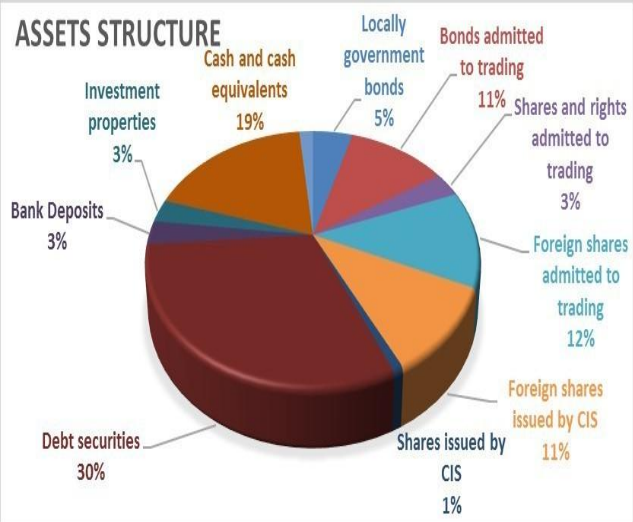
Detailed Results - per PIC

1. Doverie

1.1 Doverie UPF

The total assets of Doverie UPF amounted to BGN 2.266.708k as of 30 June 2016 and the structure of the total assets is as follows:

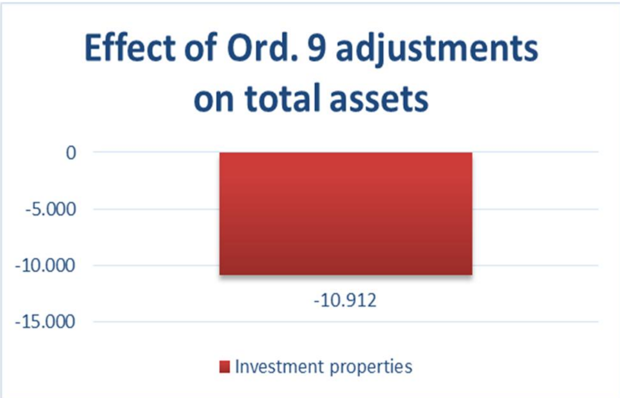


The total assets are mainly composed of:

- Debt Securities: BGN 692.800k
- Cash and cash equivalents: BGN 423.226k
- Foreign shares admitted to trading: BGN 278.700k
- Bonds admitted to trading: BGN 260.410k
- Foreign shares issued by CIS: BGN 246.969k
- Local government bonds: BGN 104.584k
- Shares and rights admitted to trading: BGN 71.289k

As a result of the PFAR, the IER proposed a decrease in total assets of BGN 10.912k for Ord. 9 purposes.

The IER proposed adjustments related to two investment properties, amounting to BGN 8.423k and BGN 2.489k respectively.



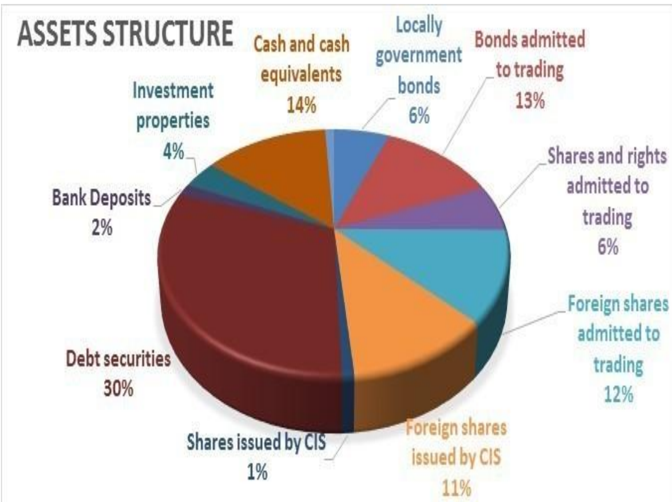
According to PF valuation report, the land plots of the first investment property were valued as at 30 June 2016 using the Residual Value Method (Income Approach). According to the IER, using only one valuation approach is generally not in line with best market practices, therefore they suggested the Market Approach to be used as well. Based on the IER's work, the results of the income approach applied by PF valuers were significantly higher as compared to a reasonable range determined by the IER (derived based on market offers).

Regarding the second investment property, according to PF valuers' report, the value of the land plot and the buildings was determined separately under the Market Approach. The residential complex part which was at a 99% stage of completion was valued under the Cost Approach. The IER believed that the application of the Cost Approach was less relevant for the valuation of investment properties and have, therefore, requested a new valuation to be prepared, using a more appropriate valuation method. The PF valuers prepared a new estimate using a sample of three market offers, which showed no material difference in the value as per the initial valuation. The IER analysed sales offers for similar properties from publicly available sources. In terms of the estimates used in the PF new valuation, the IER considered that the assumed average sales price of the apartments was higher compared to the available market data.

The above adjustments apply equally for purposes of Ord. 9 and IFRS valuations.

1.2 Doverie PPF

The total assets of Doverie PPF amounted to BGN 216.091k as of 30 June 2016 and the structure of the total assets is as follows:

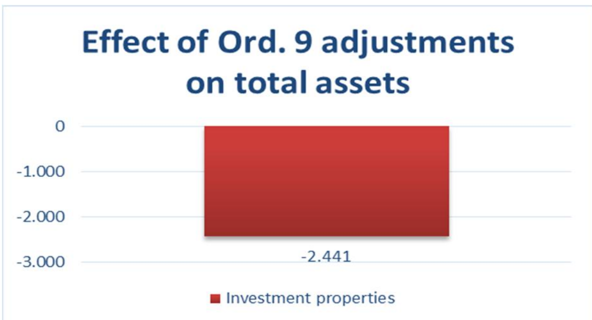


The total assets are mainly composed of:

- Debt Securities: BGN 66.014k
- Cash and cash equivalents: BGN 29.657k
- Bonds admitted to trading: BGN 27.589k
- Local government bonds: BGN 13.328k
- Foreign shares admitted to trading: BGN 25.991k
- Foreign shares issued by CIS: BGN 24.480k

As a result of the PFAR, the IER proposed a decrease in total assets of BGN 2.441k for Ord. 9 purposes.

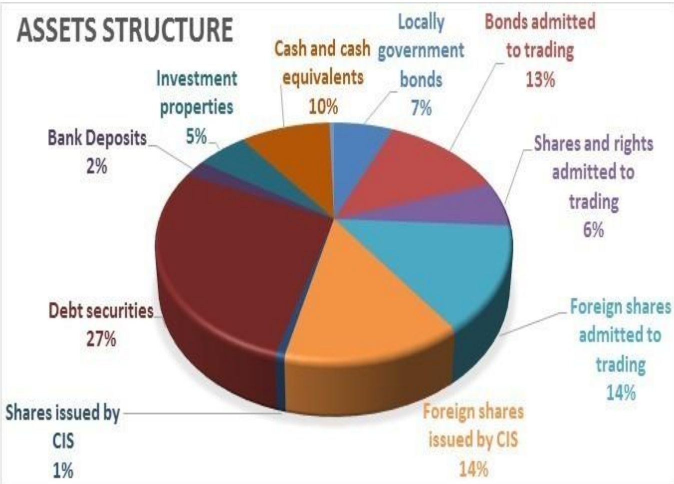
The IER proposed an adjustment for one investment property, for the same reasons as explained above for the first property of the Doverie UPF.



The above adjustments apply equally for purposes of Ord. 9 and IFRS valuations.

1.3 Doverie VPF

The total assets of Doverie VPF amounted to BGN 132.254k as of 30 June 2016 and the structure of the total assets is as follows:



The total assets are mainly composed of:

- Debt Securities: BGN 36.285k
- Foreign shares admitted to trading: BGN 18.740k
- Foreign shares issued by CIS: BGN 18.015k
- Bonds admitted to trading: BGN 17.498k
- Cash and cash equivalents: BGN 13.018k
- Local government bonds: BGN 8.604k

As a result of the PFAR, the IER proposed a decrease in total assets of BGN 1.866k for Ord. 9 purposes.

The IER proposed an adjustment amounting to BGN 1.866k for one investment property for the reasons as explained above for the first property of Doverie UPF.

The above adjustments apply equally for purposes of Ordinance 9 and IFRS valuations.

1.4 Findings and Recommendations per topic of the methodology

The main findings and recommendations for PFs managed by Doverie, as extracted from the respective IER reports, are as follows per topic of the methodology:

Corporate Governance, processes and internal control framework, accounting policies

The PFs had no formal procedure for maintaining a complete list of related parties, as well as for providing formal trail that newly created exposures or existing ones are not to related parties. The IER recommended the development of a formal policy for maintaining a complete list of related parties, specifically a comprehensive checklist to be completed as a part of the process for authorization of new investments, which evidences the performance of a related party check for each investment before purchasing it.

Existence and valuation of investment properties

The PF's valuation of the investment properties was higher compared to the IER's indicative calculations (thus the IER proposed adjustments). A control process was recommended to be put in place to ensure that the PFs critically assess the valuation reports provided by independent valuers.

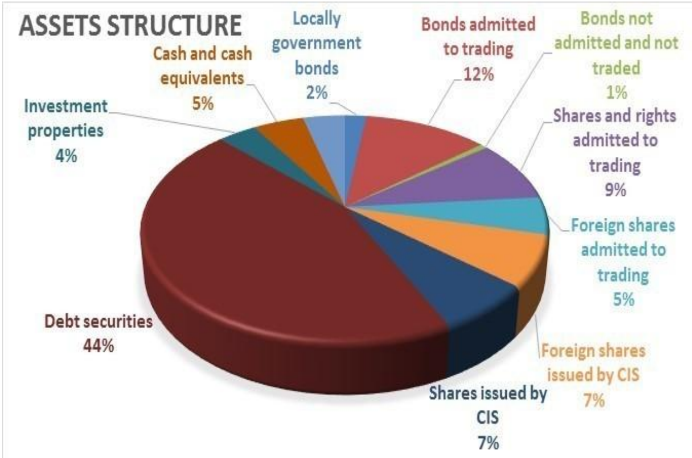
Subsequent events

The IER identified one subsequent non-adjusting event. In August 2016 two of the local corporate bonds were restructured. As per the new valuation made at the end of August, the value was decreasing by BGN 3.062k.The IER assessed this as a non-adjusting event, and did not propose any adjustments as of 30 June 2016, as according to the IER, there were no indications that the bond issuer was experiencing any difficulties to repay the installments and the bond was collateralized.

2. Saglasie

2.1 Saglasie UPF

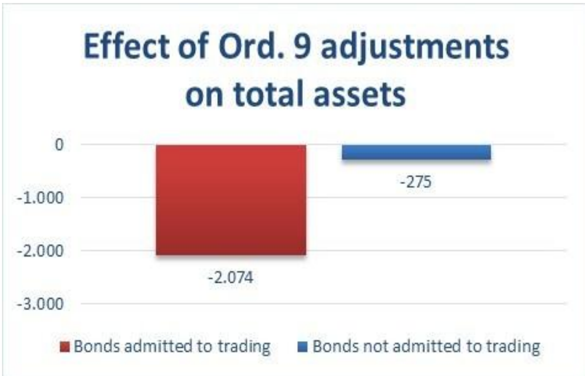
The total assets of Saglasie UPF amounted to BGN 936.548k as of 30 June 2016 and the structure of the total assets is as follows:



The total assets are mainly composed of:

- Debt Securities: BGN 417.304k
- Bonds admitted to trading: BGN 110.910k
- Shares and rights admitted to trading: BGN 83.942k
- Foreign shares issued by CIS: BGN 67.937k
- Shares issued by CIS BGN: 62.842k

As a result of the PFAR, the IER proposed a decrease in total assets of BGN 2.349k for Ord. 9 purposes.

