and personal services activities	0.8	-0.1	-0.2	-0.4

Note: Data for the total value added is reported as an annual change (%) and contributions in percentage points (p.p.) over the previous year. Data for 2010 is preliminary.  
Source: NSI.

In the past year, the real GDP growth entered a positive territory and recorded a 0.2% growth. The biggest contribution for the growth belonged to the positive external trade balance (5.2 p. p.). In reply to the higher external demand, the export-oriented companies recovered the depleted inventories of materials, goods and products, which reflected on the positive change in the stocks. Their contribution to the GDP growth amounted to 0.7 p.p. The total positive contribution was almost fully neutralized by the negative growth of the investments in capital stock, whose contribution amounted to -4.8 p.p. The end consumption continued to shrink, although at slower paces, and reported a drop of -1.1% in real terms.

**Figure 20. Contribution of final consumption components to GDP growth**



Source: NSI.

The export and import in 2010 marked a positive growth, the export growing at outstripping the import rates, respectively by 33.3% and 13.5%. These dynamics was as a result of the faster recovering of the external demand. The biggest growth in the export of goods and materials was marked by investment goods (40.9%) and energy resources (40.7%), while largest contribution was recorded by raw materials and materials (15.6 p. p.). Among the foreign goods, the fastest growth was that of energy resources (25.8%), raw materials and materials (18.3%), while the import of investment goods reported a decline of -0.2%.

**Table 8. Contribution of commodity groups to exports and imports growth in 2010**

	Export		Import	
	growth, %	contribution, p.p.	growth, %	contribution, p.p.
Consumer goods	20.3	5.7	10.0	2.1
Raw materials	36.6	15.6	18.3	6.3
Investment goods	40.9	6.6	-0.2	0.0
Energy resources	40.7	5.3	25.8	5.1
<b>Total growth</b>	<b>33.2</b>		<b>13.5</b>	

Source: BNB

The final consumption expenses of the households marked a decline of -1.3% in real terms as a result of the uncertainty in their incomes and deferral of expenses to future periods. The individual consumption of the Government in 2010 increased by 3.8%, and

simultaneously, a drop in the collective consumption was registered (-5.0%)<sup>28</sup>.

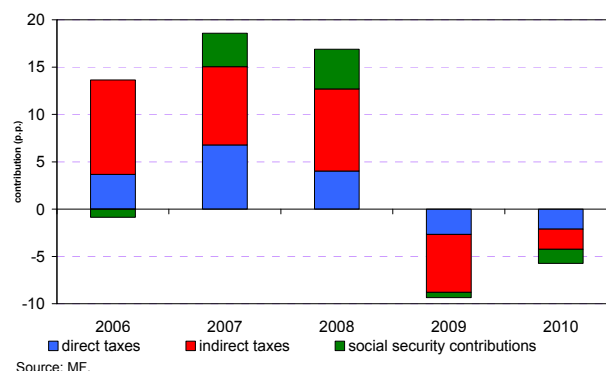
**Table 9. GDP and final consumption components growth**

	2007	2008	2009	2010
Household consumption	9.0	3.4	-7.5	-1.3
Final government consumption expenditures	2.4	-0.4	-8.4	3.8
Collective consumption	-1.6	-1.5	-4.9	-5.0
Gross fixed capital formation	11.8	21.9	-17.6	-16.5
Export of goods and non-factor services	6.1	3.0	-11.2	16.2
Import of goods and non-factor services	9.6	4.2	-21.0	4.5
<b>Real GDP growth</b>	<b>6.4</b>	<b>6.2</b>	<b>-5.5</b>	<b>0.2</b>

Note: Data is annual change over the previous year (%). Data for 2010 is preliminary.  
Source: NSI.

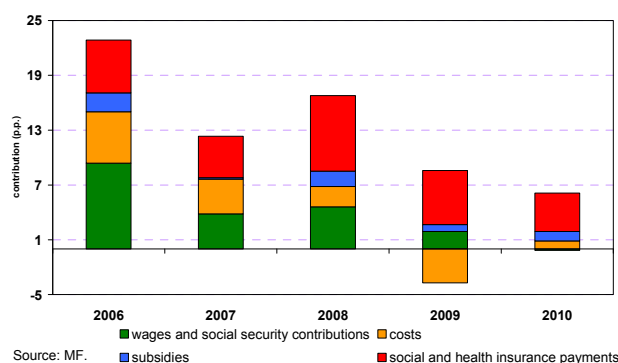
The cash balance under the Consolidated Fiscal Program (CFP) for 2010 amounted to BGN -2780.8 million, which was -3.9% of GDP. The budget deficit in the past year increased with BGN 2154.7 million, owing to both the continuing negative tax revenues, even though at smaller rates (-5.7%), and to the increased current non-interest expenses of the Government (6%). The direct taxes continued to have a negative contribution of -2.1 p.p. to the tax revenues, limited by the growth in the households' income and the financial result of the enterprises. The negative contribution of the indirect taxes marked a considerable improvement, contracting to -2.1 p.p. This was a result of the recovery of the proceeds from VAT, which compensated the weaker performance of the proceeds from excise duties.

**Figure 21. Contribution of components to the dynamics of tax revenues**



The positive growth of the CFP current non-interest expenses was due predominantly to the positive contribution of 4.2 p.p. Of the social and health insurance payments, followed by the subsidies for the non-financial enterprises and organizations (1.0 p.p.) and living expenses (0.9 p.p.). A negative contribution was registered only by the expenses for wages and social insurance contributions (-0.2 p.p.) as a result of realized cuts in the budget sphere.

**Figure 22. Contribution of components to the dynamics of the non-interest current expenditures**

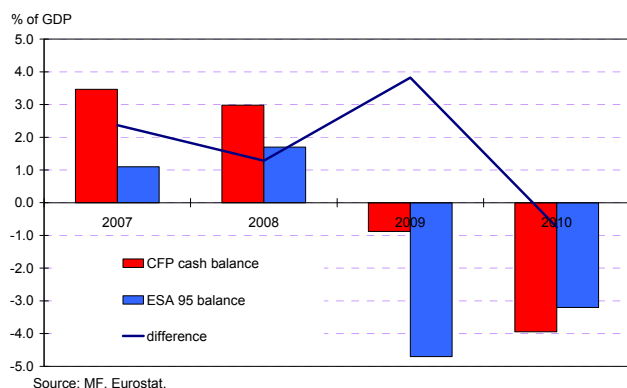


The payment in 2010 of a large part of the deferred in the previous year liabilities to the non-governmental sector had a negative impact on the reported cash deficit under the Consolidated Fiscal Program (CFP), which amounted to 3.9% of GDP. This was the main reason for the bigger negative balance on cash basis in comparison with

<sup>28</sup> The collective consumption is measured with the final expenses of the Government for collective services provided to the society as a whole.

the negative balance according to the ESA 95<sup>29</sup>, which was assessed at -3.2%.

**Figure 23. Dynamics of CFP cash balance and ESA 95 balance**



The households' consumption in 2010 shrank by 1.5% y/y due to the negative dynamics of the incomes and employment. The disposable income of the households decreased as a result also of the tax expenditures, which went up by 15.2% on a year-on-year basis. The uncertainty about the future income was the reason why the households saved with the purpose to meet contingent expenses in a short-term horizon, the households' expenditures for deposits decreased by 53.6%. The expenditures for debt repayment and lending funds also decreased by 24.3%, which had a negative impact on the quality of the banks' credit portfolios.

**Table 10. Dynamics of households' expenditures**

	2007	2008	2009	2010
Total expenditures	20.9	12.5	1.7	-1.6
Total consumer expenditures	19.5	12.7	2.3	-1.5
Taxes	32.9	23.8	2.3	15.2
Deposits	13.0	22.3	25.5	-53.6
Debt paid out and loan granted	14.8	-1.0	33.1	-24.3

Note: Data growth is annual change over the previous year (%). Data for 2010 is based on quarterly statistics.

Source: NSI.

The main contributor for the drop in the household' consumption was the negative wage

<sup>29</sup> The European System of Accounts, which records the liabilities for the budget at the time of their occurrence, and not of their actual payment.

dynamics. The households' income from wages shrank by 3.6% in 2010. The savings income grew by 12.2%, which was dictated by inclination for precautionary savings. The limited consumer crediting continued to exert negative influence on the households' revenues from loans and credits, which fell by 38.3% on annual basis.

**Table 11. Dynamics of households' income**

	2007	2008	2009	2010
Total income	17.4	11.1	5.0	-0.3
Wages	21.9	20.7	5.7	-3.6
Savings income	27.9	-0.3	-13.8	12.2
Loans and credits	25.0	0.3	-47.4	-38.3

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

Data for 2010 is based on quarterly statistics.

Source: NSI.

In 2010, the employment in Bulgaria continued to fall, the number of the employed persons decreasing by 6.2%. This largely reflected the restructuring in the private sector, where the number of the persons employed under labor and civil legal relationship went down by 14.4%. The Government's efforts to limit the expenses through measures of dismissals in the budget sphere led to a drop of 5.8% in the payroll number of the employed persons in the public sector.

The drop in the employment has a direct effect on the climbing of the level of unemployment, which increased to 10.2% of the workforce in 2010. Despite of the employment reduction, the incomes also went down by 0.2%, and the existence of unevenness and uncertainty as regards the speed of economic recovery exerted pressure on the income growth in the downward direction.

**Table 12. Employment and income dynamics**

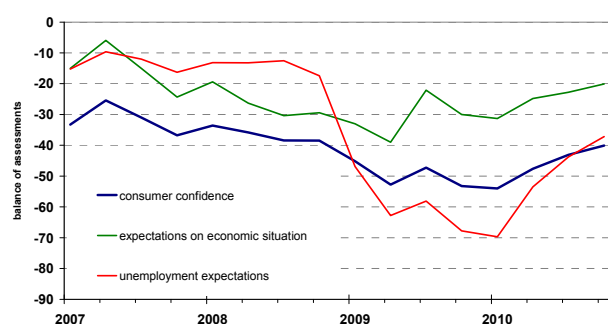
	2007	2008	2009	2010
Employment	4.6	3.3	-3.2	-6.2
Employees*	3.7	3.7	-3.7	-6.9
Annual average employees' salary	17.4	19.6	5.8	-0.2
Unemployment**	6.9	5.6	6.8	10.2

Note: Data is annual change over the previous year (%); \*employees with labor contract \*\* rate of unemployment annual average (% of the labor force).

Source: NSI.

Nevertheless that the state of labor market in the past year did not improve, the signals from the consumers' surveillance were positive. The consumer confidence increased smoothly through the whole 2010, optimistic expectations being observed for the economic situation, the households' income and the unemployment behavior in the next 12 months.

**Figure 24. Consumer confidence indicator**

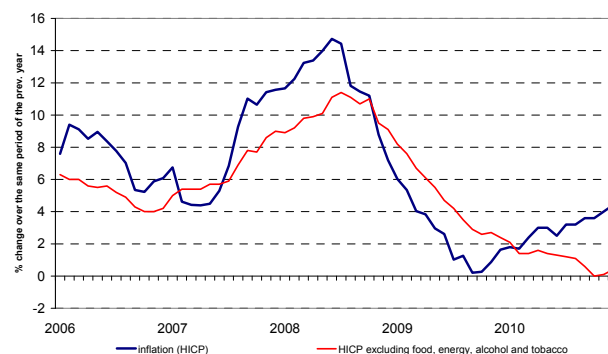


Source: NSI.

Note: The unemployment expectations are to be taken with an opposite sign. The rising of the indicator means that consumers have optimistic expectations and vice versa.

Since the beginning of 2010 inflation accelerated, reaching 4.4% at the yearend. Key factors for these dynamics were the increased prices of the energy and food products on the international markets, which were shifted directly over the end consumer prices of these commodities in Bulgaria, as well. Excluding the effect of that „imported” inflation, the change in HICP<sup>30</sup> without the prices of food, energy products, alcohol and tobacco products (core inflation) was considerably less and reached 0.4% in December 2010. The core inflation decreased in the larger part of the past year as a result of the weak domestic demand, but towards the end of 2010 it began to increase due to the emerging secondary effects of the rise in the price of basic goods and services.

**Figure 25. Inflation**



Source: NSI.

Manufactured goods were with greatest contribution to the general inflation in 2010 (1.9 p.p.) owing to the ascending price conjuncture of the commodity markets. The prices of household liquid fuels and the transport fuels surged by 20.3% as a direct effect of the jumping of the petrol price, which exceeded 100 USD/barrel. The increase of excise duties on the tobacco products in consistence with the minimum rates for the European Union rose the end price of these products by 33.9%, which contributed by 1.3 p. p. To the general inflation. The food products increased by 4.2% in the year, the greatest contribution being that of the processed foods and in particular, grain.

**Table 13. Contribution of main goods and services to inflation**

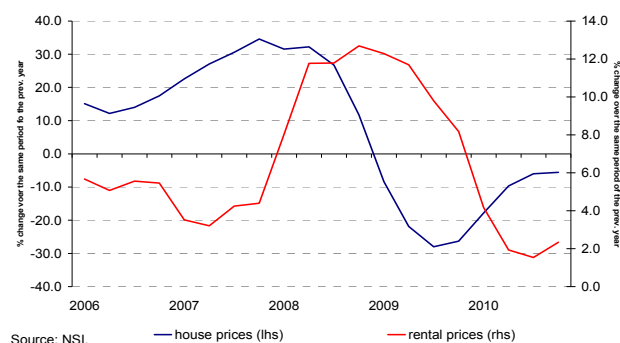
	2008	2009	2010
<b>Inflation (% , over Dec. of the prev. year)</b>	<b>7.2</b>	<b>1.6</b>	<b>4.4</b>
	<i>contribution (p.p.)</i>		
Food	1.2	-0.8	0.8
Processed food	0.6	-0.4	0.7
Unprocessed food	0.6	-0.3	0.1
Services (overall index excl. goods)	4.0	1.2	0.4
Catering	1.6	0.5	0.3
Transport services	1.4	0.1	0.0
Telecommunication	-0.4	-0.1	-0.1
Electricity and central heating	1.0	-0.3	0.0
Liquid and transport fuels	-1.0	0.5	1.7
Manufactured goods	1.2	0.4	1.9
Administrative prices	2.1	0.4	0.7
Tobacco products	0.5	0.7	1.3

Source: NSI , Eurostat

<sup>30</sup> HICP is Harmonized Index of Consumer Prices.



The house prices slowed down their negative rates of change to -5.6% in the fourth quarter of 2010, reflecting the weaker demand on the households side. The trend of rental prices reduction continued in the first half of 2010, following the behavior of house prices, lagging behind them with about a year. In the second half of the year, the change in rental prices started to increase, which compensated partially the loss of real income of the lessors due to the growing inflation.



**Figure 26. Dynamics of house and rental prices**

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

In 2010, the non-banking financial sector in Bulgaria continued to recover. Owing to the fact that the global financial crisis and the slowdown of the economic activity had a negative effect at different time and to a different extent on the separate sectors of the non-banking financial sector in Bulgaria, their development ran unevenly. Lasting recovery was noted in the voluntary pension insurance, while the capital market developed at rates lagging behind the stock exchanges in Central and East Europe. Life insurance and the voluntary health insurance marked a growth 2010, while the general insurance continued to register a drop on the premium income.

The assets of the non-bank investment intermediaries (II) slowed down their decline to -14.4% year-on-year, reaching at the end of 2010 BGN 3.8 billion. As a result of the low liquidity of the capital market, less than half non-banking investment intermediaries ended the year with profit (35%). The number of the non-banking investment intermediaries fell from 63 to 52 intermediaries in 2010, mainly due to requests for voluntary withdrawal of a license. Nevertheless,

direct risks to the financial stability were not expected, as the market environment continued to be characterized as strongly competitive. Despite of the continuing decline in the value of assets of the non-banking investment intermediaries, which constituted 4.5% in the financial intermediation structure, the companies maintained good capital adequacy and availability of adequate resource for cover of the risks inherent to their activity.

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

Indicators	2006	2007	2008	2009	2010
Assets of IIs	6.2	10.6	6.8	5.5	4.5
Assets of CIS	0.6	1.2	0.4	0.5	0.6
Assets of SIPCs	1.3	1.9	1.9	1.9	1.8
Insurance and health insurance premiums	2.6	2.1	2.3	2.1	2.0
Assets of the pension funds	3.1	3.2	2.8	3.8	4.7
<b>Non-banking financial sector</b>	<b>13.8</b>	<b>19.0</b>	<b>14.2</b>	<b>13.8</b>	<b>13.6</b>

Source: FSC.

Although below their 2007 value, the assets of the collective investment schemes (CIS) grew at accelerating rates. Their amount in the end of 2010 reached BGN 480 million, which increased their share in the financial intermediation from 0.5% in 2009 to 0.6% in 2010. The assets of the special investment purpose companies (SIPC) marked an insignificant decrease of -0.1% on a year-on-year basis in 2010, their value at the yearend reaching BGN 1578 million. Despite that, they managed to retain their place in the financial intermediation, where the share of their assets went down by 0.1 p.p. to 1.8%.

The market of insurance and voluntary health insurance services marked a decline of the premium income of -6.3% in 2009 as a result of the secondary effects of the global crisis and most of all of the slowdown of the economic activity in the country. In 2010, partial recovery of the sector was observed, which recorded decrease in the negative premium income growth to -3.1%. Signals for positive development were registered in the life insurance sector, whose premium income increased by 10.5% year-on-year. In the conditions of continuous-time low interest rate levels worldwide, insurers were confronted with the risk not to be able to fulfill their liabilities on the offered of them guaranteed income products. For the purpose, in 2010 a study was conducted of the life insurance market in Bulgaria, whose results showed that the average realized yield from investing the assets for cover of the technical provisions under the guaranteed income contracts was higher than the guaranteed one.

The market of the general insurance services, which dominates the insurance business

in our country, continued to shrink, marking a decline of 5.6% in the past year. Aiming at ensuring a higher level of protection of the interests of an exceptionally wide circle of insured persons, regulatory changes were initiated and orders issued, directed to termination of vicious practices in relation to the development of the market of the Third party Liability insurance of motorists, to prevent eventual worsening of the market stability and predictability. The voluntary health insurance sector, which was least affected by the slowed down economic activity, continued to mark a growth, whose rate in 2010 amounted to 10.2%.

After the negative changes in 2008 as a direct result of the global financial crises, the assets of the pension insurance companies (PICs) continued to increase for a second consecutive year.

The double-digit growth of the net assets of the supplementary pension insurance funds (26.3% in 2010) was a pre-condition for enlargement of the role of these supervised entities in the financial intermediation, the share of which came to 4.7% in 2010.

Despite this multidirectional dynamics of the institutional investors' assets, no change was noted in the relative structure of the financial intermediation within the non-banking financial sector, the share of the non-banking financial sector in 2010 shrinking by 0.2 p. p. to 13.6%.

**Table 15. Depth of financial intermediation (% of GDP)**

	2006	2007	2008	2009	2010
Market capitalization of BSE - Sofia	29.6	48.2	17.9	17.3	15.3
Insurance and health insurance premiums	2.5	2.5	2.6	2.5	2.4
Net assets of the pension funds	2.9	3.9	3.3	4.6	5.7
<b>Non-banking financial sector</b>	<b>35.0</b>	<b>54.6</b>	<b>23.9</b>	<b>24.4</b>	<b>23.3</b>

Source: FSC, NSI.



Even though the structure of financial intermediation was relatively stable, the financial intermediation depth totally of the non-bank financial sector slowed down to 23.3% of GDP in 2010, which was due mainly to the capital market development. The stock market, on which in 2008 the negative effects of the global financial crises reflected to largest extent, was recovering slowly in the last two years. The main reasons for these dynamics were the low liquidity of the Bulgarian Stock Exchange – Sofia and the weak interest, on the foreign investors' side, to the Bulgarian capital market. The total market capitalization of the stock exchange decreased by 8.8% y/y and at the end of 2010 it reached BGN 10.7 billion, as a result of which the depth of financial intermediation on the capital market went down from 17.3% in 2009 to 5.3% of GDP in 2010.

Despite of the lagging of the Bulgarian capital market as a whole behind the recovery rates of the other markets in Central and Southeast Europe in 2010, since the beginning of 2011 there was a positive development trend which was expected to continue, following the development of the international financial markets. The positive development of the CIS assets was an indication for recovery of the investors' risk appetite, which

was noted on a global scale. The increase of the foreign direct investments in our country would also assist the recovery of the capital market at faster rates.

The sector of insurance and voluntary health insurance services also slowed down its financial intermediation depth to 2.4% of GDP in 2010, the main contribution for which belonged to the continuing drop in the premium income in general insurance. With the recovery of the domestic demand, it is expected the insurance sector to restore its position in the financial intermediation. The premium income growth of the health insurance companies will most likely continue in view of their low nominal value and the demand for supplementary health insurance services.

Among the non-banking financial sector, only the supplementary pension insurance increased its share from 4.6% to 5.7% of GDP. The pension insurance system, functioning on a pay-as-you-go principle will continue to be in a phase of funds accumulation. The trend of increasing net assets of the supplementary pension insurance funds will stay, and it is expected to be dominated by higher growth rates in the supplementary mandatory pension insurance.

## **2.1. Analysis of the participants on the capital market**

In 2010, the market capitalization of Bulgarian Stock Exchange – Sofia AD decreased and reached BGN 10 754.1 million at the end of 2010, while in 2009 it was BGN 11 795.5 million. The assets accumulated by the institutional investors on the capital market also declined as a share of the financial intermediation in the country. The share of the investment intermediaries dropped by less than 1 p.p. and reached 4.5%, and the share of the special investment purpose companies fell by 0.07 p.p. and reached 1.85%. An exception of this trend were only the assets of the collective investment schemes, which climbed by 0.1 p.p. and reached 0.6%. This tendency was due to the stirring up of the segment of the contractual funds and the increasing of the investor risk tolerance.

As a whole, the institutional investors (investment intermediaries, collective investment schemes and special investment purpose companies) held 6.9% of the financial intermediaries' assets in Bulgaria in 2010, while in the previous year they possessed 7.9%.

### **2.1.1. Investment intermediaries**

In Bulgaria, for 2010 there were entered in the FSC's register 77 investment intermediaries (IIs), 25 of them being banks, and 52 – non-banking financial institutions. For the previous year their number was 88. This tendency was accounted for by the non-bank IIs, which in their main part filed requests for voluntary withdrawal of the license issued to them by the Financial Supervision Commission.

According to the issued licenses, IIs – non-banking institutions are divided in three groups: (1) IIs with full license<sup>31</sup>, for which the required capital is BGN 1 500 000, and at 31 December 2010 there were 23 IIs with full license filed in the FSC's register; (2) IIs with partial license<sup>32</sup>, for which the required capital is BGN 250 000, and at 31 декември 2009 there were 29 companies with partial license entered in the FSC's register; and (3) one II with a small license<sup>33</sup>, for which the required capital is BGN 100 000.

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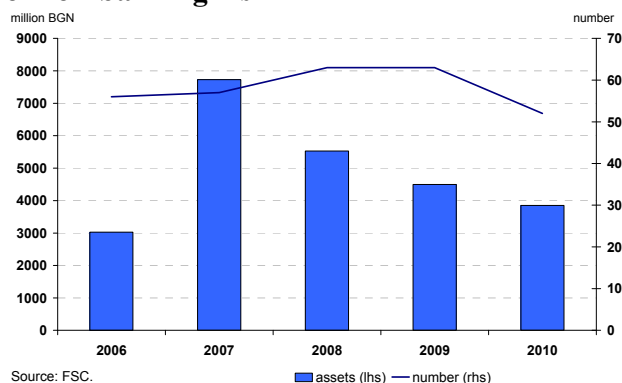
<sup>31</sup>They can perform all investment services and activities, listed in Art. 5, para 2 of the Markets in Financial Instruments Act (MFIA).

<sup>32</sup> They cannot execute transactions for their own account with financial instruments and underwriting of issues of financial instruments 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.

<sup>33</sup> They can perform services and activities under Art. 5, para 2, Item 1 and/or 5 of MFIA, namely: reception and delivery of orders in relation to one or more financial instruments, including intermediation for entering into transactions with financial instruments, as well as providing of investment consultations to a client.

The amount of the non-bank investment intermediaries' assets at 31 December 2010 was BGN 3 851.3 million (5.5% of GDP), which was a decrease of 14.4% compared to the end of 2009, when their amount was BGN 4 500 million. The decline in the asset amount of these companies continued after its highest value in December 2007. This was owing mainly to the consequences of the global financial crisis and the limited investor interest. Nevertheless, after March 2009 when the first positive signals were noticed for the financial markets stabilization, this trend reduced its inertia, the decrease of 14.4% being the smallest change in the last three years.

**Figure 27. Dynamics in the number and assets of non-banking IIs**



In 2010, any substantial change was not noted in the number of investment intermediaries in whose capital there was a foreign capital participation on the side of natural and legal persons (direct and indirect) from EU Member States, as well as such from third countries.

**Table 16. Number of IIs with foreign ownership**

	2008		2009		2010	
	Direct	Indirect	Direct	Indirect	Direct	Indirect
EU ownership	6	7	8	5	6	7
Third countries' ownership	1	4	1	3	1	4

Source: FSC

Among the non-banking IIs, a decline in the asset value was observed in all license categories. Biggest fall was noted in IIs with a partial license by 39.4%, which was due to the fact that there was a most significant drop precisely in the number of companies with a

partial license. The assets of IIs with full license went down by 9.6% in the past year, which owing to their biggest absolute value contributed by -8.0 p. p. to the total decrease of the IIs assets by -14.4%.

**Table 17. Assets, capital stock and equity of IIs**

	2007	2008	2009	2010
Limited license IIs				
Assets	n/a	n/a	n/a	0.1
Capital stock	n/a	n/a	n/a	0.2
Equity	n/a	n/a	n/a	0.1
Full license IIs				
Assets	5899	4876	3766	3406
Capital stock	59	71	67	67
Equity	186	87	83	80
Partial license IIs				
Assets	1827	654	734	445
Capital stock	11	13	15	13
Equity	19	17	18	18
Total				
Assets	7726	5530	4500	3851
Capital stock	70	84	82	81
Equity	205	104	101	98

Note: Data is reported in million BGN unless other is quoted. The amounts indicated in the table include data for companies which have licenses withdrawn in 2010.

Source: FSC

After exclusion of the companies with a withdrawn license, it is noted that the non-banking investment intermediaries with a full license underwent less changes in their equity in relative terms, than these with a partial and small license in 2010. In IIs with a partial license the equity was reduced by nearly 7.9% and at the yearend reached BGN 16.6 million, and in IIs with a full license the equity declined by 3.9% and reached BGN 79.9 million. In the financial result for all companies, a considerable deviation from their average amount was observed.

In the inspections conducted of the monthly provided information on capital adequacy and liquidity of IIs during 2010, it was established there were no substantial violations of the indicators. They maintained sufficient liquidity resource for cover of their current liabilities. The companies maintained good capital adequacy and the availability of adequate resource for cover of the inherent to their activity risks.

The market value of the trading and non-trading book of the investment intermediaries increased and reached BGN 42.2 million at the end of 2010. A main reason for that was the growth in the market value of the non-trading book and its reaching BGN 15.4 million. IIs, having formed a non-trading book were 35 at the end of 2010. A smaller growth was also noted in the trading books of these companies, which assisted for neutralization of the reported during the year impairment and revaluation losses. II with formed trading book were 18 at the end of 2010, and its market value reached BGN 26.8 million. This, in turn, led to increase of the equity value, and hence – to improvement of the capital adequacy and liquidity coefficient .

Twenty nine investment intermediaries carried out fiduciary management at the end 2010. The market value of the securities provided for fiduciary management increased for the past year and reached BGN 47.4 million at the end of 2010, while the cash decreased and reached BGN 4.1 million.

At the end of 2010, the amount of the attracted customer assets was BGN 3 781.8 million, which was a drop of nearly 8.5% compared to the previous year. The four investment intermediaries with the biggest amount of attracted customer assets (Bulbrokers AD with 20.3%, Elana Trading AD with 18.4%, FFBH OOD with 14.3% and MacCap AD with 9.1% from the client assets at the end of 2010) held BGN 2 348.4 million, or 62.1% from the total amount of the client assets of all investment intermediaries. Although over half of the total amount of customer assets was held by four investment intermediaries, such concentration was not observed in the other investment intermediaries. The value of the Herfindahl-Hirschman Index (HHI)<sup>34</sup> of the market of

investment intermediaries, calculated according to client assets for 2010, was 1125. Despite of the reduction of the number of the non-banking investment intermediaries, the market was defined as competitive.

**Table 18. Number of transactions, turnover and volume (lots) of IIs**

	2007	2008	2009	2010
Number of transactions	980950	779184	398514	219476
Turnover (million BGN)	19869	4259	1736	1366
Volume (million lots)	2221	981	649	560

Source: FSC, BSE - Sofia.

The 2010 data show the continuing trend from 2008 of decline in the number of transactions, realized turnover and volume in lots, respectively with 44.9%, 21.3% and 13.8%, compared to the previous year, by investment intermediaries. Nevertheless, a positive trend was observed of decreasing in the negative rates in the last two years.

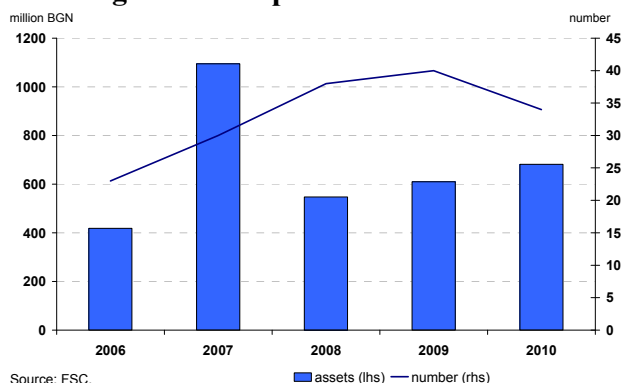
<sup>34</sup> The Herfindahl – Hirschman Index (HHI) is calculated as a sum of the squares of the market share of each participant in the market, its value varying between 0 and 10 000. In case of value below 1000 units, the market is defined as strongly competitive, between 1000 and 1800 units – moderate competitive environment, and over 1800 units – the market is characterized by strong concentration.

### 2.1.2. Collective investment schemes

In 2010, the number of the management companies decreased to 34, and at the year end they managed the activity of 106 collective investment schemes (CIS): 9 of them were investment companies (IC), and 97 – contractual funds (CF). The number of the contractual funds in 2010 increased with 5 and reached 97. The number of the investment companies of closed-end type (former privatization funds) remained unchanged – 2.

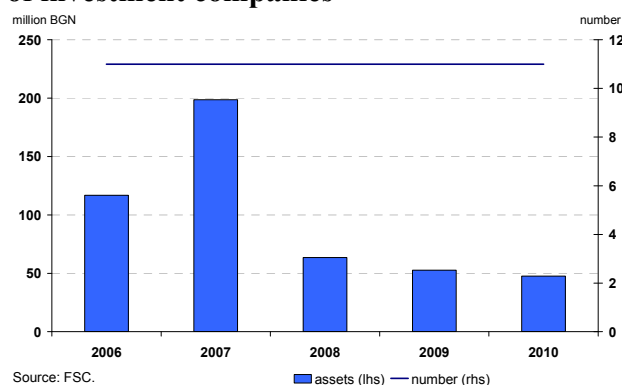
While the number of management companies increased until 2009, in 2010 it was reduced with 6 companies and came to 34. Despite of that drop, the amount of the managed by them assets was continuously increasing since 2008 and reached BGN 681.3 million in 2010, which was a growth of nearly 12% towards the preceding year.

**Figure 28. Dynamics in the number and assets of management companies**



The number of the investment companies (of open and closed-end type) remained unchanged from 2006 to 2010 (11). The assets of these companies, however, continued to decrease, even though at slowed down rates. Their decline in 2010 was with closely 9.5%, and at the yearend they reached BGN 47.7 million, from which BGN 47.3 million were net assets. The investment companies of open-end type possessed nearly 87.6% of the total asset amount, and these of closed-end type – 12.4%.

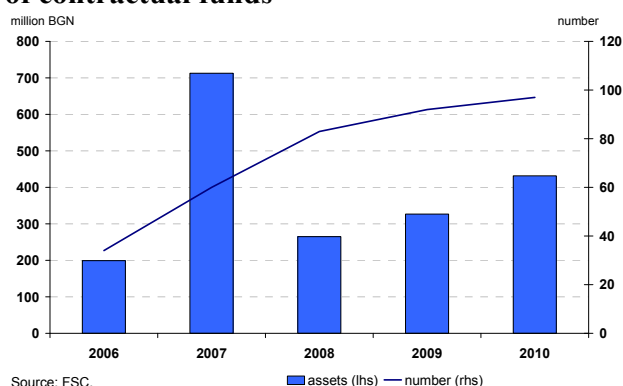
**Figure 29. Dynamics in the number and assets of investment companies**



The number of the contractual funds, as well as their assets increased in unison with the trends in Europe. The contractual funds at the end of 2010 were 97, and in total their assets reached BGN 431.8 million (from which BGN 423 million were net assets), or increase of nearly 32.0%, compared to the previous year. The conservative profile contractual funds<sup>35</sup> ranked in first place in assets (41.5% of the total assets of all contractual funds for 2010), followed by these with a high-risk profile (30.9%), and in the last place were the balanced profile funds (27.6%). This ranking is expected to be preserved in view of the active reviving of this segment and the restructuring that began of the aggregate portfolio of the collective investment schemes in financial instrument with higher expected rate of return. This is an important indicator for enhancement of the financial markets stability.

