



FINANCIAL SUPERVISION COMMISSION

ANNUAL REPORT 2011

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
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
VPSOS – Voluntary Pension Fund with Occupational Schemes
CF – Contractual Fund
FTT – Financial Transaction Tax
GS – Government Securities
EEA – European Economic Area
EC – European Commission
EC – European Community
EP – European Parliament
EU – European Union
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
AIFM – Alternative Investment Fund Managers
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
 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
 ESMA – European Securities and Markets Authority
 EIOPA –European Insurance and Occupational Pensions Authority
 EBA – European Banking Authority
 ESFS – European System of Financial Supervisors
 ESRB – European Systemic Risk Board
 HHI - Herfindahl-Hirschman Index

Useful Links

Bulgarian Stock Exchange – Sofia AD
 Central Depository AD
 Bulgarian National Bank
 Ministry of Finance
 Council of Ministers
 Association of Bulgarian Insurers
 National Social Security Institute
 National Statistical Institute
 Privatization Agency
 Investor Compensation Fund
 Guarantee Fund
 Association of Bulgarian Investor Relations Directors
 Bulgarian Investor Relation Society
 Bulgarian Association of Supplementary Pension Insurance Companies
 Bulgarian Association of Asset Management Companies
 National Bureau of Bulgarian Motor Insurers
 Ministry of Labor and Social Policy
 Commission for Protection of Competition
 European Commission, Directorate General Internal Market
 European Parliament
 Council of the European Union
 European Systemic Risk Board (ESRB)
 European Securities and Markets Authority (ESMA)
 European Insurance and Occupational Pensions Authority (EIOPA)
 European Banking Authority (EBA)
 International Organization of Securities Commissions (IOSCO)
 International Association of Insurance Supervisors (IAIS)
 International Organization of Pension Supervisors (IOPS)
 European Central Bank
 International Monetary Fund

www.bse-sofia.bg
www.cdad.bg
www.bnb.bg
www.minfin.bg
www.government.bg
www.abz.bg
www.noi.bg
www.nsi.bg
www.priv.government.bg
www.sfund-bg.com
www.guaranteefund.bg
www.abird.info
www.birsbg.org
www.assoc.pension.bg
www.baud.bg
www.nbbaz.bg
www.mlsp.government.bg
www.cpc.bg
http://ec.europa.eu/internal_market/index.htm
www.europarl.europa.eu
www.consilium.europa.eu
www.esrb.europa.eu
www.esma.europa.eu
www.eiopa.europa.eu
www.eba.europa.eu
www.iosco.org
www.iaisweb.org
www.iopsweb.org
www.ecb.int
www.imf.org

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CHAIRMAN'S STATEMENT

Dear Ladies and Gentlemen,

I am pleased to present to you the 2011 Annual Report of the Financial Supervision Commission (FSC), which reflects the overall activities of the Commission in the past year. It was a dynamic year in national as well as international aspect, which put before us, the FSC Management, a number of issues to resolve, requiring fast and adequate reaction.

Since the beginning of 2011, the new European supervisory architecture began to operate, which increased the Commission's engagements and responsibility in the preparation and agreement of supervisory standards and practices with application in the European Union. FSC was actively involved in the negotiations on the legislative initiatives and proposals of the European Commission, aiming at building of sustainable and stable financial system, considering the level of financial intermediation and the development of the non-banking financial sector in Bulgaria. This task proved uneasy in the conditions of the debt crisis in the Euro Areas periphery, volatile international financial markets and conservative investor behaviour. The recovery of the economic activity was slowed down at the year's end, signals also appeared for the falling into recession of some EU states, which put at the forefront the policy of stimulating economic growth.

In this situation the efforts of FSC were directed to active regulatory, licensing and control activity with a view to enhancing the transparency of the less strictly regulated markets, reduction of the risks, ensuring smooth functioning of the internal market. With the purpose of strengthening the effective integration and harmonization of the regulations and practices among the three divisions in the Commission, during the year an internal restructuring was completed, where underlying was the functional approach in the exercising of the FSC's supervisory activity.

In 2011, the Commission became more active in its policy for protection of the interests of consumers of non-banking financial services. Along with extension of the activity concerning the educational programmes and international initiatives, FSC developed and undertook actions for the implementation of Programme for protection of consumers of non-banking financial services and financial literacy enhancement for the period 2012-2015. It is for the first time that an analysis of the consumers' complaints and inquiries is published in a separate part of the report.

The Commission continued its active policy directed to the setting up of stable relations of cooperation with the supervisory authorities in Southeast Europe. The sharing of experience and the assistance to institutions from other states in the carrying out of their supervisory activity is an important commitment for FSC, which established it as a competent partner from the EU in the region of Southeast Europe and as the most active Bulgarian institution in the implementation of twinning projects with third countries.

Structurally the report is divided in two main parts. The first part covers the FSC activity in its function of regulatory, licensing and supervisory authority of the non-banking financial sector. This part includes the FSC's role for protection of the non-banking financial services consumers, the European dimension in the Commission's activity, the activities and processes within the international and domestic cooperation and the information awareness, which FSC provides to the market participants and to the general public as a whole.

In the second part of the report, a market analysis is presented of the non-banking financial sector in Bulgaria, outlining the state of the global and European economic environment and financial markets. In view of the interrelatedness between the development of the financial intermediation and the economic activity, a dynamic analysis is also given of the economic situation in Bulgaria. The overview of the non-banking financial sector presents the trends in the development of the financial intermediation and the risks which the participants in the financial markets face. Separate sectoral analyses have been included on the state of the capital, insurance and health insurance markets, as well as of the supplementary pension insurance market. With a view to the wide circle of readers of this report, we publish for the first time also a financial vocabulary.

In conclusion, I would like to say that in my opinion 2011 was really a year full of activities and events, which contributed to the Financial Supervision Commission's development as an integrated supervisory authority.

Stoyan Mavrodiev

FINANCIAL SUPERVISION COMMISSION – MISSION AND GOALS

The mission of the Financial Supervision Commission is to carry out effective supervision and regulation over the activities of:

- the regulated securities markets, investment intermediaries, investment and management companies, contractual funds, natural persons who directly perform transactions in securities and investment advice, public companies, special investment purpose companies and other issuers of securities;
- insurance companies, reinsurance companies, insurance brokers and insurance agents and health insurance companies;
- supplementary social insurance companies and the funds managed by them;
- financial conglomerates.

In the exercise of its functions and powers the Financial Supervision Commission is guided by the following goals:

- protection of the interests of investors, the insured and socially insured persons;
- ensuring stability, transparency and confidence in the financial markets, including through rules and systems for management of the risks on those markets;
- ensuring adequate and stable infrastructure of the financial markets.

I. FSC's ACTIVITY IN 2011

1. Regulatory activities

1.1. Amendments to the legal framework

The amendments to the legal framework in the field of the financial sector regulated by the Financial Supervision Commission are characterized by dynamics, generally not typical of the legislative regulation. The reasons for the frequent and introduced in short time amendments to the statutory and sub-statutory acts, regulating the activity of FSC and the participants in the financial markets over which it exercises control should be considered in the context of the international and national trends in the developments of the economy and finance and the necessity of introducing conforming to them regulation on the level of the EU and national legislation.

In 2011, the amendments to the legal regulations, initiated by the Financial Supervision Commission, in their larger part were dictated by amendments to the European legislation, which the Republic of Bulgaria was obligated to transpose in the national law. Another significant group were the statutory acts adopted or drawn up by FSC based on conducted analysis of their impact, assessment made on its basis of the need of changes in connection with established in the practice problems in their implementation or setting of new objectives in the building of the legal regulation of different sectors of the financial market.

Amendments to the statutory acts

Draft Law on the activities of collective investment schemes and other collective investment undertakings¹

The Draft Law on the activities of collective investment schemes and other collective investment undertakings transposed the requirements of Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investments in transferable securities. The large number of new provisions, which might have been introduced in the Bulgarian legislation in the transposition of Directive 2009/65/EO, necessitated cancellation of the texts in the Law on Public Offering of Securities (LPOS), which regulated the activity of the collective investment schemes, investment companies of closed-end type and managements companies and the elaboration of a new law.

The Directive introduced new requirements and possibilities for pursuing business by collective investments schemes and the companies managing them, which were also introduced in the Draft Law, for instance the so called „single European passport” was fully introduced – the management company with a home Member State the Republic of Bulgaria will be able not only to offer units of a collective investment scheme originating from the Republic of Bulgaria on the territory of another Member State, but also to manage on the territory of another Member State a collective investment scheme originating from that state. By the stipulated in the Directive new structure of the type of master – feeder collective investments schemes (CIS), a possibility is provided to reduce the administrative costs for the feeder collective investment scheme and to overcome the administrative barriers in relation to the cross-border offering of units of collective investment schemes. The structures of type master – feeder CIS are characterized by the feature that the feeder CIS must invest continuously at least 85 per cent of its assets in another CIS, which is called „master CIS”. With the purpose of avoiding non-transparent cascade structures, the master CIS may not be a feeder CIS, nor invest in a feeder CIS. In order to guarantee the exercising of efficient supervision on the side of the

¹ Promulgated, SG, iss. 77 in 2011

regulatory authorities, feeder CIS may not invest in more than one master CIS. With the purpose of protection of investor interests, it is envisaged the investment of the feeder CIS in the master one to be approved preliminarily by the competent authority of the home Member State.

A detailed procedure of transformation is envisaged, where collective investment schemes from different Member States are involved, aiming at higher extent of investor protection, envisaging requirements to the transformation plan and supply of comprehensive information to the unit-holders of the involved in the transformation CIS. With the Draft Law some options from the Directive were also introduced, of which the Republic of Bulgaria did not avail until now in the transposition of the revoked Directive 85/611/EEC. For example, greater concentration of the investments of a CIS in one person is allowed, if CIS targets reproduction of the composition of an index of an equity or bond index, which allows the establishment of CIS, which follow the movement of stock indexes. The requirements in regard to reporting were also alleviated, the hitherto effective requirement for submission of quarterly reports was dropped off and an obligation was introduced for CIS to present two public reports – one for the first half-year of the financial year and one final for the end of the relevant financial year, with the purpose of unification of the regime for disclosure of information on EU level.

Draft Law on amendment and supplement of the Financial Supervision Commission Act²

The main purpose of the Draft Law is to implement in the Bulgarian legislation the amendments to the EU law, concerning the institutional framework of the financial supervision, adopted by Directive 2010/78/EU of the European Parliament and of the Council, amending a group of sectoral Directives in respect to the powers of the European Banking Authority, the European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority.

The Directive introduces the necessary amendments to the sectoral legislation of the EU with the purpose of efficient functioning of the new European Supervisory Authorities, which are part of the European System of Financial Supervision.

With a view to achieving maximum agreement in the actions of the competent authorities in the separate Member States, which is one of the major goals of the Directive, in the Draft Law is implemented the principal obligation for cooperation and provision of information by FSC to the EC, to the European Supervisory Authorities and to the European Systemic Risk Board, the provision being also regulated for the submission by FSC of information, constituting professional secret, necessary to the new Supervisory Authorities for the fulfillment of their functions.

The specific obligations for FSC with a view to realization of that cooperation are laid down as part of the special legislation, and namely the Social Insurance Code (SIC), Law on Public Offering of Securities (LPOS), Markets in Financial Instruments Act (MFIA), the Law on the Activities of Collective Investment Schemes and Other Collective Investment Undertakings (LACISOCIU) and the Law on Measures against Market Abuse with Financial Instruments (LMMAFI). By the proposed amendments to the special laws, an obligation is also introduced for FSC to submit to the European authorities information within the legally set term – a generalized check-up or concrete data about issued by the Commission and its bodies individual administrative acts of significance for the integrated and interconnected European financial markets: for instance, the granting and withdrawal of authorization to manage a supplementary voluntary pension fund with occupational schemes, granted or withdrawn license of an investment intermediary, management company and regulated market, issued approval of prospectus.

In the Draft Law, measures were also envisaged, which conform the national legislation to three recommendations of the EC (Commission Recommendation 2009/384 on remuneration policies in the financial services sector, Recommendation 2004/913/EU of the EC and Recommendation 2009/385 of the EC

² Am. and suppl., SG, iss. 21 in 2012

as regards the regime for remuneration of directors of listed companies) regarding the remuneration policy in the sector of financial services, requirements being introduced in the special laws to the supplementary social insurance companies, insurance and reinsurance companies, investments intermediaries, management companies and investment companies to put in place, maintain and disclose the remuneration policy about the persons working for them.

Draft Law on amendment and supplement of the Social Insurance Code³

The main purpose of the amendments made was to refine the regulations concerning the pension funds' investments, optimize the fees and deductions collected by the pension insurance companies, as well as to improve the organization of the companies' activities.

In the first place, the prepared by FSC draft law aimed at refining the investment regulations. The range of the allowed financial instruments for the pension funds was broadened with the purpose of providing greater investment possibilities for their increasing funds and better diversification of their portfolios, while at the same time some requirements to the financial instruments held by them were heightened. In making these changes in the investment policy, the more liberal investment regime of the voluntary pension funds, as compared with that of the mandatory funds, was retained.

The requirements to investing the funds of the pension reserve and the reserve for guaranteeing minimum rate of return had also been rendered more precise. Another accent of the amendments to the SIC was the envisaged in the draft decreasing of the collected by the pension insurance companies fees and deductions. The structure and size of the established by the SIC fees and deductions, collected by the pension insurance have a significant impact on the accumulated funds in the individual accounts of the insured persons in the mandatory pension insurance funds. According to the calculations made, the deducted investment fee at the rate of one per cent annually from the net assets of the mandatory pension funds for a 40-year insurance period will reduce the accumulated funds under the persons' accounts by around 15 per cent, and the fee from each contribution – by about 5 per cent, or the account will decrease with one fifth from the collected fees and deductions, which will also have an effect on the amount of the future pensions of the persons insured in the second pillar of our pension system. For that reason, in the project their gradual decrease is proposed, without affecting the financial stability of the pension insurance companies. The dropping off is envisaged of the fee for transfer of the insured persons' funds from one into another relevant pension fund, as well as of some additional fees, collected from the persons for their insurance in the voluntary pension funds.

The amendments also envisaged changes in the internal control arrangements, targeting to guarantee that the supplementary pension insurance activity would be carried out in compliance with the legal requirements and the insured persons' interests. The functions of the internal control unit were regulated. An obligation was introduced for the establishment of an investment unit and risk management unit, their powers and the requirements to their activities.

The Draft Law introduced additional requirements for provision to the insured person of current written information about the main characteristics of the fund before the conclusion of an insurance contract with the pension insurance company, the procedure of switching of participation in a fund was relieved and the mechanism for determining the minimum rate of return of the mandatory pension funds was changed with the purpose of achieving greater correspondence with the investment horizon of the persons insured in them.

³ The Draft Law drawn up by FSC was sent in February 2012 to the presenting authority – the Minister of Finance, to undertake actions for agreeing and presenting the Draft Law for consideration at the Council of Ministers.

Amendments to the sub-statutory acts

Ordinance № 44 from 20 October 2011 on the requirements to the activities of the collective investment schemes, closed-end investment companies and management companies⁴

The Ordinance introduced the requirements of Commission Directives 2010/44/EU and Directive 2010/43/EU of 1 July 2010, implementing Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities, transposed in the new Law on the Activities of Collective Investment Schemes and Other Collective Investment Undertakings (LACISOCIU). The Ordinance regulates the content of the agreements of the collective investment schemes with their servicing companies; the requirements to the liquidity of the collective investment schemes, the assets in which they can invest, and their valuation; the issuance, sale and redemption activity; the content of the prospectuses, reports, advertising announcements. Regulated also have been the transformation and winding-up of collective investment schemes; the requirements to the organization and activities of the management companies, their capital adequacy and liquidity; the requirements to the activities of investment companies of closed-end type. The aim of the Ordinance is the achievement of higher level of awareness of the unit-holders with regard to the characteristics of the collective scheme, in which they invested, and better regulation of the activity of the collective asset management by implementing requirements to the organization, which the management company must ensure, and the procedure which it must follow.

Ordinance on amendment and supplement to ORDINANCE № 35 on the capital adequacy and liquidity of investment intermediaries⁵

In 2011, two amendments were made to Ordinance № 35 of 17.10.2006 on the capital adequacy and liquidity of the investment intermediaries in connection with the need of timely transposition of the provisions of two acts of the European legislation - Directive 2010/76/EU amending Directives 2006/48/EC and 2006/49/EC, and Directive 2010/78/EU.

The first amendment to Ordinance № 35, adopted by Resolution from a meeting of FSC on 24 February 2011, was related to the implementation of requirements with regard to the remunerations of certain categories of staff of the investment intermediaries – senior management; risk takers; staff engaged in control functions. An obligation was introduced for the investment intermediaries to develop and apply remuneration policies for the indicated category of staff, which are to regulate also the manner in which such remunerations are to be determined. Obligations were also introduced for the investment intermediaries to disclose information about the adopted remuneration policies. The subsequent amendments to the Ordinance, adopted by Resolution from FSC's meeting on 24 November 2011, aimed at strengthening the disclosure requirements towards the investment intermediaries with a view to improving the transparency in regard to the nature of the securitization activities. Amendments were also introduced in regard to the internal models for calculation of the market risk capital requirements. The models were complemented with the purpose of better capture of the credit risk in the trading book. In the capital charges, when using internal models, components were included, adequate to stress conditions to strengthen the capital requirements in view of deteriorating market conditions and in order to reduce the potential for pro-cyclical development of the sector. The carrying out of reverse

⁴ Prom., SG., iss.85 in 2011 (the Ordinance is for implementation of the new Law on the Activities of Collective Investment Schemes and Other Collective Investment Undertakings and was considered at FSC's meeting on 17 August 2011, before the adoption of the Law by the Parliament and was adopted finally by FSC after its coming into effect)

⁵ Amend. and suppl., SG, iss. 20 and 97 in 2011

stress tests was implemented when using internal models. The investment intermediaries' ability to model securitization risks in their trading book was limited when using internal models. A limited number of exceptions was introduced in correlation trading, for which the Deputy Chairman in charge of Investment Activity Supervision Division can allow a certain investment intermediary to calculate a comprehensive capital charge subject to strict minimum requirements.

Ordinance on amendment to ORDINANCE № 38 from 2007 on the requirements to the activities of investment intermediaries⁶

The amendments aim at relieving the conditions for conclusion of transactions with financial instruments, including through remote means, and optimization of the organization of the activity in investment intermediaries and management companies. A number of bureaucratic procedures were limited, the internal and external document flow and reporting were rationalized, which presupposes economy of resources and possibility for focusing the activity on the substantial aspects in the provision of investment services and better servicing of customers.

The amendments also target to facilitate the contact with foreign investors and level playing field of the Bulgarian investment intermediaries and management companies in competitive relations with other participants from EU Member States.

Ordinance on amendment to ORDINANCE № 42 on the building up and maintenance of information system for risk assessment, management and control, including for the issuance of policies under the obligatory insurances according to Art. 249, item 1 and 2 of the Insurance Code⁷

The Ordinance regulates the requirements to the information systems of the insurers, offering the compulsory Third Party Liability insurance, and their operational compatibility with the information systems, registers and databases, created and maintained by the Information Center to the Guarantee Fund. An obligation was introduced, the policies of Third Party Liability and Accident insurances to be issued only and solely through the information systems of the insurers.

Ordinance № 43 of 27 July 2011 on the requirements to the remunerations in the insurers, reinsurers and health insurance companies⁸

The Ordinance implements the requirements regarding the adoption of remuneration policy for persons occupying key positions in insurance, reinsurance and health insurance companies. With the Ordinance, principle requirements were laid down to the formation of the different components of the remunerations.

All these measures are directed to reducing the probability of persons occupying key positions in the above companies, to organize the company activities in a way, whereby to expose it unjustifiably to risks with the purpose of realization of higher incomes for themselves. The requirements implemented under the Ordinance have been regulated in the EU Law by a recommendation of the EC in regards to the remuneration policy in the financial services sector.

⁶ Amend., SG, iss.89 in 2011

⁷ Amend., SG, iss. 55 in 2011

⁸ Prom., SG, iss. 61 in 2011

Ordinance on amendment and supplement of ORDINANCE № 3 on the way and procedure for switching of participation and for transfer of the insured person's accumulated funds from one supplementary pension insurance fund to another relevant fund, managed by other pension insurance company⁹

The adopted amendments aim to refine the regulations related to pension fund switching. A possibility was introduced, the application for switching participation and for transfer of the resources to be filed besides on a paper carrier, also in an electronic way by a qualified electronic signature. Thus the confidentiality of the information is preserved, the time spent by the insured person in the procedure is reduced, and cash for notarial attestation of the signature is saved, establishing simultaneously confidence about the authenticity of the persons, with whom correspondence is carried out.

Another material change was connected with the procedure for the signing of insurance contract with the company, managing the fund, in which the person wished to transfer – the signing is to be done simultaneously with the filing of the application, the contract coming into effect from the date of transfer of the funds under the account. At the same time, the possibility was preserved for the person to reconsider the actions undertaken for switching of the pension fund and to withdraw the application filed by him/her. The new regulations target to prevent some established in the practice violations and to reduce the expenditure of time and money for the insured person. An obligation has been introduced for the pension insurance company to provide the insured person with written information according a standard form about the procedure of switching participation and about the main characteristics of the managed by the company pension fund, which allows the person to make really informed choice. With the amendment to the Ordinance, the way of payment of the transfer fee by the insured person was also changed. According the hitherto acting regulations, there was a possibility the fee to be deducted from the person's funds under his/her individual account, which were transferred, and instead of being an exception, that turned out to be a rule. The amendment, which envisages the fee to be paid by the person, takes into consideration the purposeful nature of the accumulations under the accounts and will contribute to their better safekeeping. The requirement for payment of the fee by the insured person, commits him/her personally and further attests his/her will to make the applied for switching of participation and transfer of funds in a new pension fund.

Ordinance on amendment and supplement of ORDINANCE № 29 on the minimum level of credit ratings of banks and on the definition of the countries, regulated markets and securities' regulated market indexes under Art. 176, para 2 of the Social Security Code¹⁰

The amendments and supplements of Ordinance № 29 of 12 July 2006 were conditioned by the requirements of Regulation (EC) № 1060/2009 of the European Parliament and of the Council on credit rating agencies.

By the amendments, the list of the countries have been improved and supplemented, in which it is allowed to invest the pension funds' resources in government securities, units of collective investment schemes and bank deposits. A review and updating was made of some regulated markets, as well as of the indexes of those markets, included in the list under Art. 5, para 1 of the Ordinance, due to change in their names. Additional markets and indexes were included with the purpose of providing the pension funds with wider investment opportunities and better diversification of their portfolios on regional and sector level.

⁹ Amend. and suppl., SG, iss. 78 in 2011

¹⁰ Amend., SG, iss. 91 in 2011

1.2. New developments in the EU policy

In 2011, the European Union adopted a number of legally binding acts in the form of Directives and Regulations. The European Commission published new proposals for EU acts, which have the objective to further refine the European legal framework in the non-banking financial sector.

Directives and Regulations of the European Union

Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) № 1060/2009 and (EU) № 1095/2010

The Directive regulates the activity and structure of the Managers of Alternative Investment Funds (AIFMs). Its objective is providing an internal market for AIFMs and the setting up of a harmonized and stringent supervisory framework for the activities within the EU of all AIFMs, including those which have their registered office in a Member State and those which have their registered office in a third country. The Directive regulates in detail the exceptions from its application, the services performed by AIFMs, as well as the procedure and the documents, which are submitted, in order an AIFM to be licensed. Comprehensive regulations are also provided for the conditions to pursue business, more especially for payment of remunerations, conflicts of interest, risk management, organizational requirements, etc. Last but not least, regulation is also provided for the function of the depository, which keeps the assets of AIFMs, or of the alternative investment fund itself. AIFMs must also meet requirements for transparency and disclosure of information. With a view to carrying out activity in and outside of the EU, the Directive envisages norms for management and offering units of alternative investment funds in an EU Member State, and in a third country. The Directive should be transposed in the national legislation by 22 July 2013.

Directive 2011/89/EU of the European Parliament of the Council of 16 November 2011 amending Directives 98/78/EC, 2002/87/EC, 2006/48/EC and 2009/138/EC as regards the supplementary supervision of financial entities in a financial conglomerate

The goal of the Directive is further improvement of the supplementary supervision over the financial entities in a financial conglomerate, amending three other Directives: 1) on the supplementary supervision of insurance and reinsurance undertakings, which are part of an insurance or reinsurance group; 2) on the taking up and pursuit of the business of credit institutions; and 3) on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency 2).

Regulation (EU) № 513/2011 of the European Parliament and of the Council of 11 May 2011 amending Regulation (EC) № 1060/2009 on the credit rating agencies

By Regulation № 1060/2009, a common framework of rules is set up in regard to the credit rating agencies (CRAs). The objective of the Regulation is the increase of the quality of the credit ratings issued by the agencies. It was foreseen the supervision over CRAs to be carried out by the competent authority of the agency's home Member State. After the adoption of Regulation № 1095/2010, establishing European Securities and Markets Authority (ESMA), it was necessary the existing regulations on the CRAs to be amended with a view to fulfillment the Council's recommendation of 19 June 2009, the regulation and supervision of the agencies to be included within the powers of ESMA. According to the changes made in the new Regulation from 1 July 2011, ESMA is entrusted to be responsible for the registration and current supervision of CRAs, registered in the EU (including of the European Divisions of Fitch, Moody's and Standard & Poor's). Furthermore, the Regulation provides the possibility to ESMA to issue harmonized regulatory technical standards with the purpose to facilitate the implementation in the daily practice of Regulation (EU) № 1060/2009 and to guarantee level playing field and appropriate protection of the investors

and consumers within the Union. It should be noted that ESMA also already has the right to impose fines on CRAs, when it decides that they have committed offence of Regulation (EC) № 1060/2009.

Proposals of the EC about Regulations and Directives

In connection with the consequences of the 2008 financial crisis, the European Commission enhanced its efforts for harmonization of the EU legal framework in the field of the financial services, taking also into consideration a number of factors, which had an effect on the non-banking financial sector, such as: the material change and increasing globalization of the financial markets in recent years, the need of heightening the transparency of the less stringently regulated markets, reduction of the risks, ensuring smooth functioning of the internal market, the necessity of strengthening the powers of the regulatory authorities for investigation and sanctioning, etc.

The Financial Supervision Commission was actively involved in the negotiations on those EC proposals, which were carried out in the working groups to the EU Council, upholding the interests of the financial sector in Bulgaria.

Considering the above stated goals and policies, the EC elaborated and published the following new legislative proposals in 2011:

Proposal for a Regulation of the European Parliament and of the Council on transactions with OTC derivatives, central counterparties and trade repositories - EMIR

The proposal relates to all types of OTC derivatives. It applies both in regard to the financial undertakings, which use OTC derivative, and to non-financial undertakings, which have large positions in OTC derivatives, and regulates the activities of the central counterparties and of the trade repositories. The non-financial undertakings, which use OTC derivatives to reduce the risk occurring as a result of their core activity (for instance, „trade hedging“, used for protection against changes in the exchange rate), will be exempted from the requirements for clearing through the central counterparties.

With the Regulation, greater security and transparency will be ensured on the OTC derivatives market. In its draft the EC proposes the information about the OTC derivative contracts to be provided to the trade repositories and to be accessible for the supervisory authorities. In this way the regulators in the EU will have an access to those trade repositories and will be able to detect at an early stage potential problems, for example such as risk accumulation.

According to the proposal, the clearing of the standardized OTC derivatives will have to be carried out by central counterparties, in this way avoiding situations, in which the bankruptcy of one participant in the markets causes bankruptcy of other market participants, putting in a risk situation the whole financial system.

Proposal for a Regulation of the European Parliament and of the Council on the markets in financial instruments and amending the Regulation [EMIR] on OTC derivatives, central counterparties and trade repositories – MiFIR and Proposal for a Directive of the European Parliament and of the Council on markets in financial instruments and for revocation of Directive 2004/39/EC - MiFID

In relation to the changes in the financial markets in the recent years, the development of new trading venues, new products and the influence of the technological innovations, such as high-frequency trading, the EC published proposals for review of the Markets in Financial Instruments Directive (MiFID). Those proposals include a Directive and a Regulation, their objective being the financial markets to become more efficient, sounder and more transparent, as well as the investor protection to be strengthened. By the new

statutory regulations, the supervisory powers of the regulatory authorities will be enhanced and clear rules will be defined for the execution of all activities in trading with financial instruments.

Some of the main points in the proposals are:

- Setting up of more stable and efficient market structures, adding the Organized Trading Facilities (OTFs) in their scope, along with the Multilateral Trading Facilities and the regulated markets;
- observance of uniform rules of transparency and limiting the conflicts of interest;
- establishing special designation for the markets of small and medium-sized enterprises;
- taking into account the technological innovations on the market;
- increasing transparency and enhancing the powers of the supervisory authorities;
- implementation of more stringent supervision over the markets of commodity derivative instruments;
- ensuring better investor protection.

Proposal for a Regulation of the European Parliament and of the Council on insider dealing and market manipulation and Proposal for a Directive of the European Parliament and of the Council on criminal sanctions for insider dealing and market manipulation

The two proposals harmonize the rules concerning the market abuses in the EU and cover the new realities on the market – new technologies and financial instruments, traded only on new platforms and over the counter, which are still not covered by the legislation. The proposals' objectives can be divided into the following aspects:

- Synchronization with the changes on the market: financial instruments traded through Multilateral Trading Facilities, other Organized Trading Facilities and over-the-counter (OTC) are included within the scope of the existing EU legislation, so that the transactions with all financial instruments on all platforms to be covered by the provisions, directed against the market abuses;
- It is also specified which strategies of the high-frequency trading constitute prohibited market manipulation;
- In regard to the commodity exchanges, the Proposal for Regulation adds to the scope the transactions/ the behavior of the spot markets, which have impact on the financial markets and derivative markets;
- The powers of the regulatory authorities for investigation and sanctioning are strengthened;
- The principles concerning the imposed sanctions are synchronized.

Proposal for a Regulation of the European Parliament and of the Council on European Venture Capital Funds and Proposal for a Regulation of the European Parliament and of the Council on European Social Entrepreneurship Funds

By the two proposals, the EC lays the ground for a stable European market for the Social Entrepreneurship Funds and the Venture Capital Funds, introducing new designations European Social Entrepreneurship Fund (EuSEF) and European Venture Capital Fund (VCF) with the purpose of their easier identification by investors.

The two proposals will facilitate the access to financing and will increase the competitiveness and growth potential of the small and medium-sized enterprises (SME).

The main features of the funds are as follows:

- minimum 70 per cent of the raised capital must be invested in the instruments and companies, explicitly indicated in the Regulations;
- the Funds may not use leverage (i.e. the fund does not invest more capital than it has, and therefore it does not have a debt);

- VCF may invest only directly in equity or hybrid capital of SME (i.e. they provide „fresh capital“); EuSEF may invest in equity and debt securities, issued by social entrepreneurship companies, to grant loans to them and to acquire units or shares of other EuSEF.

The scope of the Regulations relates to all managers, that manage portfolios of the relevant type of Funds to the amount of EUR 500 million, i.e. the Regulation complements Directive 2011/61/EU on Alternative Investment Fund's Managers.

The managers, willing to use the new designations European Social Entrepreneurship Fund and European Venture Capital Fund for the marketing of their Funds should undergo a registration procedure with the competent authority in the home Member State. The obtained registration constitutes a European passport, which allows the marketing of these Funds within the whole EU. The main powers, which the competent authorities must have been also laid down, as well as the specific cases, in which the competent authority should prohibit the use of the designation European Social Entrepreneurship Fund and European Venture Capital Fund, or remove the manager from the register. The Member States have to prepare the legal framework about the administrative measures and sanctions, applicable upon violations of the two Regulations. The Financial Supervision Commission will have the obligation to notify EC and the European Securities and Markets Authority (ESMA) of that framework within a period of 2 years of the coming into effect of the Regulations.

Proposal for a Regulation of the European Parliament and of the Council amending and supplementing Regulation № 1060/2009 on the credit rating agencies and Proposal for a Directive of the European Parliament and of the Council amending Directive 2009/65/EO on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) and Directive 2011/61/EU on Alternative Investment Fund Managers, in respect of excessive reliance on credit ratings

Several major objectives are outlined in the proposed drafts of Directive and Regulation. One of them is the achievement of guarantees that in taking investment decisions, the financial institutions do not rely only on credit ratings. In this way, the referring to external ratings will be reduced and the financial institutions will be required to conduct their own complex assessments. Similar amendments are implemented in regard to the rules concerning fund managers. The Proposal also includes general obligation for the investors to conduct their own assessments.

Furthermore, it is envisaged the credit rating agencies (CRAs) and the rated entities to ensure access to more comprehensive and reliable data, used in the determination of the ratings, so that the professional investors may have the necessary information for their decisions.

The agencies, also, will have to consult the issuers and investors about all planned changes in their rating methodologies. These changes have to be submitted to ESMA, which will check them for compliance over the acting rules with regard to their format and procedures.

Clearer ratings are envisaged for the sovereign debt and more frequent assessment of the Member States (every six months, instead of annually), which will be informed, as well as the investors, of the facts and assumptions used in each assessment. With the purpose of avoiding market concussions, the ratings have to be published only after the end of the business day and at least one hour before the opening of the European financial markets.

Greater ACRs responsibility is also envisaged for the provided by them ratings. The agencies will be liable in case of offence – deliberate or as a result of gross negligence, if thus they cause damage to an investor that relied on the relevant rating.

Proposal for a Council Directive on a common system of financial transaction tax and amending Directive 2008/7/EC

The objective of the Proposal for Directive on the implementation financial transaction tax (FTT) is harmonization of the legislation related to the taxation of financial transactions. It is proposed tax to be levied on all transactions in financial instruments between financial institutions in the cases, when at least one of the parties to a transaction is established in an EU Member State.

The scope of the tax is broad, as it aims at levying transactions relating to all types of financial instruments and covers trading on organized markets, such as regulated markets and multilateral trading facilities, as well as over all other types of trade, including over-the-counter (OTC) trade. Trades on the primary markets are excluded from the scope of FTT, so as not to undermine the raising of capital by companies and governments, and on the currency markets. FTT also does not relate to the operations between financial institutions and retail customer (households and undertakings), except in the cases of investment intermediation.

A person liable to pay tax is any financial institution, established in an EU Member State, which is a party to a transaction with financial instruments. Outside of the scope of the Directive shall be the European Financial Stability Facility, the international financial institutions established with the purpose to mobilize funding for provision of financial assistance to the benefit of threatened by severe financing problems, Central Counter Parties (CCPs) where exercising the function of a CCP and Central Depositories (CDs) where exercising the function of a CD.

The draft Directive does not introduce express provisions in regard to the procedure of registration, accounting and reporting of the liabilities related to FTT – such will be undertaken at national level. The levying of any type of taxes on the financial transactions, other than the tax laid down in this Directive and VAT under Directive 2006/112/EC, is prohibited.

Bulgaria, at this stage, expresses serious reservations and does not support the implementation of financial transaction tax.

Proposal for a Directive amending Directive 2004/109/EC on the harmonization of the transparency requirements

The Proposal for amendment to the Transparency Directive has the objective of maintaining and improving the level of investor protection, as well as ensuring that the information disclosed at acceptable cost is sufficient and useful for investment purposes. This will lead to the simplification of certain issuers' obligations with a view to make regulated markets more attractive for small and medium-sized issuers raising capital in Europe, and to increase of the legal clarity and effectiveness of the existing regulations in regard to transparency.

The requirement to publish interim management statements and/ or quarterly reports is abolished to reduce the administrative burden, related to the registration on regulated markets, and to encourage long-term investments. This will relate to all companies, whose securities are admitted to trading on a regulated market.

In order to take account of the innovations in the financial sphere and to ensure that issuers and investors have full knowledge of the structure of corporate ownership, the definition of a financial instrument should be broadened in such a way as to cover all instruments with similar economic effect to holding shares and entitlements to acquire shares, regardless of whether they give right to settlement by delivery of the underlying securities or not.

A higher extent of harmonization is envisaged in relation to the notification of major holdings - aggregation of holdings of shares with holdings of financial instruments, which is of material importance for enhancement of the legal certainty. Netting of long and short positions should not be allowed.

Changes are also envisaged in regard to the storage of the regulated information, aiming at harmonization of the regulations at European level. It is proposed the European Commission to receive further delegated powers, in particular regarding the access to regulated information at the Union level.

These measures should also be used to prepare the possible future creation of a single European mechanism ensuring storage of regulated information at the Union level.

Proposal for a Directive of the European Parliament and of the Council on the authorization and pursuance of the business of credit institutions and on the prudential supervision of credit institutions and investment firms and amending Directive 2002/87/EC of the European Parliament and of the Council on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate and Proposal for a Regulation of the European Parliament and of the Council on the prudential requirements for the credit institutions and investment firms (CRD IV)

The proposal consists of two parts: A Directive on the access to business of taking deposits and a Regulation on the way in which the credit institutions and investment firms carry out their activities.

1. The Regulation contains detailed prudential requirements for the credit institutions and investment firms and covers the following elements:

- capital: the level of equity is increased, as well as its quality. The deductions from the own funds are also harmonized with a view to determining the amount of required capital that is needed to be recognized for regulatory purposes;
- liquidity: the introduction of a Liquidity Coverage Ratio is proposed, whose precise parameters and their ratio will be determined after an observation and review period in 2015;
- Leverage Ratio: the Leverage Ratio will be subject of prudential supervision. The impact of that ratio will be closely traced out before its eventual introduction as a legally binding requirement on 1 January 2018;
- counterparty credit risk: changes will be made, whereby the banks will be encouraged to refer to central counterparty for the clearing of their operations with derivatives on the OTC markets.

2. The new Directive covers the areas from the scope of the current Capital Requirements Directive, with the following main points:

- more stringent requirements in regard to good corporate governance and the introduction of new rules of heightening the efficiency of risk monitoring by the management boards;
- sanctions: they will be imposed by the supervisory authorities and will be really dissuasive, effective and proportionate;
- capital buffers: two capital buffers are introduced in addition to the minimum capital requirements: capital conservation buffer, equal for all banks in the EU, as well as countercyclical capital buffer, to be determined at national level;
- improved supervision: strengthening of the supervision is proposed with the requirement for annual preparation of a supervisory program for each subject to oversight institution on the basis of risk assessment, more systematic use of the supervisory on-the-spot inspections and stricter standards.

Proposal for a Directive of the European Parliament and of the Council amending Directive 2003/71/EU and Directive 2009/138/EO in respect to the powers of the European Insurance and Occupational Pensions Authority and of the European Securities and Markets Authority - Omnibus 2

The Proposal aims to synchronize the legal regulations of the Directive subject to amendment with the amendments introduced by the Treaty of Lisboa and the Regulations establishing the new European Supervisory Authorities – ESMA¹¹ and EIOPA¹².

Proposal for a Regulation of the European Parliament and of the Council on short selling and certain aspects of the credit default swaps

The proposal was published on 15 September 2010. The main negotiations about it ran in 2011 and the Regulation was published in the Official Journal on 24 March 2012¹³.

The major objectives of the proposal are the creation of uniform legal regulations for coordinated actions at European level, enhancement of transparency and reduction of risks. The new regulations mean that the regulatory authorities – national and European – have clear powers when needed to undertake actions, and simultaneously, the market fragmentation is prevented and smooth functioning of the internal market is ensured. The Regulation will be applied in regard to all financial instruments, defined in MiFID (respectively in the Markets in Financial Instruments Act), which are admitted to trading in the EU, including also when these instruments are traded on OTC markets.

1.3. Challenges to the regulatory activity

The challenges to the FSC regulatory activity in 2012 are again related to the intensive amendments to the European legislation. In the end of 2011, the FSC programme was also prepared for the legislative activity in the first half-year of 2012, which envisaged preparation of amendments to three major laws, regulating the activities of the non-banking financial sector in Bulgaria.

In the field of investment activity, the elaboration of a **Draft Law** is envisaged **amending and supplementing the Law on Public Offering of Securities**, whereby in the Bulgarian legislation will be implemented **the requirements** of Directive № 2010/73/EU of the European Parliament and of the Council from 2010 amending Directive № 2003/71/EC **on the prospectus** to be published when securities are traded to the public or admitted to trading, and amending Directive 2004/109/EC on the **harmonization of transparency requirements in relation to information about issuers whose securities are admitted to trading in a regulated market**. In the second half-year, again in the investment activity field, the drawing up of a **Draft Law** is envisaged, transposing Directive 2011/61/EC of the European Parliament and of the Council from 2011 **on Alternative Investment Fund Manages**, and amending Directives 2003/41/EC and 2009/65/EC and of Regulations (EC) № 1060/2009 and (EU) № 1095/2010.

In the field of insurance, the development of a **Draft Law** is forthcoming **amending the Insurance Code**, whereby in the Bulgarian legislation will be transposed the requirements of Directive 2009/138/EC of the European Parliament and of the Council from 2009 **on the taking-up and pursuit of the business of Insurance and Reinsurance** and thus **new requirements** will be implemented **to the insurance companies**,

¹¹ 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.

¹² 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 and repealing Commission Decision 2009/79/EC.

¹³ Regulation № 236/2012 of the European Parliament and of the Council of 14 March 2012 on short selling and certain aspects of credit default swaps.

related to their solvency, systems of corporate governance, reporting and public disclosure of information.

In the field of the pension insurance, amendments are foreseen to the **Social Insurance Code**, directed to stimulation of the competition between the pension insurance companies and increasing the level of corporate governance. Proposals will be analyzed and discussed concerning the pension insurance development through the introduction of more varied investment opportunities for the persons through the implementation of the so called multifund system, which allows the insured persons to choose the degree of risk and rate of return, at which their assets are to be managed. **Ordinance on the requirements to the information systems of the pension insurance companies** is also being elaborated, which is to provide possibility for an electronic data exchange and coordination of the social security systems according to the European requirements.

2. Licensing activity, authorization regimes, notifications and certification

2.3. Licensing activity and authorization regimes

Investment intermediaries, Central Depository and regulated markets

As a result of the negative consequence of the global financial and economic crisis on the capital market, a tendency was observed of decrease in the number of the investment intermediaries (II). In 2011, the licenses of 5 investment intermediaries were withdrawn (Eurodealing AD, II EFG SECURITIES BULGARIA EAD, II Capital Engineer Project OOD, II Astra Investment AD and II Bulex-Invest AD) and 1 partially withdrawn license (II TBI Invest EAD), and the total number of the investment intermediaries at the end of 2011 was 77, including 26 banks and 51 non-banking institutions. At the same time, during the year two full and one partial licenses were granted to non-banking institutions for carrying out the activity of investment intermediary. The total number of investment intermediaries with full license was 48, incl. banks, and 29 investment intermediaries with partial license. One application for registration of a credit rating agency was also approved (Bulgarian Credit Rating Agency AD).

Table 1. Licensing activity in relation to IIs, regulated market and CD

	Number at 31.12.2010	Issued licenses	Withdrawn licenses	Number at 31.12.2011
Investment intermediaries*, incl.:	79	3	5	77
Banks	26	-	-	26
Non-banking institutions	53*	3	5	51
Regulated market	1	-	-	1
Central Depository	1	-	-	1

Notes: *II KBC SECURITIES, BRANCH BULGARIA, II PIANEER ASSET MANAGEMENT, A.S. and ALPHA BANK – BRANCH BULGARIA, BFE 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. Those, as well as one II with a withdrawn in 2010 license, which is in procedure of appealing, were not included in the number of the investment intermediaries.

From the total number of administrative procedures in 2011 in regard to the investment intermediaries, 8 were related to licensing activity, 7 were in connection with notifications for the acquiring qualifying holdings from the capital or the votes in the General Meeting of investment intermediaries, 8 – in relation to notifications for transfer of qualified holdings, 21 approvals and 3 refusals of approval for election of a

member of a managing body of an investment intermediary. Adding to them the uncompleted from the previous year 11 procedures in regard to investment intermediaries, within the reporting year overall 49 administrative procedures were completed in relation to investment intermediaries, and 7 were transferred for 2012.

During the year under review, 2 procedures were also opened for amendment to the Rules of BSE-Sofia AD, of which one was concluded, as well as one in relation to the Rules and Regulations of the CD, which was not completed at the end of the reporting year.

Table 2. Administrative procedures in relation to investment intermediaries, regulated market and the CD

	Incompleted as of 31.12.2010	Newly opened in 2011	Concluded in 2011	Incompleted at 31.12.2011.
Investment intermediaries	11	45	49	7
Regulated market	-	2	1	1
Central Depository	-	1	-	1

The tendency of decline in the number of the management companies and contractual funds continued. In 2011, one license to pursue business as a management company was withdrawn of MC New Way Asset Management AD¹⁴, and their number at the year end reached 33 companies. Authorizations were issued to 2 management companies to organize and manage 2 contractual funds (MC Balkan Capital Management AD organizes and manages contractual fund Commodity Strategy Fund, and MC Karol Capital Management EAD organizes and manages contractual fund ADVANCE GLOBAL TRENDS), as well as approvals for the winding-up of 4 contractual funds, predominantly due to failure to raise the statutorily required capital within one year of obtaining the authorization for organization and management of a contractual fund.

There was no change in the number of investment companies, 8 of them being investment companies of open-end type and 2 of closed-end type. In so far as the effectuated Law on the Activities of Collective Investment Schemes and other Collective Investment Undertakings allows investment companies to transform themselves into contractual funds, such tendency can be expected in future.

Table 3. Licensing activity in relation to MCs, CFs and ICs

	Number at 31.12.2010	Issued licenses	Withdrawn licenses	Number at 31.12.2011
Management companies	34	-	1	33
Contractual funds	95	2	4	93
Investment companies, incl.:	10	-	-	10
IC of open-end type	8	-	-	8
IC of closed-end type	2	-	-	2

¹⁴ The decision is appealed against and has not come into effect. Accordingly, that MC was not included in the total number at the end of the reporting period.

The larger part of the administrative procedures during the year in regard to the management companies were related to procedures for acquisition, transfer and change in qualifying holdings in the capital or in the votes in the MCs General Meeting (20). In 2011, 12 procedures were reviewed on approval of advertising materials of MCs for advertising of the managed by them contractual funds, where 3 temporary prohibitions and 1 final prohibition were imposed for the publishing and distribution of advertising materials. At the year end, there were totally 4 uncompleted procedures in relation to filed two applications for the granting of a license to pursue business as a management company, one application for voluntary withdrawal of a license and one for acquiring a qualifying holding.

From the total number of administrative procedures in regard to CFs, on which work was carried out during the year under review, 18 were approvals for change in the contracts with the depository bank and replacement of the depository bank, 13 were approvals of amendments to the rules of CFs, 10 were approvals of change in the rules of portfolio valuation, determining the net asset value of CFs and of change in the rules of risk assessment and management, 7 were connected with decisions for organization and management of CFs. At the end of 2011, two administrative procedures remained related to authorizations for organization and management of CFs. All administrative procedures, opened and concluded in the reporting year in respect to ICs, were approvals for amendments to their articles of association.

Table 4. Administrative procedures in relation to MCs, CFs and ICs

	Incompleted as of 31.12.2010	Newly opened in 2011	Concluded in 2011	Incompleted at 31.12.2011.
Management companies	4	33	33	4
Contractual funds	6	44	48	2
Investment companies	-	3	3	-

Public companies, special investment purpose companies and other securities issuers

The activities of the special investment purpose companies (SIPCs), and in particular, concerning real estate securitization, was seriously affected by the consequences of the global financial and economic crisis. The number of the special investment purpose companies in 2011 was 72 and remained the same compared with the preceding year. The predominant part of the companies were for real estate securitization – 64, while for receivables securitization they were 8 in number. In 2011, one refusal was pronounced for the issue of a license to carry out the activity of a special investment purpose company.

In 2011, 8 public companies and 8 securities issuers were entered in, respectively 4 public companies and 8 issues were deleted from the Register kept by the FSC. In 2011, two refusals were issued for deletion of public companies. The total number of the public companies and other securities issuers in the end of 2011 was 371, a tendency of increase in their number being observed, as compared to the previous year – 367.

Table 5. Licensing activity in relation to SIPCs, PCs and other issuers

	Number at 31.12.2010	Issued licenses	Withdrawn licenses	Number at 31.12.2011
SIPCs, including	72	-	-	72
SIPCs receivables securitization	8	-	-	8

SIPCs real estate securitization, incl.:	64	-	-	64
<i>SIPCs (agricultural land)</i>	8	-	-	8
Public companies and other issuers	367	16	12	371

The main part of the administrative procedures in relation to SIPCs were connected with issued approvals for amendment to their articles of association (21), as well as with approval for replacement of their servicing company (8). Along the line of the public companies and issuers, in 2011, 22 prospectuses were approved for initial public offering of shares and 2 prospectuses for initial public offering of bonds. As a comparison, their number in 2010 was 17¹⁵, a slight increase and activation was noticed of the filed applications for approval of prospectuses for initial public offering of securities.

In the course of the year, 14 prospectuses were also approved for admission to trading on a regulated market, from which 8 prospectuses for admission to trading on a regulated market of an issue of bonds, 3 prospectuses for admission to trading on a regulated market of an issue of shares, as well as 3 prospectuses for admission to trading of an issue of shares on European markets (MONBAT AD, Sopharma AD and Eurohold Bulgaria AD). It was noted that the number of the prospectuses for admission to trading was preserved relatively the same, and in particular the number of prospectuses for admission to trading of an issue of bonds, where in 2010 the total number of the approved prospectuses for admission to trading on a regulated market was 13, from which 9 for bonds and 4 for shares.

The total amount of the approved prospectuses during the reporting period, including for initial public offering (22) and for admission to trading of an issue of shares and bonds amounted to BGN 706.308 thousand, which was an increase by 64% compared to 2010 - BGN 430.694 thousand. In 2011, pronouncement was also made of 4 refusals for approval of a prospectus, from which two prospectuses for admission to trading of an issue of bonds, one prospectus for shares and one prospectus in connection with filed application for the granting of a license to pursue the business of a special investment purpose company.

The number of the registered tender offers in 2011 was 9, where FSC took a decision not to issue a final prohibition for the publishing of 8 and issued one final prohibition. As a comparison, in 2010 the total number of the registered tender offers was 20, where for 17 the Commission took a decision not to issue a final prohibition and one tender offer was terminated. The data show some decline in the number of the registered tender offers during the reviewed year, compared to the previous year.

Table 6. Administrative procedures in relation to SIPCs, PCs and other issuers

	Incompleted as of 31.12.2010	Newly opened in 2011	Concluded in 2011	Incompleted at 31.12.2011
SIPCs	3	29	32	-
PCs and issuers	16	102	107	11

Insurance and voluntary health insurance

At the end of the period under review, the number of the general insurance companies was 18 as a result of transformation by merger of GRAWE Bulgaria General Insurance EAD into the sole owner of its

¹⁵ From them 16 were for initial public offering of shares, one – of warrant and one prospectus for public offering of units in an investment fund.

capital – Grazer Wechelseitige Versicherung AG¹⁶, while the number of the life insurance companies (14), mutual insurance co-operative societies (2) and reinsurance companies (1) remained unchanged. For the period, the number of the insurance companies from Member States pursuing business under right of establishment (a branch) on the territory of the Republic of Bulgaria remained also unchanged - 9.

In 2011, the number of the companies entered in the Register of insurance brokers, which the FSC maintains on the ground of Art. 30, para 1 of the Financial Supervision Commission Act (FSCA) increased with 10 and at the year end it reached 373 insurance brokers. Among the insurance agents, that are subject only to filing into the Register of insurance agents, a decline (- 8630) was registered during the year as a result mainly of the receding of the natural persons (- 8698) and insurance agents – sole proprietors (- 203), despite of the increase of the number of insurance agents – legal persons (271).

The number of the health insurance companies decreased to 19 during the year, in connection with approved voluntary winding-up of Health Insurance Company Vseotdainost AD and the withdrawal of the license for carrying out the activity of a health insurance company¹⁷.

Table 7. Licensing activity in relation to insurance and voluntary health insurance

	Number at 31.12.2010	Issued licenses	Withdrawn licenses	Number at 31.12.2011
Insurers, incl.:	35	-	1	34
General insurance	19	-	1	18
Life insurance	14	-	-	14
Mutual insurance co-operative societies	2	-	-	2
Branch of a foreign insurer	9	-	-	9
Reinsurance for general insurance	1	-	-	1
Insurance brokers	363	29	19	373
Insurance agents*, incl.:	43976	8901	271	35346**
Legal entities	7816		271	8087
Sole proprietors	4128	203		3925
Natural persons	32032	8698		23334
Health insurance companies	20	-	1	19

Notes: * The insurance agents are not licensed, but they are subject only to entry in the Register of insurance agents ** The total number of the registered agents in the electronic register as of 31.12.2011 was 28 765, incl. 6 690 legal entities, 3 222 sole proprietors and 18 853 natural persons. The distribution of the number of agents by insurers as follows: total 35 346, incl. 8 087 legal entities, 3 925 sole proprietors and 23 334 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 Art. 166 of the Insurance Code.

In connection with the initiated administrative procedures under the Insurance Code (IC) and its instruments of its implementation, in 2011, overall 128 decisions were pronounced in the application of licensing, authorization and approval regimes. From them, two decisions were issued for an additional license for a new type of insurance within the meaning of Appendix № 1 of the IC to insurance companies: to ZD Bulins AD, an additional license for Aircrafts Insurance and Third Party Liability Insurance related to the possession and use of aircrafts, and to Groupama Insurance EAD for General Third Party Liability, and one

¹⁶ Decision № 515-O3 of 17 August 2011.

¹⁷ Decision № 702-ZOD of 24 November 2011

decision, whereby indirect acquisition was allowed of a shareholding by TALANX AG in the capital of HDI Insurance EAD.

The larger part of the administrative procedure during the year were related to approval, or refusal of approval of executive directors, procurators, members of management and control bodies of insurance companies (32), approval or refusal of approval of a head of internal control office of insurance companies (10), decisions in respect to entry and deletion of insurance agents in the Register kept by FSC (52), decisions in relation to the examination, organized by the FSC for acquiring professional qualification of insurance broker (20).

In connection with the initiated administrative procedures under the Health Insurance Act, during the reporting period overall 29 decisions were issued in the application of licensing, authorization, approval regimes, from which 21 related to approvals of executive directors and members of management and control bodies of health insurance companies, two – for investment of own funds of health insurance companies in shares or units of other commercial companies, four – for approval of changes in approved health insurance packages and 1 decision, whereby an authorization was given for the offering of a new health insurance package.

In the course of the year, 24 procedures were reviewed in the Commission for change of shareholding and change in the amount of capital of insurance and health insurance companies. At the end of 2011, two procedures were incompleting in view of the circumstance that they have been initiated at the year end and the term for their concluding expired in 2012.

Table 8. Administrative procedures in relation to insurance and voluntary health insurance

	Incompleted as of 31.12.2010	Newly opened in 2011	Concluded in 2011	Incompleted at 31.12.2011.
Insurance companies	3	52	53	2
Health insurance companies	-	23	23	-
Insurance brokers	14	38	52	-
Other procedures	3	20	23	-
Total	20	133	151	2

Note: Number of administrative procedures under the IC and the HIA, completed with the issue of an individual administrative act by the competent authority.

Supplementary pension insurance

In 2011, there were no applications received for the issuance of new licenses to carry out activity of supplementary pension insurance and there were no grounds found out for withdrawal of issued pension licenses by the FSC. During the reporting period, there were not applications filed for transformation of pension insurance companies or supplementary pension insurance funds, as well as for voluntary winding-up of acting pension insurance company, as a result of which, at the year end there were 9 licensed pension insurance companies and 29 supplementary pension insurance funds.

Table 9. Licensing activity in relation to supplementary pension insurance

	Number at 31.12.2010	Issued licenses	Withdrawn licenses	Number at 31.12.2011
Pension insurance companies (PICs)	9	-	-	9
Supplementary pension insurance	29	-	-	29

funds (SPIFs)				
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During the period under review, requests on procedures were reviewed, concerning a number of aspects of the activities of the pension insurance companies (PICs) and the managed by them supplementary pensions insurance funds (SPIFs). The larger part of these procedures concern amendments and supplements in the rules of organization and operation of the registered pension funds. In total 11 decisions were pronounced for approval of applied for amendments and supplements in the rules of the pension funds. In connection with the amendments to Ordinance № 3 of FSC, in November 2011 amendments to the rules were presented of all 29 registered pension funds. After submitted notes by the supervisory authority for elimination of established inconsistencies with the legal regulations, the corrected rules were presented early in 2012, when the procedures of their approval (29) were concluded, as well. Newly opened were also 5 administrative procedures for granting authorization for the acquiring or increasing of a shareholding in the PIC capital, two of them being concluded in 2012 in view of the need of requiring further documents from the applicants.

Table 10. Administrative procedures in relation to the supplementary pension insurance

	Incompleted as of 31.12.2010	Newly opened in 2011	Concluded in 2011	Incompleted at 31.12.2011.
PICs and SPIFs	1	45	15	31

In view of the statutory powers of the FSC Deputy Chairperson in charge of Social Insurance Supervision Division, in 2011, 8 decisions were issued for determining the minim rate of return from the management of the assets of the supplementary mandatory pension insurance funds; one decision for approval of updated biometrical tables for calculation of the lifetime pensions for old age of men and women and for calculation of lifetime disability pension of men and women, used in the actuarial calculations of the offered pension schemes of one of the registered voluntary pension funds, as well as approval of the technical interest rate, applied by the company, managing the same fund, in determining the amount of the paid by it lifetime and fixed term pensions; one decision for approval of a technical interest rate and biometrical mortality tables, which are to be applied in the calculation of the pension reserves as of 31.12.2011 by PICs, which manage a universal pension fund and/ or supplementary voluntary pension insurance fund; one decision for endorsing modification in the standard for check-up I.8-2. Check-up on the insured persons and pensioners in OPF and one decision for change in the requirements to the advertising and written information materials of the pension funds and PICs.

In 2011, a current review was carried out also of other filed by the companies documents, which even though not subject to approval on the side of the Deputy Chairperson in charge, were verified with a view to their lawfulness. In case of establishment of any discrepancies in the content, their removal was demanded. In this respect a review was carried out of the rules of the procedures for monitoring, measurement and management of the risk associated with the investments of 5 supplementary pension insurance funds, managed by two pension insurance companies, a review of the investment policies of 13 supplementary pension insurance funds, managed by four pension insurance companies, a review of the procedures for collection, keeping and disclosure of the information under the Law on Measures against Money Laundering and the Law on Measures against Financing of Terrorism, prepared by one pension insurance company, and a review of the procedure for way of payment of funds to insured persons, pensioners and heirs of insured persons and pensioners from the funds, managed by one pension insurance company.

2.4. Notifications

In 2011, 215 notifications were received by investment intermediaries (IIs) from EU Member States, which intend to pursue business on the territory of the Republic of Bulgaria under freedom to provide services and two notifications by IIs from EU Member States, which intend to pursue business under freedom to provide services by using a tied agent. At the same time, 24 IIs terminated their passportization, whereby the total number of IIs from Member States intending to pursue business in Bulgaria at the end of 2011 was 1 210.

During the year, one notification was received from a MC from a Member State, which intends to carry out activity on the territory of the Republic of Bulgaria under freedom to provide services, whereby at the end of the reporting year in total 11 MCs had such right. 13 notifications of prospectuses were likewise received from Member States under Art. 18 of the Prospectus Directive and 18 supplements to prospectuses.

During the period under review, the active notification continued on the side of insurers and insurance intermediaries from EU Member States. In the Commission, 59 notifications in regard to insurers from Member States were received for their intent to pursue business on the territory of the Republic of Bulgaria under freedom to provide services and 9 waivers from that intention of theirs. As a result, the total number of the insurers, which had the right to carry out activity on the territory of the Republic of Bulgaria, came to 374 at the year end.

The intent to pursue the business of insurance intermediation in Bulgaria under the right of establishment and under freedom to provide services during the reviewed period was declared by 157 insurance intermediaries from Member States. The intermediaries, that declared denial of that intention of theirs for the period, were 38, the total number of the notifications for those companies at the year end amounting to 1 484.

In 2011, there were no notifications received from institutions for occupational retirement provision of EU Member States, which intend to carry out activity on the territory of the Republic of Bulgaria.

Table 11. Notifications of foreign companies pursuing business on the territory of the Republic of Bulgaria

	Number at 31.12.2010	Newly received in 2011	Terminated in 2011	Number at 31.12.2011
Investment intermediaries	1017	217	24	1210
Management companies	10	1	-	11
Prospectuses	11	13	-	24
Insurance companies	324*	59	9	374
Insurance intermediaries	1 365*	157	38	1 484
Institutions for occupational retirement provision	-	-	-	-

Note: *The number of notifications at 31.12.2010 was reduced with the number of received notifications for termination of activity on the territory of the Republic of Bulgaria for preceding period.

In 2011, seven new investment intermediaries expressed wish to expand their activities under the freedom to provide services or through the establishment of a branch, thus at the year end overall 15 IIs had notified the Commission of their intent to carry on activities on the territory of other EU Member States. Totally three Bulgarian management companies intended to pursue business on the territory of EU Member States. In the reporting year, there were three prospectuses confirmed for admission to trading on a regulated

market an issue of shares on European markets, whereby at the end of 2011 their overall number increased to four.

During the period under review, one notification was sent to the Commission about an insurer with a registered office in the Republic of Bulgaria in relation to broadening the territorial scope of the insurance activity in connection with the right to the freedom to provide services on the territory of other Member States, thus in the end of 2011 the forwarded notification were totally ten. In regard to the Bulgarian insurance brokers, the Commission sent five notifications for pursuing insurance intermediation under the freedom to provide services on the territory of Member States, thus their total number from 13 in the end of 2010 increased to 18 in the end of 2011.