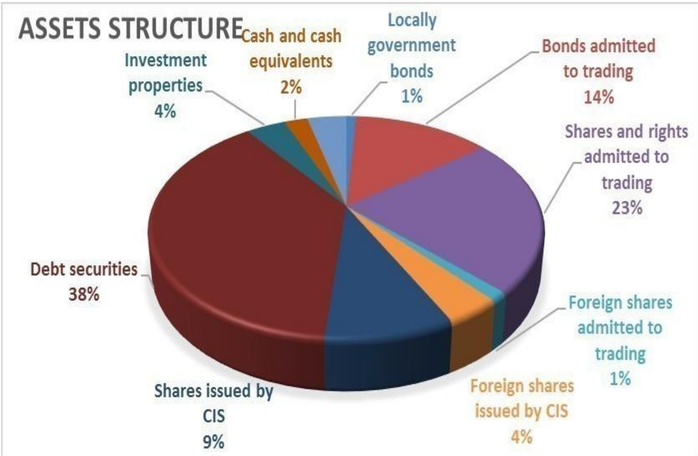


The adjustments related to a decrease in corporate bonds because the IER identified that some corporate bonds were discounted with lower risk premiums than needed, thus the fair value should be lower than reported by the PF.

For IFRS valuation purposes, the total adjustments amounted to BGN 2.140k, which comprises of the adjustments proposed for Ord. 9 purposes (BGN 2.349k) as above, as well as a positive adjustment of BGN 209k for shares admitted to trading due to the different valuation approach followed for IFRS purposes. In cases where the market was considered active by the IER, the shares were valued under the closing price as of 30 June 2016, instead of the average of the highest buying price of orders or the weighted average price that is applied for Ord.9. Also, in cases where the market was considered inactive by the IER, the shares were valued under the NAV or capitalization of earnings or the multiple method, instead of the average of the highest buying price of orders or the highest buy price, as followed for Ord. 9.

2.2 Saglasie PPF

The total assets of Saglasie PPF amounted to BGN 153.816k as of 30 June 2016 and the structure of the total assets is as follows:

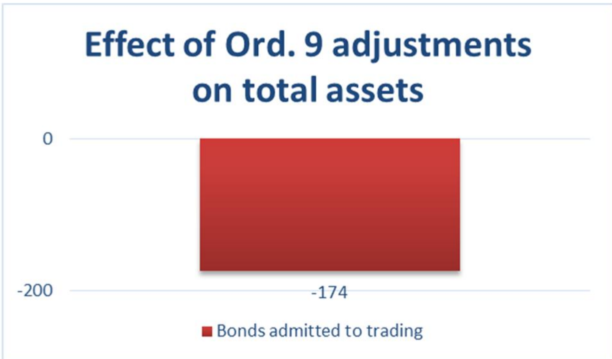


The total assets are mainly composed of:

- Debt Securities: BGN 59.191k
- Shares and rights admitted to trading: BGN 35.176k
- Bonds admitted to trading: BGN 20.800k
- Shares issued by CIS: BGN 13.778k

As a result of the PFAR, the IER proposed a decrease in total assets of BGN 174k for Ord. 9 purposes.

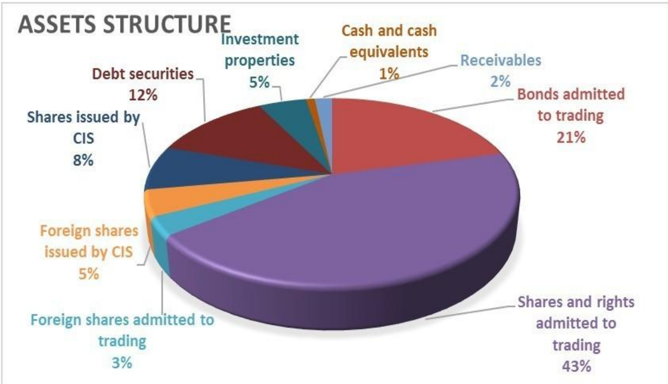
The adjustments related to a decrease in corporate bonds because the IER identified that some corporate bonds were discounted with lower risk premiums than needed, thus the fair value is lower than that reported by the PF.



For IFRS valuation purposes, an additional negative adjustment was proposed by the IER for shares and rights admitted to trading amounting to BGN 546k. The differences were due to the different approach followed for the valuation of shares and rights admitted to trading, where the market was considered as inactive by the IER. More specifically, the NAV or capitalization of earnings or multiple method was used for IFRS purposes, while the average of the highest buying price of orders or the highest buy price was followed for Ord. 9.

2.3 Saglasie VPF

The total assets of Saglasie VPF amounted to BGN 67.592k as of 30 June 2016 and the structure of the total assets is as follows:

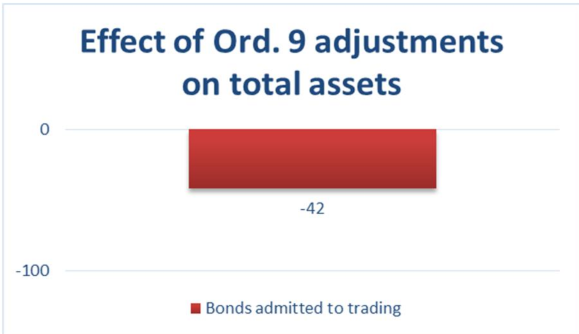


The total assets are mainly composed of:

- Shares and rights admitted to trading: BGN 29.415k
- Bonds admitted to trading: BGN 14.298k
- Debt Securities: BGN 8.288k

As a result of the PFAR, the IER proposed a decrease in total assets of BGN 42k for Ord. 9 purposes.

The adjustments related to the decrease in corporate bonds valuation because the IER identified that some corporate bonds were discounted with lower risk premiums than needed, thus the fair value is lower than reported by the PF.



For IFRS valuation purposes, an additional positive adjustment was proposed by the IER for shares and rights admitted to trading amounting to BGN 455k.The differences were due to the different approach followed in the valuation of: (i) the shares and rights traded in market that was considered inactive by the IER, which were valued under NAV or multiple method for IFRS purposes, while the average of the highest buying price of orders or the highest buy price was followed for Ord. 9 valuation; (ii) the shares and rights traded in a market that was considered as active by the IER, that were valued using the closing price as of 30 June 2016 for IFRS purposes, instead of the average of the highest buying price of orders or the weighted average price method that is used for the Ord. 9 valuation.

2.4 Findings and Recommendations per topic of the methodology

The main findings and recommendations for PFs managed by Saglasie, as extracted from the respective IER's reports, are as follows per topic of the methodology:

Accounting Policies

Although there are formal policies and processes, the IER considered the accounting policies in some aspects too general and brief, especially on the recognition, valuation and disclosure of assets. The PFs applied the IFRS requirements in practice but they did not properly describe them in their formal accounting policies. In addition, the IER did not find evidence for regular updates of the accounting policies, to take into consideration the IFRS requirements regarding implementation of new standards, amendments to existing standards, the applicable possible methods for valuation and presentation of the PF's assets, and the risks related to the fund's activity.

The IER recommended the preparation of a new set of accounting policies, which will describe in detail the accounting practices of the PFs (especially in respect of the valuation of shares traded on regulated markets, where the requirements of SIC are different from those of IFRS). Following that, the IER recommended to the PFs to regularly update their accounting policies, taking into consideration the updates in IFRS (focus on including more detailed description in the relevant areas of IFRS7, IFRS13 and IAS39, which directly impact the valuation of financial instruments like repos). Finally, the IER recommended the PFs to include all the valuation methods, apart from the basic ones, so that all possible valuation methods are captured in full in the policies.

Existence and Valuation of financial instruments

The IER identified adjustments mainly in the valuation of corporate bonds, where relatively low risk premium was used by the PFs. The IER recommended the PFs to review their policy of determination of the risk premium and apply a more conservative approach, so that the risk premium fully captures the relevant risk associated with the security.

Other Assets

According to the IER, the collaterals on the repurchase agreements were not reviewed by the PF for valuation purposes. The IER recommended that the collaterals on the repurchase agreements should be carefully and conservatively reviewed for valuation purposes and in case needed, as a result of a lower valuation, the collateral should be increased.

Risk Assessment

With respect to the risk assessment, and risks that are not captured or not fully captured by the current regulatory framework, the IER commented as follows:

The IER comment that some shares possessed by the PFs have different fair value according to IFRS 13. The IER recommended that the valuation requirements for financial instruments under Ord. 9 should be expanded in a manner of converging them, to a maximum extent, with the requirements for fair value measurement of financial instruments under IFRS 13, for example the use of the last bid price from the measurement date instead of from the previous working day in the cases where the measurement relates to the debt securities described in details above. The IER noted that the full use of the valuation techniques for fair value measurement as defined in IFRS 13, for the measurement of assets for regulatory purposes is considered as inappropriate and practically impossible. However, the fair value measurement of the financial instruments under the requirements of IFRS 13 should be made at least annually in the preparation of the annual financial statements of the PFs, which would always be the same as the value measurement of those assets, prepared for the purposes of reporting to the regulator.

Moreover, the IER performed an analysis of the similarities and differences between the definition of related parties under the SIC and IAS 24. As a result, the IER have identified that the notion of key management personnel and their close family members is not included in the definition of SIC as related parties.

The IER noted that the PFs had no implemented procedures for identification of close members of the family of the members of the Board of Directors of the PIC or of the members of the key management personnel of the parent company of the PIC, hence identification of entities controlled of such close member of the family.

Although there are no regulatory requirements for implementation of restrictions on the investments in financial instruments issued by the above parties, the IER recommended that: (a) the PFs should implement procedures for identification of close members of the family of all of the members of the BD of the PIC and the parent company of the PIC and subsequent identification of entities controlled or jointly controlled by those persons. At this point the IER noted that even in the case where such entities exist, (b) the definition of related parties under the SIC should be expanded to include the related parties as defined in IAS 24 in order to eliminate the discrepancies between the SIC and IAS 24.

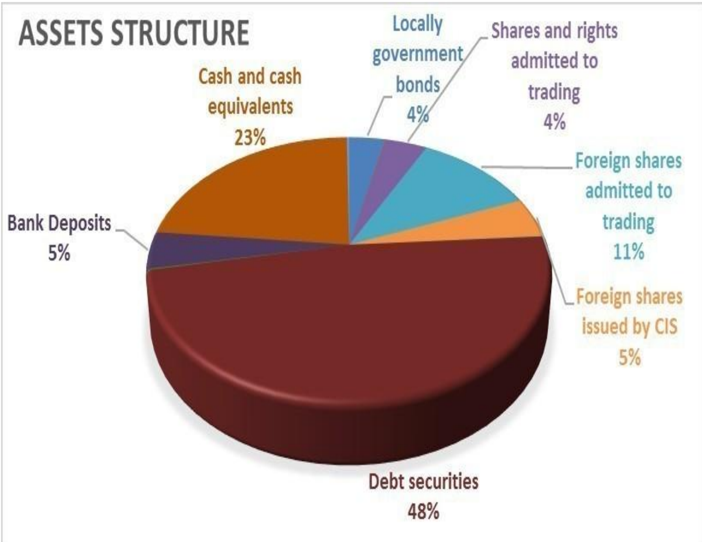
The IER commented that the current regulatory framework includes no restrictions relating to the minimum credit ratings of the issuers of debt securities identified, and recommended that the PFs should consider the enforcement of minimum credit ratings of financial instruments in which the PFs are allowed to invest in order to avoid the exposure to undue high risks. For debt securities issued or guaranteed by member states or their central banks, and by countries set out in an ordinance by FSC or their central banks, as well as for corporate debt securities accepted for trading on regulated securities markets in member states, there are no restrictions about the minimum credit rating and for the PFs there was no legal prohibition to invest in such instruments even in the cases where their credit rating was within the lowest grades designating that the issuer was not able to meet its obligations.

Finally, the IER makes note of certain groups of companies who are shareholders in the PF, with a % marginally below 20%, and are therefore not considered related parties.

3. DSK-Rodina

3.1 DSK-Rodina UPF

The total assets of DSK-Rodina UPF amounted to BGN 1.159.743k as of 30 June 2016 and the structure of the total assets is as follows:



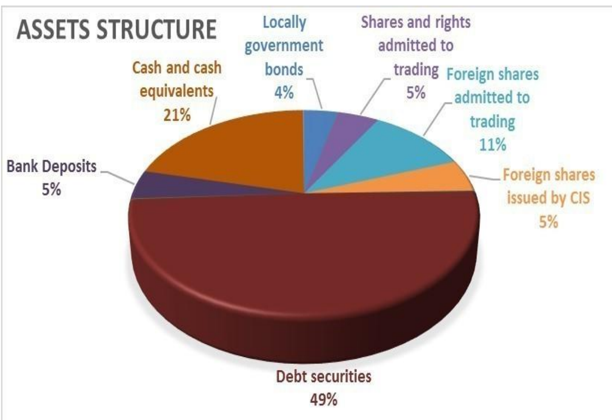
The total assets are mainly composed of:

- Debt Securities: BGN 555.331k
- Cash and cash equivalents: BGN 268.766k
- Foreign shares admitted to trading: BGN 132.118k
- Foreign shares issued by CIS: BGN 57.504k
- Bank Deposits: BGN 52.558k
- Shares and rights admitted to trading: BGN 45.773k
- Local government bonds: BGN 40.785k

As a result of the PFAR, the IER did not propose any adjustments for Ord. 9 or IFRS purposes.