<sup>35</sup> The collective investment schemes are classified in three main groups from viewpoint of risk and yield, namely – aggressive (high-risk), balanced and conservative (low-risk).

**Figure 30. Dynamics in the number and assets of contractual funds**



Source: FSC.

With regard to the publicly offered in the country units of funds and subfunds from foreign CIS, by the end of 2010 a growth in their number was observed, respectively in the number of the foreign mutual funds, as well. In 2010, the number of mutual funds from foreign collective investment schemes, as well as funds/subfunds reached, respectively 31 and 130.

**Table 19. Dynamics of the foreign CIS number**

	2007	2008	2009	2010
Mutual Funds - foreign CISs	18	29	27	31
Funds/Sub funds	59	93	84	130

Source: FSC.

In general, the assets accumulated by the collective investment schemes continued to grow after their considerable decline in 2008. They increased by 15.6% on a year-on-year basis in 2009 and 26.3% year-on-year in 2010. Significant trends of increasing were noted in Total cash, which picked up by 26.6% and 67.2% y/y, respectively in 2009 and 2010. The main reason was the increase of the share of Term deposits. Since the beginning of 2008 a growth was also noted in the share of the investments in Units of CIS by 23.6% and 151.6% y/y, respectively for 2009 and 2010. Non-financial assets also increased in the collective investment schemes' portfolio, respectively by 36.8% and 117.7% in 2009 and 2010. The latter trend was as a result of the climbing up of the Receivables in the portfolio of these companies. A lasting trend of decrease was noticed only in the Debt financial assets.

They declined respectively by -14.6%, -22.7% and -19.7% in 2008, 2009 and 2010.

**Table 20. Dynamics of CIS assets**

	2007	2008	2009	2010
Cash	197.2	114.0	144.3	241.3
Term Deposits	156.7	93.2	113.8	193.8
Financial assets and instruments, incl.	677.8	211.7	231.8	220.2
Shares	528.6	117.4	153.2	141.7
Rights	0.0	0.0	2.7	2.9
Debt securities	89.0	76.0	58.8	47.2
Units of CIS	0.0	8.8	10.9	27.5
Money market instruments	6.9	6.1	6.6	0.3
Derivatives	0.0	0.0	0.0	0.1
Other financial instruments	53.3	3.3	0.2	0.5
Non-financial assets, incl.	34.5	2.6	3.5	7.7
Receivables	34.4	2.3	2.8	7.0
Other	1.9	0.0	0.0	10.3
Total	911.4	328.3	379.7	479.5

Note: Data is reported in million BGN unless other is quoted. "Other financial instruments" includes foreign securities and compensation instruments for 2007 and 2008.

Source: FSC

In 2010, considerable changes were noted in the structure of the collective investment schemes' aggregate portfolio. The share of Financial assets and instruments was reduced in the past year by 15 p. p. from 61.1% in 2009 to 45.9% in 2010 from the total asset amount. Substantial part of the assets were invested in Term deposits, whose share edged up from nearly 30.0% in 2009 to 40.4% in 2010 in the assets relative structure. The share of Non-financial assets went up to 1.6% of the total asset amount in 2010, and that of Other assets, respectively to 2.2%. Most significant decrease, nearly 2-fold, was marked by Money market instruments – from 1.8% in 2009 to 0.1% in 2010 from the total asset amount, which was due only to the portfolio formed by the contractual funds.

A drop of nearly 5.5 p.p. was registered by the investments in Debt instruments, and the share of the investments in Shares went down to from 40.4% in 2009 to nearly 30.0% in 2010 from the total asset amount. At the same time, the use of Derivative instruments increased by more than 8 time in 2010, compared to the preceding year, and the share of the investments in Units of other collective investment schemes surged from 2.9% in 2009 to 5.7% in 2010 from the total asset amount. The use of derivative financial instruments was observed only in the contractual funds.

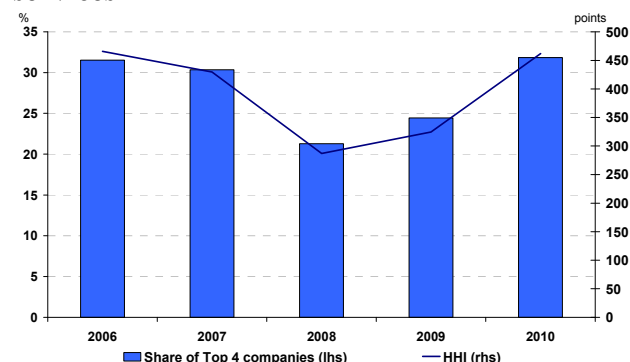
**Table 21. Assets' shares of CIS**

	2007	2008	2009	2010
Cash	21.6	34.7	38.0	50.3
Term Deposits	17.2	28.4	30.0	40.4
Financial assets and instruments, incl.	74.4	64.5	61.1	45.9
Shares	58.0	35.8	40.3	29.5
Rights	0.0	0.0	0.7	0.6
Debt securities	9.8	23.2	15.5	9.8
Units of CIS	0.0	2.7	2.9	5.7
Money market instruments	0.8	1.9	1.7	0.1
Derivatives	0.0	0.0	0.0	0.0
Other financial instruments	5.8	1.0	0.1	0.1
Non-financial assets, incl.	3.8	0.8	0.9	1.6
Receivables	3.8	0.7	0.7	1.5
Other	0.2	0.0	0.0	2.2
Total	100.0	100.0	100.0	100.0

Note: Data is reported in % unless other is quoted. "Other financial instruments" includes foreign securities and compensation instruments for 2007 and 2008.

Source: FSC

Nevertheless that the market of CIS was defined as strongly competitive, in 2010 the trend of smooth increase in the market concentration continued, too. This was observed both by the Herfindahl-Hirschman Index (HHI)<sup>36</sup>, whose value climbed from 324 in 2009 to 462 in the past year, and by the share of the first companies, which increased respectively from 24.4% to 31.9%. This indicated that the competition between the market participants was decreasing due to the strongly dynamic restructuring of the CIS assets and the enhanced market influence of part of the companies.

**Figure 31. Market concentration of CIS services**

Source: FSC.

In the ranking of the investment funds by net assets IC Advance Invest AD retained its first position (with 1.6% of the net assets of all collective investment schemes in 2010), followed by IC Zlaten Lev AD (1.3%), IC Capman Capital AD (1.3%) and IC TBI Eurobond AD (1.1%). In the contractual funds CF Raiffeisen (Bulgaria) Money Market Fund also retained its first place with 15.8% market share of the net assets of all collective investment schemes, followed by CF Raiffeisen (Bulgaria) Protected Investment Fund with 8.2% market share, CF DSK Balance with 4.0% and CF DSK Growth, respectively with 3.8%.

<sup>36</sup> 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 1000 and 1800 units – moderate competitive environment, and over 1800 units – the market is characterized by strong concentration.

### **FOCUS TOPIC: Creation of Methodology for collective investment schemes classification**

The collective investment schemes in Europe continued to attract net pecuniary resources after their lowest point in the last quarter of 2009. The sector underwent impetuous development in whole Europe in 2010, this trend being observed in all Member States, with the exception of Spain and Italy. The assets invested in these companies increased by 13.7% year-on-year, which was due to the continuously growing demand and the appearance of new products, which allowed the use of different investment strategies and their modification with a view to the changing economic conditions. Due to the intensifying competition between the bank financial institutions for the attraction of new deposits, on the one hand, and reduction of the risk sensitivity, on the other, receding of investors using money market instruments is expected and their reorientation to securities with higher expected yield. In 2010, the collective investment schemes in the EU accumulated assets, which were equal to 66% of GDP of the Union. This confirmed the exceptional role of these schemes as a source of funds in the different sectors of the European economy.

In reply to these trends, a number of measures were undertaken for encouraging and accelerating the development of the collective investment schemes' sector in Bulgaria both on supervisory, and on a level of uniting the professional managers of mutual funds' portfolios. In 2010, the Financial Supervision Commission commenced work on a draft for implementation in the Bulgarian legislation of the requirements of Directive 2009/65/EC of the European Parliament and of the Council on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities. With this initiative, the regulator intended to create a more effective, transparent and secure infrastructure for operation of these schemes within the entire European Union.

The Bulgarian Association of Asset Management Companies (BAAMC) also adopted at its general meeting Methodology for collective investment schemes classification, which was fully based on the principles of the European Fund Classification from June 2008 of the European Fund and Asset Management Association (EFAMA). This classification has as an objective the creation of possibility for comparing the funds according the criteria of their categorization in the interest of better understanding on the investors' side of the specifics and risk profiles of the collective investment schemes. Pursuant to it, the companies have to be classified according two main criteria – market risk (risk of the relevant asset) and geographical risk (foreign exchange risk).

The funds are classified according the market risk as follows: equities fund, mixed, bonds fund, money market fund. The collective investment schemes having a balanced and low-risk profile were removed as independent categories, and in their place the category of mixed funds was introduced with two subcategories – balanced and conservative funds. According the second criterion (geographical risk/foreign exchange risk), the funds are classified as follows: of the respective country, countries from the Euro Area, Europe (including the Euro Area), North America, Asia and the Pacific Region, other regions, global (investing in part or in whole outside of the above listed regions and/or investing in several separate regions). A color classification of the schemes was also offered, as well as additional classification, which is announced at one's own discretion, such for instance as: fund of funds, index funds, protected capital, repo, etc. It is not prohibited to funds, managed by the members of the professional organization, to use also other terms in the funds' names and in the descriptions of the investment focus, provided that such terms describe in an appropriate way the type of the respective fund and do not mislead the investors/market participants.

In the above stated document, a methodology is also offered for calculation of the achieved yield of the investment companies/mutual funds, as well as a methodology for calculation of the standard deviation of the net asset value per unit/share.



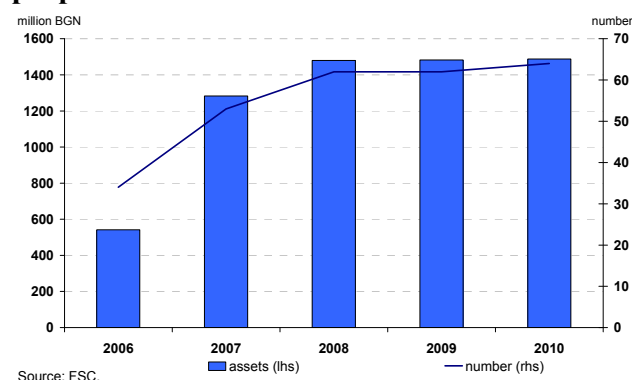
### 2.1.3. Special investment purpose companies

At the end of 2010, the total number of the licensed special investment purpose companies (SIPCs) was 72, 8 from which were for securitization of receivables. The other 64 were for securitization of real estate, 8 of them being specialized in transactions with agricultural land. Although the number of companies increased with 4, the asset value of all special investment purpose companies remained almost unchanged in comparison with the previous year. The assets of these companies at the end of the past year amounted to BGN 1 577.5 million, which represented 2.2% of GDP, while for 2009 they accumulated approximately 2.3% of GDP.

The special investment purpose companies engaging in securitization of real estate without agricultural land, increased with 3 (having become 56 in 2010), while the number of the companies specialized in agricultural land remained unchanged (8). The assets of the two groups of companies continued to grow, and in 2010 they increased by 0.4%, compared to the preceding period and reached BGN 1 487.8 million. In total, the accumulated assets of SIPCs pursuing securitization of real estate and specialized in agricultural land, realized insignificant decline of 0.6% on a year-on-year basis and reached BGN 477.2 million, while the assets of the companies engaged in securitization of real estate without agricultural land, increased only by 0.89% and reached BGN 1 010.6 million.

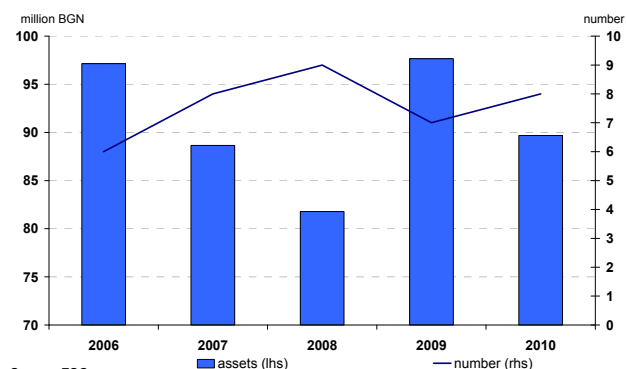
It is important to note that despite the aggravated economic conditions, the asset amount of the special investment purpose companies engaged in securitization of real estate, had not declined since 2008, but only slowed down its pace of growth.

**Figure 32. Dynamics in the number and assets of SIPCs engaged in securitization of real properties**



In the special investment purpose companies engaged in securitization of receivables, there was no clear trend noted in the change of the amount of the accumulated by them assets. In the past year they accumulated BGN 89.7 million, which was a drop of 8.2% y/y, while their number increased with one, to 8 companies at the end of 2010.

**Figure 33. Dynamics in the number and assets of SIPC's engaged in securitization of receivables**



Source: FSC.

The assets of the special investment purpose companies, carrying out securitization of real estate, edged up by 0.4% towards the previous year and reached BGN 1 487.8 million in 2010. Biggest increase continued to mark the investments in Investment properties (land, terrains), which grew by 62.2%, followed by Receivables (a growth of 48.6%), and the investments in Other assets (22.5%). In 2010, most significant decline was noted in Properties in process of construction (-49.1%) and Cash (-29.2%). The slowdown of the negative rate of change in Cash, which in 2009 was -54.0%, was a positive signal for the dynamics of the assets of these companies. If this trend is retained, we may expect reversal of the trend for increase of the SIPC's assets in the next period. Financial assets also fell by 29.1%, which was owing to the still volatile securities prices on the financial markets.

**Table 22. Assets of SIPC's engaged in securitization of real properties**

	2007	2008	2009	2010
Investment properties (land, terrains)	217.1	102.6	176.7	286.5
Investment properties (buildings, equipment)	351.1	457.1	518.4	478.2
Investment properties (agricultural land)	269.8	336.9	301.2	263.0
Properties in process of construction (acquisition)	154.4	121.0	160.7	81.8
Financial assets	4.8	2.2	1.3	0.9
Cash	128.0	166.9	76.7	54.3
Receivable	43.1	101.8	79.1	117.6
Other	114.9	191.3	167.8	205.5
Total	1283.2	1479.7	1482.0	1487.8

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

Source: FSC

In 2010, a considerable increase of 7.3 p.p. was observed in the share of Investment properties (land, terrains) among the assets SIPC's engaging in securitization of real properties. A drop in share was also registered in the other non-current assets – Investment properties (buildings, equipment), Investment properties (agricultural land) and Properties in process of construction (acquisition). Receivables and Other assets increased their share respectively by 2.6 and 2.5 p.p. The investments in Other assets increased considerably in absolute terms, which was an indicator for lack of good possibilities for investment of the free resources.

**Table 23. Assets structure of SIPC's engaged in securitization of real properties**

	2007	2008	2009	2010
Investment properties (land, terrains)	16.9	6.9	11.9	19.3
Investment properties (buildings, equipment)	27.4	30.9	35.0	32.1
Investment properties (agricultural land)	21.0	22.8	20.3	17.7
Properties in process of construction (acquisition)	12.0	8.2	10.8	5.5
Financial assets	0.4	0.1	0.1	0.1
Cash	10.0	11.3	5.2	3.6
Receivable	3.4	6.9	5.3	7.9
Other	9.0	12.9	11.3	13.8
Total	100.0	100.0	100.0	100.0

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

Source: FSC

The assets of the special investment purpose companies engaging in securitization of receivable were BGN 89.7 million, which represented a reduction of 8.2% compared to the previous year. Main decline in the portfolio of these companies were Receivables (over 1 year) by 58.1%, while the investments in Financial assets climbed by 53.3% in 2010 compared with the previous year. In absolute terms, Receivables (to 1 year) decreased with BGN 2.9 million, or by 12.2%.

**Table 24. Assets of SIPC engaged in securitization of receivables**

	2007	2008	2009	2010
Financial assets	6.2	30.1	32.7	50.1
Cash	4.2	3.6	3.4	2.7
Receivables of less than 1 year	2.6	19.0	23.4	20.5
Receivables of more than 1 year	75.1	28.5	37.6	15.8
Other	0.6	0.6	0.6	0.6
Total	88.6	81.8	97.7	89.7

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

Source: FSC

In terms of asset structure, the portfolio of SIPC for receivables followed the general dynamics, characteristic for the whole sector in the past year. The change in the total asset amount, as well as the restructuring of the individual positions were analogous, these companies having invested most in Financial assets (55.8%), followed by Receivables (to 1 year) (22.9%) and Receivables (over 1 year) (17.6%).

**Table 25. Asset structure of SIPC engaged in securitization of real properties**

	2007	2008	2009	2010
Financial assets	7.0	36.8	33.4	55.8
Cash	4.8	4.4	3.5	3.0
Receivables of less than 1 year	2.9	23.3	23.9	22.9
Receivables of more than 1 year	84.7	34.8	38.5	17.6
Other	0.7	0.7	0.6	0.7
Total	100.0	100.0	100.0	100.0

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

Source: FSC

In the special investment purpose companies engaging in securitization of real properties and specialized in agricultural land, a change in the registered capital was not observed, as there were not any new licensed entities for these companies. Their equity grew by 1.1% in 2010, compared to the preceding period, and reached BGN 422.7 million. The registered capital of SIPC engaging in securitization of real properties without agricultural land, increased by 7.1%, due to the newly entered in the Financial Supervision Commission's Register companies. The equity of this subgroup dropped by 5.3% and was BGN 459.9 million in 2010.

As a final result, the registered capital of SIPC for securitization of real estate increased by 3.5%, and the equity decreased by 2.3% y/y. There was a substantial change for SIPC pursuing securitization of receivables in the

equity, which surged up by 40.5% on a year-on-year basis.

**Table 26. Registered capital and equity of SIPC**

	Registered capital			Equity		
	2008	2009	2010	2008	2009	2010
SIPC engaged in securitization of real properties other than SIPC engaged in securitization of real properties and which direct their resources mainly in agricultural land	262.8	282.9	303.0	496.7	485.6	459.9
Total SIPC engaged in securitization of real properties	297.6	297.6	297.6	433.3	418.0	422.7
SIPC engaged in securitization of receivables	560.4	580.5	600.6	930.0	903.6	882.5
Total	6.2	6.0	6.2	12.7	22.0	30.9
	566.6	586.6	606.8	942.7	925.6	913.5
Change (%)		0.0	0.0		0.0	0.0

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

Source: FSC

The interest to the special investment purpose companies increased by 0.5% as a number of owned shares. The biggest growth in the investor interest in 2010, compared to the previous period, was observed in Investment intermediaries (a 61.6% growth and respectively greatest contribution for increase of the totally held shares in these companies of 1.2 p.p.), followed by Insurance companies with a 11.5% growth and a small contribution of 0.09 p.p., owing to the comparatively small share of the equities held by these investors), Bulgarian natural persons (a 6.9% growth and contribution of 1.1 p.p.), as well as by Foreign natural persons (a 5.9% growth and smallest contribution of 0.06 p.p. because of their small share). This trend was observed in the last two years, with the exception of Insurance companies and Foreign natural persons, where receding of the shares owned by these persons in SIPC was registered. At the same time, the most substantial fall of 19.7% belonged to the share of Collective investment schemes, whose contribution was evaluated at 0.9 p.p., and Pension funds, where the drop of 8.5% was with biggest negative contribution of -1.1 p.p. By reason of the multidirectional dynamics in the possessed by these two groups shares, it is difficult to outline any trend in the last two years.

In 2010, the following categories of investors were ranked as most substantial shareholders as in relative terms in SIPCs – Other Bulgarian legal entities with a share of 38.2%, followed by Bulgarian natural persons with a share of 17.7%, Legal entities from EU with a share of almost 13.0%, and Pension funds with a share of 12.1% among all shareholders.

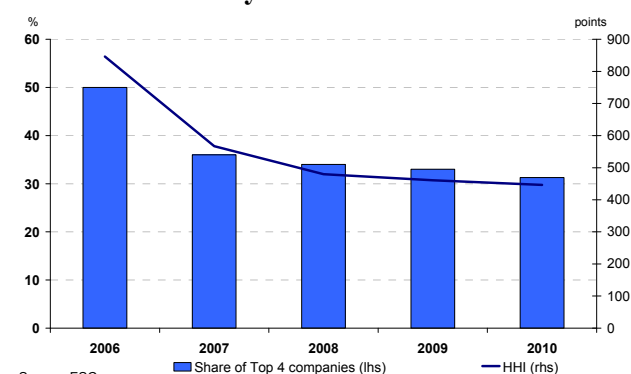
**Table 27. Shareholding structure of SIPCs**

	2008	2009	2010
Investment Intermediaries	8.2	10.8	17.5
Collective Investment Schemes	22.5	25.4	20.4
Insurance companies	10.3	4.4	4.9
Pension funds	59.3	72.4	66.3
Other Bulgarian legal entities	192.0	206.7	207.8
Bulgarian natural persons	80.0	90.0	96.2
Foreign natural persons	6.3	5.1	5.4
Legal entities from EU	101.0	71.8	70.7
Legal entities from USA	21.6	21.9	21.4
Legal entities from third countries	34.2	33.2	33.6
Total	535.2	541.8	544.2

Note: Data is reported in number of shares held (million number) unless otherwise specified.  
Source: Central Depository AD, FSC

The segment of the special investment purpose companies was characterized as strongly competitive, which continued to develop along these lines with the introduction of new companies. The functioning financial markets in the conditions of instability did not diminish the interest to licensing of new SIPC. The value of the Herfindahl–Hirschman Index (HHI)<sup>37</sup> decreased and at the end of 2010 reached a level of 446, while in 2009 it was 460 units. The share of the first four companies also declined from 32.7% in the preceding year to 31.3% in 2010.

**Figure 34. Concentration of the market of services offered by SIPC**



The market share of the total asset amount in the sector, of the companies which held the first four places remained unchanged in 2010, too. First ranked Advance Terrafund REIT (securitization of real properties, specialized in agricultural land) with 10.1%, followed by Fairplay Properties REIT (securitization of real properties without agricultural land) with 8.0%, Health and Wellness REIT (securitization of real properties without agricultural land) with 7.0% and И Bulgaria Real Estate Fund REIT (securitization of real properties, specialized in agricultural land) with 6.1%.

<sup>37</sup> 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 1000 and 1800 units – moderate competitive environment, and over 1800 units – the market is characterized by strong concentration.

#### 2.1.4. Public companies

The volatility of the European markets of equity securities increased in 2010. This, in turn, posed questions to the stability of trading in securities of speculative nature and heightened the possibilities for perpetration of market manipulations. Moreover, weak signals were noticed for revival of the market for initial public offering from the last quarter of 2009 and the first quarter of 2010 with reduction of their concentration among the different Member States.

The number of the public companies and issuers was 367 in 2010, which represented a drop of 18 companies in comparison with the previous year. Considerable revival was noted in the dynamics of the prospectus for initial public offering, both in their number and in their amount. The reviewed prospectuses were with 3 more than these in 2009, or totally 18 in 2010 (8 for SIPC's shares, 8 of public companies without SIPC's and 2 issues of warrants), and the amount of the issues was BGN 156.1 million, which constituted a growth of 20.8% on a year-on-year basis. The approved prospectuses for admission to trading on a regulated market, as well as the issues amount decreased in 2010. Their number in this year was 13 (4 for issues of shares of public companies and 9 issues of bonds) with an issue value of BGN 236.0 million, while in 2009 they were 25 with an issue value of BGN 256.9 million. The refused/terminated procedures for approval of prospectus were 3 in 2010, and in the preceding period they were 6. The number of the confirmed prospectuses of contractual funds went down with one and in 2010 it reached 10.

In the reviewed tender offers with a pronounced decision not to issue a final prohibition on their publishing, there was not any change in their number compared to the preceding year, but a growth was noted in their turnover of 179.4% towards 2009. In 2010, overall 20 tender offers were reviewed, from which on 17 a decision was pronounced not to issue a final prohibition for their publishing, 2 were given final prohibition, and 1 obtained a decision for termination.

Despite of the decline in the total market capitalization by 8.8%, the share of top ten public companies surged by 3.6 p. p. and reached 50.7% in 2010. In first place by market capitalization was again Bulgarian Telecommunications Company AD, whose share as a percent of the total exchange capitalization went up from 7.8% in 2009 to 12.1% in the past year. The structure of the companies in the top ten by market capitalization was on the whole static, and only two new companies were noted in 2010, which did not rank in the previous year – CB First Investment Bank AD – Sofia and Bulgartabac Holding AD – Sofia. In 2010, companies with capitalization over BGN 1 000 million were present again, as such were also present in 2008.

**Table 28. Reviewed prospectuses and tender offers**

	2007	2008	2009	2010
Prospectus for initial public offering (number)	11	3	15	18*
Size of issue	351.4	18.4	129.2	156.1
Tender offers (number)	19	3	17	17
Turnover	171.7	2.8	29.6	82.7**

Note: Data is reported in million BGN unless other is quoted; \* number included two issues warrants; \*\* turnover includes the proposed price tender offers, which are not issued a final ban or not terminated (suspended)

Source: FSC

**Table 29. Top 10 public companies by market capitalization**

Issuer / Market Capitalization	2009	Issuer / Market Capitalization	2010
Bulgarian Telecommunications		Bulgarian Telecommunications	
Company AD - Sofia	919.7	Company AD - Sofia	1299.4
CB CIBANK AD - Sofia	769.3	Petrol AD - Sofia	869.6
Petrol AD - Sofia	763.7	Arco Towers SIPJSC - Sofia	682.5
Arco Towers SIPJSC - Sofia	682.5	ZAD DZI - Sofia	645.0
ZAD DZI - Sofia	598.3	Sopharma AD - Sofia	513.3
Sopharma AD - Sofia	522.7	Sofia	384.0
Chimimport AD - Sofia	405.2	Chimimport AD - Sofia	349.6
Corporate Commercial Bank AD - Sofia	345.0	Monbat AD	245.7
Railway Infrastructure - Holding AD - Sofia	293.9	CB First Investment Bank AD - Sofia	236.5
Monbat AD	253.5	Bulgartabac	226.9
Total	5553.7	Holding AD-Sofia	226.9
		Total	5452.6

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

In the trade structure of the top 10 leading sectors on Bulgarian Stock Exchange – Sofia AD for 2010, first in the three main indicators (number of transactions, number of lots and realized turnover) again ranked sector Financial and insurance activities with a turnover of BGN 336.7 million and 45 227 transactions. A main reason for that was the transfer of 16.1% of the capital of Cibank AD in December 2010. Second, for the next successive year by turnover, number of transactions and lots, ranked Manufacturing with a turnover of BGN 104.3 million., the trade with the shares of Sopharma AD, Unipharm AD and Monbat AD amounting around 57% of the total turnover of the sector. Sector Real estate operations took the third place in 2010 by turnover with BGN 40.7 million, outstripping sector Construction, which was an indication that this sector was still undergoing corrections and its full recovery was forthcoming.

**Table 30. Trade structure by sectors on BSE – Sofia**

Sector	Transactions (thous number)		Volume (million of lots)		Turnover (million BGN)	
	2009	2010	2009	2010	2009	2010
Financial intermediation	99.0	45.2	148.3	120.1	415.3	336.7
Manufacturing	50.3	30.3	29.1	25.3	103.9	104.3
Real estate, renting and business	0.5	0.3	0.5	15.8	0.8	40.7
Construction	21.2	14.3	3.4	15.7	53.4	38.4
Agriculture, hunting and forestry	7.2	4.1	14.1	16.1	9.7	9.7
Hotels and restaurants	2.6	1.9	1.4	0.3	7.9	7.6
Trade, repair of motor vehicles and motorcycles	7.2	5.4	10.5	4.4	24.3	7.4
Professional, scientific and technical activities	1.2	0.9	2.3	1.4	3.6	2.2
Transportation and storage	0.5	0.3	9.0	1.5	23.7	2.1
Mining and quarrying	0.4	0.4	6.8	0.1	21.0	0.3
Information and communication	0.2	0.2	0.2	0.1	0.4	0.3
Administrative and support service	0.1	0.0	0.0	0.0	0.0	0.0
Water supply, sewerage, waste management and remediation	0.0	0.0	0.0	0.0	0.0	0.0
Electricity, gas, steam and air conditioning supply	0.0	0.0	0.0	0.0	0.0	0.0
Human health and social work	0.0	0.0	0.0	0.0	0.0	0.0
Total	190.5	103.3	225.6	200.9	664.0	549.6

Source: BSE-Sofia, FSC.

In 2010, a growth was observed in the shareholding in the capital of the public companies by 3.1%, in contrast to the previous year. The increase of the investor interest in 2010 was observed only in the shareholding of the foreign natural persons, which marked a growth with a positive contribution of 10.5 p. p., due to their relatively big share in the totally owned shares in the public companies. At the same time, most substantial decline occurred in the Insurance companies (-47.5%), followed by Collective investment schemes (-39.6%), Legal entities from third countries (-27.8%), Pension funds (-23.4%) and Legal entities from USA (-22.1%), etc. It should be noted that the biggest negative contribution in the change of the public companies' capital structure in 2010 belonged to Bulgarian natural persons with a negative contribution of 2.6 p.p. and Legal entities from EU (-1.59 p.p.) because of the large absolute value of the owned by them shares. Nevertheless, in 2010 as major shareholders in relative terms in the public companies remained Other Bulgarian legal entities with a share of 52.6% and Bulgarian natural persons with a share of 16.3%. As a result of the multidirectional dynamics, sector Foreign natural persons was included in the top three of the shareholders of the public companies with a share of 14.2%, shifting back with one position Legal entities from EU, whose share fell to 6.7%.

**Table 31. Shareholding structure of PCs**

	2008	2009	2010
Investment Intermediaries	30.1	30.1	28.9
Collective Investment Schemes	53.1	63.0	38.1
Insurance companies	16.5	10.6	5.6
Pension funds	102.7	130.9	100.3
Other Bulgarian legal entities	1621.5	1642.1	1655.9
Bulgarian natural person	578.0	591.7	513.4
Foreign natural person	130.2	127.6	447.8
Legal entities from EU	303.4	259.8	211.4
Legal entities from USA	79.3	78.8	61.3
Legal entities from third countries	120.1	116.9	84.4
Total	3034.9	3051.5	3147.0

Note: Data is reported in million numbers unless other is quoted.

Source: Central Depository AD, FSC

The issued bond debt increased by 14.5% and at the end of 2010 reached BGN 130.3 million. By way of comparison, in December 2009 it was just BGN 113.8 million. According to the individual characteristics of the separate issues of debt securities, in 2010 they all were denominated in Euro, where predominant were

### 2.1.5. Trading venues

The market capitalization of the Bulgarian Stock Exchange – Sofia AD decreased to BGN 10 754.10 million in the end of December 2010, which represented a drop of 8.8%, compared to the end of 2009. A negative trend of change on annual basis was registered by all market segments, the market capitalization of the companies from Official Market, Segment A, declined by 12.2%, of Official Market, Segment B – by 4.0%, and of Unofficial Market, Segment A – by 21.7%. There was an exception only in Unofficial Market, Segment B, whose capitalization recorded a considerable growth of 29.9% during the past year, but it was mainly due to increase in the number of issues in the Segment from 189 to 238 as a result of the low liquidity of the capital market and the transfer of part of the issues from Unofficial Market, Segment A to it.

**Table 32. Market capitalization**

	2007	2008	2009	2010
Official Market A	837	168	195	171
Official Market B	7700	3291	3446	3308
Unofficial Market	20449	7375	6546	5863
SIPCs market *	0	1599	1609	1412
Total	28987	12433	11796	10754

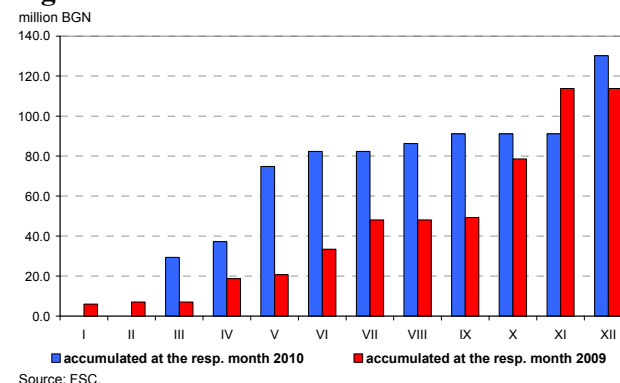
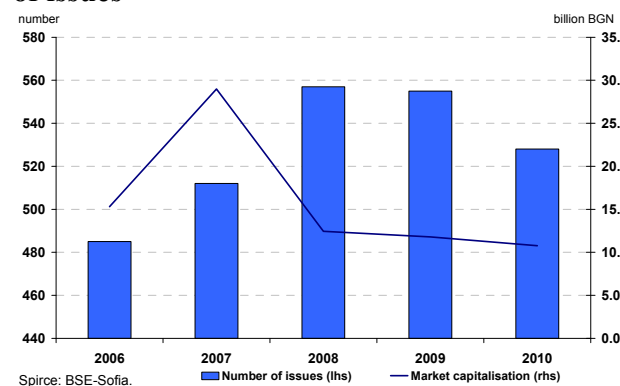
Note: Data is reported in million BGN unless other is quoted.\*

SIPCs market was launched in June 2008.