In FSC, there was not any notification received from local pension insurance companies, which intend to carry out activity on the territory of other EU Member States.

Table 12. Notifications of Bulgarian companies pursuing business on the territory of other Member States

	Number at 31.12.2010	Newly received in 2011	Terminated in 2011	Number at 31.12.2011
Investment intermediaries	8	7	-	15
Management companies	2	1	-	3
Prospectuses	1	3	-	4
Insurance companies	9	1	-	10
Insurance brokers	13	5	-	18
Pension insurance companies	-	-	-	-

2.5. Certification

In view of the large number of authorized brokers and investment advisors, as well as withdrawn licenses of IIs, in the recent years a tendency was observed of decreasing in the number of candidates for admission to an examination, respectively of those who successfully passed the examination for brokers and investment advisers. In December 2011, an examination was conducted for acquiring the right to carry out activity as a broker or as an investment advisor. 21 candidates were admitted to the examination for acquiring the right to carry out activity of a broker in August, and for an investment advisor - 17 persons. Those who successfully passed the exam for broker were 14, and for an investment advisor – 9 candidates.

In 2011, the acquired qualification to carry out activity as an investment advisor was recognized of 11 persons, thus the total number of the investment advisors was 20. The number of the certified brokers and investment advisors in 2011 was preserved equal to their number in 2010.

Table 13. Dynamics of the certified persons

	2007	2008	2009	2010	2011
Investment advisors	87 (78)	36 (25)	23 (10)	18 (8)	20 (9)
Securities brokers*	58 (59)	29 (25)	17 (15)	(13)	(14)
Insurance brokers	52 (8)	49 (7)	47 (11)	25 (24)	10 (9)

Actuaries	(8)	(9)	2	8 (6)	8 (5)
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Note: *The Table shows the total number of persons who acquired right in the relevant year to pursue the specified according to the law activity, and in the brackets are given the persons who acquired that qualification after passed examination with the FSC. The change in the number of persons, who possess the respective qualification, includes both the issued and the withdrawn during the reporting period authorization to carry out activities.

As of 31 December 2011, there were 389 securities brokers and 368 investment advisors filed in the Register of the natural persons who under a contract directly execute transactions in securities and provide investment advice with regard to securities, kept by the Commission.

During the period under review, one examination was held for insurance brokers, for whom 15 candidates sat for the acquisition of a professional qualification and 9 of them passed the exam. The overall issued licenses for insurance brokers in 2011 were 29, and the withdrawn licenses for activity – 19, as a result of which their total number at the year end increased to 373.

In the past year, one examination was also held for recognition of legal capacity of a responsible actuary, for which 6 candidates sat, 5 of whom passed the examination. Furthermore, legal capacity of a responsible actuary was recognized by documents of three other persons, whereby their total number in the end of 2011 increased to 63.

3. Supervisory activity

The Financial Supervision Commission carries out its functions of a supervisory authority by the exercising of an off-site control and on-site inspections of the participants within the non-banking financial sector. The off-site control is expressed in examination of the submitted at the Commission statutorily required documents, and through it a full analysis is made of the activity and the results thereof for all participants in the non-banking sector in Bulgaria. Upon establishment of any deficiency or inconsistencies in the submitted documents, FSC demands their elimination or correction.

The on-site inspections are conducted based on endorsed annual plans, prepared on the basis of certain criteria and indicators, which are used in the annual planning. In connection with received in the FSC complaints and signals, information from other sources, as well as findings made and problems established during the carried out off-site control, inspections are also conducted in the companies of the non-banking financial sector in the country.

The FSC's activity of enforcement of the legislative provisions in the field of the non-banking financial sector are characterized by a high level of public importance. The Commission, within its legal powers, undertakes measures for imposition of coercive administrative measures (CAM) and the issuance of penal warrants (PW), prepared on the basis of the drawn-up by the authorized officials acts of established administrative violations (AEAV), as well as giving prescriptions for bringing the activity in compliance with the Law.

3.3. Off-site control

Investment intermediaries, Central Depository and regulated markets

The off-site control in regard to the investment intermediaries (IIs) is related to monthly examination of 603 submitted at FSC during the reviewed period **reports on the capital adequacy and liquidity**, balance sheets and income statements. The purpose of the examination is to define whether the investment intermediary (II) had correctly reflected in the report on capital adequacy and liquidity the financial situation, as is reflected in the financial statement. A major part of the off-site control (909 documentary inspections) is

directed to verification of the **customer assets** availabilities of II at analytical level (analytically processed account and balance sheet), as well as of their valuation by the II, on compliance with the provisions for the conditions and procedure for customer assets valuation. On the basis of the monthly submitted information, a control is likewise exercised on the contents of the **II's Trading and Non-trading Book**.

The data on the **concluded by IIs transactions** on a daily basis are subject to permanent off-site control, including also about the concluded transactions in a third country. During the year, 617 documentary inspections were conducted on the basis of notifications by IIs of **occurred changes in the circumstances**, as well as 73 off-site **inspections based on received complaints** by II customers and notifications of lawsuits initiated against IIs. Besides the 51 examinations carried out of the annual financial statements, further 156 documentary inspections were carried out in FSC of the submitted twice annually information on **acquisition or transfer of a qualifying holding** in II.

The off-site control of the Central Depository AD and of BSE – Sofia AD is in connection with participation in approval of the rules and regulations of their operation, the annual and half-yearly financial statements, entry of changes in the companies' registers, participation in the Guarantee Fund Management Committee of BSE – Sofia AD and other actions related to the powers of the Commission.

Collective investment schemes and management companies

Within the scope of the off-site control in regard to the collective investment schemes (CIS), fall the submitted at FSC annual and half-yearly financial statements, as well as a monthly balance sheet. During the year, 174 documentary inspections were conducted of CIS about their obligation to provide in the Commission and to **publish updated full and short-form prospectuses**.

According to the statutory requirements, the management companies (MC) regularly present information **on the issue value and redemption price of the CIS units** upon each specifying of them (not less frequently than twice weekly). Besides that daily information, a MC submits monthly a summarized information about the determined issue values and redemption price of CIS, and in the course of the year examinations were carried of 21 282 standard forms about issue value and redemption price of the contractual funds and open-end investment companies.

Another information, subject to off-site control, is the submitted by MC, twice annually, list of the persons possessing, **directly or indirectly, a qualifying holding** (10 per cent and over 10 per cent of the voting rights in the General Meeting), as well as data on the held by them votes in the General Meeting. In connection with that regulated information, 68 documentary inspections were carried out in FSC over compliance with the provisions.

During the period under review, until the amendment to the legal regulations, 29 inspections were completed in relation to filed by MCs applications for approval of programmes with measures for **bringing the CIS assets in compliance with the requirements of the Law**. At the end of the reporting period, as a result of amendment to the legal regulations, whereby the approval regime was replaced with notification, in connection with the control over the violations of the investment limitations, 28 notifications were received and analyzed in the Commission.

Public companies, special investment purpose companies and other securities issuers

The off-site control in relation to the public companies, special investment purpose companies (SIPCs) and other issuers of securities covers inspection of the provided at the Commission (and to the general public) **annual and quarterly financial reports** of the activities, as well as of consolidated such, submitted by issuers, which are obligated to prepare consolidated financial statements. Furthermore, the bond issuers

submit at FSC (to the bond trustee and to the regulated market, where the bonds are traded) a **Report for fulfillment of its obligations** according to the conditions of the bond issue, and on its turn, the bond trustee presents a half-yearly report in the Commission. During the period under review, a documentary inspection was carried out of 5 391 annual and quarterly (and consolidated) reports, as well as supplements thereto about comprehensiveness according the legal requirements, lawfulness and consistency of the provided information.

In connection with the convening and holding of **General Meeting** of shareholders/ bondholders, in 2011, 1 757 documentary inspections were carried out of the content and the time of the presented at FSC (announcement at the Trade Register) invitations and the attached to them materials and the resolutions passed by the General Meeting, objectified in the presented to the Commission minutes.

Regarding the **disclosure of a shareholding in the capital of a public company**, other securities issuer and SIPC, during the year 64 inspections were conducted of the received from Central Depository AD information and the submitted notifications.

As part of the regulated information, **the obligated persons disclose to the Commission and to the public the inside information**, which is concrete, has not been publicly disclosed, relates directly or indirectly to one or more issuers of financial instruments or to one or more financial instruments, if its public disclosure may have a substantial impact on the price of those financial instruments or on the price of the related derivative financial instruments. In the formal verification of that information, it is established whether it conforms to the legal definition of inside information, whether the procedure and manner of its disclosure were complied with, including if it was disclosed simultaneously to the FSC and to the public in the due order. In the review in substance of the disclosed information, the necessity is assessed of inspection over compliance with other special requirements of the Law, such for instance as: observance of the regime for executed large amount transactions, market manipulation and insider dealing, etc. In connection with the exercising of the supervisory functions in regard to disclosure of price sensitive information for securities, in the FSC a process of current monitoring has been established of the publicly disclosed information, and in the reporting period 157 such inspections were conducted of the data available in FSC.

Insurance and voluntary health insurance

The off-site supervision in relation to insurance and voluntary health insurance is based on the annual and periodic reports of the insurers, reinsurers, health insurance companies, insurance and reinsurance brokers and the Guarantee Fund, as well as on the required additional information for certain fields of their activities. During the year, 718 off-site inspections by documents were conducted based on annual and periodic financial reports.

On the basis of the presented in FSC periodic statistics and reports for 2008, 2009 and 2010, the technical result was determined for the last three ended financial years, and the quarterly in current 2011 year, by classes of insurance of the general insurance companies; of the life insurance companies – for the offered by them risk insurances, and of the health insurance companies. On the basis of the result by classes of insurances, an **analysis was made of the premium adequacy**, and explanation was required from the companies, where a negative technical result was found in a certain class of insurance or health insurance package for the last four years, including the current, about the measures, which would be undertaken to meet the legal requirements for proportionality of the premium amount to the assumed risk and the costs.

With the purpose of off-site checking the adequacy of the formed at 31.12.2010, and currently in 2011, additional reserve under Art. 11a of Ordinance № 27, put aside in case of sale of the insurance at lower than the average for the respective type of motor vehicle risk premium, by some of the insurers offering the compulsory Third Party Liability insurance of motorists, further information was required and analysis made of the adequacy of the formed reserve under Art. 11a of Ordinance № 27.

On the basis of the filed annual and quarterly data, by a system of indicators and ratio, **an inspection was carried out of the adequacy of the formed technical provisions** at the end of 2010 and the end of the first, second and third quarter of 2011. Upon established underestimation of the provisions amount, further information was demanded and Acts for establishment of administrative violations were drawn up.

An off-site control recalculation of the formed at 31.12.2010 additional reserve was made under Art. 8a of Ordinance № 27. From every insurer, obligated according to the legal regulation to conduct a test for adequacy of the reserve for submitted but unpaid claims (the insurance companies carrying out activity under Section II of Appendix № 1 to the Insurance Code), data were demanded about the amount of each paid in 2010 claim, submitted before the end of 2009 and the formed on the respective damage reserve as of 31.12.2009. Upon finding underestimation of the reserve amount, acts for establishment of administrative violations were issued. Upon any found on the basis of the presented data discrepancies and suspicion for underestimation of the reserve for submitted but unpaid claims, additionally from four insurers information was required for each claim paid in the period from 01.01.2010 to 30.09.2011 and for each pending at the end of the cited period claim. On the basis of these data a recalculation was made for submitted but unpaid claims and the additional reserve under Art. 8a of Ordinance № 27.

On the basis of the result for 2008, 2009 and 2010 and currently in 2011, by classes of insurances and health insurance packages **an analysis was made of the need of formation of unexpired risk reserve** and its size was determined, and that reserve was compared with the formed by each insurance company reserve as of the end of the respective period. For failure to form unexpired risk reserve or setting aside of lower than the required amount, acts for establishment of administrative violations were drawn up.

In connection with the **determining of the amount of the reserve for incurred but unsubmitted claims under Third Party Liability insurance of motorists**, in the end of each quarter information was summarized and provided to the insurers about the amount and number of the paid and submitted claims in 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 for incurred, but unsubmitted claims. In the end of every quarter of 2011, an inspection was carried out over compliance with the legal requirements in regard to the applied method for determination of the amount of reserve for incurred but unsubmitted claims concerning Third Party Liability insurance of motorists.

During the year, quarterly **inspections of the formed by the insurers and health insurance companies equalization reserve for credit insurance** were conducted, as well as of the lawful spending of the funds from the set aside equalization reserve in the other classes of insurances and health insurance packages.

At the end of every month in 2011, a monthly **analysis was made of the assets for cover of the technical provisions of the insurers and health insurance companies and their conformity to the legal requirements in regard to the types of assets and their structure**, as well as a verification whether the assets for cover of the technical provisions were in amount, corresponding to the amount of the formed in the last quarter technical provisions (in view of the fact that technical provisions are recalculated monthly). In this relation, further explanations were demanded from some companies and upon found non-compliance with the legal requirements for the availability of adequate assets for cover of the technical provisions of the relevant companies, acts for establishment of administrative violations were drawn up.

Inspection was conducted of the **way of determining by the insurance and the health insurance companies of the solvency margin and the amount of own funds** and of compliance with the requirements of solvency in the end of each quarter, as well as for corresponding of the net asset value to the amount of registered capital.

Supplementary pension insurance

The off-site control in relation to the supplementary pension insurance is exercised along three main lines – daily control, periodic control and monitoring of the information and advertising activity of PICs.

On the basis of the daily statistics and reports received from PICs about the SPIFs operation, as well as information from the custodian banks in 2011, 7 140 daily **inspections and analyses** were carried out of the received information about the SPIFs activities and the custodian banks **regarding the lawfulness of the concluded transactions with the pension funds' assets, observance of the regulated in the SIC quantitative limitations about** the ratio of investment in the separate types of financial instruments to 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 period, additional information was required for certain spheres of the activities of PICs and SPIFs and 59 ad hoc inspections were completed related to arisen problems in the exercising of the on-going control. Likewise, **control** was exercised **on the change in the net asset value**, the correct deduction of the investment fee in the supplementary mandatory pension insurance funds (SMPI) and the **correct defining of the number of units, corresponding to the received and withdrawn amounts, and the value per one unit**, as well as disclosure of information on the value per one unit according to the procedure and within the time-limits, provided under Ordinance № 9 of FSC.

In 2011, 108 inspections were conducted of the submitted **periodically** monthly, quarterly and annual financial statements and statistic about the activities of each of nine licensed PICs and 336 inspections of the filed monthly, quarterly and annual financial statements and information about the operation of the managed by the pension companies SPIFs. **The specified normative and general financial indicators for the PICs and SPIFs operation** were calculated and analyzed in the exercised periodic control. For each PIC, the levels of the normatively specified indicators were established, such as capital adequacy, liquidity of PIC and SPIFs, return on equity, operational efficiency, extent of cover of the PIC assets, etc., through which the lawful carrying out of the PIC activities was monitored. Simultaneously, the general financial indicators were also analyzed, related to the capital, assets, income and expenses of PICs, growth of the assets and the participants in the SPIFs, investments and rate of return of the pension funds, reserves for guaranteeing the minimum rate of return.

During the year, 108 monthly inspections were conducted of the PICs web sites **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. 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.

3.4. On-site inspections

The on-site inspections conducted by FSC are defined as planned and ad hoc, and according their scope – general and thematic. The **planned** inspections are preliminarily set on the basis of the received values by criteria for categorization of different participants in the non-banking financial sector. The **ad hoc** inspections are usually caused by the market behavior or change in the management structure or the ownership of the company, by information received from other regulatory authorities, outside sources or other structural units of FSC, or material changes in the market environment. The **general (full)** inspections are directed to thorough review of the overall activities of the participants in the non-banking financial sector and are related

to inspections of the financial, legal and organizational state of the companies. The **thematic inspections** are with narrower scope and their purpose is to inspect the companies' operation by definite activities, investment services or practices.

Investment intermediaries, Central Depository and regulated markets

In 2011, **six full planned** inspections were carried out of investment intermediaries (IIs), from which of IIs under Art. 5, para 2, Item 3 and 6 of MFIA and 3 of IIs under Art. 5, para 2, Item 1, 2 and 4 of MFIA, over compliance with the provisions of the LPOS, MFIA and the instruments of their implementation. Furthermore, **two thematic inspections** were conducted, one of which was an inspection of a public company, **directed to establishment of effected cash transfers to related persons**, and the other – inspection of a legal entity in relation to carrying out activity under Art. 5 of the MFIA, without the availability of a license issued by FSC under Art. 13 of the same Law.

One thematic inspection was also carried out of the activity of Central Depository AD.

Collective investment schemes and management companies

During the period under review, in regard to the collective investment schemes **three inspections** of MCs and the managed by them CIS were opened on the basis of a signal, with suspicion for **breach of the statutory regulations related to the activity**. Of them, in the end of the year one inspection was concluded.

Public companies, special investment purpose companies and other securities issuers

During the reporting year, in relation to the public companies, special investment purpose companies (SIOCs) and the other issuers of securities **four on-site inspections** were opened in the companies' registered office, where from them **three were planned inspections** of three SIPCs and their servicing companies and one **thematic inspection** of a public company, directed to **establishing cash transfers to related persons**. As of the year end, three of the four inspections were concluded.

Insurance and voluntary health insurance

In 2011, **71 on-site inspections** were conducted of insurers, health insurance companies and insurance intermediaries, 9 of which had not concluded at the end of the reviewed year. Regarding insurers and health insurance companies **15 inspections** were opened, from which **7 were general** and **8 thematic**. The general planned inspections covered the **overall activity of the company** and assessment of the amount of the formed technical provisions and its financial situation, in order to establish the authenticity of the data, submitted with the periodic reports and statistics, as well as whether the formed technical provisions were adequate to meet future liabilities for payment of compensations; and inspection of activities, which could have effect on the organizational and financial stability of the insurer. From the thematic inspections **four were in relation to the accounting and the information system** of the company, two were over compliance with the provisions of the IC and prevention of legal offences, one was related to the accounting and information **reporting of contracts for financial insurances** and one conducted **jointly with SA Medical Audit**.

For the period under review, in total **56 inspections** were conducted of **insurance intermediaries**, from which **20 thematic inspections** over compliance with the provisions of the IC and the prevention and detection of legal offences, **8 based on given signals** and **28 thematic inspections in connection with the compulsory Third Party Liability insurance** of motorists. Within the scope of the conducted inspections of

insurers and insurance intermediaries in connection with Third Party Liability insurance, the offered tariffs were checked for the compulsory Third Party Liability insurance of motorists and their observance, the assignment of activities for insurance intermediation to other persons, that do not have the right to carry on such activity, and the carrying out the activity of an insurance agent for more than one insurer.

In the reporting year, **3 planned inspections were concluded and one thematic of insurers**, which had started before the beginning of 2011.

Supplementary pension insurance

In all pension insurance companies and the managed by them supplementary pension insurance funds **overall twelve on-site inspections** were completed during the year. From them, **seven inspections were general planned, covering all aspects of their activity** and requiring considerable staff resource, as well as longer period for their carrying out. Their scope covered inspections of the management and the organization of the operation of PIC, the financial situation of the company, its investments and the organization of the activity of assets and risk management, the formation and maintaining of the pension reserves in the company, the contractual relations with the custodian bank, with investment intermediaries and the investment advisor, the activity of the insurance intermediaries, the organization and operation of the internal control office, as well as the activity related to switching of participation and transfer of the insured persons between the funds, and also the communication with the insured persons in connection with received complaints and signals. In regard to the managed by PIC SPIFs, inspection was carried out of the assets and investments, contractual relations with insured persons and pensioners, as well as the liabilities and payments to the insured persons and pensioners.

Five thematic inspections were also conducted, from which **two were planned** over compliance with the provisions of Ordinance № 34 of FSC on the **terms and conditions for concluding transactions to reduce the investment risk**, associated with the assets of a supplementary pension insurance fund and on the requirements to and limitations on such transactions. **Two** of the thematic inspections were **ad hoc** in relation to received in FSC signals for committed offences of Ordinance № 3 on the procedure and way for **switching of participation and for transfer of the accumulated funds of an insured person** from one supplementary pension insurance fund to another relevant fund, managed by another pension insurance company. Moreover, one **ad hoc thematic inspection** in PIC was also conducted over compliance with the provisions of Ordinance № 10 on the **requirements to the owner's equity composition and structure of a pension insurance company and to the minimum liquid funds of the company and of the supplementary pension insurance funds it manages**. During the year, one inspection was carried out in a custodian bank jointly with Banking Supervision of BNB. All launched in 2011 inspections were completed at the year end.

3.5. Enforcement

The FSC's activity of enforcement of the administrative penal provisions of the legislation in the field of non-banking financial sector is characterized with high level of public significance. The same is also performed with the purpose of protection of financial services consumers. In this connection, the initiated administrative penal procedures are one of the most important manifestations of the powers of FSC and its bodies.

In 2011, in **regard to the investment community**, there was an increase in the number of drawn up acts for establishment of administrative violations (AEAV) and of the issued penal warrants (PW). The larger part of them was related to collective investment schemes (CIS), management companies (MC); special investment purpose companies (SIPCs), public companies and other issuers of securities. That increase was

due to the more efficient supervision, exercised on the FSC's side during the year, which had to continue to strengthen with the purpose of correction of the behaviour of the participants in the non-banking financial sector towards greater compliance with the legal framework. The total amount of the effectuated PW during the year was BGN 380 300, but it did not cover the value of all issued PW, as they are subject to appeal to the court. During the reporting period, in total 221 procedures were opened for imposition of a coercive administrative measure (CAM), where 116 decisions for its application were taken, due to failure of the participants in the market to comply with the initiated CAM procedures.

In 2011, totally 144 complaints were received against decisions of the Deputy Chairperson in charge of Investment Activity Supervision Division. From them, 137 were against issued penal warrants and 7 – against issued individual administrative acts. Twenty four of the complaints were received from investment intermediaries, three along the lines of the collective investment schemes and the management companies managing them and 117 – from public companies, SIPCs and other securities issuers.

Table 14. Enforcement in 2011

	Drawn up AEAVs	Issued PWs*	Amount of effectuated PW (BGN)	Opened procedures of CAMs	Decisions for application of CAM**
Investment intermediaries, CD, BSE	63	31	44 000	11	10
CIS, MC, SIPC, PC and other issuers	355	247	336 300	210	106
General insurance companies	241	701	3 367 900	23	6
Life insurance companies	60	69	65 500	1	1
Health insurance companies	118	13	14 500	3	3
Insurance brokers	26	9	2 500	2	2
Insurance agents/persons carrying out activity as insurance agents without being entered in the FSC Register	22	56	2 000	-	-
Pension insurance companies	40	35	178 500	32	32

Notes: *The number of the issued PW for the given 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. **Decision for imposition of CAM is taken in case that the companies fail to comply with the opened procedure for imposition of CAM.

In 2011, 467 acts were drawn up for establishment of administrative violations (AEAVs) to the **participants in the insurance and health insurance market**. In regard to the insurance supervision, a decline was observed in the number of the established violations on the side of the general insurance companies, which, on the one hand had to be accounted for as a positive trend, as regards compliance with the statutorily provided requirements about the activities of those companies. On the other hand, the decrease in number of the committed offences during the year was connected with the adoption of Ordinance № 42 of 3 November 2010 on the building up and maintenance of an information system for risk assessment, management and control, including for the issuance of policies under the obligatory insurances according to Art. 249, Item 1 of the Insurance Code and the launching on 1 June 2011 of the information system, through

which policies are issued under the compulsory Third Party Liability insurance of motorists. Thus the obligation of the insurance companies to submit information on the concluded by them contracts dropped off. At the same time, the number of the found violations committed by the life insurance companies increased, the same being connected with failure to observe the time-limit for payment of surrender value of life insurance.

The increased during the reporting year number of issued penal warrants (848) by Insurance Supervision Division, in their larger part was due to PW, issued on the basis of AEAV from the previous year. The total amount of the effectuated PW amounted to BGN 3 450 400¹⁸, where the main part of the amount was received in the Commission from the general insurance companies. In 2011, 29 procedures were opened for imposition of CAM, from which 23 against general insurance companies. The most often applied CAM were direction to undertake specific actions (e.g., submission of documents) and direction a given insurance company to pronounce on an insurance claim filed with it. During the year, 12 decisions for application of CAM were issued.

From insurance and health insurance companies, four complaints were received during the year against decisions of the Deputy Chairman in charge of Insurance Supervision Division, by which coercive administrative measures were imposed.

In 2011, there were 40 acts for establishment of administrative violations (AEAVs) drawn up under the **Social Insurance Code** and of the sub-statutory acts of its application. By the issued 35 penal warrants in 2011, penalties and property sanctions were imposed to the total amount of BGN 228 300, from them the imposed property sanctions on the pension insurance companies (PICs) were at the amount of BGN 220 000, and the penalties imposed on natural persons were to the amount of BGN 8 300.

From the issued in 2011 penal warrants, 7 were not appealed against and entered into legal force, and 28 were appealed before the court and the procedures on them had not been concluded at the yearend. BGN 178 500 were received in the FSC under effectuated penal warrants (including such issued in the previous year and confirmed by the court), by which penalties and property sanctions were imposed in 2011, BGN 13 700 being only under the issued and not appealed in 2011 penal warrants.

During the period under review, 32 procedures were opened for coercive administrative measures (CAM) towards the pension insurance companies. The applied coercive administrative measures were not appealed against, they came into legal force and were fulfilled within the time-limits set.

In 2011 there were no complaints received against decisions of the Deputy Chairman in charge of Social Insurance Supervision Division.

Investment intermediaries, Central Depositary and regulated markets

In 2011, a relative steadiness was observed regarding the perpetrated by the investment intermediaries violations – both in number, and in ground. The violations were related mainly to reporting and non-prevention of **excessive concentration of large exposures** and to the maintenance of the **statutorily defined liquidity and capital adequacy**. The nature of the committed violations showed the real effect of the worsened economic situation and in particular the decrease in the investment intermediaries' customers and turnovers.

¹⁸ As a result of corrections made in 2012, the amounts due under effectuated penal warrants, issued by the Deputy Chairperson in charge of Insurance Supervision Division, amounted to BGN 2 768 160.

Table 15. Most frequent violations in the field of IIs, CD and BSE

Type and ground of the violation	Drawn up AEAVs		Issued PWs*	
	2010	2011	2010	2011
Violation of the requirement II to account for the amount of its large 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, 2 and 3 of Ordinance № 35)	17	7	16	0
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 exceeds the maximum allowed threshold (Art. 78, para 1, 2 and 4 of Ordinance № 35)	12	4	8	4
II failed to fulfill obligations related to its liquidity, expressed in maintenance at any time of cash and/ or government securities to amount not less than 50 per cent of its current one, and the minimum amount of cash kept on current or deposit accounts should not be below 70 % of the all II's cash (Art. 20, para 1 and 2 of Ordinance № 35)	8	17	11	10
II did not prepare daily report on the capital adequacy and liquidity on the basis of the balance sheet and analytical turnover report. (Art. 143, para 1 of Ordinance № 35)	0	9	0	0
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 LPOS)	4	0	1	2
II failed to notify FSC within the set time-limit of occurred circumstances (Art. 85 of Ordinance № 38)	3	2	0	1
Failure on the side of brokers and investment advisors to notify FSC of the conclusion and termination of their contracts with II, MC or IC (Art. 14, para 3 and 5 of Ordinance № 7)	3	3	2	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 within the set term (Art. 22, para 1, 2 and 4 MFIA)	3	0	0	3

Note: *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.

Collective investment schemes and management companies

In 2011, relative decrease was observed in the overall committed by the management companies violations, the type and the ground of the violations remaining the same. The most frequent violations related to **non-observance of the investment limitations by the management companies (MCs), failure to notify FSC of exceeded investment limitation and non-applying a program with measures for bringing the assets in compliance with the requirements of the law.** The inconsistency between drawn up AEAVs and issued

PWs was due to the fact that a large part of the acts have been drawn up at the end of the reporting year, and respectively the pronouncement of the administratively sanctioning body is in 2012.

Table 16. Most frequent violations in the field of CIS and MCs

Type and ground of the violation	Drawn up AEAVs		Issued PWs*	
	2010	2011	2010	2011
Violation of the investment limitation on the side of MC, failure to inform FSC of surpassed investment limitation and non-applying a program with measures for bringing the assets in compliance with the provisions of the law (Art. 196 of LPOS)	8	1	5	0
Performance of activity on the MC's side beyond its license (Art. 202, para 7 of LPOS)	4	2	3	0
Failure to submit within the legally set term a list of the persons who possess, directly or indirectly, a qualifying holding as well as data about the held by them votes in the General Meeting of MC (Art. 40, para 2 MFIA)	0	1	1	1
Violation of the obligation MC to keep assets of the contractual fund in the depository bank (Art. 173, para 1 LPOS)	0	5	0	0

Notes: *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.

Public companies, special investment purpose companies and other securities issuers

During the period under review, an increase of the overall violations committed by the public companies and securities issuers were noted, while retaining the type of violations. As a result of the enhanced supervision over the disclosure of the financial statements to the public, as well as further attention given to the disclosure of the consolidated financial statements, a considerable part of the established violations was related to **failure to submit or submitting with delay the financial statements**. Another material part of the offences during the year were related to failure to present all required materials for the **General Shareholders' Meeting (GSM)**, failure to announce an invitation for GSM to the public in the established by law procedure and incomplete submission of required by law information in the minutes from the GSM on the results of the voting. The number of violations related to **non-compliance with an imposed coercive administrative measure (CAM)** increased.

Table 17. Most frequent violations in the field of PCs, SIPCs and other issuers of securities

Type and ground of the violation	Drawn up AEAVs		Issued PWs*	
	2010	2011	2010	2011
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)	80	163	42	95
Failure to submit all required materials for GSM and to announce the invitations for GSM to the general public according to the procedure established by law (Art. 115 of LPOS)	20	11	11	9

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 148 of LPOS)	20	6	9	8
Failure to record the full, required by law information about the results of the voting in the minutes from the GSM 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)	18	15	9	4
Non-compliance with an applied CAM under Art. 212 of LPOS (Art. 221, para 6 of LPOS)	16	36	8	21
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 taken for the company's transformation, of other occurred circumstances within the time-limit set by law (Art. 100w, para 1 and 2 of LPOS)	16	6	7	3
Conclusion of transactions by the management of the PCs and the securities issuers, exceeding the thresholds set by law, without express authorization on the GSM side (Art. 114, para 1 и 2 of LPOS)	9	5	4	10
Non-submission or submission with delay of annual and quarterly financial statements about the SIPC activity (Art. 40 of Ordinance № 2)	9	20	5	15

Notes: *The number of the issued PW for the given 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.

Insurance and voluntary health insurance

The economic situation, both on global and national scale, had inevitable repercussion on the dynamics of the committed in the field of the insurance violations. Despite of the effect of concrete factors on the insurers' behaviour in regard to compliance with the legislation, it has to be taken into account that in recent years the most frequently perpetrated violations were related to **failure to submit in time information on concluded contracts for the compulsory Third Party Liability insurance** of motorists and to non-observance of the time-limits for insurance claims settlement. As stated above, undoubted influence on the dynamics of the drawn up AEA Vs and the issued during the reporting year PWs had the adoption by the Financial Supervision Commission in November 2010 of the Ordinance on the single information system for the issuance of policies, whereby one of the main objectives of the supervision was achieved, and namely, the concluded policies under the compulsory Third Party Liability insurance of motorists to be accounted for in real time. In this way the necessity of reporting policies concluded after the coming the Ordinance into effect dropped off.

In 2011, among the most frequently met violations is the **making of changes in health insurance packages without the required approval** on the FSC's side, **failure to observe the time-limit for settlement of insurance claims** and **failure to comply with the time limit for payment of surrender value under life insurance**.

Table 18. Most frequent violation in the insurance and voluntary health insurance

Type and ground of the violation	Drawn up AEAVs		Issued PWs*	
	2010	2011	2010	2011
Failure to observe the time-limit for settlement of insurance claims - Art. 107 of the IC	93	55	102	75
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	575	30	87	509
Non-observance of the time-limit for settlement of insurance claims under the obligatory Third Party Liability insurance of motorists - Art. 271 of the IC	46	26	35	42
Pursuance of business by the company, without being filed into the FSC's Register – Art. 312, para 4, item 1 of the IC	42	20	2	58
Non-compliance with the rules for formations of the technical provisions (Underestimated reserves) - Art. 68 and Art. 69 of the IC	33	21	-	38
Provisions of false information – Art. 317 of the IC	-	45	-	42
Failure to observe the time-limit for payment of surrender value under life insurance – Art. 240 of the IC	-	50	-	50
Non-compliance of the limitations for investment of the health insurance reserves – Art. 90e of the HIA	-	11	-	8
Making changes in approved health insurance packages without approval of the Deputy Chairperson in charge of Insurance Supervision Division – Art. 99e, para 2 of the HIA	-	94	-	0
Failure to comply with the requirement for adequacy of the premium under specific insurance contracts - Art. 63 of the IC	-	26	-	0

Notes: *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. **The indication with the mark „-“ in the Table means that in 2010, according to data from the report for that period, the relevant type of violation was not among the most frequently met in the field of insurance and voluntary health insurance.

Supplementary pension insurance

In 2011, in the field of the supplementary pension insurance the number of the drawn up acts for establishment of administrative violations of the provisions of the SIC and the sub-statutory acts of its application increased. By the drawn up 40 AEAV in total 58 administrative violations were established, 43 of them being of the Social Insurance Code, 11 violations were of provisions of Ordinance № 3 of FSC and 4 violations of Ordinance № 29 of FSC. Most numerous were the found during the year violations, related to **activity of PIC, which was not in consistence with the Rules of the organization and operation of the managed pension funds**, as well as violations related to **investing the SPIF funds in securities, issued by related to it persons**.

Table 19. Most frequent violations in the field of the supplementary pension insurance

Type and ground of the violation	Drawn up AEAVs		Issued PWs*	
	2010	2011	2010	2011
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)	5	10	5	10
PIC invested funds of SMPOFs and SVPIFs in securities issued by related to it persons (Art. 177, para 1, item 2 of the SIC)	4	10	4	10
PIC did not bring the investments of a pension fund in compliance within a 6-month period (Art. 2, para 5, item 2 of Ordinance № 29)	-	2	-	2
PIC confirmed pronounced refusals for review of applications for switching of participation of insured persons, without taking into consideration all produced evidence (Art. 6, para 7 of Ordinance № 3)	-	2	-	2

Notes: *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.

3.6. Market manipulations

The main direction of the Financial Supervision Commission's activity for prevention of market manipulations involves the carrying out of on-going monitoring of the transactions with financial instruments, admitted to trading on a regulated market in the Republic of Bulgaria, with the purpose of detection of markets abuses, increasing the public confidence in the market of financial instruments and ensuring the timely and full disclosure of information to the investors. This activity is performed by the carried out off-site supervision and on-site inspections over compliance with the requirements of the Law on Measures against Market Abuse with Financial Instruments (LMMAFI), and simultaneously actions and measures are undertaken for prevention and detection of insider dealing and market manipulation.

The market information about the trading on the regulated securities markets is collected and processed and on that basis information and current reports are prepared for the trade in financial instruments. Publications relating to the securities issuer are monitored on an ongoing basis, aiming at **non-admission of manipulation of the market in financial instruments**. Supervision is also being exercised in regard to the timely submission of the information under Art. 16 of the LMMAFI, relating to the **concluded transactions by persons, who perform managerial functions in an issuer, and persons closely related** to them. In the execution of the above activities, information is exchanged with the Bulgarian National Bank, with other state authorities and institutions, with the bodies of the local self-government and the local administration and with non-governmental organizations. In the course of the inspections, upon finding out of perpetrated crime related to the company's operation, a proposal is made to notify the Prosecutor's Office of it.

For the reviewed period, **40 inspections** were completed (9 of which were launched in 2010) over compliance with the provisions of the **Law on Measures against Market Abuse with Financial Instruments** (LMMAFI) in relation to the prohibitions of unfair trade with securities, market manipulation, inside information and insiders. In 2011, in total 7 inspections were launched over compliance with the provisions of the LMMAFI, which continued in 2012, as well.

As a result of the accomplished inspections, **46 AEAVs** were drawn up. In 2011, **55 PWs** were issued under formed administrative penal files to the total amount of BGN **22 700**. During the reporting period,

relative steadiness was observed of the violations committed under the LMMAFI both in number, and in ground. It should be noted that basically the perpetrated violations related to the **disclosure of information about concluded transactions with shares** by the managerial team of the public companies or related persons, as well as the **disclosure of inside information**. The dynamics of the committed violations showed that in future, too, main attention should be attached to protection of the right of being informed of the investment community.

Table 20. Most frequent violations related to unfair trade with securities, market manipulation, inside information and insiders

Type and ground of the violation	Drawn up AEAVs		Issued PWs*	
	2010	2011	2010	2011
Violation of the obligation on the side of the persons who perform managerial functions in an issuer, and closely related to them 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	89	37	79	45
Manipulation of the market in financial instruments through the execution of transactions or giving order, creating incorrect or misleading picture about the demand, offer or the price of financial instruments, or fixing the price of certain financial instrument on an unusual or artificial level - Art. 11 in relation to Art. 6, para 1, item 1 of LMMAFI	9	0	9	0
Non-disclosure by an issuer of inside information, directly related to it, under the procedure and within the term set by law - Art. 12 and 14 of LMMAFI	3	7	9	10

Notes: *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.

4. Protection of consumers of non-banking financial services

4.3. Access to financial information

In 2011, FSC continued to follow the established practice of efficient and timely dissemination of information about the institution's activity in its function of a supervisory and regulatory authority for the markets of non-banking financial services and the market entities.

During the reporting year, an entirely new concept of the existing web site of the Commission was developed and put into operation. It includes not only a new and modern design, but also the setting up of new headings and restructuring of the content. **The FSC web site** is one of the main sources for distribution of the public information, related to the Commission's activity, for that reason it has to be regularly updated with the purpose of improving and facilitating the access to information on the consumers' side.

The information is systematized in headings, which are updated on a daily basis. News is published about decisions taken by the Commission, amendments to the legislative framework relating to the non-

banking financial sector, administrative documents, summarized statistical data on the three types of markets – capital, insurance and pension insurance market. Through the **e-portals** the participants in the non-banking financial sector directly file their information in the Commission, signed by an electronic signature. Detailed information about the companies – status, contacts, regular reports, dividend notifications, imposed property sanctions, etc. is provided by 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 the purpose of implementation of consumer protection policy, which is one of the priorities of FSC, a special section **For the Consumers**, was created in the new web site, where information is published directed to the general public (for example, the tariffs of Third Party Liability insurance). The possibility consumers to communicate with the Commission in an electronic way was further improved. They can file complains and signals on e-mail: delovodstvo@fsc.bg, after which they receive in their electronic mail username and password, with which to check the movement of their documents. The **Questions and Answers** heading is also consumer oriented, in which concrete cases are considered and answers can be found to substantial questions in the field of insurance, investments and supplementary pension insurance.

In 2011, under the **European issues** heading, 593 warnings were published to the investors in Bulgaria by European institutions, related to abuse of European markets by unauthorized companies, offering different transactions with securities, having no financial cover.

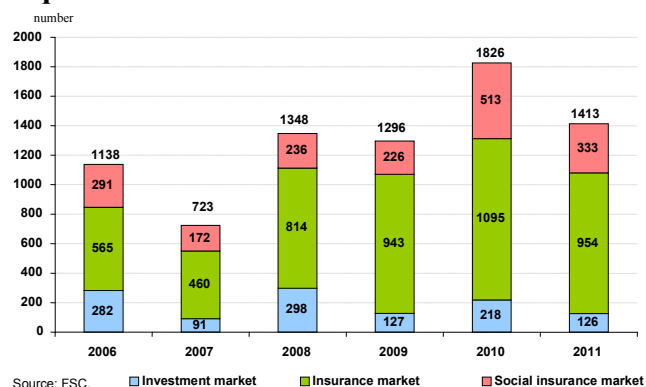
In 2011, FSC issued two publications – an electronic edition of the Official Monthly Bulletin (12 issues) and the Annual Report, which in synthesized form summarized the supervisory authority's activity and the state of the non-banking financial sector during the year.

In addition to its publications and web site, the important aspects of the FSC's activities reach the general public through the media. Information was provided to the journalist on a daily basis, interviews and press conferences were organized related to publicly significant aspect of the authority's activity. The Commission disseminates, with the media assistance, recommendations to the consumer of financial services and useful information for the market participants. The FSC's activity during the year was reflected in over 1000 publications in central printed and electronic media, and 30 extensive interviews with the FSC Members were released.

4.4. Complaints and inquiries of consumers of non-banking financial services

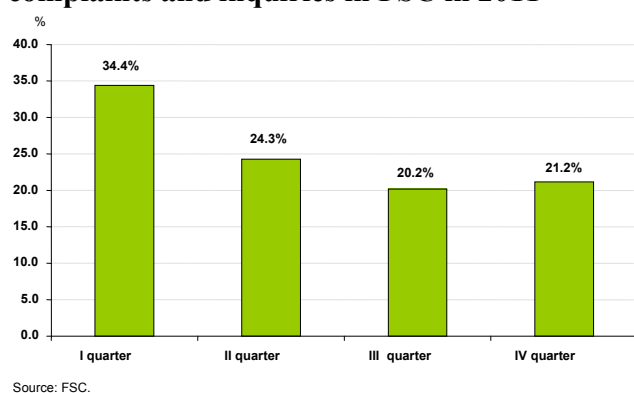
In 2011, in the Financial Supervision Commission (FSC) 1 413 complaints and inquiries were filed. In this year a considerable decrease in their number was noted, as compared to the previous 2010, and return back to the 2008 and 2009 levels. The decline was due basically to the almost double reduction of the complaints related to the social insurance market.

Figure 1. Dynamics of the complaints and inquiries in FSC



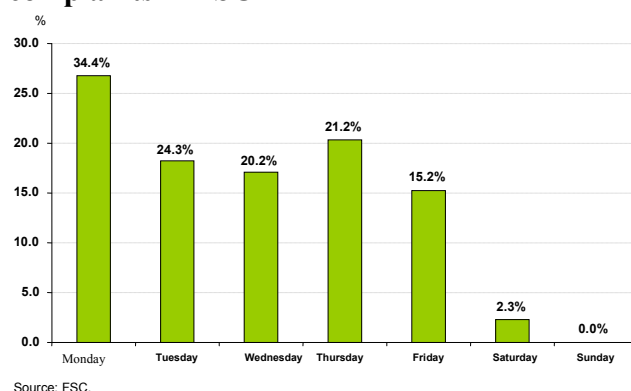
Largest number of complaints and inquiries were received in the first quarter of the year - 34.4%, and smallest number in the third quarter – 20.2%. On the average, monthly, in 2011 in the FSC 118 complaints and inquiries were received.

Figure 2. Distribution of the received complaints and inquiries in FSC in 2011



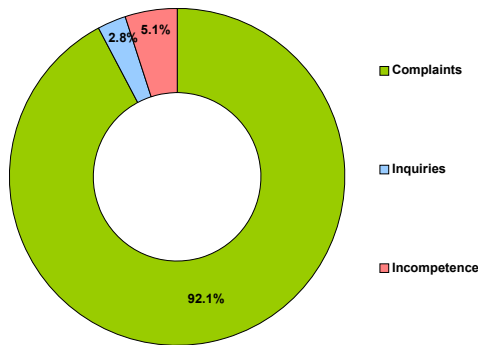
From the analysis made of the received complaints and inquiries, it is seen that in 2011 the persons filing complaints and inquiries about products and services, whose offering is regulated by FSC, were most active on Monday. In the next two days (Tuesday and Wednesday) from the week their activity lessens, and consumers are least active on Friday – 15.2%.

Figure 3. Weekly activity of the persons filing complaints in FSC



The received complaints were predominantly such, on which FSC was competent to pronounce - 92% of the totally received complaints and inquiries. The inquiries were only 3%. In the FSC, complaints were also received, on which the institution was not competent to pronounce – 5%. The percent of those complaints was not big, but the size was proportionate to the share of the inquiries, from which a conclusion can be made that the consumers of financial products and services have to receive more information about the scope of the authority's activity. In this relation it has been envisaged in the strategy for the institution's development to accentuate with priority on the protection of the consumers of financial services, including the provision of more information to the public about the FSC's functions, role and activities. It was established from the analysis of the complaints, on which FSC was not competent to pronounce, that the competent institution to pronounce in the predominant part of the cases was the Bulgarian National Bank.

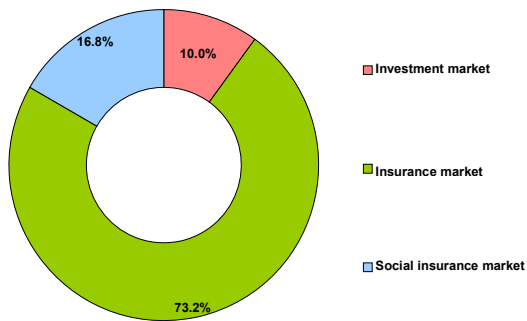
Figure 4. Types of received documents from consumers



Source: FSC.

The main flow of complaints and inquiries, which was received in FSC, was of consumers of insurance and health insurance services. For 2011, the received in FSC complaints were distributed by markets as follows: 73% in connection with the products and services offered by the insurance and health insurance market, 17% - by the social insurance market, and 10% - by the investment market.

Figure 5. Distribution of the complaints and inquiries by market segment

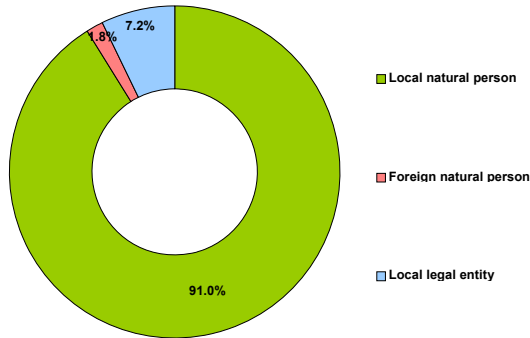


Source: FSC.

The predominant part of the complainants was local natural persons - 91% of them, 7% were

local legal entities and only 2% were foreign natural persons and legal entities.

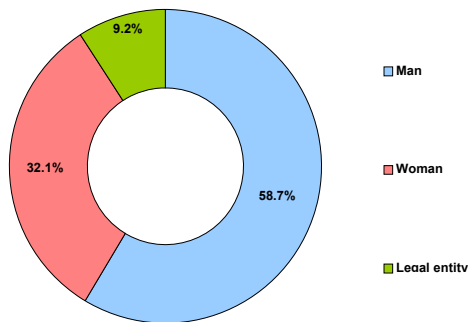
Figure 6. Distribution of the complaints and inquiries by legal entities



Source: FSC.

From the analysis of the complaints and inquiries, it can be said that 9.2% of them were filed by legal entities, the other were filed by natural persons. With regard to the natural persons, greater activity was observed in men. They represented 58.7% of the complainants, followed by women with 32.1%.

Figure 7. Distribution of the complaints and inquiries by legal entity and gender



Source: FSC.

In conducting analysis of the received complaints and inquiries by territorial feature, it was established that largest number of complaints and inquiries were lodged by persons, living in the city of Sofia - 32%. Active complainants were also the residents of Districts Plovdiv, Varna and Burgas, respectively by shares of 8%, 7% and 6%.

Figure 8. Territorial distribution of the complaints and inquiries



But when weighing the received complaints and inquiries through the prism of number of population, residing on the territory of a given district in the Republic of Bulgaria, it can be said that most active as complainants were the persons from the District of Pernik - 11 %¹⁹.

¹⁹ The indicated relative share was defined as the proportion of the general coefficient obtained as a sum of the ratio between number of filed complaints and inquiries for a given district to the population size for the same district.

Figure 9. Distribution of complaints and inquiries by territorial feature and number of population

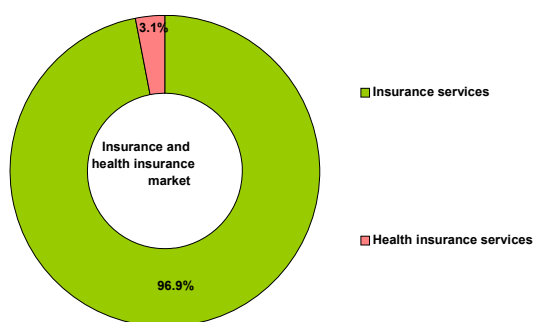


Source: NSI and FSC

Insurance and health insurance market

Within the insurance and health insurance market the distribution of the complaints was as follows: by consumers of insurance services, who filed complaints with FSC - 97%, and of health insurance services - 3%.

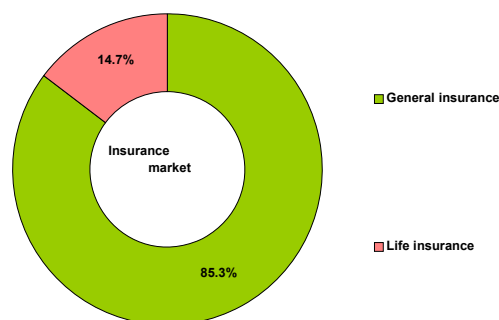
Figure 10. Distribution of the complaints of the insurance and health insurance market by type of services



Source: FSC.

Within the insurance market, the predominant number of complains was in regard to the services and products, offered by the general insurance companies – 85.3%. The life insurance market was with a considerably smaller share than the general insurance. The complaints against the actions of the persons providing products and services on the life insurance market were 14.7%. Despite of the smaller number of received complaints about the actions of the companies offering Life insurances, special attention should be attached to these complaints in view of the possibilities of stimulating that market segment, which has a large potential, for development by maintaining the consumer confidence.

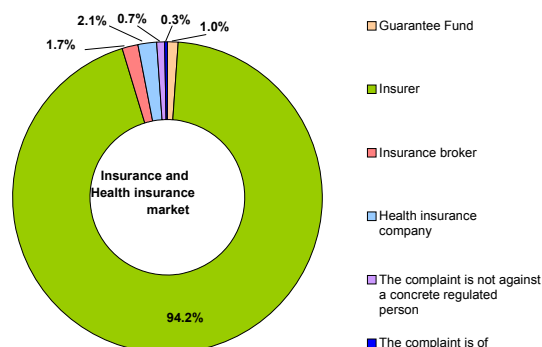
Figure 11. Distribution of the complaints on the insurance market



Source: FSC.

From the analysis of the received complaints about products and services, offered on the insurance market, it can be said that biggest number of complaints were received against actions performed by insurers – 94.2%, then followed the complaints against actions of insurance brokers – 2.1% and against the Guarantee Fund – 1.7%.

Figure 12. Distribution of the complaints by persons providing services on the insurance and health insurance market

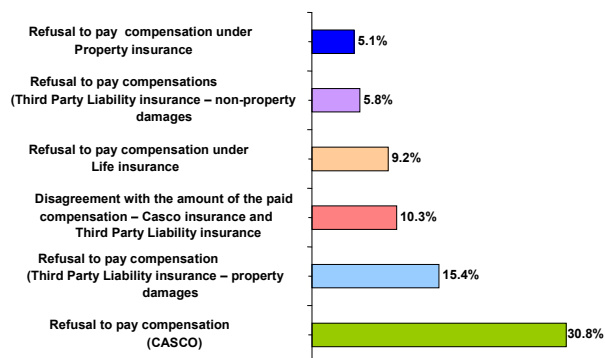


Source: FSC.

Refusal for payment of compensation under CASCO insurance was the most frequent subject of the complaints, received against actions of insurers and insurance intermediaries – 30.8% of the complaints, followed by refusal to pay

compensation under Third Party Liability insurance of motorists -15.4% of the complaints.

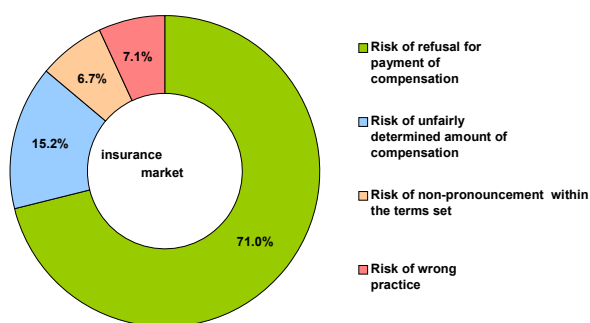
Figure 13. Distribution of the complaints of the insurance market by subject of the complaint



Source: FSC.

Analysing the complaints in terms of the risks for the consumers of products and services on the insurance market, we can draw the conclusion that most likely they will be exposed to the risk of refusal of payment of compensation. To 15 of every 100 consumers a compensation amount will be defined, which does not satisfy the consumer. The probability the consumer to be treated by the insurer or the insurance intermediary by the application of wrongful market practice is 7%²⁰.

Figure 14. Distribution of the complaints of the insurance market by risks



Source: FSC.

The complaints against actions of the participants in the insurance market concerned problems, related mainly to payment of compensations for occurred insurance events, or to non-compliance with time-limits for pronouncement on the damages by the insurers. The most frequently met complaints were:

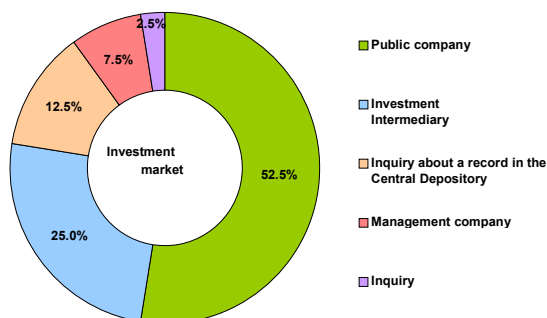
- Refusal to pay compensation under the compulsory Third Party Liability insurance of motorists for property and non-property damages;
- Amount of the paid compensation under the compulsory Third Party Liability insurance of motorists for property and non-property damages;
- Refusal to pay compensation under Casco insurance;
- Amount of the compensation under Casco insurance;
- Size of the paid amounts in Unit-linked life insurance;
- Size of the paid amounts in Life insurance with included savings element;
- Size of the paid amounts in Life insurance;
- Failure of the insurer to pronounce within the statutorily set for that time-limits, when a damage was filed for the obligatory Third Party Liability insurance of motorists;
- Failure of the insurer to pronounce within the statutorily set for that time-limits, when a damage under Casco insurance was filed;
- Failure of the insurer to pronounce within the statutorily set for that time-limits, when a damage under Life insurance was filed;
- Failure to provide the overall General conditions of a given class of insurance;
- Insufficiently provided information to the insured person about the person's right and obligations under a contract for Life insurance, upon the conclusion of a credit agreement with a credit institution.

²⁰ The above stated conclusions are on the basis of occurred events, as a ratio to the total aggregate during the reporting period.

Investment market

More than a half of the complaints (52.5%), filed by consumers of investment services were in connection with the activities of the public companies. The sector of services offered by the investment intermediaries was in the second place with 25%. The number of the complaints and inquiries, related to the activities of the management companies ranked at fourth place after the inquiries about transactions, or the presence of financial instruments in the registers, kept by the Central Depository.

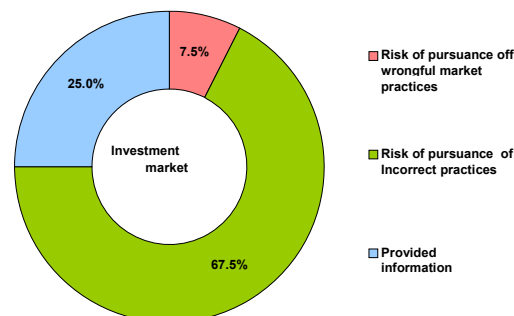
Figure 15. Distribution of the complaints by type of participant on the investment market



Source: FSC.

Analysing the complaints received in FSC from viewpoint of the risks for the consumers of products and services, offered on the investment market, over which FSC exercises supervision, it can be said that the consumers were exposed to risks related to cases of applying wrongful practices by the participants on the capital market in the sale of products and services, and 8% of the complaints were for applied incorrect market practices. 25% of the received complaints and inquiries in the field of the investment market were requests by persons for provision of information, which was not within the authority's competence.

Figure 16. Distribution of the complaints of the investment market by risks



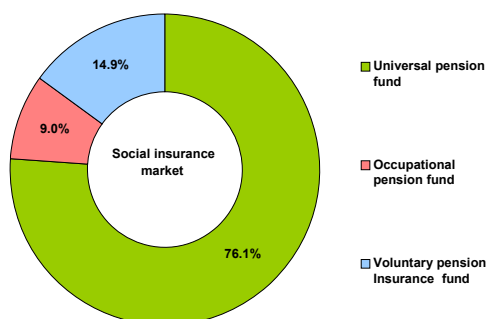
Source: FSC.

The complaints in connection with the companies carrying out activity in the field of the investment market were related mainly to owned by the investors financial instruments. This is due to the fact that the adult population of Bulgaria was involved in the processes of the mass privatization. The participants in the mass privatization did not have the necessary financial culture for investing and subsequent taking of investment decisions. For that reason, largest share of the inquiries by consumers was observed in regard to the activities, services and products, offered on the investment market, compared to the received inquiries related to the other markets, over which FSC exercised supervision.

Social insurance market

Within the social insurance market, the complaints received in FSC were distributed among complaints related to transfer of funds, accumulated under the accounts of the persons in a universal pension fund, in occupational pension fund and in supplementary pension insurance fund. 76.1% of the received complaints were related to transfer of the accumulated funds on the account of the person from one universal pension fund into another, 14.9% - in relation to occupational pension funds, and 9% - in relation to voluntary pension funds.

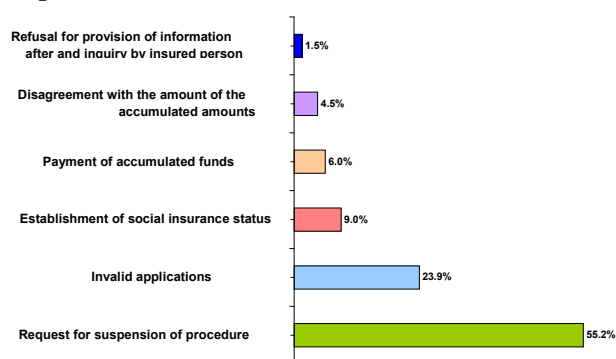
Figure 17. Distribution of the complaints of the social insurance market by type of pension funds



Source: FSC.

The main flow of complaints concerned a request for suspension of a procedure for transfer of cash accumulated under the individual insurance accounts of the persons from one universal fund to another, stating several reasons, related mainly to failure to receive information on the transfer fee. As a reason for the complaint, the fact was pointed out that the filed application for switching the fund, in which the person was insured was invalid, as it was not signed before a person performing notarial functions

Figure 18. Distribution of the complaints of the social insurance market by subject of the complaint

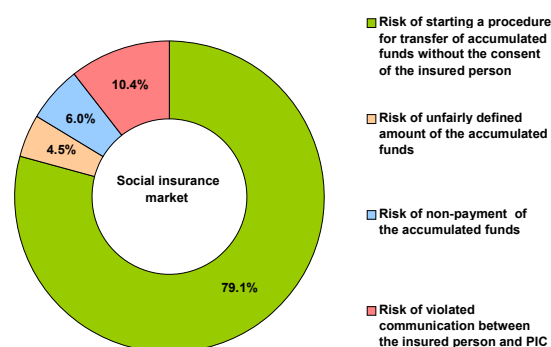


Source: FSC.

Assessing the risks to which the consumers on the social insurance market are exposed, it can be said that they most likely will be exposed to a risk of undesired transfer of the account from one

pension insurance fund into another, followed by the risk to fall in a situation of transfer of their accumulated funds on the account to another pension insurance fund without their consent. Quite smaller is the probability (5%) the consumer to fall into a situation of unfairly defined amount of the accumulated funds, situation of non-payment of the accumulated funds (6%) and impossibility to make a contact with the company, in which the person was insured (10%), and it has to be taken into consideration that the assessment for exposure to the said risks was made on the basis of the received in FSC complaints and inquiries of consumers of products and services, offered on the social insurance market.

Figure 19. Distribution of the complaints of the social insurance market by risks



Source: FSC.

In conclusion, it can be summarized that the complaints about the products and services, offered on the social insurance market, concerned problems largely related to the transfer of the accumulated funds under the insured persons' accounts from one universal fund into another. The most frequently met complaints were:

- Filed application for switching a universal pension fund on behalf of the persons, but without his/ her knowledge and consent;
- Failure to receive adequate information from the insurance intermediary, or lack of provision of full information by the insurance intermediary, which led to misleading of the insured persons, incl. information about the obligation for payment by the person, who

wanted to transfer his/her account from one pension insurance fund to another, of fee to the amount of BGN 20;

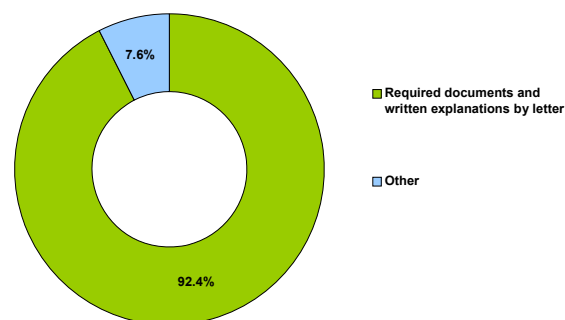
- Actions, performed by the insurance intermediary upon the signing of an application for transfer of the accumulated funds of the insured person from one pension insurance fund into another. For example, signing of a pension insurance contract by the insured person simultaneously with the filing of an application for switching of participation, which is in violation of the provisions of the Social Insurance Code and Ordinance № 3²¹, or that the insurance contract was not signed by the person before notary;
- Refusal for payment of the accumulated funds under the insurance account in a pension insurance fund, or in regard to the amount of the accumulated funds under the insurance account.