3.2 DSK-Rodina PPF

The total assets of DSK-Rodina PPF amounted to BGN 112.730k as of 30 June 2016 and the structure of the total assets is as follows:



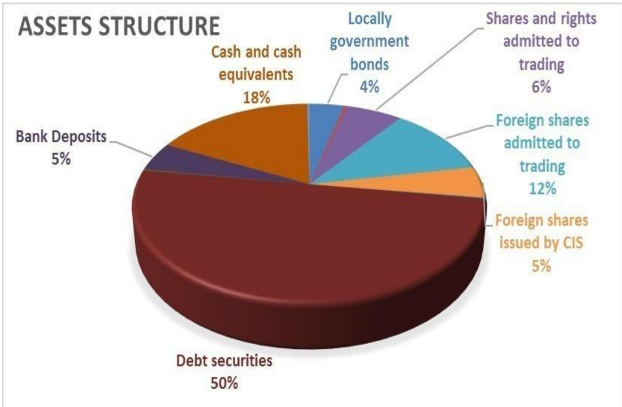
The total assets are mainly composed of:

- Debt Securities: BGN 55.524k
- Cash and cash equivalents: BGN 23.821
- Foreign shares admitted to trading: BGN 12.479k
- Foreign shares issued by CIS: BGN 5.769k
- Shares and rights admitted to trading: BGN 5.049k.

As a result of the PFAR, the IER did not propose any adjustments for Ord. 9 or IFRS purposes.

3.3 DSK-Rodina VPF

The total assets of DSK-Rodina VPF amounted to BGN 68.338k as of 30 June 2016 and the structure of the total assets is as follows:



The total assets are mainly composed of:

- Debt Securities: BGN 34.131k
- Cash and cash equivalents: BGN 11.894k
- Foreign shares admitted to trading: BGN 7.986k
- Shares admitted to trading: BGN 4.182k
- Foreign shares issued by CIS: BGN 3.550k

As a result of the PFAR, the IER did not propose any adjustments for Ord. 9 or IFRS purposes.

3.4 Findings and Recommendations per topic of the methodology

The main findings and recommendations for PFs managed by DSK-Rodina, as extracted from the respective IER's report, are as follows per topic of the methodology:

Corporate Governance, processes and internal control framework, accounting policies

The PFs had no formal procedure for maintaining a complete list of related parties, as well as for providing formal trail that newly created exposures or existing ones are not to related parties. The IER recommended the PIC to develop a formal policy for maintaining a complete list of related parties, specifically a comprehensive checklist to be completed as a part of the process for authorization of new investments, which evidences that a related party check has been performed for each investment before purchasing it.

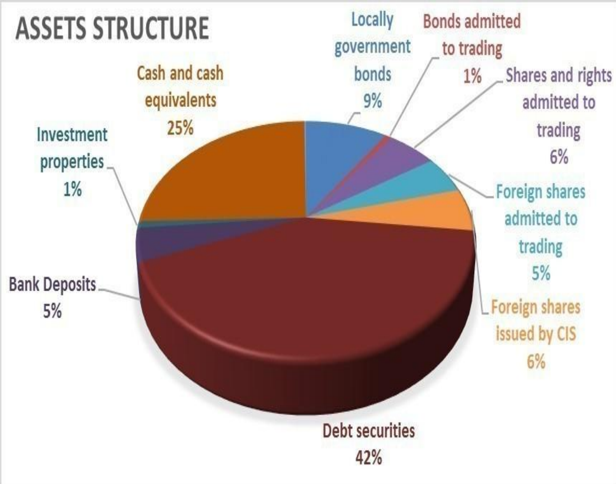
Risk Assessment

The IER noted that the PFs had no policy for synchronization of assets in order to ensure orderly payout of pensions. The IER recommended to the PFs to develop a formal policy for synchronization of assets and determine plans and strategies in order to ensure the orderly payout of pensions. In addition, it was recommended that the PFs create projections of the number and amounts to be paid each year, as well as to develop plans and strategy to dispose of assets in order to fund the amounts needed for pay out.

4. Allianz Bulgaria

4.1 Allianz Bulgaria UPF

The total assets of Allianz Bulgaria UPF amounted to BGN 1.741.668k as of 30 June 2016 and the structure of the total assets is as follows:



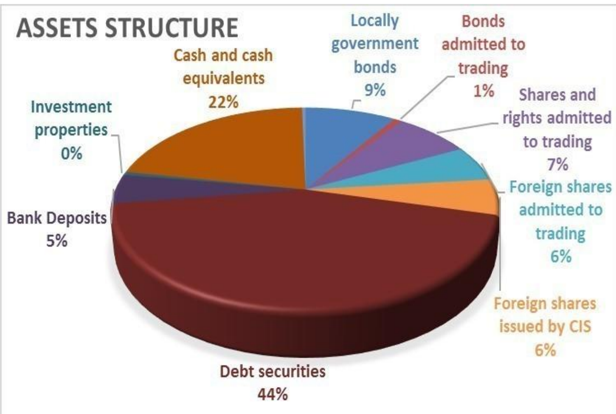
The total assets are mainly composed of:

- Debt Securities: BGN 737.094k
- Cash and cash equivalents: BGN 440.809k
- Local government bonds: BGN 163.695k
- Foreign shares issued by CIS: BGN 101.672k
- Shares and rights admitted to trading: BGN 98.407k
- Foreign shares admitted to trading: BGN 90.022k
- Bank Deposits: BGN 78.463k

As a result of the PFAR, the IER did not propose any adjustments for Ord. 9 or for IFRS purposes.

4.2 Allianz Bulgaria PPF

The total assets of Allianz Bulgaria PPF amounted to BGN 153.476k as of 30 June 2016 and the structure of the total assets is as follows:



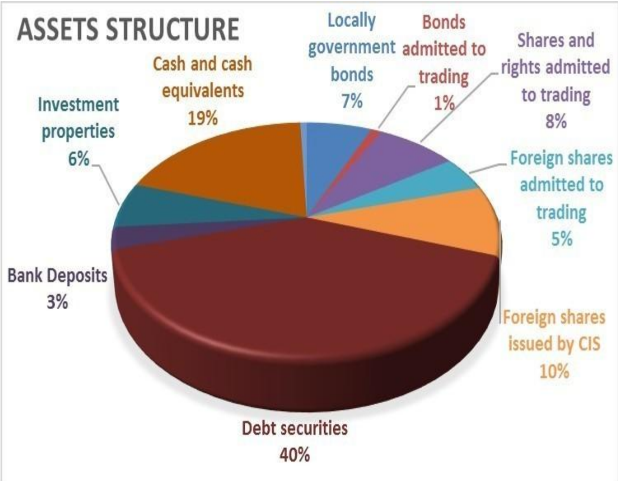
The total assets are mainly composed of:

- Debt Securities: BGN 67.144k
- Cash and cash equivalents: BGN 33.236k
- Local government bonds: BGN 14.048k
- Shares admitted to trading: BGN 11.666k

As a result of the PFAR, the IER did not propose any adjustments for Ord. 9 or for IFRS purposes.

4.3 Allianz Bulgaria VPF

The total assets of Allianz Bulgaria VPF amounted to BGN 382.606k as of 30 June 2016 and the structure of the total assets is as follows:

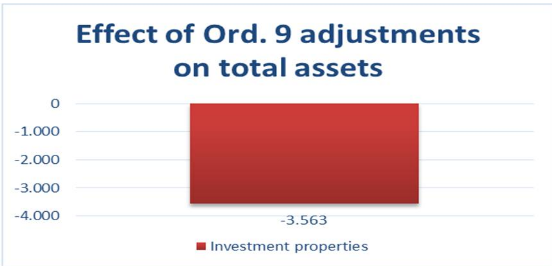


The total assets are mainly composed of:

- Debt Securities: BGN 154.805k
- Cash and cash equivalents: BGN 74.243k
- Foreign shares issued by CIS: BGN 37.028k
- Shares admitted to trading: BGN 30.894k
- Local government bonds: BGN 25.116k
- Investment properties: BGN 23.934k

As a result of the PFAR, the IER proposed a decrease in total assets of BGN 3.563k for Ord. 9 purposes.

The proposed adjustment related to land and buildings and resulted mainly from the IER's analysis of sales offers for comparable buildings with land plots.



The above adjustments apply equally for purposes of Ordinance 9 and IFRS valuations.

4.4 Findings and Recommendations per topic of the methodology

The main findings and recommendations for PFs managed by Allianz Bulgaria, as extracted from the respective IER's report, are as follows per topic of the methodology:

Existence and valuation of investment properties

The PF's valuation of the investment properties was higher compared to the IER's indicative calculations (which resulted in proposed adjustments). The IER recommended a control process to be established to ensure that the PFs critically assess the valuation reports provided by the independent valuers.

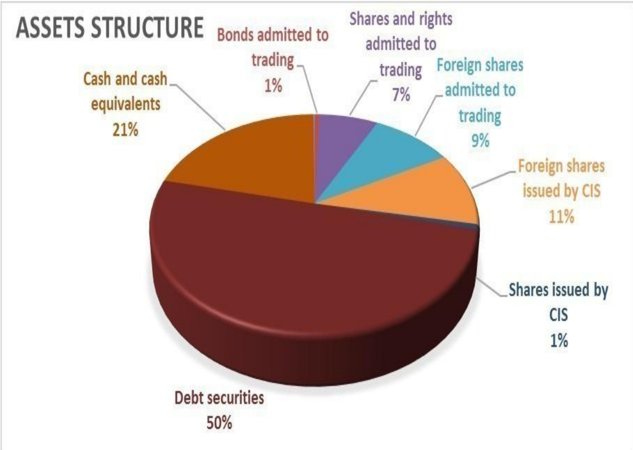
Risk Assessment

The IER used the evidence obtained during the PFAR procedures to assess if there are any related parties which are not defined as such by the local regulations, but may be such according to IFRS requirements which are much broader compared to local law. According to IAS 24 par. 9(b)(vii), an entity which is controlled by a person (or a close member of that person's family) is a related party to the entity over which the same person has a significant influence. The IER identified one investment in an entity that would be considered related in accordance with the above definitions of IFRS.

5. NN

5.1 NN UPF

The total assets of NN UPF amounted to BGN 847.152k as of 30 June 2016 and the structure of the total assets is as follows:



The total assets are mainly composed of:

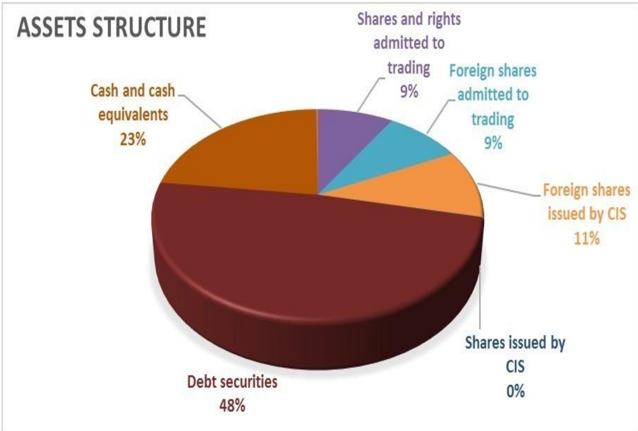
- Debt Securities: BGN 422.357k
- Cash and cash equivalents: BGN 180.039k
- Foreign shares issued by CIS: BGN 92.626k
- Foreign shares admitted to trading: BGN 80.849k
- Shares admitted to trading: BGN 59.264k

As a result of the PFAR, the IER did not propose any adjustment for Ord. 9 purposes.

However, for IFRS purposes a positive adjustment was proposed by the IER for shares and rights admitted to trading amounting to BGN 288k. The IER considered the market as active and used closing price as of 30.06.2016, instead of the average of the highest buying price of orders or the weighted average price method that is used for the Ord. 9 valuation.