Source: BSE-Sofia AD, FSC.

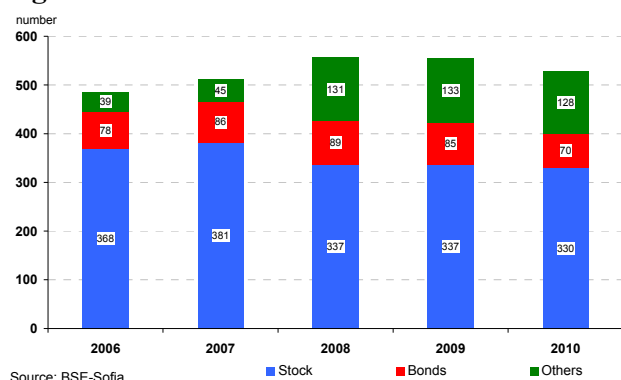
The number of issues of financial instruments admitted to trading on the markets organized by the Bulgarian Stock Exchange-Sofia AD was 528 as of 31 December 2010, which represented a decrease, compared to end of 2009, with 27 issues.

the medium-term issues (with maturity 3 and 5 years) and with fixed coupon interest rate.

**Figure 35. Amount of bond debt issues****Figure 36. Market capitalization and number of issues**

On the equity market, the issues went down from 337 in 2009 to 330 in the past year. The increase of the number of issues on Unofficial Market, Segment B was noticeable, at the expense of the decrease of the registered issues on Unofficial Market, Segment A, as a result of the exceptionally low liquidity throughout the whole of 2010. On the bond market the number of issues fell to 70 at the end of 2010, compared to 85 a year earlier, mainly due to the large number of matured during the period issues. A drop of over 9% was also registered in the market of collective investment schemes.

**Figure 37. Issues structure**



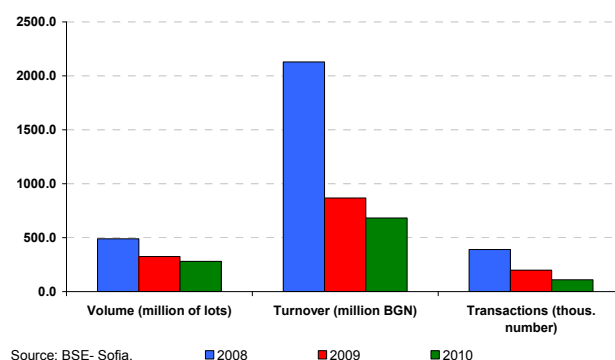
The Bulgarian capital market was characterized with low liquidity in the whole 2010 as a result of the slowly recovering economic activity in the country. The total realized turnover of the regulated market registered a decline by about 21.3%, on the Official Equity Market the decrease being by almost 57%, and on the bond markets – by 26%, on the market of special investment purpose companies – by 40%. Only Unofficial Equity Market registered increase of its turnover by 50.6%, but the main reason for that was again the transfer of 16.1% of the capital of Cibank AD in December 2010.

The average daily turnover on regulated market in 2010 was to the amount of BGN 2.73 million, against BGN 3.57 million in 2009, and in many trade sessions it was below BGN 1 million. With greatest weight in the daily trade were the transactions on Unofficial Equity Market - 50.8%

of the average daily turnover, Official Equity Market – 21.3%, and bond markets - 18.2%.

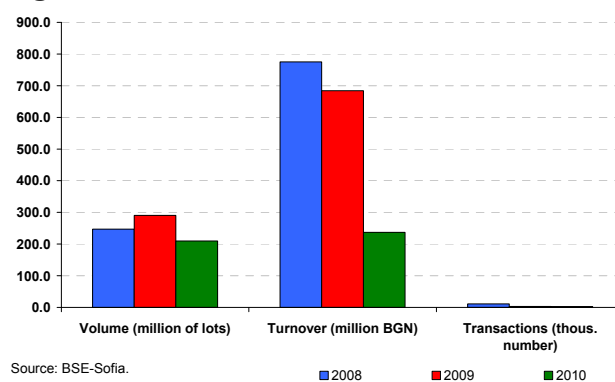
The number of the concluded transactions was by 45% lower compared to 2009, which was comparable with the 2004 levels. The volume of lots diminished by -26.5% in 2010, in comparison with the previous year, but this was due to a large extent to several in number big, single transactions during the year.

**Figure 38. Regulated market**



In regard to the turnover on OTC market, a decline by around 65.3% was recorded, compared to 2009, where in the last two years a considerable turnover was realized as a result of the transfer of packages of shares of Corporate Commercial Bank AD.

**Figure 39. OTC market**

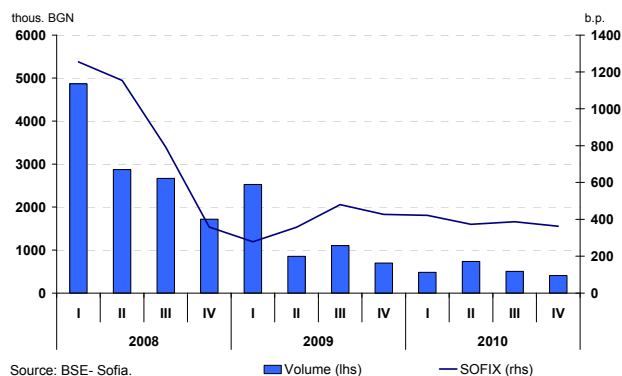




In 2010, all stock exchange measurers in Bulgaria registered falls. As a whole, the Bulgarian market lagged behind the recovery rates of the other markets in Central and Southeast Europe in 2010. Among the main reasons for that, again, can be indicated the low liquidity on the Bulgarian Stock Exchange – Sofia AD, as well as the weak interest on the foreign investors' side in the Bulgarian capital market during the whole year.

In 2010, the major exchange index SOFIX recorded a fall of 15.2%, reaching at the yearend 362.35 b. p. This it reached the values from the last quarter of 2008. The highest value during the period was registered on 3.02.2010 with 444.87 b. p., and the lowest - on 05.11.2010 with 341.04 b. p.

**Figure 40. Market index SOFIX**

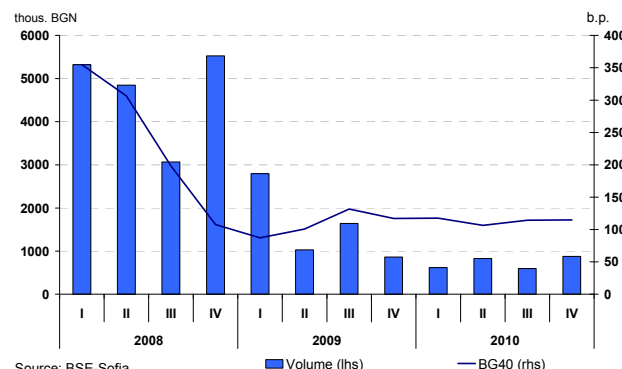


Source: BSE- Sofia.

Note: The traded volumes are indicated as average values, the last value for the relevant period being used for the indexes.

In 2010, stock exchange index BG40 registered a smaller decrease of 2.1% in comparison with SOFIX, closing the year at 70 b. p. Thus it reached the values from the last quarter of 2008. Highest value during the period was registered on 12.02.2010 at 120.53 b.p., and the lowest – on 22.07.2010 at 102.60 b.p.

**Figure 41. Market index BG40**

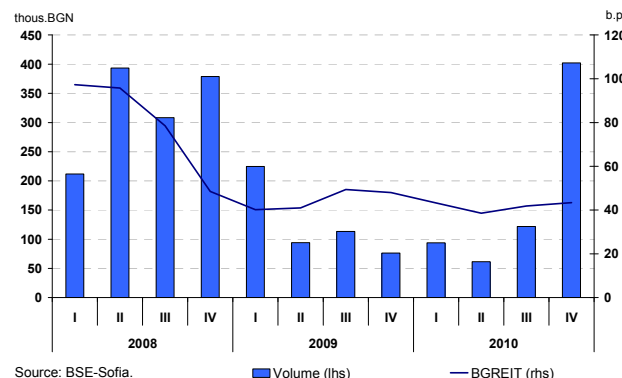


Source: BSE-Sofia.

Note: The traded volumes are indicated as average values, the last value for the relevant period being used for the indexes.

In 2010, the stock exchange index BG REIT recorded a fall of 9.7%. At the yearend, it reached 43.35 b.p., coming to the values of the first quarter of 2009. Its highest value in the period was registered on 04.01.2010 at 48.12 b.p., and the lowest – on 06.07.2010 at 38.16 b.p. In the last two quarters, a sharp increase was noted of the index volumes. This was owing to the concluded contracts in the month of September by the Bulgarian-American Investment Fund for the sale of all properties of Funds ERG Capital 1 REIT and IRG Capital 2 REIT, as well as the transfer of 24.5% of the capital of Agro Finance REIT, 31.3% of that of Ulpina REIT and other special investment purpose companies in December.

**Figure 42. Market index BGREIT**

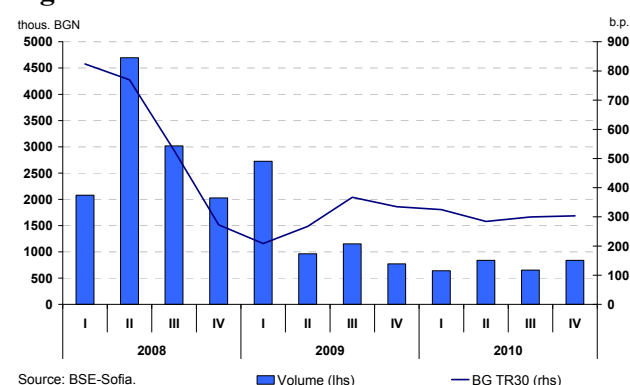


Source: BSE-Sofia.

Note: The traded volumes are indicated as average values, the last value for the relevant period being used for the indexes.

In 2010, the stock exchange index BG TR30 also registered a decline of 8.5%, ending the period at 303.51 b. p. Thus it reached values from the last quarter of 2008. The highest value during the period was registered on 03.02.2010 at 339.91 b. p., and the lowest – on 27.07.2010 at 272.60 b. p.

**Figure 43. Market index BG TR30**



Source: BSE-Sofia.  
 Note: The traded volumes are indicated as average values, the last value for the relevant period being used for the indexes.

In June 2010, an inquiry was conducted among the market participants about the indexes of Bulgarian Stock Exchange – Sofia AD. On the basis of the received replies, proposals were considered and structured for change in the rules of calculation of the stock exchange indexes. At the meeting of the Stock Exchange Board of Directors held on 12.07.2010 new rules were adopted of calculation the exchange indexes, replacing the hitherto acting.

The new rules were a result of the willingness of the stock exchange and the investment community to reduce to the minimum the element of subjectivism in the inclusion of issues in the indexes, as well as the endeavor towards the achievement of harmonious base of companies, ensuring possibilities for active trading in accordance with the current market situation. The changes in the rules became effective from 13.07.2010.

### 2.1.6. Central Depository

In 2010, the total asset value of Central Depository AD amounted to BGN 5.5 million, whereby their size, compared to the end of 2009, was reduced by 2.56%. Main objectives of the institution in 2010 were: integration into the European markets and realization of contacts with other depository institutions; software updating and reprocessing; broadening the scope of the services offered by Central Depository AD; clearing activity; as well as introduction of SWIFT communication standard.

For 2010, the number of the realized transactions and transfers marked a drop of 44.5% (overall 120 417 transfers/ transactions in 2010, from which stock exchange were 111 858). In contrast to 2008 and 2009, when the decline in the volumes of the transferred financial instruments was very small, in 2010 such decline was observed in the traded volumes, as well as the number of transactions and the executed transfers (349 million in number in 2010, while they were 613 million in number in 2009). Only in the transactions

and payments with compensatory instruments, the data showed relative stability – the number of the transactions in 2010 was 4423, while in the same period of 2009 their number was 4748. The decline in the payments by compensatory instruments to government institutions was also similar – 434 for 2010 against 469 for 2009. In the issued duplicates of depository receipt there was also an insignificant drop (2882 in 2010, while in 2009 they were 2944 in number), in contrast to the number of transfers from inheritances, where a growth of over 45% was registered to 1685. Unlike 2009, when in the trade with rights a growth of more than 150% was reported, for 2010 the situation was completely different. The number of the concluded transactions was nearly six time smaller (491 transactions in 2010). In the number of the transferred rights, however, the decrease was only 7% (25 million in number in 2010).

In comparison with the preceding year 2009, decreasing was noted in the applications received for registration of new issues of securities and applications for preparation of checkups from the register of the companies that had issued dematerialized financial instruments. For the reporting period, 27 issues of shares, 13 issues of bonds, 9 contractual funds were registered. In regard to 2009, the figures were respectively 27 issues of shares, 20 issues of bonds, 16 contractual funds. Applications were received for the processing of 288 payments in relation to corporate actions. The amount of the paid through the system of Central Depository AD dividends for 2010 was approximately the same sum as that in 2009. The amount of the paid interest and principals under bond issues increased in comparison with the previous year. In 2010, the number of the assigned ISIN were 111, their number in 2009 being 104.

The comparison of the number of the entries made in the register with those in 2009, showed a drastic decrease in the number of the filed in pledges by 44%. In 2010, 9 entries were made of financial collaterals, while their number in 2009 was only 4. Heightened interest was observed to the public register of the registered pledges. The issued certificates of the entered encumbrances reached 180 in number against 165 for 2009. The number of the filed in distraints was very insignificantly increased: in 2009, 341 entries were registered, in 2010 r. – 364. The total number of the entries of changes in the registered pledges was likewise exceptionally low – 7. The number of the lifted distraints was on the 2008 level.

#### **2.1.7. Investor Compensation Fund**

In 2010, the limit of compensation provided by the Investor Compensation Fund (the Fund) reached the maximum according the provisions of the Law on Public Offering of Securities and already satisfied the requirements of the European Directive. Considered as of 1.01.2010, the Fund pays off up to BGN 40 000 for 90% of the assets of one customer. In 2010, payment of compensations was not necessitated.

During the past year, 8 intermediaries and six management companies returned back their licenses. Due to admitted administrative violation, one intermediary was sanctioned by FSC with withdrawal of the license. Thus at 31.12.2010 the participants in the Fund were 109, from which 52 investment intermediaries, 23 banks and 34 management companies.

In 2010, the Fund's operation were directed first of all to collection of the contributions owed by the investment intermediaries within the time-limit set by law, management of the Fund's resources in compliance with the Fund's Investment policy, gathering and analysis of the information on the client assets managed by the participants in the scheme.

The contributions received in the Fund in 2010 were to the amount of BGN 1.12 million. The income from investments were BGN 0.593 million against BGN 0.609 million in 2009. At 31.12.2010 the Fund's resources amounted to BGN 8.33 million, invested in deposits and government securities. The realized

average yield from the deposits in 2010 was 5.27%, and from government securities – 6.29%<sup>38</sup>. The safety and liquidity are guiding in the taking of investment decisions by the Fund.

In view of the considerable drop in the trade on the capital market, the Management Board of the Fund determined the contribution of the intermediaries for 2011 to be at the same rate as in 2010. Thus in 2011 the intermediaries will also pay 0.05% on the average monthly amount of the financial instruments subject to compensations, and 0.5% on the average monthly amount of the cash subject to compensation.

At 31.12.2010 the number of the protected by the Fund investors was 60 112 against 58 957 as of 31.12.2009. At the end of 2010, the total amount of the client assets, subject to compensation, amounted to BGN 1 330 million, and of these not subject to compensation – BGN 11 billion. The average monthly amount of the financial instruments in 2010 came to BGN 1 280 million against BGN 1 073 million in 2009, and of the cash BGN 35.2 million against BGN 33.1 million. Predominant were the intermediaries, which kept client cash to amount less than BGN 100 thousand (60%).

In 2010 the National Audit Chamber conducted an audit of the Fund's operation. The audit did not find any violation in its management and operations. Some recommendation were given.

In 2010, the European Commission (EC) presented at the Council of the European Union a proposal for amendments to Directive 97/9/EC on investor compensation schemes. The Fund submitted an expert opinion to the Ministry of Finance (MoF) in relation to the EC proposal. Since September 2010, in the Council of the European Union deliberation of the proposed amendments commenced, at which a representative of the Fund stated the Bulgarian position, preliminarily agreed with the MoF. In 2010, the Member States and EC did not reach agreement on all issues, which postponed the adoption of the amendments to the Directive for the mandate of the Hungarian Presidency in 2011.

Along the lines of the associated membership in EFDI (European Forum of Deposit Insurers), in 2010 a representative of the Fund participated in the annual meeting in the city of Rome, Italy, at which a conference was also held, organized jointly with IADI (International Association of Deposit Insurers), as well as in a meeting of a working group with EFDI of the investor compensation schemes, in the city of London, the United Kingdom of Great Britain.

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<sup>38</sup> The income from revaluation of government securities was not included.

## 2.2. Insurance market

In the end of 2010, the total number of the licensed insurers having a legal seat in the Republic of Bulgaria was 35. From them 19 were general insurance companies, 14 – life insurance companies and 2 – mutual life insurance co-operatives. During the reporting period, reinsurance activity in general insurance was pursued by GP Reinsurance EAD, which was granted a license in 2008.

The number of the voluntary health insurance companies was 20. Activity of insurance intermediation at the end of 2010 was carried out by 363 brokers and 35 398 agents.

The gross premium income, realized by insurers having a legal seat in Bulgaria in 2010, amounted to BGN 1623 million, which was a decline of 3.5% on annual basis. At the end of 2009, it amounted to BGN 1681 million, when a higher decline (-5.9%) was registered, and similar tendency was observed in most of the states in Europe<sup>39</sup>. The insurance penetration (gross premium income as a percent of GDP) in the past year went down to 2.3%, returning to its level before 2006. By way of comparison, in 2009 when the value of this indicator in Bulgaria was 2.5%, Bulgaria ranked among the last five in the European Union – before Greece, Romania and Lithuania. The insurance density (gross premium income per capita of the population) also decreased to BGN 216 in the past year, from BGN 222 in 2009, when according to this indicator we again ranked in one of the last places amount the EU countries (before Romania).

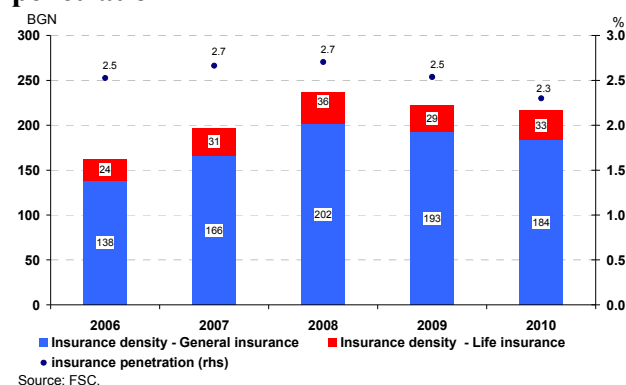
The reported gross premium income of general insurance in 2010 amount to BGN 1377 million, whereby a fall of 5.6% was realized on a year-on-year basis. The indicator insurance penetration was calculated at 2.0%, against 2.1% in 2009, and the insurance density – at BGN 183.5 per capita of the population, against a value of BGN 192.9 in 2009.

The gross premium income written by the life insurance companies in 2010 amounted to BGN 246 million, where a growth of 10.5% was marked on annual basis. Following the dynamics

of the insurance penetration, which increased by 0.02 p. p. and in the end of 2010 reached 0.35%, the insurance density in the life insurance also increased in the past year and amounted to BGN 32.8 per capita, against BGN 29.4 for the preceding year.

The realized premium income by the voluntary health insurance companies in 2010 surged by 10.2% on annual basis and amounted to BGN 42 million. The indicator health insurance penetration remained unchanged in comparison with 2009 and was computed at 0.06%. The health insurance density went up with BGN 0.56 and from BGN 5.06 in 2009 reached BGN 5.62 per capita of the population for 2010.

**Figure 44. Insurance density and insurance penetration**



With recorded average annual inflation of 2.4% in Bulgaria for 2010, the real drop in the gross premium income was calculated at 5.7% on annual basis, being 7.8% in the general insurance,

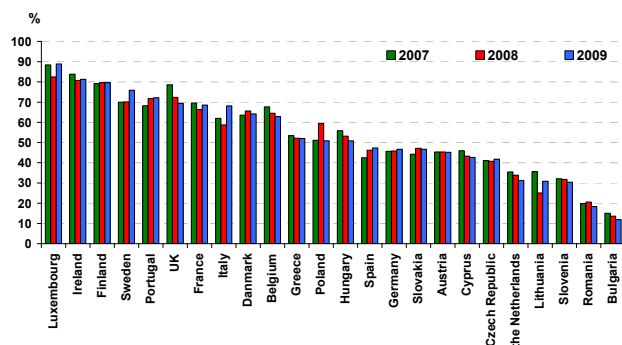
<sup>39</sup> Source of the information on the development of the insurance market in Europe in 2009 is: Sigma № 2/2010 World insurance in 2009: Premiums dipped, but industry capital improved, Statistical appendix, updated December 2011.

while in life insurance a real growth of 7.9%<sup>40</sup> was realized. The reported real growth of the gross premium income in life insurance was in times bigger than the registered real growth of GDP of 0.2%.

In 2009, the insurance premium in Europe marked a real growth of 2% y/y after the registered drop by 10.0% in 2008. These dynamics was dominated by the development in the countries of West Europe, where a real growth of 2.8% was reported for 2009 after the real fall by 10.9% for the previous year. In Central and East Europe a drop in the insurance premium of 10.2% was registered for 2009, when the effects of the global crises manifested themselves, against a real growth of 9.9% in 2008.

The premium income of life insurance in West Europe for 2009 marked a real growth of 4.1%, against a recorded fall of 16% in 2008, and the development of premiums in the individual countries was different. The real fall of the general insurance premiums in the countries of West Europe in 2009 was 0.5%, compared to registered real fall of 0.4% in 2008.

**Figure 45. Share of life insurance in the overall insurance business in the EU Member States**



Source: Sigma № 2/2010 World insurance in 2009: Premiums dipped, but industry capital improved, Statistical appendix, updated March 2010.

Unlike West Europe, in Central and East Europe the premiums from both general insurance, and life insurance marked a real fall on a year-on-year basis in 2009, respectively from

<sup>40</sup> The real growth has been computed by the Fischer formula:  $1 + r_n = (1 + r_r)(1 + i)$ , where  $r_n$  is the nominal growth,  $r_r$  is the real growth and  $i$  is the inflation growth.

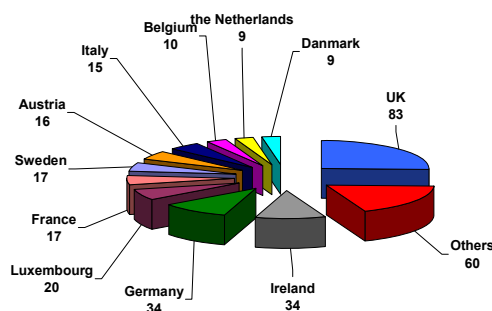
7.5% (2008: real growth of 6.8%) and of 20% (2008: real growth of 20%). The drop in life insurance was a reflection of the heavy economic crisis in the region, where the average real drop of GDP was higher than that for the whole European Union.

The share of life insurance is one of the indicators reflecting the level of development of the insurance market as a whole. In the advanced countries life insurance forms more than 50% of the overall insurance business, while in the world this indicator for 2009 was 57.5%.

In Bulgaria the insurance market is dominated by the general (non-life) insurance, whose share in 2010 diminished to 84.9%, against 87% at the end of 2009 and 85% at the end of 2008, and Bulgaria ranked in one of the last places among the European countries according the share of life insurance in the total insurance business.

At the end of 2010, the number of the insurance companies (ICs) from Member States, which intended to carry out activity on the territory of the Republic of Bulgaria under freedom to provide services was 324. Their geographical distribution showed predominant interest to the local market of the companies, having a legal seat in the United Kingdom (83), followed by Ireland and Germany (34).

**Figure 46. Geographical map of notifications of EU insurance companies**

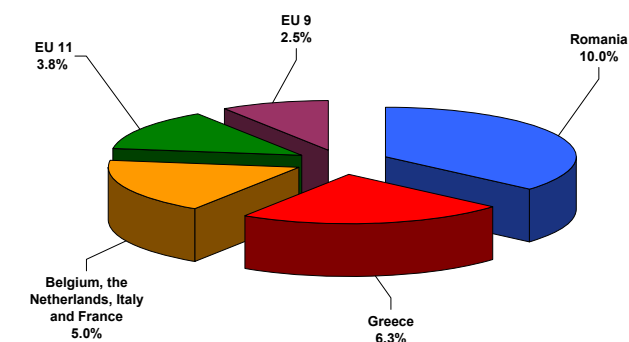


Source: FSC.

Note: The chart shows the territorial distribution of the number of notifications received from the relevant Member State. In Others are included: Liechtenstein (8 notifications), Spain (7), Hungary (6), Poland (6), Malta (6), Gibraltar (United Kingdom) (5), Czech Republic (4), Romania (4), Greece (3), Norway (3), Slovenia (3), Finland (2), Lithuania (2) and Estonia (1).

As of the end of 2010, 9 Bulgarian insurers had notified the Commission of their intent to carry out activity on the territory of EU Member States under 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 interests for expanding their activity to the neighbor markets of Romania (10.0%) and Greece (6.3%).

**Figure 47. Geographical map of notifications of ICs with a seat in the Republic of Bulgaria**



Source: FSC.

Note: The chart shows the percent ratio between the states to which notifications were sent by FSC. Belgium, the Netherlands, Italy and France had an equal share of 5.0% each, EU 11 represents a group of 11 member states (Austria, the United Kingdom, Germany, Denmark, Cyprus, Portugal, Poland, Hungary, Finland, 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 2.5% share each.

According to Part VI, Item 2 of the General Protocol relating to the Collaboration of the Insurance Supervisory Authorities of the Member States of the European Union (Revised Siena Protocol), the competent authorities of the

member states of the European Economic Area (EEA) exchange statistical information before the end of the year, following the reporting year, in relation to the activity of the supervised by them persons, pursuing activity under the right of establishment and freedom to provide services. The information received in FSC from the relevant supervisory authorities of the member states of the EEA, showed that despite of the big number of companies, which claimed intention to carry out activity on the territory of the Republic of Bulgaria under freedom to provide services, the number of these actually pursuing business was much lower, and for 2009 it came to approximately 100, including insurers having a legal seat in Austria, the Czech Republic, Luxembourg, Italy, Germany, Sweden, Ireland, Hungary, Belgium, the Netherlands, Romania, Denmark, the United Kingdom, Malta, Greece and Liechtenstein. The gross premium income realized on the territory of the Republic of Bulgaria in 2009 under freedom to provide services, amounted to BGN 33 million, including BGN 32.9 million of general insurance and BGN 0.1 million of life insurance.

**Table 33. Gross premium income realized by insurers having a seat in Bulgaria and in other EEA member states**

	insurers with a legal seat in BG		insurance branches with a legal seat in the EEA		insurers with a legal seat in the EEA, operating in BG under the freedom to provide services	
	2010 r.	2009 r.	2010 r.*	2009 r.**	2010 r.***	2009 r.**
General insurance	1 377	1 459	43	41	-	32.9
Life insurance	246	222	16	17	-	0.1
<b>TOTAL:</b>	<b>1 623</b>	<b>1 681</b>	<b>59</b>	<b>58</b>	<b>-</b>	<b>33.0</b>

Note: \* According to BNB data. \*\* According to data provided by the competent authorities of the Member States of the EEA. \*\*\* Information about the activities of insurers established in other Member States of the EEA on the territory of Bulgaria under the freedom to provide services in 2010 should be represented in FSC by the competent authorities of the countries by the end of 2011.

The number of companies which expressed an interest to carry out activity on the territory of the Republic of Bulgaria under the right of establishment (through a branch), was 9 in the end of 2009, and the realized by them gross premium income amounted to BGN 58 million, including BGN 41 million in general insurance and BGN 17 million in life insurance. According



data of the Bulgarian National Bank (BNB), the realized in 2010 gross premium income by the branches of foreign insurers amounted to BGN 59 million, including BGN 43 million in general insurance and BGN 16 million in life insurance.

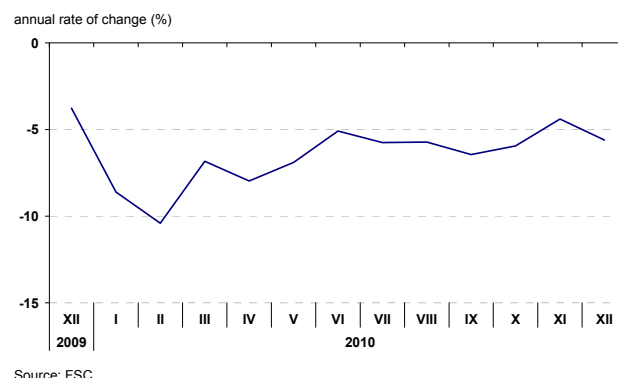
In 2010, activities under freedom to provide services on the territory of other EEA Member States were carried out by two general insurance companies with a legal seat in the Republic of Bulgaria, the realized by them premium income being BGN 2.2 million. One of them provided services on the territory of the Kingdom of Spain, realizing a premium income in Third Party Liability insurance of motorists, and the other pursued activity on the territory of Romania and Greece, where it had premium income written in insurances Fire and Natural Forces and Other property damages.

There was no life insurance company reporting premium income from insurance activity on the territory of other EEA Member States under freedom to provide services in the period under review.

### 2.2.1 General (non-life) insurance

The gross premium income in general insurance at the end of 2010 amounted to BGN 1377 million. Nine of the general insurance companies reported a fall y/y with regard to the realized by them premium income. The trend of decline in the gross premium income that begun since September 2009, went on during the past year, the negative rate of change slowing down and at the yearend reaching -5.6% on annual basis.

**Figure 48. Gross premium income of general insurance**



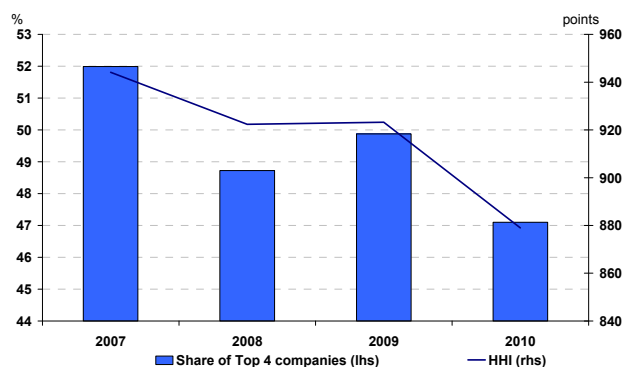
Major factors having an impact on the sector development in 2010 were the continued drop in the sales of automobiles, the decline in the lease purchases, the trend of slowdown of the credit growth rates. According data of the Association of Motor Vehicles Manufacturer in Bulgaria, the sales of new automobiles in 2010 continued to decrease, although in slower paces, registering during the year a decline of 25.1%, against -53.7% in the previous year.

According to preliminary data of the Bulgarian National Bank (BNB), at the end of

December 2010, the receivables of the leasing companies related to financial and operating leasing diminished by 19.1% on a year-on-year basis. The amount of the concluded in the fourth quarter of 2010 new financial lease contracts amounted to BGN 232 million and was by 2.8% less in comparison of the same period in 2009. In the end of December 2010, the number of credits of sector Households and NCOSH (non-commercial organizations serving households) dropped by 8.3% on annual basis, and their size respectively by 0.8% on annual basis.

**Figure 49. Market concentration of general insurance**





Source: FSC.

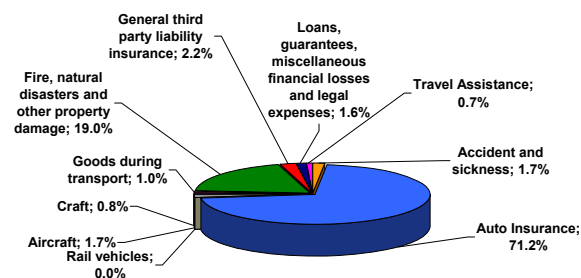
The market share of the four companies with realized highest premium income<sup>41</sup> at the end of 2010 amounted to 47.1%, against 49.9% at the end of 2009. Over the last several years, the curve of the Herfindahl – Hirschman Index (HHI)<sup>42</sup> was characterized with descending trend, which outlined a trend towards intensifying of the competition on the general insurance market and reduction of the concentration.

