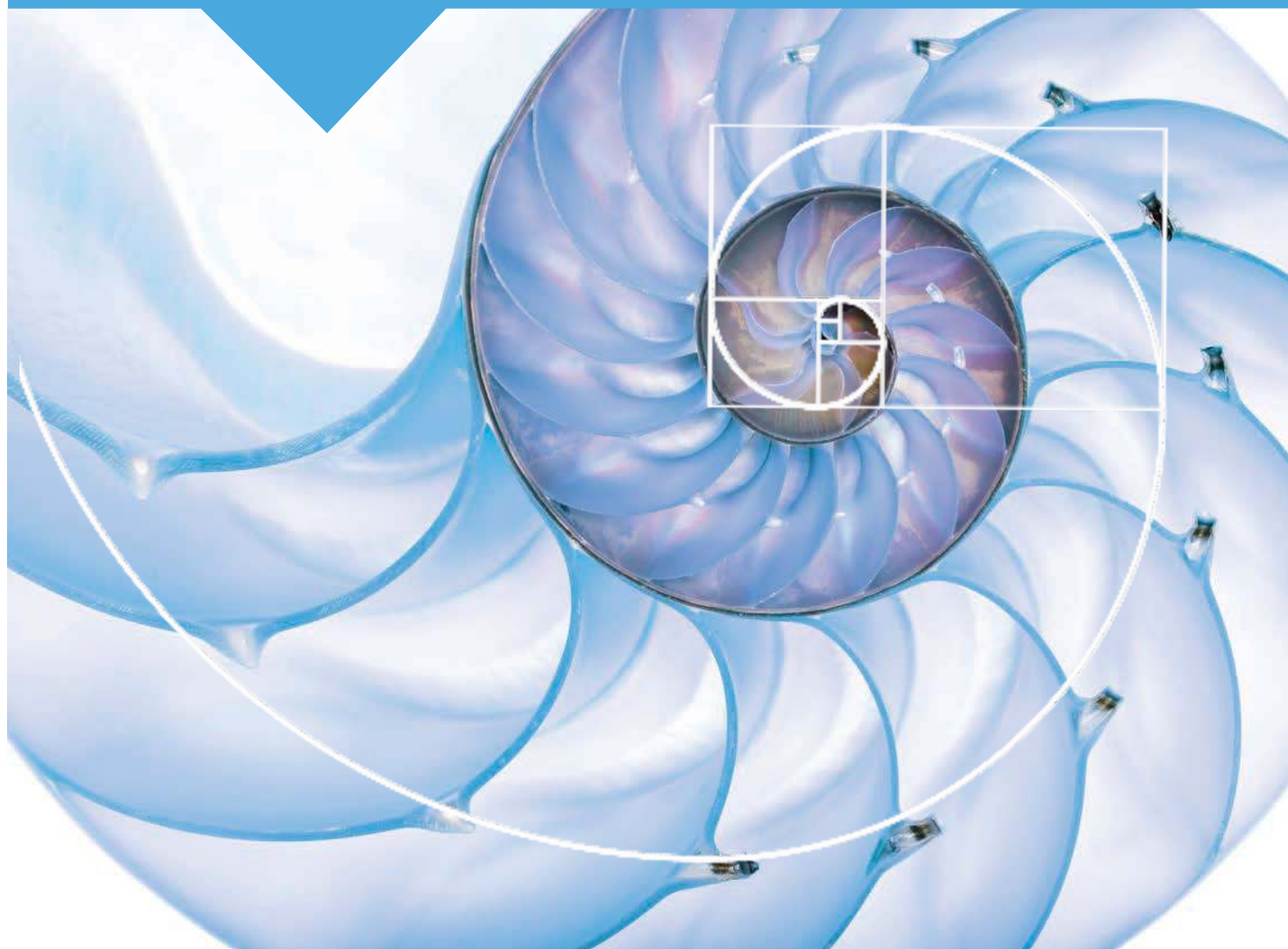


2015

Annual **REPORT**

FINANCIAL SUPERVISORY AUTHORITY



FINANCIAL
SUPERVISORY
AUTHORITY

Note

2015 Annual Report was reviewed and approved by the Financial Supervisory Authority's Board in its meeting on 9th of June, 2016 and it was submitted to the Romanian Parliament in compliance with the provisions of the Government Emergency Ordinance no. 93/2012 on the establishment, organization and operation of the Financial Supervisory Authority approved with further changes and amendments through Law no. 113/2013, with further changes and amendments.

This annual report presents the events of 2015 calendar year and reflects data as of 31st of December 2015.

Some statistical data included are provision, as they are to be reviewed in future publications issued by the Financial Supervisory Authority. Due to the rounding up exercise, it is possible for some totals not to match exactly the sum of all components or some small differences might appear compared to the percentage-based variations displayed in graphs or tables.

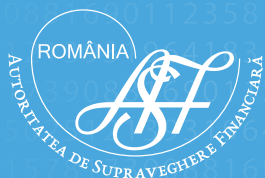
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Cover – geometrical representation of Fibonacci sequence*, a sequence of natural elements in which two consecutive elements have a "golden ratio" (approximately 1.618), which was taken over from Mathematics and used in music, sciences, arts or architecture, whose growth algorithm governs the development of a large number of elements to be found in nature.

*Leonardo Pisano Bogollo, Italian mathematician, 1170 – 1250.



FINANCIAL
SUPERVISORY
AUTHORITY

ANNUAL REPORT

FINANCIAL SUPERVISORY AUTHORITY

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TOWARD A NEW CYCLE OF HEALTHY GROWTH

Misu Negritoiu

Revising and strengthening the insurance sector by means of restoring the market mechanisms and the responsible governance principles, the effort of dismantling cost and regulatory barriers on the capital market and promoting it as a viable financing alternative, alongside with an improved framework for the private pensions system have all been the priorities of the Financial Supervisory Authority's (FSA) in 2015.

Having to face with several overlapped challenges caused by overdue reforms especially on the insurance market, but also on the capital market, FSA continued to allocate resources and energy into building its institutional capacity so as to become fully capable of fulfilling its main mission stated in the Articles of Incorporation, the Emergency Order no.93/2012: "strengthening an integrated framework for the functioning and supervision of markets, participants and transactions".

FSA's entire activity during last year focused on the objective that the three main non-banking financial markets – insurance, capital market and private pensions – be functional, stable but also dynamic, able to meet their role as key elements of a healthy and modern financial system, adjusted to the European model. And today we can once again speak of growing markets that have found their good path.

With a clearly improved regulatory framework that can prevent and manage risks more efficiently, following a careful identification and assessment of vulnerabilities and with FSA's concern to find solutions, including in the dialogue all the participants to the markets, the non-banking financial system can now take the final leap toward the status of an active, relevant participant to financing economy.

In 2015, for a fourth consecutive year, the non-banking financial markets increased their weight in the GDP and are moving up to gradually balance against the dominant banking system, but still shy away from the European average, namely from the optimal positioning in the structure of the national financial system.

By taking all the actions to reduce the moral hazard, mostly in the insurance industry and to eliminate the likely of new surprises that could unbalance the markets and, last but not least, by strengthening its own institutional capacity to address the challenges, FSA laid the sound foundation for the non-banking markets to gain the growth momentum, to be more open to consumers and to diversify so as to ensure a sustainable growth cycle on the long term.

Achievements of 2015 – from the premiere auditing of the entire insurance sector to recovering delays in the harmonization with the European regulatory framework, from the end of the RASDAQ era on the capital market to a step-by-step supervision of the programme to receive

the status of emerging market – these all motivate and encourage us to continue the project of developing non-financial markets.

FSA concluded last year a very ambitious and difficult process of institutional reform, but there is no time rest. On the contrary, strengthening the achieved results and handling challenges that we still confront this year, require us to use at full capacity our human and institutional resources, preserving the aim to protect the interests of consumers of non-banking financial services.

Items on the FSA agenda for 2016 include repositioning the MTPL market on new modern and solid foundations, solving the recovery files of certain players on the insurance market, attracting new investors and encouraging new product development, joining the efforts to attract new issuers on the capital market, including incentivizing both municipal and corporate bonds' market, assessing the options to develop the private pensions system.

This year heralds to be far more predictable, adding solid bricks to the project of relaunching non-banking markets with healthy foundations, observing the European principles of transparency, good governance and customer care.



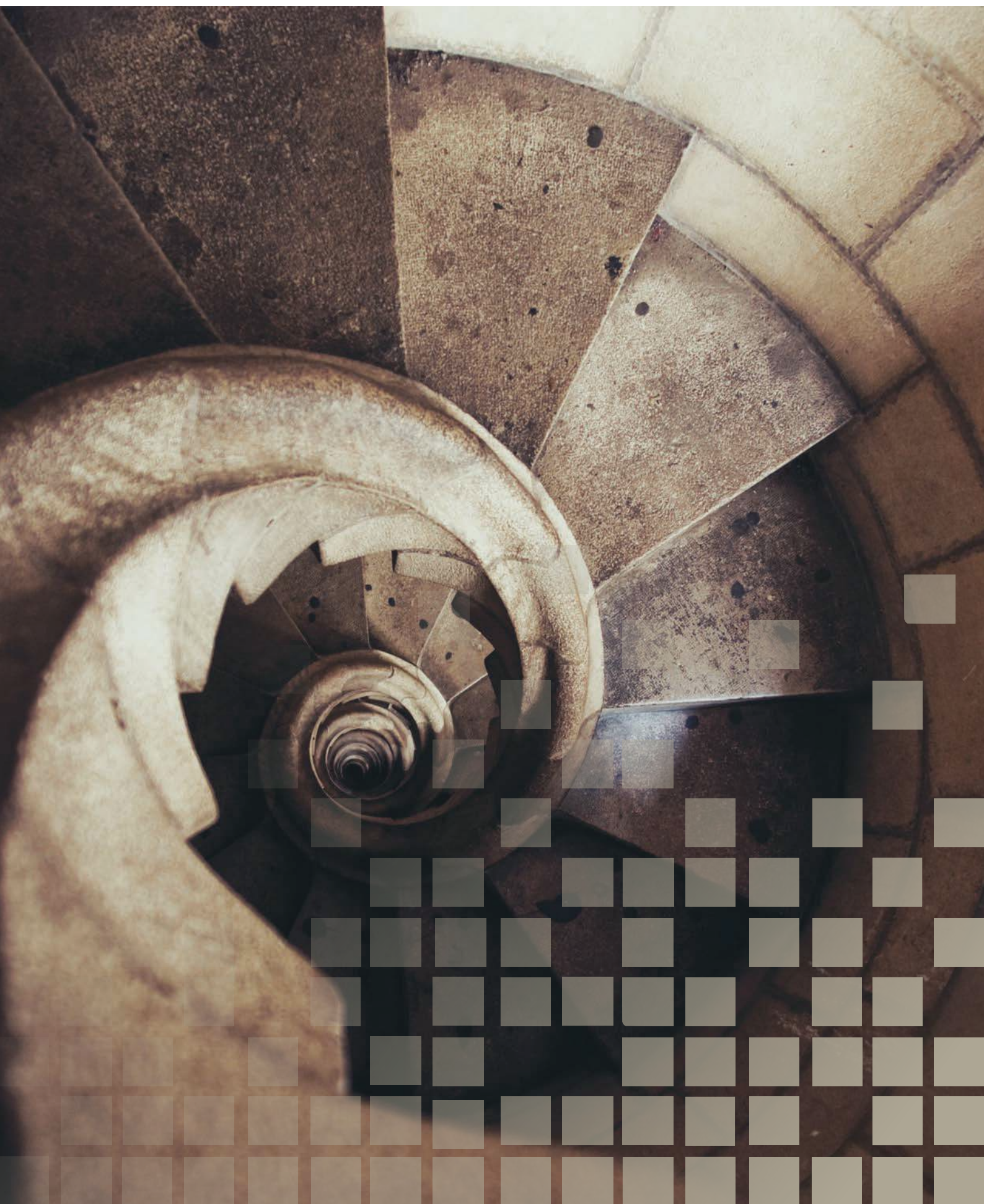
FSA BOARD



Left to right:

Daniel Stefan Armeanu - Member; **Gabriela Boca** - Member; **Gheorghe Marcu** - Member;
Biro Albin - Member; **Misu Negritoiu** - President; **Cornel Coca Constantinescu** - Prime – Vice-president;
Ion Giurescu - Vice-president; **Mircea Ursache** - Vice-president; **Marius Vorniceanu** - Vice-president





MAIN ACHIEVEMENTS

What did we do in 2015?