Handling of complaints and inquiries in the FSC

For clarification of the circumstances related to the received in FSC complaints and inquiries, the institution undertakes the conducting of inspections. The supervisory authority carries out inspections, in order to establish compliance with the legal provisions by the participants in the non-banking financial sector, in connection with their pronouncement on the cited in the complaints and inquiries concrete cases. Within the conducted inspection, FSC demands explanations and documents from the persons, against whose actions they were filed, as well as from all concerned parties. This procedure is pursued in 92.4% of the cases. In other cases, where more substantial

offences are established, on-site inspections are conducted.

Figure 20. Actions undertaken by FSC

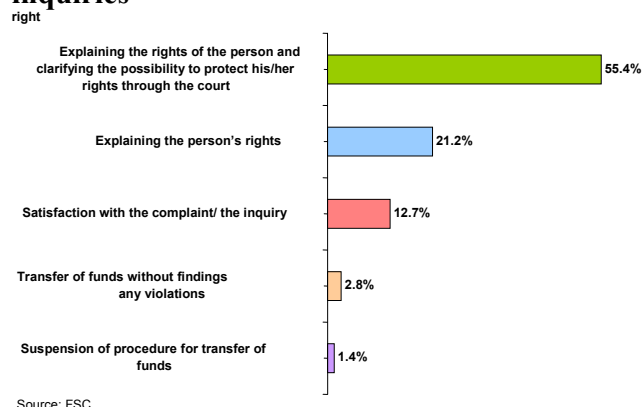


Source: FSC.

In the review of the complaints received in FSC and the preparation of the answers to those complaints, in 55.4% of the cases, explanation was provided of the rights of the persons, FSC's legal powers, and recommendations were given to the consumers to seek further protection through the court, due to the limited possibilities of the regulator, which is pronouncing on the lawfulness of the actions undertaken by the companies. When FSC reviews the complaints against the participants in the non-banking financial sector, the institution pronounces whether during the inspection carried out, it has found any violation of the provisions of the respective normative documents, and in such cases acts for establishment of administrative violation are drawn up. In the cases where there is a civil legal dispute, we advise the complainants to resolve the dispute by referring to the competent court. In 12.7% of the cases, the persons who filed complaints and inquiries were satisfied with the result of the inspections carried out.

²¹ ORDINANCE № 3 of 24 September 2003 on the procedure and way for switching participation and for transfer of the accumulated funds of insured person from one supplementary pension insurance fund into another relevant fund, managed by another pension insurance company

Figure 21. Results of the filed complaints and inquiries



As a result of the inspections conducted with reference to received complaints, only in 6.6% of the cases acts for establishment of

4.5. Financial literacy policy

The Financial Supervision Commission 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-banking sector. These initiatives were intended for various social groups and tailored to their specific needs.

In 2011, FSC developed Program on protection of the consumers of non-banking services and enhancement of the financial literacy for the period 2012-2015. The Program is based on the general principles for protection of the consumers of financial services of G-20, on the EU strategy about policy of consumer protection, as well as the individual experience, gained by FSC. In it, special attention was given to enhancement of the financial literacy of the general public, to increasing the public knowledge by the provision of clear and accessible information, both on the financial markets, and on the FSC's activity. The Commission envisages to ensure the consumers' protection by change in the supervisory practices and the regulatory framework, as a result of the analysis made of the consumers' complaints and inquiries, as well as by enhancing the efficiency of the institution's activity related to their processing.

From 4 to 8 July 2011, the next consecutive educational programme Non-banking Financial Sector in Bulgaria took place for students from secondary schools for vocational training in economics and finance in the country, organized by FSC, the Ministry of Education, Youth and Science and Atanas Burov Foundation.

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. On 1 November 2011, a one-day educational module was conducted for the students from the Trade Secondary School in Burgas. On 23 December 2011, an educational programme was also realized for students from St. Kliment Ohridski Sofia University.

In September, a framework agreement for cooperation was signed between FSC and the High School of Insurance and Finance. The two institutions developed jointly a pilot project program – a two-day training for students from the schools in economics and commerce in Sofia, the intention being that program to develop into national and to cover students from all over the country.

administrative violation were issued. The predominant part of the acts were drawn up for failure to pronounce within the legally set time-limits, in the case of insures and health insurance companies.

Sometimes the participants in the non-banking financial sector do not render assistance to FSC in the conducting of an inspection based on the received complaints, for which acts for establishment administrative violation were also drawn up to them. When reviewing the complaints, in the cases where FSC has doubts for committed crime, the institution approaches the Prosecutor's Office to undertake further actions on the case.

During the year, the Commission, together with other state and industry institutions, also organized a number of public events on key and topical issues, targeted at informing the general public and the building up of better financial capacity. The enhancement of the financial literacy in the country is one of the important directions in the FSC work and in this relation a number of initiatives were held, which united the efforts of the Bulgarian as well as of the international non-banking financial community and were realized in partnership with Bulgarian and international organizations.

On 2 September 2011, the Commission took participation in the presentation of the Green Book on a European Framework for Corporate Governance, organized by the European Economic and Social Committee and the Bulgarian Industrial Capital Association. The Members of the Commission opened the 10th National Conference with international participation on the subject theme of The insurance and social insurance market in the post-crisis period, organized by Prof. Dr. V. Gavriyski Foundation and the Higher School of Insurance and Finance.

In May 2011, the next ninth 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 journalists, representatives of all national media. The main purpose of these meetings is to build up useful professional contacts and thus to assist the more efficient communication and successful interaction between the different financial institutions.

In the yearend, a seminar for journalists was also held on the topic of New developments in the FSC regulatory and supervisory practice in the context of the new European market architecture. The whole leadership of the Financial Supervision Commission, as well as experts from the specialized administration took part in it and presented to the media the main directions in the Commission's activity.

By these initiatives FSC has established itself as a socially responsible institution, which contributes to the active interaction among the young people, the state administration and the business.

5. International activities and cooperation

5.3. European dimension

On 1 January 2011 four new European Regulations have come into effect (Regulations (EU) 1092/2010, (EU) 1093/2010, (EU) 1094/2010, (EU) 1095/2010), which have substantial impact over the work of FSC. Under the new Regulation, the four new European Authorities have been set up, which will have significant supervisory and regulatory powers in the field of the financial supervision. The new Authorities are:

- European Securities and Markets Authority – ESMA;
- European Insurance and Occupational Pensions Authority – EIOPA;
- European Systemic Risk Board – ESRB;
- European Banking Authority – EBA

Since the beginning of 2011, the Financial Supervision Commission is already part of the European System of Financial Supervision - ESFS. That system includes all national banks and supervisory authorities of the non-banking financial sector, EBA, ESRB, ESMA and EIOPA. The participants in ESFS cooperate with one another in the spirit of trust and full mutual respect in accordance with the principle of loyal cooperation. The Supervisory authorities, which are participants in ESFS, are obligated to exercise supervision over the participants in the financial markets, acting within the Union in compliance with the European legislation. As a body, the competence of which covers the supervision over the non-banking financial in Bulgaria, FSC is a member in three of the four new European Authorities - ESMA, EIOPA and ESRB.

Main accents in the work of ESMA

In view of the substantial volume of new European legislation in the field of the capital markets and ESMA engagements for preparation of technical standards and guidelines in this sphere, in 2011 the Authority concentrated its efforts in the following areas:

Technical standards for the implementation of the Regulation on short selling and certain aspects of credit default swaps

In November 2011, the EU Council and the European Parliament voted for the adoption of Regulation on short selling and certain aspects of credit default swaps. This Regulation is forthcoming to enter into effect on 1 November 2012. The Regulation requires ESMA to develop draft regulatory technical standards and implementing technical standards in relation to several provisions. Within the Standing Committee for supervisory investigations and market abuse with ESMA, a Working Group was set up, whose main activity was the development of these standards. Till the end of 2011, very intensive work went on within the Group, and it was expected in the beginning of 2012 the draft regulatory technical standards and the implementing technical standards to be published for consultation.

Recommendations for markets and intermediaries

In 2011, the ESMA Secondary Markets Standing Committee prepared Guidelines on systems and controls in an automated trading environment for trading platforms, investment firms and competent authorities, and subsequently the document was approved at the last meeting of the ESMA Board of Supervisors for 2011. According to the resolution of the Board of Supervisors, the national supervisory authorities within a term by 24 April 2012 have to declare whether they will comply with the Guidelines, or not. It should be noted that for the first time an explicit declaration will be used, whereby a representative of the national supervisory authority (in the case of Bulgaria - FSC) must report if the respective authority will comply with the Guidelines. That declaration will subsequently be published on the ESMA web site. It is important to note that the national supervisory authorities, which decide to comply with the guidelines, have to incorporate them in their supervisory practices. In essence, the Guidelines include texts relating to:

- the operation of an electronic trading system by a regulated market or a multilateral trading facility;
- the use of an electronic trading system, including a trading algorithm, by an investment firm for dealing on own account or for the execution of orders on behalf of clients; and
- the provision of direct market access, or a sponsored access, by an investment firm as part of the service of the execution of orders on behalf of clients.

It is expected in the next year the activity of ESMA, related to the preparation of technical standards, guidelines and recommendations, to be exceptionally intensive. The Authority's 2012 Work Programme covers 80 measures, divided in accordance with the acts of the European legislation, which they complement (Regulation on short selling, the Directive on collective investment schemes (UCITS IV), the Regulation on transactions with OTC derivatives (EMIR), the Markets in Financial Instruments Directive (MiFID), Directive on alternative investment fund managers (AIFMD), the Transparency Directive, the Prospectus Directive and the Omnibus Directive).

It should be noted that from 1 July 2011 ESMA began to exercise exclusive supervisory powers over the credit rating agencies (CRA). In this connection, during the year ESMA built up its supervisory and regulatory capacity, appointing 12 experts with the required knowledge to carry out off-site supervision and on-site inspections and for preparation of technical standards in regard to the Regulation on CRA (Regulation 1060/2009). ESMA successfully launched the public Central Data Base (CEREP), in which all registered or certified CRAs have to provide historical information about the issued by them credit ratings. The objective of

CEREP is to improve transparency and contribute to investor protection. Furthermore, during the year ESMA prepared drafts of 4 regulatory technical standards, forwarded its opinion on the technical aspects of the EC Proposal for Regulation on fees for CRA. The work continued on assessment of the supervisory regime over CRAs in the USA, aiming the credit ratings of the three big CRAs (Fitch, Moody's and Standard & Poor's), prepared in the USA, to be able to be used for regulatory purposes within the EU.

There is a Review Panel established with ESMA, the main objective of which is to monitor for the application on the national authorities' side of the relevant regulatory technical standards and implementing technical standards, adopted by the EC, and of the guidelines and recommendations issued by ESMA, as well as to propose changes in the appropriate cases. Thus the Review Panel assists for the prevention of the regulatory arbitrage, by ensuring consistent, efficient and effective implementation of the sector legislation and promoting the supervisory convergence. In this connection the Review Panel regularly organizes and conducts peer reviews of the competent authorities, in order to increase the consistency of the end results of their supervisory activity.

In 2011, the Review Panel published a Final Report with the results of the mapping of the applied by the Member States options, discretions and stricter rules in comparison with these of the Transparency Directive (Directive 2004/109/EC). Moreover, during the year the Review Panel conducted a peer review of the proper and full application by the competent authorities of the Good Practices, adopted by the Committee of the European Securities Regulators (CESR), in regard to the process of the prospectuses approval according to the Prospectus Directive (Directive 2003/71/EC). The Financial Supervision Commission was assessed as fully applying the good practices in their entirety. Furthermore, the Review Panel conducted also a mapping about the actual cases of sanctioning under the Market Abuse Directive, where the report is forthcoming to be published in 2012.

Main accents in the work of EIOPA

In 2011, EIOPA continued its work on the preparation of the so called supervisory guidance on the implementation of Solvency II Directive (level three measures). The level two implementing measures of the Directive were subject of discussion in EIOPA. In 2011, FSC was involved, including in the following more substantial developments, of the EIOPA work:

- EIOPA prepares twice annually a report on the financial stability of the re/insurance and pension insurance sector in the EU and the European Economic Area. In this connection FSC provided quantitative and qualitative information to EIOPA about the development of the insurance market in Bulgaria;
- FSC provided information in connection with the second stress-testing of the European insurance sector. On the side of the Bulgarian insurance sector, three insurance companies took part in the stress-testing on individual basis, while the others falling within the scope of the exercise (50 % of the insurers in every state on the basis of gross premium written), participated on a group level. The results of the testing showed that all involved companies covered the minimum capital requirement (MCR) under the Solvency II Framework Directive, after applying the relevant stress scenarios. In addition to the second stress-testing, a satellite scenario testing was carried out, in order to study the soundness of the insurers in the conditions of continued low interest rate levels. Within the scope of the exercise fell the insurers, which had exposures to products, sensitive to interest rate levels, in particular products with minimum guaranteed return or embedded options for the policyholders.
- A study was conducted of the life insurance market regarding the income from investing the assets for cover of the technical provisions under the guaranteed-return contracts, the guaranteed

return on them and the additionally distributed return, and information was provided for years 2005, 2006, 2007, 2008 and 2009;

- A study of the life insurance market was completed regarding the existing possibilities for action of the insurers, when the interest rates are low, as well as about their sensitivity to the changes in the market interest rates and summarized information was provided to EIOPA;
- FSC provided information on the exposures of the insurers/ reinsurers to sovereign loans, banks and corporations to certain EU states (with high risk premium).

Main accents in the work of ESRB

In the first year of its functioning, ESRB began work on a regular overview and assessment of the systemic risks in the European Union, where jointly with colleagues from BNB, FSC experts participated in the risk assessment survey among the central banks and national supervisory authorities. According the ESRB mandate, the issued by it risk warnings and recommendations should be justified on the basis of the common set of quantitative and qualitative indicators (risk dashboard) with the purpose of identifying measurement of the systemic risk. For that reason, the main task of ESRB during the year was the preparation of a dashboard of risk indicators as a leading element from the common set of indicators, signaling the existence of risk for the stability of the European financial system. Aiming at assessment of already identified systemic risks, high-expert groups were set up, which carried out a thorough analysis of the state of those risks and outlined a set of measures, which could be applied with a view to their limitation. On the basis of these reports, two recommendations of ESRB were issued, with which the competent authorities might comply or not comply, giving a rationale for that. The first recommendation was related to granting of credits in foreign currency, and the second – to the denominated in US dollars financing of credit institutions.

Another major task of ESRB was the examining of the current state in regard to the institutional form and applying of macroprudential policy among the EU Member States. With the purpose of defining a clear framework for pursuance of effective macroprudential policy, ESRB issued a recommendation on the macroprudential mandate of the national authorities.

Led by the international initiative of the Financial Stability Board for identifying, monitoring and whenever necessary regulating the shadow banking system, the ESRB Analysis Working Group developed a form for current monitoring of the institutions and activities, falling within that segment, on the basis of which a regular overview and assessment of its development in the EU is forthcoming to be carried out.

5.4. International cooperation, projects and initiatives

The globalization of the financial markets, as well as the manifestations and the consequences of the crisis, emphasize the importance of the cooperation of the Financial Supervision Commission with international organizations and financial institutions. The Commission participates in a multitude of international organizations of the supervisory authorities in the non-banking financial sector. In its capacity of an active member, FSC 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, and namely **the International Organization of Securities Commissions – IOSCO, International Association of Insurance Supervisors – IAIS and the International Organization of Pension Supervisors – IOPS**, where 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**.

As an institution responsible for the technical aspects of the state policy in the field of the non-banking financial sector, FSC participates actively in the formulation of the Bulgarian position in the negotiations with the **International Monetary Fund (IMF)** and the **World Bank (WB)**. The cooperation with these organizations is connected to a large extent with 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.

The Commission is a partner also with the **Organization for Economic Co-operation and Development (OECD)**.

International projects

In 2011, FSC continued its active policy, directed to the building up of stable connections for cooperation with the supervisory authorities in Southeastern Europe.

On one side, this policy is successfully implemented through the conducting of trainings for strengthening the administrative capacity of the respective supervisory institutions in the Southeast European countries, as well as through initiatives for the signing of memorandums for exchange of information. The Commission has always expressed its readiness for assistance upon any request for arrangement of visits for exchange of experience and training of other supervisory authorities from the near countries. Within this priority, during the reporting period, a Memorandum for cooperation and exchange of information in the securities field was signed with Montenegro. Furthermore, initial steps were undertaken for the arrangement of a visit of representatives of the Central Bank of Republic of Kosovo for exchange of experience in the field of insurance supervision.

On the other side, the active policy of FSC in the region is implemented by the realization of twinning projects, financed by the Instrument for Pre-accession Assistance (IPA) of the European Union.

Focus topic: Successfully completed Twinning project MN 08 IB FI 01 of EU with the participation of the regulatory supervisory authorities of the Republic of Montenegro and the regulatory and supervisory institutions from the bank and non-banking financial sector of the Republic of Bulgaria and the Netherlands

On 23 November 2011, the Financial Supervision Commission in consortium with the Bulgarian National Bank and the Netherlands Central Bank (De Nederlandsche Bank), on one side, and the financial regulators of Montenegro (the Central Bank of Montenegro, the Securities and Exchange Commission, the Insurance Supervision Commission of Montenegro and the Ministry of Finance of Montenegro), on the other, completed successfully the 24-month Twinning project MN 08 IB FI 01 Strengthening of the Supervisory and Regulatory Capacity of the financial regulatory authorities. The Project, launched on 30 November 2009, was financed by the European Union (EU) by the Programme Instrument for Pre-accession Assistance with a budget of Euro 1 199 966,94.

The main objective of the Project was 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 Commission implemented 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 were in the field of the investment and pension supervision. The major objectives were improvement of the supervisory

capacity of the Securities Commission of Montenegro, preparation of 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. 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 project contributed to the harmonization of the Montenegrin legislation with the EU *acquis communautaire* in the area of banking, securities, pensions, insurance and anti-money laundering and terrorist financing (AML/CFT), as well as to strengthening the financial stability, the cooperation between the beneficiary country institutions and enhancing their administrative capacity. The project results are an important step towards the preparation of Montenegro for the negotiation process to EU accession.

The main results achieved within the whole Project were as follows:

- 8 new draft laws were prepared, 3 of which were adopted by the Montenegrin Parliament: the Law on Financial Stability Council, the Law on Take-over Bids and the Law on Investment Funds.
- Drafts of an Action Plan for Basel II implementation, a new Capital Adequacy Decision, a framework for the implementation of Pillar 2 requirements of Basel II Accord and the respective guidelines, manuals and reporting forms were prepared. This will allow the CBM to plan its work over the next few years and help it to set its priorities;
- A Financial Stability Council was established and action plans for crisis management situations prepared;
- Gap analysis on the compliance of Montenegrin legislation with EU requirements was prepared as well as guidance papers for the transposition of all major directives in the area of securities and pension insurance. Nine operational manuals and methodological instructions were prepared and most of them are already implemented. Twenty four different trainings, including 2 international conferences, were carried out;
- In the area of insurance supervision Guidelines on how to perform self-assessment of the core principles of the International Association of Insurance Supervision (IAIS) were prepared, as well as a Self-assessment report of the IAIS core principles. Work plans for off-site and on-site inspections were adopted. The preparation for transposition of the Solvency II Directive in Montenegro is on a positive track and a Road map prepared during the Project is being implemented. Also, a National Bureau of Insurers was established. As a result of the extensive training and joint work the insurance supervision was strengthened;
- AML/CFT inspection manuals, inspection programs, a MoU on cooperation between the BC institutions for the prevention of money laundering and terrorist financing were elaborated;
- Increased public awareness – an Investor protection and awareness strategy was drafted and is under implementation; information brochures on AML/CFT for the public and for the financial institutions, as well as on the capital market and the voluntary pension funds were issued and distributed; a SEC Information centre was established, a communication seminar for journalists and a seminar for law enforcement authorities on AML/CFT were carried out.

During the official closing ceremony, which took place in Podgorica, the Minister of Finance of Montenegro expressed his gratitude to the Bulgarian and Dutch partners to the Project, emphasizing that the achieved results should be an example to follow for all other Projects. The Deputy Head of the Delegation of the European Commission in Montenegro assessed the concluded Project as one of the most complex and having achieved remarkable results.

Twinning project BA 07 IB FI 01 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 Euro 799 875,15. The Project has duration of 27 months and was launched on 21 April 2010.

The major 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.

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 work plan of the Project includes the implementation of 40 different activities, distributed in four individual components, whose implementation is divided 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 fulfilled activities of the work plan in the field of export insurance.

In 2011, overall 18 activities of the Project were carried out, which were related to the building of complete database of documents, necessary for the harmonization of the legislation of Bosnia and Herzegovina in the expected process of accession to EU.²²

Twinning Project BA 07 IB FI 01 was the third project, in which FSC participated 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 has established it as a competent EU partner in the region of Southeast Europe and as the most active Bulgarian institutions in the realization of twinning projects with third countries.

International initiatives

In 2011, the Financial Supervision Commission was an initiator or a participant in a number of international initiatives and conferences. That further strengthened FSC as an important participant in the international cooperation in Europe and in particular in the region of the Balkans.

One of the most important international initiatives was the initiation and holding by the Financial Supervision Commission on 14 December 2011 of **international conference on the topic of Perspective for development of the non-banking financial sector** with over 120 guests attending. The aim of the event was to present the new European policy in the financial sphere and discussion to be held about the state of the Bulgarian financial market and the ways for its future development. A special guest was Mr. Stephen Meyer – Chairman of ESMA, who is the first representative of a European Supervisory Authority in the field of the non-banking sector, who visited Bulgaria. Accent of the forum was also the presentation of the Report of the

²² The Project was successfully concluded in April 2012.

World Bank – Capital market integration and MiFID implementation: the Bulgarian experience, which made a review of the implementation of the EC Directive on the markets in financial instruments (MiFID) and gave assessment of the impact of that Directive on the market of financial instruments in Bulgaria.

A number of results were achieved with the Conference holding. The participants were acquainted with the state of the Bulgarian capital and pension insurance market and new European legislative initiatives in the financial sector were presented. Experience was exchanged with international partners from Central and East Europe, and it was discussed that to become good practices in regard to the institutions from the Balkan region, for the countries of which an EU membership was forthcoming. At the Conference, the new European supervisory architecture was presented to the participants – representatives of the non-banking financial sector, international partners, Bulgarian institutions, incl. the Ministry of Finance, Bulgarian National Bank, etc.

5.5. Cooperation with local institutions

With the objective of enhancing the efficiency of the control and regulation over the financial system in Bulgaria, since its establishment to the present time, FSC maintains and deepens its cooperation and active interaction both with state authorities with a role towards the financial markets and the supervision, and with the industry organizations of the companies in the non-banking sector and other institutions connected with investor protection. The interagency cooperation is expressed in conducting joint inspections, exchange of information, deliberating and agreeing of proposals for amendments to the legal regulations, as well as taking up a position on issues, which are in the process of discussion in the European structures, holding joint seminars, educational initiatives, conferences, etc.

In the context of the preparation of Bulgaria's position, presented to the EU authorities on issues related to the financial markets, in 2011 a multitude of expert meetings were held between FSC and representatives of BNB, MF, Committee on Financial Services and the Economic and Financial Committee. The purpose of these meetings was both to analyze the overall effect of the proposed by 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.

Representatives of FSC took an active part in the interagency working groups to the Council for European Affairs and in particular in Working Group 26 (WG 26) Financial services, Working Group 13 Social policy and employment with the Ministry of Labor and Social Policy, Working Group 21 Consumer Protection with the Ministry of Economy, Energy and Tourism and Working Group Europe 2020 with the Ministry of Finance.

In connection with the work of WG 26 with leading institution the Ministry of Finance, the representatives from FSC analyzed the policies in the newly adopted acts in the EU legislation in the field of the non-banking financial sector, preparing opinions on framework positions and measures for the implementation/ application of those acts in the national legislation, after which they were agreed in the Working Group according the preliminary approved action plan.

In relation to the exercised ex-ante and ex-post supervision, information exchange is carried out with different state authorities, depending on the nature and the concrete specificity of the procedure, for instance, with BSE – Sofia AD, Central Depository AD, BNB, SANS, NRA, the Registry Agency, Privatization Agency, MoI and the courts. Cooperation is realized whenever necessary to receive additional information in the reviewed procedures, or respectively with the purpose of submitting information, which could be of interest for another state authority.

Active cooperation is also realized with the different industry associations, basically in connection with prepared by FSC amendments to the statutory acts, regulating the capital market – the Bulgarian

Association of Asset Management Companies (BAAMC), Bulgarian Association of the Licensed Investment Intermediaries (BALII), Association of Banks in Bulgaria (ABB) and others. In 2011, the cooperation with local institutions with involvement of representatives of Investment Activity Supervision Division was related mainly to exchange of information, directed to improvement of the content and correctness of the regularly disclosed information, aiming at enhancing the confidence in the market as a whole.

In 2011, representatives of Insurance Supervision Division held a series of meetings with representatives of the legislative, executive and judicial power, as well as with the industry associations, aiming at developing the insurance and health insurance market in Bulgaria and further improvement of the regulatory and supervisory framework. Subject of discussion were the proposals for amendment to the legal regulations – Law on amendment and supplement (LAS) of the Insurance Code, LAS of the Health Insurance Act, as well as in relation to the Ordinances, which FSC adopted during the year in this field. Regular meetings were held with the organizations of the insurers and other specialized bodies in connection with the discussion of the methodology for settlement of claims for non-material damages under Third Party Liability insurance of motorists, as well as with reference to the operation of UISRAMC (Unified information system for risk assessment, management and control) and in relation to the implementation of Directive 2009/138/EC (“Solvency II”).

In 2011, experts from the FSC in the insurance market field participated in the conducted self-assessment exercise for the application of the Insurance Core Principles (ICPs) of the International Association of the Insurance Supervisors (IAIS). The self-assessment exercise was on the subject-theme of Supervisory cooperation and information sharing, which included a survey for the application of the following basic principles: ICP5 Supervisory cooperation and information sharing, ICP6 Licensing, ICP7 in relation to the professional qualification, experience and good reputation of the persons in management positions, ICP17 Supervision of the insurance groups, ICP27 Insurance fraud and ICP28 Anti-money laundering and combating the financing of terrorism.

The Commission was also actively involved in the activity of the coordination committees, engaged with the supervision, cooperation and exchange of information in regard to the insurance groups. In the work of the coordination committees, representatives of all supervisory institutions participate from Member States, in which certain insurer has established subsidiaries. The second annual meeting was also held of the coordination committee of the insurance group Euroins Insurance Group AD, for which FSC is a leadgroup supervisory authority, with the participation of the supervisory authorities of the other Member States of the committee, and namely – Romania and Macedonia, the official representative of EIOPA and representatives of the insurance group.

Social Insurance Supervision Division took part in an interagency working group, set up with a task for development of a draft Law on amendment and supplement of the Social Insurance Code (SIC), to settle the legal possibility for transfer of pension rights from and to the pension schemes of the European Central Bank and of the European Investment Bank²³. That group elaborated also a draft act of the Council of Ministers, regulating the procedure of transfer of pension rights from and to the pension scheme of the European Union, respectively – from and to the pension schemes of the said European banks.

In 2011, a number of meetings and discussions were carried out with the participation of representatives of the Investment Committee to the Bulgarian Association of Supplementary Pension Insurance Companies (BASPIC), the Ministry of Finance, Ministry of Labor and Social Policy, Bulgarian Association of Asset Management Companies, Bulgarian Association of the Licensed Investment Intermediaries and the Association of Banks in Bulgaria, at which problems, expectations and

²³ Am., SG iss.60 in 2011

recommendations were considered, related to the investments of the supplementary pension insurance funds. Furthermore, discussion was also carried out on the forthcoming amendments to the SIC and Ordinance № 29 on the minimum level of credit ratings of banks and on the definition of the countries, regulated markets and securities regulated markets indexes under Art. 176, para 2 of the Social Insurance Code.

In June 2011, FSC representatives took part in the meeting organized by the Ministry of Labor and Social Policy, to discuss the consequences of Decision № 7 of 31 May 2011 of the Constitutional Court, whereby § 4a of the Transitional and Final Provisions of the SIC for transfer of funds from the occupational pension funds to the National Social Security Institute was declared anti-constitutional and to outline the actions and measures, which have to be undertaken as a result of that. A working meeting was also held with representatives of BASPIC and the National Revenue Agency in relation to the draft Ordinance on amendment and supplement of Ordinance № 3 on the procedure and way for switching participation and for transfer of the accumulated funds of the insured person from one supplementary pension insurance fund to another relevant fund, managed by another pension insurance company.

In 2011, FSC realized close cooperation with BNB and MF on the issues of the financial stability within the Financial Stability Advisory Council (FSAC) and its substructures. At the held sessions, information was exchanged on the state of the national financial system and the financial markets, on major events and trends, which may have effect on the stability of the national financial system. During the year, the new national plan for action in situation of financial crisis was adopted, with a view to reflecting the new European supervisory architecture. In accordance with the new national plan, the internal plan of FSC for action in the conditions of financial crisis was also updated, reflecting also the structural changes in the Commission.

6. Institutional development of FSC

6.3. New development in the management and structure of FSC

By decision of the Commission under Protocol № 21 of 9 May 2011, new Regulations of the Structure and Operation of the Financial Supervision Commission were adopted. The provisions of the Regulations reflect the amendments to the Financial Supervision Commission Act concerning the staff of the Commission and the organization of its activity.

By the Regulations, an effective integration and harmonization was established of the regulations and practices between the three Divisions in FSC, and the existing separation between the three sectors of supervision – investment, insurance and social insurance activity was overcome. Through the set up Directorates General Regulatory Policy and Supervisory Activity, a uniform practice and common approaches were established in the exercising of the regulatory functions and supervisory activity. Thus, the approach in the functioning of the Commission's administration was changed from subject-oriented to function-oriented.

In view of the assigned functions to the Member of the Commission in relation to the analysis of the state, trends and soundness of the financial markets, identification and management of the systemic risks, as well as pronouncement on complaints against acts of the Commission and its bodies against representatives of the non-banking financial sector, the units in the administrations were specified, which would assist the Commission Member in this activity – Financial Stability Directorate and Legal Directorate.

Better coordination was established among the Members of the Commission, their obligation to account for the activity was regulated. With the purpose of improving the activity of the Commission as a collective body, a secretariat has been set up, which is to organize the holding of the meetings.

A public relations and protocol was set up separate, to ensure the media appearances of the Commission and its bodies, the publicity in its activity and to organize protocol activities.

With the Regulations, the objective was realized for optimization of the structure of the Commission's administration and the number of Directorates was reduced from 15 to 11, the general administration being structured in 4 Directorates, and the specialized administration in 7 Directorates.

6.4. Human resources management

The Financial Supervision Commission, led by the understanding of the human capital value in the realization of its key goals, continued to direct its efforts to establishment of prerequisites for career development of the officials, bearers of values and models of conduct, who contribute to the prestige of the institution's work.

The goals of the human resources management are the discovery, career growth and development of the important for the Commission people, who are to realize effective fulfillment of the organizational objectives and the formation of a highly qualified team.

Our resources are oriented to the achievement of the long-term goals:

- Establishing the Financial Supervision Commission as a reputable and preferred employer.
- Creation of conditions, climate and culture, which ensure stimulating work environment for professional development.
- Investment in focused trainings with the purpose of building a highly qualified team.

The **structure and functions of the FSC** 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. Aiming at improvement of the quality of the Commission's regulatory function and supervisory activity, achievement of optimum interconnection between the individual organizational units, higher work efficiency and more successful communication, in June 2011 the approach to the operation of the Commission's administration was changed²⁴. According to the adopted new Regulations of the structure and operation, the payroll staff of FSC is 245 positions (5 Commissioners and 240 persons administration).

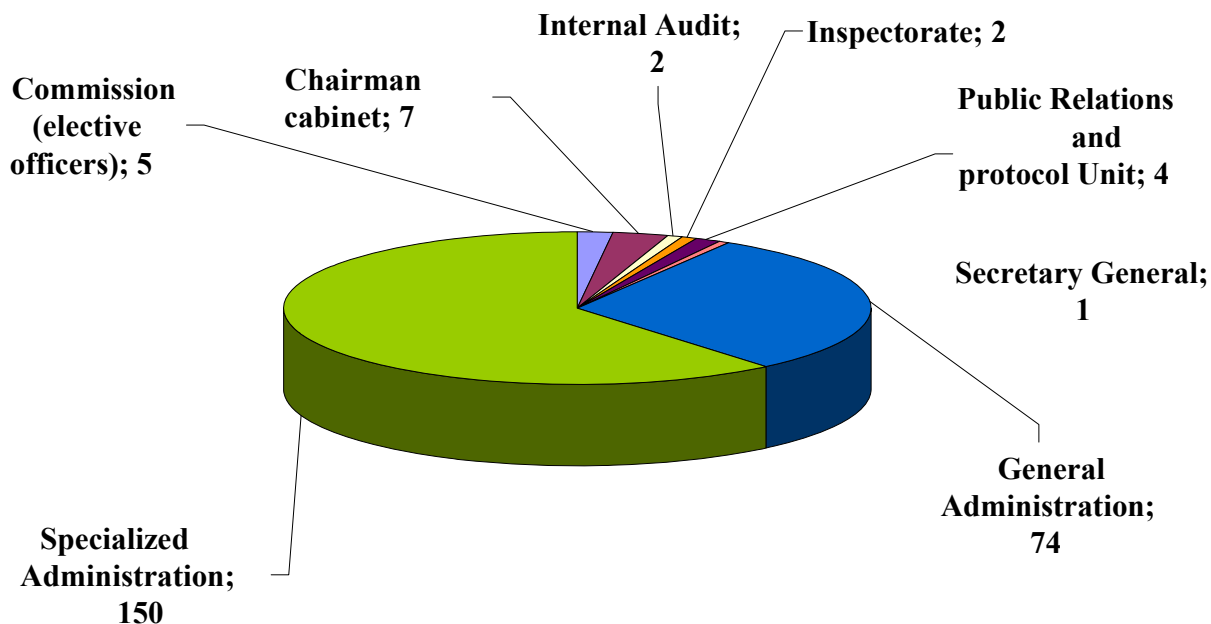
The FSC activity as a regulatory and supervisory institution according the new developments in the organizational structure is realized mainly by the two Directorates General – Regulatory Policy and Supervision Activity, where the directorates and departments in them are formed on sector principle – investment, insurance and social insurance. The objective of the activity optimization and supervision efficiency was achieved also by reduction of the number of the specialized directorates from 8 to 6.

The organizational-management structure of the specialized administration includes Financial Stability Directorate, the main functions of which is carrying out of market and sectoral analyses in the field of securities, insurance and supplementary social insurance, as well as assessment of the major risks (incl. systemic risk), to which the participants in the non-banking financial sector are exposed.

An important element of the uniform structure of FSC is the operation of well functioning general administration, which is closely related to the specialized administration. The structure of the general administration was considerably optimized, the number of Directorates being decreased from 6 to 4.

²⁴ See. Item 6.1. New developments in the management and structure of FSC.

Figure 22. Distribution of the FSC staff by structural units in 2011



The Financial Supervision Commission is part of the state administration of the Republic of Bulgaria, but in its structure there 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.

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 92% of those employed in 2011, and the share of employees with secondary education was reduced to 8%.

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 economic was 56 %, and the share of employees with education in law was 37%. From the employees with other higher education, 4% were in natural and mathematical sciences and informatics, and 11% - other higher education. The fact should be noted, that in the FSC there were 12 officials having two higher educations, which allowed more professional and thorough fulfillment of the assigned tasks. 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.

Figure 23. FSC staff structure by education in 2011

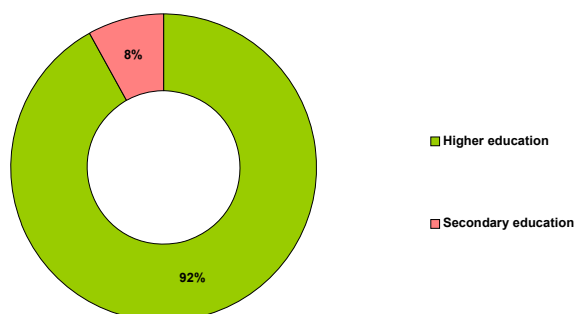
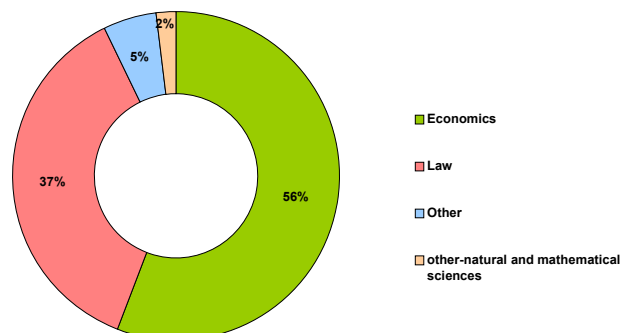


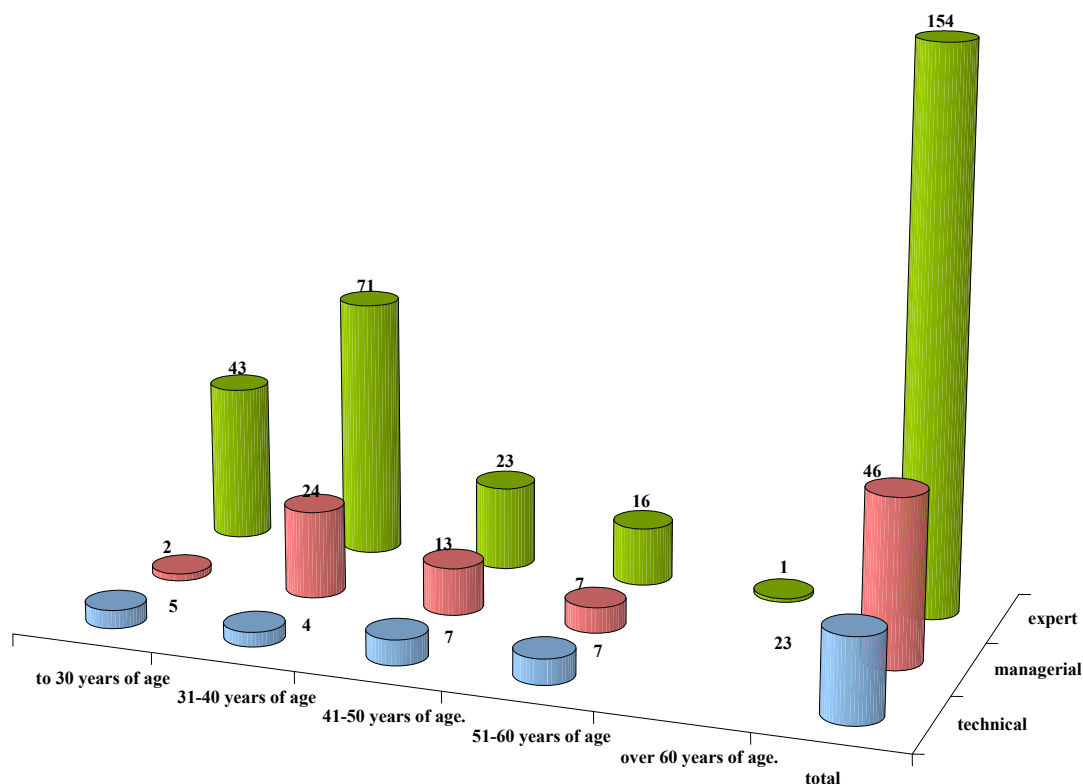
Figure 24. Distribution of the staff by type of education in 2011



There was a satisfactory staff balance by age. In the last year, the tendency of rejuvenating the FSC personnel increased, the highest number of employees in FSC were aged 31 to 40 years (99 persons), followed by employees under 30 years of age (50 persons); 41 to 50 years old (43 persons); 51 to 60 years old (30 persons) and over the age of 60 only 1 person.

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 (24 persons). The expert personnel were 154 persons, 114 of whom aged to 40 years. Employees performing technical positions were 23, most of them – 7, 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 transfer of the organizational know-how and skills.

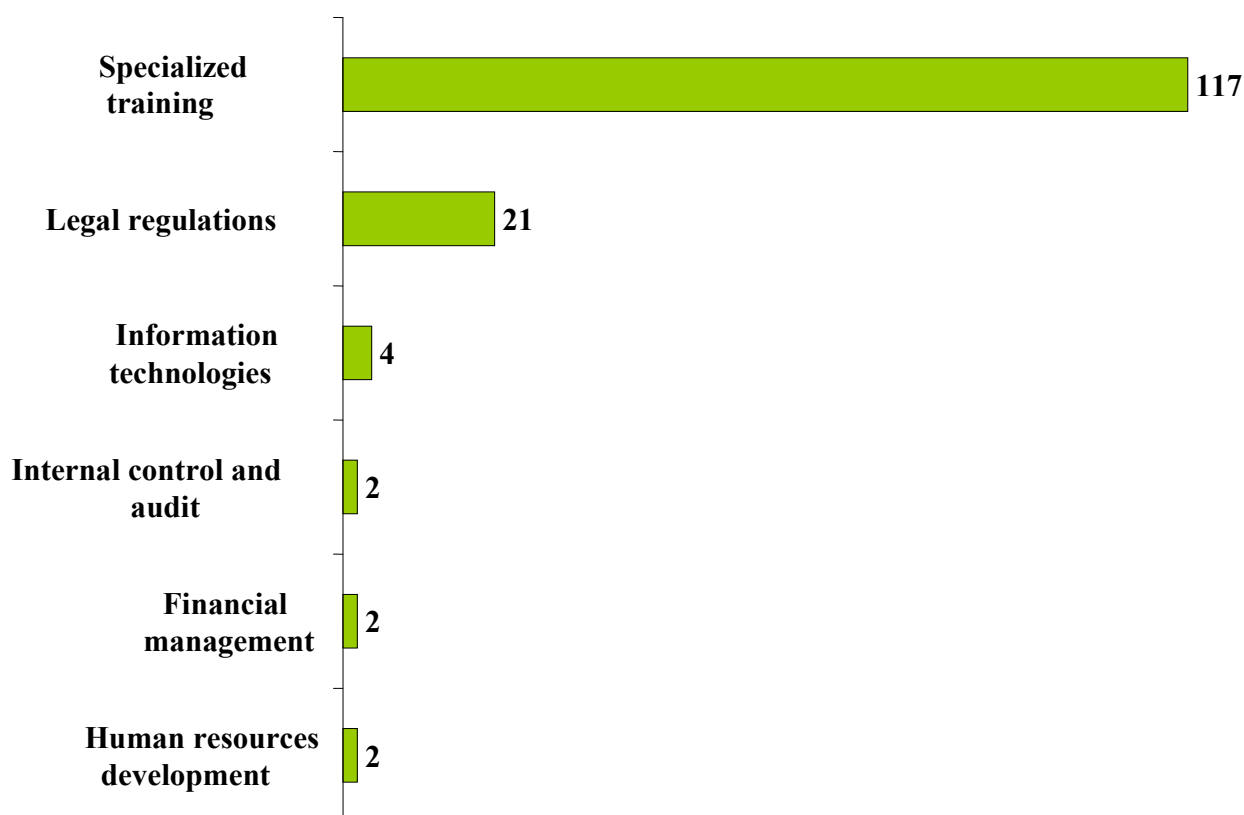
Figure 25. Structure of the personnel by age and position in 2011



The supervision quality is inextricably bound with the qualities, skills and experience of the employees in FSC. In this relation, it is worked in the direction of the employees' training and qualification in a long-term plan. In 2011, 100% of the funds appropriated for the employees' specialized training were utilized. For the purpose, a study was conducted of 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, 148 employees took part in **various forms of training and qualification extension**. In view of the educational process needs, FSC developed beneficial partnership relations with a number of institutions, and namely – the National Union of Jurisconsults, Center of European Studies, Pricewaterhouse Coopers, the Institute of Internal Auditors in Bulgaria, the Bulgarian Human Resources Management and Development Association, the Bulgarian Actuarial Society, Publishing House Trud & Pravo, Joint Vienna Institute, EIOPA, ESMA, etc.

Figure 26. Number of persons, who underwent training on the relevant subject-theme in 2011



The system for stimulation of the personnel is focused on the long-term individual work performance, whereby it is guaranteed that employee achievements are acknowledged, they are appointed to specific positions and they receive remuneration consistent with their contribution and abilities. The results of the assessments are applied in the structure of compensation and for 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 reputable and effective supervisory authority. The application of the Policy for human resources management aims at the introduction and application of the good practices in the management, establishment of a uniform approach, transparency and predictability in the FSC employees' career, the professional training and development, succession in the work, ensuring administrative memory.

6.5. Development of the information technologies for the needs of the supervision

The development of the information technologies in the Financial Supervision Commission in 2011 went on under the sign of innovation and sustainable development. After conducted detailed audit and analysis of the state and perspectives of the used information technologies, a medium-term Strategy for development of the IT infrastructure and provision of IT services for the needs of the FSC's activity was developed and adopted. The directions described in this document, have as objective the FSC development in relation to management of the internal and external IT services and systems, whereby maximum functionality and protection will be ensured, needed for the carrying out of the administrative and legal activities of the

Commission. Following the current trends of the information technologies development, the strategy defined the following main lines:

- Building up of an integrated information system for the FSC activities;
- Renovation and upgrading the information infrastructure;
- Protection and preservation of the services and information;
- Monitoring and management of the provided IT services;
- Maintenance of the information system and equipment in the FSC.

In fulfillment of the strategy objectives, the first projects were realized – the first stage of the building of the integrated information system covered the activity of Insurance Supervision Division, and the first stage of the renovation and upgrading of the internal information infrastructure – the introduction of new security means and overall solution for „desktop” virtualization.

In parallel with the work on new projects, the maintenance of the current state of the information in the FSC registers continued during the reporting period. The information in the e-Register was updated by the participants in the capital market – 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 information entered by the companies. 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 duly updating of the information system continued for the receiving and processing of the daily reporting by the companies in the social insurance market, conditioned by the statutory requirements, as well as daily processing and actualization of the received by the insurance companies information about concluded and amended agency contracts.

The FSC web site was also renovated in whole. It is with a new vision, greater functionality and provides more information and statistics on the FSC activities and on the non-banking financial sector. Its enriching with new modules and additional content continued. Updating of the web site’s vision and content was maintained by using the current achievements in the information technologies.

The building up and further development of the internal electronic system for the entry of acts for establishment of administrative violations continued successfully. The system allows to the respective experts in FSC 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.

In 2011, the active involvement of our country continued, and in particular the Commission, in the activities of the relevant European regulatory authorities. In compliance with the provisions of the Markets in Financial Instruments Directive, the TREM system was successfully maintained and updated (along the ESMA lines), and the participation of the newly formed IT Committee with EIOPA contributed to synchronization between the prepared European projects for electronic data exchange and the new FSC projects.

In connection with the Commission’s participation in international projects, latest generation of a videoconferencing system was implemented and put into operation.

6.6. FSC’s budget execution report for 2011

According the Financial Supervision Commission Act, the Commission is a budget supported legal person with its own budget, which is a part of the state budget of the Republic of Bulgaria. 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 own revenues and a subsidy from the central budget.

In 2011, the realized own revenues from regulatory and supervisory activity of FSC were to the amount of BGN 6 490 246. The FSC's own revenues are formed by state fees, in relation to performance of actions, issuance of documents and exercising of general financial supervision, on the ground of Art. 27, para 1 of the FSCA, and by imposed fines and sanctions.

In the structure of the own revenues for 2011, the share of the state fees was 50.60%, or BGN 3 283 989. Another source of own revenues were the proceeds from fines, penalty interest and indemnities. For the reporting period the proceeds from these on the FSC's account were at the amount of BGN 3 205 770, which formed 49.39% of the own revenues. The other revenues (0.01%) in 2011 were revenues from sale of competition and tender documentation for the carrying out of procedures under the Public Procurement Act, negative exchange rate differences and other non-tax revenues to the total amount of BGN 487.

In 2011, under the FSC's budget, financing was received 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 1 068 367:

- Twinning project: MN 08 IB FI 01 Strengthening of the regulatory and supervisory capacity of the financial regulators in Montenegro, for the implementation of which the received financing in 2011 was to the amount of BGN 216 627. In that Project FSC participated as a junior partner, and a lead partner was the Bulgarian National Bank.
- Twinning project BA 07 IB FI 01EU 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 to the amount of BGN 851 740.

To cover the expense section of the budget, the Commission used during the year 61.98% own revenues, 27.82% subsidy from the republican budget and 10.20% financing from the European Union for the implementation of the twinning projects. The Commission incurred expenses to the total amount of BGN 10 471 572, including expenses for the personnel (salaries, remunerations to the personnel and social security contributions), expenses for maintenance of the institution and for implementation of the twinning projects, annual membership fees in the international organizations and the European Committees of the financial 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 FSC's administrative activity through the provision of information technologies and renovation of the computer and hardware equipment. In 2011, a large-scale building up and implementation by-stages was launched of an effective Integrated Information System for the purposes of the integrated financial supervision and management of the overall work process of the Commission. In view of the volume and complexity of the task, its fulfillment will continue in the next years, too.

6.7. Report on the FSC's internal audit activity for 2011

Under Art. 29 of the Internal Audit in the Public Sector Act (IAPSA), in 2011 an external quality assessment of the internal audit activity was made by a qualified independent assessor. In view of the results of the assessment, an opinion was expressed that the activity of the Internal Audit Unit (IAU) was carried out in compliance with the IAPSA, the Standards and Code of Ethics of the internal auditors.

During the reporting year, the National Audit Office conducted two audits in FSC (Audit of the supervisory activity efficiency and Audit for consistence in the financial management of FSC and of the Commission for Public Supervision over the Registered Auditors). On the basis of the given excellent

assessment to concrete audit commitments for provision of assurance, the teams of the National Audit Office applied in part the systemic based approach, directly referring in its audit reports to findings and conclusions of the internal audit.

In 2011, the internal audit achieved as a whole the set objectives, for which it accomplished the following commitments and activities:

- It supported the FSC leadership in the implementation and improvement of the risk management process, by:
 - identifying and assessing the risks in FSC in the strategic and annual planning of the internal audit activity and in performance of concrete commitments for provision of assurance;
 - performed consultancy commitments, related to coordination of the activities for the composition of a Risk – register of FSC for 2011 - 2012 and assisted the preparation of Risk management strategy in FSC for 2012 – 2014.
- Assisted for the strengthening of the internal control by providing an objective assessment and recommendations for improvement of the activity and the control.

In 2011, the IAU accomplished audit commitments for provision of assurance with the purpose of assessment of the procedures for conducting on-site inspections of the participants in the insurance market and audit of penal warrants of Insurance Supervision Division, effectuated on the ground of court rulings.

The internal audit gave overall 34 recommendations for increasing the effectiveness of the internal control and improvement of the audited activities. The IAU recommendations were accepted by the Commission's leadership and the officials responsible for their fulfillment, began to take corrective actions.

In the planning and fulfillment of the audit commitments in FSC, first of all the functional approach was applied, where subject of audit were the main activities performed by the three Divisions, which were assessed with higher risk level for the achievement of the Commission's goals. The benefit, which the audit activity carried, is encouragement of the implementation of uniform 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 the 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, as they were relevant and would be useful. Thus, the internal audit activity was in consistence with the effected in 2011 structural and organizational changes in the Commission, which were directed to the creation of conditions for functioning of a unified supervisory authority of the non-banking financial sector.

- Assisted the development of the monitoring of the systems of financial management and control (SFMC), by:
 - accomplishing a consultancy commitment related to the organization of an annual self-assessment of the internal control in the FSC's system;
 - assessing the adequacy of the FSC's internal rules, regulating the audit activities, and where deemed necessary recommendations were given for their updating;
 - supporting the monitoring over the fulfillment of the internal audit's recommendations, in relation to which it rendered assistance in the drawing up of the action plans, maintaining a single database of the recommendations and the planned in connection with them counter actions, applying procedures for control over the results status and reporting regularly on the achieved progress.
- Undertook actions for improvement of the audit activity by:
 - performing ongoing and periodic review (self-assessment) of the activity, feedback with the heads of the audited structures and analysis of the performance indicators;

- extension of the professional expertise of the internal auditors by the development and fulfillment of a training plan, tailored to the individual needs of the employees;
- participation in the activity of Working Group 27 Accounting policy and independent financial audit;
- assistance during the conducting of the audits of the National Audit Office and carrying out the external quality assessment of the IAU (including submission to the FSC Chairman the opinion of the qualified independent assessor).

6.8. Report of the Inspectorate

During the period under review, the inspectorate in compliance with the provisions of the Regulations for the Structure and Operation of FSC and of its Administration and the Inspectorate Rules of Procedure, and in fulfillment of orders of the FSC Chairman, carried out inspections with regard to the activity of the Officials from the Commission's Administration, as follows:

- Target inspection in regard to the actions undertaken by officials in the Commission's Administration in connection with inspection assigned by Order № 54/25.03.2010 of the Deputy Chairman in charge of Insurance Supervision Division, with reference to received signal in the Budget and Finance Committee of the Parliament from the Chairman of the Syndicate Mutual Insurance Co-operation –SyMIC.
- Target inspection in regard to the undertaken actions by officials in the Commission's Administration with reference to received signal from the Ambassador of the Republic of Italia to the Republic of Bulgaria in connection with the latest amendments and supplements of Ordinance № 27 from 2006 of the procedure and methodology of formation of the technical provisions by insurers and reinsurers, and of the health insurance reserves.
- Target inspection in regard to the actions undertaken by officials in the Commission's Administration in connection with realized transaction on OTC market with shares of Energoni AD on 27.05.2011, with reference to received signal from the Chief Executive Officer of Energoni AD.
- Procedure of risk assessment in relation to the activities carried out by the Administration of the Financial Supervision Commission.
- Target inspection with reference to received signal from the Chairman of Syndicate Mutual Insurance Co-operation –SyMIC, in connection with assigned inspection by Order № 57/25.03.2010 of the Deputy Chairman in charge of Insurance Supervision Division.
- Inspection about the actions undertaken of the officials from Directorate Regulatory Regimes of the Investment Activity, Directorate General Regulatory Policy, in connection with registered tender offer for purchase of shares from the capital of Sofia Hotel Balkan AD, received by letter incoming ref. № 15-00-3/02.08.2011, in relation to suspicion for information leakage.
- Inspection about actions of officials from Investment Activity Supervision Division, Directorate General Supervision Activity, in connection with conducted documentary inspection of Himmash AD, in relation to suspicion about the taking out of an inside document.
- Inspection in connection with the admission regime in the Commission's building for the period from 01.09.2011 to 31.10.2011 with reference to available information of unregulated visit by outside persons in the building of the Commission.

- Inspection, carried out according the procedure, set forth in the Law on Prevention and Disclosure of Conflict of Interests, with reference to received internal signal № VtrP-43/29.11.2011 in relation to data for conflict of interests arisen between an official of the Commission and a regulated person.
- Inspection with reference to information stated in memorandum № DZ-602/12.12.2011 in connection with the conclusion of contracts for post guarantee subscription technical servicing of fax devices.

II. MARKET ANALYSIS OF THE NON-BANKING FINANCIAL SECTOR

1. External environment and economic activity

1.1. External environment

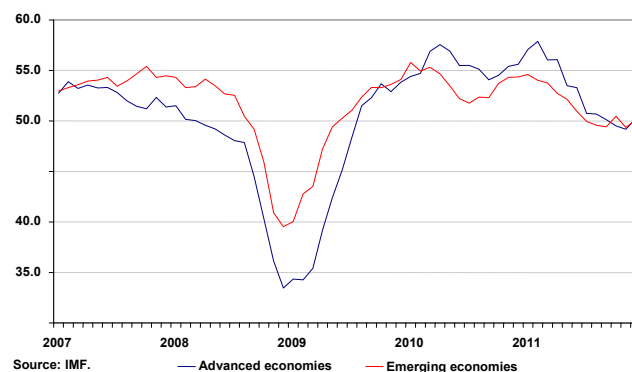
After the recorded high growth rates on a global scale since the beginning of the year, the economic activity slowed down at the end of 2011. One of the reasons for that was the long and difficult process of fiscal consolidation at a global scale, which limited the possibilities of the governments to stimulate the growth in the real sector. In the Euro Area, the slowdown of the economic activity also reflected the lack of prompt and effective solution of the deepening debt crisis and its adverse influence on the financial sector.

The expected decline in the economic activity in the Euro Area will have an impact on the activity of the other Members States of the European Union, which will slowdown their growth rate, as well. The biggest challenge is the restoring of confidence, the finding of final solution of the debt crisis through combined measures for supporting the economic growth and strengthening of the public finance.

The leading indicators showed a tendency of decline in the economic activity. After their sharp increase since the beginning of the year, towards the middle of 2011 a decline in the optimism was observed regarding manufacturing, employment and new orders. The PMI index (Purchasing Manager Index) for the industry entered below the reference 50 units in August, which was a signal of the rather negative expectations of managers for the real economy development both in the emerging and the advanced countries²⁵. The big earthquake in East Japan had a direct impact not only on the economic activity in Japan, but also on the other part of the world, which had a negative effect on the global demand and supply of certain goods and services. Another factor for the PMI index fall was the rising prices of the basic raw materials, which had a restrictive effect for the increase of the real incomes in the large advanced

economies. Since the beginning of December the index recorded a slight increase, passing the limit of 50, which registered certain optimism at the yearend.

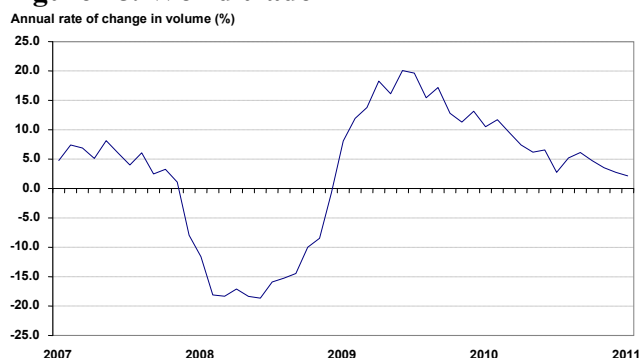
Figure 27. PMI index of industry



The world trade also slowed down its growth rate during the year, decreasing from 10.5% in the end of 2010 to 2.15% in the end of 2011. One of the reasons, which led to that decline were the occurred natural cataclysms in Japan and later the inundations in Thailand, which in part disrupted the dynamics along the line of the global offering of commodities and services. A negative pressure was likewise exerted by the high oil prices, which slowed down the consumption predominantly in the advanced economies.

²⁵ In the IMF methodology, the advanced countries cover Australia, Canada, Czech Republic, Denmark, the Euro Area, Hong Kong, Israel, Japan, Korea, New Zealand, Norway, Singapore, Sweden, Switzerland, Taiwan Province of China, United Kingdom and the USA, while the group of the 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.

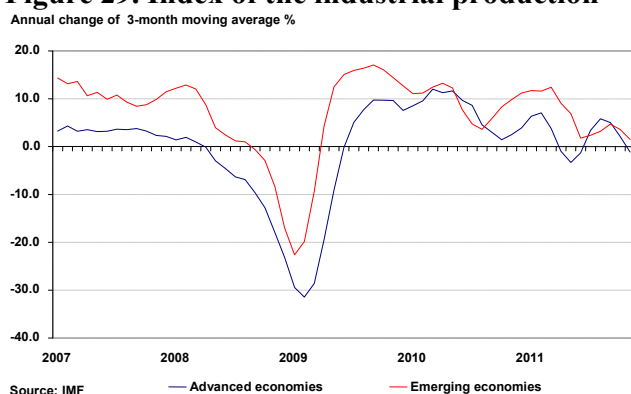
Figure 28. World trade



Source: Netherlands Bureau for Economic Policy Analysis for CPB trade volume index.

The Index of the industrial production also lost inertia in 2011, the industrial production in the advanced countries registering also negative growth rates in some months of the year. In the end of the second quarter of 2011, the industrial production in the advanced economies began to slowdown, in consequence of reduced external demand and the measures undertaken to limit the credit expansion.

Figure 29. Index of the industrial production



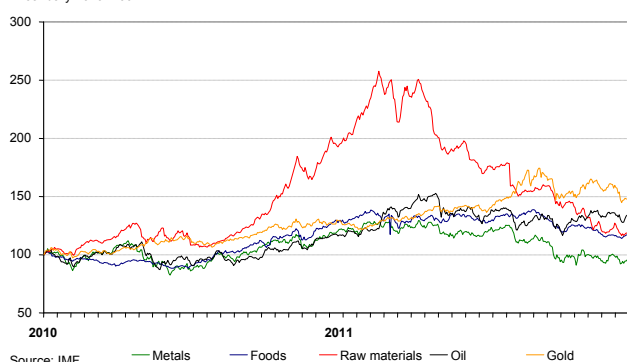
Source: IMF

After a growth of almost two years, the prices of the basic raw materials on the international markets slowed down their rate of increase in the second half of 2011 in reply to the weaker consumption. Significant importance for the state of the world market of raw materials had the policy, directed against the growing inflation and the credit activity in the emerging economies, and in particular China, who formed 40% of the

world demand for metals and 18% of the consumption of energy raw materials. The investments in gold marked a high rate of return as a result of considerable rise in the price of the precious metal in the second half of the year. The oil prices were retained at high levels mainly due to the arisen geopolitical conflicts in the Near East.

Figure 30. Dynamics of prices of basic raw materials

1 January 2010=100



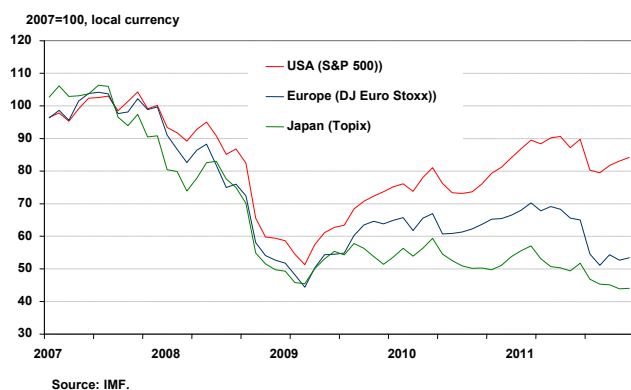
Source: IMF.