In 2010, in the portfolio structure of the general insurance companies, a major share of 71.2% was occupied by the motor vehicle insurances, insurance Land vehicles, excluding railway rolling stock accounting for a share of 36.1%, and Third Party Liability insurance related to the possession and use of motor vehicles - respectively 35.1%.

**Figure 50. Structure of gross premium income by class of insurance in 2010**

<sup>41</sup> These were ZAD Bulstrad Vienna Insurance Group, DZI-General Insurance AD, ZAD Armeez AD and ZD Bul Ins AD.

<sup>42</sup> 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 1000 and 1800 units – moderate competitive environment, and over 1800 units – the market is characterized by strong concentration.



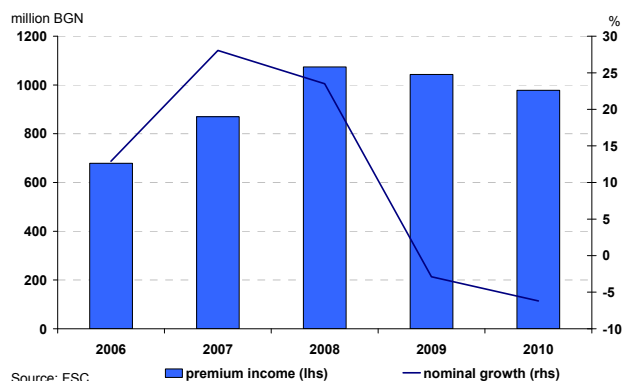
Source: FSC.

In 2009, the motor insurance in Europe was the biggest line of business, occupying a share of 30%<sup>43</sup>. The premium income realized by the European motor insurers amounted to Euro 121 billion, against Euro 127 billion in 2008 and Euro 130 billion in 2007. In the last decade, 2009 was the second successive year in which a fall in the premium income was reported. This trend was explained both with the high level of competition between the insurers, and with the slowed down economic development. In Bulgaria the motor insurance also marked for a second successive year a fall of 5.5% year-on-year in relation to the realized premium income in 2010. Besides in Bulgaria, the premium income in motor insurance also registered a decline in Portugal (-8%), Spain (-6%), Italy (-3.3%), Germany (-1.3%), the United Kingdom (-1%), France (-0.2%) and Poland (-1.6 %).

For the period January – December 2010, the realized premium income from insurance Land vehicles, excluding railway rolling stock amounted to BGN 496 million, a fall of 17.7% y/y being registered, against a fall of 12.7% for 2009 and a growth of 23.3% for 2008. This fall was a result of the decreased by 16.2% number of the insured objects under this class of insurance on the basis of concluded during the year contracts.

**Figure 51. Premium income in motor insurance in Bulgaria**

<sup>43</sup> CEA Statistics No 42 European Insurance in Figures.



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.

### FOCUS TOPIC: Development of the regulation and the market of Third Party Liability insurance of motorists

In connection with improvement of the regulation on the compulsory Third Party Liability insurance of motorists and with the purpose of ensuring a higher level of protection of the interests of an exceptionally wide circle of natural and legal entities, in 2010 changes were made, targeted at introduction of a requirement for planning and limiting of the insurers' administrative and acquisition costs on the compulsory Third Party Liability insurance of motorists. Another measure, directed at preservation of the financial stability, was the introduction of a new, additional reserve and concrete requirements in relation to the method for formation of the reserve for incurred but unsubmitted claims on Third Party Liability insurance of motorists. As a result of these changes, as of 31.12.2010 the companies offering Third Party Liability insurance had set aside an additional reserve for this class of insurance to the amount of BGN 17 million.

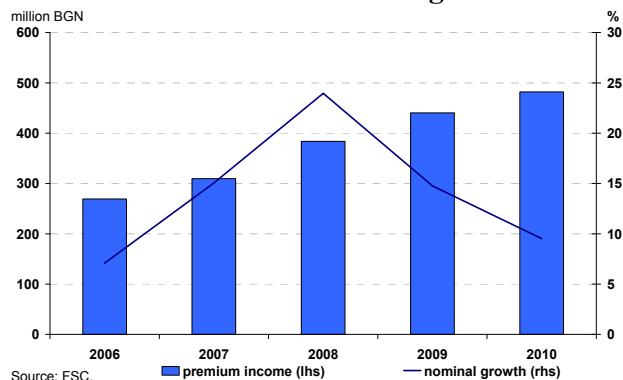
Two orders were also issued, directed to termination of vicious practices related to unjustified reduction of the premium and formation of such tariffs, which aimed at circumventing the existing regulations and requirements and might lead to sharp aggravation of the stability and predictability of the market of the compulsory Third Party Liability insurance of motorists. Such scenario would have a direct impact on the rights and interests both of the persons who suffered material and non-material damages, and on the persons who had concluded in good faith the obligatory insurance. As a result of the measures taken, increase was registered of the premiums under the concluded one-year contracts in the month of December, the average premium reaching BGN 220, against BGN 158 for the same period of last year.

The realized premium income from Third Party Liability insurance related to the possession and use of motor vehicles in the past year registered a growth of 9.5% year-on-year and amounted to BGN 482 million. The premium income of Third Party Liability insurance of motorists amounted to BGN 476 million., of Third Party Liability Insurance for third countries (Green Card) – to BGN 0.9 million, of Border Third Party Liability insurance of motorists – BGN 3.3 million, and of Third Party Liability insurance of carriers – BGN 1.8 million. The increase in the average premium under the one-

year contracts contributed to the higher premium income in Third Party Liability insurance of motorists, where in 2010 the average premium was BGN 185, against BGN 167 for the same period of 2009. Furthermore, there was a trend of increase of the premium in the separate months of 2010, the average premium reaching BGN 220 under the concluded one-year contracts in the month of December.

The share of the top four companies in Third Party Liability insurance related to the possession and use of motor vehicles was 55.2%.

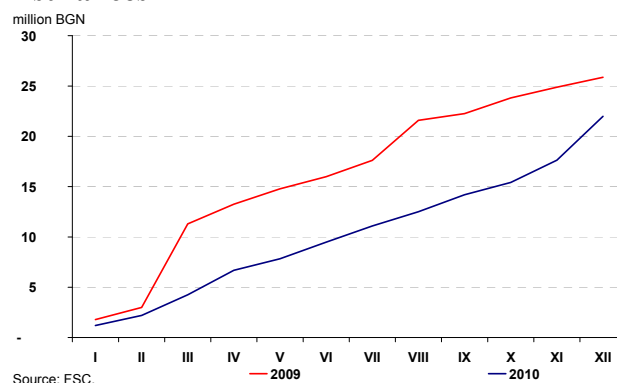
**Figure 52. Premium income of Third Party Liability insurance related to the possession and use of motor vehicles in Bulgaria**



At the end of 2010, in Bulgaria the property insurances (Fire and natural forces and Other property damage) held a share of 19.0% of the gross premium income. The realized premium income from insurances Fire and natural forces and Other property damages amounted to BGN 261 million and marked a drop of 5.9% on annual basis, compared to a growth of 11.8%, recorded in the previous year.

In 2010, the premium income written on the three classes of financial insurance (Credits, Suretyship and Miscellaneous financial loss) amounted to BGN 22 million, a decline of 15.1% year-on-year being recorded. Mainly a fall was marked on annual basis in insurances Credits of BGN 3.9 million (-32.5%) and Miscellaneous financial loss of BGN 6.1 million (-9.7%). At the year end, the above indicated insurances occupied a share of 1.6% in the total premium income in the sector.

**Figure 53. Premium income from the financial insurances**



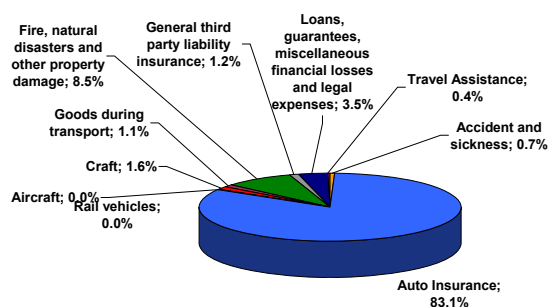
The total insurance amount for which the risks under acting at 31 December 2010 contracts in the three classes of financial insurance were covered, amounted to BGN 2256 million, from which 31.2% (BGN 705 million.) - on Credits insurance, 3.7% (BGN 83 million) – on Suretyship insurance, and 65.1% (BGN 1468 million) – on Miscellaneous financial loss insurance. In comparison with the preceding year, the insurance amount declined by 8.5% (BGN 211 million).

The premiums ceded to reinsurers for 2010 were to the amount of BGN 236 million and represented 17% of the gross premium income realized in the sector. The rate of retention decreased and was computed at 0.83, against 0.86 a year earlier. In the structure of the ceded premiums to reinsurers by classes of insurances, with largest share were insurances Fire and natural forces (29.0%), Third Party Liability insurance related to the possession and use of motor vehicles (26.4%), Land vehicles, excluding railway rolling stock (12.0%) and Other property damage (9.7%).

The claims incurred in general insurance were at the amount of BGN 749 million, a decline of 1.6% being recorded on annual basis. The amount of the paid compensation in the general insurance sector in 2010 also decreased by 0.2% and amounted to BGN 678 million, where in fourteen of the general 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 84 million, which was 12.4% of the paid in 2010 compensations in general insurance.

**Figure 54. Structure of the paid compensation by class of insurance in 2010**



Source: FSC.

In the structure of the paid compensations by class of insurance, the biggest share of 83% 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 Forces and Other property damages), occupying a share of 9%.

The compensations paid in regard to the financial insurances at the end of 2010 were to the amount of BGN 23.5 million, from which BGN 8.2 on Credits insurance, BGN 0.6 million on Suretyship insurance and BGN 14.7 million on Miscellaneous financial loss insurance. On annual basis an increase of 36.8% was registered of the totally paid compensations for these classes of insurances.

Greatest increase in the amount of the paid compensations on annual basis in 2010 was reported in insurance Third Party Liability insurance related to the possession and use of motor vehicles (with BGN 26 million), Fire and natural forces (with BGN 9 million) and Other property damage (with BGN 8 million.). In the past year, the increase of the paid compensations on annual basis surpassed the premium income growth in eleven of the insurances. The gross loss ratio at the yearend edged up to 0.56, against 0.52 a year earlier.

**Table 34. Gross loss ratio**

	2009	2010
Accident insurance	0.17	0.25
Sickness insurance	0.58	0.52
Land vehicles, excluding railway rolling stock	0.61	0.62
Railway rolling stock insurance	0.12	0.02
Aircraft insurance	0.04	0.13
Vessels insurance	0.51	0.32
Loads in transit insurance	0.31	0.49
Fire and natural forces insurance	0.16	0.24
Property damage insurance	0.15	0.47
Third Party Liability insurance related to the possession and use of motor vehicles	0.72	0.68
Third Party Liability insurance related to the possession and use of aircrafts	0.00	0.01
Third Party Liability insurance related to the possession and use of vessels	-0.05	-0.91
General Third party Liability insurance	0.13	0.44
Credit insurance	0.29	1.54
Suretyship insurance	-0.03	1.00
Miscellaneous financial loss insurance	0.95	1.07
Legal expenses insurance	0.00	0.21
Travel assistance insurance	0.31	0.27
Total	0.52	0.56

Source: FSC.

The actually incurred expenses by the general insurance companies related to their activities diminished by 1.7% y/y and at the end of 2010 amounted to BGN 556 million, which constituted 40% of the gross premium income realized in the sector. The acquisition costs amounted to BGN 323 million and represented 58.1% of the total actual expenses incurred and 23.5% of the realized gross premium income in 2010. From them BGN 273 thousand. (84.6%) were acquisition commissions, BGN 15 million (4.7%) were advertising expenses and BGN 34 million were other direct and indirect acquisition costs.

The paid acquisition commissions on insurance Land vehicles, excluding railway rolling stock decreased by 15.2% y/y and at the end of 2010 amounted to BGN 112 million, occupying a share of 51% from the totally incurred actual expenses and 23% from the premium income in this class of insurance.

In regard to Third Party Liability insurance related to the possession and use of motor vehicles, at the end of the reporting period, acquisition commission were paid at the amount of BGN 96 million, compared to BGN 92 million

a year earlier. The paid acquisition commissions held a share of 51% from the totally incurred factual expenses on this class of insurance and 19.8% of the premium income for this class of insurance. On annual basis, reduction was noted in the share of the paid acquisition commissions in the premium income for this class of insurance by 1.1 p. p.

The incurred administrative expenses were at the amount of BGN 165 million, or 29.6% of the totally incurred expenses and 12.0% of the gross premium income. Their value for insurance Land vehicles, excluding railway rolling stock amounted to BGN 64 million, which was 29% of the totally incurred expenses on this class of insurance and 13% of the premium income in the insurance. The administrative expenses incurred on Third Party Liability insurance related to the possession and use of motor vehicles amounted to BGN 40 million and surged by 15% y/y. They represented 21% of the totally incurred expenses on this class of insurance and 8% of the premium income in the insurance.

The claims settlement expenses amounted to BGN 28 million, or 5.1% of the totally incurred expenses. On annual basis, these expenses grew by 13%.

The amount of the totally incurred expenses on insurance Travel assistance, Miscellaneous financial loss and Loads in transit amounted to more than 50% of the premium income realized in the respective class of insurance. The gross expense ratio at the end of the reporting period was computed as 0.38, against 0.37 at the end of 2009.

**Table 35. Gross expense ratio**

	2009	2010
Accident insurance	0.49	0.47
Sickness insurance	0.31	0.42
stock	0.39	0.41
Railway rolling stock insurance	0.11	0.36
Aircraft insurance	0.12	0.12
Vessels insurance	0.38	0.36
Loads in transit insurance	0.45	0.48
Fire and natural forces insurance	0.3	0.34
Property damage insurance	0.47	0.45
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	0.11	0.11
Third Party Liability insurance related to the possession and use of vessels	0.55	0.31
General Third party Liability insurance	0.29	0.31
Credit insurance	0.27	0.28
Suretyship insurance	0.32	0.29
Miscellaneous financial loss insurance	0.52	0.55
Legal expenses insurance	0.43	0.41
Travel assistance insurance	0.49	0.63
Total	0.37	0.38

Source: FSC.

In 2010, the highest gross technical result was registered by insurance Fire and natural forces (BGN 80.9 million), Aircrafts (BGN 9.2 million), Third Party Liability insurance related to the possession and use of aircrafts (BGN 7.2 million), General third party liability (BGN 7.2 million) and Accident (BGN 6.8 million). In the past year, the gross technical result of Third Party liability insurance related to the possession and use of motor vehicles was again negative (BGN -42.8 million), but it was lower in comparison with the previous year (BGN -36.8 million). From sixteen insurers, having the right to offer this type of insurance, nine recorded a negative gross technical result.

**Table 36. Gross technical result**

	2009	2010
Accident insurance	8.21	6.76
Sickness insurance (thousand BGN)	0.00	0.00
Land vehicles, excluding railway rolling stock	13.97	-8.51
Railway rolling stock insurance	0.26	0.21
Aircraft insurance	8.39	9.20
Vessels insurance	1.12	2.44
Loads in transit insurance	3.57	0.24
Fire and natural forces insurance	116.33	80.86
Property damage insurance	24.02	5.09
Third Party Liability insurance related to the possession and use of motor vehicles	-36.82	-42.82
Third Party Liability insurance related to the possession and use of aircrafts	6.70	7.21
Third Party Liability insurance related to the possession and use of vessels	1.12	4.11
General Third party Liability insurance	16.83	7.16
Credit insurance	8.73	-6.96
Suretyship insurance	2.12	-1.08
Miscellaneous financial loss insurance	-10.35	-4.16
Legal expenses insurance (thousand BGN)	0.00	0.00
Travel assistance insurance	1.93	0.91
Total	166.14	60.66

Note: Data is reported in million BGN unless other is quoted. The values for "Gross technical result" 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.

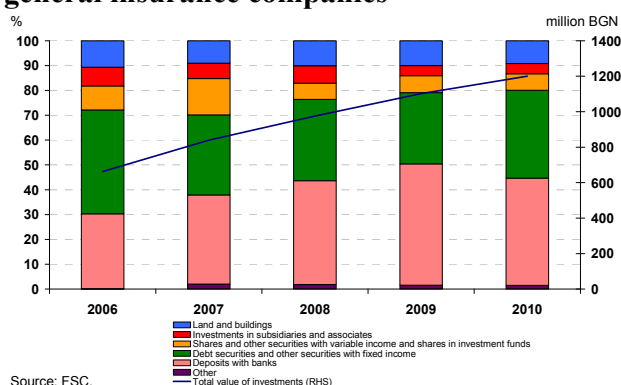
Source: FSC.

Besides in Third Party Liability insurance related to the possession and use of motor vehicles, a negative gross technical result was also reported for the financial insurances and in insurance Land vehicles, excluding railway rolling stock. Regarding the financial insurances, it was respectively BGN (-7) million for Credits insurance, BGN (-1.1) million for Suretyship insurance and BGN (-4.2) million for Miscellaneous financial loss insurance.

At the end of the period under review, the sum of the assets of the general insurance companies amounted to BGN 1864 million, increasing by 2.9% year-on-year. The value of the investments made by the general insurance companies grew by 9.0% y/y, and at the yearend amounted to BGN 1201 million and occupied a share of 66.3% from the total asset sum. At the yearend, 85% of the investments were with location in the Republic of Bulgaria, 14% in EU Member States, and 1% in third countries. In the companies' aggregated investment portfolio, the

biggest share was held by bank deposits (43.2%), followed by the debt securities and other fixed-income securities (35.4%). The larger part (67.2%) of the debt securities and other fixed-income securities represented government securities (GS). At the yearend, 72.4 % of the value of investments in GS are such, issued by the Government of the Republic of Bulgaria, 7.4% by Poland, 5.9% by Greece, 4.3% by the Czech Republic, 3% by Germany and in total 7% were these issued by Italy, Slovakia, Croatia, Hungary, Austria, Spain, Portugal, Romania and Slovenia.

**Figure 55. Investment portfolio structure of general insurance companies**



Source: FSC.

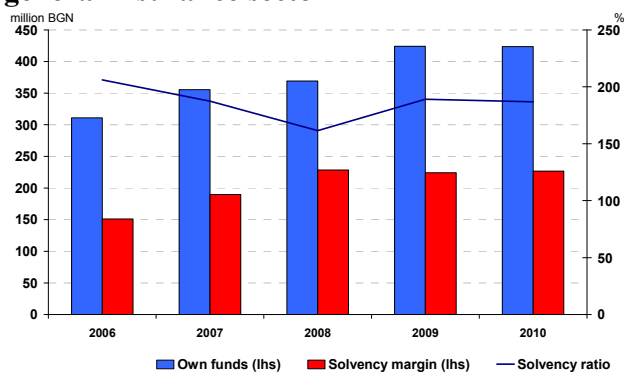
The share of the investments in land and buildings in the aggregated investment portfolio of the general insurance companies in the last five years remained almost constant of around 10%. In 2010, the share of investments in subsidiary, joint and associated undertakings, in which the companies had a shareholding, remained without any change in comparison with the share in 2009. As a result of the slow recovery of the capital markets, the share of investments in equities and other variable-income securities and investment fund's units of the general insurance companies continued to diminish in the past year, too, amounting at the end of 2010 to 6.6%. In 2010, the share of the investments in debt securities and other fixed-income securities in the aggregated investment portfolio increased considerably at the expense of the decrease of the share of investments in bank deposit as a result of reduction of the interest on deposits.



The equity of the general insurance companies in the past year increased by 1.4%, amounting at the end of 2010 to BGN 526 million. In 2010, the subscribed equity capital decreased with BGN 8 million. Four of the general insurance companies increased their equity capital, in order to meet the requirement for higher guarantee capital according the amendments to Art. 82 of the IC.

The solvency margin of the general insurance companies at the end of 2010 reached BGN 227 million, and their guarantee capital amounted to BGN 144 million. From nineteen general insurance companies, two did not have the required own funds, to satisfy the requirements of Art. 80, para 1 of the IC. The solvency margin cover declined by 2 p. p. on annual basis, and at the end of the past year it was calculated at 186.9%.

**Figure 56. Cover of solvency ratio in the general insurance sector**



At the end of 2010, the amount of the gross technical provisions, set aside by the general insurance companies for payment of future indemnities picked up by 8.1% and reached BGN 1376 million, and the net technical provisions increased to BGN 1122 million.

Greatest share of 57.2% in the gross technical provisions was occupied by the loss reserve, which in the past year grew by 9.6% and came to BGN 787 million. In regard to Third Party Liability insurance related to the possession and use of motor vehicles, the loss reserve set aside as of the end of 2010 climbed by 12% and

reached BGN 574 million, with premium income growth of 10% in this class of insurance. The increase of the reserve on this insurance was mainly as a result of the increase by 26.2% of its part for submitted but unpaid claims.

The size of the unearned premium reserve at the end of 2010 amounted to BGN 519 million, registering a fall of 0.6% on annual basis. By classes of insurance, biggest reduction of the unearned premium reserve was registered in insurance Land vehicles, excluding railway rolling stock.

The size of the unexpired risk reserve amounted to BGN 30 million and remained almost without change in comparison with 2009.

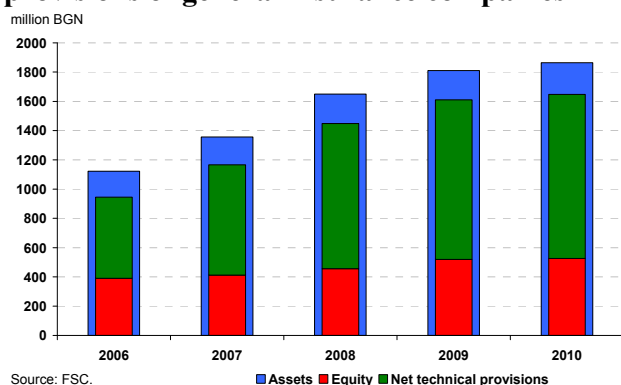
A considerable increase was noted in the amount of the Bonus and rebate reserve, which was formed to meet liabilities for payment of sums in the form of bonuses and rebates, originating from the risk development, from BGN 0.2 million at the end of 2009 to BGN 5 million in the end of 2010.

In the end of 2010, the general (non-life) insurance companies had set aside reserves according to the most recent amendments to Ordinance № 27, to the amount of BGN 34 million. From them BGN 17 million represented additional reserve, set aside on Third Party Liability insurance of motorists, which is formed when the amount of the unearned premium reserve for each insured motor vehicle at the yearend is lower than the minimum required amount for cover of the risk for one insured motor vehicle and the expected expenses after the end of the reporting period.

The total set aside technical provisions for the three classes of financial insurances declined by 4% on annual basis, amounting to BGN 39.9 million at the end of 2010. From them 47.9% were set aside for insurance Miscellaneous financial loss, 35.5% for Credits insurance and 16.6% for Suretyship insurance.

In the past year the growth trend in the assets, equity and the net technical provisions in the general insurance sector continued.

**Figure 57. Assets, equity and net technical provisions of general insurance companies**



The asset amount for cover of the technical provisions amounted to BGN 1387 million in the past year, and all general 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 held the bank deposits (29.9%), followed by receivables from insured persons and intermediaries (15.7%).

At the end of 2010, the companies in the non-life (general) insurance sector reported a lower negative technical result (BGN -43.28 million), compared to the preceding year (BGN -7.74 million), where nine companies closed the period with a negative technical result.

The lower technical result and investment income, as well as almost the same costs of investments in 2010, compared to the preceding year, had an impact on the reported negative net financial result to the amount of BGN (-16.4) million, against a positive value of BGN 26.7 million a year earlier. As a result of the recorded negative 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, dropped from 1.5% in 2009 to -0.9% in the past year. The return on equity, calculated as a ratio between the profit (loss) for the period and the equity turned the positive value of 5.1% in the previous year to -3.1% for 2010.

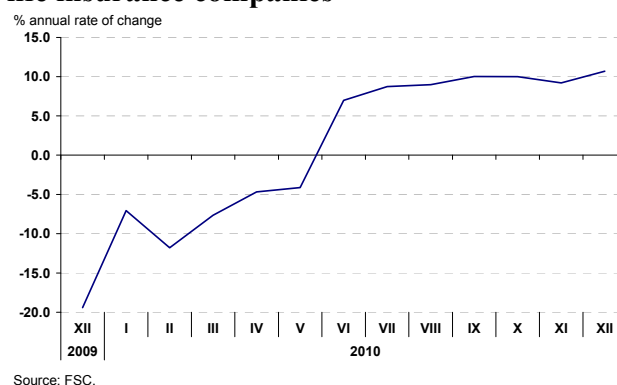
The realized for the period January – December 2010 income from investments by the

non-life insurance companies diminished with BGN 13 million and amounted to BGN 81 million at the yearend. The costs of investments remained almost the same, compared to these reported in the same period of last year and amounted to BGN 21 million, 77% from which were losses from revaluation of the investments value and 12% each were losses from investment realization and costs of investment management. Six of the general (non-life\_ insurance companies closed 2010 at a loss, the negative financial result of these companies being in consequence of the negative technical result.

### 2.2.2. Life insurance

The gross premium income written by life insurance companies in 2010, recorded a growth of 10.5% y/y and amounted to BGN 246 million. For comparison, the premiums for 2009 registered a decline of 17.7% y/y. The premium income was realized in full from direct business, i.e. for a second consecutive year no insurer undertook risks from another insurer.

**Figure 58. Gross premium income realized by life insurance companies**



Note: The graph is built up on the basis of growth rate of the gross premium income, reported by class of insurances in the separate months of 2010, 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 that class of insurance.

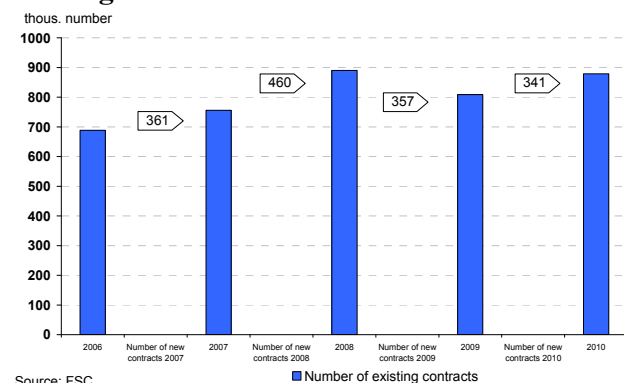
Unlike the preceding year 2009, when the curve outlining the growth rate of the gross



premium income by months on annual basis marked a descending trend, and at the yearend a decline was reported, in 2010 the trend was ascending. In the first half of the year, the growth rate on a year-on-year basis was negative, but it increased with each next month, and after the second quarter of the year, it became positive.

A drop in the premium income on annual basis at the end of 2010 was reported by only three of the life insurance companies. Their aggregate market share amounted to 26.3%, while at the end of 2009 the market share of life insurance companies with a negative annual growth rate was 73.1%.

**Figure 59. Number of newly concluded and existing contracts**



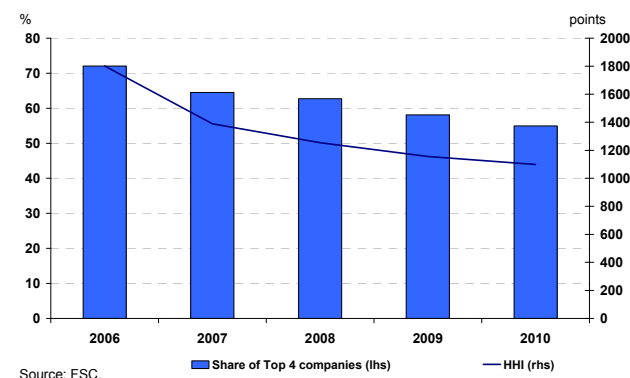
In the past 2010, the number of the acting contracts marked again a growth on annual basis and came to 879 thousand, after a decrease to 809 thousand in the preceding year as a consequence of the large number of early terminated and unrenewed contracts as a result of a number of economic factors. These dynamics were indicative of the fact that the number of contracts with expired term and of the early terminated in 2010 contracts was smaller than that of the newly contracted during the year, nevertheless that the latter registered a decline on annual basis for a second successive year.

In contrast to the dynamics of the newly entered contracts, the premiums written under the newly concluded in 2010 contracts increased on annual basis and amounted to BGN 105 million, compared to BGN 95 million under contracts

concluded in 2009. Despite of the registered growth, the premiums under the newly concluded contracts had not reached yet the pre-crisis levels.

The aggregate market share of the four life insurance companies, which realized highest premium income in 2010<sup>44</sup>, continued to decrease on annual basis and at the yearend was calculated at 55.0%, against 58.1% in 2009. The concentration of the life insurance market continued to diminish, and respectively the competition among the operating on it companies continued to be intensified. This reflected on the dynamics of the Herfindahl–Hirschman Index (HHI)<sup>45</sup>, the value of which at the year end was 1098.

**Figure 60. Market concentration of life insurance**



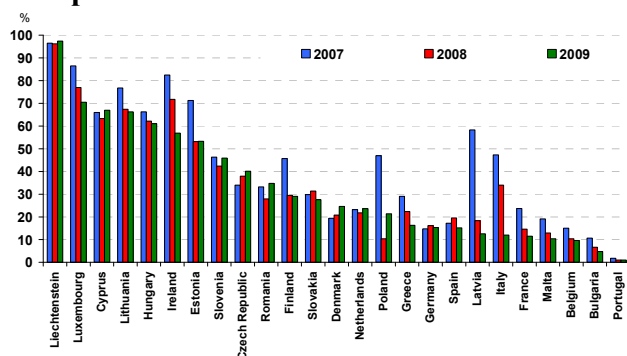
In regard to the portfolio structure of life insurance companies by classes of insurances at the end of 2010, a substantial change was not observed in comparison with year 2009 and a major share therein continued to be held by the traditional Life insurance (64.9%) and Pension or

<sup>44</sup> These were ZAD Allianz Bulgaria Life, ZAD DZI, ZAD Bulstrad Life Vienna Insurance Group AD and Sindikalna VZK.

<sup>45</sup> 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 1000 and 1800 units – moderate competitive environment, and over 1800 units – the market is characterized by strong concentration.

annuity insurance (11.9%). It should be noted that the main part of the gross premiums from Life insurance (79.1%) were formed from the sale of mixed Life insurance, and the other 20.9% - from the Risk life insurance (with only risk of death covered). Next in percentage share came Accident insurance, the gross premiums of which constituted 9.3% of the total premium income of the life insurance companies. After the begun as a result of the financial crisis decrease in the share of Unit-linked life insurance in the total portfolio (from 10.6% at the end of 2007 to 4.7% at the end of 2009), during the past 2010 the said share again registered certain increase by 0.3 p. p. and reached 5.1% at the yearend.

**Figure 61. Share of Unit-linked life insurance in the overall direct life insurance business in Europe**



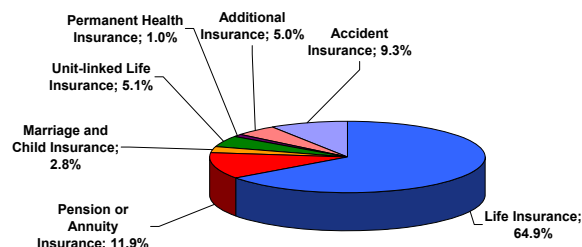
Source: CEIOPS/EIOPA, Financial Stability Reports.

Under the influence of the global economic and financial crisis, most of the EEA Member States registered a decline in the sale of insurance products related to investment funds in 2008 and 2009 (predominantly in the first half of the year), which led to a fall also in the total premium income in life insurance. Bulgaria ranked in one of the last places among the European countries by share of Unit-linked life insurance, in the overall life insurance market on national level, as the interest to this class of insurance in our country is still comparatively low.

The share of Marriage and child insurance fell from 3.9% at the end of 2009 to 2.8% at the end of 2010. In this class of insurance greatest

drop in the premiums was also observed – 20.3 % on annual basis.

**Figure 62. Portfolio structure of life insurance companies in 2010**



Source: FSC.

A growth on annual basis in the amount of premiums was achieved in all classes of insurances, with the exception of Marriage and child insurance and Life insurance - mixed. Highest growth y/y was noted in the amount of premiums on the Risk Life insurance – 73.7% (or with BGN 14 million), and in Pension or annuity insurance – 64.9 % (or with BGN 12 million).

In contrast to the previous year, when most substantial fall on annual basis was observed in the amount of premiums of Unit-linked life insurance (by 42.1%, or with BGN 7.7 million), at the end of 2010 this insurance registered a growth of 18.8% (or it increased with BGN 2 million) on annual basis. The single premiums under this class of insurance increased more than twice in comparison with 2009, as a result of which their share in the total amount of the realized premiums in Unit-linked life insurance, grew from 16.4% at the end of 2009 to 34.2% at the end of the past year. The slightly heightened interest of the insured persons to this class of insurance was a result of the started stabilization of the capital markets.