2015: The Insurance Year	BSR & BSRE Audit Exercise for insurance company	Increasing the supervisory activities and applying measures for financial recovery	Preparing a full and modern set of laws
Major reforms on the capital market	Clarifying the status of the RASDAQ market and the unlisted securities market	Aligning with European regulations and reforming the legal framework	Removing a series of obstacles to the functioning of the market
Amendments to regulations for the private pension funds market	Amending the primary legislation	A more relaxed investment policy	Improving the risk and forecasting framework
Finalizing the FSA institutional reform	Reforming the organisational structure and institutional governance	Harmonizing salaries in all structures of the organisation	Allocating the staff to the new List of Positions and establishing the Institute for Financial Studies

2015: The Insurance Year

The year of 2015 was the milestone for FSA as new transformations, reforms and adjustments of all supervised financial markets were initiated and implemented, aiming to increase the quality of the provided services and the level of trust of financial service consumers.

The insurance sector covered an important step by implementing new standards regarding both the functioning, the financial soundness of the insurance companies and the quality distribution of insurance products as well as the legal framework and norms. The main benchmarks on the transformation of the insurance market consist in:

THE AUDIT OF INSURANCE COMPANIES

For the first time in the history of insurance, the Financial Supervisory Authority performed an in depth assessment of all insurance companies by means of independent auditors. These efforts entailed running two exercises, the first entitled BSR (Balance Sheet Review), alongside the European Commission and EIOPA, and a second, entitled BRSE (Balance Sheet Review Extended), carried out exclusively with national resources. As a result of the two exercises, 10 insurance companies were identified as undercapitalized (4 - after the BSR exercise and 6 - after the BRSE exercise).

The main operational objectives of evaluating the balance sheet assets and liabilities and of the stress test for the Romanian insurance sector included:

- a review of the insurance portfolio of each participant in order to determine the obligations resulting from insurance contracts, evaluation of the adequacy level of technical provisions and a real estimate of their economic value;
- evaluation of the adequacy of recognition and evaluation principles applied to all liabilities and assets of the company with a special emphasis on the impact of operations and transactions with individuals or legal entities in close relation with the company;
- evaluation of the efficiency of instruments used to transfer risks to third parties as concerns the risks related to (re) insurance contracts underwritten by the company, including the final reinsurance contracts;
- analysis of the adequacy level of the equity of participating companies to solvency requirements;
- evaluation of the Romanian insurance sector's resilience to different shocks and identification of the main vulnerabilities and issues that might require additional supervisory measures.

ESCALATING THE SUPERVISORY ACTIVITY AND IMPLEMENTING SOME FINANCIAL RECOVERY MEASURES

As a result of intensifying the supervisory activity and improving the regulations, the following measures were implemented for the strengthening and financial recovery of the entities in the insurance-reinsurance sector:

- Increasing the capital of insurance brokers and insurance companies;
- initiating the financial recovery procedure based on a financial recovery plan for two insurance companies: Carpatica Asig and Euroins;
- Ending the financial recovery procedure and acknowledging insolvency, along with the withdrawal of the functioning authorization and initiating the bankruptcy procedure for ASTRA SA Insurance-Reinsurance Company;
- Restructuring the Policyholders' Guarantee Fund as per the new legal framework;
- Consequent to the abovementioned measures, the entities' financial soundness increased taking into account that additional capital was injected into the entire insurance system and that the insurance brokers also raised their capital with a total value that exceeds Lei 28 million.

DRAFTING A COMPLETE AND MODERN LEGAL FRAMEWORK

The main components of the legislation amended during 2015 focused on the solvency requirements of the insurance companies, the organization and functioning of the Policyholders' Guarantee Fund and implementation of the resolution mechanism for insurers, as follows:

- Law 237/2015 on authorizing and supervising the insurance and reinsurance activity transposes the Solvency II regime (Directive 2009/138/EC) into Romanian legislation. . The implementation of such complex action entailed for FSA also a process of drafting rules regarding those issues that have not been yet regulated through secondary level European legislation directly applicable to Member States, the initiation of a large training programme, and the launch of an ongoing dialogue with the market. This legal framework also involves, among others, a major change in the manner in which FSA exercises its supervisory powers, with a risk-based supervision;
- Law 213/2015 on the Policyholders' Guarantee Fund aims to modernize the guarantee scheme for Romanian policyholders by creating a viable and efficient functioning mechanism for this entity and also aims to clarify the its scope, to regulate its legal status, its financing resources, the procedure and payment conditions of insurance receivables from the Fund's available funds, as well as aspects relating to the management and administration thereof;

- an absolute premiere for Europe consists in the efforts initiated and promoted by FSA that materialized into Law 246/2015 on the recovery and resolution of insurers. This law is compatible with the mechanism and resolution instruments in the banking system and aims to create a new legal framework for managing financial crises by introducing provisions on the measures and instruments for early and quick intervention in case of a insurer financial deterioration. The measures and instruments intend to protect the insurance creditors, to minimize the impact on protection funds, to protect public funds by minimizing the dependence on the public financial support, to avoid significant negative effects on the financial stability of the insurance market, to maintain the market order and boost trust.
- Moreover, significant resources were allotted to draft the secondary legislation applicable to insurance and/or reinsurance brokers, as per the Insurance Distribution Directive (IDD), as well as the online distribution of insurance products.

Important Reforms on the Capital Market

The capital market underwent a series of structural reforms meant to improve its functioning, such as clarification of the status of the RASDAQ market, implementing the European directives on the collective investment undertakings and the managers of alternative investment funds, thus stimulating market development, dismantling barriers identified through the STEAM project and increasing the competitiveness of the capital market.

CLARIFICATION OF THE STATUS OF THE RASDAQ MARKET AND OF THE UNLISTED SECURITIES MARKET

The process of implementing the provisions of Law 151/2014 on the clarification of the status of the RASDAQ market and of unlisted securities market was quite complex (EGSM summoning, EGSM Decision, receiving withdrawal applications, appointing chartered experts, preparing an appraisal report, payment of shares, transfer of shares from the shareholders' account exercising their withdrawal right into the company's account), spreading throughout a period of 6 months from the EGSM Decision.

In the timeframe covered from the entry into force of Law 151/2014 until the date when the activities of the two markets ceased rightfully, FSA supervised how the issuers observed the procedure and sanctioned any breach of the norms.

After completing the restructuring of the RASDAQ market and of unlisted securities market, 311 companies with shares traded on the RASDAQ market or on the unlisted securities market were transferred to the regulated market/ATS as follows:

- 5 companies on the regulated market managed by the Bucharest Stock Exchange (BVB);
- 271 on ATS managed by BVB;
- 35 on ATS managed by Sibex.

A number of 587 issuers were removed from trading for failure to observe the procedures to implement the law; the FSA issued 208 sanctions.

The activity of the RASDAQ market and of the unlisted securities market ceased rightfully on October 27th 2015.

HARMONIZATION WITH THE EUROPEAN REGULATIONS AND REFORMING THE LEGAL FRAMEWORK

Law no.74/2015 on the managers of alternative investment funds was enacted, transposing into the national legislation the provisions of the AIFM Directive (Directive on Alternative Investment Fund Managers). To implement this law and in order to clarify some of the provisions of the Delegated Regulation of the EU no. 231/2013 on implementing AIFMD, FSA issued the Regulation no.10/205 on managing alternative investment funds.

2015 was also the year for adopting the law that amend the Emergency Order no.32/2012 aiming to transpose the (EU) Directive no.91/2014 as regards depositary functions, remuneration policies and sanctions applicable to undertakings for collective investment in transferable securities (UCITS V).

FSA supported the initiation, drafting and enactment of the Government Order in order to eliminate the following barriers that currently prevent Romania from classifying to emerging capital markets status and which is a real obstacle to diversifying financing sources through the capital market:

- the lengthy and complicated process for foreign investors to open a trading account in Romania;
- difficult processes for investors to exercise their fundamental rights (e.g.: the right to receive dividends, the right to vote in the General Shareholders Meeting);
- certain thresholds applied to holding shares issued by the market operators which make it impossible to take strategic decisions, thus hindering the functioning of these entities and negatively impacting the local capital market;
- provisions on the public offers of securities and admitting securities for trading on regulated markets which can be modernized and rendered efficient according to European best practices.

REMOVING BARRIERS TO MARKET FUNCTIONING

The STEAM project, initiated in 2014, is based on a programme with a set of objectives that aim to eliminate the shortcomings that still keep Romania in the frontier markets area. FSA's main lines of action in 2015 to reach STEAM objectives are structured on 5 great pillars, with achievements listed as follows:

PILLAR I: REVISION OF PRIMARY AND SECONDARY LEGISLATION

- the draft law on the issuers of financial instruments and market operations was endorsed by FSA and sent to the Ministry of Public Finance to finalize the procedures pertaining to the Government's legal initiatives;
- the draft law on the markets of financial instruments that transposes Directive 2014/65/EU (MiFID II) is pending completion by the initiator;
- the draft law on alternative investment funds is pending completion by the initiator.

PILLAR II: CONSOLIDATION AND MODERNIZATION OF CAPITAL MARKET INFRASTRUCTURE

- assessing the RoClear system managed by the Central Depository in the context of joining the T2S platform.
- the Measures Plan on creating efficient mechanisms against theft, loss and abusive/unauthorized use (without customer consent) in case of transferring financial instruments.

PILLAR III: DEVELOPMENT OF BONDS MARKET

- the FSA-MPF, BSE and CD convention was concluded for transactions on the primary market and specialized technical assistance was provided to entities involved in implementing the pilot program.