5.2 NN PPF

The total assets of NN PPF amounted to BGN 62.368k as of 30 June 2016 and the structure of the total assets is as follows:



The total assets are mainly composed of:

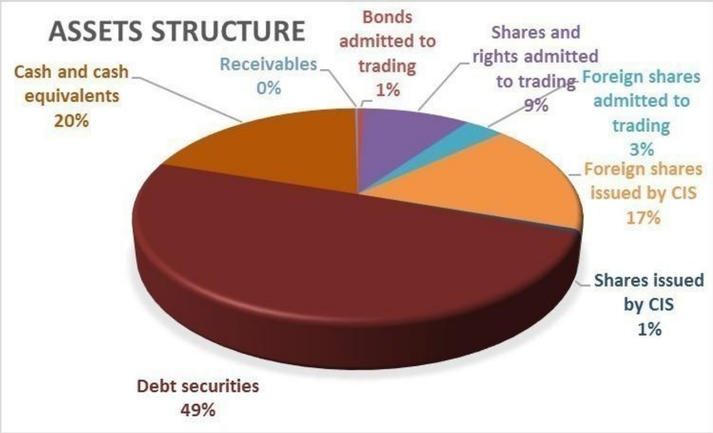
- Debt Securities: BGN 30.227k
- Cash and cash equivalents: BGN 14.267k
- Foreign shares issued by CIS: BGN 6.608k
- Foreign shares admitted to trading: BGN 5.544k
- Shares admitted to trading: BGN 5.378k

As a result of the PFAR, the IER did not propose any adjustment for Ord. 9 purposes.

However, for IFRS purposes a positive adjustment was proposed by the IER for shares and rights admitted to trading amounting to BGN 26k. The IER considered the market as active and used closing price as of 30.06.2016, instead of the average of the highest buying price of orders or the weighted average price method that is used for the Ord. 9 valuation.

5.3 NN VPF

The total assets of NN VPF amounted to BGN 109.986k as of 30 June 2016 and the structure of the total assets is as follows:



The total assets are mainly composed of:

- Debt Securities: BGN 54.194k
- Cash and cash equivalents: BGN 21.657k
- Foreign shares issued by CIS: BGN 18.687k
- Shares admitted to trading: BGN 10.225k

As a result of the PFAR, the IER proposed a decrease in total assets of BGN 105k for Ord. 9 purposes.

The IER proposed an adjustment in bonds admitted to trading for a corporate bond. The IER estimated that the expected cash flows for this bond is zero due to the fact that the Court has declared the issuers' bankruptcy.

From the perspective of IFRS, the IER proposed (other than the above) an additional positive adjustment for shares admitted to trading in active market amounting to BGN 47k due to the different valuation approach followed between Ord. 9 and IFRS (the average of the highest buying price of orders or weighted average price was used for Ord. 9 and closing price was used for IFRS purposes).

5.4 Findings and Recommendations per topic of the methodology

The main findings and recommendations for PFs managed by NN, as extracted from the respective IER's report, are as follows per topic of the methodology:

Accounting Policies

According to the IER, the accounting policies of both the PIC and the PF had not been regularly reviewed and amended in order to implement all developments in IFRS (last amendment in 2004). The IER recommended that the PIC should adopt two different full sets of accounting policies (for the PIC and for the PFs) containing full relevant guidance on accounting process and financial reporting and implement a procedure for timely update of those sets of accounting policies in order to include amendments in the applicable IFRS and local regulations.

Moreover, the IER mentioned that the accounting policies approved by the CFO and CEO, lacked all of the requirements that needed to be followed: (a) lack of separate policies, e.g. for the financial instruments, for effects of foreign exchange, (b) lack of guidance on how IAS 39 and IFRS 13 should be applied in cases where the requirements of Ord. 9 are, or might be, in contradiction with IFRS.

The IER recommended that procedures should be implemented for the valuation of financial instruments in accordance with IFRS 13 for the preparation of the financial statements of the PFs, which should encompass for example the following: (a) procedures for identification of existence of restrictions associated with the asset (i.e. on the sale or use of the asset) (IFRS 13.11), (b) procedures for determining the principal market, respectively the most advantageous market, in the absence of a principal market (IFRS 13.16) and whether the PF has access to it at the date of valuation, (c) procedures for identification of cases where there might not be market participants on the respective market, with whom the PF would enter into a transaction (IFRS 13.22), (d) procedures for determining the respective market as active or inactive in relation to the assessment of the level of inputs, used in the choses valuation method (IFRS 13.76 & 81), (e) procedures for identifying events that might affect fair value measurement, in cases where the quoted price in an active market does not represent fair value at the measurement date (IFRS 13.79b), (f) procedures for identifying circumstances which might lead to significant measurement uncertainty (IFRS 13.88).

Valuation of financial instruments

For the valuation of a bond under the requirements of Ord. 9, the PFs assumed the expected cash flows from the bond using a very high discount rate(close but not equal to 100%). . The IER considered, that because the Court had declared the bond issuer's bankruptcy and had initiated insolvency proceedings, and since the bonds were unsecured, that the amount of the expected cash flows relating to those bonds should be zero, and thus the bonds were assumed to have no value.

The IER recommended that the PF should take into consideration the actual financial position of the bond issuer and the respective amounts of the claimed secured debts from that issuer.

Risk Assessment

With respect to the risk assessment, and risks that are not captured or not fully captured by the current regulatory framework, the IER commented as follows:

The IER commented that some shares possessed by the PFs have different fair value according to IFRS 13. The IER recommended that the valuation requirements for financial instruments under Ord. 9 should be expanded in a manner of converging them, to a maximum extent, with the requirements for fair value measurement of financial instruments under IFRS 13, for example the use of the last bid price from the measurement date instead of from the previous working day in the cases where the measurement relates to the debt securities described in details above. The IER noted that the full use of the valuation techniques for fair value measurement as defined in IFRS 13, for the measurement of assets for regulatory purposes is considered as inappropriate and practically impossible. However, the fair value measurement of the financial instruments under the requirements of IFRS 13 should be made at least annually in the preparation of the annual financial statements of the PFs, which would always be the same as the value measurement of those assets, prepared for the purposes of reporting to the regulator.

Moreover, the IER performed an analysis of the similarities and differences between the definition of related parties under the SIC and IAS 24. As a result, the IER have identified that the notion of key management personnel and their close family members is not included in the definition of SIC as related parties.

The IER noted that the PFs had no implemented procedures for identification of close members of the family of the members of the Board of Directors of the PIC or of the members of the key management personnel of the parent company of the PIC, hence identification of entities controlled of such close member of the family.

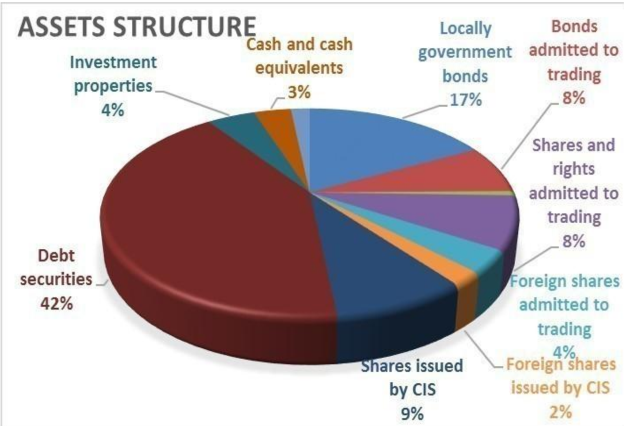
Although there are no regulatory requirements for implementation of restrictions on the investments in financial instruments issued by the above parties, the IER recommended that: (a) the PFs should implement procedures for identification of close members of the family of all of the members of the BD of the PIC and the parent company of the PIC and subsequent identification of entities controlled or jointly controlled by those persons. At this point the IER noted that even in the case where such entities exist, (b) the definition of related parties under the SIC should be expanded to include the related parties as defined in IAS 24 in order to eliminate the discrepancies between the SIC and IAS 24.

The IER commented that the current regulatory framework includes no restrictions relating to the minimum credit ratings of the issuers of debt securities identified, and recommended that the PFs should consider the enforcement of minimum credit ratings of financial instruments in which the PFs are allowed to invest in order to avoid the exposure to undue high risks. For debt securities issued or guaranteed by member states or their central banks, and by countries set out in an ordinance by FSC or their central banks, as well as for corporate debt securities accepted for trading on regulated securities markets in member states, there are no restrictions about the minimum credit rating and for the PFs there was no legal prohibition to invest in such instruments even in the cases where their credit rating was within the lowest grades designating that the issuer was not able to meet its obligations.

6. CCB-Sila

6.1 CCB-Sila UPF

The total assets of CCB-Sila UPF amounted to BGN 814.321k as of 30 June 2016 and the structure of the total assets is as follows:



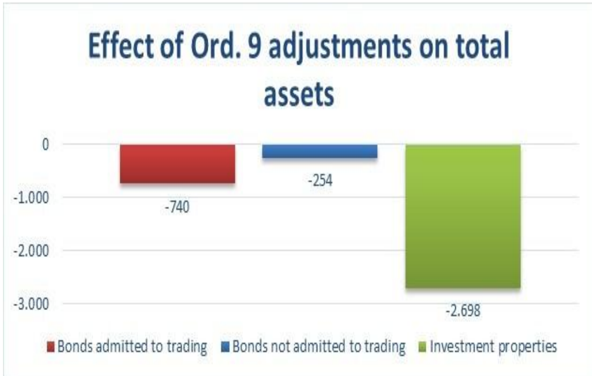
The total assets are mainly composed of:

- Debt Securities: BGN 342.005k
- Local government bonds: BGN 140.702k
- Shares issued by CIS: 71.925k
- Shares and rights admitted to trading: BGN 67.964k
- Bonds admitted to trading: BGN 60.995k
- Investment properties: BGN 36.525k

As a result of the PFAR, the IER proposed a decrease in total assets of BGN 3.692k for Ord. 9 purposes.

The total amount of adjustments consists of the following:

a) an adjustment in bonds admitted to trading and bonds not admitted to trading amounting to BGN 740k and BGN 254k respectively, due to the fact that the corporate bonds are discounted by the PF using a lower risk premium than considered by the IER, so their fair value is lower than reported;

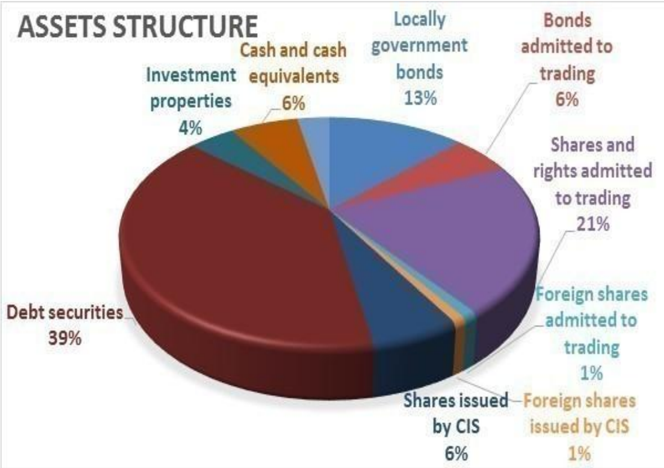


b) an adjustment in investment properties amounting to BGN 2.698k related to 5 investment properties, which arose due to various observations of the IER on the valuations of the PF's valuer, including by reference comparable properties' valuations.

For IFRS valuation purposes, an additional negative adjustment was proposed by IER amounting to BGN 4.518k: for shares admitted to trading and local government bonds, amounting to BGN 3.332k and BGN 1.186k respectively. For shares admitted to trading in inactive market, the IER followed a multiples valuation approach for IFRS purposes in order to arrive at an indicative fair value measurement, while for Ord.9 purposes the PF applied either the highest buy price from the orders or the average of the highest buying price of orders. Similarly, for the local government bonds, the difference is a result of the different approach applied for IFRS and Ord. valuation (IFRS: last bid price, Ord. 9: the average price of each issue on the secondary interbank market).