The premiums ceded to reinsurers by the life insurance companies in 2010 amounted to BGN 11 million and 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, the retention ratio being preserved at 0.96.

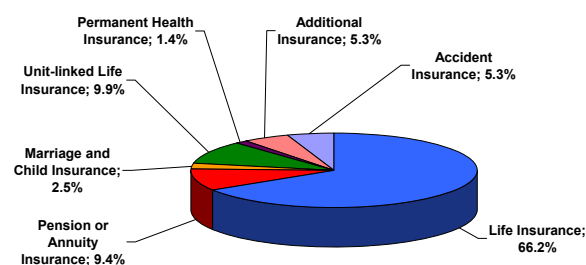
In the structure of the ceded premiums to reinsurers by classes of insurances, the biggest share was held by insurances Life insurance and annuities (41.5%), Accident (30.1%) and Additional insurance (22.6%).

The greatest part of the premium income, in comparison with the other classes of insurances, was ceded in Permanent health insurance – 21.3%, Additional insurance - 19.4%, and Accident insurance – 13.9% from the gross premium income realized for these classes of insurances.

The paid in 2010 sums and compensations by life insurance companies amounted to BGN 101 million for overall 90 thousand claims, compared to BGN 91 million in 2009 for overall 78 thousand claims. The biggest share therein belonged to the paid claims under contracts with expired term or with fallen maturity – 39%, followed by the surrenders (in whole or in part) of insurance contracts – 24%, and the paid claims upon death – 11%. The other 26% of the paid sums and compensations were against other claims. A growth on annual basis was recorded both in the number of claims (15.3%), and in the amount of the paid during the year sums and compensations (10.1%).

In the total structure of the paid claims, the biggest share was that of Life insurance – 66.2%, within which 87.3% of the payments were on the Mixed life insurance. Next in share came insurances Unit-linked life insurance – 9.9%, Additional insurance – 5.3%, and Accident – 5.3%.

**Figure 63. Structure of claims paid by class of insurance for 2010**



Source: FSC.

Surrenders were reported in Life insurance and annuity, Unit-linked life insurance and Marriage and child insurance. Their number at the end of 2010 came to 16 thousand, against 14 thousand at the end of the previous year. The surrenders' total value also increased on annual basis and amounted to BGN 25 million (compared to BGN 20 million in the end of 2009). The surrender values in Life insurance and annuity and in Unit-linked life insurance, increased respectively with BGN 5 million and with BGN 1 million, while in Marriage and Child Insurance a reduction with BGN 1 million was noted in comparison with 2009.

The recovered sums and compensations under reinsurance contracts amounted to BGN 2 million, which was 2.3% of the claims paid in life insurance during the period.

The expenses incurred by the life insurance companies in connection with the pursuance of their business, diminished by 2.2% on annual basis and at the end of 2010 they amounted totally to BGN 87 million, which represented 35.5% of the gross premium income realized for the period.

The incurred in 2010 acquisition costs amounted to BGN 39 million, climbing by 20.8% year-on-year. The major part (81.5%) of the total amount of the acquisition costs was formed by the acquisition commissions (amounting to BGN 32 million), which grew by 18.6% y/y. The acquisition costs represented 45.1% of the totally incurred expenses for the period and 16.0% of the premium income realized in the sector.

The administrative expenses amounted to BGN 43 million and, unlike the acquisition costs, went down by 12.3% on annual basis. They represented 49.4% of the totally incurred expenses by the life insurance companies and 17.6% of the premium income in the sector.

A predominant share of the totally incurred expenses were these related to the activity in Life insurance and annuity – 68.9%, Accident – 15.4%, Unit-linked life insurance 5.3%, and Additional insurance – 5.1%.

The total asset amount in the life insurance sector increased by 8.4% on annual basis and at the end of 2010 amounted to BGN 1058 million. The value of investments of life insurance companies at the yearend was BGN 915 million, or they represented 86.4% of the total asset amount in the sector. The change in the value of investments was calculated at 8.3% on annual basis in the past year, the growth rate slowing down in comparison with that registered for 2009. (10.5%) and for 2008. (13.7%). In the end of the year 66% of the investments were with location in the Republic of Bulgaria, 32% in EU Member States and 2% in third countries.

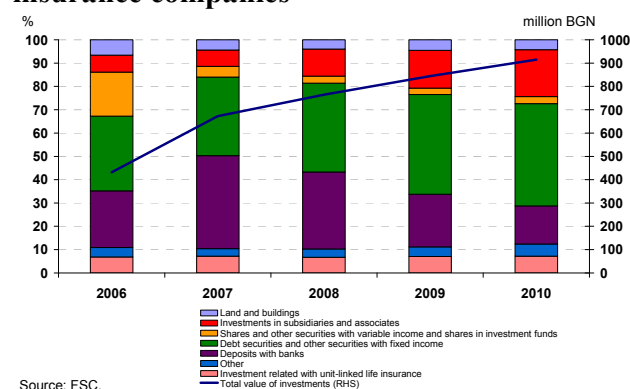
A major share in the total investment portfolio of the life insurance companies at the end of 2010 was occupied by securities issued and guaranteed by the state (32.0%), investments in equities and units of subsidiary, joint and associated undertakings (20.0%), bank deposits (16.4%) and other debt securities and fixed-income securities (11.8%). The government securities (GS) accounted for a 73.0% share of the total amount of the debt securities and the other fixed-income securities. At the year end, 50.4% of the value of investments in GS (without these in favor of policies of Unit-linked life insurance) were such issued by the Government of the Republic of Bulgaria, 10.9% of Poland, 7.3% of Greece, 4.5% of Germany, 4.2% of the Czech Republic, 2.9% of the Netherlands, 2.9% of Russia, 2.7% of Italy, 2.6% of Belgium, 2.0% of Austria, and the other 9.5% were GS issued by Ireland, Slovenia, Slovakia, Hungary, Croatia, Lithuania, France, Spain and Portugal.

Greatest growth on annual basis was registered in the value of the government securities (without these in favor of policies for Unit-linked life insurance) – by 44.3%, or with BGN 90 million, and of the investments in equities and units in subsidiary, joint and associated undertakings – by 34.5%, or with BGN 47 million. At the end of the period, these investments amounted respectively to BGN 292 million and to BGN 183 million.

The bank deposits of the life insurance companies fell by 21.2% (or with BGN 40 million) y/y and at the end of 2010 amounted to BGN 150 million. The value of investments in share and other variable-income securities and the units in investment funds edged up by 21.4% (or with BGN 5 million) in comparison with the previous year.

The value of the investments in favor of policies of Unit-linked life insurance picked up by 10.2% (or with BGN 6 million) year-on-year and reached BGN 66 million at the end of 2010. These investments constituted 7.2% of the total amount of investments in the life insurance sector.

**Figure 64. Investment portfolio structure of life insurance companies**



Source: FSC.

The committed in the life insurance sector equity increased by 0.8% on annual basis and at the end of 2010 it amounted to BGN 451 million. ЛВ.

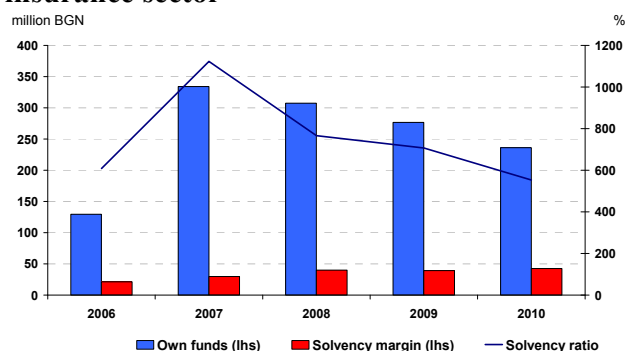
By the Law on amendment and supplement to the IC (prom., SG, iss. 41 in 2010) the amount of the minimum guarantee capital

which the life insurance companies must maintain according to Art. 82, para 1, Item 2 of the IC, was increased from BGN 6400 thousand to BGN 7000 thousand. Eight of the life insurance companies increased their share capital, in order to meet the new requirements.

The total amount of the own funds in the life insurance sector, reduced with the intangible assets amounted to BGN 236 million, while the solvency margin was calculated at BGN 43 million. The solvency margin cover with own funds, less the intangible assets, at the end of 2010 was calculated at 553%, and all companies had sufficient funds with which to guarantee the fulfillment of their long-term liabilities.

In relation to the requirement for cover of the minimum guarantee capital with own funds, only one company failed to satisfy it at the end of 2010, and it had submitted a plan for the raising of additional funds.

**Figure 65. Solvency margin cover in the life insurance sector**



Source: FSC.

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, Reserve on unit-linked life insurance, Bonus and rebate reserve, Other reserves approved by the Deputy Chairperson or formed according his/her prescription.

The gross technical provisions set aside by the life-insurance companies at the end of 2010,

grew by 13.8% y/y and amounted totally to BGN 575 million. Increase was observed in the size of all types of reserves, with the exception of Bonus and rebate reserve and of the Equalization reserve, whose amount remained unchanged in comparison with 2009.

A major share in the gross amount of the technical provisions of life-insurance companies was occupied by the Mathematical reserve, the reserve Capitalized value of pensions and the Reserve on unit-linked life insurance, which amounted respectively to BGN 376 million. (65.4% of the total amount of reserves), BGN 68 million (11.9%) and BGN 56 million (9.8%).

The Mathematical reserve is formed to meet future payments in the long-term life insurances which are of savings nature. The increase of the amount of this reserve year-on-year was slowed down in the last years as a result of the financial crisis and at the end of 2010 its growth was calculated at 11.4%, which was an increase with BGN 38 million.

The Capitalized value of pensions is a mathematical reserve, formed to meet future payments on Pension or annuity insurance. This reserve increased with BGN 20 million, compared to 2009 (a growth of 40.5% on annual basis), against BGN 9 million a year earlier and BGN 12 million at the end of 2008. The Capitalized value of pensions was the reserve, in regard to which the highest growth on annual basis was recorded for the period under review, which was connected with the registered high grown on annual basis in the size of premiums in Pension or annuity insurance.

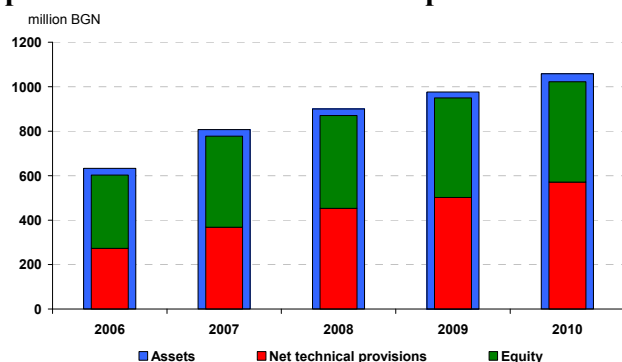
The Reserve on unit-linked life insurance is formed for covering the insurer's liabilities under insurance contracts for which the investment risk is borne by the insured or a third-party beneficiaries. The reserves set aside as of the end of 2010 in this class of insurance climbed by 3.7% on annual basis, or with BGN 2 million, which was less than the growth in the previous year (5.7%, or BGN 3 million) and more than the change by 0.2%, or BGN 0.1 million in 2008.



Another reserve set aside by 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 2010 it amounted to BGN 5 million, climbing by 36.1% on annual basis, or with BGN 1.3 million, against registered increase with BGN 2 million for 2009 and decrease with BGN 1 million for 2008.

During the past year the net technical provisions from reinsurance continued to increase, amounting to BGN 571 million at the yearend.

**Figure 66. 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 Unit-linked life insurance), amounted to BGN 558.5 million at the end of 2010, increasing by 17.9% on annual basis. The assets for cover the Reserves on unit-linked life insurance, in their turn, amounted to BGN 65 million, edging up by 9.6% y/y.

In Member States and in third countries, 36.1% and 3.4% respectively were located of the overall amount of the assets for cover of the technical provisions (without the Reserves on unit-linked life insurance), the share of the located in other Member States assets picking up by 4.2 p. p., and the share of the located in third countries

assets declined by 0.3 p. p. in comparison with 2009.

Greatest share in the structure of the assets for cover of the technical provisions was held by the GS (53.1%), bank deposits following them (11.4%) and securities admitted to trading on regulated securities markets (9.4%).

The asset amount for cover of the Reserves on unit-linked life insurance increased by 9.6% on a year-on-year basis, and at the end of the past year more than a half of them (53.8%, or BGN 35 million) were in other Member States.

The technical result in the life insurance in the end of 2010 was positive and amounted to BGN 15 million, against a technical result of BGN 12 million reported at the end of 2009. The total net financial result, achieved by the non-life insurance companies at the end of 2010 was positive again and amounted to BGN 23 million, against a reported financial result of BGN 24 million at the end of 2009.

The return on assets, calculated as a ratio between the profit (loss) for the respective period and the total asset amount, decreased from 2.5% for 2009 to 2.1% for 2010, but was higher than the return on assets for 2008 r. (0.7%).

The return on equity, calculated as a ratio between the profit (loss) for the reporting period and the equity, also went down from 5.4% for 2009 to 5.0% for 2010, but was bigger than the return on equity in 2008 (1.6 %).

The investment income of the life insurers increased by 18.8% y/y and at the end of 2010 it amounted totally to BGN 75 million, from which BGN 64 million were in the technical section of the income statement, and BGN 11 million – in the non-technical. The expenditures on investments in the sector amounted to BGN 31 million, climbing by 17.5% on annual basis. From them BGN 30 million were in the technical statement, and BGN 1 million in the non-technical statement of the life insurance companies.

In the composition of the total investment income, 34.4%, or BGN 26 million were gains from revaluation of the investments value, and 33.6%, or BGN 25 million were the profits from

investments realization. The gains from revaluation of the investment value grew by 63.1%, compared to 2009, while the profits from realization decreased by 8.7% on annual basis.

The losses from revaluation of the investments value represented 73.9% of the

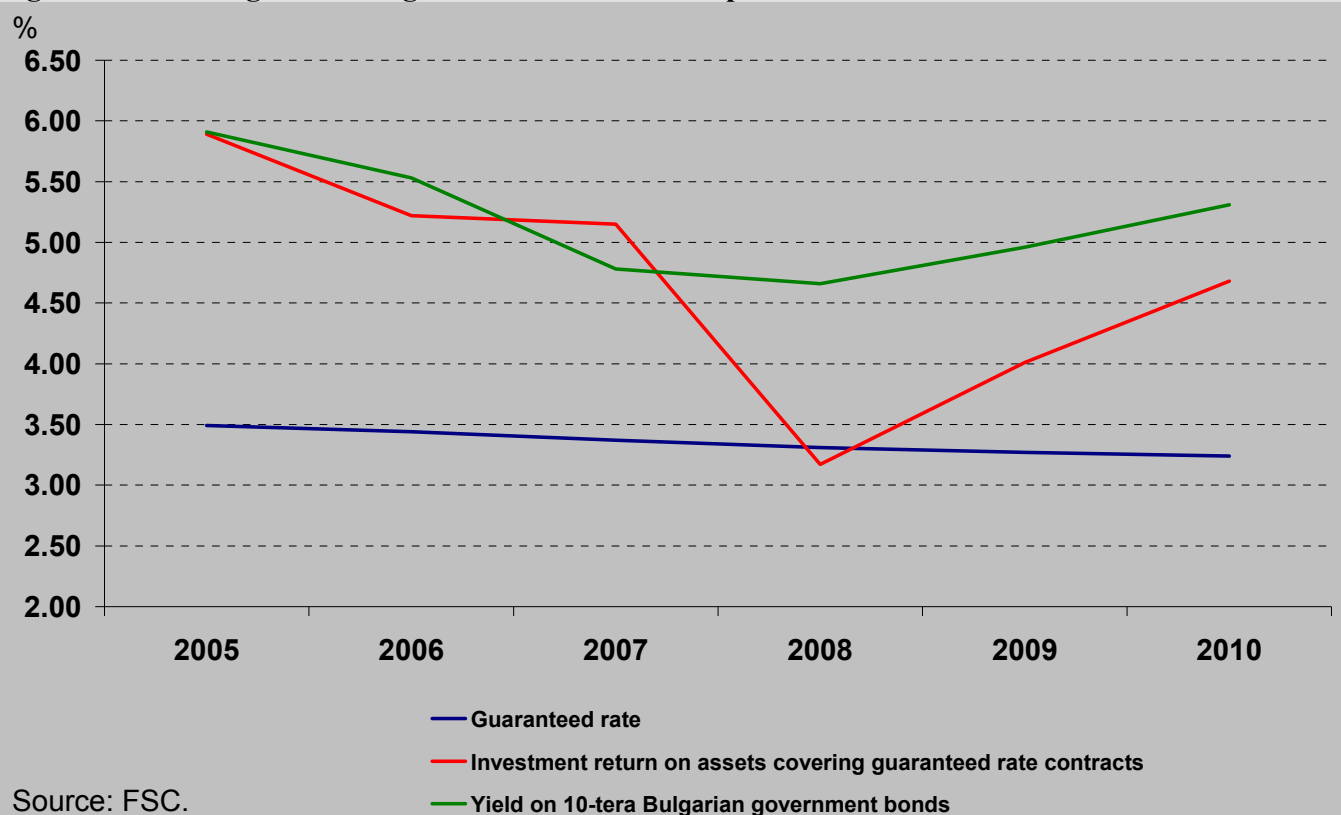
investment expenditures, or BGN 23 million, and the losses from the investments realizations were 24.6%, or BGN 8 million. The first picked up by 30.7% year-on-year, and the losses from realization decreased by 5.3%.

**FOCUS TOPIC: Development of the market of life insurance products with a guaranteed rate of return.**

Due to the long-term nature of the offered savings and investment products, life insurance companies are exposed to a number of market risks. The financial situation of these insurers and their ability to fulfill their long-term liabilities to the insured persons usually are strongly influenced in the conditions of long low interest rates, although the increase in the amount of the invested assets can to a certain extent mitigate this effect. The risk heightens even more when the insurers offer guaranteed minimum rates of return. Attention should be paid to the fact that the level of risk, arising from the guarantee of return, depends on the share of the technical provisions in the guaranteed income portfolios in the total amount of the insurer's technical provisions. If the guaranteed income portfolios represent only a small portion of the overall business, the effect of the low return on investments has to be limited.

The first indication for potential inadequacy of the achieved rate of return towards that guaranteed to the policy holders, is to be compared with the yield of the 10-year GS and with the guaranteed return. In this relation, a study was conducted of the life insurance market regarding the investment return on the assets for cover of the technical provisions under the guaranteed income contracts, the guaranteed rate of return pursuant to them and the additionally distributed return from 2005 to 2010.

**Figure 67. The weighted average rate of return for the period 2005 - 2010**



Notes: The yield on the 10-year Bulgarian GS for the separate years, according data of BNB, was calculated as 60-month moving average, and due to the lack of data for 2001 and data in all months of 2002, 2003, 2004 and 2005, for this period average annual were used in the calculations; The investment return on assets for cover of the technical provisions under the guaranteed income contracts was calculated as a ratio between the net investment income and the amount of assets for cover of the technical provisions at the end of the respective year; the calculation of the weighted average guaranteed rate of return and the weighted average investment return on the assets for covering the technical provisions under the guaranteed income contracts for the separate years was done by weighing the rate of return on the individual products of each of the insurers towards the set aside reserves on them for the relevant period, after which the average values were calculated for the market by years, by weighing towards the total size of the technical provisions of the life insurance companies; Not all life insurance companies operating on our market participated in the study.

The dynamics of the return showed that the highest weighted average for the market return from investment of the assets for cover of technical provisions under the guaranteed income contracts of the life insurance companies was realized for 2005 (5.9%), and the lowest – for 2008 (3.2%), when serious perturbations were observed on the capital markets. After 2008 the return began to increase, although the pre-crisis levels were not achieved yet.

According the study, the weighted average investment return of the life insurance companies was below the yield of the 10-year Bulgarian GS throughout the whole period under review, with the exception only of 2007. In relation to the average guaranteed rate of return under the life insurance contracts, it marked a gradual decline from 3.5% for 2005 to 3.2% for 2010.

The weighted average additionally distributed return for the life insurance market, as well as in the realized rate of return, was highest for 2005 and respectively lowest for 2008. In 2008 and 2009, a part of the life insurers did not distribute additional income above the guaranteed such. As a main reason for that was the serious fall of the capital markets in that period.



From viewpoint of the financial stability of the overall life insurance market, it can be concluded that in the period 2005-2010 the average realized investment return on the assets for covering of the technical provisions under the guaranteed income contracts was higher than the guaranteed such, with the exception only of 2008, where the deviation was minimum and in no way affected the stability of the life insurance market in our country.

### 2.2.3. Reinsurance

In the past year, business of inward reinsurance was pursued by five general insurance companies and one reinsurer. The realized by them premium income during the year amounted to BGN 1419 million, from which BGN 1401 million were written by GP Reinsurance EAD. A major share in the inward reinsurance business was held by Third Party Liability insurance related to the possession and use of motor vehicles (25.0%), followed by insurances Land vehicles, excluding railway rolling stock (20.0%) and Other property damage (19.6%).

The compensations paid to cedents amounted to BGN 722 million, from which BGN 720 million were paid by GP Reinsurance EAD. In the structure of the paid compensations, largest share was occupied by Land vehicles, excluding railway rolling stock (30.4%), Third Party Liability insurance related to the possession and use of motor vehicles (23.5%) and Other property damage (22.2%).

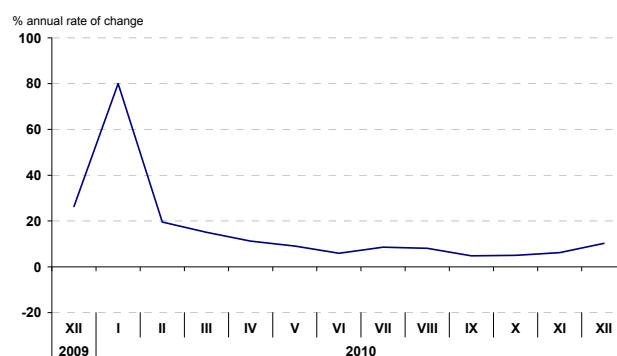
At the end of 2010, the asset amount of GP Reinsurance AD amounted to BGN 1610 million, 77% (BGN 1243 million) from which was the value of investments. In 2010, the company invested predominantly in debt securities and other fixed-income securities, which occupied a share of 68.9% of the company's investment portfolio. The equity of GP Reinsurance EAD at the yearend amounted to BGN 477 million, and the set aside gross technical provisions were BGN 942 million, from which BGN 926 million constituted loss reserve, and BGN 16 million were unearned premium reserve.

At the yearend the technical result of GP Reinsurance EAD was BGN million, and the achieved financial result was BGN 224 million.

### 2.2.4. Supplementary health insurance

The voluntary health insurance companies realized premium income to the amount of BGN 42 million for 2010, whereby a growth of 10.2% on annual basis was recorded. The growth rate of the gross premium income on annual basis, written by months of the past 2010, was highest in the beginning of the year, after which a slowdown was observed.

**Figure 68. Gross premium income of voluntary health insurance**

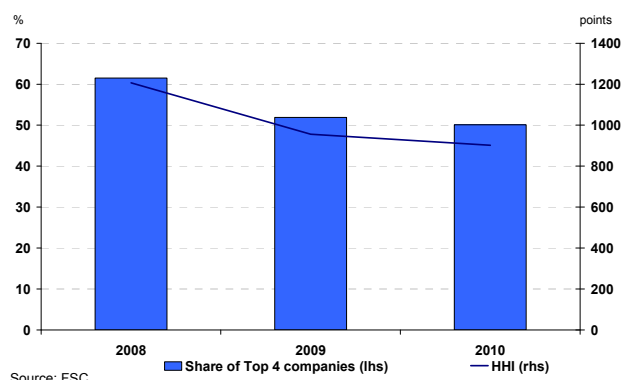


The market share of the four health insurance companies having highest realized premium income<sup>46</sup> for 2010 amounted to 50.1%,

<sup>46</sup> These were Health Insurance Company Bulgaria Zdrave AD, Municipal Health Insurance Fund, Generali Zakrila

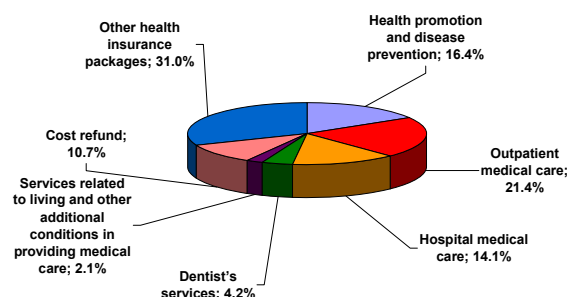
against 51.9% for 2009. Respectively, the HHI Index went down from 956 units at the end of 2009 to 902 units at the end of 2010. This was indicative of the strong competition existing among the participants in the voluntary health insurance market. For comparison, at the end of 2008 the Index value was calculated at 1207 units, whereby the trend was confirmed of the passing of the voluntary health insurance market from a market with moderate competitive environment and concentration to a strongly competitive market.

**Figure 69. Market concentration in voluntary health insurance**



In 2010, activity of voluntary health insurance was carried out by twenty companies, eight of which reported a drop in the premium income, compared to 2009. In the structure of the health insurance companies' portfolio, a predominant share of 31% was held by package Other health insurance packages, followed by packages Outpatient medical care with a share of 21.4% and Health promotion and disease prevention with a share of 16.4%. A positive change was observed in the premium income of all types of packages, highest being the growth of 66.6% in Dentist's services package.

**Figure 70. Portfolio structure of the health insurance companies at the end of 2010**

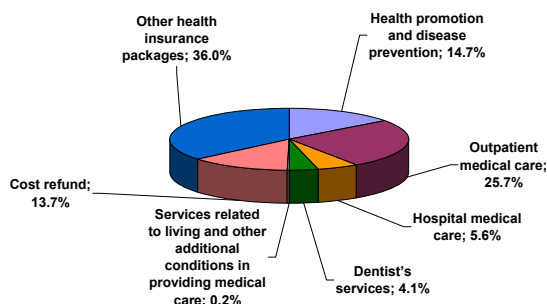


Source: FSC.

The acting in the end of 2010 contracts for voluntary health insurance were 6372, declining compared to the preceding year when their number was 8944. The number of the health insured persons under these contracts increased by 16.5%, their number at end-December 2010 reached 207 thousand persons, against 178 thousand health insured persons a year earlier. The above indicated increase was a result of the bigger number of newly concluded group (corporate) contracts and of the bigger number of insured for packages with fuller coverage.

The amount of the claims paid by the health insurance companies at the end of 2010 was BGN 25 million, against paid BGN 22 million a year earlier, whereby a 13% increase y/y was registered. Compared to the end of 2009, increase in the paid claims was noted in six of the offered seven health insurance packages. Decrease of 3.7% y/y was computed only in package Services related to living and other additional conditions in providing medical care.

**Figure 71. Structure of claims paid by health insurance packages in 2010**



Source: FSC.

In the structure of the paid claims, biggest share was held by package Other health insurance packages (36%), followed by packages Outpatient medical care (25.7%) and Health promotion and disease prevention (14.7%). On a year-on-year basis, the paid claims' growth rate (13%) outstripped that of the premium income (10.2%). In eight of the companies, the reverse dynamics were observed – bigger increase of the premium income compared to the increase of the paid claims y/y. The loss ratio was retained at the 2009 level and calculated at 0.6

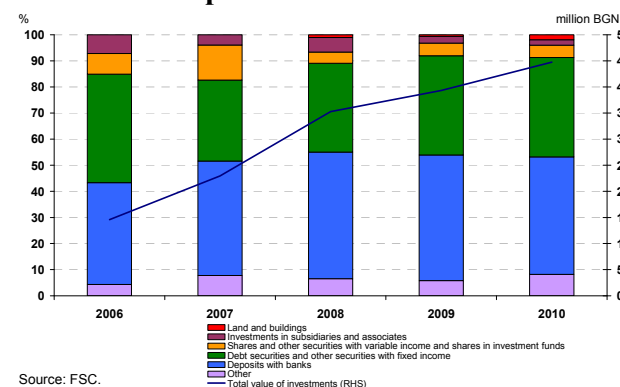
The actually incurred expenses by the health insurance companies amounted to BGN 17 million, whereby a growth of 0.8% on annual basis was registered. These expenses represented 40.3% of the reported premium income.

The acquisition costs held a 34.6% share of the totally incurred expenses for the period, and the administrative – 64%. The acquisition costs constituted 13.9% of the premium income realized in the sector, and the administrative – respectively 25.7%. Greatest share in the totally incurred expenses was occupied by these incurred on package Other health insurance packages (31.6%), and on Outpatient medical care package (19.7%). A decline of the expenses, compared to 31.12.2009, was reported in packages Outpatient medical care (- 14.4%) and Cost refund (- 11.6%). The expense ratio decreased in comparison with 2009 and was calculated at 0.4.

The total asset amount of the health insurance companies grew by 15.5% on annual basis and at the end of 2010 amounted to BGN 78

million. The total amount of the companies' investments was BGN 45 million and picked up by 13.8% towards the end of 2009, accounting for a 57.7% share of the health insurance companies' assets.

**Figure 72. Investment portfolio of the health insurance companies**



Source: FSC.

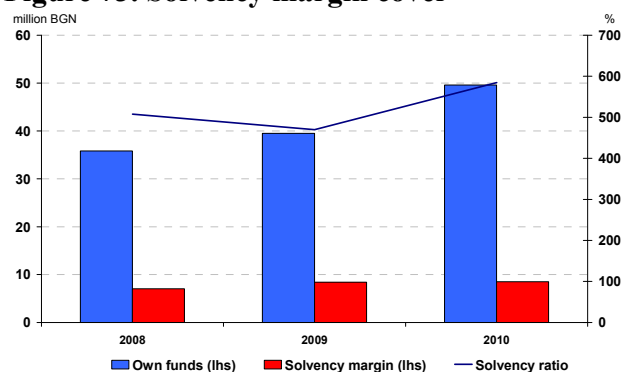
Biggest share in the structure of the aggregated investment portfolio of the health insurance companies was held by bank deposits (45%), followed by debt securities and other fixed-income securities (38.1%). In the last five years, a trend was established of increase in the share of the debt securities and other fixed-income securities. The investments in Land and buildings at the end of 2010 registered an increase and occupied a share of 1.9%, against 0.6% in the end of 2009.

The equity of the health insurance companies surged by 17.2% year-on-year and reached BGN 52 million at the end of 2010. The subscribed share capital went up by 21.3% on annual basis. The reason for that was the increase in the subscribed capital by 6 of the health insurance companies. By way of comparison, in the end of 2009 a 4.8%, drop on annual basis was recorded in this indicator, which was in a consequence of the decrease in the share capital of two of the companies.

In the end of 2010, the solvency margin and the guarantee capital of the health insurance

companies amounted respectively to BGN 8.5 million and BGN 8.1 million. The total amount of the own funds of all companies, reduced with the intangible assets, was BGN 49.6 million and fully covered the solvency margin (584%) and the guarantee capital. All companies had sufficient funds by which to guarantee fulfillment of the commitments undertaken by them.

**Figure 73. Solvency margin cover**



Source: FSC.

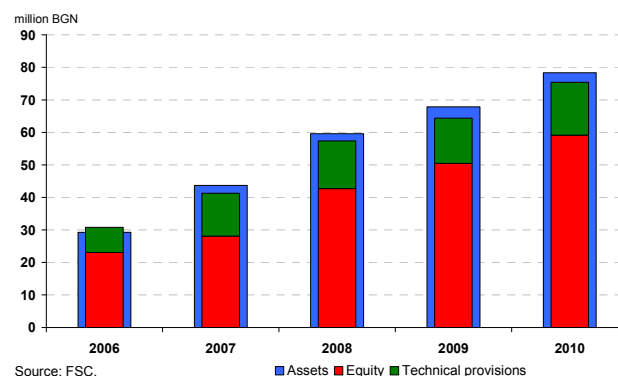
As of the end of 2010, the total sum of the health insurance reserves, set aside by the companies pursuing the business of voluntary health insurance, amounted to BGN 14 million, registering a 16.9% increase, compared to the reserves set aside a year earlier. The unearned premium reserve held the biggest share of 68% from the totally set aside reserves. The loss reserve occupied a 17.8% share. Greatest increase y/y was recorded in the unexpired risk reserve, which went up to BGN 1.5 million, against BGN 690 thousand at the end of 2009 and held a 9.8% share.

The asset amount for cover of the health insurance reserves grew by 15.8% on annual basis in 2010, amounting to BGN 15 million at the end of 2010. In the structure of the assets for cover of the health insurance reserves, a biggest share of 73.8% was held by the government securities and bank deposits with a 19.9% share.

The technical result of voluntary health insurance for 2010 was negative and amounted to

BGN -3 million, against BGN -1 million in 2009. A negative technical result was reported by 17 of the health insurance companies, while their number for 2009 was 13.

**Figure 74. Assets, equity and technical provisions**



Source: FSC.

The voluntary health insurance companies closed the reporting period at a negative financial result of BGN 1 million, after they recorded a positive result of BGN 220 thousand for the previous year. Nine of the companies closed the year at a loss, while for 2009 their number was 10.