PILLAR IV: INCREASING THE NUMBER OF ISSUERS AND CAPITAL MARKET LIQUIDITY

- Working group with the participation of FSA, MFP and other State institutions to facilitate the privatization process through the capital market of state-owned companies and to capitalize the state holdings with already listed companies;
- implementing the possibility to list Romanian companies on other markets;
- the provisions of FSA regulations were brought about for amendment so as to render efficient and streamline financial instrument lendings and shortsales, but also for enacting the legal regime of guarantees with financial instruments.

PILLAR V: DEVELOPMENT OF RETAIL MARKET AND FINANCIAL EDUCATION

- Participating alongside potential partners (market operators, professional associations etc.) in several meetings with the managers/representatives of representative companies not listed on the capital market in Romania;
- functioning conditions for new types of collective investment undertakings within the draft law on alternative investment funds and in the draft regulation issued both to implement the law regarding alternative investment funds managers (AIFM) and the law on AIF;
- accounting regulations compliant with IFRS applicable to supervised entities on the capital market.

Amendments to the regulations of the private pension funds market

Private pension funds had a positive, growing evolution, requiring minor amendments to the legal framework and to certain secondary regulations, as follows:

AMENDMENT OF THE PRIMARY LEGISLATION

In the plan to amend the primary legislation regarding private pension funds, we refer to transposing Article 1 of the Directive 2013/14/EU amending Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision, Directive 2009/65/EC 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 over-reliance on credit ratings.

To this end, Law 87/2015 was enacted to supplement Article 84 in Law no.204/2006 on voluntary pensions and Article 23(1) in Law no.411/2004 on privately managed pension funds, adding the provision according to which managers of private pension funds are not required to invest the assets exclusively based on credit ratings issued by the rating credit agencies.

EASING THE INVESTMENT POLICY

The amendments brought by Norm no.1 dated January 8th 2015 on the adhesion and registration of participants with privately managed pension funds and Norm no.18/2015 amending Norm no.2/2011 on the adhesion and registration of participants with voluntary pension funds promoted a first set of regulations aiming to make more flexible Pillar III for voluntary pensions with respect to proceeds and conversion of contributions, with respect to advertising-related matters and to the adhesion process of participants to the voluntary pension funds.

Moreover, by promoting regulations in line with FSA objectives, new investment opportunities were added related to instruments and markets, observing the prudential principles specific to pension funds. Thus, Norm no.13/2015 amending and completing Norm no.11/2011 on investing and assessing the assets of private pension funds implements the following investment opportunities:

- adding the possibility to trade municipal and corporate bonds outside the regulated market (for private pension funds);
- the possibility of protection against the foreign exchange risk and the interest risk (in case of voluntary pension funds) by means of derivative financial instruments traded outside the regulated market;
- rendering more flexible the weight of assets in computing the classification of private pension funds into a risk category.

IMPROVING THE RISK AND FORECASTING FRAMEWORK

To improve the risk framework, the secondary regulations applicable to the private pensions system in 2015 consisted in a continuous concern to consolidate supervisory mechanisms for a more efficient protection of participants to the private pensions system.

Moreover, in order to simplify the secondary legislation framework applicable to the private pensions system, the regulations on the source of the underwritten and paid share capital by the founding members of the pensions' undertakings were updated, alongside regulations on amending the share capital of the private pensions fund manager, authorized as per the legal provisions. To this end, the secondary legislation was amended as follows:

- amending the share capital, the manager's obligations, the requirements and the necessary documentation;
- the manager's obligations to keep the share capital to the minimum value set in the law and the necessary steps be taken to complete the capital if it drops below this minimum;
- applying a maximum period of 6 months for the completion of the share capital by the privately managed pensions fund if it drops below the legal minimum value;
- supplementing the documentation required by amending the share capital so as to clarify technical aspects on the matter;
- adding new chapters about the legal liability.

As a result of the development level of the private pension funds market, in order to encourage the diversification of pension funds portfolios, the secondary regulation framework applicable to investing assets of the private pension funds were updated and rendered more flexible. Within the same project, the classification criteria for risk levels of pension funds were re-evaluated.

Furthermore, at the end of October 2015 a public debate was initiated on a draft law aiming to update, strengthen and improve regulations regarding computing, checking, creating, investing and use of the technical provision for voluntary pensions funds so as to ensure better protection for the participants.

Finalizing the institutional reform of FSA

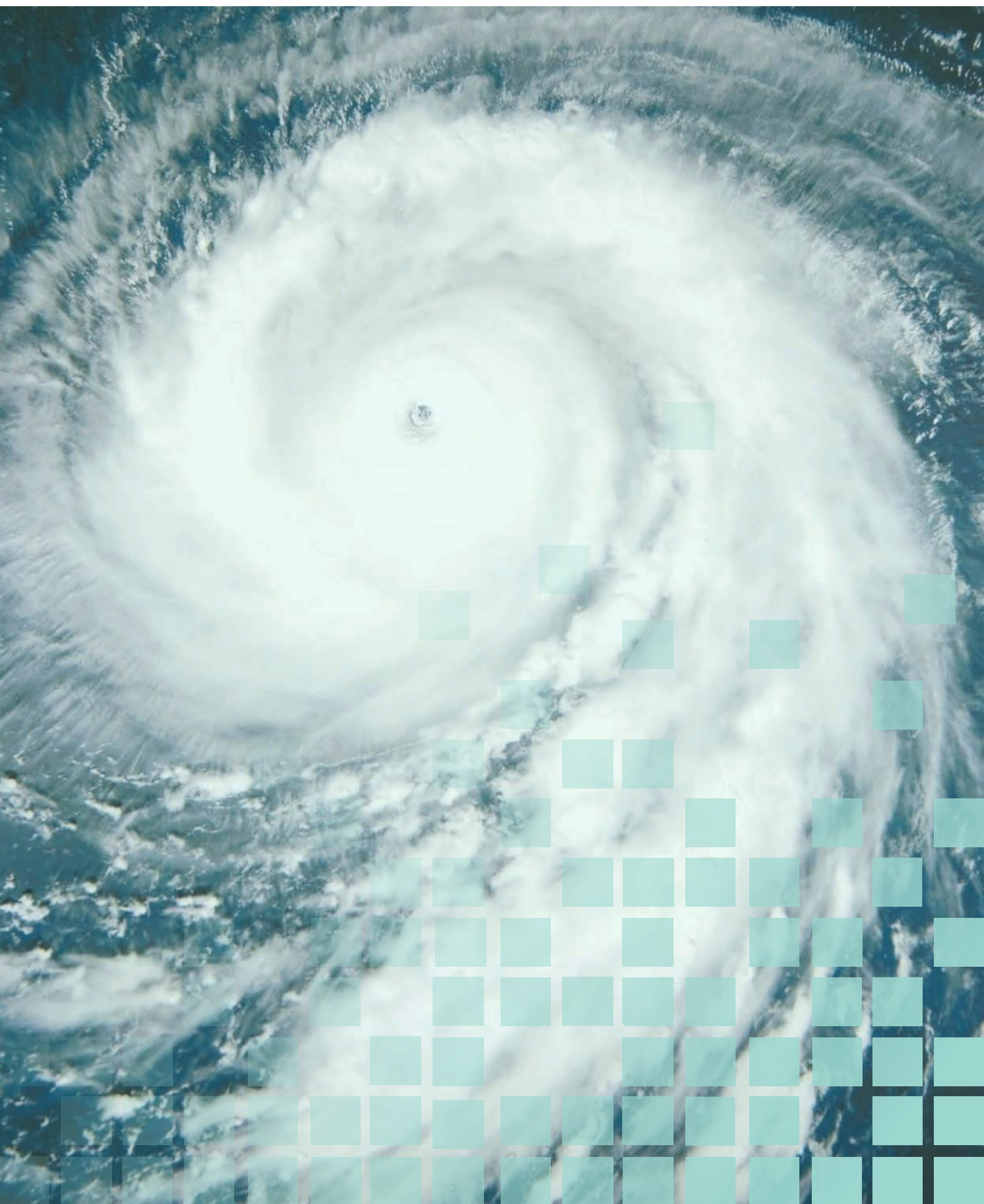


Following the institutional reform of FSA, the weight of personnel expenses decreased to 56% of total incomes in the first half of 2015 compared to 87% in 2013 given that the amount of these costs decreased by 43% in the first half of this year compared to the second half of 2013.

Another component of the institutional reform is the setting up of the Institute for Financial Studies (IFS) by merging the Insurance Management Institute Foundation and the Insurance Institute Foundation.

The new entity dedicated to professional training – especially in the sector of non-banking financial services – was founded by the Financial Supervisory Authority and is supported by representatives associations in the field, as members: The National Union of Insurance Brokers and Consultants in Romania (UNSICAR), the National Union of Insurance Companies in Romania (UNSAR), the Insurance Law Association in Romania (ADAR) and the Romanian Actuarial Association (ARA), with other professional associations on the non-banking financial market on the verge of signing up.

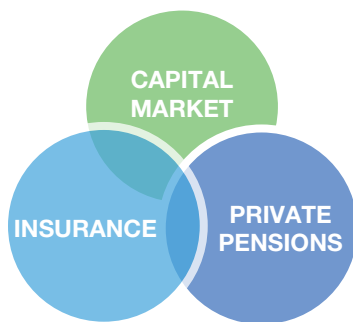
On the long term, IFS aims to harmonize the activity with the European requirements, to switch from gathering knowledge to gathering and assessing skills, providing professional training programs for the non-banking financial area tailored to the new organisational processes as a result of legal requirements, of the market dynamics and of the European framework. All these actions aim to help reaching a mature non-banking financial market in Romania, to build its capacity to face the competition brought about by globalization or to face the consequences of the economic crises.



NON-BANKING ENVIRONMENT

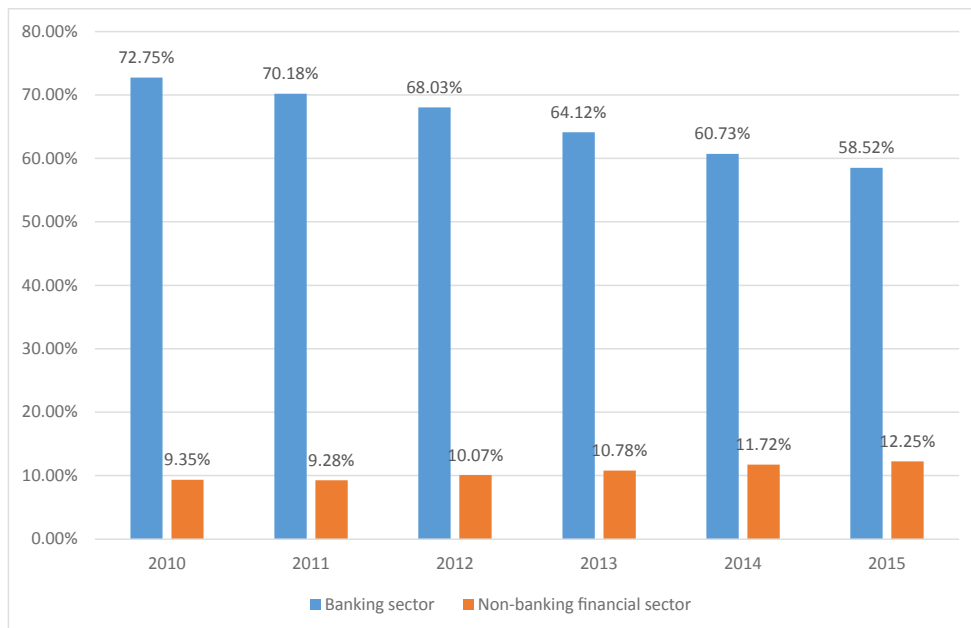
WHAT IS THE WEIGHT OF FINANCIAL MARKETS IN THE ROMANIAN ECONOMY?