6.2 CCB-Sila PPF

The total assets of CCB-Sila PPF amounted to BGN 99.528k as of 30 June 2016 and the structure of the total assets is as follows:



The total assets are mainly composed of:

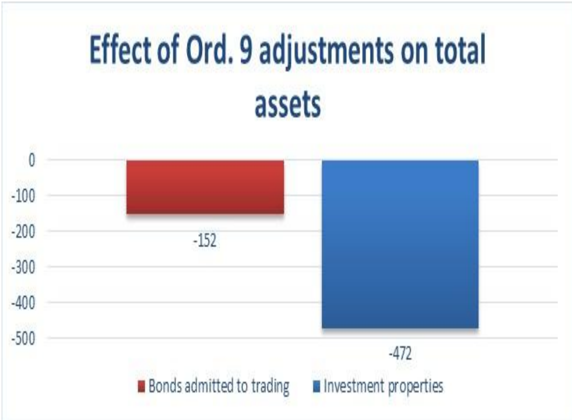
- Debt Securities: BGN 38.983k
- Shares admitted to trading: BGN 21.146k
- Local government bonds: BGN 12.758k
- Cash and cash equivalents: BGN 6.309k
- Shares issued by CIS: BGN 5.779k
- Bonds admitted to trading: BGN 5.507k

As a result of the PFAR, the IER proposed a decrease in total assets of BGN 624k for Ord. 9 purposes.

The total amount of adjustments consists of the following:

a) an adjustment in bonds admitted to trading o BGN 152k, due to the fact that the corporate bonds are discounted by the PF using a lower risk premium than considered by the IER, so their fair value is lower than reported;

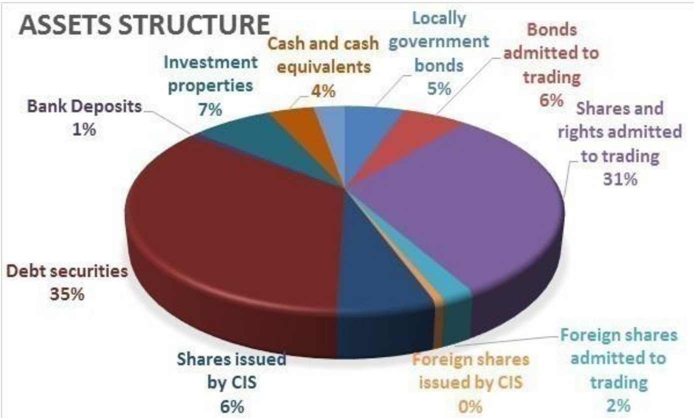
b) an adjustment in investment properties amounting to BGN 472k related to 3 investment properties for similar reasons as described for CCB-Sila UPF.



For IFRS valuation purposes, an additional negative adjustment was proposed by the IER amounting to BGN 1.634k for shares admitted to trading and local government bonds, amounting to BGN 1.529k and BGN 105k respectively. For shares admitted to trading in inactive market, the IER followed a multiples valuation approach for IFRS purposes in order to arrive at an indicative fair value measurement, while for Ord. 9 purposes, the PIC applied either the highest buy price from the orders or the average of the highest buying price of orders. Similarly, for the locally government bonds, the difference is a result of the different approach applied for IFRS and Ord.9 valuation (IFRS: last bid price, Ord. 9: the average price of each issue on the secondary interbank market).

6.3 CCB-Sila VPF

The total assets of CCB-Sila VPF amounted to BGN 70.353k as of 30 June 2016 and the structure of the total assets is as follows:

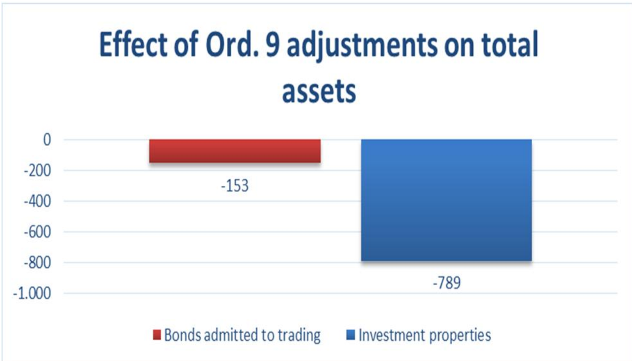


The total assets are mainly composed of:

- Debt Securities: BGN 24.332k
- Shares admitted to trading: BGN 21.549k
- Investment properties: BGN 5.086k
- Shares issued by CIS: BGN 4.317k

As a result of the PFAR, the IER proposed a decrease in total assets of BGN 942k for Ord. 9 purposes.

a) an adjustment in bonds admitted to trading amounting to BGN 153k, due to the fact that the corporate bonds are discounted by the PF using a lower risk premium than considered by the IER, thus their fair value is lower than reported;



b) an adjustment in one investment property amounting to BGN 789k mainly due to discrepancies identified in the PF valuer report, which lead to overestimated values of the building.

For IFRS valuation purposes, an additional negative adjustment was proposed amounting to BGN 1.581k for shares admitted to trading and local government bonds (BGN 1.550k and BGN 31k respectively). For shares admitted to trading in inactive market, the IER followed a multiples valuation approach for IFRS purposes in order to arrive at an indicative fair value measurement, while for Ord. 9 purposes the PIC applied either highest buy price from the orders or the average of the highest buying price of orders. Similarly, for the local government bonds, the difference is a result of the different approach applied for IFRS and Ord.9 valuation (IFRS: last bid price, Ord. 9: the average price of each issue on the secondary interbank market).

6.4 Findings and Recommendations per topic of the methodology

The main findings and recommendations for PFs managed by CBB-Sila, as extracted from the respective IER's report, are as follows per topic of the methodology:

Corporate Governance, processes and internal control framework, accounting policies

Although the PFs had put in place an Internal Control Department which was monitoring compliance with the requirements of Ord. 9, the IER noted a need for two additional positions within the Internal Control department which had remained vacant for over six months. The IER recommended to the PFs to intensify the recruitment efforts as to reduce any operational risks for the PFs and to staff and strengthen appropriately the Internal Control department.

Processes and Internal control framework

The IER identified certain exceptions where only a verbal authorization had been provided by Investment Committee members for certain purchase deals and thus, recommended that Investment Committee decisions regarding the authorized limit be properly documented for all transactions in respect of the PFs.

Moreover, the IER mentioned that the PFs had no Internal Audit function. The IER recommended the set-up of an Internal Audit function, independent of the management, with the purpose to perform an independent review of the systems of internal control of the PFs. Also, the IER recommended that the PFs: (a) set up internal controls in respect of functions outsourcing or contracting specific services (i.e. human resource function), (b) ensure fulfilment of fit & proper of specific requirements, (c) implement a Code of Ethics and (d) establish a formal channel of communication for the employees to report suspected or actual fraud or non-compliance with internal and external regulations.

Regarding the controls in the IT environment, the IER identified that the passwords configured for one system did not meet the requirements of the company's Access Control Policy in terms of the number of symbols and the complexity. The IER recommended to the PFs to change password configurations in this specific system and match the Access Control Policy implemented by the PFs. Also, although the PFs had controls over change management, the IER mentioned that the PFs had not implemented a formal Change Management Policy to document the PFs requirements for raising, approving, testing and implementing of changes in the IT systems. The IER recommended to the PFs to have a written formal requirement as to how the PFs' change management process should be implemented. In addition, the IERs mentioned that back-ups which were stored on DVD, were not tested regularly to assess the usability of the media and the PFs' ability to restore the data that was being backed-up. The IER recommended that data should be restored periodically from the back-up media for testing purposes in order to gain assurance over the data recoverability.

Furthermore the IER had certain findings in the area of risk monitoring and documentation. These relate to indication of lack of sufficient level of scrutiny and challenge on the analysis and recommendations related to the credit analysis and monthly risk monitor report prepared by the Risk Manager as well as of the review and analysis of the performance of the investment portfolio, or lack of proper documentation of the relevant discussions and conclusions; The IER recommended that the Risk Management Committee performs and documents its independent analysis in a comprehensive manner allowing for subsequent monitoring and corrective actions regarding identified risks, specific for each issue. The IER also recommended that the analysis and conclusions regarding the development of risk parameters is put into context through identification of relevant benchmarks (including appropriate quantification of these benchmarks), and also that the Company starts measuring for the Fund the concentration risk against regions and sectors of the economy.

The IER had observed that in the review and analysis of investments, the practice of the Risk Management Committee was to accept losses and stick to "hold" strategy for many assets which had already reached the stop- loss threshold. The IER recommended that the Risk Management Committee actively analyze and comprehensively document the rationale for applying consistently "hold" strategy.

Furthermore, the IER mentioned that the stress test for NAV is designed with reduction of 5% in equity prices and 1% increase in market yields for debt securities, as a result the design of the stress test did not give comprehensive picture of the potential downside risks that the PFs were facing and was rather simplistic. The IER recommended that the stress test design should follow industry best practices by including calculations of impact of changes of the standard deviations of the portfolio and/or Value at risk.

Accounting Policies

Although the annual financial statements as at 31/12/2015 contained more detailed information for the accounting policies applied by the PFs, the IERs identified that accounting policies were not comprehensive and did not cover all aspects in relation to the application of IFRS. The IER recommended that the PFs further develop the accounting policies of the PFs describing the accounting treatment (especially for the impairment of assets, the valuation of financial instruments, the events after the reporting period, related party transactions).

Valuation of financial instruments

For some categories of financial instruments the IER noticed that, in cases where there was no available information from Bloomberg, the PFs were not able to follow the basic approach and they procceded to the alternative approach, without justifying this decision. The IER recommended that the PFs should prepare an appropriate documentation based on which to describe and justify the decision of not applying the primary method, but an alternative method.

For corporate bonds the IER mentioned that in determining the discount factor used in the DCF method, the PFs did not seem to consider specific information of the issuer of the bond (i.e. issuer industry, the capacity of the borrower to make its debt payments on time, the quality and value of the assets collateralizing the issue, the terms and conditions of the debt agreement, the quality of management). The IER recommended the PFs improve the documentation of the calculation of the risk premium determination as part of the discount factor, used in the DCF method and consider the specific information of the bond issuer.

Valuation of investment properties

The IER mentioned that the PFs, in analyzing risks related to the investment properties portfolio, used an analysis based on price change obtained through updates of third party valuation reports compared to either the previous quarter reports or price change since acquisition (property by property). The IER recommended that the investment properties portfolio should be analyzed on a sub-portfolio level (by type of property) against proper benchmarks, market trends and pricing information (including prospective pricing).

In addition, the IER mentioned that there was no effective internal control mechanism established for investment properties and they recommended the PIC to consider enhancing the effectiveness of internal controls in connection with the investment properties valuation process, by enforcing an improved internal review control for all investment properties externally assessed.

Investments in related parties

The IER mentioned that there is no a written policy or procedure for identifying and disclosing parties related to issuers, and related parties in general and no controls over the current informal related party procedure. According to the procedures performed by the IER, the PF only carries out related party checks at the time of making the investment, and there is no on-going process to detect related parties given changes in shareholdings or other aspects of control.

The IER suggested that the PFs conduct and document more in-depth research into the persons that actually exercise control over the issuers. This exercise will require the PIC to request specific detailed documentation from the issuers, including voting records from shareholder meetings, investment records and shareholder and management information.

Risk Assessment

In terms of related parties' identification and disclosure process, other than what is mentioned in the section above, the IER also recommended that the new process also entails requesting detailed information from other entities in the overall Group structure to establish among other things their shareholding and their investments in the issuers. Also the management and key shareholders should also be requested to provide information about their relatives, and their investments, as defined in the referenced frameworks. In addition, the IER recommended that the PFs review their policy and procedure for assessing and identifying related parties with respect to investments in issuers. This process should include a process for third party integrity vetting consistent with international better practice.

The IER mentioned that there were a number of items for which concentration of credit risk, in terms of issuer, currency, sector and region, is above the threshold of 10%. For example there is concentration in Republic of Bulgaria (47,2%), in Eastern Europe (47,2%), in USD balances (13%), in Government sector (53,4%) and financial sectors (19,3%). The IER recommended the PFs perform a close monitoring of the credit risk concentration.

Moreover, regarding the long-term synchronization of assets and liabilities the IER observed that:

- Projections were in fact cash flow projections related to the total Net Assets of the PFs instead of projections of the Balance Sheet;
- No pensions payout was factored in the projections (including in 2021 – this is related to the lack of clarity when PFs will start paying out according to Bulgarian legislation);
- No projected structure of the PFs assets and investments portfolio was included;
- No details on year by year basis were provided regarding the effect of stresses to the Net Assets of the PFs.