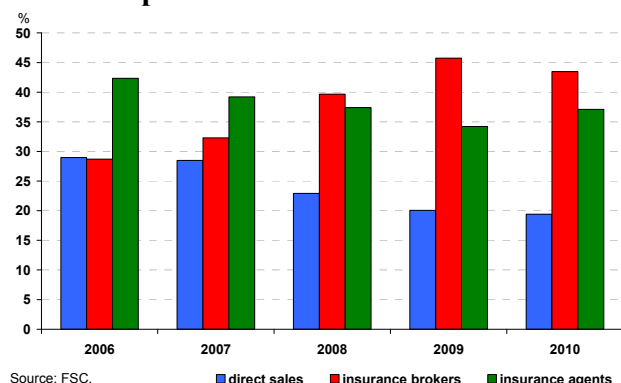
The return on assets fell from 0.3% in 2009 to -1.7% for 2010. The return on equity also went down from 0.5% in 2009 to -2.5% in 2010.

The investment of the health insurance companies diminished by 9.7% on annual basis and amounted to BGN 3.3 million, against BGN 3.7 million reported for 2009. The investment expenses incurred by the voluntary health insurance companies in 2010, amounted to BGN 526 thousand, against BGN 866 thousand at the end of the preceding year 2009.

### 2.2.5. Distribution channels

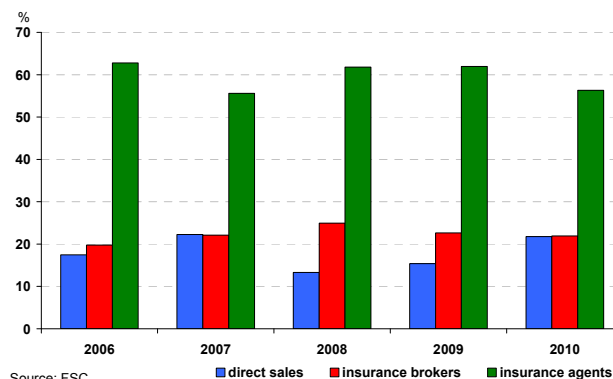
In the last year the share of the direct sales was preserved, while the share of the sales through agents increased at the expense of reduction of the sales through brokers. Nevertheless, a main distribution channel of the general insurance products in 2010 continued to be the insurance brokers.

**Figure 75. Distribution channels of general insurance products**



In life insurance, a main channel for distribution of the life insurance products continued to be the insurance agents, which accounted for a 56% share in the 2010 structure, followed by the insurance brokers and the direct sales, which held a share of 22% each. In the last year diminishing was observed of the share of sales through agents, at the expense of increase of the share of direct sales

**Figure 76. Distribution channels of life insurance products**



The premium income realized through insurance brokers in 2010 was at the amount of BGN 752 million, from which BGN 705 million were in favor of insurers having a seat in Bulgaria, BGN 43 million – in favor of insurers with a seat in another state and BGN 4 million in favor of voluntary health insurance companies.

In comparison with 2009, the premium income realized through the insurance brokers in favor of insurance companies with a legal seat in Bulgaria, climbed by 3.3%, a growth of 3% being recorded in the general insurance, and in the life insurance of 8%.

In the structure of the realized through insurance brokers premium income in favor of general insurance companies, having a seat in Bulgaria, the biggest share was retained by the motor insurances – Land vehicles, excluding railway rolling stock (43.7%) and Third Party liability insurance related to the possession and use of motor vehicles (37.4%), followed by Fire and natural forces (8.3%) and Other property damages (4.3%). In life insurance, the realized through insurance brokers premium income in favor of insurers with a legal seat in the Republic of Bulgaria was mainly in Life insurance and annuity (88.3%).

In 2010, 43% of the realized premium income through insurance brokers in favor of insurers from other states was for such from France, 29% - for insurers from the United Kingdom, and 19% - for insurers from Romania. Greatest share in the structure of the premium income realized through the insurance brokers in favor of insurers from other states in 2010, was

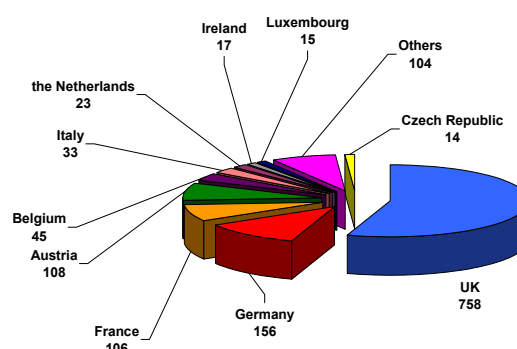
held by insurances Fire and Natural Forces (25.5%), Miscellaneous financial loss (20.7%) and Accident (15.9%).

The revenues from the insurance brokers' commissions were BGN 175 million, from which BGN 169 million – from intermediation for insurers with a seat in Bulgaria, BGN 6 million. – from intermediation for insurers from other states, and BGN 517 thousand – from intermediation for voluntary health insurance. The brokers' commissions to the realized through them premium income in favor of insurers with a seat in Bulgaria, were 23.9% in the general insurance and 24.4% in life insurance.

Activity of reinsurance intermediation in 2010 was carried out by four insurance brokers, the ceded premiums by cedents amounting to BGN 1.3 million, and the realized revenue from commissions was at the amount of BGN 183 thousand.

As of the end of 2010, 1365 insurance intermediaries from EEA Member States had expressed intention to carry out activity of insurance intermediation on the territory of the Republic of Bulgaria under freedom to provide services. Following the territorial distribution of the notifications about the insurers, the geographical map of the notifications of the intermediaries was dominated again by insurance intermediaries having a seat in the United Kingdom, and insurance intermediaries with a seat in Germany ranked second.

**Figure 77. Geographical map of notifications of EU insurance intermediaries**

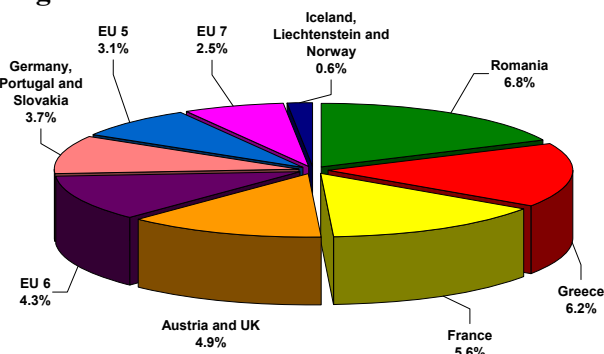


Source: FSC.

Note: The chart shows the territorial distribution of the number of notifications received from the relevant EU Member State. 'Others' include: Spain (14 notifications), Sweden (14), Czech Republic (14), Greece (11), Hungary (10), Liechtenstein (8), Slovakia (7), Lithuania (6), Romania (3), Denmark (3), Malta (3), Slovenia (3), Poland (3), Gibraltar (the United Kingdom) (2), Cyprus (2) and Latvia (1).

In regard to the Bulgarian insurance brokers, in 2010 the Commission forwarded 9 notifications for pursuance of insurance intermediation, their total number becoming 13. According the geographical distribution, Romania, Greece and France were with largest share of over 5% each in the territorial distribution of the notifications, which reflected the preferences of the Bulgarian insurance brokers for entering these markets.

**Figure 78. Geographical map of notifications of Bulgarian insurance brokers**



Source: FSC.

Note: The chart shows the percent ratio among the states to which notifications were sent on the FSC's side. EU 6 is a group of 6 Member States (the Netherlands, Belgium, the Czech Republic, Denmark, Italy and Poland), each holding a 4.3% share, EU 5 – respectively 5 Member States (Spain, Lithuania, Malta, Cyprus and Hungary) with a 3.1% share each, and EU 7 is a group of 7 Member States (Ireland, Estonia, Latvia, Luxembourg, Slovenia, Finland and Sweden) with a share of 2.5% each.



### **2.2.6. Guarantee Fund (GF)**

In 2010, the GF's revenues formed by contributions on the obligatory 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 30 million, against BGN 31 million at the end of the same period of the preceding year. The revenues from contributions held the biggest share in the structure of the GD's revenues and were at the amount of BGN 23 million, which reflected a 1.8% drop, compared to the revenues from contributions reported for the previous year.

The GF's expenditures were formed by payment of compensations to affected persons, administrative and other expenses related to its activity. The expenditures for 2010 amounted to BGN 13 million, against BGN 11 million in 2009. From them these for compensations amounted to BGN 6.9 million and marked a 28.8% growth on annual basis. The Guarantee Fund closed year 2010 at a positive balance of BGN 11.4 million, against BGN 16 million reported in 2009.

The GF's resources at 31 December 2010 amounted to BGN 78 million. Reduced with the amount of the loss reserve at the amount of BGN 17 million, they came to BGN 61 million. The amount of available resources complied with the requirements under Art. 287, para 1 of the IC, according which their minimum amount was determined to be BGN 3 million.

The Fund's resources were invested in accordance with a resolution of the Management Board, in compliance with the procedure for investment of the insurers' technical provisions provided in the IC and pursuant the general investment principles adopted by the Board of the Fund. The total sum of the invested resources amounted to BGN 76 million, of which bank deposits held the biggest share (63.5%), followed by investments in GS (18.3%) and corporate bonds (12.8%).

### **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 established 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.

The revenues of the Security Fund for the period from 1 January to 31 December 2010 amounted to BGN 6 million, including BGN 4 million contributions by general insurance companies, BGN 1.5 million contributions by life insurance companies and BGN 494 thousand income from invested funds.

In 2010, from the Security Fund resources, guaranteed insurance receivables were paid to consumers of insurance services at the total amount of BGN 106 thousand. The resources of the Security Fund 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 2010 they amounted to BGN 13.6 million.

## 2.3. Social insurance market

The supplementary pension insurance is an integral part of the pension system in Bulgaria, it is built on the fully funded principle and is a form of a long-term target saving of resources for pensions in supplementary pension insurance funds (SPIFs). It provides a possibility to the insured persons (3 882 833 as of the end of 2010) to receive, provided the statutorily determined conditions exist, along with the pension from the state social security also an additional pension, raised with the efforts of the person, of his employers and other securers during the time when such person has actively extended labor. The pension insurance companies (PICs) manage the assets of the supplementary pension insurance funds (SPIFs), investing them in defined by law instruments (financial instruments and investment properties) while complying with the quantitative limitations for each type of instrument, with the purpose of realization of income and increase of the funds' assets in a long-term plan.

The trend of increase in 2009 of the SPIF's assets, which correspond with the liabilities to the insured persons, was preserved in 2010 as well, and at the yearend the net assets amounted to BGN 3987 million.

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..

In 2010, a change occurred in the number of the participants on the supplementary pension insurance market. On the ground of an authorization given by FSC in 2009, in the beginning of 2010 transformation by merger took place of PIC Lukoil Garant-Bulgaria PLC in PIC CCB-Sila PLC, accompanied with merger of the SPIFs, managed by PIC Lukoil Garant-Bulgaria PLC in the respective SPIFs, managed by PIC CCB-Sila PLC. As a result of it, the transforming company and the managed by it SPIFs terminated their activity, and the pension license of Lukoil Garant-Bulgaria PLC and the authorizations for the managed by it three pension funds were officially withdrawn. In view of that, the number of the pension insurance companies in 2010 was reduced from 10 to 9, and the total number of the pension funds - from 32 to 29: 9 universal, 9 occupational, 9 voluntary and 2 voluntary pension funds with occupational schemes, from which only one carried out activity.

### 2.3.1 Pension insurance companies

In the beginning of 2010, the procedure of transformation of PIC Lukoil Garant-Bulgaria PLC was concluded. A merger was realized of the company and the managed by it pension funds in the conditions of universal succession in PIC CCB-Sila PLC and the respective pension funds managed by the latter. This resulted in joining of the shareholder composition of the two companies. Big shareholders, owning directly more than 90 per cent in the capital of one pension insurance company were present in three of the licensed nine companies. In eight of the companies the control package of 50 per cent and

more of its shares was held by one person, one of them being a single-member joint-stock company.

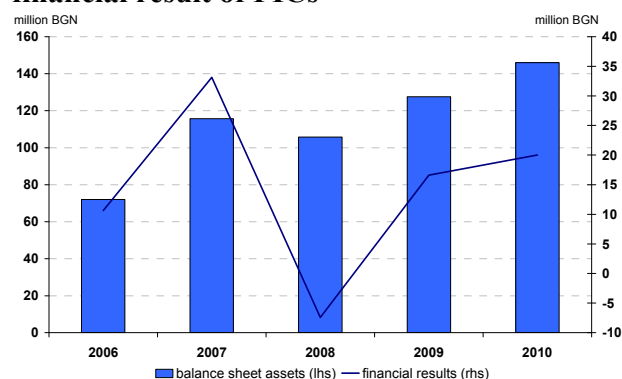
Four of the operating on the pension insurance market companies were part of international financial groups – ING PIC PLC (ING GROEP N.V.), PIC Allianz Bulgaria PLC (ALLIANZ SE), PIC Doverie PLC (Wienna Insurance Group AG Wiener Versicherung Gruppe) and PIC DSK – Rodina AD (OTP Group)<sup>47</sup>.

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<sup>47</sup> Annex II.2.3.1B provides more information about the sharholding structure of the pension insurance companies as of 31.12.2010.



**Figure 79. Balance sheet assets and net financial result of PICs**



Source: FSC.

After the registered in 2009 growth of the PIC balance sheet assets, their value in 2010 continued the growth trend, reaching BGN 146 million at the yearend. This represented an increase by 14%, compared to the previous year. Similar dynamics was also observed in the PIC total net financial result, which in 2010 was BGN 20 million and edged up with BGN 3 million, or by 19%, in comparison with the total net financial result in 2009.

In 2010, too, PICs continued to maintain a relatively high level of capital adequacy. The average value of the capital adequacy for 2010 grew by 37.6 p. p. and reached a level of 217.8% at the yearend, which exceeded considerably the statutorily set size of not less than 50 per cent of the minimum capital. The indicator, by separate companies, varied between 50.8% and 382.3%, except for one company, the capital adequacy of which was 515.7%. The increase in the value of capital adequacy was as a result of the recorded during the year higher profits by the larger part of the companies.

**Table 37. Capital adequacy and liquidity of PICs and SPIFs**

	2009	2010
Capital adequacy of PIC (%)	180.2	217.8
Liquidity of PIC (coef.)	32.4	16.7
Liquidity of VPF (coef.)	176.6	93.5
Liquidity of VPFOS (coef.)	146.8	325.6
Liquidity of OPF (coef.)	234.9	197.3
Liquidity of UPF (coef.)	207.9	184.3

Note: 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

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 reserve were invested, was made in consistence with the legal requirements.

The extent of the PIC registered capital coverage moved within a wide range between 51.0% and 382.8%. The average value of the indicator for 2010 was 140.6%, compared to 131.6% in 2009, which was a result of increase in the reported profit, or decrease in the reported losses in 2010, compared to the previous year. In six of the pension companies, a pick-up in the indicator's value was noted, compared to the previous year.

The return on equity increased, and the average value of the indicator in 2010 was 11.4%, against 7.3% for 2009. In 2010, three PICs registered loss and their rate of return was negative, and the other six PICs reported profit and respectively, the return on their equity was with a positive value. The range of return on equity by individual PICs was wide, its lowest value being -7.4%, and the highest was 41.6%.

**Table 38. Analysis of PIC equity**

	2009	2010
Coverage of registered capital	131.6	140.6
Return on equity	7.3	11.4

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  
Source: FSC.

The extent of asset coverage of the managed SPIFs for most of the companies ranged between 2.7% and 8.3%, with the exception of one company, the assets of which covered 76.7% of the managed funds' assets. The indicator's average value for 2010 recorded a decrease by 13 p. p., dropping to 12.5%, compared to 25.5% for 2009. This was observed in eight of nine companies, where the decline was most substantial in one PIC (with 130.0 p. p.). The SPIFs assets increased at higher rates in comparison with the increase in the companies' assets.

Owing to the positive current financial result of the activity in 2010, six companies had positive return on the assets, and for three the return on assets was negative as a result of the reported annual loss. The average value of the indicator at the end of 2010 was 7.5%, compared to -4.1% for 2009. The observed improvement of the rate of return was as a result of the reported profits or reduced losses from the preceding year. For the separate companies the indicator return on PIC assets was within the range between -5.9% and 31.2%.

**Table 39. Analysis of PIC assets**

	2009	2010
Coverage of assets of SPIFs	25.5	12.5
Return on PIC assets	4.1	7.5
Growth of PIC assets	15.6	20.3

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  
Source: FSC.

In the past year, all PICs had a positive value of the indicator asset growth, with the

exception of one PIC. This had an effect on the increase of the indicator's average value, which reached 20.3%, against 15.6% for 2009. For the individual companies the indicator asset growth was in the range between -2.9% and 33.1%, with the exception of one company which reported a 70.0% asset growth.

**Table 40. Analysis of PIC income and expenses**

	2009	2010
Efficiency of PIC activity	115.6	118.0

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  
Source: FSC.

Three companies reported a current operating loss in 2010. The average value of the indicator efficiency of the PIC activity in the past years, was 118.0%, an increase of 2.4 p. p. being observed towards 2009. These dynamics was owing to the enhanced efficiency of the activity in six of the companies, as a result of the higher growth rate of the income, compared to the increase in the expenses, or decrease in the expenses. The indicator's value varied in the range between 70.8% and 191.6%.

Compared to 2009, the revenues of PICs from fees and deductions per one participant in the pension funds went up. Their average value for 2010 amounted to BGN 17.0, against BGN 15.8 for the preceding year. The income of the companies from fees and deductions in 2010 rose at faster rate than the increase of the participants in the managed SPIFs, due to which the indicator climbed up. The indicator's value for the separate companies was in the range between BGN 10 and 22.

The PICs operating expenses per one participant in the managed pension funds decreased with BGN 4.1 in 2010, amounting to BGN 21.9 at the yearend. In regard to the individual companies, the indicator's value fell for four companies (due to the higher rate of increase of the participants in SPIFs, compared with the increase of the expenses or decrease of the

expenses), and for the other five companies the indicator increased.

**Table 41. Fees, deductions and operating expenses per one participant in SPICs**

	2009	2010
Fees and deductions per insured person in SPIFs	15.8	17.0
Expenses from activity per insured person in SPIFs	26.0	21.9

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.

The revenues from fees and deductions per BGN 100 of the Fund's assets at the end of 2010 were between BGN 1.7 and 2.6, the average value of the indicator amounting to BGN 2, compared to 2.2 in 2009. The indicator's value for all companies decreased, due to increase of the assets at rate, which surpassed the growth rate of the income from fees and deductions, an insignificant rise was noted only in one PIC.

The expenses from the activity per BGN 100 of the Funds' assets at the end of 2010 varied between BGN 1 and 3.2, with the exception of one company, which reported BGN 12.5 activity expenses per BGN 100 assets of SPIFs. The average value of the indicator marked a considerable reduction, amounting to BGN 3.2 at the end of 2010, against BGN 4.6 in 2009. The indicator's value for all companies decreased owing to the high rate of increase of the SPIFs assets, compared to the rate of increase or reduction of the PICs expenses.

**Table 42. Fees, deductions and expenses per BGN 100 of SPIFs assets**

	2009	2010
Fees and deductions per BGN 100 of the SPIF assets	2.2	2.0
Expenses from activity per BGN 100 of SPIF assets	4.6	3.2

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 2010, 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 management of the supplementary mandatory pension insurance funds (SMPIFs), due to the obligatory nature of the pension insurance therein. Nevertheless 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% from the transferred contributions) dropped off, this did not lead to reduction of the fees for supplementary mandatory pension insurance in 2010, as well.

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 discretionary distribution) did not yield a result. A legislative amendment is needed for reduction of the fees for SMPIFs with a view to the accumulation of bigger resources on the accounts of the insured persons, which is especially important for the first pensioners in 2015.

The fees deducted in the SVPIFs were lower than the statutorily set maximum sizes. With the voluntary pension funds (VPFs) the average rate of the deductions from the insurance contributions amounted to 3.4%, compared with 3.7% in 2009, and with the voluntary pension funds with occupational schemes (VPF-OS) – 4.5%, with a statutorily set fee of up to 7%. The average rate of the fees from insurance contributions in SPIFs in 2010 declined by 0.3 p. p.

**Table 43. Investment fee and insurance contributions fee**

	2009	2010
Charged investment fee of VPF	8.5	7.6
Charged investment fee of VPFOS	9.9	9.7
Average insurance contributions fee of VPF	3.7	3.4
Average insurance contributions fee of VPFOS	4.5	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.

The investment fee in VPFs amounted to 7.6% of the realized income, with a statutorily set fee of up to 10%, the lower rate of the fee being a result mainly of its reduced size with three of the Funds. The investment fee in VPS-OS amounted to 9.7%, and the difference to 10% was as a result of rounding off of the initial values for calculation of the indicator.

### 2.3.2 Supplementary pension insurance funds

During the year under review, the amount of the SPIFs balance sheet assets increased, which was due mainly to the revenues from insurance contributions and to the realized positive rate of return from investing the accumulated resources. In 2010, the balance sheet assets of SPIFs increased in total by 25.9% year-on-year, while in 2009 the balance sheet assets of SPIFs grew by 37.8%. The rate of change in the assets was different according to types of funds, the increase with the universal pension funds (UPF) being biggest (33.1%), followed by the occupational pension funds (OPF) (14.6%). Smallest growth was observed in the voluntary pension funds, where the increase was by 6.0%. The increase in the assets of the only carrying out activity voluntary pension fund with occupational schemes was most significant (66.0%), an influence for which was exerted by the „low base effect”, as it started its activity in 2008. The following table compares the asset growth of UPF in 2009 and 2010.

**Table 44. Growth of SPIFs assets**

	2009	2010
UPF	50.8	33.1
OPF	23.2	14.6
VPF	9.5	6.0
VPFOS	280.4	66.0

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.

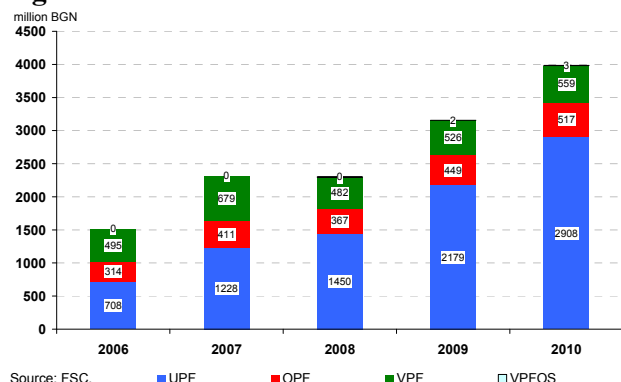
Source: FSC.

The market share of the separate companies on the basis of the amount of the managed assets of the pension funds did not change substantially in the past year. The pension insurance company, which had biggest market share, occupied 33.2% in regard to the managed balance sheet assets, and that with lowest market shares, occupied 0.2% of the managed balance sheet assets.

In the past year, the changes in the structure of the balance sheet assets by types of SPIFs continued. As a result of the highest rates of increase in the balance sheet assets of UPF, the share of this type of funds in the total balance sheet assets of SPIFs in comparison with 2009, extended by nearly 4 p. p., at the expense of the shares of the VPFs and the OPFs. At the end of 2010, the balance sheet assets of the universal pension funds held greatest share (72.9%), followed by the voluntary (14.0%), occupational (13.0%) and the voluntary pension fund with occupational schemes (VPF-OS) (0.1%).

The trends observed in the balance sheet assets were also registered in the net assets. In 2010, the net assets of the SPIFs picked up by 26.3% on annual basis, while in 2009 an increase by 37.3% was recorded. The rate of change in the net assets differed by types of funds, being most significant with VPF-OS (69.9%) because of their low absolute value in 2009 (BGN 1766 thousand). Following the trend of increase in the net assets of SPIFs in 2009, in the past year a growth was again observed, respectively for UPF – by 33.5%, for OPF – by 15.0%, and VPF – by a 6.2% growth of the net assets. In terms of structure, the greatest relative share was held by UPFs (72.9%), followed by VPFs (14.0%), OPFs (13.0%) and VPF-OS (0.1%).

**Figure 80. Net assets of SPIFs**



The average amount of the managed assets per one participant for 2010 in UPFs was BGN 810.9, compared to BGN 648.8 in 2009, in OPF BGN 1798.0 for 2010, compared to BGN 1735.6 in 2009, and in VPFs BGN 914.0 for 2010, compared to BGN 823.5 in 2009. In the mandatory pension insurance funds, an increase was noted in the managed assets per one participant in SPIFs, the growth of the balance sheet assets outstripping the growth in the number of participants.

In the voluntary pension insurance funds a rise was observed of the managed assets per one

participant, a growth of the assets being recorded, while the growth in the participants was negative. In regard to the only fund, carrying out activity of voluntary pension insurance with occupational schemes, the managed assets per one participant increased from BGN 371.4 in 2009 to BGN 600.9 in 2010. Different fluctuations from the average levels were noted by companies – in UPFs, the managed assets per one participant were between BGN 388.2 and BGN 1081.0, in OPF – between BGN 427.0 and BGN 2627.3, and in VPF – between BGN 484.6 and BGN 1777.1. The indicator's average value by the separate PICs were in the range between BGN 561.8 and BGN 1600.6.

**Table 45. Managed assets per one participant in SPIFs**

	2009	2010
UPF	648.8	810.9
OPF	1735.6	1798.0
VPF	823.5	914.0
VPFOS	371.4	600.9

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.

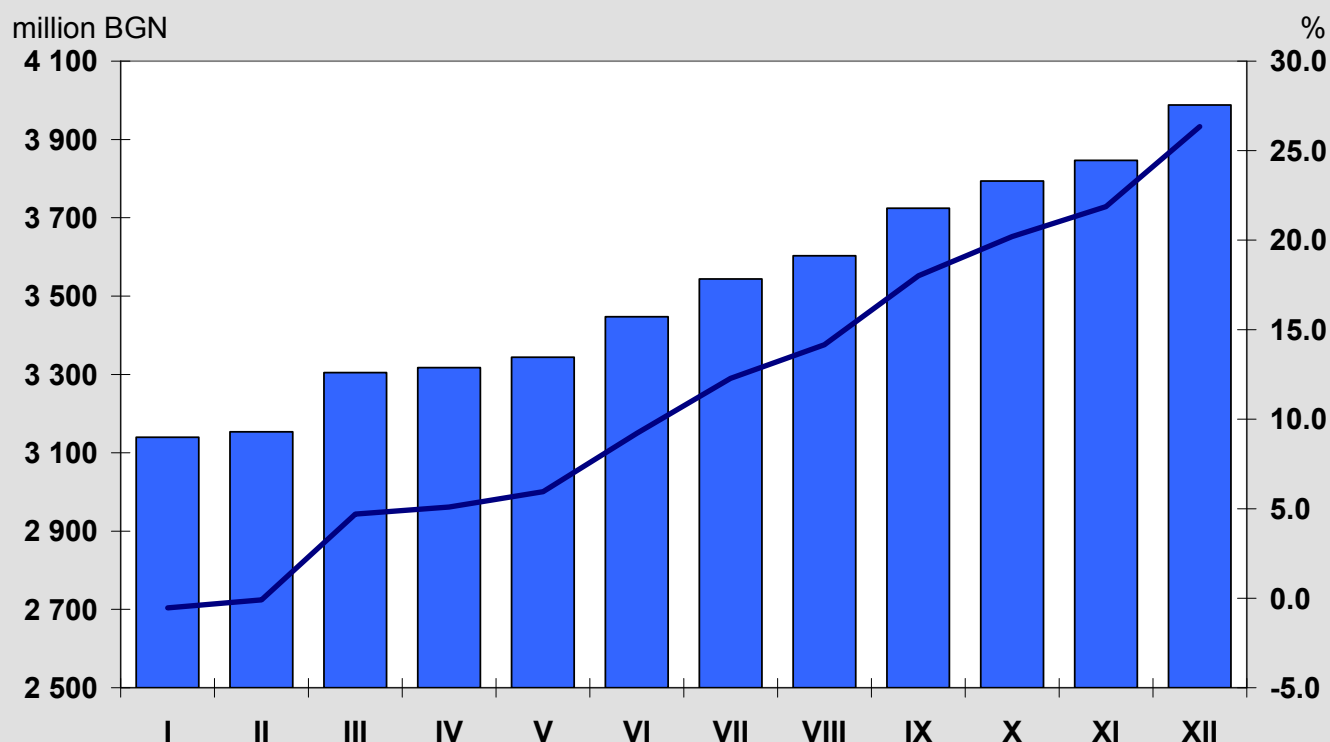
Source: FSC.

### FOCUS TOPIC: Dynamics of the net assets of the supplementary pension insurance funds in 2010

The net asset value of the supplementary pension insurance funds is determined by deducting the value of the short-term liabilities from the gross asset value. The net assets represent the total value of the Funds' resources, bearing investment income, and simultaneously the total value of the liabilities to the insured persons. Due to it, their dynamics is a key indicator of the state of the supplementary pension insurance system.

At the end of 2010, the net assets of the supplementary pension insurance funds were to the amount of BGN 3987 million. The indicator's value for the first two months of 2010 were lower than these recorded at the end of 2009, as during the period no insurance contributions were transferred by the National Revenue Agency (NRA) in UPFs and OPFs. A negative effect on the net assets in the first two months of 2010 was also exerted by the achieved negative result from investing the resources of the supplementary pension insurance fund in January. In the next months to the end of 2010, the reduction was compensated and the net asset value showed smooth growth in the indicator (Figure 81). In comparison with the previous year, the pension funds' net asset value increased with BGN 831 million, or by 26.3%.

**Figure 81. Dynamics of the SPIFs net assets in 2010**



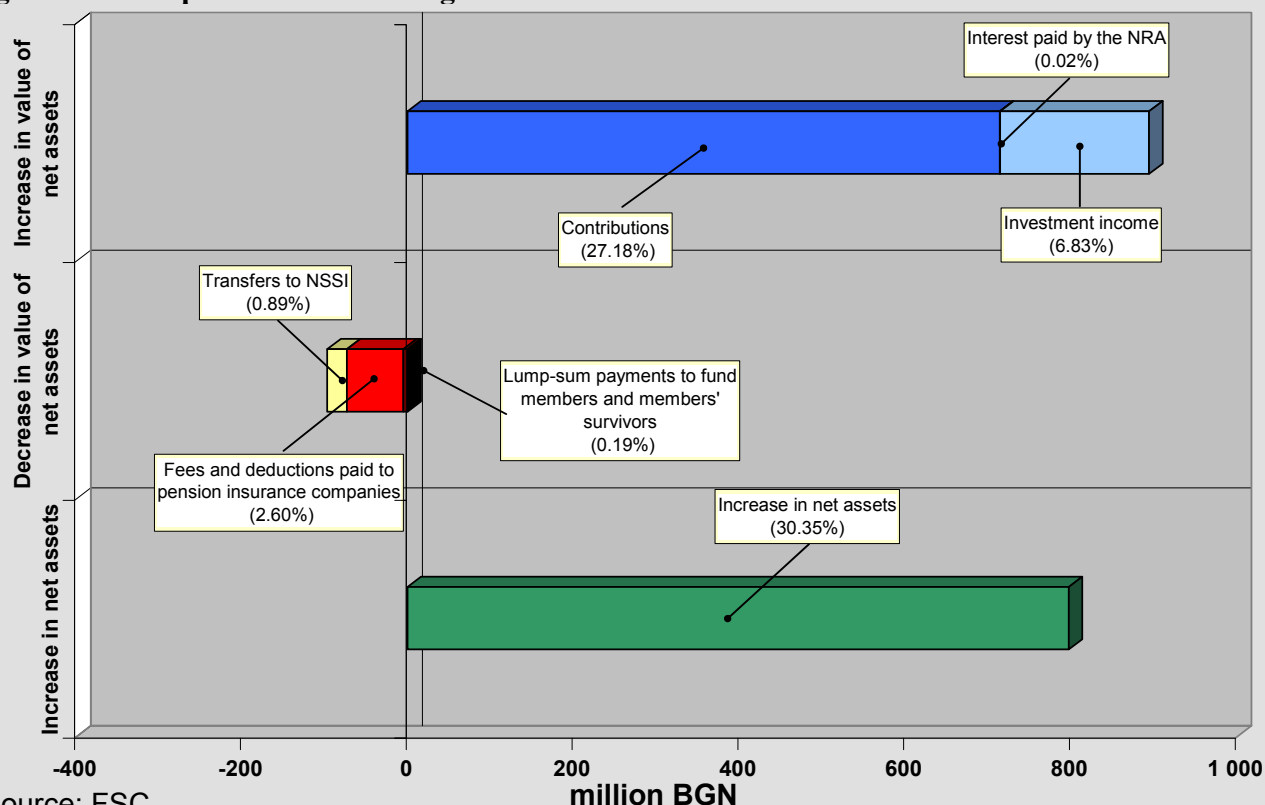
Source: FSC. ■ Net assets (lhs) — Growth rate over the same month of the prev. year

The pension funds are two main groups, according to the nature of participation of the insured in them persons – supplementary mandatory pension insurance funds and supplementary voluntary pension insurance funds – and they respectively form II<sup>nd</sup> and III<sup>rd</sup> pillar of the pension insurance system in Bulgaria.