Non-banking financial markets



Although in Romania the assets of the banking financial sector dominate in weight in the GDP, the non-banking financial sector has gradually increased in the last years, the highest growth being with the assets from private pension funds.

Financial sector assets to GDP



Source: FSA calculations, *Interim data - NIS

Total assets of the banking sector	2010	2011	2012	2013	2014	2015*
Banking sector	72.75%	70.18%	68.03%	64.12%	60.73%	58.52%
Non-banking financial sector **	9.35%	9.28%	10.07%	10.78%	11.72%	12.25%
Collective investment undertakings	5.33%	5.01%	5.17%	5.62%	5.91%	5.79%
Private pension funds	0.87%	1.21%	1.72%	2.32%	3.02%	3.64%
Insurance companies	3.15%	3.06%	3.18%	2.85%	2.80%	2.83%
Weight of the financial sector to the GDP	82.10%	79.46%	78.10%	74.90%	72.45%	70.77%

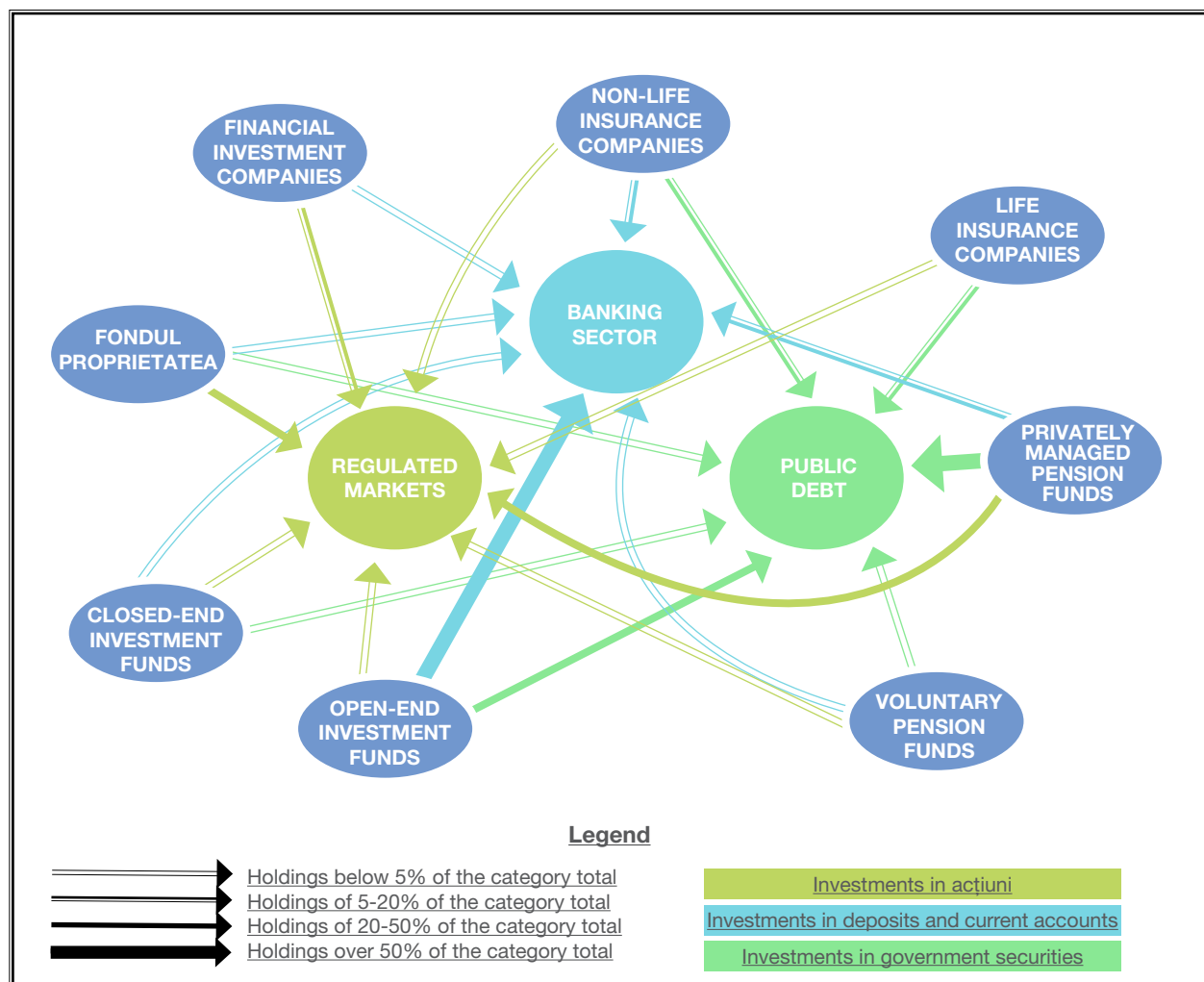
Source: FSA calculations, *Interim data, ** NFIs are not included

HOW ARE FINANCIAL MARKETS LINKED?

The interconnections map below shows the size of investments in shares listed with the BVB, bank deposits in Romania and government securities issued by the MFP of entities supervised by FSA at the end of 2015. These investments exceeded Lei 48.89 billion at the end of 2015, of which government securities were 61.38%, investments in shares 22.56% and bank deposits in

Romania of 16.06%. Of the analyzed entities, privately managed pension funds (PF II) hold the highest weight in government securities (about 54%), open investment funds hold about 61.52% of the deposits and Fondul Proprietatea has the highest investments in shares (about 42%).

Interconnections map on the financial market in Romania



Source: FSA

WHO ARE THE CONSUMERS OF NON-BANKING FINANCIAL MARKETS IN ROMANIA?

At the end of December 2015 there were:

Insurance sector:		• 11,073.802 non-life insurance contracts and • 3,601.152 life insurance contracts in force (without ASTRA)
Capital market sector:		• 325,190 investors in OEF • 89,613 investors in CEF • 71,108 investors with broker accounts
Private pensions sector:		• 6,56 million participants in Pillar II • 382,318 participants in Pillar III

Brief macroeconomic overview

In 2015, the non-banking financial markets evolved in the context of a European macroeconomic environment with moderate growth, with positive impact on investments and exports as a result of quantitative easing measures of the ECB and of the favourable credit granting conditions and depreciation of the Euro. The private consumption was the main engine of economic growth, strengthened by the ascending trend of the real available income, in the context of low inflation. The evolutions in Greece, the tensions in Ukraine and in the Middle East, the fluctuating financial markets in Asia and the divergent monetary policies in the U.S. and the Euro area have generated volatile financial markets, but did not have a notable impact on real economy.

A slowing growth of emerging economies (China), the fewer international trade exchanges, the geopolitical uncertainties alongside volatile international financial markets are all factors that were taken into account to downgrade forecasts about the macroeconomic evolutions of 2016. The results of these cumulated influences led to anticipating the stability of the internal market, a gradualization of the growth in inflation rate as a partial consequence of increasing wages, expedited private consumption and reduced the negative GDP deviation with the aim to wait until it reaches a positive trend.

Within this international context, the GDP dynamics for 2015 ranks Romania sixth in the European Union (+3.8%), with an estimated increase in the GDP growth hierarchy (ranking 2nd in 2016) as a result of an anticipated growth of 4.2% in 2016 and 3.7% in 2017 (ranking 3rd). According to INS and BNR data, 2015 was described by better conditions on the labour market as well as by a steady government debt (57.9% of the GDP) and the government deficit (-1.1% of the GDP) at sustainable values.

The economic growth was also significant in the second half (+3.6%), despite the negative contribution of the agriculture activities. The private consumption was encouraged by the cut-back in consumption prices, as of June 2015, along with a significant increase in nominal wages.

We noticed a increase in the domestic demand in the second half of the year and a significant increase in CIF imports (+8.2%) so much so that the foreign sector, but also the stocks, registered negative contributions in the GDP increase (-1.6% and -0.5% respectively). As regards FOB exports, the data in Euro show a significant deceleration in the annual growth pace (+2.3%) compared to the previous year half (+6.0%). Another feature of foreign trade, noticed in 2015, was an emphasis on the relations with EU partners (+7.9% exports; +10.1% imports) compared to extra-community trade exchange. These decreased especially in the case of exports (-5.2%), the main destinations being Turkey, U.S. and Russia.

Similar to the situation in most European States, the annual rate of inflation varied between modest positive values during January - June 2015, with an increase in May to the 1.2% maximum in the context of a more expedited increase of prices for food products (especially vegetables, fruit and eggs). The second half confirmed the negative annual inflation, starting with June, in the context of expanding the low 9% VAT to include food products, non-alcoholic drinks and public food services, but also given the falling oil prices.

The labour market in Romania in 2015 was described by a stable unemployment rate (6.8%) and a sustained increase trend in the number of employees reported formally by the employers. The annual rate of employees exceeded the 3% level in the second half of 2015.

At European level, the unemployment rate seasonally adjusted has followed a downward trend from the beginning of 2013, reaching 10.4% in December 2015 in the Euro area and 9.0% in EU 28 compared to 5.0% in the U.S. The lowest unemployment rates were registered in Germany and the Czech Republic (4.5%), Malta and Great Britain (5.1%), while higher levels were noticed in Greece (24.5%) and Spain (20.8%).

2015 started with an increased trust of foreign capital companies in the Romanian economy in the context of a balanced value of the current account on the payment

balance with a deficit of EUR 1.7 billion (1.1% of the GDP), increasing compared to EUR 686 million in 2014 (0.5% of the GDP).

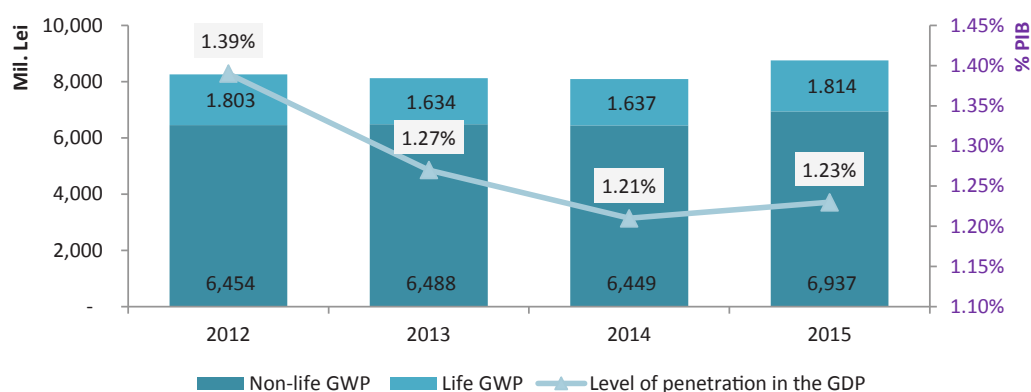
As regards the long term external debt, this amounted to EUR 71 billion at December 31st 2015 (78.2% of the total external debt), decreasing by 6.3% compared to December 31st 2014. The main forecasts estimate that on the medium term (2016-2020), the debt will continue to be below 41% of the GDP (the report to the

State Budget Law for 2016), under the 60% threshold in the Maastricht Treaty. The current level of the government debt is sustainable, recently confirmed by Moody's (December 11th 2015) Romania's ratings at "Baa3" for long term loans and "P-3" for short term loans. According to the more reticent scenario of the European Commission there is the risk that the public debt exceeds 42% of the GDP in 2017 in the context of high budget deficits, 3% in 2016 and 3.8% in 2017 respectively.