The IER recommended that the "Actuarial Calculations Report should include detailed projections of the Balance Sheet of the PFs (including the asset side of the Balance Sheet), as well as plans and strategy for disposal of assets in order to fund cash outflows related to pension obligations and transfers to other pension funds. Also the IER recommended that the "Actuarial Calculations Report" should be further developed as to serve as a comprehensive and effective tool for the management of the PIC for long–term synchronization of the PFs assets and liabilities.

Furthermore, the IER identified that the PFs did not perform look through analysis of the investments in mutual funds. The IER performed a desktop research in order to identify publicly available information on the underlying investments of the mutual funds. Where there was available information, the IER noticed that a number of underlying investments of the mutual funds are also direct investments in PFs. The IER recommended the PFs perform a look through analysis of the investments included in the mutual funds.

In addition, the PFs did not have in place an IFRS procedure for assessment of the market from which prices for valuation of investments held were derived and the IER recommended the PIC to update its IFRS accounting policies to include the methodology for assessment of whether a market is active or not. For the equities which are not traded on active markets, the IER recommended to the PIC to perform alternative valuation methods (including external valuation reports) and also follow-up with the Regulator and the Auditor on the most appropriate approach.

Finally, the IERs identified circumstances on 30 June 2016 that indicate possible related party relationships in terms of IAS 24 between the PIC and some issuers (given the control holdings in the Group).

In terms of the amendments to the Social Code in effect from 12 August 2016, the IER did not identify circumstances that indicate related party relationship issues. However, the IER identified circumstances that indicated possible related party relationships in terms these amendments to the Code effective 12 August 2016 between one of the main shareholders of the PFs.

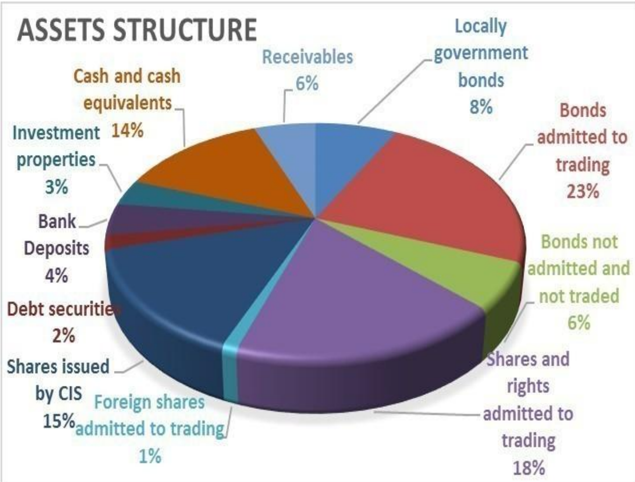
According to the IER, the shareholdings between the different companies in the Group and associated investments in some issuers were complex. The way in which the Group has been structured, and the investments made, had resulted in a structure that the IER were not able to fully understand given the limited publicly available information about the Group.

In IER research, they identified a number of connections between the Group and certain of the issuers which may suggest some relationship between them. These connections suggest there may be further related parties that are not currently disclosed by the PIC and which may fall within the related party definition of the Code and IAS 24. However, further information was required to further the analysis of potentially related parties.

7. Future/Badeshte

7.1 Future/Badeshte UPF

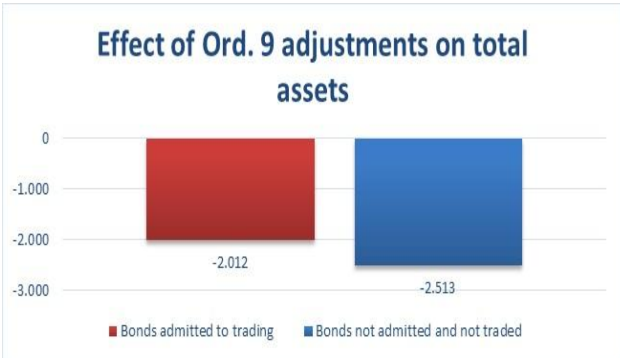
The total assets of Future/Badeshte UPF amounted to BGN 185.070k as of 30 June 2016 and the structure of the total assets is summarized as follows:



Total assets are mainly composed of:

- Bonds admitted to trading: BGN 43.056k
- Shares and rights admitted to trading: BGN 33.066k
- Shares issued by CIS: BGN 27.212
- Cash and cash equivalents: BGN 25.251k
- Locally issued government securities: BGN 14.150
- Bonds not admitted to trading: BGN 11.739k

As a result of the PFAR, the IER proposed a decrease in total assets of BGN 4.525k for Ord. 9 purposes.

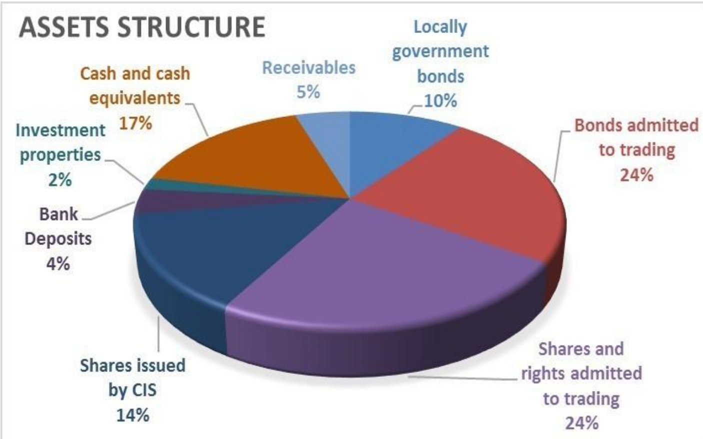


The IER proposed negative adjustments related to bonds admitted to trading and bonds not admitted to trading amounting to BGN 2.012k and BGN 2.513k respectively, due to the fact that the corporate bonds are discounted by the PF using a lower risk premium than considered by the IER, thus their fair value is lower than that reported. It is noted that for the valuation of certain corporate bonds, the IER analysed whether to consider the insurance policy / collaterals on the basis of whether there was close business relations between the PF and the insurer and also on the basis of analysis of the financial position of the insurer / collateral. In one case the IER noted that subsequent to 30 June 2016, the PF sold part of units at the same price per unit as quoted by the PF as of 30 June 2016, however, the IER considered the proposed negative adjustment as suitable, despite the subsequent event.

For IFRS valuation purposes, an additional negative adjustment was proposed by the IER for shares and rights admitted to trading, amounting to BGN 1.201k. This was due to the different approach used for the IFRS valuation (NAV and the method of capitalization of earnings), instead of average of last bid or last bid or last average closing price used for Ord. 9 purposes, as the market was considered by the IER as inactive.

7.2 Future/Badeshte PPF

The total assets of Future/Badeshte PPF amounted to BGN 11.876k as of 30 June 2016 and the structure of the total assets is as follows:



Total assets are mainly composed of:

- Bonds admitted to trading: BGN 2.846k
- Shares and rights admitted to trading: BGN 2.838k
- Cash and cash equivalents: BGN 1.981k
- Shares issued by CIS: BGN 1.717k
- Locally issued government securities: BGN 1.231k

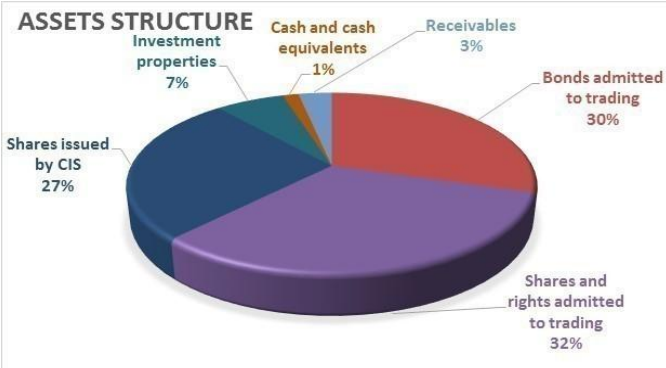
As a result of the PFAR, the IER proposed a decrease in total assets of BGN 148k for Ord. 9 purposes.

The adjustments related to a decrease in bonds admitted to trading due to the fact that the corporate bonds are discounted by the PF using a lower risk premium than considered by the IER, thus their fair value is lower than that reported.

For IFRS valuation purposes, an additional negative adjustment was proposed by the IER in shares and rights admitted to trading, amounting to BGN 155k. This was due to the different approach used for the IFRS valuation (NAV and the closing price), instead of highest buying price of orders or weighted average price used for Ord. 9 purposes, as the market was considered by the IER as inactive.

7.3 Future/Badeshte VPF

The total assets of Future/Badeshte VPF amounted to BGN 2.775k as of 30 June 2016 and the structure of the total assets was as follows:



Total assets are mainly composed of:

- Shares and rights admitted to trading: BGN 899k
- Bonds admitted to trading: BGN 824k
- Shares issued by CIS: BGN 740k

As a result of the PFAR, the IER proposed a decrease in total assets of BGN 95k for Ord. 9 purposes.

The adjustments related to a decrease in bonds admitted to trading due to the fact that the corporate bonds are discounted by the PIC using a lower risk premium than considered by the IER, thus their fair value is lower than that reported.

For IFRS valuation purposes, an additional negative adjustment was proposed by the IER in shares and rights admitted to trading, amounting to BGN 8k. This was due to the different approach used for the IFRS valuation (NAV and the closing price), instead of highest buying price of orders or weighted average price or the highest buy price from the orders used for Ord. 9 purposes, as the market was considered by the IER as inactive.

7.4 Findings and Recommendations per topic of the methodology

The main findings and recommendations for PFs managed by Future/Badeshte, as extracted from the respective IER's report, are as follows per topic of the methodology:

Processes and Internal Framework

The IER mentioned that there was no detailed investment policy and they recommended the PFs develop a more detailed investment policy, outlining the main objectives which will aim through the investments in terms of annual yield, risk appetite, maintaining spare liquidity. The IER also suggested that the investment policy should give indicative ranges of the amount of investments per asset category, so that the SIC limits are not breached. They also suggest that a minimum level of investments in governmental bonds could be included, as they are considered to be risk-free.

Accounting policies

Although there are formal policies and processes, the IER considered the accounting policies in some aspects too general and brief, especially on the recognition, valuation and disclosure of assets. The PFs applied the IFRS requirements in practice but they did not properly describe them in their formal accounting policies. In addition, the IER did not find evidence for regular updates of the accounting policies, to take into consideration the IFRS requirements regarding implementation of new standards, amendments to existing standards, the applicable possible methods for valuation and presentation of the PF's assets, and the risks related to the fund's activity.

The IER recommended the preparation of a new set of accounting policies, which will describe in detail the accounting practices of the PFs (especially in respect of the valuation of shares traded on regulated markets, where the requirements of SIC are different from those of IFRS). Following that, the IER recommended to the PFs to regularly update their accounting policies, taking into consideration the updates in IFRS (focus on including more detailed description in the relevant areas of IFRS7, IFRS13 and IAS39, which directly impact the valuation of financial instruments like repos). Finally, the IER recommended the PFs to include all the valuation methods, apart from the basic ones, so that all possible valuation methods are captured in full in the policies.

Valuation of financial instruments

The IER identified adjustments mainly in the valuation of corporate bonds, where relatively low risk premium was used by the PFs. The IER recommended the PFs to review their policy of determination of the risk premium and apply more conservative approach, so that the risk premium fully captures the relevant risk associated with the security.

Other assets

Although, the IER found that there were no indications for impairments of receivables, the IER noted that there were indications for impairment under IFRS 13 for the shares of the Group used as a collateral. The IER recommended that the collateral on the repurchase agreements be carefully and conservatively reviewed for valuation purposes and in case of need, the collateral should be increased (this was considered as critical for the determination of the collateral coverage of the repurchase agreement). In case of a decrease of fair value, the PFs should be able to detect this immediately and ask for the collateral coverage ratio to be restored to its initial level, by acquiring more shares or other assets, which could serve as a pledge (maintaining sufficient collateral coverage ratio is a guarantee that no impairment of the receivable will be needed in the future)

Risk Assessment

The IER noted that the PFs had suitable control environment for detecting and observing the established restrictions, however, the management did not undertake long-term measures to prevent such breaches of restrictions in the future, by continuing to invest close to the limit. This made the PFs vulnerable to even small price changes which could easily passively breach the limit. The IER strongly suggested that the management should keep larger buffers for each of the investment categories.