The positive trend on the capital markets in the advanced countries since the middle of 2010 was discontinued in the second half of 2011. A major role for that played the uncertainty about the solution of the debt crisis in the Euro Area, which was also enhanced by the delay of the solution of the U. S. public debt. In the beginning of August 2011, S&P reduced the credit rating of the U.S. government securities from AAA to AA+, due to which the investors were compelled to seek alternative securities as safe haven. As a result of the occurred uncertainty with the hitherto accepted as "risk-free" government securities, the investors oriented no small part of their investments in gold.

Despite of the general tendency of fall, when Japan and Europe reached two-year minimums, in the USA a growth on the capital markets was registered at the end of 2011, compared to the preceding year, as a result of the heightened in the fourth quarter economic activity in the country. The markets temporarily calmed as a result of the measures undertaken by the ECB with the purpose of provision of liquidity on the

money market in the Euro Area and support to the banks' credit activity.

Figure 31. Capital markets in the advanced economies



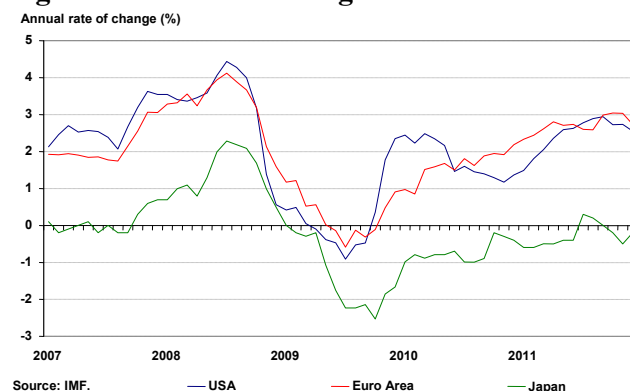
The world economy slowed down its growth rates from 4.9% in 2010 to 3.3% in 2011. The advanced economies grew by 1.3% on annual basis, and the emerging by 6.0%, where in both cases a drop in the growth rate was noted, compared to the previous year. That slowdown of the economic activity at a global scale was due to the natural disasters, which inflicted considerable material damages and destroyed whole productions. On the other hand, the crisis in the Euro Area also had a negative impact, reducing the inclination of the investors to assume higher levels of risk and increasing the cost of financing the business.

Figure 32. Real GDP growth



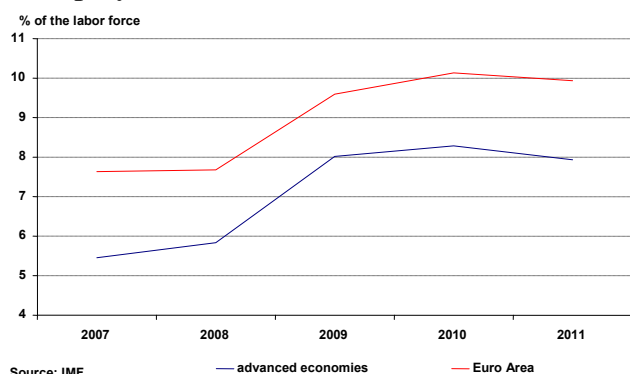
In 2011, the inflation in the USA and the Euro Area continued to grow at faster rates than the previous year. The main factors for that were the rise in the price of energy, foods and of some basic raw materials on the international markets. In the second half of 2011, the inflation growth rate lost inertia as a result of the retention of the prices on the international markets on the levels from the middle of 2011, the undertaken anti-inflation measures by the central banks in some emerging countries and the economic activity slowdown at a global scale.

Figure 33. Inflation on a global scale



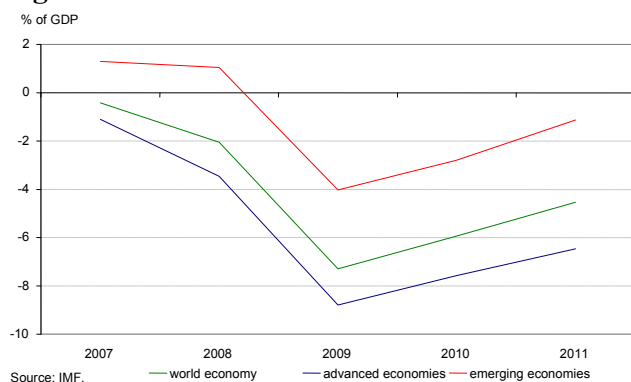
The state of the labor market remained relatively unchanged in the advanced economies in 2011, marking some decrease in the unemployment level to 7.9%. The employment remained major challenge to the states in the Euro Area, the governments facing the complex task, on one side, to stimulate the employment, and on the other, to continue with the measures for fiscal consolidation and sustainable public debt management. The expectations for the dynamics of unemployment in the Euro Area are that it would be retained on the same levels.

Figure 34. Dynamics of the level of unemployment in the advanced countries



The restrictions on the government stimuli in many countries reflected positively on the improvement of the public finance balance on a global scale in 2011, despite of the more unrestrictive fiscal policy in some advanced economies, such as the USA, Japan and Germany. The expectations are that the tendencies will be retained, provided that the USA fulfils its fiscal program and the countries from the Euro Area continue to apply the measures, directed to reduction of the budget deficits.

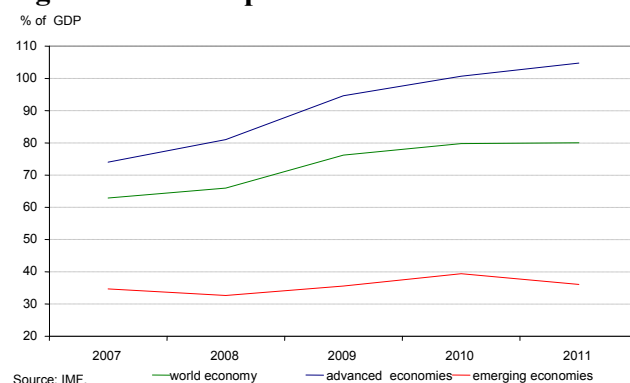
Figure 35. Public finance balance



The levels of public debt on a global scale were preserved, the main contribution for which belonged to the advanced economies. As a result of delay of the structural reforms in the highly indebted states from the Euro Area and the USA, the debt level considerably increased. The reduction of the public debt in the emerging economies to a large extent reflected on the

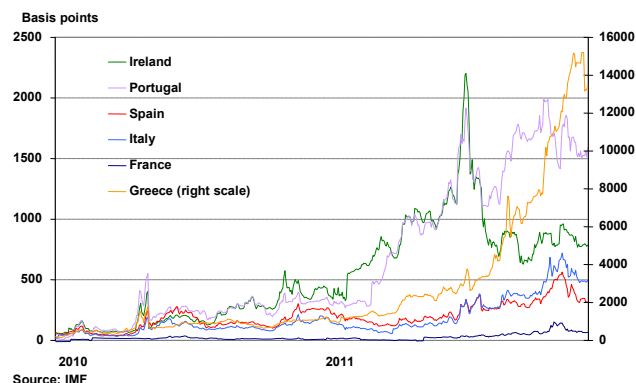
governments' efforts to balance the public finance. As a result of the forecasted slowdown in the economic growth, the public debt as a part of the GDP in the advanced countries is not expected to decrease in the next year, as well.

Figure 36. World public debt



The debt crisis in the Euro Area periphery had a serious effect on the cost of the governments' financing of the financial markets. In particular, the concerns for losses in the banking sector and the financial sustainability had considerably widened the spreads between the yield on the government securities of many countries from the Euro Area, vis-a-vis the German securities, which were accepted as a benchmark. Besides Greece, Portugal, Ireland and Spain, in 2011 Italy was also affected. It was only at the yearend the decisions were made and measures undertaken for solving the debt crises in the Euro Area, which calmed down to some extent the nervous financial markets.

Figure 37. Spread on 2-year GS of Spain, Ireland, Italy, Portugal, France and Greece vis-a-vis the German securities



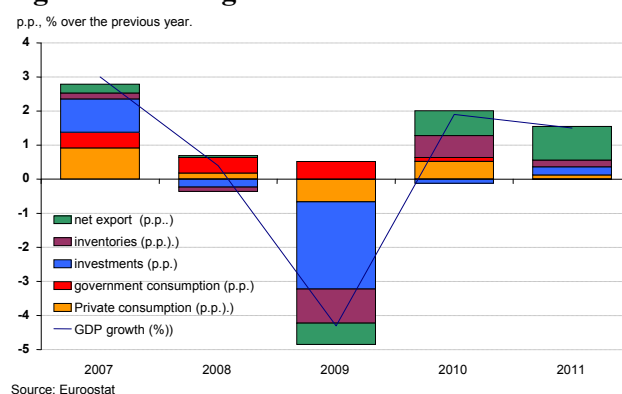
In 2011, the USD/ EUR exchange rate remained volatile at levels over USD 1.3 per Euro most of the year. Since the beginning of the year, the Euro value recovered part of its positions towards the US Dollar, a major role for which had the ECB consistent policy of ensuring price stability in the Euro Area. From May to the end of August, the price of Euro was highly dynamic in the range of USD 1.4 and 1.5 per Euro, as a result of the delay of the solution of the debt crisis in the Euro Area, as well as of the depreciation of the U.S. currency because of the delayed decision for the public debt in the U.S.A. With the revision of the perspectives for economic growth in the Euro Area in downward direction, the Euro set out for levels of 1.3 in September. The Euro deal from October showed again support for the Euro, but the market remained highly sensitive. The stronger consumption in the USA at the background of the slowing down consumption in Europe, as well as the continuing infusion of liquidity by ECB, had a depreciating effect on the Euro in the fourth quarter of 2011.

Figure 38. USD/ EUR exchange rate



In 2011, the Euro Area slowed its growth rate, registering a growth of 1.6% towards 1.9% for 2010. A major factor for the real growth in the Euro Area is the external trade, the contribution of the foreign trade balance amounting to 1. p.p. The investments also increased, and the gross formation of fixed capital contributed by 0.2 p.p. to the GDP growth. Although at slowed down rates, a positive change was also recorded by the private consumption and the change in the inventories. As a result of the realized fiscal consolidation with the purpose of recovery of the public finance and restriction of the debt crisis, it is expected that the growth in the Euro Area will slowdown.

Figure 39. GDP growth in the Euro Area

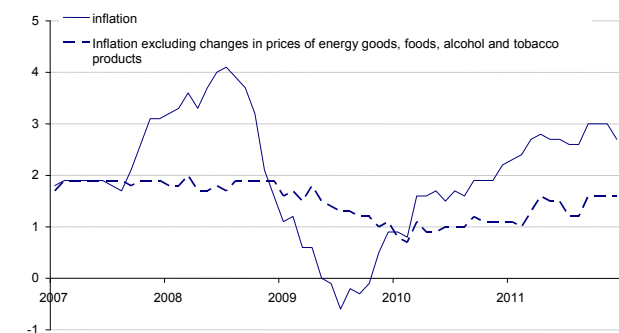


The inflation in the Euro Area followed a tendency of climbing up since the beginning of 2010, reflecting the rise in the international prices of the basic raw materials. In reply to the

surpassing of the 2% reference rate, the ECB increased the interest rate of refinancing by 25 b.p. each two times, in April and July, reaching 1.50%. The suspended rise in the prices of raw materials on the international markets and the actions on the side of the money authorities limited the inflationary pressure along the lines of the salaries and the secondary inflationary effects. After the stabilization of the prices of the basic raw materials in the second half of 2011, the inflation slowed down, while the inflation excluding the prices of the energy commodities, foods, alcohol and tobacco products remained relatively stable during the whole year.

Figure 40. Inflation in the Euro Area

% over the same period of the previous year



Source: Eurostat

Owing to the processes of financial and economic integration, the perspectives for economic growth on the countries of Central and East Europe (CEE) are closely bound with these in the Euro Area. Nevertheless that the internal demand turns into increasingly important factor for the economic growth, in most CEE countries the net export continued to be of key importance for their economies.

In 2011, production continued to recover in most CEE countries, even though at the yearend signals appeared for its slowdown due to the lower economic activity in the Euro Area and other states of the European Union. Turkey registered highest annual GDP growth of 8.5%, the expectation being that it will slow down as a result of the measures undertaken on the side of the competent authorities to prevent the „overheating” of the economy.

Table 21. Real GDP growth in CEE

	2008	2009	2010	2011
Czech Republic	2.5	-4.1	2.7	1.7
Hungary	0.6	-6.3	1.3	1.7
Poland	5.1	1.7	3.9	4.3
Romania	7.1	-7.1	-1.6	2.5
Turkey	0.7	-4.7	9.2	8.5
Serbia	5.5	-3.1	1.8	1.9
Croatia	2.4	-5.8	-1.2	0.6

Note: Change over the previous year (%).

Source: Eurostat, National Statistical Institutes.

A real growth of 4.3% was reached by the Polish economy, where with greatest contribution was the strong internal demand. In Romania the GDP growth reached positive values (2.5%) owing to the recovery of the inventories and of the positive contribution of the internal demand after a decline recorded in the preceding two years. In the Czech Republic the real growth slowed down from 2.7% in 2010 to 1.7% in 2011, the expectations being the rates of economic growth to slow down considerably in all countries, which were connected with main trade partners from the Euro Area.

The inflation in the CEE countries followed multidirectional dynamics, registering in Czech Republic, Poland and Serbia higher growth rates compared to the previous year. That was due to different factors, among which were the secondary effects from the continued rise in the prices of the basic goods and services and the strong internal demand. As a result of the drop of the international prices of the basic raw materials since the middle of 2011, the inflation in CEE slowed down, which was observed in Hungary, Romania and Turkey.

Table 22. Inflation in CEE

	2008	2009	2010	2011
Czech Republic	6.3	1.0	1.2	2.1
Hungary	6.0	4.2	4.7	3.9
Poland	4.2	3.5	2.7	3.9
Romania	7.9	5.6	6.1	5.8
Turkey	10.4	6.3	8.6	6.5
Serbia	11.7	8.4	6.3	10.5
Croatia	5.8	2.4	1.1	2.2

Note: Annual average inflation rate (%).

Source: Eurostat, National Statistical Institutes.

The labor market adjusts to the dynamics in the economic activity in a longer time horizon. The level of unemployment in 2011 in the CEE countries reflected the long-term negative effect of the global economic crisis, remaining at a higher level than the level of unemployment in the Euro Area. In 2011, the unemployment in Turkey and Czech Republic went down respectively to 6.7% and 8.7%, while in Hungary it remained without considerable change at the level of 11%. The unemployment increased in Poland, Croatia and Serbia, the unfavorable development of the labor market in most of the CEE countries being due to

both the slowdown of the economic activity, and the effects of the undertaken fiscal consolidation.

Table 23. Unemployment rate in CEE

	2008	2009	2010	2011
Czech Republic	5.5	8.1	7.2	6.7
Hungary	7.8	9.8	11.1	11.0
Poland	9.8	11.0	9.6	10.1
Romania	4.0	6.3	7.3	7.8
Turkey	11.0	14.0	10.2	8.7
Serbia	13.7	16.1	20.0	23.7
Croatia	8.4	9.4	12.4	14.4

Notes: the Data is average annual (% of the labor force).

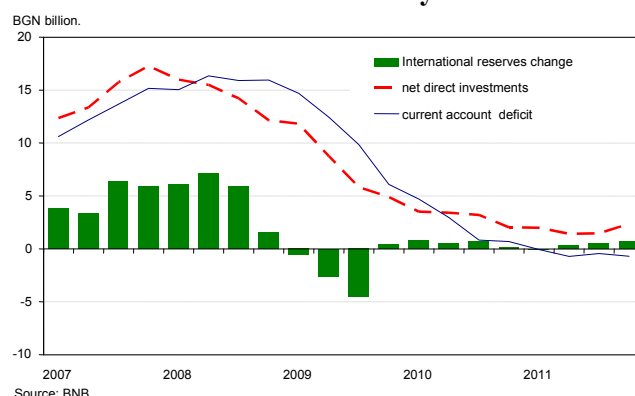
Source: Eurostat, National Statistical Institute

1.2. Overview of the economic activity in Bulgaria

The economic activity in Bulgaria in 2011 was recovering slowly. The positive growth of the GDP of 1.7% was due mainly to the external trade balance as a result of the activity of the export oriented sectors. The positive current account balance allowed the residents to use the inflow of foreign currency for reduction of their foreign liabilities. The gross external debt of the country continued to decrease, which was due mainly to the shrinkage of the external debt of the bank sector, and was observed in the short-term horizon of the debt maturity structure. The internal demand was weak, to which contributed both the heightened unemployment, and the uncertain perspectives for improvement of the households' financial situation. The consumer confidence dropped, accounting for the pessimistic expectations for the development of the economic situation in 2012.

In 2011, the improvement of the current account balance of the balance of payments continued, for the period January – December a surplus of Euro 361.3 million being recorded, which amounted to 0.9% of the GDP. Main factors for that dynamics were the improvement of the trade balance as a result of the intensified export to our major trade partners from the European Union and the weaker growth of the import as a result of the contracted internal demand. The net inflow of direct investments was positive and at the yearend was to the amount of Euro 1204.7 million, increasing with Euro 169.3 million during the year.

Figure 41. Dynamics of the current account, direct investments and currency reserves



As a result of that positive development, the foreign currency reserves of BNB grew with BGN 727.7 million during the year, and at the end of December 2011 their amount was BGN 26.1 billion.

The volume of net foreign direct investments (FDI) in the country in 2011 was Euro 1341 million, which was with Euro 132.7 million more than the previous year. In their main part they were in the form of equity capital to the amount of Euro 1262.6 million. After three years of registering negative values, the reinvested earnings (as a component of FDI) in our country, in 2011 gave signals for some recovery, recording a positive volume of Euro 77.9 million.

Table 24. FDI dynamics

	2008	2009	2010	2011
Total	6727.8	2436.9	1208.5	1341.2
Reinvested earnings	-183.5	-269	-445.7	77.9
Equity capital	4109.8	1884	1604.7	1262.6
Other capital	2801.5	822	49.4	0.8

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

A leading sector according to attracted net foreign investments in 2011 was Transport, storage and communications with a share of 37.2% of the total FDI volume, followed by sector Trade, repair and technical servicing of motor vehicles, motorcycles and personal and household goods (16.6%). In 2011, 11.4% of the FDI flow was directed to sector Manufacture and distribution of electricity and heat energy, gaseous fuels and water, and respectively with 11.3% to the Financial intermediation.

Table 25. FDI sectoral structure

	2008	2009	2010	2011
Financial intermediation	24.9	28.2	19.5	11.3
Other community, social and personal service activities	0.9	-1.0	-2.2	3.4
Manufacturing	9.3	-9.1	48.2	-5.2
Hotels and restaurants	1.5	2.4	4.4	4.2
Real estate, renting and, business activities	31.2	21.8	-6.2	3.2
Transport, storage and communications	-4.0	11.2	4.8	37.2
Manufacture and distribution of electricity and heat energy, gaseous fuels and water	3.5	12.7	26.7	11.4
Construction	9.1	11.5	7.3	3.3
Not allocated	2.9	3.4	9.0	13.1
Agriculture, hunting and forestry	1.0	1.0	0.1	0.7
Wholesale and retail trade, repair of motor vehicles	9.7	15.8	-13.6	16.6
Mining and quarrying	0.0	1.9	2.8	0.7

Note: The structure does not include sectors with a share of less than 1%.
Source: BNB.

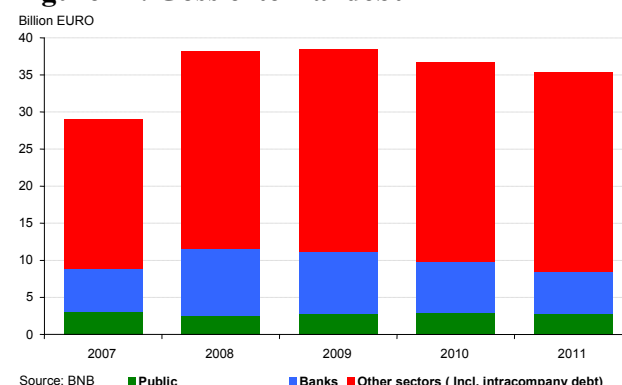
After the negative net value of FDI to the real estate market in 2010, the sector Real estate operations, renting activity and business services

succeeded in attracting a positive volume of foreign investments and to occupy 3.2% of the total net flow of the foreign investments.

The distribution by countries shows that most FDI in 2011 were attracted from the Netherlands (Euro 556.5 million) and Austria (526.5). The main part of the negative value of the net investments was directed to the United Kingdom (Euro -180.3 million) and Hungary (Euro -94.8 million) along the lines of net payments, related to revolving intracompany credits.

The amount of the gross external debt of the country continued to decrease and in the end of 2011 it was Euro 35.4 Billion, which came to 91.9% of GDP. The decrease of 3.5% on a year-on-year basis was due to shrinking of the external debt of the bank sector by 17.8%, which contributed by -3.3 p. p. The public and publicly guaranteed external debt amounted to Euro 4.2 billion and remained one of the lowest in the European Union, representing 11.0% of GDP.

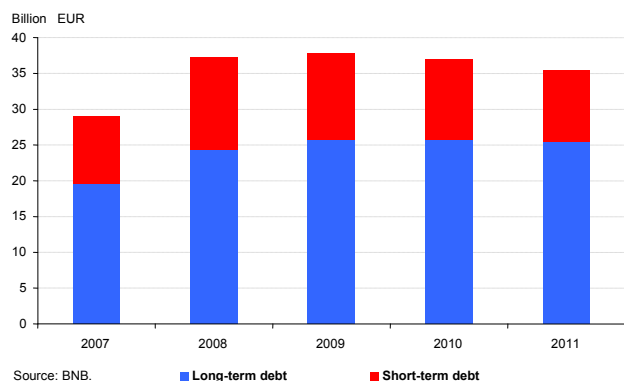
Figure 42. Goss external debt



The biggest share belonged to the private non-bank external debt (76.2%), the intracompany 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 (71.8%). The external debt reduction was observed in all maturity sectors, the short-term external debt decreasing with Euro 1282.4 million,

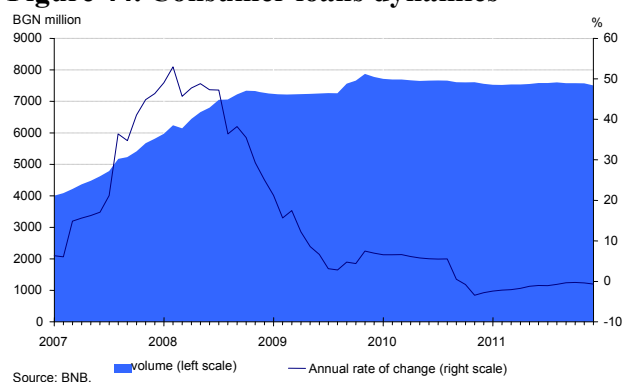
and the long-term respectively with Euro 384.4 million.

Figure 43. Maturity structure of gross external debt



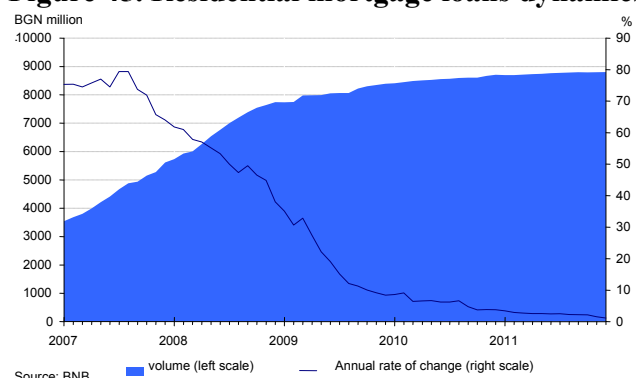
The credit activity of the banks in Bulgaria marked some recovery, and at the end of 2011 the growth of credits (without overdraft) for the enterprises was established at around 7.5% year-on-year. A main factor for these dynamics was the activation of the export-oriented companies and in a lesser extent, of some recovery of the demand in the sector of services. The household credits remained weak during the year, recording in the end of 2011 a positive change of 0.5%. The uncertainty in regard to the future incomes and the relatively high level of unemployment continued to limit the demand of credits on the side of households. The consumer loans dropped by -0.7% in the end of 2011.

Figure 44. Consumer loans dynamics



During the past year, the volume of home loans increased slowly, their amount at the end of 2011 being BGN 8.8 billion. The observed dynamics of the home loans volume reflected on the slowed down growth of these loans, which at the yearend slowed down to 1.1% year-on-year. The dynamics of the home loans reflected the state of the labor market and the uncertainty of the economic agents about their future incomes.

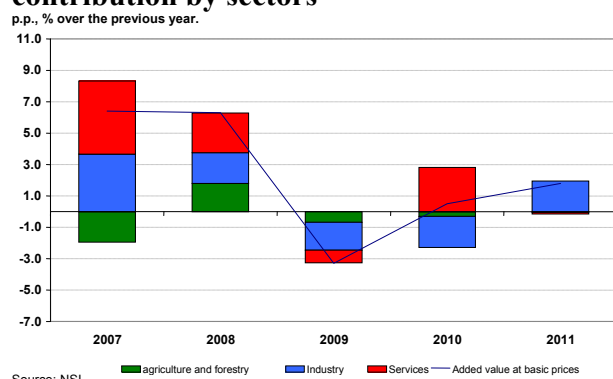
Figure 45. Residential mortgage loans dynamics



The quality of the bank portfolios towards the non-governmental non-financial sector continued to register worsening in the past year. The share of the bad and restructured credits reached 21.9% of the total share of the loans granted to the enterprises and households at the end of 2011, where the share of exposures with delinquency over 90 days in the gross credits (without these to credit institutions) went up to 14.9%. A major factor for that worsening was the slowly recovering economic activity, the high interindebtedness between the economic agents and the uncertainty about the future incomes.

The recovery of the economic activity in our country was slow and uneven. The total value-added in the economy increased from 0.5% in 2010 to 1.8% in 2011. The main contribution of 2.0 p.p. for the growth during the year belonged to the industrial sector, while the services and the agriculture reported negative contribution, respectively of -0.1 p.p. and -0.05 p.p.

Figure 46. Value added dynamics and contribution by sectors



The industry which in 2009 was affected to the greatest extent marked a value-added growth of 6.6%. That 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 2.0 p. p. Construction marked a fall of 1.1%, and its contribution amounted to -0.1 p. p.

After the positive growth of 4.4% in 2010, the Services sector recorded a drop of -0.2% in 2011. This was directly due to the decline in the value added of sectors Culture, sports and entertainment; other activities (-8.1%) and of sectors Trade, repair of motor vehicle and motorcycles; transport, storage and post-offices; hotels and restaurants (-1.1%). Only sectors Creation and distribution of information and original products; telecommunications and Professional activities and scientific research; administrative and ancillary activities recorded a positive growth among the services, respectively by 1.9% and 8.1%. As a result of that multidirectional dynamics, the negative contribution of the Services amounted to -0.1 p. p. in the total value-added in the economy in 2011.

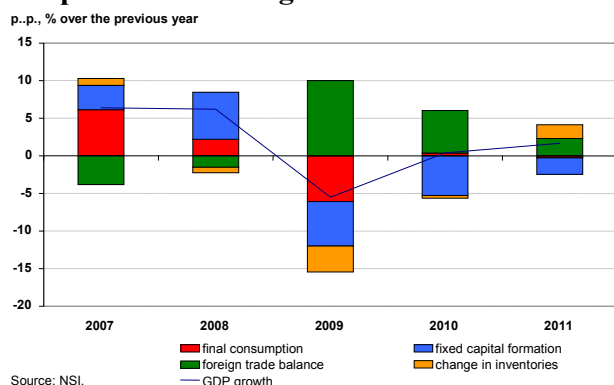
Table 26. Value added dynamics and contribution by sectors

	2008	2009	2010	2011
Total for the economy (growth)	6.3	-3.3	0.5	1.8
<i>Contribution by:.</i>				
Agriculture and forestry	1.8	-0.7	-0.3	-0.1
Manufacturing, Mining and; Quarrying' Electricity, gas and water supply				
Wastes management and recovery				
Sewerage services				
Construction	0.5	-1.7	-0.3	2.0
Trade, repair of motor vehicles motorcycles; transport, Storage and communications; hotels and restaurants	1.4	0.0	-1.7	-0.1
Creation and distribution of Information and creative products; Telecommunications	-0.6	-1.7	2.8	-0.2
Financial and insurance activities	3.0	-0.1	0.1	0.1
Operations with real estate	0.6	0.9	0.0	0.0
Professional activity and scientific research; administrative and ancillary activities	-0.4	-0.4	0.3	-0.1
State government; education; health care and social work	-0.5	0.4	-0.2	0.4
Culture, sports and entertainment; other activities	-0.4	0.0	-0.2	-0.1
	0.8	0.1	-0.1	-0.2

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 2011 is preliminary
Source: NSI

In the past year, the real GDP growth came to 1.7%. The biggest contribution for the growth belonged to the net export (2.3 p. p.). In reply to the higher external demand, the export-oriented companies recovered the depleted stocks of materials, goods and products, which reflected in the positive change in the inventories. Their contribution to the GDP growth amounted to 1.8 p. p. The positive contribution of the external trade balance was almost fully neutralized by the negative growth of the investments in capital stock, the contribution of which amounted to -2.2 p. p. The end consumption recorded a drop of -0.3% in real terms.

Figure 47. Contribution of final consumption components to GDP growth



The export in 2011 continued to grow at outstripping rates, compared to the import, respectively by 33.0% and 21.3%. That dynamics was as a result of the faster recovering of the external demand in comparison with the recovery rates of the internal demand. The volume of export relatively retained its growth rates during the year (33.2% in 2010); the biggest growth in the export of goods and materials recorded the investment goods (40.5%) and energy resources (39.7%), while largest contribution was recorded by raw materials and materials (16.6 p. p.). The import increased its growth rates, compared to the previous year (13.5%), where among the imported goods in 2011 the fastest growth was that of raw materials and materials (27.2%), of energy resources (27.2%) and investment goods (18.1%).

Table 27. Contribution of commodity groups to exports and imports growth in 2011.

	Export		Import	
	growth %	contrib. p.p.	growth %	contrib. p.p.
Consumer goods	20.1	3.4	9.9	2.0
Raw materials	36.7	16.6	27.2	9.7
Investment goods	40.5	5.5	18.1	3.9
Energy resources	39.7	4.4	25.5	5.7
Total growth	33.0		21.3	

Source: BNB.

The final consumption expenses of the households during the year marked a decline of -0.6% 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 2011 increased by 3.0%, while simultaneously, a drop in the collective consumption was registered (-1.8%)²⁶.

Table 28. GDP and final consumption components growth

	2008	2009	2010	2011
Household consumption	3.4	-7.5	0.0	-0.6
Individual government consumption	-0.4	-8.4	4.7	3.0
Collective consumption	-1.5	-4.9	-0.5	-1.8
Gross fixed capital formation	21.9	-17.6	-18.3	-9.7
Export of goods and services	3.0	-11.2	14.7	12.8
Import of goods and services	4.2	-21.0	2.4	8.5
Real GDP growth	6.2	-5.5	0.4	1.7

Note: Data is annual change over the previous year (%). Data for 2011

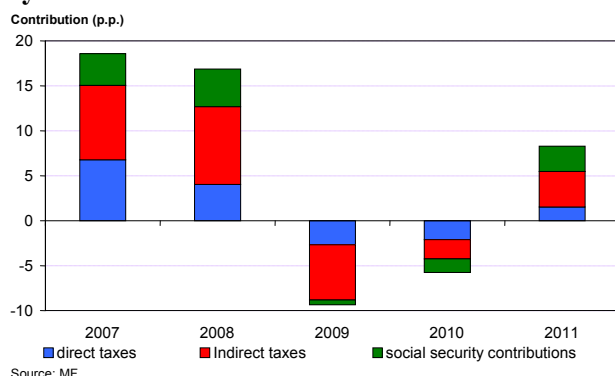
Is preliminary

Source: NSI.

The cash balance under the Consolidated Fiscal Program (CFP) for 2011 amounted to BGN -1487.8 million, which was -2.0% of GDP. The budget deficit in the past year shrank with BGN 1293.0 million as a result of the recovery of the tax revenues (growth of 8.3%) and the restriction of the budget expenditures. The direct taxes had a positive contribution of 1.5 p. p. to the tax revenues, limited by the growth of the households' income and the financial result of the enterprises. The biggest positive contribution to the tax revenue growth belonged to the indirect taxes, the contribution of the proceeds from the value added tax amounted to 1.8 p.p., and from excise duties 1.5 p.p. The proceeds from the tax on the insurance premiums contributed by 0.1 p.p. to the tax revenues. The revenues from social and health insurance contributions also climbed up by 10.9%.

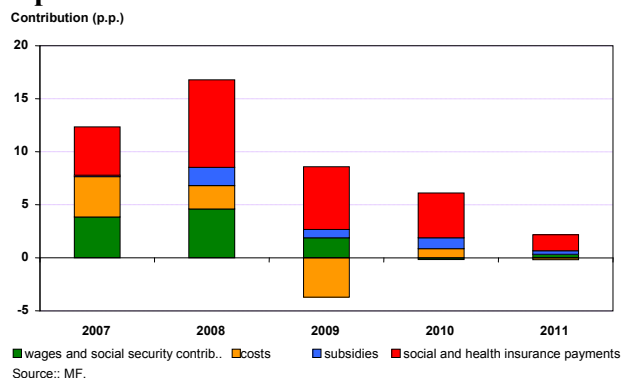
²⁶ The collective consumption is measured with the final expenses of the Government for collective services provided to the society as a whole.

Figure 48. Contribution of components to the dynamics of tax revenues



The positive growth of the CFP current non-interest expenses contracted from 6.0% in 2010 to 2.2% in 2011. This was due to the shrinkage of all components of the current non-interest expenses, the contribution of the social and health insurance payments being greatest (1.5 p.p.), followed by the contribution of the subsidies for the non-financial enterprises and organizations (0.34 p. p.) and the expenses for wages and social insurance contributions (0.33 p.p.). A negative growth of -0.9% was registered of living expenses, the capital expenditures contracting by 13.8%.

Figure 49. Contribution of components to the dynamics of the non-interest current expenditures



According data of the households' budgets, the households' expenses in 2011 increased by 5.4% year-on-year. Nevertheless, their disposable income was limited by the tax expenditures, which surged up by 44.8% on a year-on-year basis. The

uncertainty about the future incomes was the reason why the households were saving, with the purpose of meeting contingent expenses in a short-term horizon, their expenditures on deposits decreasing by 41.7%. The expenditures for debt repayment and lending funds climbed up by 3.9%, which was a signal that households prefer to repay their old credits.

Table 29. Dynamics of households' expenditures

	2008	2009	2010	2011
Total expenditures	12.5	1.7	-1.6	5.4
Total consumer expenditures	12.7	2.3	-1.5	3.2
Taxes	23.8	2.3	15.8	44.8
Deposits	22.3	25.5	-53.5	-41.7
Repaid debt and loans granted	-1.0	33.1	-24.4	3.9

Note: The data on growth is annual change over the previous year (%).

Data for 2010 are based on quarterly statistics.

Source: NSI.

The increase of the households' total income by 2.5% year-on-year contributed mostly to the growth of their expenditures. The household's income from wages increased by 4.4% in 2011. The savings income was negative and amounted to -10.6%. Some positive signals were noted for the recovery of the demand for credits on the households' side, their income from loans and credits increasing by 5.7% y/y.

Table 30. Dynamics of the households' income

	2008	2009	2010	2011
Total income	11.1	5.0	-1.1	2.5
Wages	20.7	5.7	-3.6	4.4
Savings income	-0.3	-13.8	12.3	-10.6
Loans and credits	0.3	-47.4	-38.0	5.7

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

Data for 2010 is based on quarterly statistics

Source: NSI

In 2011, the employment in Bulgaria continued to fall, even though at slower rates, the number of the employed persons decreasing by 3.4%. That largely reflected the restructuring in the private sector, where the number of the persons employed under labor and civil legal relationship went down by 9.2%.

The drop in the employment had a direct effect on the climbing of the level of unemployment, which increased from 10.2% in 2010 to 11.2% in 2011. The employed persons'

income picked up by 3.1% during the year, which was in part a result of the fall in the employment.

Table 31. Employment and income dynamics

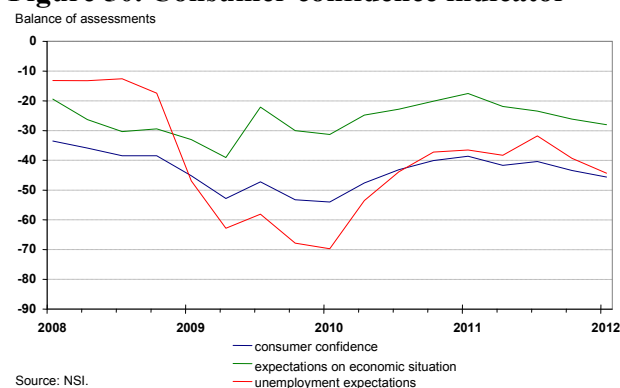
	2008	2009	2010	2011
Employment	3.3	-3.2	-6.2	-3.4
Employees*	2.8	-3.3	-5.5	-3.9
Annual average salary	19.6	5.8	5.1	3.1
Unemployment**	5.6	6.8	10.2	11.2

Note: Data growth is annual change over the previous year (%); * employees under labor and civil relationship; **rate of unemployment annual average (% of the labor force).

Source: NSI.

In unison with the state of the labor market, which did not improve during the year, the signals from the surveillance of the consumers were not positive. The consumer confidence fell during the whole 2011, pessimistic expectations being noted for the economic situation, the households' income and the behavior of unemployment in the next 12 months.

Figure 50. Consumer confidence indicator



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

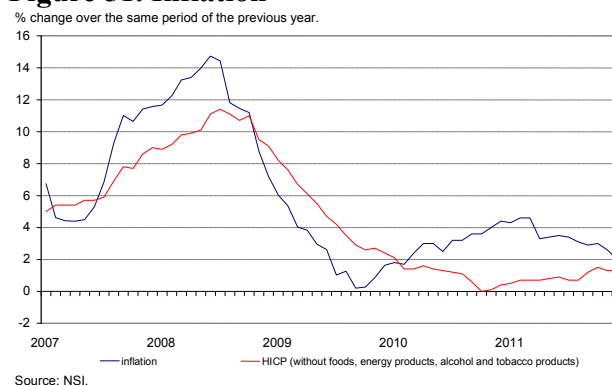
Since the beginning of 2011, inflation²⁷ slowed down, reaching 2.0% in the end of the year. Excluding the effect of the volatile prices of the foods, energy products, alcohol and tobacco products, the change of the core inflation²⁸ was less and reached 1.3% in December 2011. The core inflation increased throughout the whole year, as a

²⁷The inflation is measured by the Harmonized Index of Consumer Prices (HICP).

²⁸ From the English: core inflation.

result of secondary effects from the rise in price of basic goods and services in the previous year.

Figure 51. Inflation



Foods were with greatest contribution to the general inflation in 2011 (0.9 p. p.), owing almost in whole to the growth of the processed foods, including of the soft drinks and tobacco products (5.5%). The prices of household and transport liquid fuels surged by 4.0%, reflecting the dynamics of the energy raw materials and products on the international markets. Among the prices of services, the greatest contribution was that of prices of transport services (0.3 p.p.), and only the prices of the telecommunications services fell by -1.4%.

Table 32. Contribution of main goods and services to inflation

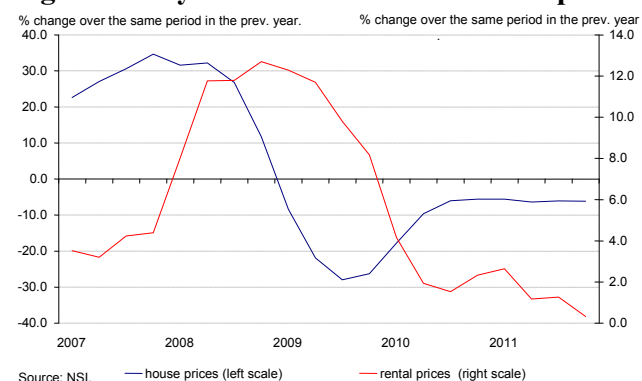
	2009	2010	2011
Inflation (% , over Dec. of the prev. year)	1.6	4.4	2.0
<i>contribution (p.p.)</i>			
Foods	-0.8	0.8	0.9
Processed foods	-0.4	0.7	0.8
Unprocessed foods	-0.3	0.1	0.1
Services (overall index excl. goods)	1.2	0.4	0.8
Catering	0.5	0.3	0.2
Transport services	0.1	0.0	0.3
Telecommunications	-0.1	-0.1	-0.1
Electricity and central heating	-0.3	0.0	0.1
Liquid and transport fuels	0.5	1.7	0.3
Manufactured goods	0.4	1.9	0.4
Administrative prices	0.4	0.7	0.4
Tobacco products	0.7	1.3	0.0

Source: Eurostat

The house prices kept their negative rates of change, falling by -6.2% in the fourth quarter of 2011, reflecting the weak demand on the side of the households. The trend of rental prices reduction

continued unevenly during the year, following the behavior of the house prices, reaching 0.3% in the end of 2011 on a year-on-year basis.

Figure 52. Dynamics of house and rental prices



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

In 2011, the role of the non-banking financial sector in the financial intermediation in Bulgaria enhanced, the share of the participants in the non-banking financial sector reached 14.6%, while the structure of the financial intermediation by institutional investors remained relatively unchanged. A main reason for the increase in the share of the non-banking financial sector was the growth of the assets of the non-banking investment intermediaries and the positive change in the pension funds assets. The depth of the financial intermediation totally for the non-banking financial sector also increased to 24.8% of the GDP in 2011, the greatest contribution for which belonged to the market capitalization of the stock exchange. The tendency of smooth increase in the value of the pension funds' assets, determined their special place in the financial intermediation in future, too.

The assets of the non-bank investment intermediaries (IIs) grew by 21.0% year-on-year, reaching BGN 4.7 billion at the end of 2011. There was a decline in more than 67% of the investment intermediaries with minimum required capital of BGN 250 000. Nevertheless, the trend for increase of the assets in the sector was predetermined by the dynamics of the assets of the investment intermediaries with minimum required capital of BGN 1 500 000, owing to their large share in the aggregate assets in the sector. That was the first

increase in the assets of those market participants since 2007. The amount of customer assets also grew by 21.4% year-on-year and reached BGN 4.6 billion in 2011. The asset value of the non-banking investment intermediaries constituted 5.2% in the structure of the financial intermediation and came close to their levels from 2009. The companies maintained good capital adequacy and availability of adequate resources for cover of the risks inherent in their activity at the end of 2011.

Table 33. Structure of financial intermediation by institutional investors (%)

Indicators	2007	2008	2009	2010	2011
Assets of IIs	10.6	6.8	5.5	4.5	5.2
Assets of CIS	1.2	0.4	0.5	0.6	0.5
Assets of SIPCs	1.9	2.0	1.9	1.8	1.9
Insurance and health insurance premiums	2.1	2.3	2.1	2.0	1.8
Net assets of the pension funds	3.2	2.8	3.9	4.7	5.1
Non-banking financial sector	19.0	14.3	13.8	13.5	14.6

Source: BNB, FSC.

The assets of the collective investment schemes (CIS) decreased insignificantly by 1.0%, compared to the previous year, the amount of the accumulated assets reaching BGN 474.8 million. The observed dynamics was due mainly to the slowdown of the asset growth of the contractual funds. That reduced their share in the financial intermediation from 0.6% in 2010 to 0.5% in 2011.

The assets of the special investment purpose companies (SIPC) marked an increase in 2011 by 12.4%, their value reaching BGN 1.7 billion. The main reason for that favorable tendency was the growth of the assets of SIPC for securitization of real estate. In relative terms, they preserved their place in the financial intermediation, their share increasing to 1.9% towards the other investment financial intermediaries.

The market of insurance and voluntary health insurance services recovered slowly in the conditions of weak internal demand in the country. The partial recovery of the sector, that started in 2010, continued unevenly in 2011, too, the

negative rates of change of the premium income decreasing to -0.9% on a year-on-year basis

The market of the general insurance services, which dominates the insurance business in our country, retained relatively the amount of the gross premium written from the preceding year, registering a decline of 0.9%. After the reported positive growth of the premium income by 10.5% in 2010, the life insurance market marked a fall of -0.5% in 2011. The market of the voluntary health services also registered a negative change of -4.2% of the realized gross premium income during the year, as a result of the smaller number of health insured persons.

The net assets of the supplementary pension insurance funds continued to increase for a third consecutive year, even though at slower pace. In 2011, they marked an increase of 15.0%, which was due mainly to the proceeds from social insurance contributions. This was the reason for the increasing of the role of these companies in the financial intermediation, whose share reached to 5.1% in 2011.

Table 34. Depth of financial intermediation (% of GDP)

	2007	2008	2009	2010	2011
Market capitalization of BSE - Sofia	48.2	18.0	17.3	15.3	16.5
Insurance and health insurance premiums	2.5	2.6	2.5	2.4	2.2
Net assets of the pension funds	3.9	3.3	4.6	5.7	6.1
Non-banking financial sector	54.6	23.9	24.4	23.3	24.8

Source: BNB, FSC, NSI.

The share of the non-banking financial sector in the financial intermediation in our country went up from 23.3% of the GDP in 2010 to 24.8% in 2011. That was owing mainly to the growth of the capital market, which had a positive

contribution of 5.5 p.p. in the annual rate of change in the depth of the financial intermediation. The share of the stock exchange recorded a growth for the first time since the manifestation of the global financial and economic crisis in Bulgaria in 2008.

The main reason for that was the big market capitalization of a small number of companies in the conditions of a low-liquidity market. Thus the depth of the financial intermediation of the capital market grew from 15.3% in 2010 to 16.5% in 2011.

Despite of it, the main stock exchange indexes of BSE – Sofia AD registered a fall in their values during the year, but at more insignificant rate, compared with the other countries in the region. Only the index BG REIT marked an increase by 18.2% in 2011, compared to the preceding year.

The sector of insurance and voluntary health insurances slowed down its depth of financial intermediation to 2.2% of the GDP in

A larger part of the non-banking financial sector's segments are characterized with strongly competitive environment (CIS, SIPCs, general insurance and voluntary health insurance) or moderately competitive market environment (IIs and life insurance). In 2011, the market concentration increased on the market of SIPCs, CIS and IIs as a result of the reduction of the number of participants in some of these segments and the restructuring of the assets. On the market of insurance and voluntary health services, a trend of intensification of the market competition was observed. The activity of the pension insurance companies featured high market concentration, whereby a tendency of smooth decrease was outlined.

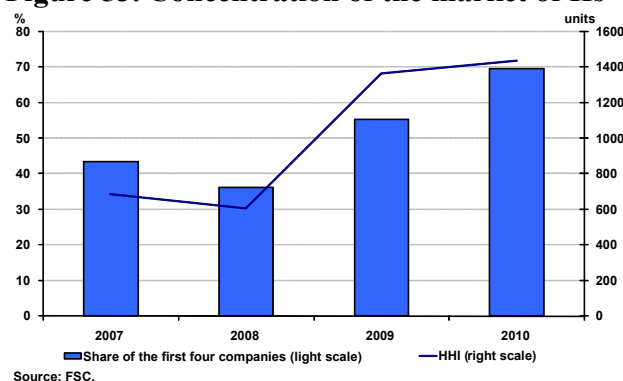
The concentration of the client assets of the non-banking investment intermediaries grew in 2011, which in part was due to the decrease of their number. The four investment intermediaries with the largest amount of attracted client assets held 69.6% of the total amount of the client assets of all investment intermediaries²⁹. Despite that over half of the total amount of the client assets was held by the first four investment intermediaries, such concentration was not observed in the other companies. The value of the Herfindahl-Hirschman Index (HHI) of the market of the investment intermediaries, calculated by client assets for 2011, was 1437, which characterized the market of services provided by the non-banking investment intermediaries as moderately competitive.

²⁹ These are II Mccup AD, II Elana Trading AD, II Bulbrokers AD and II FFBH Ltd.

2011, for which the drop in the premium income of all market segments contributed. With the recovery of the household consumption and the investment activity in the country, it is expected the insurance sector to reinstate its position in the financial intermediation.

Another institutional investor, which registered a growth in 2011, was the pension insurance funds, which increased the share of their net assets from 5.7% to 6.1% of GDP. The growth rate of the assets of these funds is expected to increase as a result of the accumulation of new contributions from the participants in the supplementary pension insurance funds and improvement of the realized rate of return from the managed assets in the next period.

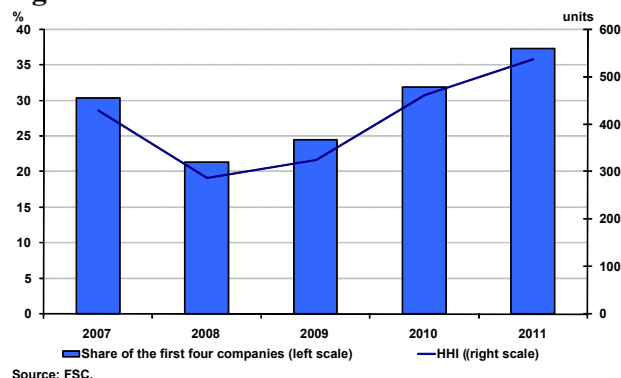
Figure 53. Concentration of the market of IIs



The market of the collective investment schemes was defined as strongly competitive. In 2011, the trend of smooth increasing of the market concentration continued, which was observed both by the Herfindahl-Hirschman Index (HHI), the value of which climbed from 462 in 2010 to 538 in 2011, as well as by the share of the first four companies, which went up respectively from

31.8% to 37.3%.³⁰ That showed certain decrease in the competition between the participants on the market, owing to the strongly dynamic restructuring of the CIS assets and the enhanced market influence of part of the companies.

Figure 54. Concentration of the market of CIS

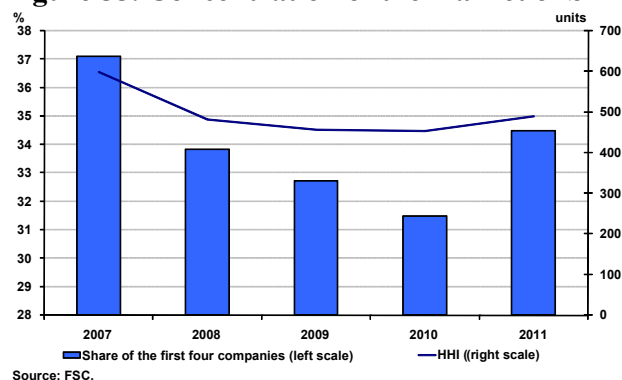


The segment of the special investment purpose companies was characterized as strongly competitive. During the year, certain rise was observed in the value of the Herfindahl-Hirschman Index (HHI), which in the end of 2011 reached a level of 491, while in 2010 it was 454 units. The same dynamics was also noted in the change of the share of the first four companies, which went up from 31.5% in the previous year to 34.5% in 2011.³¹

³⁰ The first four investment companies by net assets were IC KD Pelikan AD, IC Zlaten lev AD, IC Advance Invest AD and IC Capman Capital AD. In the contractual funds these were – CF Raiffeisen (Bulgaria) Money Market Fund, CF Raiffeisen (Bulgaria) Protected Investment in Euro, CF Astra Cash and CF CCB Leader.

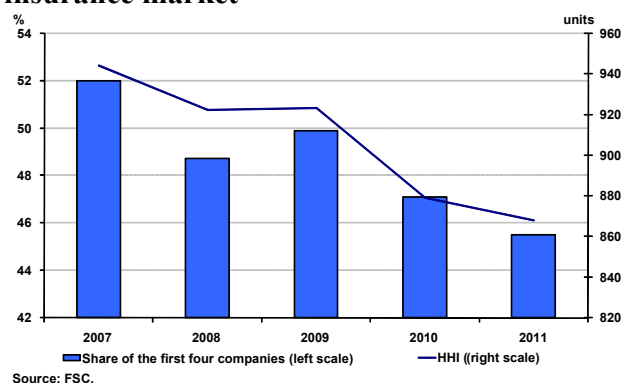
³¹ Those were Advance Terrafund REIT, Health and Wellness REIT, ELARG Agricultural Land Fund REIT and FairPlay Properties REIT.

Figure 55. Concentration of the market of SIPC



The market share of the four general insurance companies with realized highest premium income³² at the end of 2011 amounted to 45.5% against 47.1% at the end of 2010. In the last several years, the curve of the Herfindahl-Hirschman Index (HHI) was characterized with a descending trend, which outlined a tendency towards intensification of the competitive environment on the general insurance market and reduction of the concentration.

Figure 56. Concentration of the general insurance market



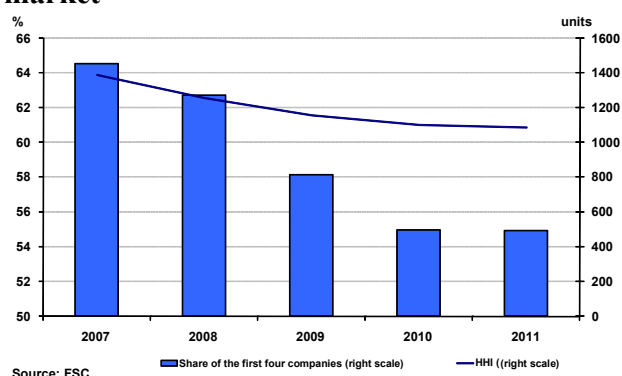
The aggregate market share of the four life insurance companies, realized highest premium income in 2011³³ grew y/y and at the yearend was

³² Those were DZI-General Insurance EAD, ZAD Armeez AD, ZAD Bulstrad Vienna Insurance Group and ZK Lev Ins AD.

³³ Those were ZAD Allianz Bulgaria Life, ZAD DZI, ZAD Bulstrad Life Vienna Insurance Group AD and ZK Uniqa Life AD.

calculated as 56.3% against 55 % in 2010. The trend of the increasing of the concentration and competition in the life insurance sector, compared to 2008 and 2009 was retained. That reflected on the dynamics of the HHI index, the value of which at the yearend was 1114 units, towards 1098 units in the end of 2010 and 1156 units in the end of 2009.

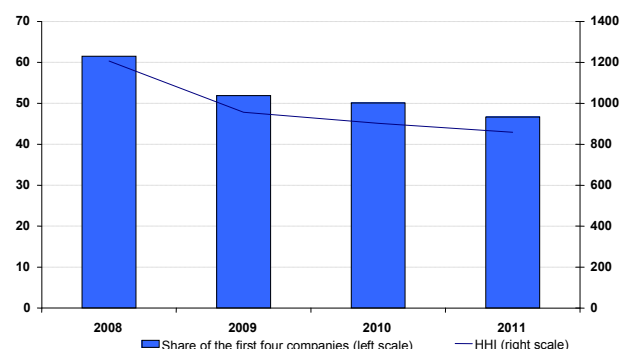
Figure 57. Concentration of the life insurance market



The market share of the four health insurance companies with realized highest premium income³⁴ for 2011 amounted to 46.7% against 50.1% for 2010. Accordingly, the HHI index fell from 902 units at the end of 2010 to 858 units at the end of 2011. That showed that there was strong competition between the participants in the market of voluntary health insurance. As a comparison, at the end of 2009 the index value was calculated at 956 units, which outlined a trend of enhancement of the competition on the market.

³⁴ Those were HIC Bulgaria Health AD, Zakrila AD, UHIF Doverie AD and HIC St. Nikolai Chudotvoretz AD.

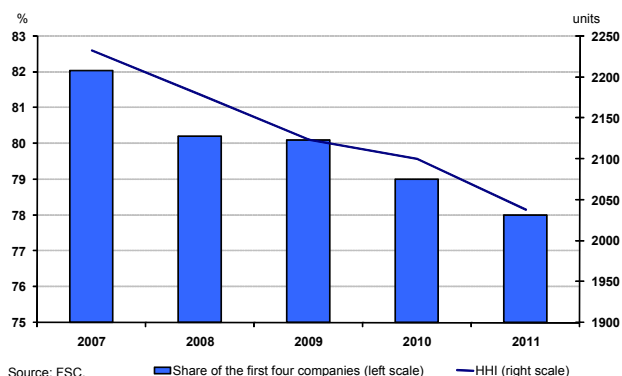
Figure 58. Concentration of the voluntary health insurance companies



At the end of 2011, the share of the first four companies on the market of pension insurance services³⁵ according to their balance sheet assets was at its lowest point (78.0%) for the last five years. The same trend was shown by the Herfindahl-Hirschman Index (HHI), which gradually was falling during the years, showing a process to lower concentration on the supplementary pension insurance market, reaching a value of 2038. Despite of that trend, the pension insurance market was characterized as strongly concentrated during the whole reviewed period.

³⁵ Those were PIC Doverie AD, PIC Allianz Bulgaria AD, PIC Saglasie AD, PIC DSK-Rodina AD.

Figure 59. Concentration of the pension insurance market



2.1. Review of the risks and major market trends

Since the beginning of 2011, intensification of the economic activity was observed in international plan and in Bulgaria, which in the second half of the year slowed down and reflected on the increase of the **macroeconomic risks**. A key role in the change of the economic activity in Europe played the sovereign debt crisis in the Euro Area countries and the worsening of the global economic perspectives. That questioned the planned measures for fiscal consolidation and balancing of the public finances, which had adverse effect on the state of the labor market.

Facing the perspective of further slowdown of the economic growth and with existing probability of the Euro Area entering into recession, the expectations for a positive economic growth in our country were not big. The governments in Europe and in Bulgaria were confronted by the difficult task to continue to fulfill the planned cutting of spending and in parallel with that to apply employment promotion measures. Economic growth based on a positive external trade balance is increasingly less probable in view of the forecast for the Euro Area development. In the conditions of uncertainty about the perspectives for development of the Bulgarian economy, households showed greater inclination to taking conservative investment decisions with the purpose of covering contingency expenses.

The internal domestic demand during the year registered negative values, which impeded the recovery of the insurance market in our country. The worsened situation on the labor market and the low extent of financial awareness among the individual investors, exerted direct adverse effect on the demand for financial and investment services in the non-banking financial sector. In the second half of 2011, a negative growth of the investments in equity and debt securities was predominant, as well as the reduction of the amount, invested in money market instruments. The reason for that was again the decreasing inclination for assuming risks and the heightening of the competition in the products offered by the different credit institutions.

The spread on the issued corporate debt securities widened in 2011 in a pan-European plan, which represented increase of the **credit risk** as a result of the enhanced volatility and the worsened macroeconomic perspectives. The reason for that was the deepening in 2011 debt crisis, which considerably lowered the

confidence in the credit capacity of the states from the Euro Area. The difficulty in finding a solution for the debt crisis limited the possibilities for financing of some governments in the Euro Area and as a whole rose the cost of financing of the government spending. The direct effect from that external factor for increasing of the credit risk in Bulgaria was considerably limited in view of the statutory requirements for the investments of the participants in the non-banking financial sector in financial instruments, as well as their policy of portfolio diversification and their limited exposure to debt instruments issued by those countries. On the insurance market in Bulgaria an increase was recorded of the investments in debt securities, issued and guaranteed by the state, with the general insurance companies. With the life insurance companies, an increase was registered of the share of equities and other variable-income securities and units in investment funds, which led to reduction of the credit risk, at the expense of increase of the market risk. Indications for rise of the credit risk were registered in the analysis of the financial statements of the different market participants, where increase of the intracompany indebtedness and more difficult working capital management were noticed. That put a challenge especially before the issuers with a lower level of credit capacity in the raising of additional funds from the financial markets.

The **market risk** increased in 2011, which was due, on one side, to drop in the price of most of the traded financial instruments and the enhancement of their volatility. The instability of all segments of the international financial markets had a direct negative effect on the investors' inclination to assume higher levels of risk and their orientation to more conservative investment decisions. The uncertainty about the expected financial results and future regulatory measures further impeded the raising of free resources through the regulated market. The heightened market risk increased the probability for the occurrence of events with low frequency, but with large in magnitude negative price effect. On the other side, the fall in prices of the equity securities, as well as the value of the market indexes, reduced the risk of increasing of the market value above the fair value of the public companies. An evidence for that was also the decreasing of most market multipliers of the participants in the capital market.

The uncertainty on the international financial markets in 2011 contributed substantially for the retaining of the low **liquidity** on the Bulgarian capital market, as well as for the inadequate offering of various financial instruments. That led to the increase of the investment of funds outside of the country by the institutional investors. Decreasing of the liquid positions was also observed in the insurance and health insurance sector in Bulgaria, due to reduction of the exposures in bank deposits and cash, which was more strongly expressed in the life insurance companies. In order to prevent the potential consequences of the low liquidity on the financial markets, the companies for which there were requirements for capital adequacy and liquidity increased substantially the level of capital and the held cash above the statutorily defined minimums. Thus their financial flexibility and possibility for reaction upon the occurrence of negative shocks was enhanced.

The wish of the market participants in the financial markets to retain liquidity resource, on the other side, might have a negative influence on the real sector, if thus its access to raising free resource was limited. That is why a number of regulatory measures were undertaken at European and national level for finding a balance between the application of prudent measures for maintaining the financial stability and reduction of the extent of indebtedness of the market participants.

The withdrawal of investments from the collective investment schemes and other institutional investors increased their need of holding investments in higher-liquidity instruments, which also offered lower **yield**. That decreased the offered by them return on the invested resources and respectively of their attractiveness, necessitating at the same time also more conservative investment of the raised financial resource. In the conditions of low liquidity of the capital market, the companies maintained good **capital adequacy** and availability of adequate resource for cover of the inherent to their activity risks at the end of 2011.