At the end of 2010, the net assets of the supplementary mandatory pension insurance funds (SMPIFs) were to the amount of BGN 3425.5 million. In comparison with the previous year the SMPIFs net assets increased with BGN 797.5 million, or 30.3%.

The two main components of the increase in the net asset value were the proceeds from insurance contributions and the achieved positive rate of return from investing the SMPIFs resources, whose values for the past year were, respectively BGN 714.3 million and BGN 179.7 million (Figure 82). The sum of the received in SMPIFs insurance contributions and the investment income formed 99.95% of the growth in the net asset value in 2010, and the difference to hundred was due to proceeds in the form of the transferred under Art. 159, para 6 of the SIC interest by the NRA and other increases. On the other hand, the decrease in the net asset value was a result mainly of the charged deductions from the insurance contributions, investment fees and other fees. The total amount of the charged in 2010 fees and deductions in favor of the pension insurance companies amounted to BGN 68.3 million.

**Figure 82. Components of the change in the SMPIFs net assets in 2010**

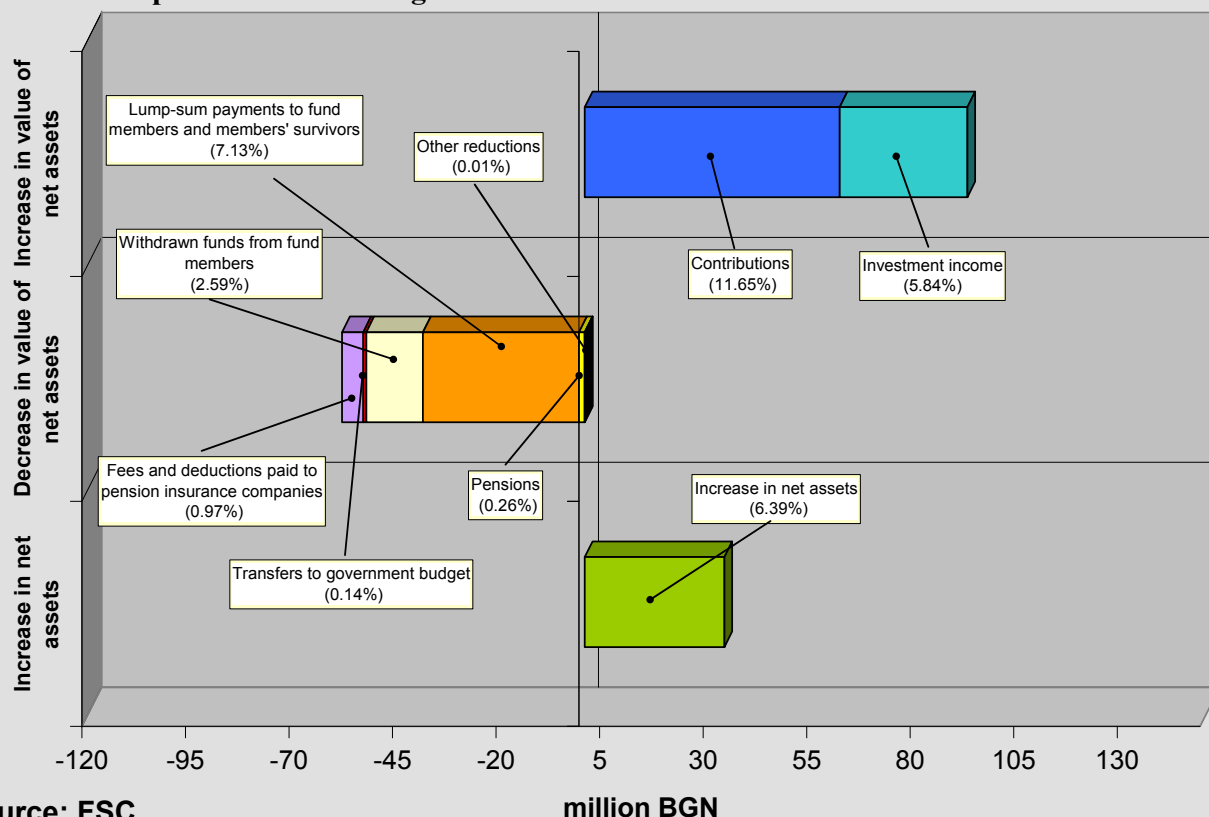


Source: FSC

At the end of 2010, the net assets of the supplementary voluntary pension insurance funds (SVPIFs) were to the amount of BGN 561.9 million. The total amount of the SVPIFs net assets marked a growth with BGN 33.7 million, or by 6.4%, compared to the end of 2009.

The components of the increase in the SVPIFs net assets in 2010 were the proceeds from insurance contributions and the positive rate of return from investing the pension funds' resources, whose values were respectively BGN 61.5 million and BGN 30.8 million. (Figure 83). The decrease in the net asset value for the same period was due to the funds paid to insured persons and pensioners (BGN 36.1 million), the withdrawn funds by the insured persons (BGN 13.7 million), the charged fees and deductions in favor of the pension insurance companies (BGN 5.2 million), pensions (BGN 1.4 million) and others (BGN 0.03 million).

**Figure 83. Components of the change in the SVPIFs net assets in 2010**



Source: FSC

The gross income from insurance contributions in the SPIFs in 2010 were increased by 1.4% in comparison with 2009. At the same time, however, there was a slowdown in the growth rates of this indicator in comparison with the preceding years. The reasons for this trend were related mainly to the consequences of the economic crisis, which led to reduction of the employment and the incomes, on the basis of which the insurance contributions were made.

The achieved as effect of the financial crisis negative rate of return of SPIFs in 2008 had also a negative impact, which led to decrease in the interest to the supplementary pension insurance. In 2010, only the gross proceeds from insurance contributions in the UPFs retained their positive growth, climbing by 3.1%. This type of funds, because of their large percent share, had a determining influence for the reported growth in the indicator for the pension insurance sector as a whole. The gross proceeds in the other three types of funds diminished, where for the VPFs in 2009

they shrank by 35.6%, and in 2010 – by further 9.7%. The same dynamics were observed in the OPFs, whose gross proceeds registered a 2.7% drop in 2009 and a decline of 2.4% in the past year.

**Table 46. Gross proceeds from insurance contributions**

	2006	2007	2008	2009	2010
UPF	236.8	410.6	549.8	620.5	639.8
OPF	52.1	64.1	78.5	76.3	74.5
VPF	103.3	154.6	103.6	66.8	60.3
VPFOS	-	-	0.5	1.3	1.2
Total	392.3	629.3	732.4	764.9	775.8

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

The credited and paid amounts in 2010 decreased by 1.6% in total for all SPIFs. The major contribution to the dynamics of the credited and paid amounts belonged to the sums paid by the voluntary pension funds, whose share in the total amount was 95.6% 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 2010 (0.07) it remained on the 2009 levels (0.08), which were characteristic for 2007 as well – the year before the financial crisis. 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 47. Amounts credited and paid**

	2006	2007	2008	2009	2010
UPF	0.2	0.5	0.7	1.1	2.0
OPF	1.0	1.5	1.8	1.9	3.0
VPF	50.9	49.5	126.1	55.6	52.7
VPFOS	-	-	-	0.0	0.1
Total	52.2	51.5	128.6	58.6	57.7

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

Source: FSC.

The rate of return of the managed assets of the four types of SPIFs for 2010 was with a positive value, owing to the registered positive income from investing the resources in all funds. The indicator’s value for 2010 in the separate PICs, managing these funds, were within the range between 0.05 and 0.08. The indicator’s average value in 2010 for UPFs was 0.06, against 0.09 in 2009, for OPF it was 0.06, against 0.08 in 2009 and for the VPFs it was 0.06, against 0.07 in 2009.

**Table 48. Rate of return of the managed assets**

	2009	2010
UPF	0.09	0.06
OPF	0.08	0.06
VPF	0.07	0.06
VPFOS	0.08	0.05

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 3.1%, even though at slower rates in comparison with 2009, when the growth was by 3.3%. Most substantial as an absolute value and as a percent ratio was the

increase of the insured persons in the universal pension funds, who were by 3.8% more, compared to 2009. In the occupational funds the number of the insured persons in 2010 increased by 3.2%.

In the third pillar of the pension insurance system (and in particular in the supplementary voluntary pension insurance fund, which are its main part) a decrease of the participants was noted by 0.1% compared to 2009, which could be considered as effect of the realized in 2008 negative rate of return as a result of the financial crisis. The company with largest market share in regard to the number of insured persons, retained its position with 32.6%, and the company with the smallest market share occupied 0.4% of the market. The trend of gradual decrease of the market share of the companies, managing pension funds with biggest number of insured persons was preserved.

**Table 49. Growth in the number of participants**

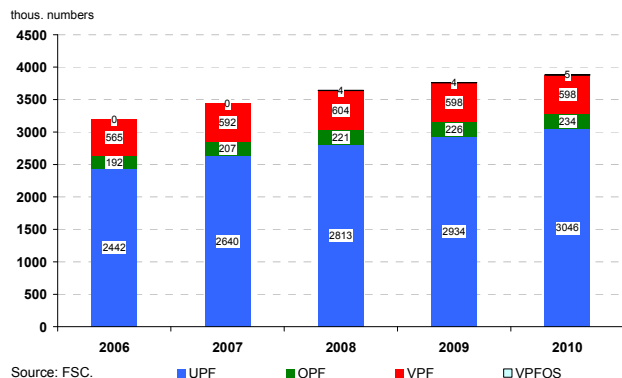
	2009	2010
UPF	4.3	3.8
OPF	2.6	3.2
VPF	-1.0	-0.1
VPFOS	12.0	2.6

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.

With regard to the structure of distribution of the insured persons among the supplementary pension insurance funds, any substantial changes compared with the previous year were not observed. The greatest share of the insured persons was concentrated in the universal pension funds (78.4%). At the end of 2010, the persons insured in the voluntary and occupational pension funds held, respectively a share of 15.4% and 6.0% in the structure of the insured persons’ distribution. The share of the insured in the voluntary pension funds with occupational schemes remained smallest – only 0.1%.

**Figure 84. 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 106.9% in 2010 year-on-year and totaled over BGN 182.9 million. The transferred amounts in the VPFs remained lowest in absolute value, but in 2010 they recorded biggest dynamics and increased over 10 times in comparison with the transferred amounts in 2009. In the UPFs, the transferred amounts grew by 103.4%, compared to 2009, and in the OPFs the transferred amounts were by 53.7% more than the previous year.

**Table 50. Transferred funds from individual accounts**

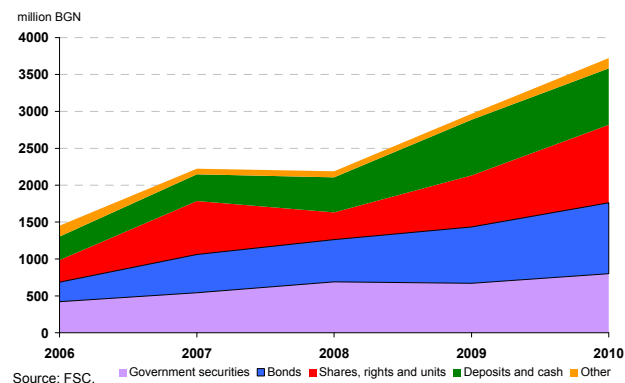
	2006	2007	2008	2009	2010
UPF	14.1	33.6	38.6	66.7	135.7
OPF	8.6	22.1	16.1	20.1	30.9
VPF	1.7	3.1	3.4	1.6	16.3
Total	24.4	58.8	58.1	88.4	182.9

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

The SPIFs investments in 2010 maintained their trend of increase, their growth towards the preceding year being 25.5%. The absolute value of the SPIFs invested resources at the end of 2010 was BGN 3.7 billion., which represented 93.1% of their balance sheet assets. The structural division of the invested resources by types of funds was also preserved, UPFs being with highest relative share (72.9%), followed by OPFs (12.6%), VPFs (14.4%) and VPF-OS (0.1%).

In the period 2006 – 2010, the SPIFs investment portfolios underwent their development, following the dynamics of the assets accumulation in the sector, the gained investment experience and the development of the Bulgarian capital market. Under the impact of the financial crisis that shifted also over the Bulgarian capital market in 2008, the structure of investments changed in the direction of increase in 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, as well as in 2010, a smooth change was observed in the structure of the SPIFs assets. At the end of 2010, in comparison with 2009, the share of GS fell to 21.4%, equities grew to 28.3%, the bank deposits went down to 20.6%, and the bonds relatively retained their 25.8% share.

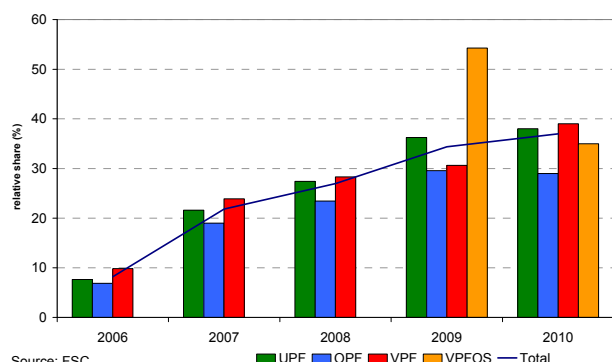
**Figure 85. Aggregate investment portfolio structure**



Since 2006 the SPIFs investments abroad maintained a trend of continuous increase. This increase was due to multitude of factors – the liberalization of the investment regime since the beginning of 2007, Bulgaria's accession to the EU, lifting of the restrictions on investing abroad and last but not least, the growth in the pension funds' assets. In 2010, 37.0% of the insured persons' funds were invested outside of the country, for which contributed both the low liquidity on the Bulgarian capital market, and the

insufficient offering of varied and quality instruments on the domestic market.

**Figure 86. Investments abroad as a percentage of the SPIFs balance sheet assets**



A major objective of the management of the pension insurance funds' assets is the preservation and increasing in a long-term perspective of their value by achieving income from their investment. Under the influence of the global financial crisis in 2008, in the supplementary pension insurance sector a negative rate of return was registered, and the SPIFs investments lost a considerable part of their value. In the last two years (2009 and 2010) this negative trend was overcome. Although on lower levels than these reported in 2009, the rate of return of the pension funds remained positive in 2010, too. Highest weighted average rate of return<sup>48</sup> from the assets management was achieved by the VPFs – 5.5%, then followed the OPFs with 5.2%, the UPFs with 5.0% and the VPF-OS with 4.3%.

**Table 51. Weighted average rate of return**

<sup>48</sup> Weighted with the value of the funds' net assets.

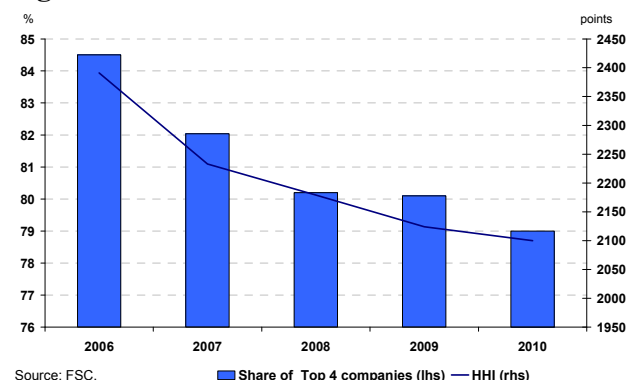
	2006	2007	2008	2009	2010
UPF	7.4	15.4	-20.2	7.9	5.0
OPF	8.5	15.6	-23.1	7.9	5.2
VPF	6.8	16.6	-24.7	7.6	5.5
VPFOS	-	-	-	6.0	4.3

Note: Data is reported in % unless other is quote. \*Data is weighted by net asset value of the each fund.

Source: FSC.

At the end of 2010, the share of the top four companies on the market of social insurance services, according to their balance sheet assets was at its lowest point (79.0%) for the last five years. The same trend was also marked by the Herfindahl – Hirschman Index (HHI)<sup>49</sup>, which declined continuously over the years, showing a process to lower concentration on the market of supplementary pension insurance, reaching a value of 2100.

**Figure 87. Market concentration**



Source: FSC.

<sup>49</sup> 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 1000 and 1800 units – moderate competitive environment, and over 1800 units – the market is characterized by strong concentration.

### **III. Strategy for development of the Financial Supervision Commission (2010 – 2012)**

The Strategy of the Financial Supervision Commission 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.

The basic trends have been outlined 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 policy.

#### **1. Mission**

Carrying out 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, including by rules and systems for management of the risks on these markets, ensuring an adequate and stable infrastructure of the financial markets.

## **2. 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 structure, assisted by the European Securities and Markets Authority (ESMA), European Insurance and Occupational Pensions Authority (EIOPA) and the European Banking Authority (EBA), presumes the strengthening of the prudential supervision framework and targets at achieving financial stability, prevention of future crisis, harmonization of the regulations and strengthening of the cooperation between the supervisory authorities.

The creation of a European Systemic Risk Board (ESRB) is also 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 the investor confidence in the market are the priority objectives of the supervision.

## **3. Basic principles**

- 3.1. 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;
- 3.2. Equality, objectivity, orderliness, consistency, impartiality in exercising the supervisory function;
- 3.3. Standardization of the supervisory procedures for monitoring and assessment of similar risks in the regulated sectors;
- 3.4. Transparency, predictability, publicity of the activity.

## **4. Strategic objectives**

- 4.1. 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;
- 4.2. Risk-based regulation and supervision;
- 4.3. 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;

- 4.4. 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;
- 4.5. 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.

## **5. Specific approaches for achievement of the strategic objectives**

### **5.1. Ensuring stable functioning of the market of non-banking financial services:**

- 5.1.1. Pursuance of supervisory policy based on an ongoing analysis of the market with the purpose of maintaining economic and financial integrity;
- 5.1.2. 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;
- 5.1.3. Development of an early warning system;
- 5.1.4. Timely undertaking of supervisory measures upon indications of occurrence of crisis with an origin in the non-banking financial sector;
- 5.1.5. Ensuring maximum protection of the consumers of products and services offered by the non-banking financial sector.

### **5.2. Exercising of proactive supervision, complied with the major principles, open for constructive interaction with all stakeholders:**

- 5.2.1. Application of balanced supervisory measures, based on the approved international practices in the field of supervision and corporate governance by consistent regulatory policy;
- 5.2.2. 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;
- 5.2.3. Optimization of the off-site supervision as priority in the supervisory activity as well as the procedures of conducting on-site inspections;
- 5.2.4. 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.
- 5.2.5. Informing the investment community and the organizations of the market participants of planned by FSC regulatory measures or change in the supervisory policy;
- 5.2.6. 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;
- 5.2.7. 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.

### **5.3. Maintenance of environment stimulating the activity of competitive participants on the financial market and assistance for the development of their self-regulation:**

- 5.3.1. 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;
- 5.3.2. 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;
- 5.3.3. Stimulating the market participants to develop strategies and measures for avoiding the occurrence of systematic risks and overcoming the consequences of their occurrence;
- 5.3.4. 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;
- 5.3.5. Performance of preliminary assessment of the effect and the establishment of regulatory requirements, resulting in the reduction of the business administration burden;
- 5.3.6. Regular review of the established administrative regimes and provided additional requirements for the supervised entities and undertaking measures for their relief.

#### **5.4. Risk-based regulation and supervision:**

- 5.4.1. Stage-by-stage development and maintenance of an integrated regulatory framework for the implementation of risk-based supervision by FSC;
- 5.4.2. 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;
- 5.4.3. Development and maintenance of a system assessing the risk for the supervised entities and their monitoring according the risk they pose for the market for the purpose of assessment update;
- 5.4.4. Application of a risk-oriented approach for supervising the activity of the regulated entities, complied with the economic conjuncture;
- 5.4.5. 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;
- 5.4.6. Periodic inspection of the risk assessment system for adequacy according to the laid down parameters, as well as its improvement.

#### **5.5. 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:**

- 5.5.1. 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;
- 5.5.2. Active presentation and defense of the FSC's position 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 Pension 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;

5.5.3. 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.

**5.6. Strengthening FSC's international prestige by maintaining active international positions:**

5.6.1. 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;

5.6.2. Participation in the forums and exchange of information within the International Association of Insurance Supervisors (IAIS) and the International Organization of Pension Supervisors (IOPS);

5.6.3. 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;

5.6.4. Active participation in new projects for institutional strengthening under EU programmes and other international donor programs, building up of partnerships with foreign supervisory authorities.

**5.7. Deepening the integrity within the EU in the exercise of regulatory functions:**

5.7.1. 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;

5.7.2. Active interaction with the supervised entities, that have initiated a notification procedure, with a view to its timely closing;

5.7.3. Implementation of procedures for efficient and timely cooperation and exchange of information between the regulatory authorities of the EU Member States;

5.7.4. 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 of non-banking financial services.

**5.8. Increase of the public confidence in the demand and supply of financial products and services through raising the general awareness for them:**

5.8.1. Pursuance of supervisory policy directed to recovery of the demand and the interest in trade with financial instruments;

5.8.2. Attracting new participants on the financial market and broadening the offered services and products;

5.8.3. 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;

5.8.4. Development of FSC's information policies for enhancement of the financial culture of the consumers of non-banking financial services;

5.8.5. Popularizing the FSC's functions, role and activity among the customers of non-banking financial services.

**5.9. Policies on interaction with the non-governmental sector, research centers and the media:**

5.9.1. Creation of 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;



5.9.2. 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;

5.9.3. Development of a procedure for preliminary discussion of the drafts of legislative documents with the interested parties.

**5.10. Setting up an adequate and flexible FSC structure, consistent and balanced optimization of the processes, procedures and the used information technologies:**

5.10.1. Increasing the authority's efficiency by team organization of the work and stimulating internal work environment;

5.10.2. 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;

5.10.3. Carrying out of scheduled strategic planning (on an annual basis) as part of the managerial process;

5.10.4. Working out a general framework for the development and the organization of a single information system in FSC and the optimization of the data flow movement;

5.10.5. Information (technological) provision of the transfer to risk-based supervision;

5.10.6. Maintaining adequate FSC's technical equipment, in accordance with the tendencies in the IT technologies development;

5.10.7. 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;

5.10.8. Unification, standardization and centralization of the kept registers.

**5.11. 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:**

5.11.1. Turning the human resources management into a priority and purposeful process for selection of personnel, their training, motivation and growth, by creation of new modern policy in relation to human resources;

5.11.2. 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;

5.11.3. Effective human resources management through improvement of the quality of performance and operative perfection in favor of the public interest;

5.11.4. Creation of conditions for career growth of leaders, bearers of values and models of conduct, who contribute to the prestige of the FSC's operation;

5.11.5. 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;

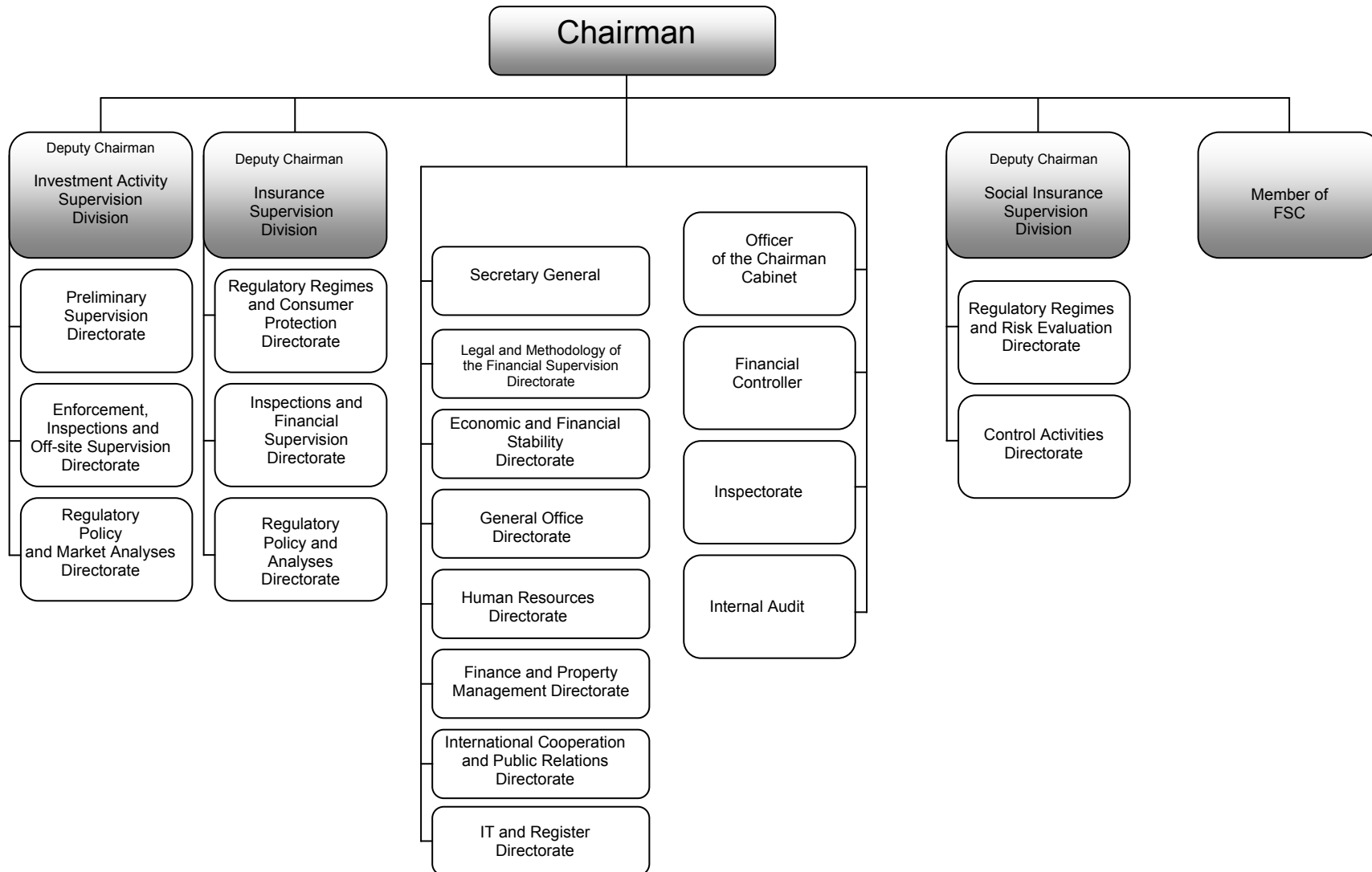
5.11.6. Improvement and perfection of the corporate governance, increase of the staff professionalism and qualification on the basis of comparative analyses;

5.11.7. Development of objective systems for evaluation, payment and stimulation of the individual employee's contribution.

## **6. 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<sup>50</sup>

### *Annex I.3.1A Organization and management of new contractual funds by management companies*

Management company	Contractual fund
INVEST CAPITAL AD	INVEST CAPITAL – HIGH-YIELD
FFBH ASSET MANAGEMENT AD	FFBH VOSTOK
STATUS CAPITAL AD	STATUS GLOBUL ETFs
CAPMAN ASSET MANAGEMENT AD	CAPMAN FIX
UBB ASSET MANAGEMENT AD	UBB PLATINIUM EURO BONDS
UBB ASSET MANAGEMENT AD	UBB PREMIUM EURO EQUITIES
ADAMANT CAPITAL MANAGEMENT AD	ACM OPPORTUNITY
ELANA FUND MANAGEMENT AD	ELANA GLOBAL EQUITY FUND

### *Annex I.3.1B. Investment intermediaries, CIS, public companies, issuers and SIPC, entered and deleted in the public register kept by FSC in 2010*

Company	Type
<b>Companies that have been granted license in 2010</b>	
COACTORII FINANCE AD	investment intermediary
IMOTI DIRECT REIT (securitization of real estate)	SIPC
DEBITUM INVEST SPV (securitization of receivables)	SIPC
VALOR PROPERTIES REIT (securitization of real estates)	SIPC
<b>Companies filed as public in the register kept by FSC</b>	
VELGRAF ASSET MANAGEMENT AD	public company
SOLARPRO HOLDING AD	public company
MARBLE ARTS AD	public company
ATLAS FINANCE AD	public company
BULGARIAN STOCK EXCHANGE - SOFIA	public company
IMOTI DIRECT REIT	SIPC
<b>Companies that obtained refusal for the issue of a license during the reporting period</b>	
EXPAT DEVELOPMENT FUND REIT	SIPC
<b>Companies whose license was withdrawn in 2010</b>	
BALKAN SECURITIES EOOD	investment intermediary
CEE SECURITIES AD	investment intermediary
SOFIA INVEST BROKERAGE AD	investment intermediary
BULFIN INVEST AD	investment intermediary
VARNA INVESTMENT INTERMEDIARY (VIP-7) AD	investment intermediary
LEADER INVEST BULGARIA OOD	investment intermediary
ROCK RIDGE INVESTMENT EAD	investment intermediary
CAPITAL FINANCE OOD	investment intermediary
MAKLER – 2002 AD	investment intermediary
ZAGORA FINACORP ASSET MANAGEMENT AD	management company
EVER ASSET MANAGEMENT AD	management company
BULDEV ASSET MANAGEMENT AD	management company
OVERON FINANCE AD	management company
CAPITAL MARKETS ASSET MANAGEMENT AD	management company

<sup>50</sup> The numbering of the annexes indicates the chapter from the text of the FSC's Annual Activity Report to which the specific annex is related.