Moreover, the IER mentioned high concentration in Bulgarian market and financial sector and the IER recommended that the PFs should diversify their portfolio structure in terms of geography, because currently it was only exposed to the systematic risks related to the domestic economy as a whole.

With respect to the risk assessment, and risks that are not captured or not fully captured by the current regulatory framework, the IER commented as follows:

The IER comment that some shares possessed by the PFs have different fair value according to IFRS 13. The IER recommended that the valuation requirements for financial instruments under Ord. 9 should be expanded in a manner of converging them, to a maximum extent, with the requirements for fair value measurement of financial instruments under IFRS 13, for example the use of the last bid price from the measurement date instead of from the previous working day in the cases where the measurement relates to the debt securities described in details above. The IER noted that the full use of the valuation techniques for fair value measurement as defined in IFRS 13, for the measurement of assets for regulatory purposes is considered as inappropriate and practically impossible. However, the fair value measurement of the financial instruments under the requirements of IFRS 13 should be made at least annually in the preparation of the annual financial statements of the PFs, which would always be the same as the value measurement of those assets, prepared for the purposes of reporting to the regulator.

Moreover, the IER performed an analysis of the similarities and differences between the definition of related parties under the SIC and IAS 24. As a result, the IER have identified that the notion of key management personnel and their close family members is not included in the definition of SIC as related parties.

The IER noted that the PFs had no implemented procedures for identification of close members of the family of the members of the Board of Directors of the PIC or of the members of the key management personnel of the parent company of the PIC, hence identification of entities controlled of such close member of the family.

Although there are no regulatory requirements for implementation of restrictions on the investments in financial instruments issued by the above parties, the IER recommended that: (a) the PFs should implement procedures for identification of close members of the family of all of the members of the BD of the PIC and the parent company of the PIC and subsequent identification of entities controlled or jointly controlled by those persons. At this point the IER noted that even in the case where such entities exist, (b) the definition of related parties under the SIC should be expanded to include the related parties as defined in IAS 24 in order to eliminate the discrepancies between the SIC and IAS 24.

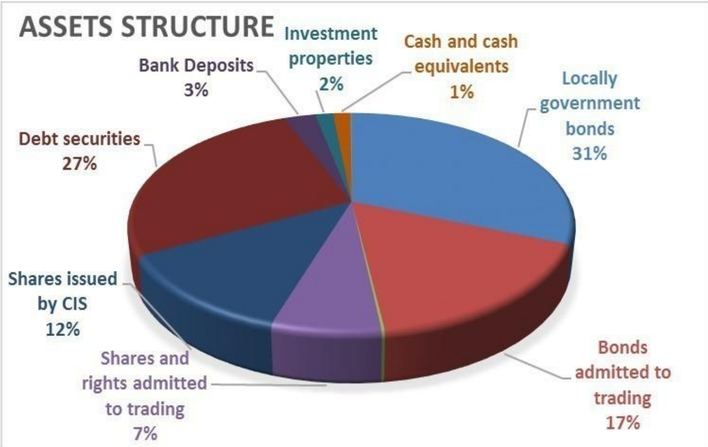
The IER commented that the current regulatory framework includes no restrictions relating to the minimum credit ratings of the issuers of debt securities identified, and recommended that the PFs should consider the enforcement of minimum credit ratings of financial instruments in which the PFs are allowed to invest in order to avoid the exposure to undue high risks. For debt securities issued or guaranteed by member states or their central banks, and by countries set out in an ordinance by FSC or their central banks, as well as for corporate debt securities accepted for trading on regulated securities markets in member states, there are no restrictions about the minimum credit rating and for the PFs there was no legal prohibition to invest in such instruments even in the cases where their credit rating was within the lowest grades designating that the issuer was not able to meet its obligations.

Although the IER did not identify any investments in related parties, the IER noted that there was concentration in entities of the two Groups, which were subject to impairment under IFRS 13. The IER recommended the PFs carefully check the issuers of securities for participation in groups of related parties and make in-depth analysis for the expected return on investment in such companies. Also, the IER recommended the PFs decrease the investments in these two groups to a reasonable level, especially in these assets which show lower fair value, since there are signs that these groups have close business relations, limited ownership of the one over the other.

8. Toplina

8.1 Toplina UPF

The total assets of Toplina UPF amounted to BGN 91.739k as of 30 June 2016 and the structure of the total assets is as follows:

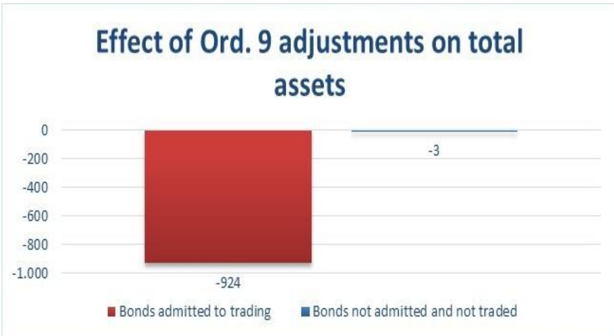


The total assets are mainly composed of:

- Locally issued government securities: BGN 28.567k
- Debt securities: BGN 24.596k
- Bonds admitted to trading: BGN 15.478k
- Shares issued by CIS: BGN 11.358k

As a result of the PFAR, the IER proposed a decrease in total assets of BGN 927k for Ord. 9 purposes.

The adjustments relate to bonds admitted to trading due to the fact that the corporate bonds are discounted by the PIC using a lower risk premium than considered by the IER, thus their fair value is lower than that reported.

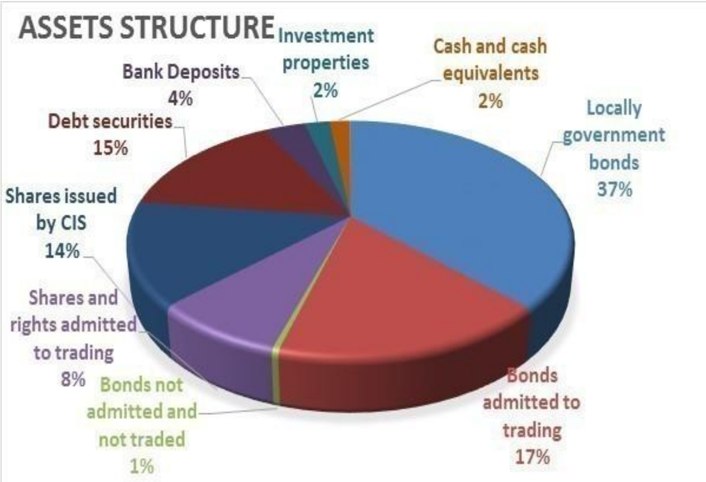


For IFRS valuation purposes, other than the above, an additional positive adjustment was proposed by the IER in shares and rights admitted to trading, amounting to BGN 1.144. This is due to the different approach used for the IFRS valuation (NAV and the multiple approach), instead of average of last bid or last bid or last average closing price or highest buy price from the orders used for Ord. 9 purposes.

The most significant positive adjustment came from shares in one entity for the valuation of which the IER used comparable.

8.2 Toplina PPF

The total assets of Toplina PPF amounted to BGN 41.780k as of 30 June 2016 and the structure of the total assets is as follows:

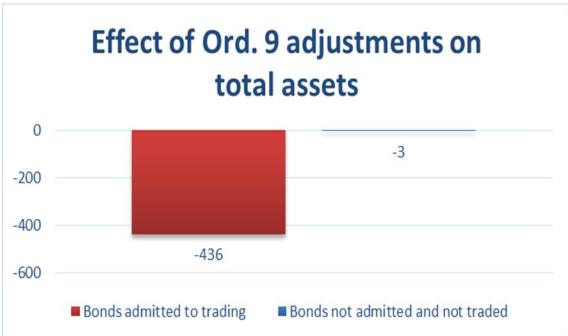


The total assets are mainly composed of:

- Locally issued government securities: BGN 15.621k
- Bonds admitted to trading: BGN 7.093k
- Debt securities: BGN 6.394k
- Shares issued by CIS: BGN 5.881k
- Shares and rights admitted to trading: BGN 3.421k

As a result of the PFAR, the IER proposed a decrease in total assets of BGN 439k for Ord. 9 purposes.

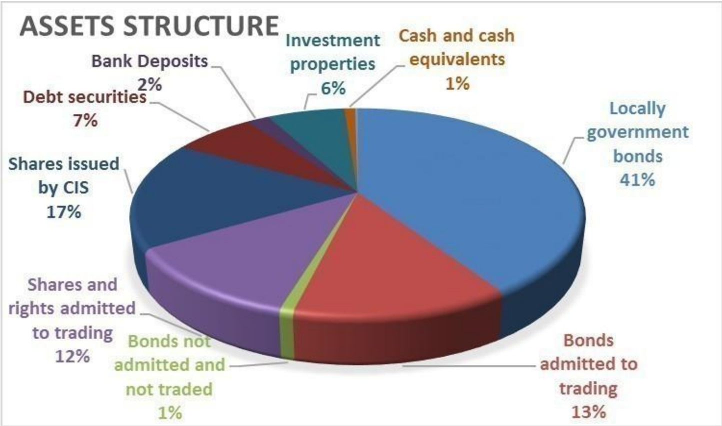
The adjustments relate to decrease in bonds admitted to trading due to the fact that the corporate bonds are discounted by the PIC using a lower risk premium than considered by the IER, thus their fair value is lower than that reported.



For IFRS valuation purposes, an additional positive adjustment was proposed by the IER in shares and rights admitted to trading, amounting to BGN 532k. This is due to the different approach used for the IFRS valuation (NAV and the multiple approach), instead of average of last bid or last bid or last average closing price or highest buy price from the orders used for Ord. 9 purposes. The most significant positive adjustment comes from the shares of the entity referred to for the UPF above.

8.3 Toplina VPF

The total assets of Toplina VPF amounted to BGN 10.272k as of 30 June 2016 and the structure of the total assets is as follows:

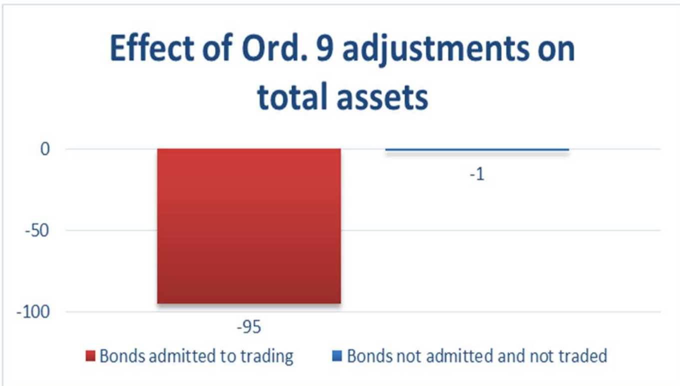


The total assets are mainly composed of:

· Locally government bonds: BGN 4.188k
· Shares issued by CIS: BGN 1.722k
· Bonds admitted to trading: BGN 1.341k
· Shares and rights admitted to trading: BGN 1.212k

As a result of the PFAR, the IER proposed a decrease in total assets of BGN 96k for Ord. 9 purposes.

The adjustments relate to decrease in bonds admitted to trading due to the fact that the corporate bonds are discounted by the PF using a lower risk premium than considered by the IER, thus their fair value is lower than that reported.



For IFRS valuation purposes, an additional positive adjustment was proposed by the IER in shares and rights admitted to trading, amounting to BGN 59k. This is due to the different approach used for the IFRS valuation (NAV and the multiple approach), instead of average of last bid or last bid or last average closing price or highest buy price from the orders used for Ord. 9 purposes. The most significant positive adjustment comes from the shares of the entity referred to for the UPF above.

8.4 Findings and Recommendations per topic of the methodology

The main findings and recommendations for PFs managed by Toplina, as extracted from the respective IER's report, are as follows per topic of the methodology:

Accounting policies

Although there are formal policies and processes, the IER considered the accounting policies in some aspects too general and brief, especially on the recognition, valuation and disclosure of assets. The PFs applied the IFRS requirements in practice but they did not properly describe them in their formal accounting policies. In addition, the IER did not find evidence for regular updates of the accounting policies, to take into consideration the IFRS requirements regarding implementation of new standards, amendments to existing standards, the applicable possible methods for valuation and presentation of the PF's assets, and the risks related to the fund's activity.