All companies of the insurance and health insurance market had the required own funds, reduced with the intangible assets, for cover of their *solvency* margin. The return on the assets and equity of the insurance companies during the year was positive, but it registered certain decline of the positive values in the life insurers. Nevertheless, all companies had enough funds, whereby to guarantee fulfillment of their long-term liabilities, exceeding many times the statutory requirements. The values of the gross loss ratio, the gross expense ratio and the gross combined ratio in the general insurance companies registered a fall in 2011, which exposed the companies to a lower extent of risk, while the risk by these indicators (without the gross expense ratio) in the health insurance companies was increased. As a result of the lowered market prices of the financial instruments on the financial markets, the rate of return of the supplementary pension insurance funds decreased. That limited their possibility for accumulation of additional funds by means of a positive result of their investment activity.

The heightening of the market concentration in certain segments of the non-banking financial market increased the *risk from concentration of the financial resource* among smaller number of market participants and the growing of their significance for the financial system. Thus, the probability was increased for consolidation or merger of the market participants, which had a direct relation to the liquidity and the possibility for the occurrence of negative market effects. The risk from the use of market abuse techniques with financial instruments also increased, which necessitated further improvement of the regulatory mechanisms for supervision over the market participants and improvement of the internal systems for management of the assumed risks.

2.2. Analysis of the participants on the capital market

In 2011, the market capitalization of the Bulgarian Stock Exchange – Sofia AD increased and reached BGN 12 435.9 million at the end of 2011, while in 2010 it was BGN 10 754.1 million. In 2011, the assets of the non-bank investment intermediaries registered the highest growth, both in absolute, and in relative terms, among the non-bank intermediaries on the capital market and preserved their leading role. At 31.12.2011, their assets amounted to BGN 4 660.2 million. Their relative share towards the GDP also went up by 0.73 percentage points to 6.19% as of 31.12.2011. A considerable surge by 12.4% year-on-year was also observed in the SIPC's assets, which in the end 2011 reached BGN 1 725.5 million (2.29% of GDP). The assets of CIS and MCs recorded a decline, respectively by 1.0% and 15.5% to BGN 474.8 million and BGN 575.5 million.

2.2.1. Investment intermediaries

In Bulgaria, for 2011 there were 77³⁶ investment intermediaries (IIs) filed in the register, 26 of them being banks, and 51 – non-banking financial institutions. For the previous year their number was 79. The change was owing to the decrease of the non-banking IIs, which in their main part had filed requests for voluntary withdrawal or limitation 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 license³⁷, the required capital for which is BGN 1 500 000, and at 31 December 2011 there were 22 IIs with full license filed in the FSC's register; (2) IIs with partial license³⁸, for which the required capital is BGN 250 000, and at

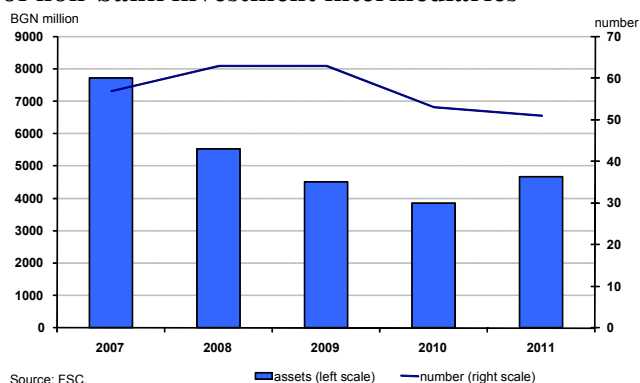
³⁶ The number does not include the foreign investment intermediaries, pursuing business on the territory of the country through branches.

³⁷ They can perform all investment services and activities, as listed in Art. 5, para 2 of the Markets in Financial Instruments Act (MFIA).

³⁸ They cannot execute transactions for their own account with financial instruments and undertaking 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.

31 December 2011 there were 27 companies with partial license entered in the FSC's register; and (3) IIs with small license³⁹, for which the required capital is BGN 100 000, and at 31 December 2011 there were 2 companies entered in the FSC's register.

Figure 60. Dynamics in the number and assets of non-bank investment intermediaries



The amount of the non-bank investment intermediaries' assets⁴⁰ at 31 December 2011 was BGN 4 660.2 million (6.2% of GDP), which was an increase of 21.0%, compared to the end of 2010, when their amount was BGN 3 851.3 million. It was for the first time after 2007 that the asset amount of these companies recorded an increase. The values as of 31.12.2011 were close to those in the end of 2009. For 2011 the sum of the managed client assets was BGN 4 591.9 million, which was a rise of nearly 21.4%, compared to the previous year.

In 2011, there was not any substantial change noted in the number of investment intermediaries, in the capital of which there was a foreign participation by natural and legal persons (direct and indirect) from EU Member States, as well as such from third countries.

³⁹ They can perform services and activities under Art. 5, para 2, Item 1 and/ or 5 of MFIA, and 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.

⁴⁰ The amount of the total assets includes also the amount of the contingent assets.

Table 35. Number of IIs with foreign ownership

	2008		2009		2010		2011	
	Direct	Indirect	Direct	Indirect	Direct	Indirect	Direct	Indirect
EU ownership	6	7	8	5	6	7	3	6
Third countries' ownership	1	4	1	3	1	4	0	4

Source: FSC.

Among the non-banking IIs, a decline in the asset value was observed in the intermediaries with a partial license, where the decrease was 7.0%. The drop was due to the fact that over 2/3 of the companies with a partial license realized a drop in the assets. The investment intermediaries with full license increased their assets by 24.7%. Owing to the big relative share of IIs with a full license in the total sector assets (over 90%), that growth was determinant for the general trend of increase in the IIs assets.

Table 36. Assets, capital stock and equity of IIs

	2007	2008	2009	2010	2011
II with small license					
assets	n/a	n/a	n/a	0.1	0.3
capital stock	n/a	n/a	n/a	0.2	0.3
equity	n/a	n/a	n/a	0.1	0.3
II with full license					
assets	5899.5	4876.0	3766.0	3406.2	4246.0
Capital stock	59.3	71.0	67.0	67.3	66.2
equity	186.0	87.0	83.0	79.7	78.2
II with partial license					
assets	1826.7	654.0	734.0	445.1	413.9
Capital stock	11.2	13.0	15.0	13.2	10.5
equity	19.3	17.0	18.0	18.4	15.9
Total IIs					
assets	7726.1	5530.0	4500.0	3851.3	4660.2
capital stock	70.5	84.0	82.0	80.7	77.0
equity	205.3	104.0	101.0	98.2	94.4

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

After exclusion of the companies with a withdrawn license, it is noted that in 2011 the non-banking investment intermediaries with a partial license underwent biggest reduction also in regard to the size of equity, both in relative and in absolute terms. In IIs with a full license the equity decreased by 1.9% and at the yearend it reached BGN 78.2 million, and in IIs with a partial license the equity fell by 13.3% and reached BGN 15.9 million.

At the end of 2011, all non-banking investment intermediaries covered the statutory requirements for capital adequacy and liquidity.

The market value of the trading and non-trading book of the non-banking investment intermediaries at the end of 2011 decreased to

BGN 36.5 million. The main reasons were the reduction in the total number of IIs, of IIs forming books and the negative dynamics of the capital markets. The total amount of the intermediaries' non-trading books as of 31.12.2011 decreased with BGN 3.6 million to BGN 11.8 million. The investment intermediaries that formed a non-trading book were 32 at the end of 2011. From them, 12 were with a partial license. The drop in the market value of those companies was less. At the end of 2011, 17 investment intermediaries had formed a trading portfolio, the total market value of which went down to BGN 24.7 million, against BGN 26.8 million at the end of 2010.

Twenty nine investment intermediaries carried out fiduciary management at the end of 2011. The market value of the securities provided for fiduciary management declined by 5.4% during the year and reached BGN 46.0 million at the end of 2011. In the cash the reduction was insignificant (below 0.1%) and at the end of the period its value was BGN 4.1 million.

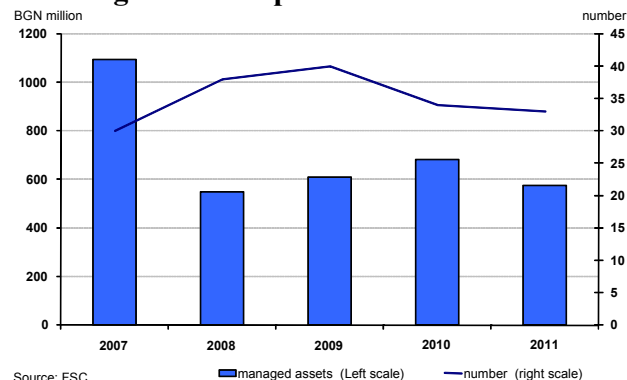
2.2.2. Collective investment schemes

In 2011, the number of the management companies was 33⁴¹, and at the yearend they managed the activity of 101 collective schemes (CIS): 8 of them were investment companies (ICs), and 93 – contractual fund (CFs). The number of the contractual funds in 2011 decreased with 2 from 95 in 2010. The number of the investment companies of closed-end type (former privatization funds) remained unchanged - 2.

The decline in number of the management companies in 2011 was also accompanied by a decline in the amount of the managed assets, which after three consecutive years of growth, in 2011 fell to BGN 575.5 million, against BGN 681.3 million in 2010, which was a decline of 15.5% compared to the previous year.

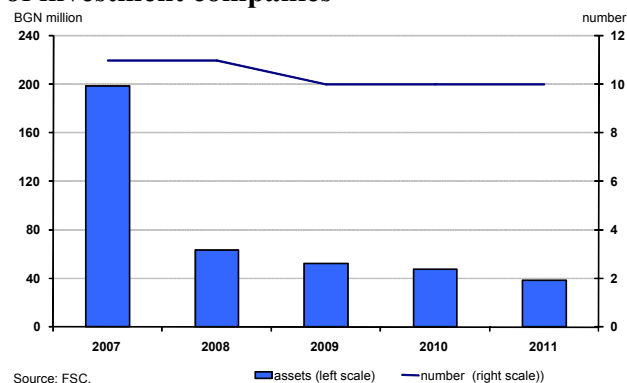
⁴¹ The number of the management companies does not include MC Newway Asset Management AD, the license of which was withdrawn, but the company appealed the FSC decision and at 31.12.2011 the procedure was not concluded.

Figure 61. Dynamics in the number and assets of management companies



The number of the investment companies (of open and closed-end type) remained unchanged compared to 2010 (10). The assets of these companies, however, continued to decrease, even though at slowed down rates. Their decline in 2011 was by 18.8%, and at the yearend they amounted to BGN 38.7 million, BGN 38.6 million from which were net assets. The investment companies of open-end type possessed nearly 86.4% of the total asset amount and those of closed-end type – 13.6%.

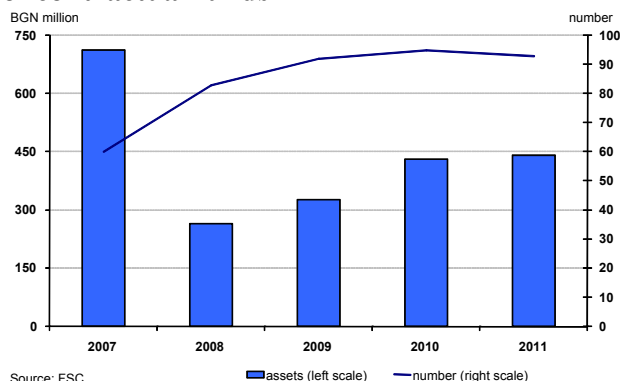
Figure 62. Dynamics in the number and assets of investment companies



The number of the contractual funds in 2011 decreased, in contrast to their assets, which grew insignificantly. The contractual funds at the end of 2011 were 93, and in total their assets reached BGN 441.3 million (from which net assets were

BGN 437.0 million), or increase of nearly 2.21% compared to the previous year. The conservative profile contractual funds⁴² ranked in first place in assets (47.6% of the total assets of all contractual funds for 2011), followed by those with a high-risk profile (27.4%), and in the last place were the balanced profile funds (25.0%). That ranking was preserved from the previous year, and an increase was observed of the share of the conservative funds' assets at the expense of decreasing of the assets of the balanced and aggressive funds. A clear tendency was outlined of running away from the risk and seeking a small but sure yield.

Figure 63. Dynamics in the number and assets of contractual funds



In regard to the publicly offered in the country units of funds and subfunds from foreign CIS, in 2011 stability was observed, respectively also in the number of the foreign mutual funds. At the end of 2011, the number of mutual funds from foreign collective investment schemes increase with 2, reaching 30, and the offered subfunds increased to 128.

Table 37. Dynamics of the foreign CIS number

	2007	2008	2009	2010	2011
Mutual Funds- Foreign CIS	18	29	27	28	30
Funds/ subfunds	59	93	84	111	128

Source: FSC .

In general, the assets accumulated by the collective investment schemes in 2011 recorded an insignificant decline of 1.0%, compared to the previous year and went down to BGN 474.8 million at 31.12.2011. That was a significant change in the dynamics at the backdrop of the registered annual growth of 15.6% in 2009 and 26.3% in the 2010. In 2011, the trend of climbing up of item Cash continued, but with a considerable slowdown of the pace to 7.9% on annual base, against 26.6% and 67.2% on annual basis in the preceding two years. The main reason was the increase of the share of Term deposits, the share of which in the total amount of Cash picked up to 86.5%. A substantial drop for a second consecutive year in absolute and relative plan was registered by item Equities, the value of which declined by 8.2% to BGN 127.4 million in 2011. Items Money market instruments and Other financial instruments grew at accelerated rates, respectively by 319.4% and 227.3%, but their relative weight in the total amount of the financial assets and instruments was insignificant. The Debt securities and Units of CIS remained relatively stable in 2011, registering insignificant changes. The dynamics of the CIS assets showed reduction of the risks, but with possibilities for realization of high yield, investment in equities at the expense of increase of the low-risk investments in deposits. That dynamics confirmed once again the outlined trend in the analysis of the total assets of CIS according to the risk profile, that there was a decline in the inclination for assuming risk by the investors.

Table 38. Dynamics of CIS assets

	2007	2008	2009	2010	2011
Cash	197.2	114.0	144.3	241.3	260.5
Term deposits	156.7	93.2	113.8	193.8	225.3
Financial assets and instruments, incl. .	677.8	211.7	231.8	220.2	202.0
Shares	528.6	117.4	153.2	141.7	127.4
Rights	0.0	0.0	2.7	2.9	0.0
Debt securities	89.0	76.0	58.8	47.2	47.7
Units of CIS	0.0	8.8	10.9	27.5	25.0
Money market instruments	6.9	6.1	6.6	0.3	1.1
Derivatives	0.0	0.0	0.0	0.1	0.1
Other financial instruments	53.3	3.3	0.2	0.5	1.6
Non-financial assets, incl. .	34.5	2.6	3.5	7.7	7.3
Receivables	34.4	2.3	2.8	7.0	6.3
Other	1.9	0.0	0.0	10.3	5.1
TOTAL	911.4	328.3	379.7	479.5	474.8

Note: Data is reported in BGN Million unless other is quoted. Item Others Financial instruments

In the period 2006 -2008 Included foreign securities and compensatory instruments

Source: FSC .

⁴² 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).

In 2011, considerable changes were noted in the structure of the collective investment schemes' aggregate portfolio, as a continuation of the outlined in the preceding period sustainable tendencies. The share of Financial Assets and instruments went down by new 3.4 p. p. from 45.9% in 2010 to 42.6% in 2011 from the total asset amount. Substantial part of the assets was invested in Term Deposits, whose share edged up from 40.4% in 2010 to 47.5% in 2011 in the assets relative structure. The share of Debt securities increased insignificantly to 10.0% of the total asset amount in 2010, of Money market instruments respectively to 0.23% or over 3 times and Other financial instrument, which grew over 2 times to 0.34%. Most substantial decrease, nearly 70 times, was recorded by the investments in rights – from 0.61% in 2010 to 0.01% in 2011 of the total asset amount, followed by Others, the drop of which was more than 2 times to 1.1% of the CIS assets.

A drop of over 2.7 p. p. was registered by the Investments in Equities, and the share of the investments in Units of CIS was reduced from 5.7% in 2010 to nearly 5.3% in 2011 from the total asset amount. At the same time, the use of Derivative instruments decreased by almost 1/3 in 2011, compared to the previous year.

Table 39. Assets' share structure of CIS

	2007	2008	2009	2010	2011
Cash	21.6	34.7	38.0	50.3	54.9
Term deposits	17.2	28.4	30.0	40.4	47.5
Financial assets and instruments, incl.:	74.4	64.5	61.1	45.9	42.6
Shares	58.0	35.8	40.3	29.5	26.8
Rights	0.0	0.0	0.7	0.6	0.0
Debt securities	9.8	23.2	15.5	9.8	10.0
Units of CIS	0.0	2.7	2.9	5.7	5.3
Money market instruments	0.8	1.9	1.7	0.1	0.2
Derivatives	0.0	0.0	0.0	0.0	0.0
Other financial instruments	5.8	1.0	0.1	0.1	0.3
Non-financial assets, incl.:	3.8	0.8	0.9	1.6	1.5
Receivables	3.8	0.7	0.7	1.5	1.3
Other	0.2	0.0	0.0	2.2	1.1
TOTAL	100.0	100.0	100.0	100.0	100.0

Note: Data is reported in%. Unless other is quoted
Other financial instruments in the period *, 2008 - 2006 includes foreign securities and compensatory instruments
Source: : FSC.

securitization of receivables. The other 64 were for securitization of real estate, 8 of them being specialized in transactions with agricultural lands. Although the number of companies and their distribution by type of the securitized assets did not change, the asset value of all special investment purpose companies grew by 12.4%, compared to the preceding 2010. The assets of those companies at the yearend amounted BGN 1 725.5 million, which represented 2.3% of GDP, while for 2010 they accumulated approximately 2.2% of GDP.

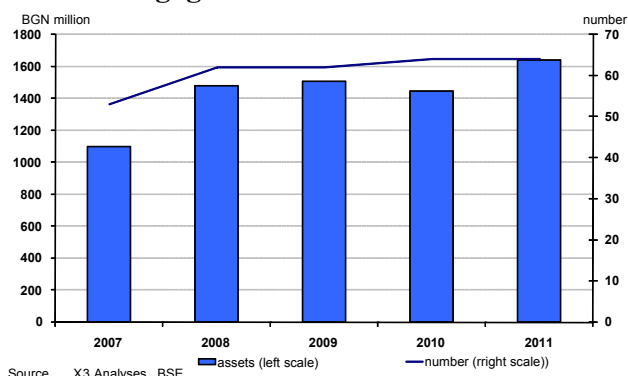
In 2011 there was no change in the number of special investment purpose companies, engaging in securitization of real estate without agricultural land (56) and the companies specialized in securitization of agricultural land (8). The assets of the two groups of companies continued to grow, and in 2011 they increased by 13.3%, compared to the preceding period and reached BGN 1 637.9 million. Only the assets of SIPC's, engaging in securitization of real estate, without agricultural land, realized a growth of 8.7% year-on-year and reached BGN 1 062.6 million, while the assets of the companies engaging in securitization of real estate and specialized in agricultural land, went up by whole 22.8% and reached BGN 575.3 million.

It is important to note that despite the aggravated economic conditions, the asset amount of the special investment purpose companies engaged in the securitization of real estate since 2008 registered a positive trend, and in the last year the growth was at accelerated pace.

2.2.3. Special investment purpose companies

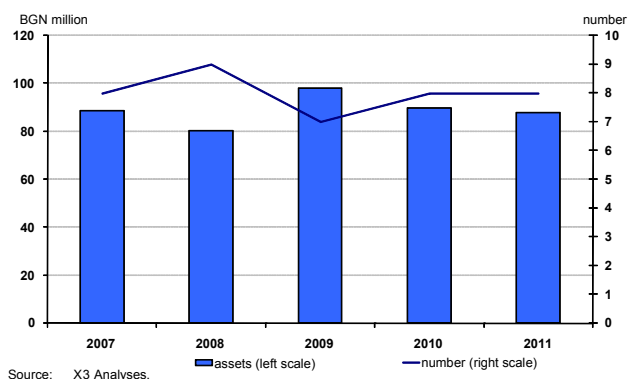
At the end of 2011, the total number of the licensed special investment purpose companies (SIPC's) was 72, 8 from which were for

Figure 64. Dynamics in the number and assets of SIPC's engaged in securitization of real estate



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. During the year, they accumulated BGN 87.6 million, which was a decline of 2.2% y/y.

Figure 65. Dynamics in the number and assets of SIPC's engaged in securitization of receivables



The assets of the special investment purpose companies, carrying out securitization of real estate, edged up by 13.3% towards the previous year and reached BGN 1 637.9 million in 2011. Greatest contribution to the increase of the assets of those companies marked the investments in item Others (6.9%), followed by Cash (6.6%) and Receivables (3.5%). In 2011, most significant decline was realized by item Investment properties,

which contributed for 3.7% of the total drop in the assets.

Table 40. Assets of SIPC's engaged in securitization of real properties

	2008	2009	2010	2011
Investment properties	734.2	833.1	933.6	880.7
Financial assets	2.1	1.3	1.0	0.8
Cash	171.3	75.0	54.6	149.8
Receivables	98.0	93.4	102.8	153.2
Other	472.6	500.6	354.2	453.3
TOTAL	1 478.3	1 503.5	1 446.2	1 637.9

Note : Data is quoted in BGN million unless other is quoted.
Source : X3 Analyses, BSE-Sofia AD.

In 2011, a considerable decrease of 10.6 p. p. was observed in the share of Investment properties, the main item in the assets of SIPC's engaging in securitization of real estate. That happened after the promising growth of 9.2 p.p. in the previous 2010. At the same time, all other asset items of that group of SIPC's recorded a growth, both in absolute and in relative term. That was an indicator of the lack of good opportunities for investments of the free funds in real properties.

Table 41. Assets structure of SIPC's engaged in securitization of real properties

	2008	2009	2010	2011
Investment properties	49.7	55.4	64.6	53.8
Financial assets	0.1	0.1	0.1	0.1
Cash	11.6	5.0	3.8	9.1
Receivables	6.6	6.2	7.1	9.4
Other	32.0	33.3	24.5	27.7
TOTAL	100.0	100.0	100.0	100.0

Note: Data is reported in %, unless other is reported.
Source : X3 Analyses, BSE-Sofia AD.

The assets of the special investment purpose companies engaging in the securitization of receivables were BGN 87.6 million, which represented a reduction of 2.2%, compared to the previous year. Major decline in the portfolio of those companies were Receivables (over 1 year) by 16.5%, which contributed for 2.9% of the decline in the total assets. Most significant growth was registered by the investments in Receivables (to 1 year), which in 2011 picked up by 21.4% and contributed for reduction of the general drop of the assets by 1.9 p.p.

Table 42. Assets of SIPCs engaged in securitization of receivables

	2008	2009	2010	2011
Financial assets	57.8	78.7	48.8	47.2
Cash	2.8	3.4	2.7	3.3
Receivables (to 1 year)	18.9	15.3	21.7	23.3
Receivables (over 1 year)	0.0	0.0	15.8	13.2
Other	0.6	0.6	0.6	0.6
TOTAL	80.1	98.0	89.6	87.6

Note: Data is quoted in BGN million unless other is quoted.
Source: X3 Analyses

In terms of asset structure, the SIPC's portfolio 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 (53.9%), followed by Receivables (to 1 year) (26.6%) and Receivables (over 1 year) (15.1%).

Table 43. Asset structure of SIPC's engaged in securitization of real properties

	2008	2009	2010	2011
Financial assets	72.2	80.3	54.5	53.9
Cash	3.5	3.5	3.0	3.7
Receivables (to 1 year)	23.6	15.6	24.2	26.6
Receivables (over 1 year)	0.0	0.0	17.7	15.1
Other	0.7	0.6	0.6	0.6
TOTAL	100.0	100.0	100.0	100.0

Note: The data is in % unless other is quoted.
Source: X3 Analyses

In the special investment purpose companies engaging in securitization of real estate and specialized in agricultural land, a change in the registered capital was not observed, as in these companies there were not any new licensed persons and there were no increases in the capital. Their equity grew by 20.7% in 2011, compared to the preceding period and reached BGN 498.2 million. The registered capital of SIPC's engaging in securitization of real properties without agricultural land, increased by 5.1%, as a result of increases made in 2011. The equity of that subgroup dropped by 3.0% and was BGN 420.0 million in 2011⁴³.

As a final result, the registered capital of SIPC's for securitization of real estate increased by 2.5%, and the equity went up by 8.6% on a year-

on-year basis. There was a substantial change in the equity for SIPC's pursuing securitization of receivables, which surged up by 52.4% year-on-year.

Table 44. Registered capital and equity of SIPC's

	Registered capital			Equity		
	2009	2010	2011	2009	2010	2011
SIPC's engaged in securitization of real properties without agr. land	279.5	299.4	314.6	489.5	433.0	420.0
SIPC's engaged in securitization of real estate specialized in agricultural land	297.6	297.6	297.6	431.9	412.6	498.2
TOTAL for SIPC's engaged in securitization of real properties	577.1	597.1	612.3	921.5	845.6	918.2
SIPC's engaged in securitization of receivables	6.0	6.2	9.4	22.4	30.9	35.0
TOTAL for SIPC's	583.2	603.2	621.7	943.9	876.5	953.3
change (%)	3.5	3.4	3.1	0.4	-7.1	8.8

Note: Data is in BGN million unless other is quoted.
Source: X3 Analyses* BSE Sofia AD

The biggest interest to investment in Bulgarian SIPC's was shown by the private non-financial enterprises from Bulgaria (48.7%), followed by the Bulgarian natural persons (16.0%) and the Bulgarian insurance companies and pension funds (14.7%). The biggest growth of the share of investments in SIPC's in 2011 was marked by the Bulgarian private non-financial enterprises – 10.6 percentage points.

As a whole, the ratio between the separate groups of Bulgarian shareholders in the years registered steadiness. Greater dynamics was observed only in the institutional sector Other money and financial institutions (the commercial banks), where compared to 2008 a considerable increase of the relative share to 4.1% was noted, and in sector Financial enterprises engaged in ancillary financial activities, in which the reverse trend was observed – a decline from 5.1% in 2008 to 1.0% in 2011.

A trend of reduction was noted in the share of the foreign investors at the expense of the increase in the share of the Bulgarian professional and retail investors. From the foreign investors in shares of Bulgarian SIPC's, the biggest shares belonged to the legal entities from the EU (8.3%), followed by the legal entities from the USA (3.6%) and the legal entities from third countries. In all the three groups of foreign investors, however, the fall in the share was notable.

⁴³ The data for 2011 are preliminary. As of the date of the data preparation, not all companies had filed reports.

Table 45. Shareholding structure of SIPC's

	2008	2009	2010	2011
Bulgaria	73.0	76.7	77.7	85.2
Other money & financial enterprises /CB/	0.7	1.3	4.9	4.1
Sectors other than Money & Finance and Governmental Insurance companies and NCCSH	0.0	0.0	0.0	0.0
of IC and PF	13.4	17.0	14.6	14.7
Financial enterprises engaged in ancillary financial activities	0.0	0.0	0.0	0.0
Private non-financial enterprises	0.6	0.8	0.6	0.7
Natural persons	5.1	1.5	1.2	1.0
Foreign natural persons	38.8	38.1	38.1	48.7
Legal entities from EU	14.3	17.9	18.5	16.0
Legal entities from USA	0.9	0.7	0.8	0.7
Legal entities from third countries	16.8	12.8	12.1	8.3
TOTAL	3.8	4.1	3.8	3.6
	5.5	5.7	5.6	2.2
	100.0	100.0	100.0	100.0

Note: : Data is in %, unless other is quoted

The share of the groups of shareholders is calculated on the basis of the nominal value of the equities

Source : CD AD.

2.2.4. Public companies and issuers

The number of the public companies was 371 in 2011, which represented an increase with 4 companies towards the preceding year. Considerable revival was noted in the dynamics of the prospectuses for initial public offering, as well as in their amount.

The reviewed prospectuses were with 6 more than those in 2010, or totally 24 in 2011 (8 for SIPC's shares, 14 of public companies without SIPC's and 2 issues of bonds), while the amount of the issues was BGN 257.2 million, which constituted a growth of 64.8% on a year-on-year basis. The approved prospectuses for admission to trading on a regulated market, as well as the issues' amount climbed in 2011. Their number this year was 14 (6 for issues of shares of public companies and 8 issues of bonds) with an issue value of BGN 449.1 million, while in 2010 they were 13 with an issue value of BGN 236.0 million.

In 2011, 4 refusals for approval of prospectuses were pronounced, and 1 procedure for approval was terminated, while in the previous period the refused approvals and terminated procedures were 3. The number of the confirmed prospectuses of contractual funds went down with seven and in 2011 it reached 3 (two local and one foreign).

Table 46. Reviewed prospectuses and tender offers

	2007	2008	2009	2010	2011
Prospectuses for initial public offering (number)	11	3	15	18*	24
Size of issue	351.4	18.4	129.2	156.1	257.2
Final prohibition on publishing tender offer (number)	19	3	17	17	8
Turnover	171.7	2.8	29.6	82.7**	118.8

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

* Two issues of warrants are included in the number

**Turnover includes the proposed price for the tender offers, for which prohibition is not issued and they are not terminated

Source : FSC.

The reviewed tender offers with a pronounced decision not to issue a final prohibition on their publishing in 2011 decreased with 9 towards the previous year, but a growth was noted in their turnover of 43.7%, compared to 2010. In 2011, overall 9 tender offers were reviewed, from which on 8 a decision was pronounced not to issue a final prohibition for their publishing, and 1 obtained a final prohibition.

The growth in the total market capitalization by 15.6% had an effect also on the share of the top ten public companies, the capitalization of which picked up by 4.3 p. p. and reached 55.0% in 2011. In the first place by market capitalization was Energoni AD – Sofia, whose share as a percent of the total exchange capitalization reached 15.8% in 2011. In the structure of the companies in the top ten by market capitalization in 2011, certain dynamics was observed. Three of the ten companies were new, one of them (Energoni AD) led the ranking. In 2011, there were two companies with capitalization over BGN 1 000 million, as there were such in 2008 and 2010, as well.

Table 47. Top 10 public companies by market capitalization

Issues /	Market capitalization	2010	Issues/	Market capitalization	2011
Bulgarian Telecommunications Company AD -Sofia	1 299.4	1 299.4	Energoni AD-Sofia	1 960.3	1 960.3
Petrol AD - Sofia	869.6	869.6	Bulgarian Telecommunications Company AD -Sofia	1 270.6	1 270.6
Arco Towers REIT - Sofia	862.5	862.5	Petrol AD - Sofia	869.6	869.6
ZAD DZI - Sofia	645.0	645.0	Arko Towers REIT -Sofia	662.5	662.5
Sopharma AD Sofia	513.3	513.3	Corporate Commercial Bank AD - Sofia	485.3	485.3
Corporate Commercial Bank AD - Sofia	384.0	384.0	Sopharma ADSofia	419.8	419.8
Chimimport AD - Sofia	349.6	349.6	EVN Bulgaria Electrorazpredelenie AD	389.4	389.4
Monbat ADSofia	245.7	245.7	ZD DZI -Sofia	274.1	274.1
CB First Investment Bank AD - Sofia	236.5	236.5	Albena AD - (i.e. Albena	251.3	251.3
BulgarTabac-Holding AD-Sofia	226.9	226.9	BulgarTabac-Holding AD-Sofia	231.3	231.3
TOTAL	5 452.6	5 452.6	TOTAL	6 834.2	6 834.2

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

Source : FSC.

In the trade structure of the top 10 leading sectors on the Bulgarian Stock Exchange – Sofia AD for 2011, in the first place by the three major indicators (number of transactions, number of lots

and realized turnover) again ranked sector Financial and insurance activities with a turnover of BGN 295.1 million and 53 789 transactions. A main reason for that was the transfer of large blocks of shares of CB Corporate Commercial Bank AD in December. In the second place, for the next successive year by turnover, number of transactions and lots was ranked Manufacturing with a turnover of BGN 148.9 million. Sector Construction climbed one position up and in 2011 took third place with a turnover of BGN 12.7 million and 8 977 transactions. Sector Real estate operations from third place in 2010 marked a fall of over 20 times in 2011, its turnover for the current year being BGN 2.0 million and 254 transactions.

Table 48. Trade structure by sectors on BSE – Sofia

Sector	Transactions (number in thousand)			Volume (Million lots)			Turnover (BGN million)		
	2009	2010	2011	2009	2010	2011	2009	2010	2011
Financial and insurance activities	99.0	45.2	53.8	148.3	120.1	195.0	415.3	336.7	299.1
Manufacturing	50.3	30.3	31.4	29.1	25.3	23.6	103.9	104.3	149.9
Construction	21.2	14.3	9.0	3.4	15.7	5.3	53.4	38.4	12.7
Traffic	7.2	5.4	4.4	10.5	4.4	4.9	24.3	7.4	7.2
Production and distribution of electric and heating energy and gaseous fuels	0.0	0.0	0.2	0.0	0.0	0.2	0.0	0.0	5.9
Hotels and restaurants	2.6	1.9	1.5	1.4	0.3	0.1	7.9	7.8	3.7
Agriculture – hunting and forestry	7.2	4.1	2.9	14.1	16.1	5.1	9.7	9.7	3.0
Real estate operations	0.5	0.3	0.3	0.5	15.8	0.8	0.8	40.7	2.0
Professional activities and scientific research	1.2	0.9	0.4	2.3	1.4	0.4	3.6	2.2	0.9
Mining	0.4	0.4	0.6	6.8	0.1	0.2	21.0	0.3	0.5
Creation and distribution of information and Work products; telecommunications	0.2	0.2	0.2	0.2	0.1	0.1	0.4	0.3	0.5
Transportation, storage and post	0.5	0.3	0.2	9.9	1.5	0.1	23.7	2.1	0.1
Administrative and support services	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Water supply, sewerage	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Waste management and recycling	0.0	0.0	0.0	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	0.0	0.0	0.0
TOTAL	190.6	103.3	104.6	225.6	200.9	235.0	661.0	549.6	480.1

Source : BFB - Sofia, FSC.

In 2011, there were no significant changes in the shareholding structure of the Bulgarian public companies. A major Bulgarian shareholder remained the companies from sector Private non-financial enterprises, the share of which in 2011 increased to 47.6% by 1.6 percentage points, towards 2010. The next most significant group of shareholders in Bulgarian PCs were the natural persons, who owned 15.3% of the companies' capital. In 2011, their relative share declined by 1.4 percentage points, compared to the preceding year. In third place after the most significant shareholders of the Bulgarian public companies were ranked the Bulgarian insurance companies and pension funds, which in 2011 increased their share to 8.3%, against 7.5% for the previous 2010. The other Bulgarian investors, including also the

commercial banks, registered insignificant changes in 2011 in their share participation in the PCs capital.

The major foreign investors in shares of Bulgarian public companies were from EU Member States (19.4%). From them 7.4% were natural persons and the other 12.0% were legal entities, the share of which in 2011 picked up by 2.0 percentage points. That growth was due mainly to increase in the share of the investments of the European commercial banks. In the other groups of foreign investors, including natural and legal persons, a decline was observed.

Table 49. Shareholding structure of PCs

	2008	2009	2010	2011
Bulgaria	78.6	79.5	74.2	75.2
Other money & financial enterprises /CB /	1.3	0.7	1.8	1.8
Sectors other than Money & financial and				
Governmental	0.0	0.0	0.0	0.0
Other financial intermediaries	0.0	0.0	0.0	0.0
Other financial enterprises	0.0	0.0	0.0	0.0
Insurance companies and pension funds				
	5.3	5.6	7.5	8.3
Financial intermediaries, other than ICs and PFs	0.3	0.4	0.5	0.8
Financial enterprises engaged in ancillary financial activities	1.4	0.8	0.9	0.9
Private non-financial enterprises	49.2	52.3	46.0	47.6
Government non-financial enterprises	0.2	0.2	0.2	0.2
Government sector	0.5	0.5	0.4	0.2
NCCSH	0.0	0.0	0.0	0.0
Natural persons	20.3	18.9	16.7	15.3
Foreign natural persons	3.6	3.7	9.9	7.6
Legal entities from EU	11.3	10.7	9.9	12.0
Legal entities from USA	2.4	2.7	2.0	1.7
Legal entities from third countries	4.2	3.5	4.0	3.5

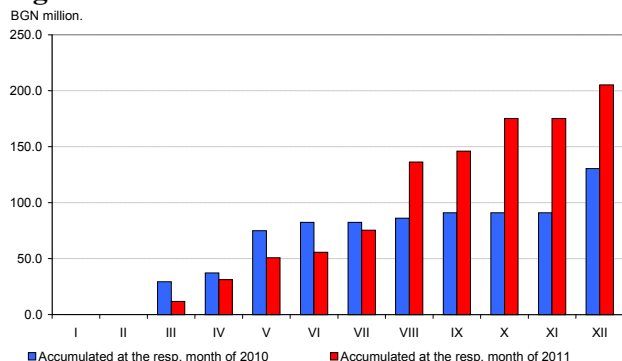
Note : Data is reported in % unless other is quoted

The share of the groups of shareholders is calculated on the basis of the nominal value

Source : CPM AD.

The issued bond debt increased by 57.6% and reached BGN 205.2 million at the end of 2011. By way of comparison, in December 2010 it was just BGN 130.3 million. According the individual characteristics of the separate issues of debt securities, in 2011 eight issues were denominated in Euro, and the other two were denominated in Bulgarian lev.

Figure 66. Amount of bond debt issues



Source: FSC.

2.2.5. Trading venues

The market capitalization of the Bulgarian Stock Exchange – Sofia AD increased to BGN 12 435.85 million in the end of December 2011, which represented a growth of 15.6%, compared to the end of 2010. A positive trend of change on annual basis was registered by segments Unofficial Market and Market of Special Investment Purpose Companies, respectively by 30.1% and 19.2%. A negative trend of change on annual basis was recorded by the market segments Official Market of Equities, the market capitalization of the companies from Official Market, Segment A, dropping by 18.9%, and of Official Market, Segment B – by 9.8%.

Table 50. Market capitalization

	2007	2008	2009	2010	2011
Official Market A	837.3	168.1	194.9	171.2	138.9
Official Market B	7 700.3	3 291.1	3 445.6	3 308.1	2 984.6
Unofficial market	20 449.3	7 375.0	6 546.0	5 862.7	7 629.0
Market of SIPC's *	0.0	1 598.8	1 609.0	1 412.1	1 683.4
TOTAL	28 986.9	12 433.1	11 795.6	10 754.1	12 435.9

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

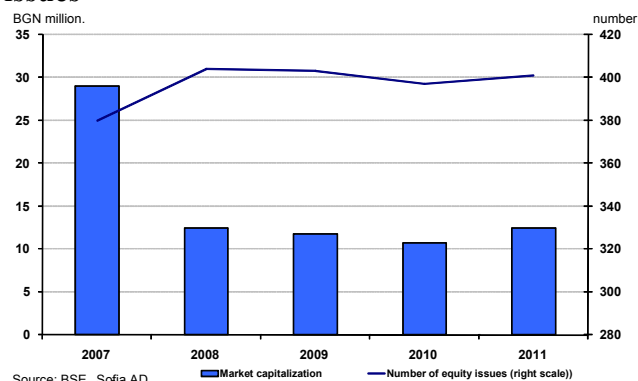
* Market of SIPC's was launched in the middle of June 2008.

Source: BSE-Sofia AD, FSC

The number of issues of financial instruments admitted to trading on the markets organized by Bulgarian Stock Exchange – Sofia AD was 507 as of 31 December 2011, which

represented a decrease, compared to the end of 2010, with 21 issues.

Figure 67. Market capitalization and number of issues



Source: BSE - Sofia AD.

On the equity market, the issues went up from 330 in 2010 to 331 in 2011. The increase of the number of issues on Unofficial Market, Segment A was noticeable, at the expense of the decrease of the registered issues on Unofficial Market, Segment B, on which the biggest fall of turnover was registered for 2011, compared to 2010 – by 57.1%. On the market of the special investment purpose companies, the number of issues climbed from 67 at 31.12.2010 to 70 at the end of 2011. That was also the segment with highest growth in the turnover for 2011, compared to 2010 – 51.1%.

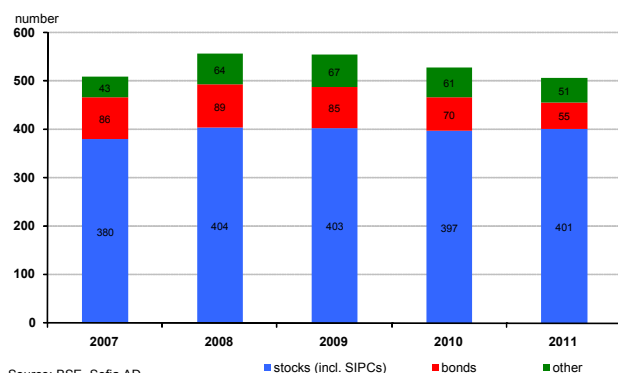


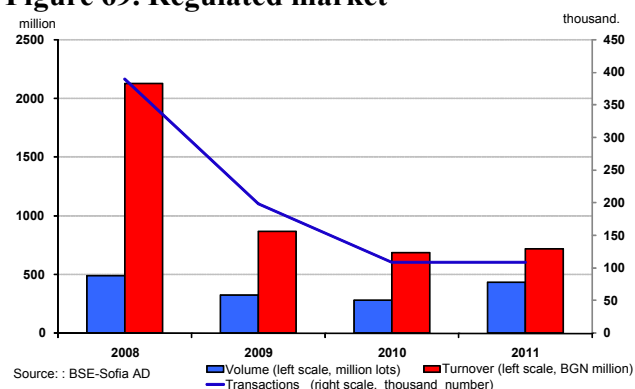
Figure 68. Issues structure

The Bulgarian capital market was characterized with low liquidity in 2011, too, which retained the trend formed in the previous year. The total realized turnover of the regulated market registered a growth of 5.0%, owing mainly to the increase in the turnover of Privatization Market (BGN 94.0 million), Official Equity Market, Segment B (BGN 35.6 million) and Market of Special Investment Purpose Companies (BGN 29.4 million). The reason for the drastic increase in the turnover of Segment Privatization Market was the privatization of EVN Bulgaria Elektrorazpredelenie AD – Plovdiv and EVN Bulgaria Elektrosnabdyavane AD – Plovdiv in December 2011.

The average daily turnover on regulated market in 2011 was to the amount of BGN 2.89 million, against BGN 2.73 million in 2010. With greatest weight in the daily trade were the transactions on Unofficial Equity Market – 30.5% of the average daily turnover, Official Equity Market – 24.4%, and bond markets – 17.1%.

The number of the concluded transactions in 2011 was by 0.4% lower, compared to 2010. The volume of lots climbed by 55.5% in 2011, in comparison with the previous year, but that was due to some extent to large single transactions on the rights market during the year.

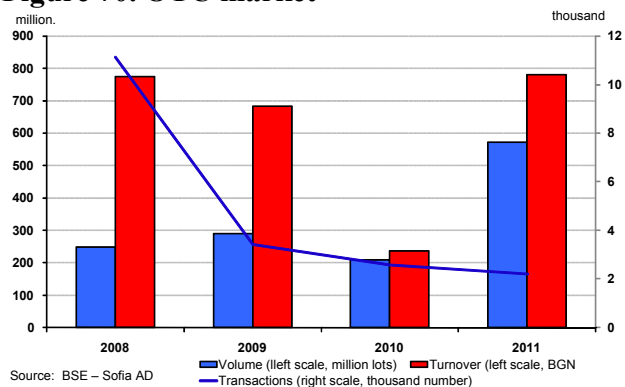
Figure 69. Regulated market



In regard to the turnover on OTC market, a growth by around 229.1% was recorded, compared

to 2010. About 66% of the turnover on OTC market was realized as a result of the transfer of blocks of shares of two companies – Energoni AD –Sofia and Petrol AD - Sofia⁴⁴.

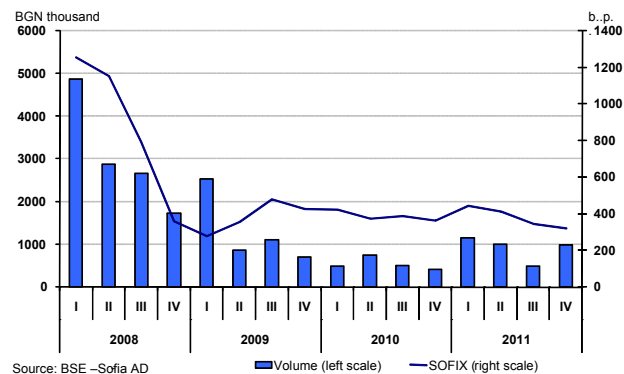
Figure 70. OTC market



In 2011, the major stock exchange measurers in Bulgaria registered falls. As a whole, the drop on the Bulgarian market was limited in comparison with the fall, which was observed on other markets in Central and Southeast Europe in 2011. The major indexes of the equity markets on the Romanian and Polish stock exchanges dropped respectively by 18.3% and by 21.2%. The main problems on the Bulgarian market in 2011 remained the low liquidity, the limited turnovers on all segments and the small number of actively traded securities.

In 2011, the major exchange index SOFIX recorded a decline of 11.1%, reaching at the yearend 322.11 b. p. The highest value during the period was registered on 16.02.2011 with 451.56 b. p., and the lowest - on 13.12.2011 with 301.01 b. p., which was close to the levels reached in the second quarter of 2009.

Figure 71. Market index SOFIX

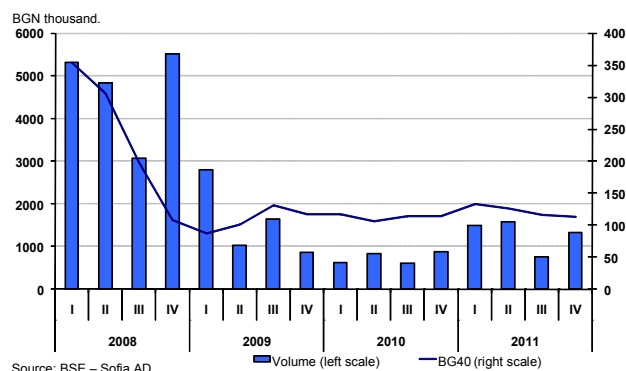


Note: The traded volumes are indicated as average values, the last value for the relevant period being used for the indexes.

In 2011, stock exchange index BG40 recorded a decrease of 0.9%, considerably less in comparison with SOFIX, closing the year at 113.69 b. p. Those were values typical for the period 09.2009 – 08.2010. The highest value during the period was registered on 15.02.2011 at 134.56 b. p., and the lowest – on 06.12.2011 at 104.17 b. p.

Figure 72. Market index BG40

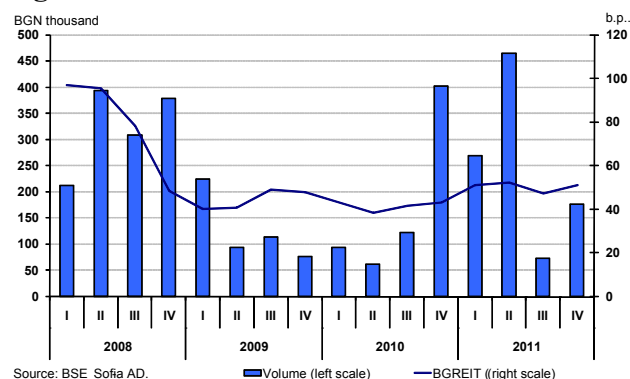
⁴⁴ According to data of X3Analyses, current as of 14.03.2012.



Note: The traded volumes are indicated as average values, the last value for the relevant period being used for the indexes.

BGREIT was the only stock exchange index, which recorded an increase in 2011. It was at the rate of 18.2%, compared to the previous 2010. In the end of 2011 it reached 51.25 b.p. Such values were not observed since the last quarter of 2008. Its highest value during the period was registered on 30.06.2011 at 52.54 b.p., and its lowest – on 04.01.2011 at 42.91 b.p. The largest turnover was registered in the second quarter, when the exceptionally active trade with securities of ELARG Agricultural Land Fund REIT in June formed over 75% of the total turnover for the whole quarter. The top three most traded companies from the index in 2011 formed almost 95% of the turnover for the whole year.

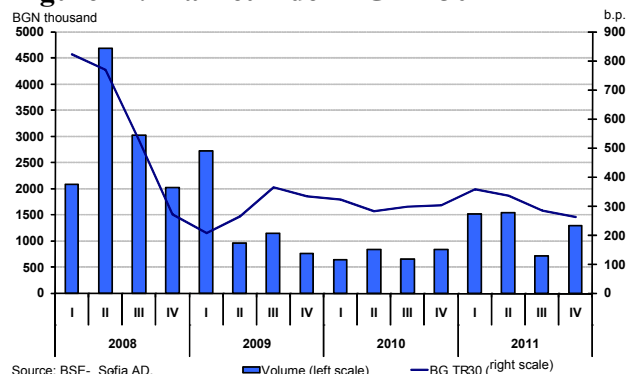
Figure 73. Market index BGREIT



Note: The traded volumes are indicated as average values, the last value for the relevant period being used for the indexes.

In 2011, the stock exchange index BG TR30 recorded a fall of 12.9%, closing the period at 264.5 b. p. Thus it reached the value from the last quarter of 2008 and the second quarter of 2009. The highest value during the period was registered on 16.02.2011 at 365.75 b. p., and the lowest – on 06.12.2011 at 242.97 b. p.

Figure 74. Market index BG TR30



Source: BSE- Sofia AD.

Note: The traded volumes are indicated as average values, the last value for the relevant period being used for the indexes.

On 19.09.2011, at BSE-Sofia AD a new index of the companies with good corporate governance CGIX (Corporate Governance IndeX) was launched. The base value of the new index was set at 100 points. The Index Committee will define once annually the companies, whose shares will form the index. In 2011, it was composed of 7 companies.

From the date of launching to the end of 2011, the index marked a drop of 9.5% to level of 90.25 b.p., which recalculated on annual basis was a drop of 33.6%.

FOCUS TOPIC: Comparative analysis of the development of the Bulgarian stock market with the stock markets in countries from the region and the Euro Area

The stock markets in the Euro Area and in the Balkans⁴⁵ marked new falls in 2011, bigger than those of the previous 2010. In parallel with the descending development of the monitored indexes, the amplitude of fluctuations in the earnings also increased. Similar was the development on the Bulgarian stock market in 2011, too.

The negative *earnings*, which the Bulgarian stock market recorded in 2011, were -18.08%. Of the same order were also the earnings registered by the stock markets in the four Balkan states, included in STOXX Sub Balkan TM, and the stock markets of twelve states from the Euro Area, included in EuroSTOXX.

The levels of market *risk* in 2011 were also similar, measured by the standard deviation of the daily earnings of the surveyed indexes. During the year, an increase in the value of the used indicator was observed on all surveyed markets. The stock markets in the Euro Area were with highest volatility. The stock markets in the reviewed Balkan states registered the lowest values of the indicator in the last two year. The Bulgarian market occupied an intermediate position.

Table 51. Earnings and risk

	Return		Standard deviation	
	2010	2011	2010	2011
STOXX Bulgaria TM	-10.63%	-18.08%	0.85%	1.24%
EuroSTOXX	-0.11%	-17.73%	1.37%	1.69%
STOXX Sub Balkan TMI	-6.08%	-23.40%	0.59%	0.73%

Note : The standard deviation is calculated on the basis of computed daily values of return of the relevant indexes

Source : FSC calculations according to data of www.stoxx.com

⁴⁵ The presented analysis was carried out on the basis of indexes, published by STOXX Limited (www.stoxx.com). The choice of these indexes over the major stock exchange indexes of the separate states was made with the purpose to guarantee methodological comparability of the indicators. In regard to the stock markets in the Euro Area, the index EuroSTOXX was used, which included shares of companies from 12 Euro Area states, i.e. its composition before 01.01.2007. In regard to the stock markets in the Balkan states the index STOXX Sub Balkan TMI was used, which covered shares of companies from Croatia, Macedonia, Serbia and Slovenia. Index STOXX Bulgaria TM was used for the Bulgarian stock market.

Despite of the similarities of the Bulgarian market of equity securities with the stock markets in the surveyed Balkan states and the Euro Area states in relation to the realized earnings and the risk level in 2011, when reviewing the daily dynamics of the stock markets, the situation was different. The dynamics of the earnings on the Bulgarian stock market correlated neither with the stock markets in the Euro Area, nor with the stock markets in the states from the Balkan region. That dependence was stable in time and was characteristic both for the crisis year 2008, and for the post-crisis years. The reasons for that have to be sought in the general fall and calm on the equity markets and in the low general liquidity of the Bulgarian market. It was only in 2011 that an indication appeared for strengthening of the correlation with the stock markets in the reviewed 4 Balkan states, but the values remained insignificant.

Table 52. Coefficient of correlation between the reviewed stock markets

	2008	2009	2010	2011
STOXX Bulgaria TM - EuroSTOXX	-0.0042	0.0258	-0.0499	0.1248
STOXX Bulgaria TM - STOXX Sub Balkan TMI	0.1324	-0.0134	0.0502	0.3407
STOXX Sub Balkan TMI - EuroSTOXX	0.6183	0.4721	0.3109	0.2831

Note : The coefficients of correlations are calculated on the basis of the daily values

Source: FSC calculations according data of www.stoxx.com

It is interesting to note that the coefficients of correlation characterizing the connection between the Balkan states and the states from the Euro Area, in 2008 registered considerable correlation (0.6183), and subsequently invariably decreased and in 2011 a weak correlation was registered between the daily dynamics of the earnings (0.2831). The reason for the enhanced correlation of the Bulgarian stock market with the stock markets in the Euro Area and the stock markets in the Balkan region in 2011 could again be hidden in the registered significant fall as well as in the increased volatility of the financial markets.

2.2.6. Central Depository

In 2011, the total asset value of Central Depository AD amounted to BGN 5.9 million, thus their amount compared to the end of 2010 increased by 4.76%. For 2011, the number of the realized transactions and transfers marked a growth of 4.83% (in total 126 233 transfers/ transactions for 2011, from which the stock-exchange were 110 993). In contrast to 2010, when a considerable decline in the volumes of the transferred financial instruments was registered, in 2011 there was an increase by 80.13% and the executed transfers reached 629 million in number, which was near to the value for 2009. In the transactions and payments with compensatory instruments, a decline by 31.7% was registered to 3 021 transactions.

An opposite dynamics was noticed in the payments by compensatory instruments to government institutions, which marked a growth of 33.4%. In absolute terms, the registered payments went up from 579 in 2011 against 434 in 2010. In the issued duplicates of depository receipts and in the number of transfers from inheritances, there was a significant decline of 31.2% and 39.5% respectively, where 1 982 duplicates of depository receipts were issued and 1 019 transfers made as a result of inheritance procedures in 2011. In the trade with rights a decrease of 57.4% was recorded in the number of transactions, which in 2011 were 499 against 1 172 in 2010. In the number of the transferred rights, however, the situation was the contrary, a surge of over three times was registered, as a result of which in 2011 the transferred rights exceeded 140 million in number.

In comparison with the previous 2010, steadiness was observed in the number of the received applications for registration of new issues of securities and applications for preparation of checkups from the register of the companies that issued dematerialized financial instruments. In 2011, 27 issues of shares, 23

issues of bonds, 2 contractual funds and 21 issues of rights were registered. In regard to 2010, the figures were respectively 27 issues of shares, 13 issues of bonds, 9 contractual funds and 15 issues of rights. A considerable number of applications were received for processing of corporate actions, including registrations of changes in the capital of 112 issues of securities. The number of dividend payments and payments under bond issues in 2011 was 263. The amount of the paid through the system of Central Depository AD dividends for 2011 increased twofold, compared with that in 2010. In 2011, 104 ISIN were assigned, while their number in 2010 was 111.

In 2011, overall 370 entries were made in the register of the registered pledges, by 33% less than in 2010. From them, 66 were entries of registered pledges, 170 distraints and 134 filings of other circumstances. During the reporting period, 15 entries of financial collaterals were made, while their number in 2010 was 9.

2.2.7. Investor Compensation Fund

In 2011, as well as in the preceding years, payment of compensations from the Investor Compensation Fund did not become necessary.

During the year, 4 investment intermediaries returned back their license. Due to admitted administrative violations, FSC withdrew the licenses of one investment intermediary and of one management company. Thus at 31.12.2011 the participants in the Fund were 105, from which 49 investment intermediaries, 23 banks and 33 management companies.

In 2011, the Fund's operations 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.

At 31.12.2011, the Fund's resources amounted to BGN 9.34 million, invested in short-term deposits (11%) and in government securities (89%). The revenues from contributions in 2011 were at the amount of BGN 795 thousand, including BGN 17 500 from initiation fees.

The safety and liquidity of the Fund's resources were priority in taking investment decisions. In 2011, the income from investments was BGN 542 thousand, against BGN 593 thousand in 2010. The lower incomes were owing to the lower levels of the interest rates in 2011, compared to 2010.

In view of the continuing return back of licenses by the intermediaries and the weak trade on the capital market, in the end of 2011 the Management Board of the Fund took a decision to preserve the level of intermediaries' contribution for 2012 at the same rate as in 2011. Thus, in 2012, too, the intermediaries will pay 0.05% on the average monthly amount of the financial instruments subject to compensation, i.e. half of the maximum rate, and 0.5% on the average monthly amount of the cash subject to compensation.

At 31.12.2011, the total amount of the client assets, subject to compensation, was approximately BGN 1,6 billion, and of those not subject to compensation – BGN 12.9 billion. The protected client assets increased year-on-year by 22%, and the unprotected by 17%, the growth being greatest in the investment intermediaries - 43%. The biggest amount of client assets was held by the commercial banks – investment intermediaries - 69% of all client assets.

The total number of the protected clients was 62 399 in the end of 2011 against 60 112 at 31.12.2010. The average monthly amount of the financial instruments in 2011 came to BGN 1.44 billion, against BGN 1.28 billion in 2010, and of the cash - BGN 34.9 million against BGN 35.2 million. Predominant were the intermediaries, which kept client cash to amount less than BGN 100 thousand (52%). The submitted at the Fund information on the client assets, subject to compensation, showed that the Fund's resources would be

sufficient for compensation of the clients of each of the intermediaries, taken separately, with the exception of several, where additional funds could be necessary.⁴⁶

In 2011, the discussion of the EC proposal for amendments to Directive 97/9/EC on investor compensation schemes was not finalized, but a variant of compromise was found in the EU Council, proposed by the Polish Presidency. Deliberation commenced on level of a trialogue among the EC, EP and the EU Council, but until the yearend no progress was achieved.

In 2011, the Fund continued to develop actively its international cooperation with other schemes in the EU. As an associated member of EFDI (European Forum of Deposit Insurers), the Fund hosted a meeting of a working group of the investor compensation schemes in Sofia, held on 22.09.2012. Apart of representatives of European investor compensation schemes, attending were also representatives of the EC and the EP. Mainly issues directed to the EC proposal for amendment of the Directive were discussed, as well as issues relating to the operation of the schemes on national and international scale. On 23 September, a regional meeting took place in the Fund's office of the schemes from Hungary, Romania and Bulgaria.

At the end of the year, in Helsinki one more meeting of the working group to EFDI was held, in which the Fund was also represented. The Chairman of the Management Board participated in the annual meeting of EFDI in Belgrade.

2.3. Insurance and health insurance market

In the end of 2011, the total number of the licensed re/insurers having a legal seat in the Republic of Bulgaria was 35. From them 18 were general insurance companies, 14 – life insurance companies, 2 – mutual life insurance co-operatives and one reinsurer pursuing business of general insurance. The number of the voluntary health insurance companies was 19. Activity of insurance intermediation at the end of 2011 was carried out by 373 brokers and 28 765 agents.

⁴⁶ The data are on the basis of the information on the number of clients, subject to compensation, and the amount of the kept by them client assets as of 31.12.2011.

The gross premium income realized by insurers having a legal seat in the Republic of Bulgaria in 2011, amounted to BGN 1610 million⁴⁷, a decline of 0.8% y/y being recorded. At the end of 2010, the gross premium income amounted to BGN 1623 million, when a higher decline of 3.5% year-on-year was registered. The indicator insurance penetration (gross premium income as a percent of GDP) went down to 2.1% and was the lowest for the last 5 years. By way of comparison, in 2010 when the value of this indicator was 2.3%, Bulgaria ranked among the last five in EU – before Greece, Latvia, Lithuania and Romania. The insurance density (gross premium income per capita of the population) increased to BGN 220 in 2011, from BGN 216 in 2010, when according to this indicator we again ranked in one of the last places among the EU countries (before Romania)⁴⁸.

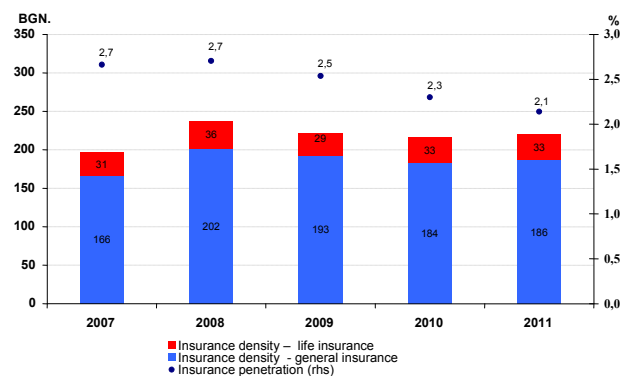
The reported gross premium income of general insurance in 2011 amounted to BGN 1365 million, whereby a fall of 0.9% was realized on a year-on-year basis, against realized fall of 5.6% at the end of 2010. The indicator insurance penetration was calculated at 1.8%, against 2.0% in 2010, and the insurance density – at BGN 186.3 per capita of the population, against BGN 183.5 in 2010.