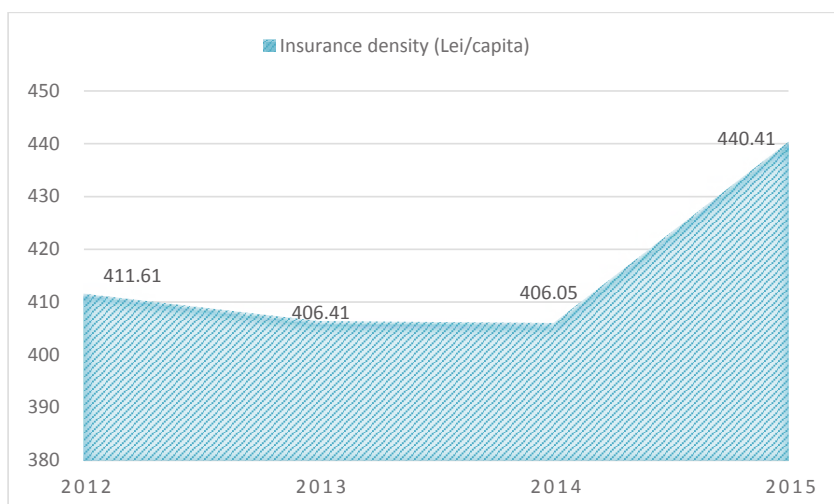
The Insurance – Reinsurance Market

The size of the insurance market, measured as value of the gross written premiums, increased in 2015 both in nominal values (+8.23%) and in weight per GDP (1.23%), following significant decreased in the 2013-2014 period (with 1.63% in 2013 and 0.45% in 2014 respectively).

Due to the lead of insurances in the GDP dynamics, the insurance level of penetrations - computed as a ratio between the cumulated value of gross written premiums for life insurance and the non-life insurance and the gross domestic product - increased to 1.23% in 2015, thus turning around the descending trend that described the 2011-2014 period.



The insurance density, calculated at the ratio between the value of gross written premiums and the total population, increased in 2015 compared to 2014 by over 8% (+34.36 Lei/capita), with a value of 440.41 Lei/ capita.



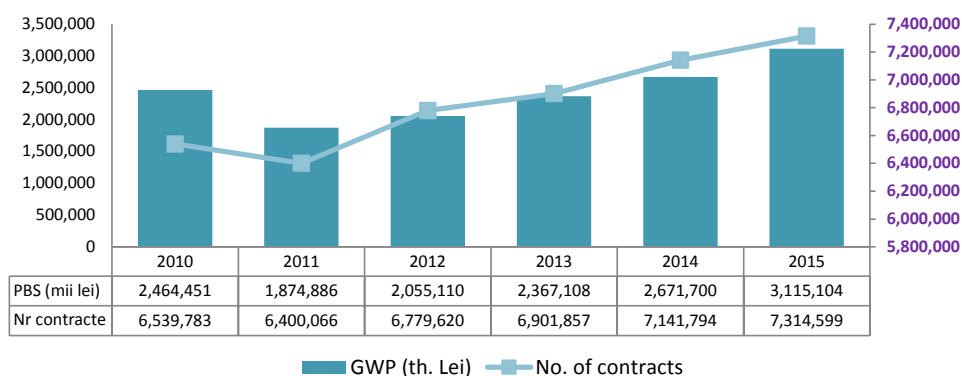
In 2015, the insurers cumulated gross written premiums amounting to Lei 8,750,879,938. Of the 35 insurance companies active at the end of 2015, 20 only concluded non-life insurance premiums ("Non-life"), 8 only concluded life insurance premiums ("Life") and 7 concluded mixed premiums.

As concerns non-life insurances, the most important weights in the GWP were held by the line of business X (MTPL+CMR, 47.41%) and line of business III (Motor Hull, 24.33%), while for life insurance the most numerous were the GWP pertaining to line of business A1 (life insurance,

annuities and additional life insurance, 60.34%).

The total amount of written insurance premiums for MTPL at the end of 2015 reached Lei 3,115,103,957, with a 16.64% increase compared to 2014. The number of paid claim files decreased by 0.17% in 2015 compared to the previous year, while the value of paid claims increased by 2.63%, the average claim paid reaching Lei 7,106 - a value that is increasing by 2.97% compared to the similar period in 2014, when the average claim paid was Lei 6,901.

Evolution of MTPL GWP during 2010-2015

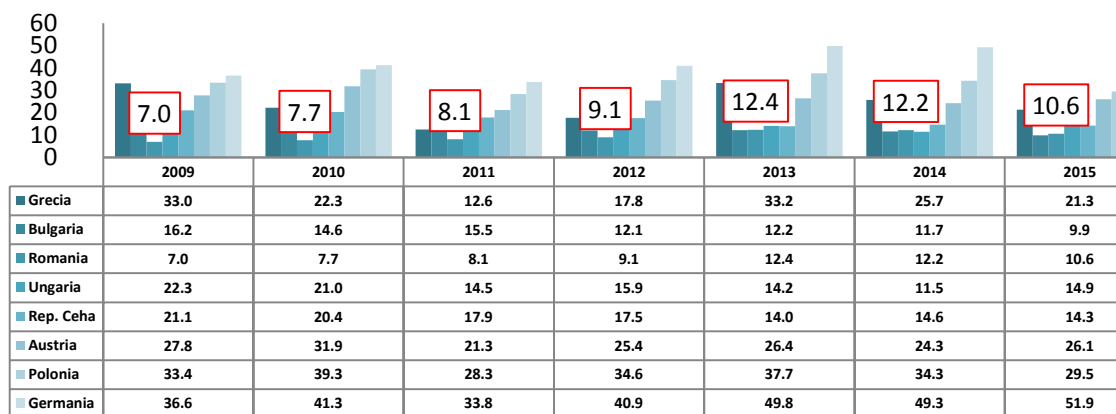


Capital Market

In a rather turbulent international context, the total market capitalization of the BVB (main market and ATS) had a generally increasing trend reaching at the end of 2015 Lei 149 billion, namely a 9% increase compared to the same period of 2014. Of this, the market capitalization of the local companies listed on the market's main segment was about 59% of the total market capitalization of BVB.

Computed as per the FESE methodology, the market capitalization of the local companies listed on the BVB in the GDP decreased in 2015 compared to 2014 in the context of an increasing GDP (+3.8%) and a decreasing market capitalization for the local companies. Decreases in weights of local market caps in the GDP were also registered by the markets in Poland, Czech Republic, Bulgaria and Greece, while the German, Austrian and Hungarian stock market ended with an increase.

Domestic market capitalization in the GDP (%)



Source: FESE, EC, FSA calculations

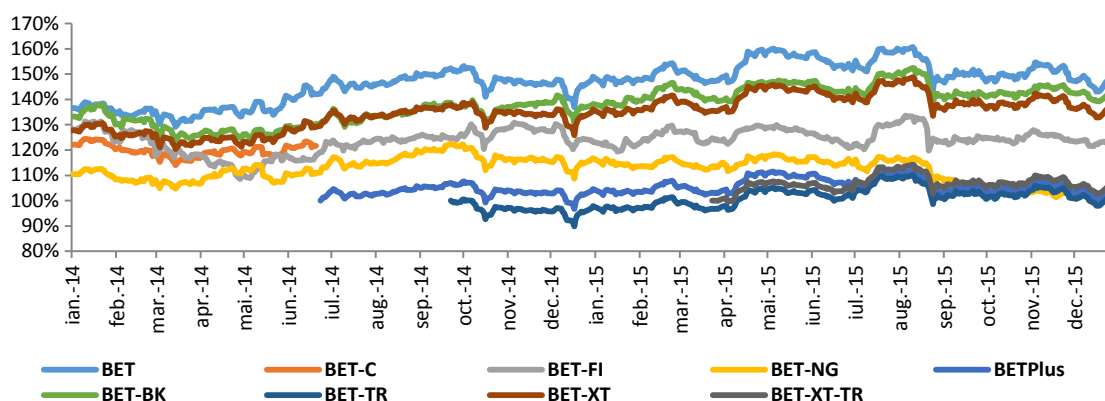
*The Romanian domestic market capitalization does not include Erste and Nepi, and is calculated as per the FESE methodology (<http://www.fese.eu/>)

Along these two lines, the main market and the secondary market, the general evolution of the capital market mirrors the dynamic of the internal capital markets and the set of reforms developed internally. Two new issuances of financial instruments were performed throughout 2015 (bonds – Bucharest City and structured products of SSIF

Broker SA), as well as 14 public sale offers with a total value of Lei 185,778,681.

Most BVB indexes peaked in August 2015, before the stock market crisis in China, marking the beginning of a turbulent period on international capital markets.

Evolution of BVB indexes during 2015

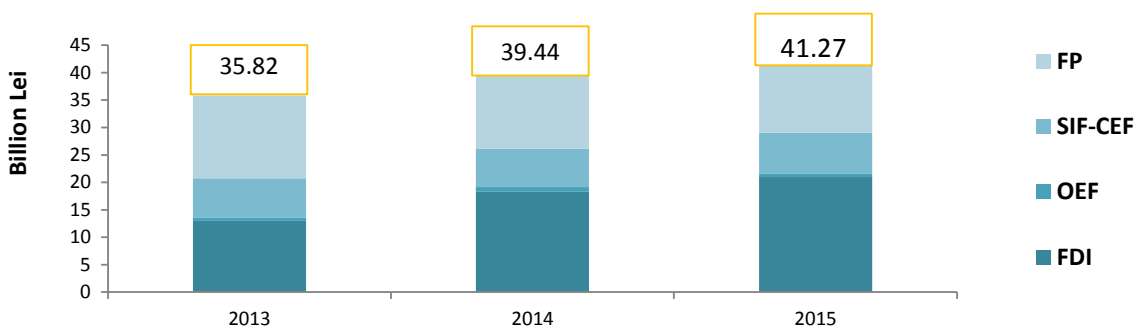


The total value of the trades on BVB decreased by 15.3% in 2015 compared to 2014. The most significant drop in value was registered by stock trading (-32.3%), whereas the value of government securities trading was about 2.4 times higher than in 2014.