SAEDINENIE ASSET MANAGEMENT AD	management company
NEWWAY NEW EUROPE	contractual fund
NEWWAY INDEX PLUS	contractual fund
OVERON PRESTO	contractual fund
CAPITAL MARKETS BALANCED FUND	contractual fund
CAPITAL MARKETS FUND EQUITIES	contractual fund
POPULAR FUND BALANCE	contractual fund
<b>Companies deleted from the register</b>	
<b><i>Deleted after deletion from the Commercial Register due to completion of procedure of liquidation or bankruptcy</i></b>	
PALDIN AIR AD	public company
CAPITAL DIRECT – 1 SPV	public company
PISHESHTI MASHINI AD	public company
BELOPAL AD	public company
ZMM METALIK AD	public company
CORPORATION UNIMASH AD	public company
VENETS AD	public company
SOPHARMA LOGISTICA AD	public company
<b><i>Deleted after a tender offer carried out under Art. 119, para 1, Item 3 of LPOS</i></b>	
BALKAN AD	public company
BALKANCAR RECORD AD	public company
PIRINHART AD	public company
GRAND HOTEL VARNA AD	public company
INTRASMASH – ENGINEERING AD	public company
<b><i>Deleted in view of the circumstance that the issue of securities is deleted from the register and the issuer had no other issue of securities filed in the register</i></b>	
DOVERIE BRICO AD	issuer
RAIFFEISENBANK (BULGARIA) EAD	issuer
AGRILEASING EAD	issuer
TRANSLEASING EAD	issuer
PIRAEUS BANK BULGARIA AD	issuer
FAIRPLAY INTERNATIONAL AD	issuer
SHUMEN MUNICIPALITY	issuer
ELANA HOLDING AD	issuer
T B I LEASING EAD	issuer
ALMA TOUR BG AD	issuer
SOFIA COMMERCE CREDIT GROUP AD	issuer
ARCUS AD	issuer
KRISTERA AD	issuer
SPORT DEPOT AD	issuer
<b><i>Deleted on their own initiative in the existence of some of the conditions under 18 of Ordinance № 22</i></b>	
DEVIN AD	public company
POLYANITSA AD	public company
CIBANK AD	public company

### *Annex I.3.1C. Prospectuses for public offering of securities*

Company	Public offering	Type of securities
<b>Approved prospectuses in 2010</b>		
IMOTI DIRECT REIT – 2 prospectuses	initial	shares
SEPTONA BULGARIA AD	initial	shares
INDUSTRIALEN HOLDING BULGARIA AD	initial	shares
ALFA BULGARIA AD	initial	shares
INTERCAPITAL PROPERTY DEVELOPMENT REIT	initial	shares
EXPACT BETA REIT	initial	shares
CAPITAL MANAGEMENT SPV	initial	shares
CIBANK AD	initial	shares
SILA HOLDING AD	initial	shares
BALKANCAR ZARYA AD	initial	shares
MECOM AD	initial	shares
MART BULGARIA AD	initial	shares
P R C REIT	initial	shares
DEBITUM INVEST SPV	initial	shares
VALOR PROPERTIES REIT	initial	shares
INVESTOR.BG AD	initial	warrants
VELGRAF ASSET MANAGEMENT AD	admission to trading	shares
SOLARPRO HOLDING AD	admission to trading	shares
MARBLE ARTS AD	admission to trading	shares
BULGARIAN STOCK EXCHANGE – SOFIA AD	admission to trading	shares
BULGARIAN – AMERICAN CREDIT BANK AD	admission to trading	mortgage bonds
TRANSINVESTMENT SPV	admission to trading	unconvertable secured corporate bonds
SPECTRUM NET AD	admission to trading	secured corporate bonds
TECHNOLOGY CENTER – INSTITUTE OF MIRCROELECTRONICS /TC-IME/ AD	admission to trading	secured corporate bonds
SIENIT HOLDING AD	admission to trading	unconvertable secured corporate bonds
SPECIALISED LOGISTIC SYSTEMS AD	admission to trading	unconvertable unsecured corporate bonds
INTERCARD FINANCE AD	admission to trading	unconvertable secured corporate bonds
BULGARIAN DEVELOPMENT BANK AD	admission to trading	unconvertable unsecured corporate bonds
<b>Prospectus to which refusal for approval was issued</b>		
ALFA ENERGY HOLDING AD	admission to trading	corporate bonds

***Annex II.2.2.1A. Gross premiums written of general insurance***

№	Insurers	2010		2009		Growth/ Drop
		BGN thousand.	Market share	BGN thousand.	Market share	
1	ZAD BULSTRAD VIENNA INSURANCE GROUP	180 656	13.1%	209 490	14.4%	-13.8%
2	DZI – GENERAL INSURANCE EAD	172 533	12.5%	201 946	13.8%	-14.6%
3	ZAD ARMEEZ AD	155 269	11.3%	148 239	10.2%	4.7%
4	ZD BUL INS AD	135 810	9.9%	130 830	9.0%	3.8%
5	ZAD ALLIANZ BULGARIA	141 687	10.3%	141 757	9.7%	0.0%
6	ZK LEV INS AD	135 198	9.8%	168 057	11.5%	-19.6%
7	ZD UNIQA AD	71 962	5.2%	63 063	4.3%	14.1%
8	ZD EUROINS AD	71 876	5.2%	74 286	5.1%	-3.2%
9	GENERALI INSURANCE AD	54 124	3.9%	56 984	3.9%	-5.0%
10	ZAD ENERGIA	51 766	3.8%	67 226	4.6%	-23.0%
11	ZAD VICTORIA	49 830	3.6%	49 150	3.4%	1.4%
12	INSURANCE COMPANY BULGARSKI IMOTI AD	44 153	3.2%	50 183	3.4%	-12.0%
13	MUNICIPAL INSURANCE COMPANY AD	34 745	2.5%	28 772	2.0%	20.8%
14	INTERAMERICAN BULGARIA ZEAD	34 023	2.5%	30 447	2.1%	11.7%
15	HDI INSURANCE AD	22 896	1.7%	19 232	1.3%	19.1%
16	BULGARIAN EXPORT INSURANCE AGENCY EAD	7 961	0.6%	5 624	0.4%	41.6%
17	UBB – CHARTIS ZD AD	6 750	0.5%	6 814	0.5%	-0.9%
18	GROUPAMA INSURANCE EAD	5 963	0.4%	6 814	0.5%	-12.5%
19	GRAWE BULGARIA GENERAL INSURANCE EAD	175	0.0%	150	0.0%	16.7%
TOTAL:		1 377 377	100.0%	1 459 064	100.0%	-5.6%

***Annex II.2.2.1B. Incurred claims and paid compensations by general insurance companies***

№	Insurers	2010				2009			
		Incurred claims (BGN thousand)	Share	Paid claims (BGN thousand)	Share	Incurred claims (BGN thousand)	Share	Paid claims (BGN thousand)	Share
1	ZAD BULSTRAD VIENNA INSURANCE GROUP	161 820	21.6%	122 184	18.0%	119 575	15.7%	115 080	16.9%
2	DZI – GENERAL INSURANCE EAD	109 592	14.6%	121 029	17.8%	137 039	18.0%	112 857	16.6%
3	ZK LEV INS AD	67 365	9.0%	58 033	8.6%	74 645	9.8%	54 090	8.0%
4	ZAD ARMEEZ AD	65 805	8.8%	64 900	9.6%	76 155	10.0%	62 130	9.1%
5	ZD BUL INS AD	63 777	8.5%	62 921	9.3%	59 653	7.8%	60 450	8.9%
6	ZAD ALLIANZ BULGARIA	61 774	8.2%	68 257	10.1%	64 149	8.4%	82 065	12.1%
7	INSURANCE COMPANY BULGARSKI IMOTI AD	49 668	6.6%	35 190	5.2%	40 848	5.4%	28 158	4.1%
8	ZD UNIQA AD	41 396	5.5%	36 889	5.4%	50 628	6.7%	53 802	7.9%
9	ZD EUROINS AD	38 562	5.1%	38 505	5.7%	38 115	5.0%	37 862	5.6%
10	ZAD VICTORIA	22 849	3.0%	16 771	2.5%	26 100	3.4%	19 426	2.9%
11	GENERALI INSURANCE AD	17 900	2.4%	19 306	2.8%	30 986	4.1%	27 287	4.0%
12	INTERAMERICAN BULGARIA ZEAD	15 903	2.1%	12 134	1.8%	10 728	1.4%	9 197	1.4%
13	MUNICIPAL INSURANCE COMPANY AD	11 445	1.5%	6842	1.0%	9 442	1.2%	3 838	0.6%
14	HDI INSURANCE AD	10 983	1.5%	8 691	1.3%	14 921	2.0%	8 179	1.2%
15	BULGARIAN EXPORT INSURANCE AGENCY EAD	5 000	0.7%	2 949	0.4%	2 643	0.3%	1 876	0.3%
16	ZAD ENERGIA	4 156	0.6%	3 031	0.4%	3 428	0.5%	2 376	0.3%
17	GROUPAMA INSURANCE EAD	960	0.1%	500	0.1%	1 733	0.2%	730	0.1%
18	UBB – CHARTIS ZD AD	419	0.1%	303	0.0%	511	0.1%	269	0.0%
19	GRAWE BULGARIA GENERAL INSURANCE EAD	36	0.0%	30	0.0%	15	0.0%	9	0.0%
TOTAL:		749 410	100.0%	678 465	100.0%	761 314	100.0%	679 681	100.0%



***Annex II.2.2.1C. Technical and financial result of general insurance companies***

№	Insurers	Technical result (BGN thousand.)		Financial result (BGN thousand)	
		31.12.2010	31.12.2009	31.12.2010	31.12.2009
1	ZAD ARMEEZ AD	614	1 439	6 718	2 975
2	ZAD ALLIANZ BULGARIA	9 985	12 101	11 168	11 018
3	ZAD BULSTRAD VIENNA INSURANCE GROUP	-31 430	581	-30 607	95
4	ZD BUL INS AD	5 836	8 946	3 485	5 775
5	INSURANCE COMPANY BULGARSKI IMOTI AD	-22 079	-5 309	-19 136	753
6	BULGARIAN EXPORT INSURANCE AGENCY EAD	2 167	1 539	3 168	2 449
7	ZD UNIQA AD	-4 135	-5 977	-2 117	-2 168
8	DZI – GENERAL INSURANCE EAD	1 449	-32 459	7 880	-25 173
9	ZD EUROINS AD	-2 714	-2 631	-2 154	-1 369
10	ZAD ENERGIA	24 646	31 636	23 922	24 015
11	INTERAMERICAN BULGARIA ZEAD	-6 481	-1 854	-5 469	-2 301
12	ZK LEV INS AD	-26 936	-12 100	-25 069	7 323
13	ZAD VICTORIA	-1 928	-5 367	222	-3 060
14	MUNICIPAL INSURANCE COMPANY AD	1 832	822	958	351
15	GENERALI INSURANCE AD	4 393	965	8 291	5 086
16	HDI INSURANCE AD	159	48	227	225
17	GROUPAMA INSURANCE EAD	-241	-1 347	58	-963
18	UBB – CHARTIS ZD AD	1 786	1 406	1 942	1 589
19	GRAWE BULGARIA GENERAL INSURANCE EAD	-202	-175	128	69
TOTAL		-43 279	-7 736	-16 385	26 689

***Annex II.2.2.1D. Asset amount and equity of general insurance companies***

№	Insurers	Asset amount (BGN thousand)		Change	Equity (BGN thousand)		Change
		2010	2009		2010	2009	
1	ZAD ARMEEZ AD	175 802	156 133	12.6%	41 132	35 159	17.0%
2	ZAD ALLIANZ BULGARIA	172 905	175 476	-1.5%	55 472	54 929	1.0%
3	ZAD BULSTRAD VIENNA INSURANCE GROUP	213 428	236 093	-9.6%	28 806	59 088	-51.2%
4	ZD BUL INS AD	137 343	139 146	-1.3%	32 338	34 441	-6.1%
5	INSURANCE COMPANY BULGARSKI IMOTI AD	73 705	82 839	-11.0%	-5 439	7 547	-172.1%
6	BULGARIAN EXPORT INSURANCE AGENCY EAD	24 209	20 901	15.8%	19 365	16 942	14.3%
7	ZD UNIQA AD	77 615	71 391	8.7%	13 681	15 465	-11.5%
8	DZI – GENERAL INSURANCE EAD	373 586	329 306	13.4%	145 393	85 606	69.8%
9	ZD EUROINS AD	64 796	62 793	3.2%	11 474	13 628	-15.8%
10	ZAD ENERGIA	83 780	89 601	-6.5%	54 904	55 015	-0.2%
11	INTERAMERICAN BULGARIA ZEAD	35 881	30 294	18.4%	9 960	11 176	-10.9%
12	ZK LEV INS AD	168 507	192 921	-12.7%	32 886	57 955	-43.3%
13	ZAD VICTORIA	61 624	48 264	27.7%	8 586	8 276	3.7%
14	MUNICIPAL INSURANCE COMPANY AD	40 817	32 324	26.3%	11 024	9 943	10.9%
15	GENERALI INSURANCE AD	97 323	88 527	9.9%	30 542	22 237	37.3%
16	HDI INSURANCE AD	25 207	21 703	16.1%	8 106	7 878	2.9%
17	GROUPAMA INSURANCE EAD	13 848	11 891	16.5%	8 610	7 059	22.0%
18	UBB – CHARTIS ZD AD	15 875	13 985	13.5%	11 447	9 439	21.3%
19	GRAWE BULGARIA GENERAL INSURANCE EAD	8 095	7451	8.6%	7 974	7 295	9.3%
TOTAL		1 864 346	1 811 039	2.9%	526 261	519 077	1.4%

### ***Annex II.2.2.2A. Gross premium written of life insurance companies***

№	Insurers	2010		2009		Growth/Drop
		BGN thousand	Market share	BGN thousand	Market share	
1	ZAD ALLIANZ BULGARIA LIFE	49 594	20.2%	47 154	21.2%	5.2%
2	ZAD DZI	32 607	13.3%	34 686	15.6%	-6.0%
3	ZAD BULSTRAD LIFE VIENNA INSURANCE GROUP AD	26 519	10.8%	25 026	11.3%	6.0%
4	SINDIKALNA VZK	26 373	10.7%	9 993	4.5%	163.9%
5	ZK UNIQA LIFE AD	21 518	8.8%	18 378	8.3%	17.1%
6	ALICO BULGARIA LIFE INSURANCE COMPANY EAD	21 300	8.7%	22 418	10.1%	-5.0%
7	UBB – ALICO LIFE INSURANCE COMPANY AD	16 879	6.9%	14 618	6.6%	15.5%
8	GRAWE BULGARIA LIFE INSURANCE EAD	16 484	6.7%	15 055	6.8%	9.5%
9	GENERALI LIFE INSURANCE AD	10 795	4.4%	14 059	6.3%	-23.2%
10	GROUPAMA LIFE INSURANCE EAD	8 254	3.4%	6 757	3.0%	22.2%
11	ZAD SOGELIFE BULGARIA	5 952	2.4%	5 328	2.4%	11.7%
12	INTERAMERICAN BULGARIA LIFE INSURANCE EAD	2 762	1.1%	1 404	0.6%	96.7%
13	ZHZK SAGLASIE AD*	2 353	1.0%	2 340	1.1%	0.6%
14	LIFE INSURANCE INSTITUTE AD	2 199	0.9%	1 888	0.8%	16.5%
15	ZAED CCB LIFE	2 048	0.8%	1 637	0.7%	25.1%
16	VZK DOBRUDZA - M - LIFE	172	0.1%	169	0.1%	1.8%
	ZHZK BULGARSKI IMOTU AD**	-	-	1 517	0.7%	-
TOTAL:		245 809	100.0%	222 427	100.0%	10.5%

Notes: \* Former name: ZD KD Life AD.

\*\* In 2010, authorization was issued for voluntary dissolution of ZHZK Bulgarski Imoti AD and the license of the company for carrying out insurance activity was withdrawn.

### ***Annex II.2.2.2B. Paid claims by life insurance companies***

№	Insurers	2010		2009		Change
		BGN thousand	Share	BGN thousand	Share	
1	ZAD DZI	25 021	25.4%	24 653	27.1%	1.5%
2	ZAD ALLIANZ BULGARIA LIFE	20 825	21.1%	18 557	20.4%	12.2%
3	ZK UNIQA LIFE AD	12 855	13.0%	14 636	16.1%	-12.2%
4	ZAD BULSTRAD LIFE VIENNA INSURANCE GROUP AD	10 033	10.2%	9 461	10.4%	6.0%
5	SINDIKALNA VZK	7 786	7.9%	585	0.6%	1230.9%
6	GENERALI LIFE INSURANCE AD	6 640	6.7%	9 006	9.9%	-26.3%
7	ALICO BULGARIA LIFE INSURANCE COMPANY EAD	4 993	5.1%	4 583	5.0%	8.9%
8	UBB – ALICO LIFE INSURANCE COMPANY AD	2 536	2.6%	2 555	2.8%	-0.7%
9	GRAWE BULGARIA LIFE INSURANCE EAD	2 098	2.1%	1 928	2.1%	8.8%
10	GROUPAMA LIFE INSURANCE EAD	1 421	1.4%	1 727	1.9%	-17.7%
11	ZAED CCB LIFE	1 346	1.4%	558	0.6%	141.2%
12	ZAD SOGELIFE BULGARIA	1 259	1.3%	563	0.6%	123.6%
13	LIFE INSURANCE INSTITUTE AD	1 230	1.2%	1 313	1.4%	-6.3%
14	ZHZK SAGLASIE AD*	343	0.3%	36	0.0%	852.8%
15	VZK DOBRUDZA - M - LIFE	181	0.2%	206	0.2%	-12.1%
16	INTERAMERICAN BULGARIA LIFE INSURANCE EAD	66	0.1%	7	0.0%	842.9%
	ZHZK BULGARSKI IMOTU AD**	-	-	758	0.8%	-
TOTAL:		98 633	100.0%	91 132	100.0%	8.2%

Notes: \* Former name: ZD KD Life AD.

\*\* In 2010, authorization was issued for voluntary dissolution of ZHZK Bulgarski Imoti AD and the license of the company for carrying out insurance activity was withdrawn.

**Annex II.2.2.2C. Technical and financial result of life insurance companies**

№	Insurers	Technical result (BGN thousand)		Financial result (BGN thousand)	
		2010.	2009.	2010	2009
1	ZAD ALLIANZ BULGARIA LIFE	9 615	11 056	10 198	10 053
2	ALICO BULGARIA LIFE INSURANCE COMPANY EAD	6 371	7 596	5 729	6 830
3	UBB – ALICO LIFE INSURANCE COMPANY AD	4 625	3 858	4 154	3 469
4	GRAWE BULGARIA LIFE INSURANCE EAD	270	1 036	2 141	1 309
5	ZAD BULSTRAD LIFE VIENNA INSURANCE GROUP AD	989	212	778	9
6	LIFE INSURANCE INSTITUTE AD	640	564	16	9
7	ZK UNIQA LIFE AD	406	332	330	179
8	GROUPAMA LIFE INSURANCE EAD	143	356	145	356
9	VZK DOBRUDZA - M - LIFE	138	-90	143	-90
10	SINDIKALNA VZK	111	205	95	183
11	ZAED CCB LIFE	-163	-344	-146	25
12	ZAD SOGELIFE BULGARIA	-765	-1 435	-616	-1 174
13	ZHZK SAGLASIE AD*	-947	-1 950	-913	-1 939
14	GENERALI LIFE INSURANCE AD	-1 241	-1 888	-1 108	-1 740
15	INTERAMERICAN BULGARIA LIFE INSURANCE EAD	-1 797	-1 430	-1 181	-773
16	ZAD DZI	-3 637	-6 023	2 937	7 297
	ZHZK BULGARSKI IMOTU AD**	-	-134	-	-61
TOTAL:		14 758	11 921	22 702	23 942

Notes: \* Former name: ZD KD Life AD.

\*\* In 2010, authorization was issued for voluntary dissolution of ZHZK Bulgarski Imoti AD and the license of the company for carrying out insurance activity was withdrawn.

***Annex II.2.2.2D. Asset amount and equity of life insurance companies***

№	Insurers	Asset amount (BGN thousand)			Equity (BGN thousand)		
		2010	2009.	Change	2010	2009	Change
1	ZAD DZI	386 305	387 503	-0.3%	283 753	285 343	-0.6%
2	ZAD ALLIANZ BULGARIA LIFE	260 367	237 249	9.7%	35 108	35 134	-0.1%
3	ALICO BULGARIA LIFE INSURANCE COMPANY EAD	80 462	70 944	13.4%	26 590	24 361	9.2%
4	GRAWE BULGARIA LIFE INSURANCE EAD	73 618	60 857	21.0%	13 054	11 252	16.0%
5	ZAD BULSTRAD LIFE VIENNA INSURANCE GROUP AD	58 040	51 302	13.1%	9 852	9 726	1.3%
6	SINDIKALNA VZK	50 235	21 547	133.1%	1 880	1 048	79.4%
7	ZK UNIQA LIFE AD	30 591	29 662	3.1%	8 106	8 705	-6.9%
8	GENERALI LIFE INSURANCE AD	22 250	23 748	-6.3%	7 186	5 220	37.7%
9	UBB – ALICO LIFE INSURANCE COMPANY AD	21 209	19 458	9.0%	15 468	14 091	9.8%
10	GROUPAMA LIFE INSURANCE EAD	20 182	17 642	14.4%	9 017	7 220	24.9%
11	INTERAMERICAN BULGARIA LIFE INSURANCE EAD	13 072	10 905	19.9%	10 578	10 102	4.7%
12	ZAD SOGELIFE BULGARIA	12 630	10 895	15.9%	7 876	7 045	11.8%
13	ZHZK SAGLASIE AD*	9 655	8 262	16.9%	7 119	6 350	12.1%
14	LIFE INSURANCE INSTITUTE AD	9 018	8 150	10.7%	7 425	6 909	7.5%
15	ZAED CCB LIFE	8 577	7 415	15.7%	7 292	6 438	13.3%
16	VZK DOBRUDZA - M - LIFE	2 147	2 185	-1.7%	804	661	21.6%
	ZHZK BULGARSKI IMOTU AD**	-	8 231	-	-	7 813	-
TOTAL:		1 058 358	975 956	8.4%	451 108	447 417	0.8%

Notes: \* Former name: ZD KD Life AD.

\*\* In 2010, authorization was issued for voluntary dissolution of ZHZK Bulgarski Imoti AD and the license of the company for carrying out insurance activity was withdrawn.

***Annex II.2.2.4A. Gross premium income of voluntary health insurance***

№	Health insurance companies	2010		2009		Growth/Drop
		BGN thousand	Market share	BGN thousand	Market share	
1	HIC BULGARIA HEALTH AD	6 066	14.4%	5 921	15.5%	2.4%
2	MUNICIPAL HEALTH INSURANCE FUND AD	5 711	13.5%	3 664	9.6%	55.9%
3	GENERALI ZAKRILA HEALTH INSURANCE AD	5 564	13.2%	5 809	15.2%	-4.2%
4	UNITED HEALTH INSURANCE FUND DOVERIE AD	3 786	9.0%	3 163	8.3%	19.7%
5	HEALTH INSURANCE FUND DALLBOGG: ZHIVOT I ZDRAVE EAD	3 512	8.3%	2 764	7.2%	27.1%
6	HEALTH INSURANCE FUND MEDICO-21 AD	3 285	7.8%	4 455	11.6%	-26.3%
7	VOLUNTARY HEALTH INSURANCE NETWORK – ZDRAVE AD	2 502	5.9%	3 103	8.1%	-19.4%
8	EUROINS-HEALTH INSURANCE EAD	2 500	5.9%	1 272	3.3%	96.5%
9	DZI-HEALTH INSURANCE AD	1 737	4.1%	1 544	4.0%	12.5%
10	HIC NADEZHDA AD	1 471	3.5%	1 421	3.7%	3.5%
11	TOKUDA HEALTH INSURANCE FUND AD	1 295	3.1%	1 186	3.1%	9.2%
12	HIC BULSTRAD HEALTH AD	1 074	2.5%	1 180	3.1%	-9.0%
13	HEALTH INSURANCE FUND FI HEALTH AD	974	2.3%	76	0.2%	1181.6%
14	UNITED HEALTH INSURANCE EAD	696	1.7%	1 058	2.8%	-34.2%
15	HIC VSEOTDAINOST AD	552	1.3%	306	0.8%	80.4%
16	HIC PLANETA AD	488	1.2%	500	1.3%	-2.4%
17	HEALTH INSURANCE INSTITUTE AD	407	1.0%	323	0.8%	26.0%
18	HEALTH INSURANCE FUND VICE MEDICA AD	262	0.6%	208	0.5%	26.0%
19	HIC CCB-ZDRAVE EAD	247	0.6%	294	0.8%	-16.0%
20	HEALTH INSURANCE FUND EUROPA AD	29	0.1%	11	0.0%	163.6%
TOTAL:		42 158	100.0%	38 258	100.0%	10.2%

***Annex II.2.2.4B. Paid claims by voluntary pension insurance companies***

№	Health insurance companies	Paid claims (BGN thousand)				Change
		BGN thousand	Share	BGN thousand	Share	
1	HIC BULGARIA HEALTH AD	3 586	14.6%	2 275	10.5%	57.6%
2	MUNICIPAL HEALTH INSURANCE FUND AD	1 858	7.6%	767	3.5%	142.2%
3	GENERALI ZAKRILA HEALTH INSURANCE AD	3 119	12.7%	4 279	19.7%	-27.1%
4	UNITED HEALTH INSURANCE FUND DOVERIE AD	2 721	11.1%	2 380	10.9%	14.3%
5	HEALTH INSURANCE FUND DALLBOGG: ZHIVOT I ZDRAVE EAD	2 364	9.6%	2 620	12.1%	-9.8%
6	HEALTH INSURANCE FUND MEDICO-21 AD	3 315	13.5%	2 609	12.0%	27.1%
7	VOLUNTARY HEALTH INSURANCE NETWORK – ZDRAVE AD	1 586	6.5%	1 759	8.1%	-9.8%
8	EUROINS-HEALTH INSURNACE EAD	813	3.3%	428	2.0%	90.0%
9	DZI-HEALTH INSURANCE AD	1 157	4.7%	1 507	6.9%	-23.2%
10	HIC NADEZHDA AD	996	4.1%	1 039	4.8%	-4.2%
11	TOKUDA HEALTH INSURANCE FUND AD	806	3.3%	409	1.9%	97.0%
12	HIC BULSTRAD HEALTH AD	557	2.3%	453	2.1%	22.9%
13	HEALTH INSURANCE FUND FI HEALTH AD	496	2.0%	22	0.1%	2122.2%
14	UNITED HEALTH INSURANCE EAD	305	1.2%	451	2.1%	-32.4%
15	HIC VSEOTDAINOST AD	570	2.3%	598	2.8%	-4.7%
16	HIC PLANETA AD	34	0.1%	65	0.3%	-47.7%
17	HEALTH INSURANCE INSTITUTE AD	32	0.1%	16	0.1%	101.4%
18	HEALTH INSURANCE FUND VICE MEDICA AD	111	0.5%	37	0.2%	203.9%
19	HIC CCB-ZDRAVE EAD	95	0.4%	20	0.1%	375.0%
20	HEALTH INSURANCE FUND EUROPA AD	19	0.1%	1	0.0%	1800.0%
TOTAL:		24 540	100.0%	21 736	100.0%	12.9%



***Annex II.2.2.4C. Technical and financial result of the voluntary health insurance companies***

№	Health insurance companies	Technical result (BGN thousand)		Financial result (BGN thousand)	
		31.12.2010	31.12.2009	31.12.2010	31.12.2009
1	HIC BULSTRAD HEALTH AD	-102	-266	-67	-244
2	HIC BULGARIA HEALTH AD	192	842	452	945
3	UNITED HEALTH INSURANCE EAD	-920	-414	-800	-245
4	HIC VSEOTDAINOST AD	-513	-557	-441	-515
5	GENERALI ZAKRILA HEALTH INSURANCE AD	-590	-399	-474	-141
6	DZI-HEALTH INSURANCE AD	-3	-85	157	95
7	UNITED HEALTH INSURANCE FUND DOVERIE AD	-10	-225	132	-84
8	VOLUNTARY HEALTH INSURANCE NETWORK – ZDRAVE AD	134	214	185	-507
9	HEALTH INSURANCE INSTITUTE AD	-25	-24	57	88
10	HEALTH INSURANCE FUND MEDICO-21 AD	-696	535	-517	539
11	HIC NADEZHDA AD	-533	-37	54	42
12	HIC PLANETA AD	-102	58	20	200
13	EUROINS-HEALTH INSURNACE EAD	-243	208	19	307
14	TOKUDA HEALTH INSURANCE FUND AD	-65	160	41	208
15	HIC CCB-ZDRAVE EAD	-179	-157	80	245
16	HEALTH INSURANCE FUND FI HEALTH AD	-136	-81	-28	-72
17	MUNICIPAL HEALTH INSURANCE FUND AD	1 217	818	242	743
18	HEALTH INSURANCE FUND DALLBOGG: ZHIVOT I ZDRAVE EAD	-318	-1 223	-250	-1 189
19	HEALTH INSURANCE FUND VICE MEDICA AD	-125	-174	-88	-124
20	HEALTH INSURANCE FUND EUROPA AD	-162	-188	-100	-71
TOTAL		-3 179	-995	-1 326	220

***Annex II.2.2.4D. Asset amount and equity of voluntary health insurance companies***

№	Health insurance companies	Asset amount (BGN thousand)		Change	Equity (BGN thousand)		Change
		2010	2009		2010	2009	
1	HIC BULSTRAD HEALTH AD	2 417	2 219	8.9%	1 701	1 490	14.2%
2	HIC BULGARIA HEALTH AD	7 225	8 001	-9.7%	5 282	5 680	-7.0%
3	UNITED HEALTH INSURANCE EAD	1 854	2 024	-8.4%	1 251	1 651	-24.2%
4	HIC VSEOTDAINOST AD	1 388	1 676	-17.2%	1 044	1 345	-22.4%
5	GENERALI ZAKRILA HEALTH INSURANCE AD	10 416	10 639	-2.1%	1 568	2 050	-23.5%
6	DZI-HEALTH INSURANCE AD	3 955	3 712	6.5%	3 073	2 894	6.2%
7	UNITED HEALTH INSURANCE FUND DOVERIE AD	4 337	3 387	28.0%	2 553	2 419	5.5%
8	VOLUNTARY HEALTH INSURANCE NETWORK – ZDRAVE AD	3 302	3 830	-13.8%	2 445	2 260	8.2%
9	HEALTH INSURANCE INSTITUTE AD	2 471	2 322	6.4%	2 170	2 113	2.7%
10	HEALTH INSURANCE FUND MEDICO-21 AD	3 348	4 750	-29.5%	1 631	2 148	-24.1%
11	HIC NADEZHDA AD	6 162	4 027	53.0%	5 055	3 366	50.2%
12	HIC PLANETA AD	2 427	2 396	1.3%	2 026	2 038	-0.6%
13	EUROINS-HEALTH INSURNACE EAD	4 358	3 368	29.4%	2 573	2 554	0.7%
14	TOKUDA HEALTH INSURANCE FUND AD	3 035	1 893	60.3%	2 308	1 255	83.9%
15	HIC CCB-ZDRAVE EAD	2 542	1 492	70.4%	2 147	1 067	101.2%
16	HEALTH INSURANCE FUND FI HEALTH AD	5 371	556	866.0%	4 890	519	842.2%
17	MUNICIPAL HEALTH INSURANCE FUND AD	4 969	3 010	65.1%	3 446	2 244	53.6%
18	HEALTH INSURANCE FUND DALLBOGG: ZHIVOT I ZDRAVE EAD	6 391	6 148	4.0%	5 236	5 466	-4.2%
19	HEALTH INSURANCE FUND VICE MEDICA AD	531	571	-7.0%	440	476	-7.6%
20	HEALTH INSURANCE FUND EUROPA AD	1 849	1 831	1.0%	1 715	1 815	-5.5%
TOTAL		78 348	67 852	15.5%	52 554	44 850	17.2%

***Annex II.2.3.1A.Shareholding structure of the pension insurance companies at 31.12.2010 (shareholders with 10 and over 10 per cent direct holding in the capital of the pension insurance company)***

PIC	Shareholders	UIC	Percent of shares/ stakes held directly
PIC DOVERIE PLC	T B I H FINANCIAL SERVICES GROUP N.V.  AMSTERDAM, THE NETHERLANDS	Company registered under number 33279266 in the Commercial Register of the Chamber of Commerce and Industry Amsterdam, the Netherlands	92.58%
PIC SAGLASIE PLC	CHIMIMPORT AD	000627519	49.42%
	FINANCE CONSULTING EAD	103765841	19.95%
PIC DSK – RODINA AD	DSK BANK EAD	121830616	99.75%
PIC ALLIANZ BULGARIA PLC	ALLIANZ BULGARIA HOLDING AD	040812785	65.40%
	NATSIONALNA ELEKTRICHESKA KOMPANIA EAD	000649348	34.00%
I N G PIC PLC	ING CONTINENTAL EUROPE HOLDING	121708719	100.00%
PIC CCB SILA	CCB GROUP EAD	121749139	46.75%
	CHIMIMPORT INVEST	831541734	40.29%
PIC – FUTURE JSC	GOLDEN UNION OOD	130948827	15.00%
	UNIVERS COMPANY OOD	130948859	15.00%
	CERAMIC-STYLE EOOD	121551239	11.04%
	EAST TRADING CORPORATION OOD	130948811	10.00%
	BETA TRADING CORPORATION OOD	130948866	10.00%
PIC TOPLINA AD	LM IMPEX EOOD	122073062	46.40%
	BRIKEL EAD	123526494	30.00%
PENSION INSURANCE INSTITUTE AD	PELA EOOD	820178630	74.00%
	EST AD	130524198	25.00%

***Annex II.2.3.1B. 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 31.12.2010.***

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	26 430	42 941	1 039 571	183 360	102 489	0	1 325 420	1 032 241	76 045	159 007	0	1 267 293
PIC SAGLASIE PLC	10 699	18 733	348 257	87 097	37 369	0	472 723	398 505	34 555	50 008	0	483 068
PIC DSK-RODINA AD	11 684	15 340	281 471	37 882	37 880	2 941	360 174	325 446	21 214	50 590	4 894	402 144
PIC ALLIANZ BULGARIA PLC	19 142	28 309	620 608	99 525	263 208	0	983 341	593 252	37 881	233 193	0	864 326
I N G PIC PLC	6 255	10 144	287 168	30 432	62 904	0	380 504	265 644	17 980	35 390	0	319 014
PIC CCB SILA	14 424	17 854	254 901	52 752	46 479	0	354 132	282 309	27 469	52 665	0	362 443
PIC FUTURE JSC	2 550	3 211	51 861	5 517	5 029	0	62 407	91 741	5 708	5 289	0	102 738
PIC TOPLINA AD	3 397	4 250	23 339	22 071	5 693	0	51 103	41 036	12 058	11 749	0	64 843
PENSION INSURANCE INSTITUTE AD	4 976	5 118	6 023	585	67	0	6 675	15 517	1 370	77	0	16 964
TOTAL :	99 557	145 900	2 913 199	519 221	561 118	2 941	3 996 479	3 045 691	234 280	597 968	4 894	3 882 833

***Annex II.2.3.2A. Investments of the pension funds (total)***

Pension funds	Supplementary pension insurance funds			
	2010		2009	
	amount (BGN thousand)	share (%)	amount (BGN thousand)	share (%)
Total investments, including:	3 722 710	100.00	2 966 658	100.00
Debt securities issued or guaranteed by EU Member States, other countries or their Central Banks	799 802	21.48	669 943	22.58
Corporate bonds, incl.:	804 593	21.61	665 978	22.45
Issued or guaranteed by banks with the purpose of financing of infrastructure and investment projects	38 448	1.03	-	-
Mortgage bonds	51 525	1.38	34 255	1.15
Municipal bonds	105 193	2.83	63 823	2.15
Shares, rights and units, incl.:	1 055 965	28.37	697 623	23.52
Shares and rights of special investment purpose companies (SIPC)	81 966	2.20	90 360	3.05
Shares and units of collective investment schemes (CIS)	463 980	12.46	337 510	11.38
Shares and rights other than these of SIPC and CIS	510 019	13.70	269 753	9.09
Bank deposits	766 312	20.58	754 773	25.44
Investment properties	139 322	3.74	80 264	2.71