The gross premium income written by the life insurance companies in 2011 amounted to BGN 245 million, where a drop of 0.5% was marked on annual basis. The insurance penetration declined by 0.02 p. p. and in the end of 2011 reached 0.33%, and the insurance density in life insurance increased to BGN 33.4 per capita of the population, against BGN 32.8 for the previous year.

⁴⁷ The indicated premium income does not include the realized such by GRAWE Bulgaria General Insurance EAD, which merged in the sole owner of its capital Grazer Wechelseitige Versicherung Aktiengesellschaft. With the purpose of comparability of the information, from the data for the preceding years, those of the above stated company were excluded.

⁴⁸ According data of Swiss Re.

Figure 75. Insurance density and insurance penetration



Source: FSC.

The realized premium income by the voluntary health insurance companies in 2011 amounted to BGN 40 million, whereby a fall of 4.2% year-on-year was registered. The indicator health insurance penetration decreased, compared to 2010 and was computed at 0.05%. The health insurance density diminished from BGN 5.62 in 2010 to BGN 5.51 per capita of the population in 2011.

With recorded average annual inflation of 4.2%⁴⁹ in Bulgaria for 2011, the real drop in the gross premium income was calculated at 4.8% on annual basis, in the general insurance the drop being 4.9%, and in life insurance 4.5%, with registered real growth of GDP of 1.7%.

In 2010, the insurance premiums in Europe marked a real growth of 1.8% year-on-year, where for the countries from West Europe a real growth of 1.9% was registered, and from Central and East Europe – a real drop of 0.4%.

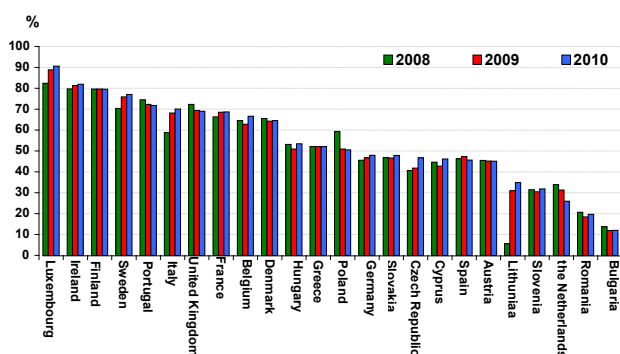
The premium income of life insurance in West Europe for 2010 marked a real growth of 2.8%, against such of 4% registered for 2009, the development of premiums in the various countries being different. The premiums of general insurance in the countries of West Europe for 2010 had a real growth of 0.6%, compared to 0.4% for 2009.

In Central and East Europe in 2010 the premiums of life insurance marked a real growth of 5.7% (2009: a real fall of 19.2%), and of general

⁴⁹ Source: NSI

insurance a real fall on a year-on-year basis of 2.1% (2009: a real fall of 6.9%).

Figure 76. Share of life insurance in the overall insurance business in the EU Member States EC



Source: Swiss Re.

The share of life insurance is one of the indicators reflecting the level of development of the insurance market, as a whole. Life insurance formed 58% of the overall insurance business in the world for 2010.⁵⁰

In Bulgaria the insurance market is dominated by the general (non-life) insurance, whose share in 2011 amounted to 84.8% and remained almost without change, compared to the end of 2010. Bulgaria ranked in the last place among the European countries according the share of life insurance in the total insurance business.

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, 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 activities of supervised by them persons, pursuing business 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 insurers, 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 – 95 in 2010, including insurers having legal seats in the United Kingdom, Romania, Luxembourg, France, Germany, Ireland, Liechtenstein, Italy, Hungary, Belgium, Austria, Czech Republic, Sweden, the Netherlands, Greece and Denmark. The gross premium income realized in 2010 by these insurers under freedom to provide services, amounted to BGN 32 million, including BGN 31.8 million of general insurance and BGN 0.1 million of life insurance.

The insurers, which pursue business in Bulgaria under the right of establishment (through branch), in 2010 realized a gross premium income at the amount of BGN 65 million, including BGN 45 million in general insurance and BGN 20 million in life insurance. According data of the Bulgarian National Bank (BNB), the realized in 2011 gross premium income by the branches of foreign insurers amounted to BGN 97 million, including BGN 65 million in general insurance and BGN 32 million in life insurance.

In 2011, activities under the 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 1.7 million.

⁵⁰Source of information for the development of the insurance market in Europe is Swiss Re.

Table 53. Gross premium income realized by insurers having a seat in Bulgaria and in other EEA member states

	Insurers with a legal seat in the Bulgaria		Branches of Insurers with a legal seat in EEA member states		Insurers with a legal seat in other EEA member states operating in Bulgaria under the freedom to provide services	
	2011	2010	2011 *	2010.**	2011.***	2010.**
General insurance	1 365	1 377	65	45	-	31.8
Life insurance	245	246	32	20	-	0.1
TOTAL:	1 610	1 623	97	65	-	31.9

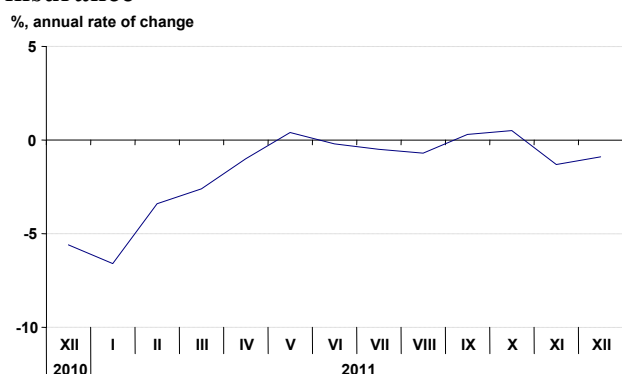
Notes: *According to BNB data. **According to data provided by the competent authorities of the relevant EEA member states. *** Information about the activities of Insurers established in other EEA member states on the territory of the Republic of Bulgaria under the freedom to provide services in 2011 should be presented to FSC By the competent authorities of the countries by the end of 2012.

2.3.1. General insurance

The gross premium income in general insurance at the end of 2011 amounted to BGN 1365 million.

In 2011, a slowdown was registered of the drop in comparison with 2010, and at the end of May, September and October, a growth in the premiums was recorded. Six of the general insurance companies reported a decline on a year-on-year basis in relation to the realized by them premium income.

Figure 77. Gross premium income of general insurance

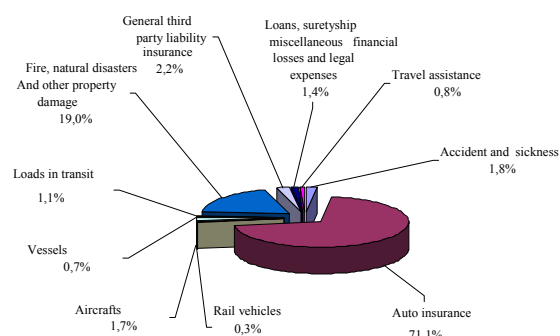


Source: FSC

In 2011, in the portfolio structure of the general insurance companies, a major share of 71.1% was occupied by the motor vehicle insurances, where Third Party Liability insurance

related to the possession and use of motor vehicles accounted for a share of 38.6%, and insurance Land vehicles, excluding railway rolling stock - of 32.5%.

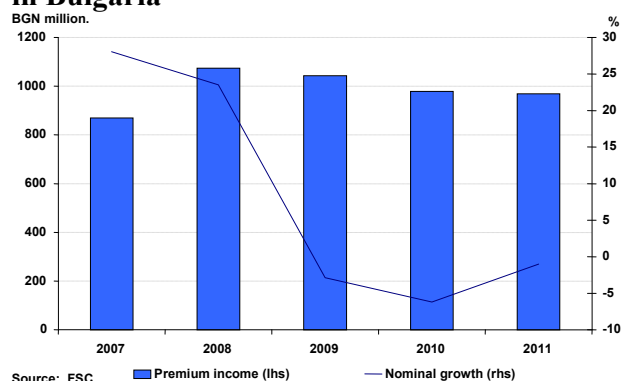
Figure 78. Structure of gross premium income by class of insurance in 2011



The motor insurance was the biggest line of business not only in Bulgaria, but in Europe, too, occupying a share of almost 30%. In 2010, the premium income realized by the European motor insurers climbed by 1.3% y/y and amounted to Euro 125 billion, compared to registered decrease of 1.8% on annual basis in 2009. The growth of the premium income was mainly a result of the rise in price of the motor insurances in consequence of the bad technical results⁵¹. In regard to the realized premium income in motor insurance, for 2011 in Bulgaria a fall of 1.0% year-on-year was observed, against a fall of 6.2% for 2010.

⁵¹ CEA Statistics No 44 European Insurance in Figures.

Figure 79. Premium income in motor insurance in Bulgaria

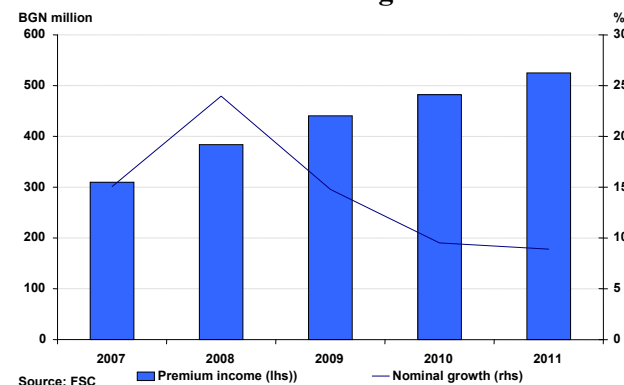


Note: The data include insurances Land vehicles, excluding railway rolling stock and Third Party Liability insurance related to the possession and use of motor vehicles.

The realized premium income from Third Party Liability insurance related to the possession and use of motor vehicle in the past year registered a growth of 8.9% year-on-year and amounted to BGN 525 million. The premium income in Third Party Liability insurance of motorists amounted to BGN 519 million, in Third Party Liability insurance for third countries (Green Card) – to BGN 0.9 million, in Border Third Party Liability insurance of motorists – BGN 3.4 million, and in Third Party Liability insurance of carriers – BGN 2.0 million. The increase of the average premium under the one-year contracts contributed to the higher premium income in Third Party Liability insurance of motorists, where in 2011 it was BGN 215, against BGN 185 in 2010. A trend was observed of increase of the premium in the separate months of 2011, under the concluded one-year contracts in December the average premium reaching BGN 240.

The share of the top four companies in realized highest premium income in Third Party Liability insurance related to the possession and use of motor vehicles was 56.0%.

Figure 80. Premium income of Third Party Liability insurance related to the possession and use of motor vehicles in Bulgaria



For the period January - December 2011, the realized premium income in Land vehicles, excluding railway rolling stock amounted to BGN 443 million, a slowdown being recorded of the fall of 10.8% on a year-on-year basis, compared to a fall of 17.7% in 2010. That slowdown of the fall could be explained with the increased by 17.5% sales of new passenger and cargo motor vehicles in Bulgaria in 2011, according data of the European Automobiles' Manufacturers Association.

At the end of 2011, in Bulgaria the property insurances (Fire and natural disasters and Other property damage) held a share of 19.0% of the gross premium income. The realized premium income from insurances Fire and natural disasters and Other property damages amounted to BGN 259 million, a slowdown of the drop being noted from 1.1% y/y, compared to a drop of 5.9%, registered in 2010.

In 2011, the premium income written in the financial insurances (Credits, Suretyship and Miscellaneous financial loss) amounted to BGN 19 million, a decline of 15.1% year-on-year being recorded, with the same rate of drop in 2010. A fall of the premiums on annual basis was registered in insurances Suretyship of 22.7% (BGN 0.9 million) and Miscellaneous financial loss of 25.5%. (BGN 2.3 million), and in Credits insurance – a growth of 1.7%. At the yearend, the above indicated

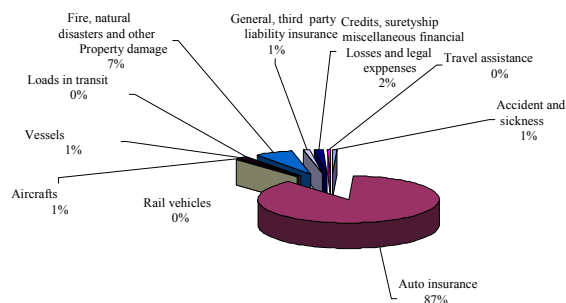
insurances occupied a share of 1.4% in the total premium income in the sector.

The total amount, for which the risks under acting at 31 December 2011 contracts in the three classes of financial insurance were covered, amounted to BGN 1951 million, from which 37.8% (BGN 737 million) - in Credits insurance, 4.2% (BGN 82 million) – in Suretyship insurance, and 58.1% (BGN 1132 million) – in Miscellaneous financial loss insurance. In comparison with the preceding year, the insurance amount decreased by 13.5% (BGN 305 million).

The premiums ceded to reinsurers for 2011 were to the amount of BGN 242 million and represented 18% of the gross premium income realized in the sector. The rate of retention decreased and was computed at 82%, against 83% a year earlier. In the structure of the ceded premiums to reinsurers by classes of insurances, with largest share were insurances Fire and natural disasters (30.0%), Third Party Liability insurance related to the possession and use of motor vehicles (26.0%), Land vehicles, excluding railway rolling stock (11.1%) and Other property damage (9.1%).

The claims incurred in general insurance were at the amount of BGN 697 million, a decline of 7.1% being recorded on annual basis. The amount of the paid compensations in the general insurance sector in 2011 also decreased by 6.6% and amounted to BGN 634 million. In eight of the general insurance companies the increase in the paid compensations on annual basis surpassed the premium income growth. The recovered sums under reinsurance contracts amounted to BGN 84 million, which was 13.2% of the paid in 2011 compensations by the general insurance companies.

Figure 81. Structure of the paid compensations by class of insurances in 2011



In the structure of the paid compensations by class of insurance, the biggest share of 87% 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 disasters and Other property damages), occupying a share of 7%.

The compensations paid in regard to the financial insurances at the end of 2011 were to the amount of BGN 11.8 million, from which BGN 4.7 million on Credit insurances, BGN 0.1 million in Suretyship insurance and BGN 7.0 million on Miscellaneous financial loss insurance. On annual basis an increase of 49.9% 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 2011 was reported in insurance Third Party Liability Insurance related to the possession and use of motor vehicles (with BGN 33 million.) and Aircrafts (with BGN 2 million). In the past year, the increase of the paid compensations on annual basis surpassed the premium income growth in four of the insurances. The gross loss ratio at the yearend declined to 52%, compared to 56% a year earlier.

Table 54. Gross loss ratio

	2010	2011
Accident insurance	25	26
Sickness insurance	52	22
Land vehicles, excluding railway rolling stocks	62	59
Railway rolling stock insurance	2	5
Aircraft insurance	13	14
Vessels insurance	32	36
Loads in transit insurance	49	28
Fire and natural disasters insurance	24	19
Other property damage insurance	47	17
Third Party Liability insurance related to the Possession and use of motor vehicles	68	67
Third Party Liability insurance related to the possession and use of aircrafts	1	7
Third Party Liability insurance related to the possession and use of vessels	-91	32
General Third Party liability insurance	44	35
Credit insurance	154	64
Suretyship insurance	100	81
Miscellaneous financial loss insurance	88	79
Legal expenses insurance	21	-10
Travel assistance insurance	27	29
TOTAL	56	52

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

Source: FSC

The actually incurred expenses by the general insurance companies related to their activities diminished by 6.1% y/y and at the end of 2011 amounted to BGN 522 million, which constituted 38% of the gross premium income realized in the sector. The acquisition costs amounted to BGN 278 million and represented 53.3% of the total actual expenses incurred and 20.4% of the realized gross premium income in 2011. From them BGN 229 thousand (82.2%) were acquisition commissions, BGN 11 million (4.1%) were advertising expenses and BGN 38 million were other direct and indirect acquisition costs. The incurred administrative expenses were to the amount of BGN 166 million, or 31.9% of the totally incurred expenses and 12.2% of the gross premium income.

The claims settlement expenses amounted to BGN 40 million, or 7.6% of the totally incurred expenses. On a year-on-year basis these expenses increased by 40%.

In regard to Third Party Liability insurance of motorists, in 2011 expenses were incurred to the amount of BGN 144 million (including BGN 16 million for claims settlement, BGN 27 million expenses for taxes, fees, etc.). On annual basis a decrease was registered in the amount of the expenses made (by 22.4%), as a result of which the share of expenses in the premium income also went down from 38.8% at the end of 2010 to 27.7% at 31.12.2011. The acquisition and administrative expenses represented 19.3% of the premium income in the type of insurance, the paid acquisition commissions being respectively 11.7% of the premium income, and the administrative expenses – 5.6%.

In regard to insurance Land vehicles, excluding railway rolling stock, in 2011 total actual expenses were incurred to the amount of BGN 222 million (including BGN 18 million claims settlement expenses, BGN 6 million expenses for taxes, fees, etc.) and represented 50.1% of the premium income (at 31.12.2010: 44.6%). On a year-on-year basis climbing of the expenses made was registered with BGN 1 million, despite of the fall in the premium income with BGN 53 million.

The amount of the incurred expenses was more than 45 % of the premium income realized in the relevant class of insurance, in insurance: Railway rolling stock, Loads in transit, Other property damage, Miscellaneous financial loss, legal expenses and Travel assistance.

Table 55. Gross expense ratio

	2010	2011
Accident insurance	47	44
Sickness insurance	42	-59
Land vehicles, excluding railway rolling stock	41	46
Railway rolling stock insurance	36	49
Aircraft insurance	12	13
Vessels insurance	36	38
Loads in transit insurance	48	47
Fire and natural disasters insurance	34	35
Other property damage insurance	45	48
Third Party Liability insurance related to the possession and use of motor vehicles	37	25
Third Party Liability insurance related to the Possession and use of aircrafts	11	12
Third Party Liability insurance related to the possession and use of vessels	31	30
General Third Party Liability insurance	31	34
Credit insurance	28	30
Suretyship insurance	29	29
Miscellaneous financial loss insurance	55	63
Legal expenses insurance	41	66
Travel assistance insurance	63	63
TOTAL	38	35

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

In 2011, the highest gross technical result was computed in insurances Fire and natural disasters (BGN 91.3 million) and Other property damage (BGN 19.7 million). Regarding Third Party Liability insurance related to the possession and use of motor vehicles, the gross technical result during the past year was positive (BGN 25.3 million), against negative one in 2010 (BGN -42.8 million). From sixteen insurers, that offered this class of insurance, seven recorded a negative gross technical result.

A negative gross technical result was reported for insurances: Land vehicles, excluding railway rolling stock, Miscellaneous financial loss and Suretyship.

Table 56. Gross technical result

	2010	2011
Accident insurance	6.76	6.91
Sickness insurance	0.00	0.15
Land vehicles, excluding railway rolling stock	-8.51	-18.28
Railway rolling stock insurance	0.21	0.31
Aircraft insurance	9.20	9.82
Vessels insurance	2.44	2.13
Loads in transit insurance	0.24	3.73
Fire and natural disasters insurance	80.93	91.34
Other property damage insurance	5.17	19.72
Third Party Liability insurance related to the possession and use of motor vehicles	-42.82	25.31
Third Party Liability insurance related to the possession and use of aircrafts	7.21	6.56
Third Party Liability insurance related to the possession and use of vessels	4.11	0.86
General Third Party Liability insurance	7.17	8.39
Credit insurance	-6.96	0.48
Suretyship insurance	-1.08	-0.30
Miscellaneous financial loss insurance	-4.16	-2.70
Legal expenses insurance	0.00	0.00
Travel assistance insurance	0.91	0.56
TOTAL	60.82	155.00

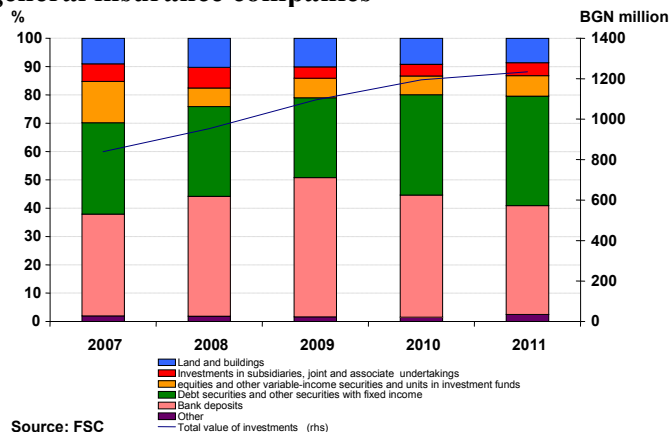
Note: Data is reported in BGN million unless other is quoted.
The values for Gross technical result are obtained on the basis of accounting for the immediate inherent income and expenses by insurance classes, without taking into account other technical expenses and distributed investment income, Reported in the income statements.

Source: FSC

At the end of the period under review, the sum of the assets of the general insurance companies amounted to BGN 1930 million, increasing by 4.0% year-on-year. The value of the investments made by the general insurance companies grew by 3.3% y/y, and at the yearend amounted to BGN 1234 million and occupied a share of 63.9% from the total asset sum. At the yearend, 84.6% of the investments were with location in the Republic of Bulgaria, 14.8% in EU Member States and 0.7% in third countries. In the structure of the companies' aggregated investment portfolio, the biggest share was held by bank deposits (38.4%), followed by government securities (29.3%). In the end of the year, the amount of investments in government securities was BGN 361 million, 77% of that amount being occupied by government securities issued by

the Government of the Republic of Bulgaria, 5.6% by Greece, 4.5% by Poland, 3.6% by Germany and in total 9.7% were those issued by Austria, Slovakia, Slovenia, Hungary, Czech Republic, the Netherlands, France, Romania and Croatia.

Figure 82. Investment portfolio structure of general insurance companies



Source: FSC

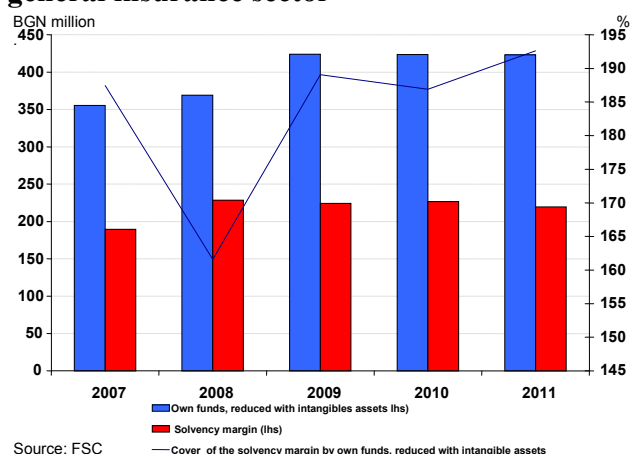
The share of the investments in land and buildings in the aggregate investment portfolio of the general insurance companies in the last year decreased to 8.7%, against a share of 9.3% at the end of 2010. In 2011, the share of investments in subsidiary, joint and associated undertakings, in which the companies had a shareholding, remained almost without any change, compared to the share in 2009 and 2010. The share of investments in equities and other variable-income securities and investment fund's units of the general insurance companies, as well as the share of investments in debt securities and other fixed-income securities increased, while the share of the investments in bank deposits decreased.

The equity of the general insurance companies increased by 3.9%, amounting at the end of 2011 to BGN 539 million. Four of the general insurance companies increased their equity capital in order to cover losses from the previous year.

The solvency margin of the general insurance companies at the end of 2011 reached BGN 220 million, and their guarantee capital amounted to BGN 134 million. The solvency

margin cover picked up by 6 p. p. year-on-year, and in the end of 2011 it was calculated at 192.6%. All eighteen general insurance companies had the required own funds, less the intangible assets, for cover of their solvency margin.

Figure 83. Cover of solvency ratio in the general insurance sector



Source: FSC

At the end of 2011, the amount of the gross technical provisions, set aside by the general insurance companies picked up by 6.0% and reached BGN 1459 million, and the net technical provisions increased to BGN 1170 million.

Greatest share of 58.3% in the gross technical provisions was occupied by the loss reserve, which in the past year grew by 8.0% and came to BGN 850 million. In regard to Third Party Liability insurance related to the possession and use of motor vehicles, the loss reserve set aside at the end of 2011 climbed by 10% and reached BGN 631 million, with premium income growth of in that class of insurance of 8.9%.

The size of the unearned premium reserve at the end of 2011 amounted to BGN 534 million, increasing by 2.9% year-on-year. By classes of insurance, biggest increase in the unearned premium reserve was registered in insurance Third Party Liability insurance related to the possession and use of motor vehicles.

The size of the unexpired risk reserve declined by 68.5% on annual basis and at the end of 2011 amounted to BGN 9 million.

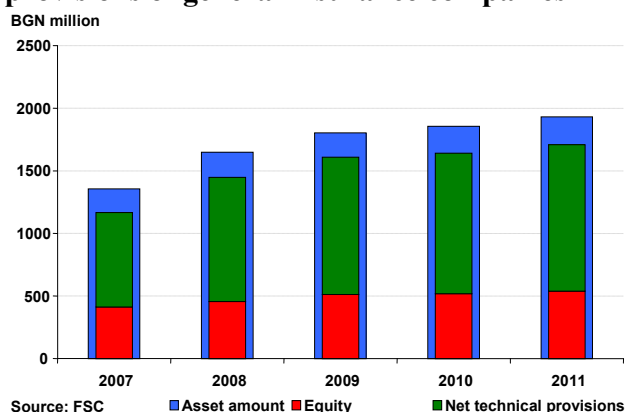
The amount of the Bonus and rebate reserve came to BGN 5 million and remained almost unchanged, compared to the end of 2010.

In the end of 2011, the general (non-life) insurance companies had set aside other reserves to the amount of BGN 59 million, against BGN 34 million in 2010.

The total set aside technical provisions for the three classes of financial insurances increased by 3% on annual basis, amounting at the end of 2011 to BGN 41 million. From them 43% were set aside for Miscellaneous financial loss insurance, 36% for Credits insurance and 22% for Suretyship insurance.

In the past year, the growth trend in the asset amount, equity and the net technical provisions in the general insurance sector continued.

Figure 84. Assets, equity and net technical provisions of general insurance companies



At the end of 2011, the companies in the general insurance sector reported a positive technical result of BGN 23 million, against a negative one in the end of the previous year (BGN -43 million), eight companies closing the period with a negative technical result.

The higher technical result in 2011, compared to the preceding year, contributed to the reported positive net financial result to the amount of BGN 52 million, against a negative value of (BGN -17 million) a year earlier. Five of the general insurance companies closed 2011 at a loss.

As a result of the recorded positive financial result, the rate of return of the assets, calculated as a ratio between the profit (loss) for the financial period and the total sum of the assets, went up from -0.9% in 2010 to 2.7% in 2011. The return on equity, calculated as a ratio between the profit (loss) for the period and the equity, also increased from -3.2% in 2010 to 9.6% in 2011.

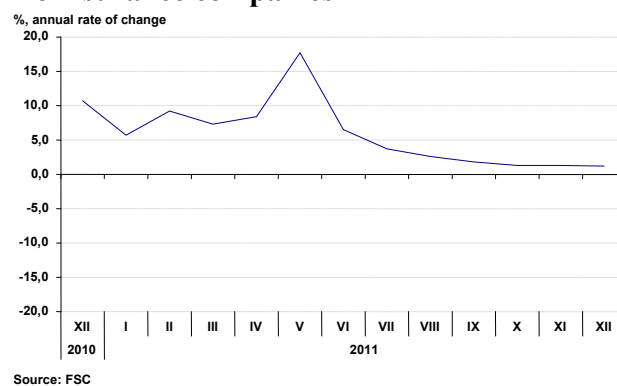
The realized income from investments by the general insurance companies amounted to BGN 82 million and remained almost unchanged in comparison with the income from investments in 2010. The costs of investments surged up, compared to these reported in 2010 and amounted to BGN 31 million, 77% of which were losses from revaluation of the investments value, 16% were the losses from the investment realization and 7% were the costs of the investments management.

2.3.2. Life insurance

The gross premium income written by life insurance companies in 2011 recorded a drop of 0.5% year-on-year and amounted to BGN 245 million, compared to registered growth in 2010 of 10.5% year-on-year.

None of the life insurance companies reported a premium income from pursued insurance business on the territory of other EEA member states under the freedom to provide services during the period under review.

Figure 85. Gross premium income realized by life insurance companies



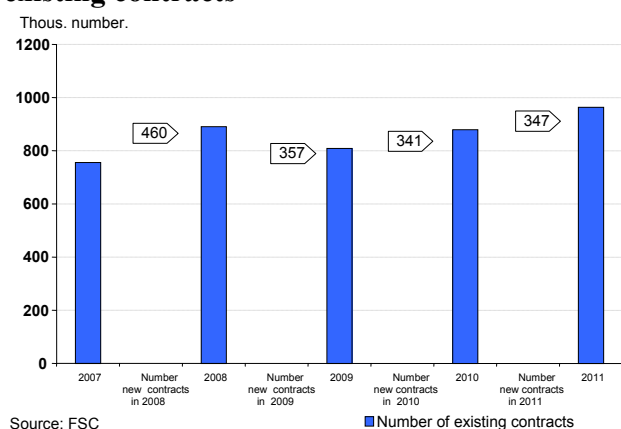
Note: The graph is built up on the basis of growth rate of the gross premium income, reported by class of insurances in the separate months of 2011, and

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 the Unit-linked life insurance and its inclusion in the reserve on that class of insurance.

Unlike in 2010, when the curve, outlining the growth rate of gross premium income by months on annual basis marked an ascending trend, in 2011 the trend was descending. As evident from the graph, the growth rate during the reporting year was positive, being ascending in the first half of the period, and since the beginning of the second half-year – descending.

A drop in the premium income on annual basis at the end of 2011 was reported by seven of the life insurance companies. Their aggregate market share amounted to 32.9%, while at the end of 2010 the market share of life insurance companies with a negative annual growth rate was 26.3%.

Figure 86. Number of newly concluded and existing contracts



In the past 2011, the number of the acting contracts marked again a growth on annual basis and came to 963 thousand, after an increase to 879 thousand in the preceding year. The newly concluded contracts also increased to 347 thousand after a recorded decline in their number in the last two consecutive years. The contracts with expired term and the early terminated in 2011 were considerably less than the newly contracted in the same year, their total number reaching 220 thousand and registering a drop, compared to the

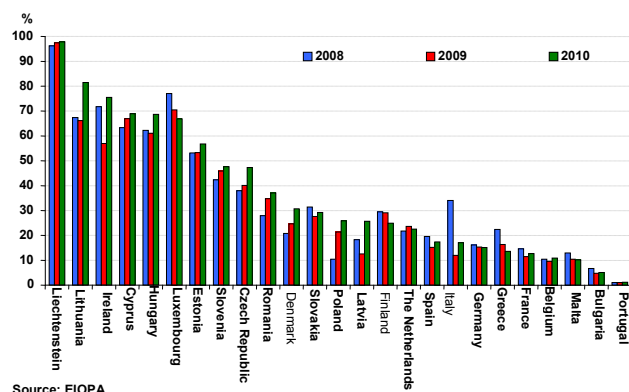
number of the early terminated and the expired in 2010.

The premiums written under the newly concluded in 2011 contracts increased on annual basis and amounted to BGN 116 million, compared to BGN 105 million under contracts concluded in the previous year. Despite of the registered growth, the premiums under the newly concluded contracts had not reached yet the pre-crisis levels.

In regard to the portfolio structure of life insurance companies by classes of insurances, at the end of 2011, a substantial change was not observed in comparison with 2010, and a major share in it continued to be held by the traditional Life insurance (63.9%) and Pension or annuity insurance (10.7%). It should be noted that the main part of the gross premiums from Life insurance (77.5%) were formed from the sale of mixed Life insurance, and the other 22.5% - from the Risk life insurance (with only risk of death covered). Next in relative share came Accident insurance, the gross premiums of which constituted 7.9% of the total premium income of the life insurance companies. In that class of insurance, the biggest drop in the premiums was observed – 13.2 % year-on-year.

After the reported as a result of the financial crisis decrease in the share of Unit-linked life insurance in the total portfolio in the period 2007 – 2009 (10.6% at the end of 2007; 6.6% at the end of 2008; 4.7% at the end of 2009), in 2010 an increase was noted, which continued in 2011 as well and reached 7.8% at the yearend. Nevertheless, Bulgaria ranked in one of the last places among the European states by share of Unit-linked life insurance in the total life insurance market.

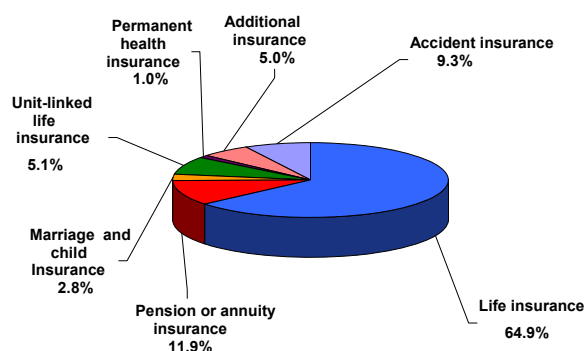
Figure 87. Share of Unit-linked life insurance in the overall direct life insurance business in Europe



From the graph it becomes clear that increase in the share of Unit-linked life insurance in the overall portfolio was also observed in most countries in Europe.

The share of Marriage and child insurance went up considerably from 2.8% at the end of 2010 to 3.0% at the end of the reporting 2011.

Figure 88. Portfolio structure of life insurance companies in 2011



A growth on annual basis in the amount of the premiums was achieved in Unit-linked life insurance, Additional insurance and Marriage and child insurance.

In contrast to 2010, when most substantial growth on annual basis was observed in the

amount of premiums of Risk life insurance, at the end of 2011, in that class of insurance a slowed down growth rate was recorded of 7.1% (or increase with BGN 2.4 million) year-on-year. Surpassing was the increase in Unit-linked life insurance, in which the amount of the premiums written climbed to BGN 19 million at the end of 2011 (a growth of 55% y/y), against BGN 13 million recorded at the end of 2010.

The gross premium income under contracts with a single premium in that class of insurance increased more than twice, compared to 2010, as a result of which its share in the total amount of the premiums written in Unit-linked life insurance went up from 34.2% at the end of 2010 to 60.6% at the end of the past year.

The premiums ceded to reinsurers by the life insurance companies in 2011 amounted to BGN 10 million and represented 4% of the gross premium income in the sector. The share of reinsurance in 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 (44.1%), Additional insurance (30.3%) and Accident (19.4%)

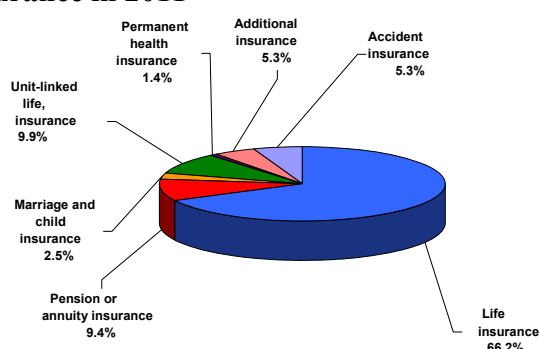
The greatest part of the premium income, in comparison with the other classes of insurances, was ceded in Permanent health insurance – 24.3%, Additional insurance – 20.3%, and Accident insurance – 9.4%. from the gross premium income realized for these classes of insurances.

The paid in 2011 sums and compensations by life insurance companies amounted to BGN 100 million on overall 66 thousand claims, compared to BGN 101 million paid in 2010 on overall 90 thousand claims. The biggest share in them belonged to the paid claims under contracts with expired term or with fallen maturity – 40.6%, followed by the surrenders (in whole or in part) – 30.8%, and the paid claims upon death – 13.5%. The other 15% of the paid sums and compensations were under other claims. Compared to the end of 2010, a drop was registered in the

number of claims (26.8%) and in the amount of the paid during the year sums and compensations (0.4%).

In the total structure of the paid claims, the biggest share was that of Life insurance – 67.7%, within which 83.1% of the payments were on the Mixed life insurance. Next in share came Unit-linked life insurance – 9.2%, Accident – 5.5% and Additional insurance – 4.9%.

Figure 89. Structure of claims paid by class of insurance in 2011



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 2011 came to 14 thousand, against 16 thousand at the end of 2010. The surrenders' total value also increased on annual basis and amounted to BGN 31 million (compared to BGN 25 million in the end of 2010). The surrender values in all three classes of insurances increased, compared to the end of 2010. The increase in Life insurance and annuity amounted to BGN 6 million year-on-year, in Unit-linked life insurance the increase was with BGN 94 thousand and in Marriage and child insurance with BGN 43 thousand.

The recovered sums and compensations under reinsurance contracts amounted to BGN 3 million, which was 2.7% of the claims paid in life insurance during the period.

The expenses incurred by the life insurance companies in connection to the pursuance of their business, edged up by 2.9% on annual basis and at the end of 2011 they amounted totally to

BGN 90 million, which represented 36.8% of the gross premium income realized for the period.

The incurred in 2011 acquisition costs amounted to BGN 44 million, climbing by 11.9% year-on-year. The major part (73.1%) of the total amount of the acquisition costs was formed by the acquisition commissions (amounting to BGN 32 million), which grew y 0.4% y/y. The acquisition costs represented 49% of the totally incurred expenses for the period and of the premium income realized in the sector.

The administrative expenses amounted BGN 41 million and, unlike the acquisition costs, went down by 4.9% on annual basis. They represented 45.7% of the totally incurred expenses by the life insurance companies and 16.3% of the premium income in the sector.

A predominant share of the totally incurred expenses were those related to the activity in Life insurance and annuity – 66.7%, followed by Accident insurance – 18.1%, Additional insurance – 4.9% and Unit-linked life insurance – 4.7%.

The total asset amount in the life insurance sector decreased by 1.4% on annual basis and at the end of 2011 amounted to BGN 1044 million. The value of investments of life insurance companies at the yearend was BGN 892 million, or they represented 85.5% of the total asset amount in the sector, where compared to the end of 2010 a drop in the amount of investments was computed of 2.5%. At the yearend, 70.9% of the investments were with location in the Republic of Bulgaria, 28.6% in EU Member States and 0.5% in third countries.

A major share in the total investment portfolio of the life insurance companies at the end of 2011 was occupied by securities issued and guaranteed by the state (36.9%), investments in equities and units of subsidiary, joint and associated undertakings (15.7%), bank deposits (13.5%) and other debt securities and fixed-income securities (11.7%). At the yearend, 81.4% of the value of investments in government securities (without these in favor of policies of Unit-linked life insurance) were such issued by the Government of the Republic of Bulgaria, 3.5% of

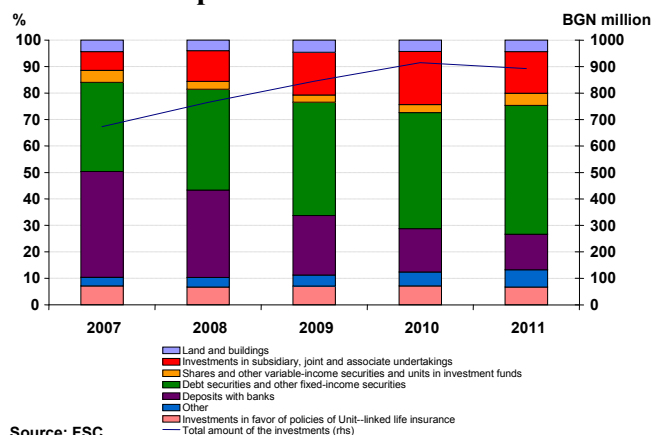
the Netherlands, 2.2% of France, 2.1% of Poland, 1.8% of Italy, 1.7% of Slovenia, 1.6% of Germany, 1.3% each of the Czech Republic and Austria, and the other 3.1% were GS issued by Belgium, Greece, Slovakia, Romania and Croatia.

Greatest growth on annual basis was registered in the value of investments in shares and other variable-income securities and units in investment funds – by 47% (or with BGN 13 million), followed by government securities – by 13% (or with BGN 37 million).

The bank deposits of the life insurance companies fell by 19.5% y/y and at the end of 2011 amounted to BGN 121 million. The value of investments in equities and units in subsidiary, joint and associated undertakings also decreased by 23% (or with BGN 43 million), compared to the previous year.

The value of investments in favor of policies of Unit-linked life insurance diminished by 8.8% (or with BGN 6 million) year-on-year and amounted to BGN 60 million at the end of 2011. These investments constituted 6.7% of the total amount of investments in the life insurance sector.

Figure 90. Investment portfolio structure of life insurance companies

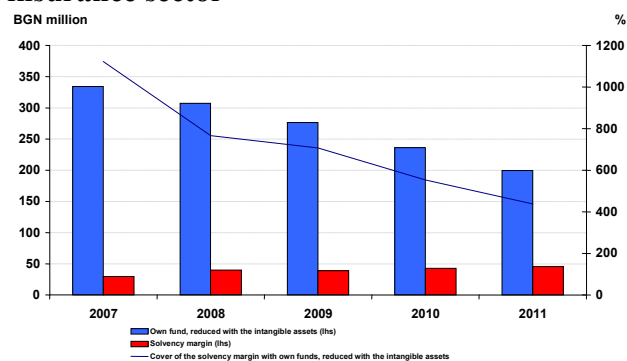


The committed in the life insurance sector equity decreased by 18% on annual basis and at the end of 2011 amounted to BGN 370 million.

The total amount of the own funds in the life insurance sector, reduced with the intangible assets amounted to BGN 199 million, while the

solvency margin to BGN 46 million. The solvency margin cover with own funds, less the intangible assets, at the end of 2011 was calculated at 437%, and all companies had sufficient funds with which to guarantee the fulfillment of their long-term liabilities.

Figure 91. Solvency margin cover in the life insurance sector



The gross technical provisions set aside by the life insurance companies at the end of 2011, picked up by 11% y/y and amounted totally to BGN 639 million.

A major share in the gross amount of the technical provisions of life insurance companies was occupied by the Mathematical reserve and the reserve Capitalized value of pensions, which amounted respectively to BGN 419 million (65.7% of the total amount of reserves) and to BGN 83 million (13.1% of the total amount of reserves).

The increase of the mathematical reserve year-on-year was slowed down in the last years, at the end of 2011 its amount being retained on the level of 2010 (11.4% y/y), which was an increase with BGN 43 million.

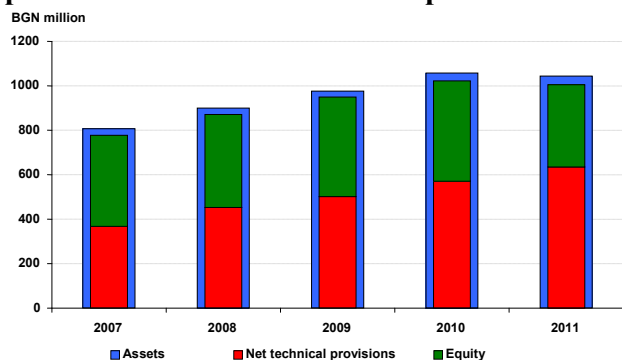
The Capitalized value of pensions increased with BGN 16 million, compared to the end of the previous reporting year, with a positive change of BGN 20 million, calculated in the end of 2010 and BGN 9 million in the end of 2009.

The amount of the set aside at the end of 2011 Unit-linked life insurance climbed by 7% on annual basis (with BGN 4 million) and reached BGN 60 million.

The Reserve for future participation in the income amounted to BGN 5.3 million, climbing by 9.1% on annual basis.

During the past year, the net technical provisions continued to increase, reaching BGN 635 million in the end of a 2011.

Figure 92. Assets, equity and net technical provisions of life insurance companies



Source: FSC.

The technical result achieved by the life insurance companies for 2011 was positive and amounted to BGN 6 million, against a technical result of BGN 15 million reported at the end of 2010. The total net financial result was also positive and amounted to BGN 16 million, against a reported financial result of BGN 23 million in 2010.

The return on assets, calculated as a ratio between the profit (loss) for the respective period and the total asset amount, decreased from 2.1% for 2010 and 2.5 for 2009 to 1.5% for 2011. 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 and 5.0% for 2010, to 4.6% for 2011, but was bigger than the return on equity, calculated at the end of 2008 (1.6 %).

The investment income of the life insurers decreased by 4.9% y/y and at the end of 2011 it amounted totally to BGN 71 million, from which BGN 57 million were in the technical section of the income statement, and BGN 14 million – in the non-technical. The expenditures on investments in the sector amounted to BGN 42 million, picking up

by 35.2% on annual basis. From them BGN 41 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, 36.9%, or BGN 21 million were gains from revaluation of the investments value, and 23.9%, or BGN 14 million were the profits from the investments realization. A decrease was registered both in the gains from revaluation of the investments value by 17.7%, compared to 2010, and in the profits from the realization by 27.8% on annual basis.

The losses from revaluation of the investments value represented 76.4% of the investment expenditures, or BGN 42 million, and the losses from the investments realization were 18.5%, or BGN 8 million. The first picked up by 44.4% year-on-year, and the losses from realization decreased by 21.6%.

2.3.3. Reinsurance

In 2011, business of inward reinsurance was pursued by four general insurance companies, one life insurance company and one reinsurer. The realized by them premium income during the year amounted to BGN 1538 million, from which BGN 21 million were written by the general insurance companies, BGN 2 million by the life insurance company and BGN 1514 million by GP Reinsurance EAD. Year-on-year, an increase was registered in the premiums written in inward reinsurance by 8.4%. A major share in that business was held by Third Party Liability insurance related to the possession and use of motor vehicles (24.3%), followed by insurances Land vehicles, excluding railway rolling stock (20.2%) and Other property damage (20.0%).

The compensations paid to cedents amounted to BGN 786 million, from which BGN 784 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 (29.4%), Third Party Liability insurance related to the possession

and use of motor vehicles (26.7%) and Fire and natural disasters (16.5%).

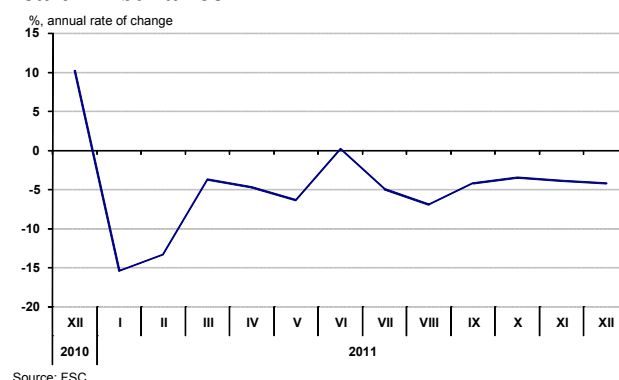
At the end of 2011, the asset amount of GP Reinsurance AD amounted to BGN 1596 million, 89% (BGN 1427 million) from which was the value of investments. In 2011, the company invested predominantly in debt securities and other fixed-income securities, which occupied a share of 62.0% of the company's investment portfolio. The equity of GP Reinsurance EAD at the yearend amounted to BGN 602 million, and the set aside gross technical provisions were BGN 1001 million, from which BGN 982 million constituted loss reserve, and BGN 19 million were unearned premium reserve.

At the yearend, the technical result of GP Reinsurance EAD was BGN 273 million, and the achieved financial result was BGN 274 million.

2.3.4. Voluntary health insurance

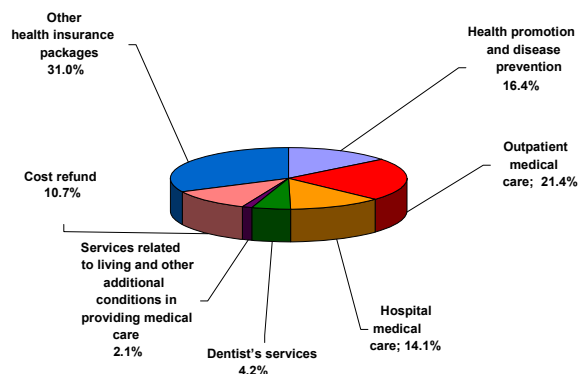
The voluntary health insurance companies realized premium income to the amount of BGN 40 million for 2011, whereby a drop of 4.2% on annual basis was recorded⁵². In contrast to 2010, when a slowdown was registered in the growth rate of the gross premium income, almost in the whole 2011 the growth rate was negative.

Figure 93. Gross premium income of voluntary health insurance



In the structure of the health insurance companies' portfolio, a predominant share of 32% was held by package Other health insurance packages, followed by packages Outpatient medical care with a share of 22% and Health promotion and disease prevention with a share of 15%. A growth in the premium income was observed only in packaged Dentist's services and Cost refund, whose aggregate share came to 16.8%.

Figure 94. Portfolio structure of the health insurance companies at the end of 2011



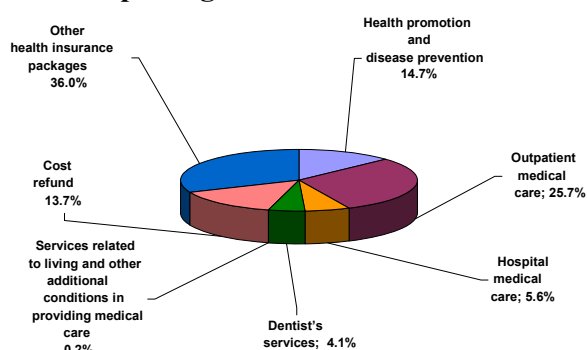
The acting in the end of 2011 contracts for voluntary health insurance were 6445, against 6375 in the end of 2010, the number of the contracts acting at the end of 2009 – 8944 still not having been reached. Despite of the reported increase in the acting contracts, compared to the end of 2010, the number of the health insured

⁵² In the end of November, a request for voluntary termination of the operation of HIC Vseotdainost AD was approved, whereby the license of the company to pursue business of voluntary health insurance was withdrawn. The data stated about the voluntary health insurance market include these of HIC Vseotdainost AD for 2011.

persons under these contracts diminished by 8.7% and at the end of December 2011 reached 189 thousand persons, with 207 thousand health insured persons a year earlier. The above indicated decline was a result of the smaller number of newly concluded contracts for 2011 - 5709, against 6260 in 2010.

The amount of the claims paid by the health insurance companies at the end of 2011 amounted to BGN 24 million, against paid BGN 25 million a year earlier, whereby a 3% decline on annual basis was registered. Compared to the end of 2010, decrease in the paid claims was noted in three of the offered seven health insurance packages, whose aggregate share was 44.5%.

Figure 95. Structure of claims paid by health insurance packages in 2011



In the structure of the paid claims, biggest share was held by package Other health insurance packages (31.4%), after which came packaged Outpatient medical care (30.1%) and Cost refund (14.5%). The loss ratio was retained at the 2010 level and was calculated at 62%.

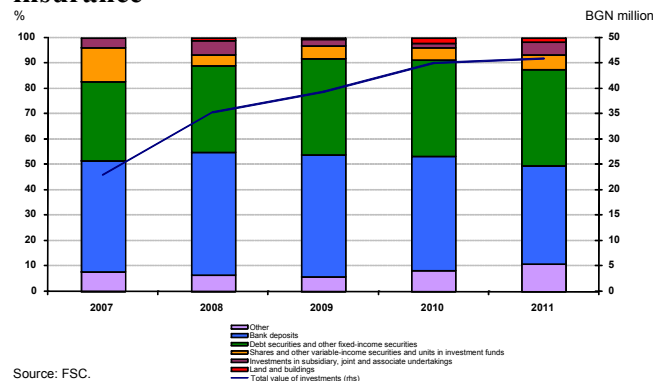
The actually incurred expenses by the health insurance companies amounted to BGN 16 million, whereby a drop of 6% on annual basis was registered. These expenses represented 40% of the reported premium income.

The acquisition costs held a 40.8% share of the totally incurred expenses for the period, and the administrative – 56.9%. The acquisition costs constituted 16.4% of the premium income realized in the sector, and the administrative - respectively

22.8%. Greatest share in the totally incurred expenses was occupied by these incurred on package Other health insurance packages (30.6%), and on Outpatient medical care package (20.7%). Reduction of the expenses, compared to 31.12.2010, was reported in packages Services related to living and other additional conditions in providing medical care (-36%), Hospital medical care (-20%) and Other health insurance packages (-7%). The expense ratio decreased insignificantly in comparison with 2010 and was calculated at 39%. The combined ratio was calculated at 101%.

The total asset amount of the health insurance companies grew by 5.2% on annual basis and at the end of 2011 amounted to BGN 82 million. The total amount of the investments was BGN 46 million and picked up by 1.9% towards the end of 2010, occupying a 55.3% share of the health insurance companies' assets.

Figure 96. Investment portfolio of the health insurance



Source: FSC.

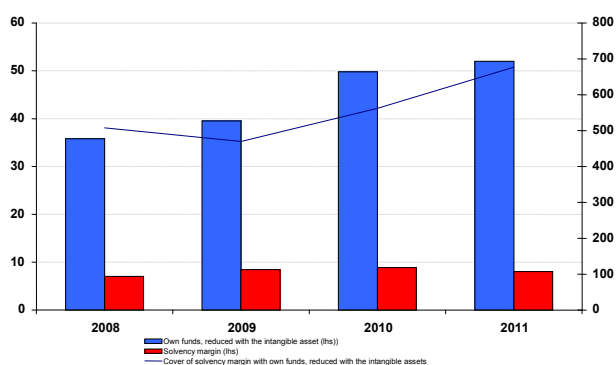
Biggest share in the structure of the aggregated investment portfolio of the health insurance companies was held by bank deposits (38.5%), followed by debt securities and other fixed-income securities (38.1%). In the last five years, a trend was established of increase in the share of debt securities and other fixed-income securities.

The equity of the health insurance companies surged by 6.9% year-on-year and reached BGN 56 million at the end of 2011. The subscribed share capital went up by 0.9% on annual basis, a change being registered in two of

the health insurance companies. By way of comparison, in the end of 2010 a 21.3% growth on annual basis was registered in that indicator, which was due to the increase in the share capital of six of the companies.

In the end of 2011, the solvency margin and the guarantee capital of the nineteen health insurance companies⁵³ amounted respectively to BGN 7.7 million and BGN 7.6 million. The total amount of the on funds of all companies, reduced with the intangible assets, was BGN 52 million and fully covered the solvency margin (677%) and the guarantee capital. All companies had sufficient funds by which to guarantee fulfillment of the commitments undertaken by them.

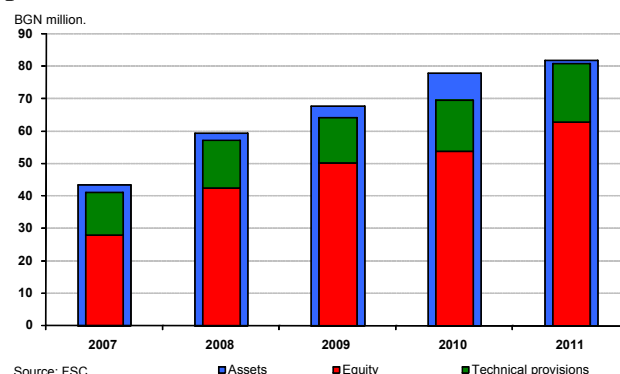
Figure 97. Solvency margin cover



At the end of 2011, the total sum of the health insurance reserves, set aside by the companies pursuing the business of voluntary health insurance, amounted to BGN 16 million, registering a 7.6% increase, compared to the reserves set aside a year earlier. The unearned premium reserve held the biggest share of 66% from the totally set aside reserves. The loss reserve occupied a 22% share.

The technical result in voluntary health insurance for 2011 was negative and amounted to BGN -2 million, against BGN -3 million for 2010.

Figure 98. Assets, equity and technical provisions



The voluntary health insurance companies closed the reporting period at a negative financial result of BGN 512 thousand, against a reported loss of BGN 1.3 million for the previous year.

The return on assets was calculated at -0.6% in 2011 against -1.7% in 2010. The return on equity, respectively, also went down from -2.5% in 2010, it came to -0.9% in 2011.

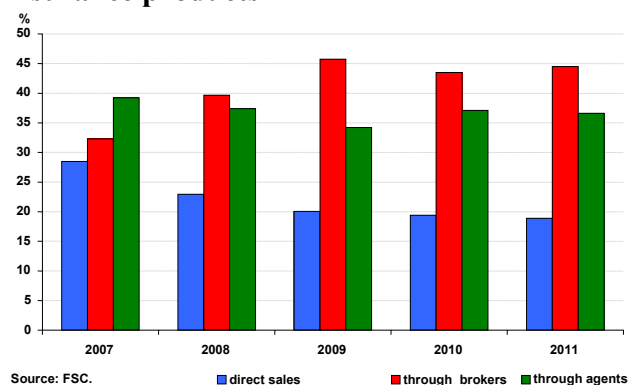
The income from investments of the health insurance companies decreased by 17.1% year-on-year and amounted to BGN 2.7 million, against BGN 3.3 million, reported for 2010. The investment expenses incurred by the voluntary health insurance companies in 2011, amounted to BGN 614 thousand, compared to BGN 526 thousand a year earlier.

2.3.5. Distribution channels

Since 2008 a main distribution channel of the general insurance products have been the insurance brokers. In the last year the share of the direct sales and the share of the sales through agents decreased at the expense of increase of the sales through brokers.

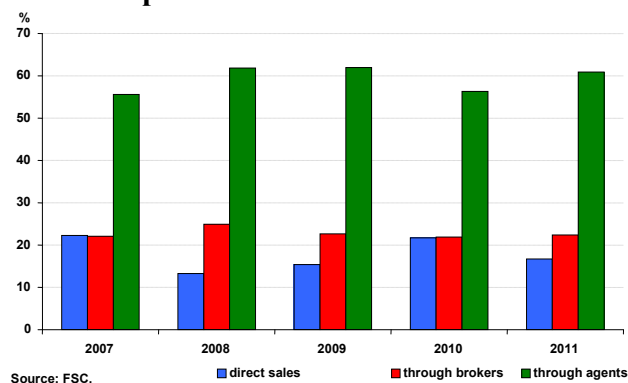
⁵³ HIC Vseotdainost was not included in the made calculations.

Figure 99. Distribution channels of general insurance products



In life insurance, a major channel for distribution of the life insurance products were the insurance agents, which accounted for a 61% share in the structure in 2011, followed by insurance brokers with a 22% share and direct sales with a 17% share. In the last year, reduction was observed in the share of the direct sales at the expense of increase of the share of sales through agents.

Figure 100. Distribution channels of life insurance products



The premium income realized through insurance brokers in 2011 was at the amount of BGN 794 million, from which BGN 713 million were in favor of insurers having a seat in the Republic of Bulgaria, BGN 72 million – in favor of insurers with a seat in another state, and BGN 9 million in favor of voluntary health insurance companies.

In comparison with 2010, the premium income realized through insurance brokers in favor of insurers having a seat in the Republic of Bulgaria, edged up by 1.0%, a 0.5% fall being registered in the general insurance, and in the life insurance – a 23.7% growth.

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 – Third Party Liability insurance related to the possession and use of motor vehicles (42.7%) and Land vehicles, excluding railway rolling stock (38.9%), followed by Fire and natural disasters (8.0%) and Other property damage (3.3%). 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 (88.7%).

In 2011, 41% of the realized premium income through insurance brokers in favor of insurers from other states was for such from France, 27% - for insurers from Cyprus, and 19% - for insurers from the United Kingdom. Largest share in the structure of the premium income realized through the insurance brokers in favor of insurers from other states in 2011 was held by insurances Miscellaneous financial loss (17.0 %), Accident (16.7 %) and Fire and natural disasters (16.4 %).

The revenues from the insurance brokers' commissions were BGN 150 million, from which BGN 139 million – in intermediation for insurers with a seat in Bulgaria, BGN 10 million – in intermediation for insurers from other states, and BGN 1 thousand – in intermediation for the voluntary health insurance companies. In comparison with the previous year, the revenues from commissions in the intermediation for insurers with a seat in the Republic of Bulgaria decreased by 18.0% on a year-on-year basis. The brokers' commissions to the realized through them premium income in favor of insurers with a seat in Bulgaria, were 19.7% in the general insurance and 16.6% in life insurance.

Activity of reinsurance intermediation in 2011 was carried out by four insurance brokers, the ceded premiums by cedents amounting to BGN 3.6 million, and the realized revenue from commissions was at the amount of BGN 193 thousand.

2.3.6. *Guarantee Fund (GF)*

The Guarantee Fund's revenues at the end of 2011, formed by contributions for the compulsory Third Party Liability insurance of motorists and Accident insurance of passengers in public transport vehicles, by fines and pecuniary sanctions, as well as by income from investing the Fund's resources, etc. amounted to BGN 32.0 million, against BGN 28.2 million at the end of the same period of the preceding year. The revenues from contributions held the biggest share in the GF's revenues and were at the amount of BGN 24.6 million, which reflected a 6.3 % growth, compared to the revenues from contributions reported for 2010.

The GF's funds were expended for payment of compensations to affected persons, administrative and other expenses related to its activity. In 2011, the Fund's expenditures amounted to BGN 22.1 million, against BGN 11.2 million in 2010. From them, these for compensations amounted to BGN 13.2 million and marked a 92% growth on annual basis. The Guarantee Fund closed year 2011 at a positive balance of BGN 3.5 million, against BGN 11.4 million reported in 2010.

The GF's resources at 31 December 2011 amounted to BGN 87 million. Reduced with the amount of the loss reserve at the amount of BGN 26 million, they came to BGN 61 million. The amount of the available funds complied with the requirements under Art. 287, para 1 of the IC,

according to 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 to the general investment principles adopted by the Board of the Fund. The total sum of the invested resources amounted to BGN 85 million, of which bank deposits held the biggest share (52.7%), followed by investments in GS (22.3%) and corporate bonds (15.1%).

2.3.7. *Security Fund*

The Security Fund is a separated account, managed by the bodies of the Guarantee Fund. It is financed by annual contributions of the insurers and pays the guaranteed amounts of the insurance receivables under Third Party Liability insurance of motorists and Accident insurance of passengers in public transport vehicles, as well as under the insurances included in the scope of life insurance (Art. 311c of the IC).