The total value of assets in the local collective investment undertakings (CIS) at the end of 2015 had increased by about 4.67% compared to the same period in the previous year, exceeding the Lei 41.2 billion threshold. Open-end investment funds continued the positive dynamics showed throughout previous years, the value of their cumulated assets increasing by 14.7% in 2015.

For financial investment companies, the total assets increased by more than 8%. Unlike the aforementioned, the total assets of close-end investment funds decreased by about 34.4%. The significant depreciation of assets of close-end investment funds was especially influenced by the conversion of a close-end securities fund into an open-end fund. The total assets of Fondul Proprietatea registered a decrease of 8.61% at the end of December 2015 compared to the same period of 2014, with an amount of Lei 12,148.08 million. The decrease in assets of Fondul Proprietatea was a result of buy-back programmes, also leading to a decrease in the Fund's share capital.

Evolution of total assets of funds per CIS categories

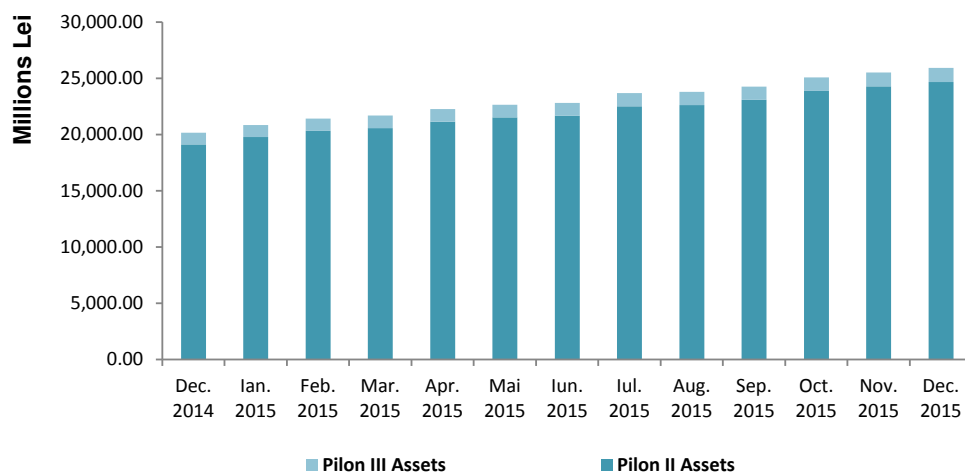


Private Pensions Sector

The value of total assets managed in the entire private pensions system increased constantly in 2015, continuing the positive trend of the past years. As at December 31st 2015, the system reached Lei 25.94 billion

(about EUR 6 billion), i.e. 3.64% of the GDP, compared to 3.02% in December 2014 and 3.26% in June 2015. The annual increase rate of the total assets of private pension funds was of 28.62%.

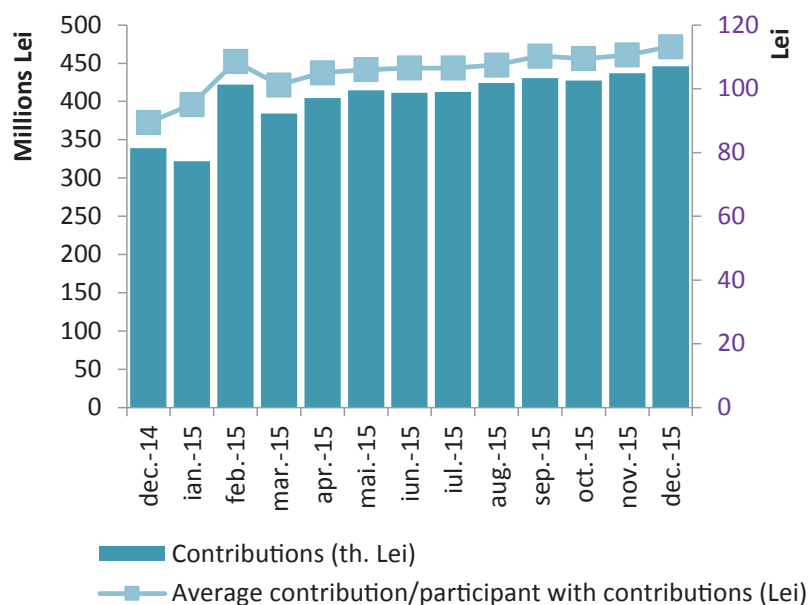
Evolution of total assets in the private pensions system - December 2014 - December 2015



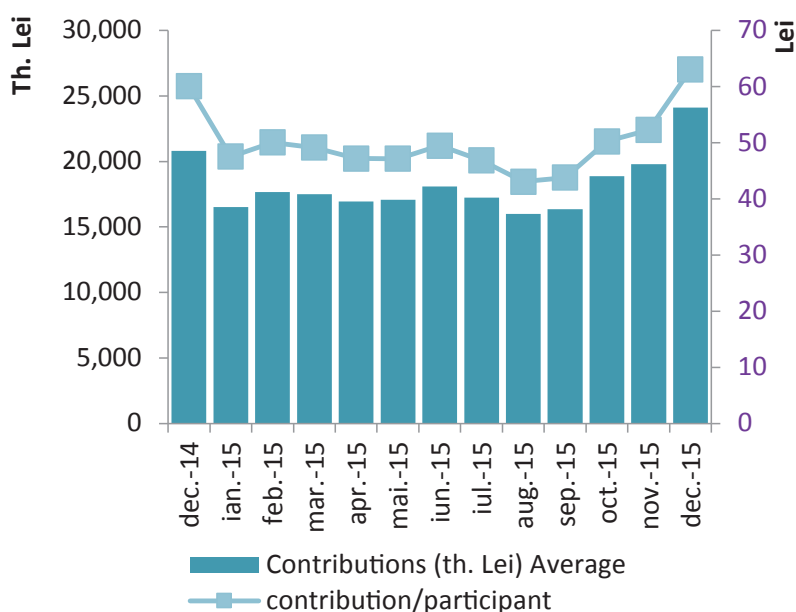
The privately managed pension funds (Pillar II) maintained a higher annual increase rate, specific to the eight years of functioning: 29.06% compared to 20.43% in Pillar III.

The average value of an account in Pillar II for the 3.19 million participants with monthly contributions (during May 2008 - December 2015) was of Lei 5,639 (about EUR 1,200), whereas the average value of an account in Pillar III was Lei 3,275 (EUR 724).

The evolution of gross contributions Pillar II

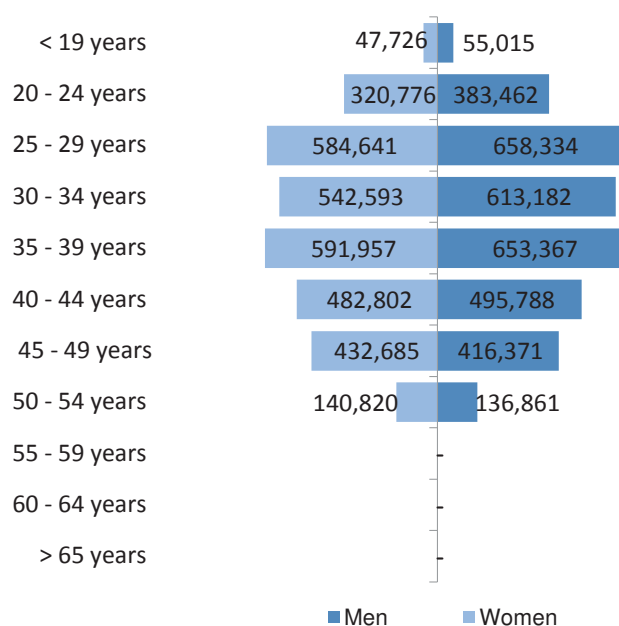


The evolution of gross contributions Pillar III



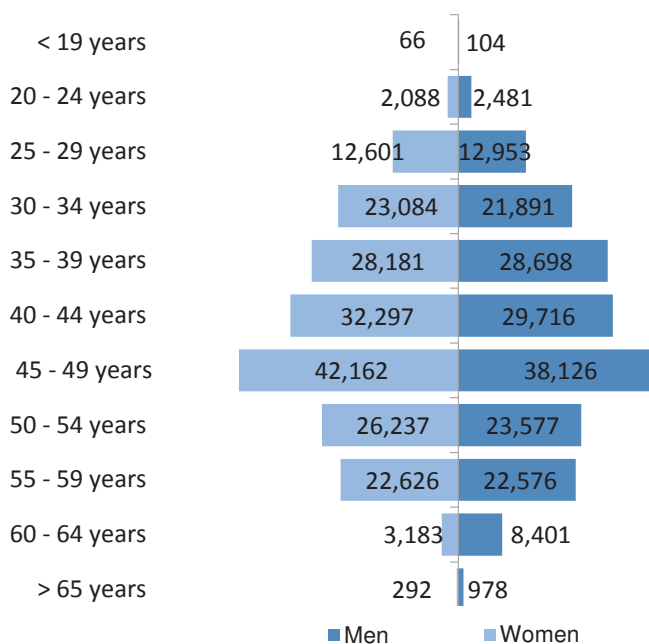
Overall, for the entire last year, Lei 4.94 billion were transferred to the privately managed pension funds (EUR 1.11 billion), with an average of Lei 408.21 million/month. Voluntary pension funds had contributions of Lei 216.16 million (EUR 48 million), with an average of Lei 18 million/month.

Overall, 267 thousand people entered the privately managed funds' system in 2015 (Pillar II), 4.10% more than in 2014. About 252 thousand of all, about 94.33% of the total, were allocated randomly. The voluntary pension funds had 382,318 participants as at December 31st 2015, registering an annual lead of 10.35%.

Age and gender structure of participants as at 12/31/2015
Pillar II

Age and gender structure of participants as at 12/31/2015

Pilon III

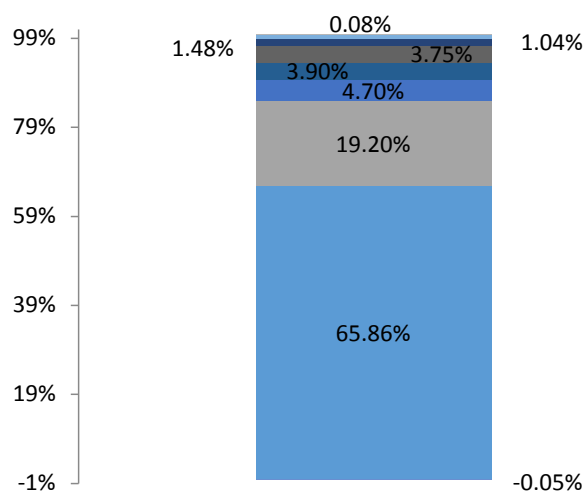


As regards the allocation of financial resources per different categories of assets, the weights of privately managed pension funds in the total of deposit assets, municipal bonds, stocks and securities increased in December 2015 compared to the same month in 2014.