The IER recommended the preparation of a new set of accounting policies, which will describe in detail the accounting practices of the PFs (especially in respect of the valuation of shares traded on regulated markets, where the requirements of SIC are different from those of IFRS). Following that, the IER recommended to the PFs to regularly update their accounting policies, taking into consideration the updates in IFRS (focus on including more detailed description in the relevant areas of IFRS7, IFRS13 and IAS39, which directly impact the valuation of financial instruments). Finally, the IER recommended the PFs to include all the valuation methods, apart from the basic ones, so that all possible valuation methods are captured in full in the policies.

Valuation of financial instruments

The IER identified adjustments mainly in the valuation of corporate bonds, where relatively low risk premium was used by the PFs. The IER recommended the PFs to review their policy of determination of the risk premium and apply more conservative approach, so that the risk premium fully captures the relevant risk associated with the security.

Risk Assessment

With respect to the risk assessment, and risks that are not captured or not fully captured by the current regulatory framework, the IER commented as follows:

The IER comment that some shares possessed by the PFs have different fair value according to IFRS 13. The IER recommended that the valuation requirements for financial instruments under Ord. 9 should be expanded in a manner of converging them, to a maximum extent, with the requirements for fair value measurement of financial instruments under IFRS 13, for example the use of the last bid price from the measurement date instead of from the previous working day in the cases where the measurement relates to the debt securities described in details above. The IER noted that the full use of the valuation techniques for fair value measurement as defined in IFRS 13, for the measurement of assets for regulatory purposes is considered as inappropriate and practically impossible. However, the fair value measurement of the financial instruments under the requirements of IFRS 13 should be made at least annually in the preparation of the annual financial statements of the PFs, which would always be the same as the value measurement of those assets, prepared for the purposes of reporting to the regulator.

Moreover, the IER performed an analysis of the similarities and differences between the definition of related parties under the SIC and IAS 24. As a result, the IER have identified that the notion of key management personnel and their close family members is not included in the definition of SIC as related parties.

The IER noted that the PFs had no implemented procedures for identification of close members of the family of the members of the Board of Directors of the PIC or of the members of the key management personnel of the parent company of the PIC, hence identification of entities controlled of such close member of the family.

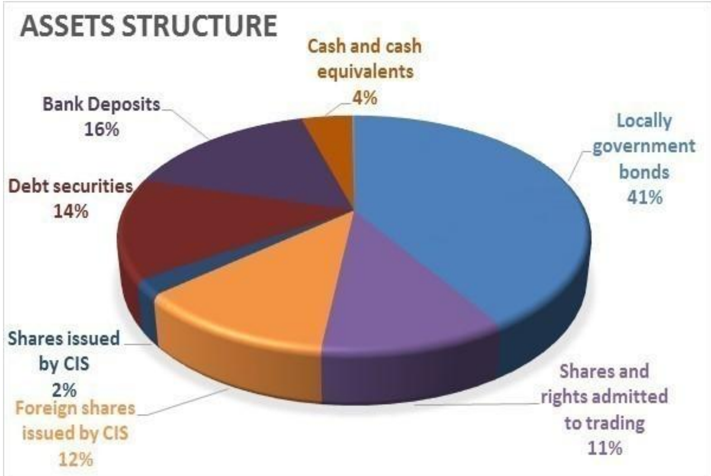
Although there are no regulatory requirements for implementation of restrictions on the investments in financial instruments issued by the above parties, the IER recommended that: (a) the PFs should implement procedures for identification of close members of the family of all of the members of the BD of the PIC and the parent company of the PIC and subsequent identification of entities controlled or jointly controlled by those persons. At this point the IER noted that even in the case where such entities exist, (b) the definition of related parties under the SIC should be expanded to include the related parties as defined in IAS 24 in order to eliminate the discrepancies between the SIC and IAS 24.

The IER commented that the current regulatory framework includes no restrictions relating to the minimum credit ratings of the issuers of debt securities identified, and recommended that the PFs should consider the enforcement of minimum credit ratings of financial instruments in which the PFs are allowed to invest in order to avoid the exposure to undue high risks. For debt securities issued or guaranteed by member states or their central banks, and by countries set out in an ordinance by FSC or their central banks, as well as for corporate debt securities accepted for trading on regulated securities markets in member states, there are no restrictions about the minimum credit rating and for the PFs there was no legal prohibition to invest in such instruments even in the cases where their credit rating was within the lowest grades designating that the issuer was not able to meet its obligations.

9. POI

9.1 POI UPF

The total assets of POI UPF amounted to BGN 89.362k as of 30 June 2016 and the structure of the total assets is as follows:



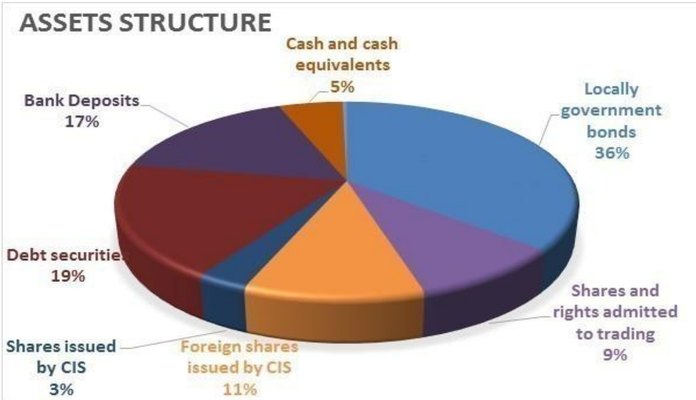
The total assets are mainly composed of:

- Locally government bonds: BGN 32.347k
- Debt Securities: BGN 16.643k
- Bank Deposits: BGN 14.731k
- Foreign shares issued by CIS: BGN 9.465k
- Shares admitted to trading: BGN 8.294k

As a result of the PFAR, the IER did not propose any adjustment for Ord. 9 but for IFRS purposes the IER proposed a positive adjustment amounting to BGN 36k due to the different approach used for the IFRS valuation (bid or closing price as of 30 June 2016), instead of the average of the highest buying price of orders or highest buy price or weighted average price used for Ord. 9 purposes.

9.2 POI PPF

The total assets of POI PPF amounted to BGN 16.482k as of 30 June 2016 and the structure of the total assets is as follows:



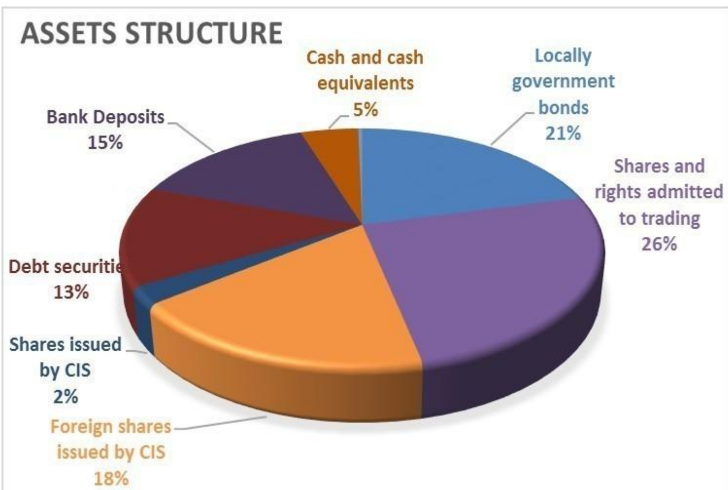
The total assets are mainly composed of:

- Locally government bonds: BGN 6.781k
- Bank Deposits: BGN 2.652k
- Debt Securities: BGN 2.284k
- Foreign shares issued by CIS: BGN 1.937k

As a result of the PFAR, the IER did not propose any adjustment for Ordinance 9 but for IFRS purposes the IER proposed a positive adjustment amounting to BGN 6k due to the different approach used for the IFRS valuation (closing price as of 30 June 2016), instead of the weighted average price and average of the highest buying price of orders used for Ord. 9 purposes.

9.3 POI VPF

The total assets of POI VPF amounted to BGN 737k as of 30 June 2016 and the structure of the total assets is as follows:



The total assets are mainly composed of:

- Shares admitted to trading: BGN189k
- Locally government bonds: BGN 155k
- Foreign shares issued by CIS: BGN 131k
- Bank Deposits: BGN 108k
- Debt Securities: BGN 100k

As a result of the PFAR, the IER did not propose any adjustment for Ord. 9 but for IFRS purposes the IER proposed a positive adjustment amounting to BGN 0,5k due to the different approach used for the IFRS valuation (closing price as of 30 June 2016), instead of the weighted average price and average of the highest buying price of orders used for Ord. 9 purposes.

9.4 Findings and Recommendations per topic of the methodology

The main findings and recommendations for PFs managed by POI, as extracted from the respective IER's report, are as follows per topic of the methodology:

Accounting Policies

Although there are formal policies and processes, the IER considered the accounting policies in some aspects too general and brief, especially on the recognition, valuation and disclosure of assets. The PFs applied the IFRS requirements in practice but they did not properly describe them in their formal accounting policies. In addition, the IER did not find evidence for regular updates of the accounting policies, to take into consideration the IFRS requirements regarding implementation of new standards, amendments to existing standards, the applicable possible methods for valuation and presentation of the PF's assets, and the risks related to the fund's activity.

The IER recommended the preparation of a new set of accounting policies, which will describe in detail the accounting practices of the PFs (especially in respect of the valuation of shares traded on regulated markets, where the requirements of SIC are different from those of IFRS). Following that, the IER recommended to the PFs to regularly update their accounting policies, taking into consideration the updates in IFRS (focus on including more detailed description in the relevant areas of IFRS7, IFRS13 and IAS39, which directly impact the valuation of financial instruments like repos). Finally, the IER recommended the PFs to include all the valuation methods, apart from the basic ones, so that all possible valuation methods are captured in full in the policies.

Risk Assessment

With respect to the risk assessment, and risks that are not captured or not fully captured by the current regulatory framework, the IER commented as follows:

The IER comment that some shares possessed by the PFs have different fair value according to IFRS 13. The IER recommended that the valuation requirements for financial instruments under Ord. 9 should be expanded in a manner of converging them, to a maximum extent, with the requirements for fair value measurement of financial instruments under IFRS 13, for example the use of the last bid price from the measurement date instead of from the previous working day in the cases where the measurement relates to the debt securities described in details above. The IER noted that the full use of the valuation techniques for fair value measurement as defined in IFRS 13, for the measurement of assets for regulatory purposes is considered as inappropriate and practically impossible. However, the fair value measurement of the financial instruments under the requirements of IFRS 13 should be made at least annually in the preparation of the annual financial statements of the PFs, which would always be the same as the value measurement of those assets, prepared for the purposes of reporting to the regulator.

Moreover, the IER performed an analysis of the similarities and differences between the definition of related parties under the SIC and IAS 24. As a result, the IER have identified that the notion of key management personnel and their close family members is not included in the definition of SIC as related parties.

The IER noted that the PFs had no implemented procedures for identification of close members of the family of the members of the Board of Directors of the PIC or of the members of the key management personnel of the parent company of the PIC, hence identification of entities controlled of such close member of the family.

Although there are no regulatory requirements for implementation of restrictions on the investments in financial instruments issued by the above parties, the IER recommended that: (a) the PFs should implement procedures for identification of close members of the family of all of the members of the BD of the PIC and the parent company of the PIC and subsequent identification of entities controlled or jointly controlled by those persons. At this point the IER noted that even in the case where such entities exist, (b) the definition of related parties under the SIC should be expanded to include the related parties as defined in IAS 24 in order to eliminate the discrepancies between the SIC and IAS 24.

The IER commented that the current regulatory framework includes no restrictions relating to the minimum credit ratings of the issuers of debt securities identified, and recommended that the PFs should consider the enforcement of minimum credit ratings of financial instruments in which the PFs are allowed to invest in order to avoid the exposure to undue high risks. For debt securities issued or guaranteed by member states or their central banks, and by countries set out in an ordinance by FSC or their central banks, as well as for corporate debt securities accepted for trading on regulated securities markets in member states, there are no restrictions about the minimum credit rating and for the PFs there was no legal prohibition to invest in such instruments even in the cases where their credit rating was within the lowest grades designating that the issuer was not able to meet its obligations.

Finally, the IER mentioned that although they did not find differences in the identified related parties resulting from the change in the definition of the new Law entering into effect on 12 August 2016, they noted a relevant change in the Rules for the organization of activity of the PFs, should be made at the date of the IER' report.