The revenues of the Security Fund for 2011 amounted to BGN 6 million, including BGN 4.3 million contributions by general insurance companies, BGN 1 million contributions by life insurance companies and BGN 744 thousand income from invested funds.

In 2011, from the funds of the Security Fund, guaranteed insurance receivables were paid to consumers of insurance services at the total amount of BGN 46 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 2011, the totally available funds amounted to BGN 19.6 million.

2.4. 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 the supplementary pension insurance funds (SPIFs). It provides a possibility to the insured persons (3 992 506 as of the end of 2011) 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/her employers and other social insurance contributors 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, in compliance with quantitative limitations by classes of instruments, with the purpose of realization of income and increase of the fund's assets in a long-term plan.

The trend of increase in 2010 of the SIPFs assets was preserved in 2011 as well, and at the yearend the net assets amounted to BGN 4 573 million.

The future development of the market of supplementary pension insurance in the country depends on the refinement of the legal framework, ensuring greater protection of the insured persons, improvement of the macroeconomic environment and surmounting the negative effects of the reduced economic activity, improvement of the liquidity of our capital market, providing quality instruments for investing, etc.

2.4.1. Pension insurance companies

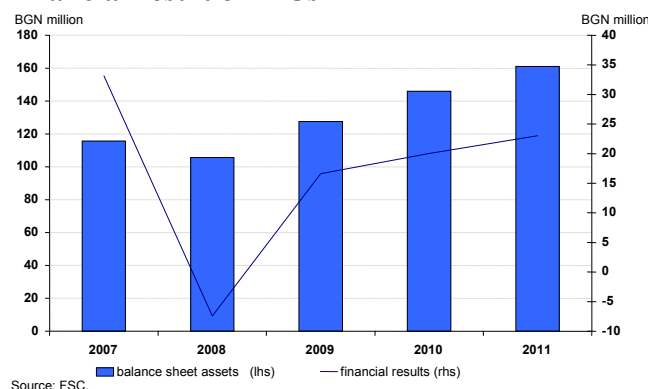
In 2011, there were 9 pension insurance companies pursuing business and the total number of the pension funds managed by them was 29 - 9 universal, 9 occupational, 9 voluntary and 2 voluntary pension funds with occupational schemes, in the one of which there were not yet insuring persons. Shareholders, owning directly more than 90 per cent in the capital of one pension insurance company were present in three of the licensed nine companies.

Four of the operating on the pension insurance market companies were part of international financial groups – ING PIC EAD (ING GROEP N.V.), PIC Allianz Bulgaria PLC (ALLIANZ SE), PIC Doverie PLC (Vienna Insurance Group AG Wiener Versicherung Gruppe) and PIC DSK – Rodina AD (OTP Group)⁵⁴.

After the reported in 2010 growth of the PICs balance sheet assets, their value in 2011 continued the growth trend, reaching

BGN 161 million at the yearend. That was an increase by 10%, compared to the previous year. Similar dynamics was also observed in the PICs total net financial result, which in 2011 was BGN 23 million and grew with BGN 3 million, or by 15%, compared to the total net financial result in 2010.

Figure 101. Balance sheet assets and net financial result of PICs



Traditionally, in 2011 as well, PICs continued to maintain a relatively high level of capital adequacy. The average value of the capital adequacy for 2011 grew by 22.0 p. p. and reached a level of 239.8% at the year end, which

⁵⁴In Annex II.2.4.1A, more information is provided about the shareholding structure of the pension insurance companies as of 31.12.2011.

considerably exceeded the statutorily defined size of not less than 50 per cent of the minimum capital. The indicator, by separate companies, varies between 52.4% and 386.9%, with the exception of one company, the capital adequacy of which was 668.5%. The increase in the value of capital adequacy was as a result of the recorded during the year higher profits by most of the companies, which was due mainly to the revenues from fees and deductions.

The liquid funds of PICs and the managed supplementary pension insurance funds considerably exceeded the statutorily regulated minimum size. The amount of the set aside with PICs funds reserves for guaranteeing the minimum rate of return in the supplementary mandatory pension insurance funds at 31.12.2011 was BGN 42.4 million and 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.

Table 57. Capital adequacy and liquidity of PICs and SPIFs

	2010	2011
Capital adequacy of PIC (%)	217.8	239.8
Liquidity of PIC (coef.)	16.7	51.9
Liquidity of VPF (coef.)	93.5	85.6
Liquidity of VPFOs (coef.)	325.6	46.1
Liquidity of OPP (coef.)	197.3	121.7
Liquidity of UPF (coef.)	184.3	146.9

Note: The indicators were calculated as an arithmetic average of the value of the separate PIC/SPIF.

Source: FSC

The extent of coverage of the registered capital moved within a wide range between 52.6% and 236.9%, except for one PIC, the equity of which covered 386.9% of the registered. The average value of the indicator for 2011 was 150.6%, compared to 140.6% in 2010, i. e. an increase of the extent of coverage of the registered capital by 10,0 p. p. The increase in the value of the indicator was as a result of increase in the reported profits, or decrease in the reported losses

in 2011, compared to the previous year in most of the PICs. In six of the pension insurance companies, a pick-up in the indicator's value was noted, compared to the previous year.

Increase of the return on equity was observed, where the average value of the indicator in 2011 was 11.9%, compared to 11.4% in 2010, i.e. an increase of the return by 0.5 p. p., which was owing to increase of the return of almost all PICs. In 2011, three PICs reported a loss and their return was negative, and the other six PICs reported a profit and respectively, the return on their equity had a positive value. One company increased its return in 2011, but its indicator remained with a negative value as in the preceding year. The range of return on equity by individual PICs was wide, its lowest value being (-13.2%), and the highest was 42.0%.

Table 58. Analysis of PIC equity

	2010	2011
Coverage of registered capital	140.6	150.6
Return on equity	11.4	11.9

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

The indicators were calculated as an arithmetic average of the value of the Separate PIC.

Source: FSC

The extent of asset coverage of the managed SPIFs for most of the companies ranged between 2.7% and 6.6%, with the exception of one company, the assets of which covered 39.1% of the managed funds' assets. The indicator's average value for 2011 went down to 7.9%, compared to 12.5% for 2010, i. e. a decline was registered by 4.6 p. p., which was due to decrease in the value of that indicator in most of the companies, the decline being most substantial in one PIC (by 37.6 p. p.). In seven companies reduction of the indicator's value was observed, compared to the previous year, and only in two companies there was an increase. 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 2011, six companies had positive return on assets, and in the other three the return on assets was negative as a result of the

reported loss at the yearend. The indicator's average value at the end of 2011 was 7.8%, compared to 7.5% for 2010. The observed increase of the return by 0.3 p. p., was due to 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 (-10.1%) and 28.2%.

Table 59. Analysis of PIC assets

	2010	2011
Coverage of assets of SPIFs	12.5	7.9
Return on PIC assets	7.5	7.8
Growth of PIC assets	20.3	8.7

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

The indicators were calculated as an arithmetic average of the value of the separate PIC

Source: FSC.

For the year, six PICs had a positive value of the indicator – growth of PIC assets, and in three companies this value was negative, and that has an effect on the decrease of the indicator's average value, which reached 8.7% in 2011, against 20.3% for 2010. The indicator's value decreased as a result of the slower growth of the PIC assets in 2011, compared to 2010. For the separate companies the indicator of asset growth was in the range between (-6.5%) and 29.7%.

Table 60. Analysis of PIC income and expenses

	2010	2011
Efficiency of PIC activity	118.0	120.8

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

The indicators were calculated as an arithmetic average of the value of the separate PIC.

Source: FSC

Three companies reported a current operating loss in 2011, two of which started their activity later than the other licensed PICs, and one PIC due to invested considerable in amount funds in equity securities. The average value of the indicator for efficiency of the PIC activity in the past year was 120.8%, an increase of 2.8 p. p. being observed over 2010. This dynamics was owing to the enhanced efficiency of the activity in five of the companies, which was as a result of the higher growth rate of the income, compared to the increase of the expenses. The indicator's value varied in the range between 70.5% and 188.6%.

Compared to 2010, the revenues of PICs from fees and deductions per one participant in the pension funds picked up. Their average value for 2011 amounted to BGN 18.3, compared to BGN 17.0 for the preceding year, i.e. an increase in the indicator's value with BGN 1.3. The revenues of the companies from fees and deductions in 2011 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 11.1 and BGN 23.1.

The PICs operating expenses per one participant in the managed pension funds increased with BGN 0.6 in 2011, amounting to BGN 22.5 at the yearend, compared to BGN 21.9 in 2010. In regard to the individual companies, the indicator's value fell in three companies, due to the higher rate of increase of the participants in SPIFs, compared to the change in the PIC expenses, and for the other six companies the indicator increased.

Table 61. Fees, deductions and operating expenses per one participant in SPIFs

	2010	2011
Fees and deductions per insured person in SPIFs	17.0	18.3
Expenses from activity per insured person in SPIFs	21.9	22.5

Note: Data is reported in BGN, unless other is quoted. The indicators were 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 Funds' assets at the end of 2011 were between BGN 1.7 and BGN 2.3, the average value of the indicator amounting to BGN 1.9, compared to BGN 2.0 in 2010. The indicator's values in some of the companies were retained, compared to 2010, and in others they went down due to increase of the SPIFs assets at rate, which surpassed the growth rate of the income from fees and deductions.

The expenses from the activity per BGN 100 of the Fund's assets at the end of 2011 varied between BGN 0.9 and BGN 2.9, with the exception of one company, which reported BGN 7.3 activity expenses per BGN 100 assets of SPIFs. The average value of the indicator marked a reduction by 0.6 p. p., amounting at the end of

2011 to BGN 2.6, against BGN 3.2 at the end of 2010. The indicator's value decreased for six companies, owing to the higher rate of increase of the SPIFs assets, compared to the rate of increase of the PICs expenses.

Table 62. Fees, deductions and expenses per BGN 100 of SPIFs assets

	2010	2011
Fees and deductions per BGN 100 of the SPIFs assets	2.0	1.9
Expenses from activity per BGN 100 of SPIFs assets	3.2	2.6

Note: Data is reported in BGN unless other is quoted. The indicators were calculated as an arithmetic average of the value of the separate SPIFs.

Source: FSC

During the control exercised over the PICs activity in 2011, 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.

Ten 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 insurance in them. Despite 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, that did not led to reduction of the fees for supplementary mandatory pension insurance in 2011, as well.

The price competition between the pension insurance companies existed and intensified only in the sector of the voluntary pension insurance, while 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 funds under the accounts of the insured persons, which is especially important for the first pensioners in 2015.

In 2011, the maximum rate of the fee from each insurance contribution, deducted in SMPIF in favor of the pension insurance companies did not exceed the established in the SIC rate of 5 per cent of the amount, and the investment fee was at the rate of 1 per cent annually on the value of the net assets, according to the period, during which they were managed by PIC.

The fees deducted in the voluntary funds were lower than the statutorily defined maximum rates. In the voluntary pension funds (VPFs), the average of the deductions from the insurance contributions amounted to 3.1%, compared to 3.4% in 2010, and in 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 VPFs in 2011 declined by 0.3 p. p.

Table 63. Investment fee and insurance contribution fee

	2010	2011
Charged investment fee of VPF	7.6	4.0
Charged investment fee of VPF-OS	9.7	0.0
Average insurance contributions fee of VPF	3.4	3.1
Average insurance contributions fee of VPF-OS	4.5	4.5

Note: Data is reported in %, unless other is quoted. The indicators were calculated as an arithmetic average of the value of the separate VPS and VPF-OS.

Source : FSC

The investment fee in VPFs in 2011 amounted to 4.0%, compared to 7.6% in 2010, with a statutorily set fee of up to 10%, the lower rate of the fee being a result of its reduced size in three of the Funds, which was reflected in the Rules of their organization and operation, as well as due to reported negative result from the funds management, where there was no investment fee deducted for the management companies. There was no investment fee charged in VPF with OS, owing to a negative rate of return in the pension fund.

2.4.2. 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. In 2011, the balance sheet assets of SPIFs increased in total by 15.0% year-on-year,

while in 2010 the balance sheet assets of SPIFs assets grew by 25.9%.

The rate of change in the assets was different according to types of funds, the increase in the universal pension funds (UPF) being biggest (21.9%). A smaller growth was noted in the voluntary pension funds, where the increase was by 1.3%. The increase in the assets of the only fund with occupational schemes pursuing business was most significant (36.2%), an influence for which was exerted by the „low base effect”, as it launched its activity in 2008. In the occupational pension funds (OPF), an 8.5% decrease was noted, owing to the transferred BGN 107.7 million of the assets of the OPFs in Pensions Fund of the state social security. The following table compares the growth of the SPIFs assets in 2010 and 2011.

Table 64. Growth of SPIFs assets

	2010	2011
UPF	33.1	21.9
OPF	14.6	-8.5
VPF	6.0	1.3
VPF-OS	66.0	36.2

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

The indicators were 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 shares 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 the biggest market share, occupied 32.7% in regard to the managed balance sheet assets, while the company with smallest market share, occupied 0.3% of the managed balance sheet assets.

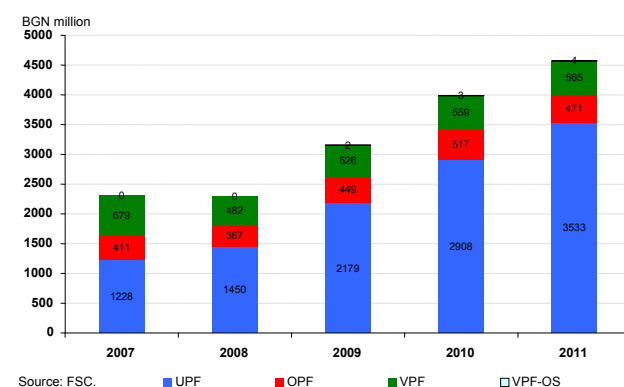
In the past year, the changes in the structure of the balance sheet assets by types of SPIFs continued. As a result of the higher growth rates of the UPFs balance sheet assets, the share of that type of Funds in the total balance sheet assets of SPIFs, compared to 2010, extended by more than 4 p. p., at the expense of the shares of VPFs and OPFs. At the end of 2011, the balance sheet assets of the universal pension funds held greatest share (77.2%), followed by the voluntary (12.4%),

occupational (10.3%) and the voluntary pension fund with occupational schemes (VPF-OS) (0.1%).

At the end of 2011, the net assets of the SPIFs were at the amount of BGN 4 573 million. They show the total amount of the liabilities to the insured persons and represent a key indicator of the state of the supplementary pension insurance system. The accumulated at the end of 2011 net assets were equal to 6.1 per cent of the GDP volume of the country.

The observed trends in the balance sheet assets were also registered in the net assets. In 2011, the net assets of the SPIFs picked up by 14.7% on annual basis, while in 2010 an increase by 26.3% was recorded. The rate of change in the net assets differed by types of funds, being most significant in VPF-OS (35.8%) because of their low absolute value in 2010 (BGN 2.9 million). Following the trend of increase in the SPIFs net assets in 2010, in the past year a growth was again noted, respectively for UPF – by 21.5%, and VPF – by 1.0% net asset growth. Decrease in net assets was observed only in OPFs – by 8.9% for the same reasons as with the balance sheet assets. In terms of structure, the greatest relative share was held by UPFs (77.3%), followed by VPFs (12.4%), OPFs (10.3%) and VPF-OS (0.1%).

Figure 102. Net assets of SPIFs



The average amount of the managed assets per one participant for 2011 in UPFs was BGN 965.0, compared to BGN 810.9 in 2010, in OPFs BGN 1 608.5 for 2011, compared to BGN 1 798.0 in 2010 and in VPFs BGN 922.5 for

2011, compared to BGN 914.0 in 2010. In the UPFs, an increase was noted in the managed assets per one participant, the growth of the balance sheet assets outstripping the growth in the number of participants. In the occupational funds, the indicator's value declined, which was due to decreasing of the Fund assets, compared to the increase in the number of participants. Impact for reduction of the Funds assets was exerted by the transfer made in the first quarter of 2011 to the Pensions Fund of the state social security on the ground of §4a of the Transitional and Final Provisions of the Social Insurance Code. The increase in the number of participants at the end of 2011 was due to the attracting of new insured persons.

In the supplementary pension insurance funds, a rise was observed of the managed assets per one participant, the asset growth being positive, and the growth in the participants being negative. In regard to the only Fund carrying out activity of VPI with OS, the managed assets per one participant climbed from BGN 600.9 in 2010 to BGN 789.1 in 2011. Different fluctuations from the average levels were noted by companies – in UPFs the managed assets per one participant were between BGN 478.1 and BGN 1 276.2, in OPFs – between BGN 483.9 and BGN 2 159.2 and in VPF – between BGN 567.8 and BGN 1 808.2. The average values of the indicator for the individual PICs were in the range between BGN 586.6 and BGN 1 502.5.

Table 65. Managed assets per one participant in SPIFs

	2007	2008	2009	2010	2011
UPF	425.8	463.9	648.8	810.9	965.0
OPF	1677.7	1422.7	1735.6	1798.0	1608.5
VPF	1168.2	740.3	823.5	914.0	922.5
VPF-OS	-	109.4	371.4	600.9	789.1

Note: Data is reported in BGN unless other is quoted. The indicators were calculated as an arithmetic average of the value of the separate SPIFs.

Source: FSC

The gross proceeds from insurance contributions in the SPIFs in 2011 were increased by 4.3%, compared to the proceeds in 2010. The comparison of the growth rate in 2010 towards 2009 (1.4%) showed acceleration of the

accumulation of pension insurance contributions in the SPIFs. The reasons for that tendency were related mainly to the inclusion of newly insured persons in the labor market.

Irrespective of the above stated tendency in 2011, a positive growth was retained only by the gross proceeds from insurance contributions in UPFs, climbing by 6.1%. This type fund, because of its large relative share, had a determining influence for the reported growth in the indicator for pension insurance sector as a whole. In the other three types of funds, the income from insurance contributions during the year diminished, compared to the indicator's value for 2010. The reduction for the OPFs was by 6.9 per cent, for VPFs – 0.4 per cent and for VPF-OS by 1.1 per cent.

The reported fall in the proceeds from insurance contributions for the OPFs was largely owing to the fact that for the period January – June 2011, the contributions due for the persons, under § 4a of TFP of the SIC (subsequently declared anti-constitutional), were transferred from the National Revenue Agency to the Pensions Fund of the state social security.

Table 66. Gross proceeds from insurance contributions

	2007	2008	2009	2010	2011
UOF	410.6	549.8	620.5	639.8	678.7
OPF	64.1	78.5	76.3	74.5	69.4
VPF	154.6	103.6	66.8	60.3	60.1
VPFOS	-	0.5	1.3	1.2	1.2
Total	629.3	732.4	764.9	775.8	809.4

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

Source: FSC

The credited and paid amounts in 2011 decreased by 4.5% 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. Their share for the last five years was on the average 94.6% from all credited and paid amounts in the SPIFs. As a result of that dynamics, the ratio "amounts credited/paid" reached its highest value in 2008 (0.18), while in 2011 (0.07) it remained on the levels of 2010 (0.07) and 2009 (0.08). In the conditions of

developing supplementary pension insurance market in Bulgaria, which was in accumulation phase, the ratio came to 0.09 on the average for the last five years.

Table 67. Amounts credited and paid

	2007	2008	2009	2010	2011
UPF	0.5	0.7	1.1	2.0	3.1
OPF	1.5	1.8	1.9	3.0	3.3
VPF	49.5	126.1	55.6	52.7	48.6
VPFOS	-	-	0.0	0.1	0.1
Total	51.5	128.6	58.6	57.7	55.1

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

Source: FSC

The average value of the indicator for rate of return of the managed assets in 2011 for UPFs was 0.01, against 0.06 in 2010, for OPFs it was 0.01, against 0.06 in 2010, for VPFs it was 0.004 in 2011, against 0.06 in 2010. The indicator's values for the separate PICs in 2011 were in the range between (-0.07) and 0.04, which was conditioned by the achieved multidirectional results of the income from investing of the funds in all SPIFs. For the last five-year period, the assets of the four types of SPIFs were managed most effectively in 2010, while in 2008 the values were with a negative sign, which was a reflection of the financial crisis that caught up the capital markets.

Table 68. Rate of return of the managed assets

	2007	2008	2009	2010	2011
UPF	0.1	-0.2	0.1	0.1	0.01
OPF	0.2	-0.2	0.1	0.1	0.01
VPF	0.2	-0.3	0.1	0.1	0.00
VPF-OS	-	-1.1	0.1	0.1	0.00

Note: Data is reported as coefficients. The indicators were calculated as an arithmetic average of the value of the separate SPIFs.

Source: FSC.

During the past year, the participants in SPIFs continued to increase by 2.8%, even though at slower rates in comparison with 2010, when the growth was by 3.1%. Most significant as an absolute value and as a percent ratio was the increase of the insured persons in the universal pension funds, who were by 3.2% more, compared to the end of 2010. In the occupational funds the number of the insured persons in 2011 went up by 5.6%, the increase being as a result of the attracting of new insured persons. In the third pillar

of the pension insurance system (and in particular in the supplementary pension insurance funds, which are its main part) a decrease of the participants was noted by 0.5%, compared to the end of 2010. The company with the largest market share in regard to the number of insured persons, retained its position with 31.6%, and the company with the smallest market share occupied 0.7% of the market. The trend of gradual decrease in the market share of the biggest companies was preserved.

Table 69. Growth in the number of participants

	2010	2011
UPF	3.8	3.2
OPF	3.2	5.6
VPF	-0.1	-0.5
VPF-OS	2.6	3.8

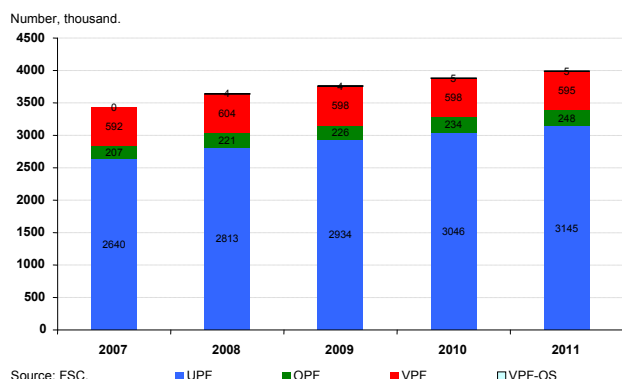
Note: Data is reported in %, unless other is quoted.

The indicators were calculated as a ratio of the change for the year And the initial value at the beginning of the respective year.

Source: FSC

In regard to the structure of distribution of the insured persons among the supplementary pension insurance funds, substantial changes, compared with the previous year, were not observed. The greatest share of the insured persons was concentrated in the universal pension funds (78.8%). At the end of 2011, the persons insured in the voluntary and occupational pension funds held, respectively, a share of 14.9% and 6.2% 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 103. 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 21.5% in 2011 year-on-year and were to the amount of BGN 222.2 million. The transferred amounts in the VPFs remained lowest in absolute value – BGN 5.5 million, registering reduction by 66.3% in comparison with the funds transferred in 2010. In the UPFs, the transferred amounts grew by 35.3%, compared to 2010, and with the OPFs the transferred amounts were by 7.1% more than the previous year.

Table 70. Transferred funds from individual accounts

	2007	2008	2009	2010	2011
UPF	33.6	38.6	66.7	135.7	183.6
OPF	22.1	16.1	20.1	30.9	33.1
VPF	3.1	3.4	1.6	16.3	5.5
Total	58.8	58.1	88.4	182.9	222.2

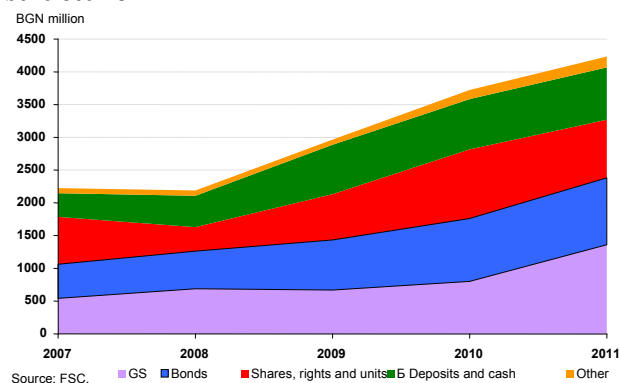
Note: Data is reported in BGN million unless other is quoted.
Source: FSC

The SPIFs investments in 2011 maintained their trend of increase, their growth over the preceding year being 13.7%. The absolute value of the invested funds of the SPIFs at the end of 2011 was BGN 4.2 billion, which represented 92.1% 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 (77.0%), followed by VPFs (12.6%), OPFs (10.3%) and VPF-OS (0.1%).

In the period 2007 - 2011, 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 over 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 and increase of the share of equities, rights and units. In the last year of the reviewed period, enhanced cautiousness was registered on the SPIFs side, which also reflected on the investment portfolios, as follows: the share of GS edged up to 32.1%, equities fell to 21.0%, bank deposits diminished to 18.8%, and the bonds relatively retained their 24.1% share.

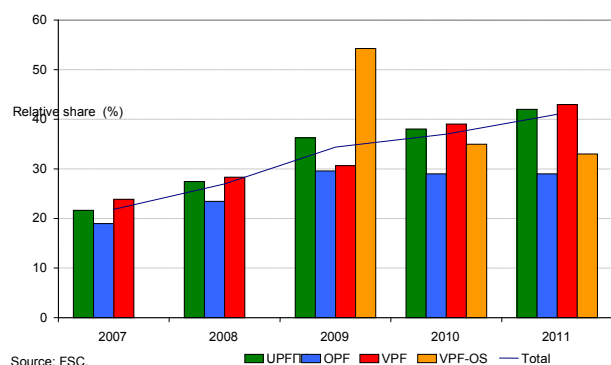
Figure 104. Aggregate investment portfolio structure



Since 2007 the SPIFs investments abroad maintained a trend of continuous increase. That 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 restriction on investing abroad and last but not least, the growth in the pension funds' assets. In 2011, 41.0% of the insured persons' funds were invested outside of the country, to which contributed both the low liquidity of the Bulgarian capital market, and the insufficient

offering of varied and quality instruments on the domestic market.

Figure 105. Investments abroad as a percentage of the SPIFs balance sheet assets



A major objective of the pension insurance funds' assets management 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 SPIFs investments lost a considerable part of their value. In 2009 and 2010 this negative trend was overcome, but in 2011 again a negative weighted average rate of return⁵⁵ was registered from the management of the assets of UPFs (-0.4%) and of VPFs (-0.3%). Although with reported positive rate of return in 2011 in the OPFs (0.5%) and VPF-OS (0.2%), the rate of return of the pension funds remained much lower than that achieved in 2009 and 2010.

Table 71. Weighted average rate of return*

	2007	2008	2009	2010	2011
UPF	15.4	-20.2	7.9	5.0	-0.4
OPF	15.6	-23.1	7.9	5.2	0.5
VPF	16.6	-24.7	7.6	5.5	-0.3
VPFOS	-	-	6.0	4.3	0.2

Note: The data is in %, unless other is quoted.

* Data is weighted by net asset value of each fund

Source: FSC.

⁵⁵ Weighted with the value of the funds' net assets

FOCUS TOPIC: Dynamics of the insured persons in the supplementary pension insurance funds

The total number of the insured persons in the supplementary pension insurance at 31.12.2011 was 3 992 506⁵⁶. Every person, who is insured in a SPIF, has an individual account opened, under which the contributions made in such person's favor are accumulated, as well as the rate of return from the management of his/her funds on the account.

According to the nature of participation of the insured persons in the SPIFs, they are two major groups – supplementary mandatory pension funds and supplementary voluntary pension funds – forming, respectively, the second and third pillar of the pension insurance system in Bulgaria.

At the end of 2011, in the second pillar overall 3 392 141 persons were insured, which represented 74.1% of the persons of active working age in the country in view of the data from the census in February 2011. Therefore, a considerable part of the active population had already been covered by supplementary mandatory pension funds, which accumulated assets, but pensions were not yet paid from them. The two types of supplementary mandatory pension funds – universal and occupational – have their specifics, for which there are differences in the dynamics and the number of persons insured in them.

In the universal pension funds (UPF), where all working people born after 31.12.1959 are insured, 3 144 808 persons had opened individual accounts at the end of 2011. This type of funds has as an objective to ensure a second old age life pension, in addition to the main one, paid by the state social security (SSS). Since the beginning of the insurance in UPFs (2002), the number of the insured persons has been continuously increasing. This is due to the circumstance that every year a new generation joins them, which starts its work activity. The reported for 2011 growth rate, compared to the end of the previous year, was 3.3%. The dynamics of the indicator growth rate of the insured persons on a year-on-year basis, showed a steady slowdown trend of the growth in the number of the insured persons in UPFs, which was related to the already past initial stage of their activity. The growth rate on annual base gradually went down from 9.7% in 2006 to 3.8% in 2010. The dynamics of the insured persons in UPFs in 2011 was a confirmation of the noted trend, an impact on which also exerted by the demographic economic factors, forming the level of employment in the country. Irrespective of the noticed trend of slowdown in the growth rate of the persons insured in UPF, their number will continue to increase, at least to 2023, when the payment of pensions from these funds will begin.

As of 31.12.2011, the number of the insured persons in occupational pension funds (OPFs), where irrespective of their age participate persons, working in heavy and dangerous conditions – the so called first and second category of labor, was 247 333. As the working under these categories have the right to retire earlier, the OPFs role is to ensure a fixed-term pension for early retiring, until reaching the standard age of retiring and receiving a pension from the SSS. The event, which had significant effect on the OPFs activities in 2011, and in particular, on the dynamics of the insured persons, was the termination of the social insurance legal relations of the insured in them women, born in the period 1955 - 1959, and men, born in the period 1952 - 1959, and the transfer of the funds under their individual accounts to Pensions Fund of the SSS on the ground of § 4a of the Transitional and Final Provisions (TFP) of the Social Insurance Code (SIC). The transfer was made due to the decision the pensions for early retirement of these persons to be paid by the state social security. In consequence of the transfer, the number of the insured persons in OPFs was reduced in March 2011 with 45 699 persons. Later, by decision of the Constitutional Court from 31.05.2011, §4a of the TFP of the SIC was declared anti-constitutional and the social insurance relations and the individual accounts of the above indicated persons in the OPFs were reinstated, considered from 18.06.2011. Thus, the number of the persons insured in OPFs was also recovered and together with the newly insured persons in 2011, a positive growth rate was registered of 5.6%, compared to 2010. In this type of funds, the rate of growth of the

⁵⁶ One person may be insured in more than one type of pension fund.

insured persons is conditioned by the circumstance that a limited circle of persons from specific categories are insured in the OPFs. For the period 2006-2010, the indicator varied without manifested trend, but was with positive values. The highest growth rate of 7.6% was recorded in 2007, and lowest – 2.6% in 2009. After the most recent amendments to the SIC, the pensions for early retirement from OPFs will be granted from 2015, which will also have effect on the dynamics of the insured persons in this type of funds.

In the end of 2011, in the third pillar of the pension system 600 365 persons were insured. They constituted 13.1% of the active population. In this pillar, the social insurance is on a voluntary principle and is realized by the participation in a voluntary pension fund (VPF) by personal, of the employer's and of another securer contributions, as well as through participation in a voluntary pension fund with occupational schemes (VPF-OS) on the basis of a collective labor contract or collective agreement between the employees and the employer.

While in the universal and occupational funds the participation is of obligatory nature, the number of the newly insured persons in the voluntary funds is conditioned by the inclination and the possibilities for supplementary pension savings, designated to replace the working income in a future period. This inclination depends on the current income levels, the expectations for the future development of the economy and, last but not least, on the confidence in the pension funds and in their stability. In this relation, one negative trend should be noted, being expressed in reduction, even though insignificant, of the number of insured persons in the VPFs in the past several years. As the legal regulations of the insurance in these funds in Bulgaria allows withdrawal of the accumulated funds from personal contributions at any time, during the crisis 2008, part of the insured in VOFs persons withdrew their pension savings, influenced to a large extent by the realized negative rate of return. In 2011, the persons insured in VPFs decreased with 2 497, or by 0.4%, compared to the end of the previous year.

The first insured persons in VPF-OS became participants in the middle of 2008. Nevertheless that since then their number has increased, at the end of 2011 only 5078 persons were insured in VPF-OS and in this type of SVPIFs still remained unpopular in Bulgaria.

Based on the economic functions of the pension funds from the third pillar, the conclusion can be made that the insurance on a voluntary principle has a wide potential for development, for which is necessary the extension of the financial and social insurance culture of the population and the employers, as well as improvement of the activities and the achieved results of the pension funds.

2.5. Financial glossary

General terms

Volatility – A statistical measure of the dispersion of returns for a given financial instrument or market index. Volatility can be measured by using the calculation of the standard deviation or variance of the return of the relevant financial instrument.

Portfolio diversification – Technique for risk management, which requires the inclusion of a wide range of financial instruments in a common portfolio. Thus, it is expected the realized return to be increased, while assuming smaller risk of each investment within the portfolio.

Yield – An indicator of the income return on invested funds (pension insurance, the rate of return of the pension funds has a direct relation to the accumulation of the funds of the insured persons).

Depth of financial intermediation – Indicator for the development of the separate segments of the financial intermediation, represented as a share of the GDP (in insurance the specific term is insurance penetration).

Requirements to capital adequacy and liquidity – Requirements for the level of capital and cash above the statutorily set minimum thresholds for some financial institutions (for example, investment intermediaries, management companies, pension insurance companies).

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.

Individual investor – The individual investors may be natural and legal persons. What is characteristic of them is that they use their own experience and knowledge, to invest their free funds. The individual investors are among the most

active participants on the capital market and one of the factors for provision of additional liquidity of the traded on the capital market financial instruments.

Institutional investor – Companies, which invest funds on the capital market. They manage comparatively large in size funds of cash and are among the most active investors on the capital markets. Major representatives are the credit institutions, pension insurance companies, insurance companies, collective investment schemes, etc. As a general rule, the institutional investors are strategic investors and have a longer investment horizon than the individual investors.

Integration/globalization of the financial markets – The financial markets are fully integrated when assets with one and the same risk indicators offer one and the same return.

Credit risk – Risk that the counterparty to the transaction can default on its obligations.

Liquidity risk – Risk of lack of sufficiently liquid assets to meet current liabilities.

Liquidity of the financial market – It means that the spread of the executed orders is narrow, the comparatively large orders do not have material impact on the market quotes and there is no substantial gap between the fair for the investors value and the market price.

Macroeconomic risk – Risk related to the economic stability and the growth perspectives of the national economy, which has direct or indirect effect on the formation and change of the market conditions, as well as on the investment climate.

Maturity – Residual term to the due date of a given financial instrument or liability.

Market multiplier - Ratio, which uses as a numerator the price of a company's shares (the company's value), and in the denominator – a specific financial variable. These multipliers are used to make an assessment of the financial situation of the company.

Market risk – Risk of losses as a result of fall in the prices of financial instruments or the interest rate.

Market capitalization – Value of the shares of a public company (market index) at a definite moment. It is calculated by multiplying the number of the outstanding (included) shares by their current market price.

Register of FSC – The Financial Supervision Commission maintains registers about the particulars and the changes therein for a certain circle of persons. The entries in the registers have no other action, except to give publicity to the contained in them information. The Commission keeps registers about: the regulated markets; investment intermediaries; public companies and other securities issuers; investment companies; management companies and the contractual funds managed by them; natural persons who directly, under a contract, provide investment advice and execute transactions in securities; insurers and reinsurers; the health insurance companies; insurance brokers and insurance agents; supplementary social insurance companies and the funds managed by them; the occupational schemes of supplementary pension insurance; the social insurance intermediaries of the supplementary social insurance companies; the persons who have recognized legal capacity of a responsible actuary; the credit rating agencies, registered by the Commission under Regulation 1060/2009.

Risk appetite (Inclination to assume risk) – the risk level, which a person is willing to take.

Spread – The difference between the bid and ask price of a given financial instrument or interest rate levels.

Terms in the field of the investment market

ISIN code – To each issue of financial instruments, registered for trading on a regulated market and providing equal rights to their owners, a unique ISIN is assigned by a central depository institution after the filing of the required for that documents.

Credit rating agency – A legal entity, the activity of which includes the awarding of credit ratings on a professional basis about the creditworthiness of a given person, issuer or a

financial instrument. The credit ratings are awarded by established and defined ranking systems of credit categories.

Depository bank – A legal entity, with which an entry is made of the owned by a collective investment scheme dematerialized financial instruments and where its assets are kept. The depository bank effects all payments for the account of the collective investment scheme.

Securities broker – A natural person, who under a contract with an investment intermediary, directly executes transactions with securities for own account of the investment intermediary, or for the account of its clients, on a regulated securities market or outside of it.

Bulgarian Stock Exchange – A legal entity, performing simultaneously the functions of a stock exchange and a market operator, which administers, runs and organizes the exchange. It is entitled to exercise any of the rights related to the regulated market and possesses the required licenses from the Financial Supervision Commission for the organization of such market.

Fiduciary management – The fiduciary management is one of the forms for investing with the help of professional management. The fiduciary management is carried out in compliance with a contract concluded with the client for the management of a portfolio including financial instruments, at own discretion, without special client's orders. A contract for fiduciary management is signed with a licensed investment intermediary/ management company, in which all details are described. The fiduciary sends on a regular basis a report on the operations executed with the client's assets. The transactions on the regulated market are executed with the payment of commission in favor of the investment intermediary, separately from the fiduciary management fee. In case of realization of loss from the management, the whole loss is for the investor's account. The fiduciary cannot guarantee the preservation of the initially invested sum.

Admission to trading on a regulated market – An issue of financial instruments can be admitted to trading on a regulated market after the

approval of a prospectus by the Financial Supervision Commission, or another competent supervisory authority. The prospectus may be for an initial public offering, when the company acquires publicity for the first time, or through admission to trading on a regulated market of an already existing issue.

Special investment purpose company – A joint-stock company, which invests cash, raised through the issue of securities, in real properties or in receivables. It has to distribute as a dividend not less than 90 per cent of the profit for the financial year, for which it gets preferential tax treatment.

Issuer – A person, which is obligated in regard to the issued by it securities, which can be issued in the conditions of initial public offering or with their admission for trading on a regulated market.

Investor – A person, that for his own account exposes to risk cash or other property rights by means of acquisition, keeping and transfer of financial instruments.

Investment advisor – A natural person, who under a contract with an investment intermediary, management company and/or investment company carries out investment analyses and advice in regard to financial instruments.

Non-trading book – The non-trading book consists of the balance sheet and off-balance sheet positions in financial instruments and commodities, which are not kept with the intention of short-term reselling and/ or with the intention of realizing profit from the difference between their selling and purchase prices in a short-term period, or from some other changes in the price or the interest rate.

Investment intermediary – A legal entity, which as an occupation provides one or more investment services and activities, in compliance with the license issued by the Financial Supervision Commission.

Investment company of closed-end type – Undertaking for collective investment, organized as a joint-stock company, with subject of activity investing in financial instruments and other liquid

financial assets, of cash raised through public offering of shares, which acts on the principle of risk spreading and whose shares are not subject to redemption. The issued by the Financial Supervision Commission licenses to pursue the business of a closed-end investment company are not valid on the territory of states other than the Republic of Bulgaria.

Collective investment scheme (prev. Undertaking for collective investment in transferable securities) – Undertaking for collective investment, organized as an investment company of open-end type, contractual type fund or unit trust, which invests in financial instruments cash, raised through public offering of shares or units, and which acts on the principle of risk spreading. On request of shareholders, or respectively of unitholders, it redeems its shares or units at price, based on its net asset value. The issued by the Financial Supervision Commission license to carry out activity as an open-end investment company, or authorization to organize and manage a contractual fund are valid on the territory of all EU Member States and states-parties to the Agreement on the European Economic Area.

Correlation – Measure of to what extent the values of two financial variables are changing in one and the same direction and degree. The correlation is calculated from -1 (negative dependence) to +1 (positive dependence). If the indicator is 0, that means that no mutual relationship is observed between the two examined variables.

Corporate governance – The corporate governance is part of the modern business practice. It is closely related to the efficient functioning of the capital markets. The good corporate governance means loyal and responsible corporate managements, transparency and independence, as well as responsibility of the company to the public.

Lot – The smallest, indivisible volume of units of a given asset (currency, shares, bonds, etc.), which are subject of trade.

Net asset value – The total amount of all assets in the company's portfolio, reduced with all liabilities.

Servicing company – A legal entity, which carries out, on behalf of a special investment purpose company, the servicing and maintenance of the acquired real properties, the completion of constructions and improvements, respectively the servicing of the acquired receivables, the maintenance and keeping of accounting and other records and correspondence, as well as the performance of other necessary actions.

Market index – A basket of issues of securities, traded on some of the organized markets, which meet the general and specific criteria of the relevant index and ensure accurate reflection of the market movements. It is used for assessment of the market performance or in risk management.

Market segment of the regulated market

– This is a separate element from the regulated market, on which to be admitted to trading the issuer or authorized by it exchange member, respectively the person who requests without the issuer's consent admission to trading, files an application for admission. In regard to the individual segments of the regulated market there are different requirements about the history of the company, free float of financial instruments, concluded transactions, level of financial performance, requirements for good corporate governance and/ or additional circumstances for admission of an issue to trading.

Market abuse with financial instruments

– This is insider dealing and manipulation of the market of financial instruments. Inside information is concrete, non-publicly disclosed information, relating directly or indirectly to one or more issuers or to one or more financial instruments. If publicly disclosed, it may have significant impact on the price of these financial instruments or on the price of related derivative financial instruments. Manipulation of the market of financial instruments is the execution of transactions or giving orders, which provide or may provide false and misleading picture about the demand, offering

or the price of financial instruments; the execution of transactions or giving orders, in which fictitious means or other forms of fraudulent actions are used; as well as the distribution through the mass media, including through internet, or in any whatever other way, information which provides or may provide false or misleading picture about financial instruments.

Public company – A joint-stock company with a seat in the Republic of Bulgaria, which has issued shares in the conditions of initial public offering, has filed issue of shares in the Register of the Financial Supervision Commission with the purpose of trading on a regulated market, or has more than 10 000 shareholders in the last day of two consecutive calendar years. An additional possibility of acquiring a public status is the acquisition or merger with a company, which is already public.

Securitization - Activity, in which real rights (right to ownership and development right) on real properties or rights on cash receivables, including future receivables, are materialized in securities, offered to the public. Thus the special investment purpose companies transform the maturity of the acquired rights to that of the issued securities.

Tender offer – Public proposal, made by the tender offeror for the purchase and/ or replacement of all or a part of the shares with voting right in the General Meeting of a public company. The result of the tender offer or the objective of which is the acquirement of voting shares in the General Meeting of the company – target of the tender offer. The tender offer is made by the tender offeror at its discretion or pursuant to law when there are defined thresholds of the votes held in the company's General Meeting.

Trading book – The trading book consists of all positions in financial instruments and commodities, which the company keeps with the intention of selling or with the purpose of hedging the risk of other elements from it. The trading book does not include instruments and goods, which cannot be hedged, or in regard to trading of which, there are agreed limitations.

Management company – A joint-stock company, which has obtained a license to manage the activity of collective investment schemes. It pursues management of their investments, administration of their units, as well as the provision of marketing services. The management company can also carry out management, in compliance with a contract concluded with the customer, of a portfolio, investment advice about financial instruments, as well as keeping and administration of units of the undertakings for collective investment.

Financial instruments - Securities, which mainly are divided into equity and debt in relation to the rights and obligations, which arise from their holding; instruments, other than securities – money market instruments, units of undertakings for collective investment, as well as financial derivatives.

Investor compensation fund – ensures payment of compensation to the customers of an investment intermediary, when it unable to fulfill its liabilities to the customers, for reasons directly connected with its financial situation. The Fund pays a compensation to individual investors to the amount of 90 per cent of the receivable's value, but not more than BGN 40 000.

Central Depository – A joint-stock company, which executes settlement, managing the so called settlement systems for financial instruments. The conclusion of each transaction with financial instruments, which is executed on the regulated or outside regulated market, is followed by procedures leading to settlement of the transaction, which represents delivery of financial instruments against cash. The Central Depository also provides the initial registration and the central servicing of accounts for financial instruments, recording the number of the financial instruments, issued by every issuer, as well as any change in their holder. The disposal with dematerialized financial instruments is effective from their registration in the Central Depository.

Terms in the field of the insurance market and the market of voluntary health insurance

Acquisition costs - Costs, which arise from the conclusion of insurance contracts. They are direct (for instance, acquisition commissions, costs for opening insurance files or for inclusion of insurance contracts in the portfolio) and indirect (for instance, advertising expenses or administrative costs related to processing of proposals and the issue of policies).

Inward reinsurance – Activity of undertaking, pursuant to a reinsurance contract, of all or part of the risks, covered by an insurer or by another reinsurer, against ceding of insurance premium and the directly related activities.

Gross expense ratio – Ratio of the operating costs to the attracted premiums.

Gross loss ratio – Ratio of the paid compensations to the attracted premiums.

Gross premium income – The price or the value of the purchased insurance cover. It includes the net premium plus the reinsurance premium, operating and other costs, as well as the commission for the insurance agent. It may further include insurance fees, addition for deferred installments and other, depending on the concrete circumstances of the given insurance.

Gross technical result – The result of the overall insurance activity (including reinsurance activity).

Guarantee Fund – A legal entity with a seat in the city of Sofia, which collects the annual contributions by the insurers, pursuing the compulsory Third Party Liability insurance of motorists and/ or the compulsory insurance Accidents of passenger in the Republic of Bulgaria under the conditions of the right of establishment the freedom to provide services, and pays the guaranteed amounts of the insurance receivables. The minimum amount of the available resources at the Fund is BGN 3 million.

Solvency margin – The minimum amount to which should be equal the own funds of an insurer or a reinsurer, less the intangible assets, required to ensure the fulfillment of the contractual

obligations of the person in a long-term plan, in consistence of the total volume of its activity. It must not be a negative value.

Voluntary health insurance – Activity of undertaking risks related to the financial provision for certain health care services and commodities, carried out by licensed under the Health Insurance Act health insurance companies, against payment of health insurance premiums on the basis of health insurance contracts.

Equalization reserve – A type of technical reserve. It is formed for covering of expected unfavorable deviations in the payments of the company in regard to the offered by it insurances or health insurance packages.

Insurance agent – Insurance or reinsurance intermediary (a natural person or a merchant), entered in the Register kept by FSC, who against payment, upon assignment by an insurer, carries out insurance intermediation on its behalf and for its account. An insurance broker may not carry out activity as an insurance agent and vice versa.

Insurance broker – Insurance or reinsurance intermediary (a company or a sole proprietor), entered in a Register kept by FSC, which against payment, upon assignment by a consumer of insurance services, carries out insurance intermediation and on assignment by an insurer or a reinsurer, carries out reinsurance intermediation. An insurance broker may not carry out activity as an insurance agent and vice versa.

Insurance company – A company, which provides cover in the form of compensation, as a result of losses, damages, injury, treatment or difficulties, in exchange of premium payments. The company calculates the risk of occurrence in determining the price of replacement (cover) of the loss, in order to define the insurance premium.

Insurance density – Gross premium income per capita of the population.

Insurance joint-stock company – A joint-stock company, which has obtained a license to pursue insurance under the Insurance Code, which has the right to carry out insurance only in the indicated in the license classes of insurances.

Insurance penetration – Gross premium income as a percent of GDP (analogous to the depth of the financial intermediation).

Health insurance company – A joint-stock company, registered and licensed with subject of activity voluntary health insurance. The health insurance companies can carry out under a contract with foreign insurance and social insurance companies, against payment and without assuming their own financial risk, activities for rendering medical services to insured or socially insured by them foreign citizens on the territory of the Republic of Bulgaria.

Captive reinsurance company – A reinsurance company, controlled by a financial undertaking, which is not an insurer, reinsurer or an insurance or reinsurance group, or by a non-financial undertaking, which has as objective to ensure reinsurance cover only of the risks of the persons, which control it, or of the persons from the group, in which it participates.

Retention ratio – The ratio of the net premium written to the gross premium written.

Combined ratio – The ratio of the total sum of the paid compensations and the expenses for the activity to the premium income.

Mathematical reserve – A type of technical reserve. It is formed for meeting future payments in the insurances under Section I, Item 1 - 5 of Appendix № 1 of the Insurance Code (Life insurance and annuity, Marriage and child insurance, Unit-linked life insurance, Permanent health insurance, Capital buy-out). Represents the sum of the individual reserves, computed separately for each acting insurance contract.

Solvency margin coverage – The ratio of the own funds, less the intangible assets, to the solvency margin.

Unearned premium reserve – A type of technical reserve. It is a sum, representing the part of the gross premiums, which is formed for cover of the claims and the administrative costs, which are expected to arise under the relevant insurance, reinsurance or health insurance contract, after the end of the period of account.

Bonus and rebate reserve – A type of technical reserve. It is formed to meet the obligations for payment of sums, designated for the persons insuring, insured, health insured and to third- parties beneficiaries, in the form of bonuses and rebates, evolving from the risk development.

Reserve for future participation in the income – A type of technical reserve. It is formed for the insurances with savings element under Section I of Appendix № 1 of the insurance Code for cover of the expected future unfavorable deviations in the income from investments – for example, Life insurance and annuity, Marriage and child insurance, etc.

Unexpired risk reserve – A type of technical reserve, characteristic for insurances Accident, Sickness, Land vehicles (excluding railway rolling stock), Railway rolling stock, etc. according to Section II of Appendix № 1 of the Insurance Code. It is formed for covering of risks for the time between the end of the period of account and the date, on which the term of the insurance, reinsurance or health insurance contract expires, in order to cover the payment and expenses related to these risks, which are expected to exceed the formed Unearned premium reserve.

Loss reserve – A type of technical reserve. It is formed for cover of compensations, sums and other payments pursuant to insurance, reinsurance or health insurance contracts, as well as the related expenses concerning claims incurred before the end of the period of account, regardless of whether submitted or not, and which are not paid at the same date. The reserve should account for all known factors and circumstances, which influence the final value of the payments.

Reserve for Unit-linked life insurance – A type of technical reserve. It is formed for cover of the insurer's liabilities under insurance contracts, in which the investment risk is borne by the insured or the third-party beneficiary.

Fund for securing insurance receivables – The Fund guarantees the receivables of the natural persons, non-profit legal entities and the merchants, which represent microundertakings, in case of bankruptcy of an insurer having a legal seat

in Bulgaria. It constitutes a separate account, managed by the bodies of the Guarantee Fund. Through the Fund the insurers' annual contributions are collected and the guaranteed amounts of the insurance receivables are paid. The contributions made by the insurer are not subject to refunding, including upon dissolution of the insurer, except in the cases under Art. 311e, para 4 of the IC – in case of liquidation of the Security Fund, or if otherwise provided in law.

Terms in the field of the social insurance market

Custodian bank – The custodian bank keeps all assets of the SPIFs. The functions of the custodian bank are to keep and record the dematerialized securities on the accounts and the registers, to maintain and keep accounting records and registers, to storage all payment documents, etc. All cash of the Fund are received in the custodian bank.

Biometric mortality table – The biometric mortality tables give an idea about the average lifetime cycle and are applied in the calculation of lifetime pensions and the pension reserves for payment of lifetime pensions.

Second pillar of the pension insurance system in Bulgaria – The second pillar is the supplementary mandatory pension insurance (SMPI). It complements the first pillar of the state social security and is built on a fully funded principle – i.e. the amount of the supplementary pension depends on the accumulated funds under the individual account of the person and the income achieved from investments of the Fund. The second pillar includes participation in universal and/ or occupational pension funds, which are established and managed by licensed pension insurance companies.

Rate of return of managed SPIFs assets - The value of the indicator is calculated as a ratio of the income from SPIFs investments to the SPIFs balance sheet assets in the beginning and in the end of the year.

Voluntary pension fund (VPF) – VPFs are element of the III pillar of the pension insurance system. The participation in them is not mandatory and depends on the will and possibilities of the persons and their employers for the accumulation of supplementary pension savings. The personal contributions at the Funds may be withdrawn, if needed, by the person at any time, and those from an employer – after acquiring right to pension payment.

Voluntary pension fund with occupational schemes (VPFOS) – Contributions in the VPFOS can be made by undertakings-insurance contributors, established according the Bulgarian legislation and of any other EU Member State, or a state – party to the Agreement on the European Economic Area – for the insured by them persons in occupational schemes, as well as the natural persons, insured in occupational schemes. In case of insurance in such Funds, parties to the insurance contracts are the pension insurance company and the undertaking-insurance contributor. Upon the conclusion of the contract, the undertaking-insurance contributor presents to the pension insurance company collective agreement (or collective employment contract) with the conditions of the occupational scheme and the list of the insured persons, included in the scheme.

Activity efficiency – The activity efficiency is a ratio between the revenues and expenses for the PIC activity. The indicators reflects the efficiency from the management of own and attracted funds.

Fund's investment portfolio – An aggregate of the eligible assets, in which SPIFs funds are invested in observance of the principles of reliability, liquidity, profitability and diversification in compliance with the Fund's investment policy.

Investment fee – A fee, deducted by SPIFs in favor of PICs, which for the SMPIFs is at the rate of 1 percent annually on the fund's net asset value for the period, in which they were managed by the pension insurance company, and for the SVPIFs at the rate of 10 percent of the income,

realized from the investment of the of the resources of the relevant fund.

Capital adequacy of PIC – The capital adequacy of PIC is a ratio between the amount of the equity capital (capital base) and the amount of the minimum capital. The minimum amount of the capital of the pension insurance company is BGN 5 million. The pension insurance company must have at any time equity capital (capital base) at amount not less than 50 per cent of the minimum capital (BGN 2,5 million).

Fully funded principle – Model of pension insurance, in which the pension payments for each person are covered by the capitalized amount under such person's individual account in the fund, accumulated from contributions and income from their investment, less the fees and deductions, due under law.

PIC liquidity – A ratio between the amount of the liquid funds and current liabilities of PIC. PIC must have at any time liquid funds at amount not less than the current liabilities of the company.

SPIF liquidity – A ratio between the amount of the liquid funds and the current liabilities of SPIF. SPIF must have at any time liquid funds at amount not less than the current liabilities to the insured persons.

Minimum rate of return – In regard to UPFs and OPFs, it is defined under Art. 193, para 2 and 3 of the SIC. PICs are obligated to achieve minimum rate of return in the management of the assets of these funds. The minimum rate of return is determined by the FSC Deputy Chairman at the end of every quarter on the basis of the achieved income from the management of the assets of all funds of the respective type for the preceding 24-month period. When the achieved rate of return is lower than the minimum, PIC must cover the difference to the minimum rate of return from formed for the purpose reserves.

Insured person – A natural person, in whose name and on whose account insurance contributions have been or are made for a supplementary pension in a supplementary pension insurance fund or in a supplementary voluntary

pension insurance with professional schemes, under conditions and procedure, as laid down in the SIC, the rules of the organization and operation of the fund and the pension insurance contract, collective agreement or collective employment contract.

Account – Everyone insured in SPIF has an individual insurance account. It is maintained in BGN and units. In it, records are kept of the made contributions, transferred amounts and deductions. The income from investment of the fund's resources is accounted for when the value per one unit is defined.

Pension insurance company (PIC) – PICs are licensed by FSC joint-stock companies, which carry out activity of supplementary pension insurance (II and III pillar). Every PIC can manage one each universal pension fund (UPF), occupational pension fund (OPF), voluntary pension fund (VPF) and voluntary pension fund with occupational schemes (VPFOS).

Occupational pension fund (OPF) – All persons working in the conditions of I and II category of labor, regardless of their age, must insure themselves in OPF. The insurance contributions are fully made at the employers' expense, and in 2011 they amounted to 12% of the social security income of those working I category of labor and 7% of the working in the conditions of II category of labor.

First pillar of the pension insurance system in Bulgaria – The first pillar is the state social security (SSS). It is realized by the state on the basis of the principles of fairness and compulsoriness of the insurance and solidarity of the insured persons. It is built on the Pay-as-you-go principle – the contributions of those working are used for payment of the pensions of the pensioners. The insurance in the first pillar entitles to receiving a pension for length of service and old age. The participation in it is by compulsory contributions, the amount of which is defined by the Social Insurance Code (SIC). In 2011, the amount of the contribution is 22.3% of the gross monthly salary for those born before 1960. In regard to the persons, born after 31.12.1959, this

contribution is 17.3%, as they insure themselves in universal funds and for them are allocated 5%. The state social security is carried out by the National Social Security Institute on the basis of compulsory insurance contributions in Pensions Fund.

Expenses for the activity per BGN 100 fund assets – A ratio between expenses for the activity of PIC and the amount of the balance sheet assets of the managed SPIF.

Expenses for the activity of PIC per one participant – The value of the indicator is computed as a ratio between the expenses for the PIC activity and the sum of the number of participants in the managed SPIFs.

Reserve for guaranteeing minimum rate of return – PICs are obligated to achieve minimum rate of return in the management of the SMPIFs. The minimum rate of return for the respective types of pension fund represents 60 percent of the average achieved rate of return, or by 3 percentage points less than the average – whichever of the two numbers is smaller. In order to guarantee the minimum rate of return, reserves are formed in the pension fund (when the achieved rate of return exceeds by a certain percent the average rate of return for the respective type of SMPIF) and in the pension insurance company (formed with PIC own funds to the amount from 1 to 3 per cent of the assets of the relevant SMPIF).

Return on equity – Ratio between the financial result and the equity capital of PIC, expressing the rate of return on the company's equity.

Equity of PIC – The equity capital (capital base) of PIC is formed by the initial capital and the additional capital reserves of the company. The equity capital does not include the pension reserves and the other reserve funds.

Weighted average rate of return from assets management – The average rate of return from the assets management of the pension funds of a given type. The averaging is made by the achieved rate of return of each fund participating proportionately to the fund's net asset value.

Extent of the SPIFs assets cover – The extent of cover of the SPIFs assets is determined as a ratio of the PIC balance sheet assets and the amount of the SPIFs assets and indicates what part of the pension fund's assets is covered by the assets of the pension insurance company.

Extent of cover of the registered capital – The extent of cover of the registered capital is an indicator, which expresses the ratio between the equity capital and the registered capital of PIC.

Value per one unit – Every unit represents a proportionate part of the fund's assets. The value per one unit for a definite day is calculated by dividing the fund's net asset value at the end of the previous working day by the total number of the fund's units at the end of the same day. The value per one day is computed for each working day and is valid only for that day. The income from investment of the fund's resources is included in the determination of the value per one unit.

Fee from insurances contributions – In the SPIFs a fee is deducted, defined as a percent of each insurance contribution in favor of PIC, which for the SMPIFs is up to 5 percent, and for the SVPOFs to up to 7 percent, the concrete rate being specified in the rules of the relevant pension fund.

Fees and deductions per BGN 100 of SPIFs assets, managed by PIC – The value of the indicator is calculated as a ratio between the revenues from fees and deductions and the sum of the balance sheet assets of the managed SPIFs.

Fees and deductions per one participant in the pension funds – The value of the indicator is calculated as a ratio between the revenues of PIC from fees and deductions and the sum of the number of the participants in SPIFs.

Technical interest rate – Technical interest rate is the interest rate, which is applied in the calculation of the amount of the pensions and of the pension reserves.

Third pillar of the pension insurance system in Bulgaria – It is realized by the voluntary pension funds and by the voluntary pension funds with professional schemes, the participation in them depending on the will and the possibilities of the persons and their employers, respectively of the undertaking-insurance contributors, for accumulation of additional pension savings. The third pillar, as well as the second, functions on the fully funded principle, the contributions being accumulated on an individual account of each insured persons.

Universal pension fund (UPF) – All persons born after 31 December 1959 are obligatorily insured in UPF. The obligation of insurance arises when the person begins to work for the first time and within 3 months such person must choose a universal pension fund. The contribution is at the expense of the employer and of the insured person in set by the SIC ratio, and its general rate for 2011 is 5% of the social security income.

Supplementary pension insurance funds (SPIFs) – The SPIFs are independent legal entities, separate of the companies, which manage them, and the contributions of the insured persons are received therein. The funds are of four types: universal, occupational, voluntary and voluntary with occupational schemes.

III. Strategy of the Financial Supervision Commission 2012-2015

I. Mission

The Financial Supervision Commission carries out efficient supervision and regulation over the activities of:

- the regulated securities markets, Central Depository, investment intermediaries, collective investment schemes, closed-end investment companies and management companies, natural persons directly executing transactions in securities and providing investment advice, public companies and other issuers of securities;
- the insurers, reinsurers, insurance brokers and insurance agents and health insurance companies;
- supplementary social insurance companies and the funds managed by them;
- financial conglomerates,

for the purpose of protecting the interests of consumers, the insured and socially insured persons and ensuring stability, predictability, transparency and confidence in the financial markets, including by rules and systems for management of the risks on these markets, as well as ensuring an adequate and sound infrastructure of the financial markets.

II. Priorities

Priority 1. Refinement of the regulations with a view to achieving greater financial stability, transparency, confidence and competitive conditions on the financial markets

The refinement of the regulation on the financial markets by improvement of the legislative framework is an important part of the FSC's activity. The main objective under this priority is the achievement of transparency in the activities of the supervised persons, confidence in the investors and consumers of services and products, offered by the non-banking financial markets, as well as simultaneously providing and ensuring a level playing field for pursuing business and promoting fair competitiveness, harmonization of the Bulgarian legislation and supervisory practices with the European.

The created new European System of Financial Supervisors, including the European Securities and Markets Authority (ESMA), European Insurance and Occupational Pension Authority (EIOPA) and the European Systemic Risk Board (ESRB), the European Banking Authority (EBA) are entrusted with increasing and wider in scope powers in the preparation of the rules and the issuance of guidelines and recommendations. The tendency in the European Union law is the increase in number of the acts of the European law with direct action. These facts give new accent in the activity of the Commission in the further improvement of the regulatory framework. The timely and quality monitoring of the processes of elaboration of new European acts and the conforming of the national norms as early as in the process of adoption of those acts on European level becomes of increasingly greater significance.