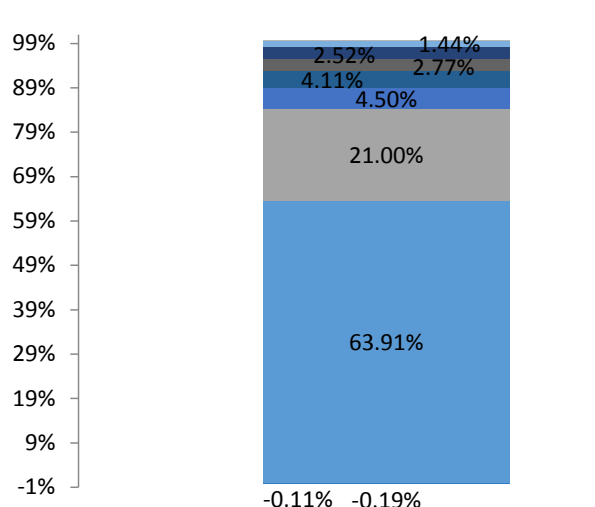
However, as regards voluntary pension funds, significant increases were registered in amounts invested in all financial instruments, except for bank deposits and non-governmental foreign undertakings.

Structure of pension funds' assets as at 12/31/2015

Pillar II



Pillar III



■ Government securities
 ■ Deposits
 ■ Corporate bonds
 ■ Supranational bonds
 ■ Hedging
 ■ Stocks
 ■ Investment funds
 ■ Municipal bonds
 ■ Other amounts

■ Government securities
 ■ Corporate bonds
 ■ Investment funds
 ■ Supranational bonds
 ■ Hedging
 ■ Stocks
 ■ RO deposits
 ■ RO Municipal bonds
 ■ EU Private Equity
 ■ Other amounts

Measures Taken and Directions Followed in 2015

STRATEGIC ACTION LINES:

CAPITAL MARKET

STEAM project - The emerging market status; Harmonization of the market infrastructure to European standards; Regulating the regime of close-end investment funds; Revising and re-launching the corporate and municipal bonds' market; Finalizing the RASDAQ project and updating secondary regulations;

INSURANCE MARKET

Transposing Directive no.2009/138 regarding insurance (Solvency II) in the national legislation; Preparing the insurance market to implement the Solvency II standards as of the 1st of January 2016; Auditing the balance sheet assets/liabilities for insurance market; Implementing and strengthening the combined risk-based supervision (offsite/onsite); Applying modern intervention rules and mechanisms (resolution) in case of companies facing difficulties;

PRIVATE PENSIONS' MARKET

Revising investment norms for mandatory private pensions (Pillar II); Revising the voluntary pensions package (Pillar III); Exploring "life cycle" and "occupational pensions" models; Finalizing the draft regulation for the payment of private pensions;

JOINT POLICIES

Perfecting the institutional setup in cooperation with the World Bank; Strengthening the consumer protection function and modernizing the petition processing mechanism; Developing joint supervisory policies for operational and systemic risks; Automating operational activities and centralizing data processing; Launching communication, financial education and professional training programs;

FSA OBJECTIVES

1.Improving the quality, efficiency and coherence of the supervisory activity of entities of the three activity sectors by providing the mechanisms required to render more efficient their operations, their assessment methods and risk-prevention which could impact FSA's lines of business.

2. Risk identification, evaluation and management regarding the stability of the supervised financial markets by means of:

- Consolidarea integrității și stabilității pietelor financiare nebancale;
- Instituirea de parteneriate cu alte autorități și instituții, în scopul asigurării stabilității financiare.

3. Improving the level of protection of consumers, ensuring transparency, accessibility and consumer equity by means of:

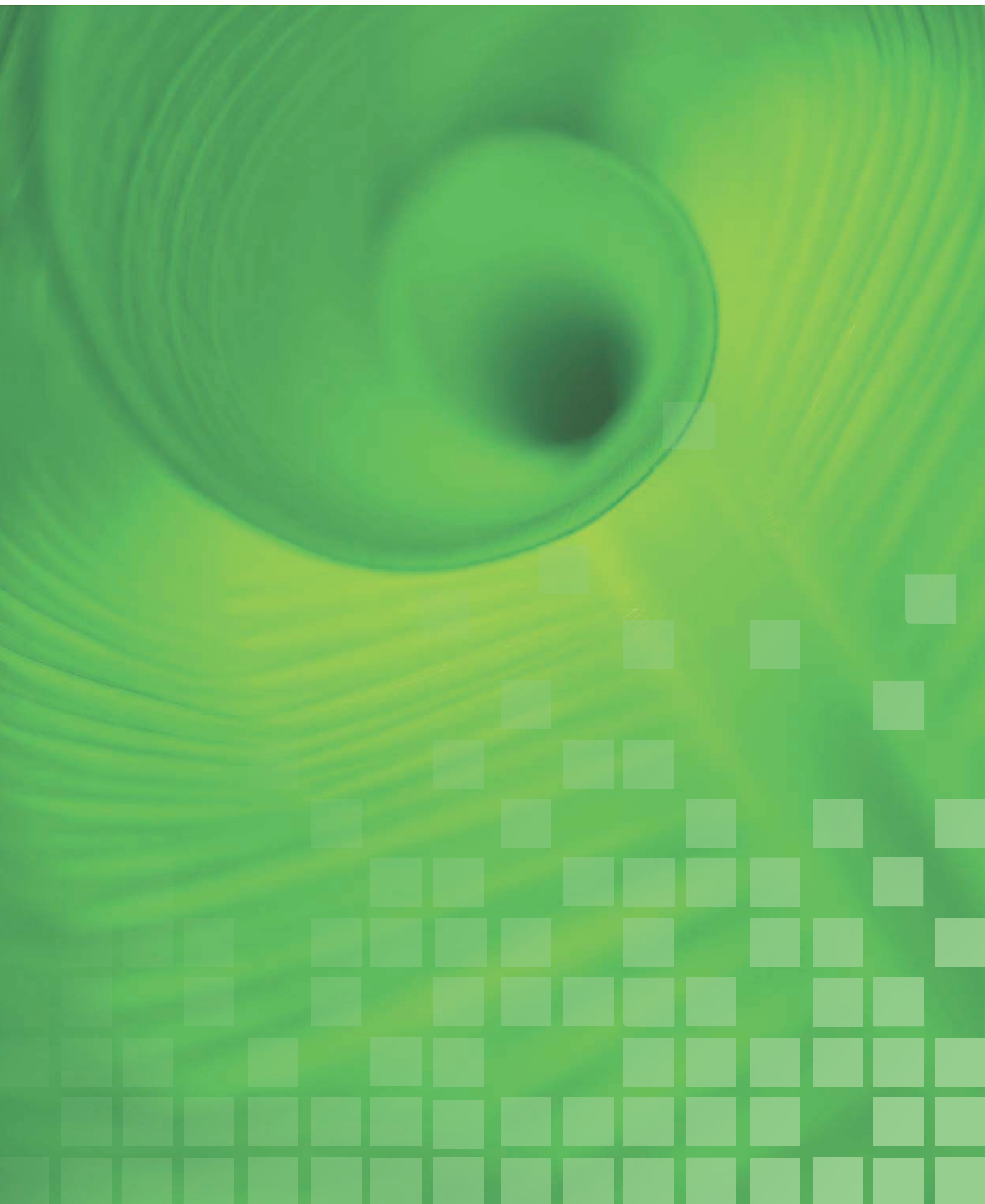
- Consumer protection – eliminating causes for current petitions and preventing future issues by means of specific actions;
- Internal optimization of processes and improving the quality of consumer assistance; improving the level of financial inclusion by simplifying prospectuses and product descriptions, financial services and instruments, previous information sent to consumers and tailoring the messages to their economic and social-cultural levels;
- Securing the interest for both parties and regaining trust by consulting the stakeholders and improving the set of skills and professional standards of the providers and brokers of financial products, services and instruments.

4. Securing an adequate and prudent legal framework according to European regulations and applying the best practices for an efficient functioning of entities and markets supervised by FSA, by means of:

- Harmonizing the national framework with the European Union regulations, especially for the insurance market, by switching to Solvency II standards;
- Launching the revision and updating process of the national legal framework, mainly of the secondary norms regarding non-banking financial markets, so as to adapt them to the markets' evolution.

5. Running as a modern, competent and professional organisation with effective management systems, efficient processes and a sound reputation, by means of:

- Finalizing the institutional framework transformation and setup project;
- Digitizing information flows and automating manual processes to modernize the Authority's activity;
- Increasing the level of moral and professional integrity among FSA personnel (a coherent set of norms and rules of professional conduct and labour discipline, establishing a performance and competitiveness-oriented environment);
- Developing an integrated human capital management system (available vacancies and vacancies on the market, professional training policy, attracting new talents etc.);
- Implementing a system of internal mobility that contributes to developing the individual performances of FSA employees;



CAPITAL MARKET

Main achievements in 2015

**STEAM PROJECT
„EMERGING MARKET STATUS”**



**ALIGNING MARKET INFRASTRUCTURE
TO EUROPEAN STANDARDS**



**REGULATING ALTERNATIVE
INVESTMENT FUNDS' MANAGERS**



**REVIEW AND RELAUNCH OF THE
CORPORATE AND MUNICIPAL BONDS
MARKET**



**COMPLETION OF THE RASDAQ
PROJECT AND UPDATING SECONDARY
REGULATIONS**



The STEAM Project - „Emerging Market Status”

STEAM Project "Reaching the Emerging Market status"

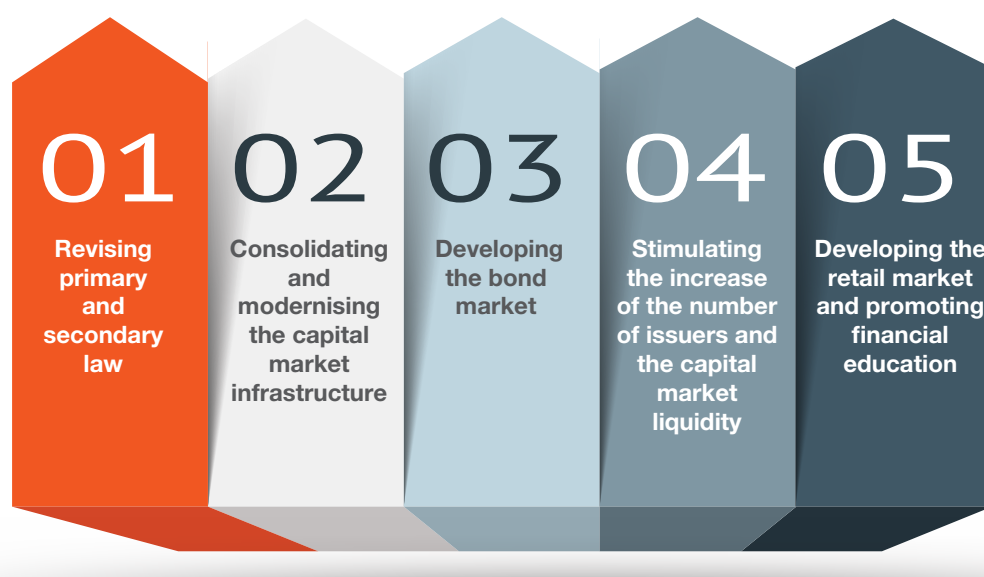
With a view to developing the Romanian capital market, the main goal of the FSA strategy is to overcome the "frontier market" and obtain the "emerging market" status. In August 2014, the Authority launched the STEAM Project – Set of Actions towards Establishing and Acknowledgement of the Emergent Market Status, aimed at opening the market, increasing efficiency and facilitating investors' access to Romania. The Project aims at increasing investments and liquidity by implementing a number of strategic measures leading to the classification of the Romanian capital market as "emerging market", within 2.5 to 3 years.