The Commission targets at ensuring transparency in the regulatory activity and reaching understanding about the necessity and usefulness of the effected amendments.

In the process of preparation of the statutory acts, the Commission will adhere to the principle of preliminary (ex-ante) assessment of the effect from the implementation of the proposed regulations on all stakeholders. An important point is carrying out a follow-up (ex-post) assessment, which is to establish the achieved effects from the regulation.

Within this first priority the Commission aims to achieve:

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| 1. Introduction in due time of the new European regulatory requirements, good practices and standards for application of the regulations, leading to closer integration of the Bulgarian financial markets with the European |
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The fulfillment of this objective will be achieved by:

- ✓ On-going monitoring of the process of preparation and adoption of acts of the European legislation, as well as active participation in the elaboration of these acts;
- ✓ On-going monitoring of the process of introduction of good practices and standards for the application of the European regulations
- ✓ Monitoring of the new European legislation;
- ✓ Annual planning of the FSC's activity of elaboration of statutory acts;
- ✓ The timely drawing up of drafts of statutory acts, by which the regulations ensuing from the European Union law are implemented.

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| 2. Transparency and open dialogue for the achievement of better regulation of the financial markets |
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The fulfillment of this objective will be achieved by:

- ✓ Preliminary agreeing the ideas for the introduction or realization of important and substantial modifications in the statutory acts, practices and standards of their application with the stakeholders;
- ✓ Organization of meetings with the industry associations, the Members of the Advisory Council with the purpose of discussing the European regulatory requirements and their implementation on the Bulgarian financial markets;
- ✓ Announcement of the adopted legislative program;
- ✓ Preliminary agreement of the forthcoming legislative proposals with the stakeholders;
- ✓ Holding press conferences in connection with the implementation of the new European regulatory requirements;
- ✓ Active dialogue and consultations with the business with reference to potential or existing problems and bad practices.

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| 3. Compliance of the regulations and accounting for the results of the conducted assessment of the legal regulations' impact and the implementation of regulatory requirements leading to stable financial markets and protection of the interests of investors, the insured and socially insured persons |
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The fulfillment of this objective will be achieved by:

- ✓ Conducting assessment of the impact of the acting legal regulations and the practice of their implementation and preparation of proposals with measures for elimination of established weaknesses and omissions;
- ✓ Holding public discussions with the purpose of making assessment of the legal regulations and implementation of the new regulatory requirements.

Priority 2.**Maintaining sound financial markets through risk analysis and assessment and application of risk-oriented approach in the exercising of the supervisory activity**

For the achievement of this provided by law mission, the Commission is entrusted with the function to develop and monitor the application of rules and systems for management of the risks on the financial markets. In its capacity if a unified supervisory authority in the field of the non-banking financial sector, the Commission aims to carry out effective supervision activity by the application of uniform policies and standards.

The maintenance of stable financial markets requires ongoing monitoring and assessment of the major categories of risks, to which the participants in these markets are exposed. In unison with the international and European tendencies for the setting up of early warning systems, the Commission will develop and maintain such system on national level for the non-banking financial sector in Bulgaria. Underlying the risk-based supervisory activity is the risk analysis, which is more accurate and adequate when their interaction is taken into account. The process of risk identification, analysis and assessment, leading to the building of risk profiles of the individual participants in the financial markets underlies the current and dynamic risk-oriented approach in the exercising of efficient supervisory activity.

A major measure for maintaining stability on the financial markets is the implementation of high standards of risk assessment and management by the supervised persons. In this relation, the Commission has the important role of introducing requirements to the participants on the financial markets for prudential risk management and the exercise of supervisory powers over it.

Within this priority the Commission aims to achieve the following objectives:

1. Exercising of efficient supervision by the application of uniform policies and standards

The fulfillment of this objective will be achieved by:

- ✓ Exchange of approaches and practices between the individual Divisions with a view to using a uniform classification for assessment of the risk, typical of all supervised persons;
- ✓ Development and application of single standards for carrying out operating and off-site control and the application of reasoned and adequate supervisory measures;
- ✓ Building up and use of database, containing uniformly defined information for assessment of the common for all supervised persons risks.

2. Identification, analysis and assessment of the risks, to which the participants in the financial markets are exposed

The fulfillment of this objective will be achieved by:

- ✓ Defining the general and specific risks for each type of supervised person, prioritizing the significant risks and development of models and indicators for their measurement;
- ✓ Analysis of the major risks, their interaction and dependence and modeling the effect of the impact of the individual risks;
- ✓ Assessment of the separate risk indicators and determining the risk profile of the supervised persons.

3. Early risk identification and prevention and maintaining financial stability

The fulfillment of this objective will be achieved by:

- ✓ Development of early warning system, which is to allow a regular overview of the major risks on the financial markets, to which the participants on the non-banking financial sector are exposed;
- ✓ Conducting of stress-testing for identification of the weaknesses of the supervised persons, exposed to potential risk.

4. Implementation of high standards for assessment and management of the risks and control over their application by the supervised persons

The fulfillment of this objective will be achieved by:

- ✓ Introduction of legal requirements (in case that there are no such) for the implementation of procedures and rules of risk assessment and management;
- ✓ Implementation of uniform methodology for assessment of the reliability of the system for identification, assessment and management of the risks of the supervised persons;
- ✓ Control over the application by the supervised persons of the rules and procedures for risk assessment and management.

5. Application of functional approach for efficient supervision over the activities of the supervised persons

The fulfillment of this objective will be achieved by:

- ✓ Interaction and cooperation between the specialized structural units, built on functional principle, for the achievement of overall decisions in the exercising of efficient risk-based integrated supervision;
- ✓ Undertaking of coordinated supervisory actions towards the non-banking financial institutions, participating in economic groups.

Priority 3. Development of the Commission as a unified supervisory authority of the financial markets through strengthening the administrative capacity

The strategy of human resources management corresponds to the challenge the structure of the Commission to be successfully reorganized in compliance with the legal amendments to the FSCA from 2012, made by LAS to the Law on Civil Servants, by ensuring the required administrative capacity for achievement of quality administrative service and guaranteeing the institutional prestige and competitive advantages of the organization.

Within this priority, the efforts for improvement of the administrative capacity will continue through enhancing the effective communication in the Commission's Administration, which will lead to lesser need of control. Funds will be appropriated for purposeful development of the corporate culture, exerting effect on the employees' motivation and level of satisfaction.

Within this priority the Commission will seek to achieve the following objectives:

1. Further improvement of the functional model of management in the Commission's Administration

The fulfillment of this objective will be achieved by:

- ✓ Effective model for management – financial control and monitoring of the invested resources and achieved results – analysis of the environment, risk management and assessment, coordination of the activities of the administration, information and communication system, monitoring.

2. Application of effective human resource policy with a view to attracting and retaining of highly qualified and motivated personnel

The fulfillment if this objective will be achieved by:

- ✓ Development of Annual Plan for joint activities with the educational institutions and external structures;
- ✓ Establishing the Financial Supervision Commission as a desired and preferred employer. Allocation of the candidates to appropriate positions;
- ✓ Creation of conditions, climate and structure, ensuring stimulating working environment for professional development;
- ✓ Investing in focused trainings with the purpose of building a highly qualified team.

3. Improvement of the interaction and exchange of information within the institution, including in regard to the activity of the supervised persons

The fulfillment of this objective will be achieved by:

- ✓ Realization of efficient exchange of information between the specialized structural units in regard to supervised persons, segments, and the non-banking financial sector as a whole;
- ✓ Realization of efficient exchange of information between the structural units along the lines of FSC's participation in the EU Authorities and structures in the field of the non-banking financial sector;
- ✓ Improvement of the internal communication through the development of FSC's Internal information web site;
- ✓ Organization of regular meeting with the Advisory Council to the FSC Chairman;
- ✓ Development of internal procedures for information exchange.

4. Improvement of the exchange of information and coordination between the institutions for joint actions in connection with the supervisory activity over the financial markets

The fulfillment of this objective will be achieved by:

- ✓ The establishment of a guest-investigative program with FSC with the purpose of expert and analytical exchange on topics in the field of the non-banking financial sector;
- ✓ Implementation of interactive approaches and communication means, based on internet strategies. Maintaining the created specialized web site, providing continuously updating of information, good practices, events, information and educational materials, etc.;
- ✓ Holding regular meetings with other institutions for common actions in connection with the supervisory activity over the financial markets;
- ✓ Ensuring an additional volume of information for the effective exercising of the FSC functions;
- ✓ Entering into agreements with institutions, which have information of significance for the exercised by FSC supervision.
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Priority 4. Accelerated building and modernization of the information infrastructure for the purposes of the unified supervision

For heightening the efficiency of the exercised supervision over the financial markets, the processes of handling the received in FSC information must be reliable and optimized. The improvement and optimization of the activity for automated collection, storage and provision of data on the activities of the supervised persons is also necessary for the purpose of creating the requisite prerequisites for more effective control over the lawfulness of the activities of the persons from the non-banking financial sector, of making good market analyses, the setting up and ensuring the functioning of an early warning system for the occurrence of unfavorable for the market events, consumer protection, risk assessment.

The improvement of the processes for the collection, storage and provision of data about the activities of the supervised persons will also reflect on the quality of the maintained under Art. 30, para 1 of the FSCA registers, which provide information to the consumers, investors, insured and socially insured persons about the financial state of the persons offering financial products and services, as well as information about the offered by them products and services, in order the consumers and investors to make informed decisions.

The timely, quality and prompt processing of the received data will allow the regular publishing of statistical data about the non-banking financial sector and will assist for the improvement of information sharing with BNB, Ministry of Finance, with the supervisory authorities of the non-banking sector from the other EU Member States, as well as with the European Supervisory Authorities. This process will contribute to the normal functioning of the financial markets, maintaining of the financial integrity, ensuring the confidence of consumers and investors.

The automated processing of the received in the Commission information will facilitate the preparation of good quality regular and target analyses of the financial sector, aiming at preservation of the financial soundness of the system and protection of the financial services consumers. Making analyses and reports on the development of the non-banking financial market, which to give overall and comprehensive overview of the sector as a whole, as well as a more complex assessment of the financial condition and of the risk level of the financial institutions will assist in limiting the risks for the financial integrity of the system and maintenance the confidence of the consumers of services and products.

Within this priority the Commission aims to achieve the following objectives:

1. Building up and commissioning in stages of an efficient integrated information system for the purposes of unified financial supervision and management of the overall work process of the Commission

The fulfillment of this objective will be realized by:

✓ Building up in stages an efficient integrated information system of FSC. Covering with automated processes and control the received information from the supervised persons, feeding and storage of the information in the data warehouse, implementing tools for versatile analysis of the available data, keeping a single register with information about the supervised persons, automatic retrieval of the public information.

2. Increasing the level of the information security and quality of the provided IT services in the Commission

The fulfillment of this objective will be achieved by:

✓ Renovation of the server, disk and archiving devices with a view to the requirements of the built centralized information system;

- ✓ Replacement and implementation of new effective means for communication, protection, control and monitoring of the network and the network services;
- ✓ Building up of a backup computer center.

3. Application of the principles of the electronic management, improvement of the administrative servicing and focusing on the needs of the supervised persons and consumers of financial services and products

The fulfillment of this objective will be achieved by:

- ✓ Re-engineering of the work processes in the FSC, preparation of internal rules and documents, entry of the identified entities and services in the registers for electronic management and working out of relevant technological decisions;
- ✓ In consistence with the development of electronic governance in the country, integration to the uniform environment for exchange of electronic documents;
- ✓ Provision of the electronic administrative services by accessible interface through the Commission's web site;
- ✓ Integration of the electronic administrative services with the single portal for access to electronic administrative services;
- ✓ Daily updating of the information on the FSC's activity in the web site of the institution.

4. Enhancement of the cooperation and interaction with the European supervisory authorities in the field of electronic exchange of information

The fulfillment of this objective will be achieved by:

- ✓ Active participation in the working bodies of the European Supervisory Authorities in respect to decision-making on electronic exchange of information, specifying the technical requirements and the required tools for that.

Priority 5. Ensuring better protection of the consumers of financial services and products, by timely information, transparency and confidence in the Commission's activity and increasing their financial literacy

Through the legal framework and supervisory activities, FSC targets at ensuring equitable treatment of investors and consumers on the financial markets, the provision of sufficient information necessary for taking informed decisions in the investment and purchase of products and services, offered by the non-banking financial sector.

The analysis of the accumulated information about the complaints and inquiries, received in FSC will allow an assessment to be made of the risks for the investors and consumers of products and services in the financial markets, arising from the market behavior of the supervised persons, it will also allow the preparation of recommendations for amendment and supplement to the statutory acts, regulating the activities of the respective supervised by FSC persons, as well as improvement of the applied supervisory practices by the regulator. The focusing of the supervisory activities of FSC on the market behavior of the participants, offering products and services on the financial markets is in unison with the European tendencies for change in the supervisory accents.

The increasing of the financial literacy of the population is a very substantial factor from the activity carried out for protection of investors and consumers of non-banking financial products and services. It aims

at ensuring information and knowledge, which are to allow the investors and consumers of financial products and services to take the right for them decisions, to be aware both of the benefits, and the responsibilities related to the investment and purchase of products and services on the financial markets.

A step towards enhancement of the public confidence in the use of financial products and services and ensuring consumer protection, is the provision of access to current information on the non-banking financial sector and the market participants, as well as information about the new requirements related to the European supervisory framework.

All above cited actions will influence positively the FSC's public image and will strengthen its leading position in the field of the protection of consumers of financial services.

Within this priority the Commission targets to achieve the following objectives:

1. Enhancement of the public awareness by the provision of clear and accessible information for the building of confidence in the financial markets and the activity of the Commission

The fulfillment of this objective will be achieved by:

- ✓ Regular publishing on the FSC web site and sending information to the media about the Commission's work. Providing the public with more information on the functions, role and activity of FSC;
- ✓ Preparation and publishing of regular and thematic analyses and statistical data in the field of the non-banking financial sector;
- ✓ Sending current news from FSC to the interested media, institutions and government departments;
- ✓ Preparation of daily information media monitoring, related to the activities of FSC and of the supervised persons, as well as analysis of the publications;
- ✓ Making up media monitoring in case of a crisis or extraordinary situation related to the activity of FSC or the supervised persons, threatening to jeopardize the FSC's prestige and the stability of the financial markets.

2. Development of policy for increasing the financial literacy and culture of the consumers of services and products, provided by the financial markets

The realization of this objective will be achieved by:

- ✓ Creation of an accessible and interactive web site for protection of the consumers of non-banking financial services;
- ✓ Holding of seminars for different professional groups with the purpose of making them familiar with the activity of FSC and the new regulatory and supervisory practices – journalists, magistrates, investment intermediaries, public companies, insurance companies, pension insurance companies;
- ✓ Carrying out educational initiatives and programs for university and school students;
- ✓ Development of information and reference materials, explaining the activity of FSC and the supervised by it persons;
- ✓ Development of the activity of an Information Center of FSC with the purpose of ensuring to consumers easy to access current and reliable information;
- ✓ Setting up and promotion of competitions for papers on topical subjects in the field of the non-banking financial sector;
- ✓ Using the social networks for provision of consumer information, heightening the level of financial literacy and feedback from consumers.

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| 3. Ensuring timely and adequate application of the mechanisms and instruments for investor protection through change in the supervisory practices and the regulatory framework as a result of the analysis made of the consumers' complaints and signals |
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The fulfillment of this objective will be achieved by:

- ✓ Carrying out a regular analysis of the received complaints and signals from the consumers of financial services offered by the supervised persons and preparation of proposals for amendment to the legal framework and the supervisory practices;
- ✓ Holding an annual initiative of FSC – Day of the consumer of financial services.

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| 4. Heightening the effectiveness of the activity related to the consumer complaints and signals |
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The fulfillment of this objective will be achieved by:

- ✓ Establishment of effective internal mechanism for complaints handling;
- ✓ Regular review of the organization of complaints handling.

Priority 6. Active participation in the EU Supervisory Authorities in the field of the financial markets and in the activities in the sphere of international cooperation
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After the accession of the Republic of Bulgaria to the EU, our country turned from a state, accepting the EU policies, into a state, which already actively participates in the development of new and the updating of the acting EU policies. On European level, a comprehensive legal framework has been elaborated for regulation of the single financial market, which is subject to regular review and is amended accordingly. FSC will be actively involved in the negotiations on the adoption of new European rules for the financial sector.

FSC will take active participation in the work of the European Supervisory Authorities, constituting the European System of Financial Supervisors, as well as in the level two Committees. In the discussion of the future technical standards, guidelines, recommendations and other documents on European level, the institution will see to the protection of the interests of the Bulgarian financial market and of the consumers of financial services in the country.

Main accent in the FSC activity will also be the common work and cooperation with the supervisory authorities of the EU Member States, of the EU acceding states, the candidate countries and the potential candidate countries for membership in the EU. The exchange of supervisory information and agreeing of common positions in the negotiations on the development of the new European requirements will continue with the EU Member States.

FSC has a leading role in regard to the strengthening of the administrative capacity and the preparation of the countries in the region of Southeast Europe for accession to the European Union. With its experience before Bulgaria's accession to the EU, as well as in the period of full membership in the Union, FSC is a good and efficient partner for the supervisory authorities in the field of the financial markets in these countries. The Financial Supervision Commission has rich experience in the implementation of twinning projects in the countries from the region, financed by the Instrument for Pre-Accession Assistance (IPA) of the European Union, in the organization of study visits, conferences and other initiatives, in which representatives of the supervisory authorities in the region took part.

The Financial Supervision Commission will continue its active participation in the international organizations, which discuss and consider issues in the field of the financial markets. Whenever needed and in observance of the required conditions for that, the Commission will also exchange information with supervisory authorities from third countries, that are not EU Members.

Within this priority the Commission aims to achieve the following objectives:

1. Defending the interests of the Bulgarian financial markets in the EU bodies and structures

The fulfillment of this objective will be achieved by:

- ✓ Active involvement in the work of the European Supervisory Authorities and the Committees to the European Commission;
- ✓ Interaction with the other competent institutions in the country and with the EU institutions in connection with the discussion of proposals for new European legislation.

2. Close cooperation with the supervisory authorities of the EU Member States, as well as with the supervisory authorities of the acceding states, the candidate countries, potential candidates for EU membership

The fulfillment of this objective will be achieved by:

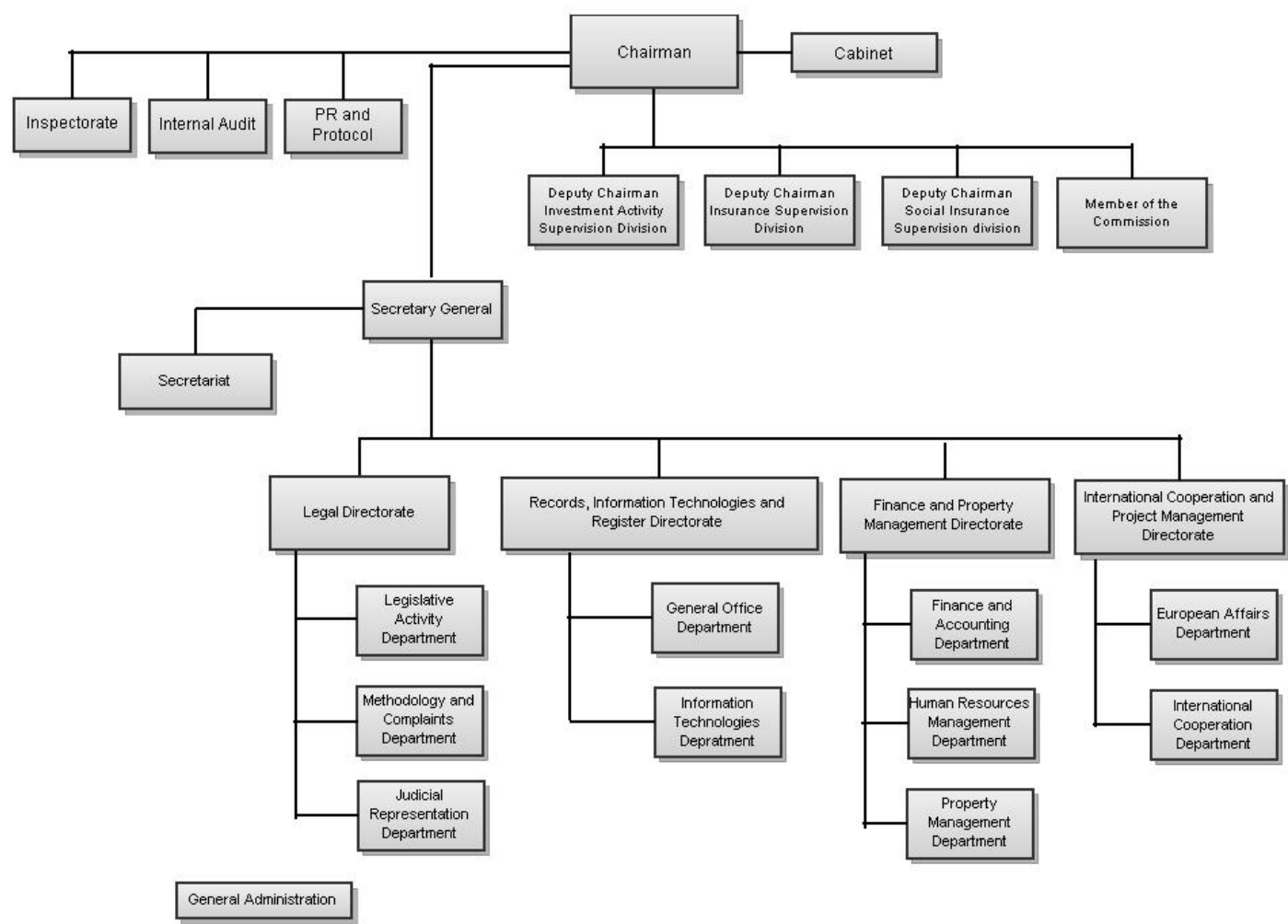
- ✓ Maintaining active cooperation with the supervisory authorities of the EU Member States;
- ✓ Maintaining active cooperation with the supervisory authorities of the acceding states, the candidate countries and the countries, potential candidates for EU membership;
- ✓ Interaction with the other supervisory authorities of Member States in connection with licensing and authorization procedures, as well as with the notification procedures.

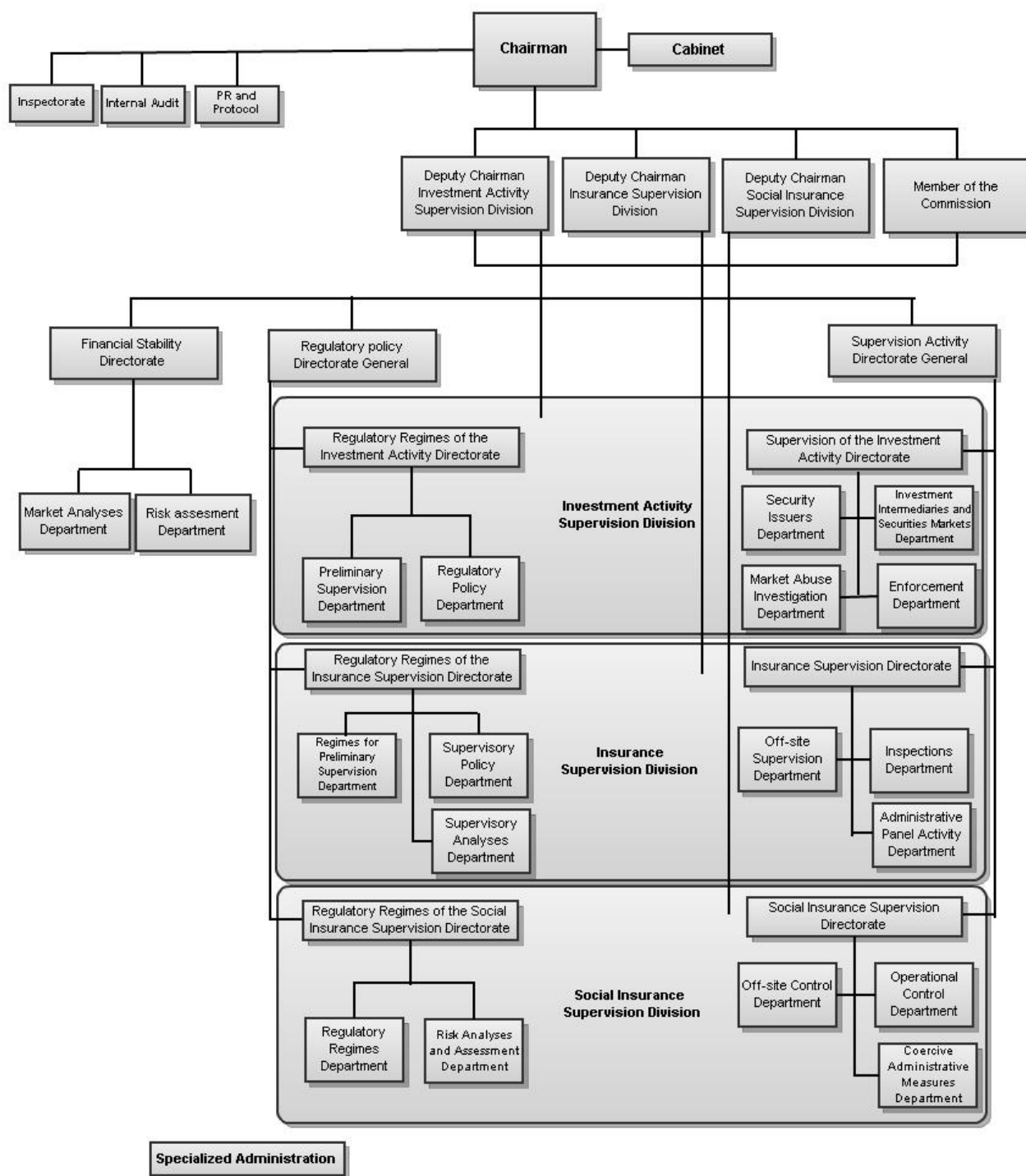
3. Strengthening international cooperation activities with third countries and international organizations

The fulfillment of this objective will be achieved by:

- ✓ Participation in the forums of the international organizations (International Organization of Securities Commissions, International Association of Insurance Supervisors, International Organization of Pension Supervisors, etc.) and exchange of information with supervisory authorities in third countries;
- ✓ Joining the Multilateral Memorandum of Understanding on Cooperation and Exchange of Information of the International Association of Insurance Supervisors (IAIS);
- ✓ Initiation, organization and participation in international conferences, seminars and roundtables.

IV. Organizational chart of the FSC





V. Annexes

The numbering of the annexes indicates the chapter from the text of the FSC's Annual Report to which the specific annex is related.

Annex I.2.1. A. Organization and management of new contractual funds by management companies

Management company	Contractual fund
BALKAN CAPITAL MANAGEMENT AD	COMMODITY STRATEGY FUND
KAROL CAPITAL MANAGEMENT EAD	ADVANCE GLOBAL TRENDS

Annex I.2.1.B. Investment intermediaries, CIS, public companies, issuers and SIPC, entered and deleted in the public register kept by FSC in 2011

Company	Type
Companies that have been granted license in 2011	
ALARIC SECURITIES OOD	investment intermediary
AVUS CAPITAL OOD	investment intermediary
DE NOVO EAD	investment intermediary
Companies filed as public in the register kept by FSC	
VALOR PROPERTIES REIT	SIPC
DEBITUM INVEST SPV	SIPC
MOUNTAIN PARADISE INVEST REIT	SIPC
EVN BULGARIA ELEKTROSNABDYAVANE AD	public company
EVN BULGARIA ELEKTRORAZPREDELENIE AD	public company
PRIMORSKO CLUB EAD	public company
AROMA REAL ESTATE AD	public company
AROMA COSMETICS AD	public company
ARTANES MINING GROUP AD	public company
Companies filed as issuers in the register kept by FSC	
COMMODITY STRATEGY FUND	contractual fund
ADVANCE GLOBAL TRENDS	contractual fund
DSK MONEYMARKET FUND IN EURO	issuer
ASTERA I AD	issuer
ARCUS AD	issuer
BULGARIAN POSTS AD	issuer
STARCOM HOLDING AD	issuer
Companies whose license was withdrawn in 2011	
EFG SECURITIES BULGARIA EAD	investment intermediary
CAPITAL ENGINEER PROJECT OOD, II	investment intermediary
ASTRA INVESTMENT AD	investment intermediary
BULEX-INVEST AD	investment intermediary
EURODEALING AD	investment intermediary

NEWWAY ASSET MANAGEMENT	management company
OVERON PRESTO	contractual fund
ACM OPPORTUNITY	contractual fund
ULTIMA DIVIDEND	contractual fund
ULTIMA BG 30	contractual fund
<i>Deleted after deletion from the Commercial Register due to completion of procedure of liquidation or bankruptcy</i>	
SUNITEX AD	public company
FREIGHT TRANSPORTATION AD	public company
<i>Deleted after a tender offer carried out under Art. 119, para 1, Item 3 of LPOS</i>	
SEPTONA BULGARIA AD	public company
BULGARIA-29 AD	public company
<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>	
ALLIANZ BANK BULGARIA AD	issuer
NEWWAY INDEX PLUS	contractual fund
AUTOBOHEMIA AD	issuer
NEWWAY NEW EUROPE	contractual fund
SPECTRUM NET EAD	issuer
RUNO-KAZANLAK EAD	issuer
SIENIT HOLDING AD	issuer
ETAP – ADDRESS AD	issuer

Annex I.2.1.C. Prospectus for public offering of securities

Company	Public offering	Type of securities
Approved prospectuses in 2011		
Holding Asenova Krepost AD	initial	shares
Asenova Krepost AD	initial	shares
Energetics and Energy Savings Fund – EESF SPV	initial	shares
Investor.BG AD	initial	shares
Industrial Holding Bulgaria AD	initial	shares
Paldin Liner Group REIT АДЦИЦ	initial	shares
Eurohold Bulgaria AD	initial	shares
Intercapital Property Development REIT	initial	shares
HBG Investment Property Fund REIT	initial	shares
Sofia Hotel Balkan AD	initial	shares
ZAD BULSTRAD VIENNA INSURANCE GROUP	initial	shares
Health and Wellness REIT	initial	shares
Florimont Properties REIT	initial	shares
ZD Euroins AD	initial	shares
Alpha Bulgaria AD	initial	shares
Bulgarian-American Credit Bank AD	initial	shares

Sopharma Properties REIT	initial	shares
Doverie – United Holding AD	initial	shares
Eurohold Bulgaria AD	initial	shares
Central Cooperative Bank	initial	shares
DIR.BG AD	initial	shares
P R C REIT	initial	shares
Sofia Hotel Balkan AD	initial	unconvertible unsecured corporate bonds
Industrial Holding Bulgaria AD	initial	convertible unsecured corporate bonds
Artanes Mining Group AD	admission to trading	shares
EVN Bulgaria Elektrosnabdyavane AD	admission to trading	shares
EVN Bulgaria Elektrorazpredelenie AD	admission to trading	shares
MONBAT AD	admission to trading in EU	shares
Sopharma AD	admission to trading in EU	shares
Eurohold Bulgaria AD	admission to trading in EU	shares
TBI Credit EAD	admission to trading	secured corporate bonds
Sila Holding AD	admission to trading	secured corporate bonds
Transinvestment REIT	admission to trading	unsecured corporate bonds
Arcus AD	admission to trading	secured corporate bonds
Bulgarian Development Bank AD	admission to trading	unsecured corporate bonds
Astera I AD	admission to trading	secured corporate bonds
Bulgarian Posts EAD	admission to trading	secured corporate bonds
Starcom Holding AD	admission to trading	unsecured corporate bonds
Approval of supplement to prospectus		
Sopharma AD	admission to trading	shares

Annex II.2.3.1. A Gross premium written of general insurance

№	Insurers	2011		2010		Growth/ Drop
		BGN thousand	Market share	BGN thousand	Market share	
1	DZI – OGENERAL INSURANCE EAD	169 117	12.4%	172 533	12.5%	-2.0%
2	ZAD ARMEEZ AD	161 733	11.8%	155 269	11.3%	4.2%
3	ZAD BULSTRAD VIENNA INSURANCE GROUP	145 161	10.6%	180 656	13.1%	-19.6%
4	ZK LEV INS AD	143 485	10.5%	135 198	9.8%	6.1%
5	ZAD ALLIANZ BULGARIA	142 041	10.4%	141 687	10.3%	0.2%
6	ZD BUL INS AD	138 566	10.2%	135 810	9.9%	2.0%
7	ZD UNIQA AD	78 864	5.8%	71 962	5.2%	9.6%
8	ZD EUROINS AD	76 506	5.6%	71 876	5.2%	6.4%
9	ZAD ENERGIA	56 230	4.1%	51 766	3.8%	8.6%
10	ZAD VICTORIA	55 605	4.1%	49 830	3.6%	11.6%
11	GENERALI INSURANCE AD	54 972	4.0%	54 124	3.9%	1.6%
12	INTERAMERICAN BULGARIA ZEAD	35 141	2.6%	34 023	2.5%	3.3%
13	MUNICIPAL INSURANCE COMPANY AD	32 809	2.4%	34 745	2.5%	-5.6%
14	INSURANCE COMPANY BULGARSKI IMOTI AD	32 217	2.4%	44 153	3.2%	-27.0%
15	HDI INSURANCE AD	22 947	1.7%	22 896	1.7%	0.2%
16	BULGARIAN EXPORT INSURANCE AGENCY EAD	8 601	0.6%	7 961	0.6%	8.0%
17	GROUPAMA INSURANCE EAD	5 845	0.4%	5 963	0.4%	-2.0%
18	UBB – CHARTIS ZD AD	5 065	0.4%	6 750	0.5%	-25.0%
TOTAL:		1 364 905	100.0%	1 377 202	100.0%	-0.9%

Annex II.2.3.1.B. Incurred claims and paid compensations by general insurance companies

№	INSURERS	2011				2010			
		Incurred claims (BGN thousand)	Share	Paid claims (BGN thousand)	Share	Incurred claims (BGN thousand)	Share	Paid claims (BGN thousand)	Share
1	DZI – OGENERAL INSURANCE EAD	86 609	12.4%	89 562	14.1%	109 592	14.6%	121 029	17.8%
2	ZAD BULSTRAD VIENNA INSURANCE GROUP	86 299	12.4%	98 765	15.6%	161 820	21.6%	122 184	18.0%
3	ZAD ARMEEZ AD	79 957	11.5%	66 145	10.4%	65 805	8.8%	64 900	9.6%
4	ZD BUL INS AD	68 615	9.9%	59 331	9.4%	63 777	8.5%	62 921	9.3%
5	ZK LEV INS AD	65 376	9.4%	55 699	8.8%	67 365	9.0%	58 033	8.6%
6	ZAD ALLIANZ BULGARIA	60 458	8.7%	61 735	9.7%	61 774	8.2%	68 257	10.1%
7	ZD UNIQA AD	44 366	6.4%	35 146	5.5%	41 396	5.5%	36 889	5.4%
8	INSURANCE COMPANY BULGARSKI IMOTI AD	41 806	6.0%	48 225	7.6%	49 668	6.6%	35 190	5.2%
9	ZD EUROINS AD	40 745	5.8%	35 660	5.6%	38 562	5.1%	38 505	5.7%
10	GENERALI INSURANCE AD	29 104	4.2%	24 540	3.9%	17 900	2.4%	19 306	2.8%
11	INTERAMERICAN BULGARIA ZEAD	27 970	4.0%	15 182	2.4%	15 903	2.1%	12 134	1.8%
12	ZAD VICTORIA	26 747	3.8%	16 724	2.6%	22 849	3.0%	16 771	2.5%
13	MUNICIPAL INSURANCE COMPANY AD	13 368	1.9%	11 519	1.8%	11 445	1.5%	6 842	1.0%
14	HDI INSURANCE AD	9 450	1.4%	9 882	1.6%	10 983	1.5%	8 691	1.3%
15	ZAD ENERGIA	9 079	1.3%	2 050	0.3%	4 156	0.6%	3 031	0.4%
16	BULGARIAN EXPORT INSURANCE AGENCY EAD	4 957	0.7%	2 802	0.4%	5 000	0.7%	2 949	0.4%
17	GROUPAMA INSURANCE EAD	1 552	0.2%	768	0.1%	960	0.1%	500	0.1%
18	UBB – CHARTIS ZD AD	105	0.0%	227	0.0%	419	0.1%	303	0.0%
TOTAL:		696 563	100.0%	633 963	100.0%	749 374	100.0%	678 435	100.0%

Annex II.2.3.1.C. Technical and financial result of general insurance companies

№	Insurers	Technical result (BGN thousand)		Financial result (BGN thousand)	
		31.12.2011	31.12.2010	31.12.2011	31.12.2010
1	ZAD ARMEEZ AD	577	614	899	6 718
2	ZAD ALLIANZ BULGARIA	10 643	9 985	11 987	11 168
3	ZAD BULSTRAD VIENNA INSURANCE GROUP	4 225	-31 430	4 340	-30 607
4	ZD BUL INS AD	4 788	5 836	1 827	3 485
5	INSURANCE COMPANY BULGARSKI IMOTI AD	-4 726	-22 079	-2 041	-19 136
6	BULGARIAN EXPORT INSURANCE AGENCY EAD	2 320	2 167	3 122	3 168
7	ZD UNIQA AD	-3 396	-4 135	-4 896	-2 117
8	DZI – OGENERAL INSURANCE EAD	6 248	1 449	12 440	7 880
9	ZD EUROINS AD	-4 224	-2 714	485	-2 154
10	ZAD ENERGIA	15 030	24 646	23 714	23 922
11	INTERAMERICAN BULGARIA ZEAD	-13 305	-6 481	-12 824	-5 469
12	ZK LEV INS AD	9 621	-26 936	10 601	-25 069
13	ZAD VICTORIA	-676	-1 928	1 156	222
14	MUNICIPAL INSURANCE COMPANY AD	-666	1 832	57	958
15	GENERALI INSURANCE AD	-5 256	4 393	-1 476	8 291
16	HDI INSURANCE AD	173	159	278	227
17	GROUPAMA INSURANCE EAD	-243	-241	-170	58
18	UBB – CHARTIS ZD AD	1 862	1 786	2 029	1 942
TOTAL		22 995	-43 077	51 528	-16 513

Annex II.2.3.1.D. Asset amount and equity of general insurance companies

№	Insurers	Asset amount (BGN thousand)		Change	Equity (BGN thousand)		Change
		2011	2010		2011	2010	
1	ZAD ARMEEZ AD	204 082	175 802	16.1%	41 415	41 132	0.7%
2	ZAD ALLIANZ BULGARIA	168 437	172 905	-2.6%	56 450	55 472	1.8%
3	ZAD BULSTRAD VIENNA INSURANCE GROUP	214 633	213 428	0.6%	60 173	28 806	108.9%
4	ZD BUL INS AD	140 776	137 343	2.5%	30 680	32 338	-5.1%
5	INSURANCE COMPANY BULGARSKI IMOTI AD	63 465	73 705	-13.9%	7 981	-5 439	-246.7%
6	BULGARIAN EXPORT INSURANCE AGENCY EAD	27 305	24 209	12.8%	21 217	19 365	9.6%
7	ZD UNIQA AD	92 487	77 615	19.2%	18 785	13 681	37.3%
8	DZI – OGENERAL INSURANCE EAD	336 053	373 586	-10.0%	108 179	145 393	-25.6%
9	ZD EUROINS AD	71 156	64 796	9.8%	11 959	11 474	4.2%
10	ZAD ENERGIA	89 247	83 780	6.5%	54 668	54 904	-0.4%
11	INTERAMERICAN BULGARIA ZEAD	51 102	35 881	42.4%	10 885	9 960	9.3%
12	ZK LEV INS AD	198 217	168 507	17.6%	43 487	32 886	32.2%
13	ZAD VICTORIA	77 883	61 624	26.4%	11 652	8 586	35.7%
14	MUNICIPAL INSURANCE COMPANY AD	44 447	40 817	8.9%	10 858	11 024	-1.5%
15	GENERALI INSURANCE AD	96 214	97 323	-1.1%	23 580	30 542	-22.8%
16	HDI INSURANCE AD	26 735	25 207	6.1%	8 384	8 106	3.4%
17	GROUPAMA INSURANCE EAD	14 637	13 848	5.7%	8 431	8 610	-2.1%
18	UBB – CHARTIS ZD AD	13 047	15 875	-17.8%	9 952	11 447	-13.1%
TOTAL		1 929 923	1 856 251	4.0%	538 736	518 287	3.9%

Annex II.2.3.2.A. Gross premium written of life insurance companies

№	Insurers	2011		2010		Growth/Drop
		BGN thousand	Market share	BGN thousand	Market share	
1	ZAD ALLIANZ BULGARIA LIFE	50 542	20.7%	49 594	20.2%	1.9%
2	ZAD DZI	32 449	13.3%	32 607	13.3%	-0.5%
3	ZAD BULSTRAD LIFE VIENNA INSURANCE GROUP	28 647	11.7%	26 519	10.8%	8.0%
4	ZK UNIQA LIFE AD	26 183	10.7%	21 518	8.8%	21.7%
5	ALICO BULGARIA LIFE INSURANCE COMPANY EAD	19 894	8.1%	21 300	8.7%	-6.6%
6	UBB – ALICO LIFE INSURANCE COMPANY AD	19 097	7.8%	16 879	6.9%	13.1%
7	GRAWE BULGARIA LIFE INSURANCE EAD	16 706	6.8%	16 484	6.7%	1.3%
8	GROUPAMA LIFE INSURANCE AD	13 141	5.4%	8 254	3.4%	59.2%
9	SINDIKALNA VZK	12 831	5.2%	26 373	10.7%	-51.3%
10	GENERALI LIFE INSURANCE AD	10 474	4.3%	10 795	4.4%	-3.0%
11	ZAD SOGELIFE BULGARIA	6 638	2.7%	5 952	2.4%	11.5%
12	INTERAMERICAN BULGARIA LIFE INSURANCE EAD	2 833	1.2%	2 762	1.1%	2.6%
13	LIFE INSURANCE INSTITUTE AD	1 864	0.8%	2 199	0.9%	-15.2%
14	ZHZK SAGLASIE AD	1 614	0.7%	2 353	1.0%	-31.4%
15	ZAED CCB LIFE	1 476	0.6%	2 048	0.8%	-27.9%
16	VZK DOBRUDZA - M - LIFE	271	0.1%	172	0.1%	57.6%
TOTAL:		244 660	100.0%	245 809	100.0%	-0.5%

Annex II.2.3.2.B. Paid claims by life insurance companies

№	Insurers	2011		2010		Change
		BGN thousand	Share	BGN thousand	Share	
1	ZAD ALLIANZ BULGARIA LIFE	23 505	24.0%	20 825	21.1%	12.9%
2	ZAD DZI	22 521	23.0%	25 021	25.4%	-10.0%
3	ZK UNIQA LIFE AD	13 039	13.3%	12 855	13.0%	1.4%
4	ZAD BULSTRAD LIFE VIENNA INSURANCE GROUP	12 972	13.2%	10 033	10.2%	29.3%
5	GENERALI LIFE INSURANCE AD	6 963	7.1%	6 640	6.7%	4.9%
6	ALICO BULGARIA LIFE INSURANCE COMPANY EAD	5 655	5.8%	4 993	5.1%	13.3%
7	GRAWE BULGARIA LIFE INSURANCE EAD	3 352	3.4%	2 098	2.1%	59.8%
8	UBB – ALICO LIFE INSURANCE COMPANY AD	3 277	3.3%	2 536	2.6%	29.2%
9	GROUPAMA LIFE INSURANCE AD	2 010	2.0%	1 421	1.4%	41.5%
10	LIFE INSURANCE INSTITUTE AD	1 421	1.4%	1 230	1.2%	15.5%
11	ZAD SOGELIFE BULGARIA	1 055	1.1%	1 259	1.3%	-16.2%
12	ZAED CCB LIFE	863	0.9%	1 346	1.4%	-35.9%
13	SINDIKALNA VZK	578	0.6%	7 786	7.9%	-92.6%
14	INTERAMERICAN BULGARIA LIFE INSURANCE EAD	443	0.5%	66	0.1%	571.2%
15	ZHZK SAGLASIE AD	334	0.3%	343	0.3%	-2.6%
16	VZK DOBRUDZA - M - LIFE	117	0.1%	181	0.2%	-35.4%
TOTAL:		98 105	100.0%	98 633	100.0%	-0.5%

Annex II.2.3.2.C. Technical and financial result of life insurance companies

№	Insurers	Technical result (BGN thousand)		Financial result (BGN thousand)	
		2011	2010	2011	2010
1	ZAD ALLIANZ BULGARIA LIFE	11 369	9 615	10 271	10 198
2	ZAD BULSTRAD LIFE VIENNA INSURANCE GROUP	643	989	635	778
3	ZK UNIQA LIFE AD	139	406	95	330
4	GRAWE BULGARIA LIFE INSURANCE EAD	832	270	2 157	2 141
5	ZAD DZI	-4 274	-3 637	6 270	2 937
6	ALICO BULGARIA LIFE INSURANCE COMPANY EAD	-7 024	6 371	-6 716	5 729
7	GENERALI LIFE INSURANCE AD	-1 348	-1 241	-1 265	-1 108
8	GROUPAMA LIFE INSURANCE AD	395	143	74	145
9	LIFE INSURANCE INSTITUTE AD	684	640	27	16
10	UBB – ALICO LIFE INSURANCE COMPANY AD	5 376	4 625	4 837	4 154
11	ZHZK SAGLASIE AD	44	-947	96	-913
12	ZAD SOGELIFE BULGARIA	-272	-765	-80	-616
13	ZAED CCB LIFE	201	-163	180	-146
14	INTERAMERICAN BULGARIA LIFE INSURANCE EAD	-1 204	-1 797	-606	-1 181
15	SINDIKALNA VZK	425	111	378	95
16	VZK DOBRUDZA - M - LIFE	-395	138	-547	143
TOTAL:		5 591	14 758	15 806	22 702

Annex II.2.3.2.D. Asset amount and equity of life insurance companies

№	Insurers	Asset amount (BGN thousand)			Equity (BGN thousand)		
		2011	2010	Change	2011	2010	Change
1	ZAD ALLIANZ BULGARIA LIFE	278 177	260 367	6.8%	33 465	35 108	-4.7%
2	ZAD BULSTRAD LIFE VIENNA INSURANCE GROUP	64 542	58 040	11.2%	9 711	9 852	-1.4%
3	ZK UNIQA LIFE AD	33 697	30 591	10.2%	7 701	8 106	-5.0%
4	GRAWE BULGARIA LIFE INSURANCE EAD	84 772	73 618	15.2%	14 691	13 054	12.5%
5	ZAD DZI	310 601	386 305	-19.6%	207 896	283 753	-26.7%
6	ALICO BULGARIA LIFE INSURANCE COMPANY EAD	79 471	80 462	-1.2%	18 274	26 590	-31.3%
7	GENERALI LIFE INSURANCE AD	22 575	22 250	1.5%	8 343	7 186	16.1%
8	GROUPAMA LIFE INSURANCE AD	26 259	20 182	30.1%	9 003	9 017	-0.2%
9	LIFE INSURANCE INSTITUTE AD	9 062	9 018	0.5%	7 454	7 425	0.4%
10	UBB – ALICO LIFE INSURANCE COMPANY AD	24 688	21 209	16.4%	16 404	15 468	6.1%
11	ZHZK SAGLASIE AD	11 388	9 655	17.9%	7 432	7 119	4.4%
12	ZAD SOGELIFE BULGARIA	14 786	12 630	17.1%	8 797	7 876	11.7%
13	ZAED CCB LIFE	8 652	8 577	0.9%	7 472	7 292	2.5%
14	INTERAMERICAN BULGARIA LIFE INSURANCE EAD	13 042	13 072	-0.2%	10 634	10 578	0.5%
15	SINDIKALNA VZK	61 395	50 235	22.2%	2 456	1 880	30.6%
16	VZK DOBRUDZA - M - LIFE	622	2 147	-71.0%	258	804	-67.9%
TOTAL:		1 043 729	1 058 358	-1.4%	369 991	451 108	-18.0%

Annex II.2.3.4A. Gross premium income of voluntary health insurance

№	Health insurance companies	31.12.2011		31.12.2010		Growth/Drop 31.12.2011/ 31.12.2010
		BGN thousand	Market share	BGN thousand	Market share	
1	HIC BULGARIA HEALTH AD	6 341	15.7%	6 066	14.4%	4.5%
2	GENERALI ZAKRILA HEALTH INSURANCE AD	4 778	11.8%	5 564	13.2%	-14.1%
3	UNITED HEALTH INSURANCE FUND DOVERIE AD	4 475	11.1%	3 786	9.0%	18.2%
4	EUROINS - HEALTH INSURANCE EAD	3 270	8.1%	2 500	5.9%	30.8%
5	HEALTH INSURANCE FUND DALLBOGG: ZHIVOT I ZDRAVE EAD	3 149	7.8%	3 512	8.3%	-10.3%
6	MUNICIPAL HEALTH INSURANCE FUND AD	3 128	7.7%	5 711	13.5%	-45.2%
7	HEALTH INSURANCE FUND MEDICO-21 AD	2 916	7.2%	3 285	7.8%	-11.2%
8	DZI-HEALTH INSURANCE AD	2 237	5.5%	1 737	4.1%	28.8%
9	VOLUNTARY HEALTH INSURANCE NETWORK – ZDRAVE AD	2 173	5.4%	2 502	5.9%	-13.1%
10	TOKUDA HEALTH INSURANCE FUND AD	1 821	4.5%	1 295	3.1%	40.6%
11	HIC NADEZHDA AD	1 672	4.1%	1 471	3.5%	13.7%
12	HEALTH INSURANCE FUND FI HEALTH AD	806	2.0%	974	2.3%	-17.2%
13	HIC BULSTRAD HEALTH AD	773	1.9%	1 074	2.5%	-28.0%
14	UNITED HEALTH INSURANCE EAD	771	1.9%	696	1.7%	10.8%
15	EUROPEAN HEALTH INSURANCE FUND AD	662	1.6%	29	0.1%	2182.8%
16	HEALTH INSURANCE INSTITUTE AD	436	1.1%	407	1.0%	7.1%
17	HIC PLANETA AD	368	0.9%	488	1.2%	-24.6%
18	HIC CCB – ZDRAVE EAD	353	0.9%	247	0.6%	42.9%
19	<i>HIC VSEOTDAINOST AD*</i>	140	0.3%	552	1.3%	-74.6%
20	HEALTH INSURANCE FUND HIPPOCRATES AD	106	0.3%	262	0.6%	-59.5%
	Total	40 375	100.0%	42 158	100.0%	-4.2%

Note: *By resolution № 702-ZOD from 24 November 2011 FSC approved the request for voluntary dissolution of HIC Vseotdainost AD and withdrew the license of the company for pursuance of voluntary health insurance activity.

Annex II.2.3.4.B. Paid claims by voluntary health insurance companies

№	Health insurance companies	31.12.2011		31.12.2010		Growth/ Drop 31.12.2011/ 31.12.2010
		BGN thousand	Share	BGN thousand	Share	
1	HIC BULGARIA HEALTH AD	4 552	19.1%	3 586	14.6%	26.9%
2	GENERALI ZAKRILA HEALTH INSURANCE AD	2 958	12.4%	3 119	12.7%	-5.2%
3	UNITED HEALTH INSURANCE FUND DOVERIE AD	2 691	11.3%	2 721	11.1%	-1.1%
4	HEALTH INSURANCE FUND DALLBOGG: ZHIVOT I ZDRAVE EAD	2 108	8.9%	2 364	9.6%	-10.8%
5	HEALTH INSURANCE FUND MEDICO-21 AD	1 946	8.2%	3 315	13.5%	-41.3%
6	EUROINS - HEALTH INSURANCE EAD	1 616	6.8%	813	3.3%	98.8%
7	MUNICIPAL HEALTH INSURANCE FUND AD	1 616	6.8%	1 858	7.6%	-13.0%
8	DZI-HEALTH INSURANCE AD	1 269	5.3%	1 157	4.7%	9.7%
9	VOLUNTARY HEALTH INSURANCE NETWORK – ZDRAVE AD	1 150	4.8%	1 586	6.5%	-27.5%
10	HIC NADEZHDA AD	1 148	4.8%	996	4.1%	15.3%
11	TOKUDA HEALTH INSURANCE FUND AD	926	3.9%	806	3.3%	14.9%
12	HIC BULSTRAD HEALTH AD	413	1.7%	557	2.3%	-25.9%
13	HIC VSEOTDAINOST AD*	386	1.6%	570	2.3%	-32.3%
14	HEALTH INSURANCE FUND FI HEALTH AD	299	1.3%	496	2.0%	-39.7%
15	UNITED HEALTH INSURANCE EAD	288	1.2%	305	1.2%	-5.6%
16	HEALTH INSURANCE INSTITUTE AD	154	0.6%	32	0.1%	381.3%
17	HIC CCB – ZDRAVE EAD	150	0.6%	95	0.4%	57.9%
18	EUROPEAN HEALTH INSURANCE FUND AD	47	0.2%	19	0.1%	147.4%
19	HIC PLANETA AD	36	0.2%	34	0.1%	5.9%
20	HEALTH INSURANCE FUND HIPPOCRATES AD	33	0.1%	111	0.5%	-70.3%
	Total	23 786	100.0%	24 540	100.0%	-3.1%

Note: *By resolution № 702-ZOD from 24 November 2011 FSC approved the request for voluntary dissolution up of HIC Vseotdainost AD and withdrew the license of the company for pursuance of voluntary health insurance activity.

Annex II.2.3.4.C. Technical and financial result of the voluntary health insurance companies

№	Health insurance companies	Technical result (BGN thousand)		Financial result (BGN thousand)	
		31.12.2011	31.12.2010	31.12.2011	31.12.2010
1	HIC BULSTRAD HEALTH AD	75	-102	6	-67
2	HIC BULGARIA HEALTH AD	-450	192	-257	452
3	UNITED HEALTH INSURANCE EAD	-295	-920	-228	-800
4	<i>HIC VSEOTDAINOST AD*</i>	-243	-513	-192	-441
5	GENERALI ZAKRILA HEALTH INSURANCE AD	-1104	-590	-1 278	-474
6	DZI-HEALTH INSURANCE AD	16	-3	182	157
7	UNITED HEALTH INSURANCE FUND DOVERIE AD	144	-10	262	132
8	VOLUNTARY HEALTH INSURANCE NETWORK – ZDRAVE AD	21	134	196	185
9	HEALTH INSURANCE INSTITUTE AD	5	-25	90	57
10	HEALTH INSURANCE FUND MEDICO-21 AD	9	-696	32	-517
11	HIC NADEZHDA AD	-123	-533	10	54
12	HIC PLANETA AD	-107	-102	10	20
13	EUROINS - HEALTH INSURANCE EAD	-310	-243	27	19
14	TOKUDA HEALTH INSURANCE FUND AD	133	-65	265	41
15	HIC CCB – ZDRAVE EAD	-165	-179	20	80
16	HEALTH INSURANCE FUND FI HEALTH AD	-85	-136	145	-28
17	MUNICIPAL HEALTH INSURANCE FUND AD	810	1 217	-84	242
18	HEALTH INSURANCE FUND DALLBOGG: ZHIVOT I ZDRAVE EAD	129	-318	364	-250
19	HEALTH INSURANCE FUND HIPPOCRATES AD	-163	-125	-129	-88
20	EUROPEAN HEALTH INSURANCE FUND AD	-58	-162	47	-100
	TOTAL:	-1761	-3179	-512	-1326

Note: *By resolution № 702-ZOD from 24 November 2011 FSC approved the request for voluntary dissolution of HIC Vseotdainost AD and withdrew the license of the company for pursuance of voluntary health insurance activity.

Annex II.2.3.4.D. Asset amount and equity of voluntary health insurance companies

№	Health insurance companies	Asset amount (BGN thousand)		Change	Equity (BGN thousand)		Change
		31.12.2011	31.12.2010		31.12.2011	31.12.2010	
1	HIC BULSTRAD HEALTH AD	2532	2 417	4.8%	1 948	1 701	14.5%
2	HIC BULGARIA HEALTH AD	7243	7 225	0.2%	4 583	5 282	-13.2%
3	UNITED HEALTH INSURANCE EAD	1531	1 854	-17.4%	1 023	1251	-18.2%
4	<i>HIC VSEOTDAINOST AD*</i>	925	1 388	-33.4%	852	1 044	-18.4%
5	GENERALI ZAKRILA HEALTH INSURANCE AD	10576	10 416	1.5%	1 214	1 568	-22.6%
6	DZI-HEALTH INSURANCE AD	4506	3 955	13.9%	3 244	3 073	5.6%
7	UNITED HEALTH INSURANCE FUND DOVERIE AD	4688	4 337	8.1%	2 835	2 553	11.0%
8	VOLUNTARY HEALTH INSURANCE NETWORK – ZDRAVE AD	3116	3 302	-5.6%	2 641	2 445	8.0%
9	HEALTH INSURANCE INSTITUTE AD	2574	2 471	4.2%	2 260	2 170	4.1%
10	HEALTH INSURANCE FUND MEDICO-21 AD	3238	3 348	-3.3%	2 063	1 631	26.5%
11	HIC NADEZHDA AD	6289	6 162	2.1%	5 065	5 055	0.2%
12	HIC PLANETA AD	2300	2 427	-5.2%	2 036	2 026	0.5%
13	EUROINS - HEALTH INSURANCE EAD	5072	4 358	16.4%	2 601	2 573	1.1%
14	TOKUDA HEALTH INSURANCE FUND AD	3550	3 035	17.0%	2 573	2 308	11.5%
15	HIC CCB – ZDRAVE EAD	2600	2 542	2.3%	2 209	2 147	2.9%
16	HEALTH INSURANCE FUND FI HEALTH AD	5605	5 371	4.4%	5 035	4 890	3.0%
17	MUNICIPAL HEALTH INSURANCE FUND AD	3903	4 969	-21.5%	3 373	3 446	-2.1%
18	HEALTH INSURANCE FUND DALLBOGG: ZHIVOT I ZDRAVE EAD	7980	6 391	24.9%	7 000	5 236	33.7%
19	HEALTH INSURANCE FUND HIPPOCRATES AD	1894	531	256.7%	1 783	440	305.2%
20	EUROPEAN HEALTH INSURANCE FUND AD	2332	1 849	26.1%	1 827	1 715	6.5%
	TOTAL:	82454	78 348	5.2%	56 165	52 554	6.9%

Note: *By resolution № 702-ZOD from 24 November 2011 FSC approved the request for voluntary dissolution of HIC Vseotdainost AD and withdrew the license of the company for pursuance of voluntary health insurance activity.

Annex II.2.4.1.A. Shareholding structure of the pension insurance companies as of 31.12.2011 (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 DOVERIEE 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	97.00%
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 AD	CCB GROUP EAD	121749139	46.75%
	CHIMIMPORT INVEST	831541734	40.29%
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%

Note: At 31.12.2011 PIC FUTURE JSC had no shareholders with 10 and over 10 per cent direct holding in the capital of the company.

Annex II.2.4.1.B. 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 31.12.2011.

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	33 964	51 565	1 238 742	158 526	106 649	0	1 503 917	1 027 678	76 658	157 531	0	1 261 867
PIC SAGLASIE PLC	11 515	20 002	424 711	77 872	42 292	0	544 875	407 985	36 066	49 923	0	493 974
PIC DSK-RODINA AD	14 235	18 973	368 234	42 104	36 817	4 007	451 162	349 798	23 772	55 124	5 078	433 772
PIC ALLIANZ BULGARIA PLC	19 345	28 859	734 916	82 974	256 623	0	1 074 513	623 041	39 832	225 561	0	888 434
I N G OIC PLC	7 599	12 731	345 693	27 988	65 031	0	438 712	270 871	19 641	35 957	0	326 469
PIC CCB SILA AD	12 745	16 699	329 509	55 698	49 700	0	434 907	287 776	28 941	54 030	0	370 747
PIC FUTURE JSC	2 628	3 427	63 570	5 390	4 658	0	73 618	106 673	6 444	5 255	0	118 372
PIC TOPLINA AD	3 283	4 202	34 018	23 094	6 695	0	63 807	47 817	13 371	11 792	0	72 980
PENSION INSURANCE INSTITUTE AD	4 710	4 861	11 076	1 261	91	0	12 428	23 169	2 608	114	0	25 891
TOTAL	110 024	161 319	3 550 469	474 907	568 556	4 007	4 597 939	3 144 808	247 333	595 287	5 078	3 992 506

Annex II. 2.4.2.A. Investments of the pension funds (total)

Pension funds	Supplementary pension insurance funds			
	2011		2010	
	amount (BGN thousand)	share (%)	amount (BGN thousand)	share (%)
Total investments, including:	4 233 425	100.00	3 722 710	100.00
Debt securities issued or guaranteed by EU Member States, other countries or their Central Banks	1 360 274	32.13	799 802	21.48
Corporate bonds, incl.	859 196	20.30	804.593	21.61
issued or guaranteed by banks with the purpose of financing of infrastructure and investment projects	54 217	1.28	38 448	1.03
Mortgage bonds	29 101	0.69	51 525	1.38
Municipal bonds	131 814	3.11	105 193	2.83
Shares, rights and units, incl.:	889 472	21.01	1 055 965	28.37
Shares and rights of special investment purpose companies (SIPC)	100 543	2.37	81 966	2.20
Shares and units of collective investment schemes (CIS)	351 597	8.31	463 980	12.46
Shares and rights other than these of SIPC and CIS	437 332	10.33	510 019	13.70
Bank deposits	796 622	18.82	766 312	20.58
Investment properties	166 946	3.94	139 322	3.74