In order to achieve the objectives proposed under the STEAM Project, actions were taken to cut back the fees and tariffs charged by FSA on the capital market entities, separating trading accounts from safe keeping and settlement accounts, with a view to restricting brokers' direct access to clients' accounts (amendments to the relevant secondary law issued by FSA, BVB and Central Depositary), reducing the settlement time for capital market transactions from "T+3" to "T+2", assessment of the Central Depositary in view of participating in the la European centralised settlement system TARGET2-Securities (T2S), simplifying account opening and registration procedures for foreign investors and simplifying the conformity requirements for corporate

events and vote by proxy (January 2015 - OUG no. 90/2014 amending Law no. 297/2004).

From the same perspective, a centralised dividends payment system was set up (January 2015 - OUG no. 90/2014 amending Law no. 297/2004 and FSA Regulation no. 3/2015 for the implementation of the two above-mentioned Acts), measures were taken to improve efficiency and streamline loans for financial instruments and short selling, the possibility of indirect overseas listing with global depositary receipts (GDR) was extended for all issuers admitted to trading on a local market, the legal status of RASDAQ listed companies was clarified and procedures were initiated for closing down this market. Furthermore, measures were taken to improve the accounting system, by its alignment to the IFRS requirements and the relevant primary and secondary law was translated into Romanian and subsequently published on FSA's web site.

Very high expectations are associated with the implementation of this Project. However, its very wide scope – from revising, simplifying and upgrading the law through to consolidating the market infrastructure and incentivising issuance of shares and bonds – required the objectives to be organised under five main pillars:



1.Revising primary and secondary law. FSA developed a package of four draft law projects concerning the financial instruments markets, issuers of financial instruments and market operations, and alternative investment funds, laws that will replace Law no. 297/2004.

2.Consolidating and modernising the capital market infrastructure to cope with the liberalisation of the interconnection with the European markets. The central depositaries were authorised in compliance with EU Regulation no. 909/2014, alternative investment fund administrators were authorised/registered and the registry activity of the Central Depositary was improved.

3.Developing the bond market. One first aspect is that, in 2015, a state bond issuance dedicated exclusively to natural person investors was launched, as a pilot project. At the same time, FSA encouraged the launching of attractive and credible instruments (such as the Bucharest Municipality's programme for issuing bonds of up to RON 2.22 billion Lei, aimed at ensuring diversification and increasing liquidity. Also, meetings and events were organised to promote financing solutions through the issuance of corporate or municipal bonds.

4.Stimulating the increase of the number of issuers and the capital market liquidity. In this area, the events are: migrating companies from RASDAQ to a regulated market or an alternative system; simplifying the listing and reporting procedures for the SME issuers; and developing strategies/projects for listing on Bucharest Stock Exchange companies where state holds minority and majority participations, either already listed or unlisted . There are three categories of such companies:

- companies majority-owned by the state and not privatised (e.g. Hidroelectrica, Portul Constanța, Aeroporturi București);
- privatised, where the state holds minority shares, but not listed (e.g. Telekom, Enel, E.ON);
- companies where the state holds minority or majority shares and already listed, for which the free-float ratio may be increased (e.g. Romgaz, Nuclearelectrica, Petrom).

5.Developing the retail market and promoting financial education. During this period, FSA launched an educational programme dedicated to the capital market, holding conferences, presentations and information campaigns aimed at different categories of investors; stimulating the development of the distribution channels to extend the investors' access including by attracting bank branches networks; and supported the diversification of collective investment bodies regulated by FSA.

Pillar I: Revising primary and secondary law

One first activity in the process of revising capital market primary and secondary law in 2015 included the development of draft laws covering the operation of issuers, starting from the relevant provisions of Law no. 297/2004. The draft law mainly envisaged:

- **Transposing into national law the following:**
 1. **Directive 2013/50/EU** of the European Parliament and of the Council amending Directive 2004/109/CE of the European Parliament and of the Council on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market, Directive 2003/71/EC of the European Parliament and of the Council on the prospectus to be published when securities are offered to the public or admitted to trading and Commission Directive 2007/14/EC laying down detailed rules for the implementation of certain provisions of Directive 2004/109/EC (transposition deadline: 27 November 2015);
 2. **Directive 2014/57/EU** of the European Parliament and of the Council on criminal sanctions for market abuse (market abuse directive), published in the Official Journal of the European Union no. 173/12.06.2014 (transposition deadline: 3 July 2016).
- **Optimising the transposition of the relevant Directives covering the operation of issuers** (previously carried out in Law no. 297/2004), including through increasing the precision and

clarity of the law wording (Directive 2001/34/CE, Directive 71/2003/CE, Directive 2004/25/CE, Directive 2004/109/CE).

- **Harmonising the draft law with the provisions of EU Regulation no. 596/2014 of the European Parliament and of the Council on market abuse** (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC: 2003/124/CE, 2003/125/CE and 2004/72/CE. In October 2015, the draft law was forwarded to the Ministry of Public Finances for endorsement and is now pending inter-ministerial approvals.

Another category requirements of the national or European capital market laws include development of the following draft laws:

- Draft law amending Emergency Ordinance no. 32/2012. FSA prepared a draft law amending Emergency Ordinance no. 32/2012, aimed at transposing the provisions of Directive (EU) no. 91/2014 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards depositary functions, remuneration policies and sanctions. The draft was initially forwarded to the Ministry of Public Finances on 26.11.2015 for endorsement and initiation of the inter-ministerial approval process. The main amendments brought about by the draft law cover:

- The entities eligible to act as depositaries for UCITS are credit institutions (authorised by BNR or other relevant authorities of another Member State), national central banks, as well as other legal entities that meet the capital requirements applicable to credit institutions and a number of other criteria related to infrastructure and own operating regulations.
- The UCITS depositary should ensure that the sale, issue, repurchase, redemption and cancellation of units are carried out by the IMC or another entity on behalf of the UCITS, in compliance with OUG no. 32/2012, FSA Regulations and the fund rules or instruments of incorporation. Also, the depositary should ensure that the value of the units is calculated in accordance with the fund rules or the instruments of incorporation of the self-investment company and the provisions of this draft law.
- The new rules laid down by this draft law require IMC not to assume hazardous or excessive risks merely for the purpose of achieving bonus targets or variable remuneration based on specific UCITS investments' profitability/yield.
- A number of administrative sanctions are provided that may be applied by the relevant national authorities to both natural and juristic persons, when in breach of OUG no. 32/2012. The administrative sanctions applicable to legal persons are capped at 5 million Euro or 10% of the annual turnover and to 5 million Euro, in the case of natural persons. Furthermore, in case of all persons, the sanctions applicable are limited to the double of the amount of money obtained by violating the provisions of OUG no. 32/2012 (in case the amount cannot be ascertained)
- **The draft law on alternative investment funds, as well as certain related amendments**, are currently being developed. The draft law will take into account the proposals and observations received by FSA in the public consultation process held between 22 July and 28 August 2015 on the FSA's Strategy to revise the legal framework governing the operation of NON-UCITS's and the activities of the sub-working group established by FSA and the representatives of the capital market.

FSA participated in the development of the draft law on the recovery and resolution of credit institutions and investment companies and amending certain financial market regulations, materialised in Law no. 312/2015 on the recovery and resolution of credit institutions and investment companies and amending certain financial market regulations, with a view to transposing into the national legislation Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council, project coordinated by the MPP and BNR, with FSA participating as resolution authority for capital market

investment companies and as administrator of the resolution fund for investment companies (draft law approved by the Government on 01 July 2015).

Pillar II: Consolidating and modernising the capital market infrastructure to cope with the liberalisation of the interconnection with the European markets

One of the objectives of the STEAM Project is to strengthen the infrastructure of the institutions involved in post-trade operations, through the assessment of the RoClear system of the Central Depositary from the perspective of the recommendations of ESCB-CESR, in the context of its joining the European T2-Securities platform, improving the register activities of the Central Depositary, including the initiation of an action plan aimed at establishing efficient mechanisms for protecting clients' financial instruments against theft, loss and abusive/unauthorised utilisation.

Following the assessment of the RoClear system of the Central Depositary, the need was identified for the Central Depositary to adopt a number of measures (rules, procedures, operational segregation, warnings) aimed at improving and increasing efficiency of the mechanisms for protecting clients' financial instruments against theft, loss and abusive/unauthorised utilisation (without the client's consent), in the case of transferring financial instruments from Section 1 to Section 2 and vice-versa.

In 2015, in order to enforce these requirements on the Central Depositary, a draft regulation was developed concerning certain measures applicable to holding and transferring financial instruments. The draft law was then published on the FSA web site for public consultation.

The draft regulation mainly included provisions concerning:

- central depositories' obligation to update the identification details of owners of financial instruments – natural persons – listed in Section 1;
- allocation of confidential security codes, reconfigurable on a quarterly basis and/or after each use;
- manner of communicating the confidential security codes and summaries of positions;
- method of transferring holdings entered into accounts of Section 2 or Section 3 to accounts of Section 1;
- blocking financial instruments;
- amending CNVM Regulation no. 13/2005 on the authorisation and operation of the central depositary, clearing houses and central counterparties, as subsequently amended and supplemented, for direct transfers of ownership of financial instruments.

These measures are intended to develop a regulatory framework meant to increase the efficiency of existing mechanisms for protection against theft, loss and abusive/unauthorised utilisation (without the client's consent) when transferring financial instruments and strengthening trust in the post-trade infrastructure.

Pillar III: Developing the bond market

In 2015, the first issuance of government securities intended exclusively to natural person investors was made through the Bucharest Stock Exchange. The primary and secondary market operations with government securities on the market regulated by BSE was possible due to the cooperation between FSA and MFP, both during 2014 and subsequently, in the first part of 2015, on the implementation of regulations governing the capital market. Also, on request from MFP, FSA put forward a number of proposals and observations on amending regulations concerning government securities issued by the Government of Romania or the Ministry of Public Finances, as the case may be.

FSA participated in a number of meetings with representatives of MFP, BVB, CD and other market entities involved in the process of issuing government securities and, in March 2015, co-signed the Convention between MFP- FSA-BVB and CD on government securities intended for retail investors, which formed the basis for the issuance of government securities intended for natural persons, carried out through BSE

Pillar IV: Stimulating the increase of the number of issuers and the capital market liquidity

In 2015, FSA participated in the setting up of a working group, together with MFP and other institutions of

the Romanian State, for the purpose of facilitating the privatisation of state-owned companies on the capital market and sell government participations in already listed companies. On the same line, FSA facilitated the implementation of system giving Romanian companies the opportunity to get listed on other markets and made proposals to amend the FSA regulations aimed at improving efficiency and streamlining loans and short sales of financial instruments, as well as at adopting the legal status of financial instruments collateral.

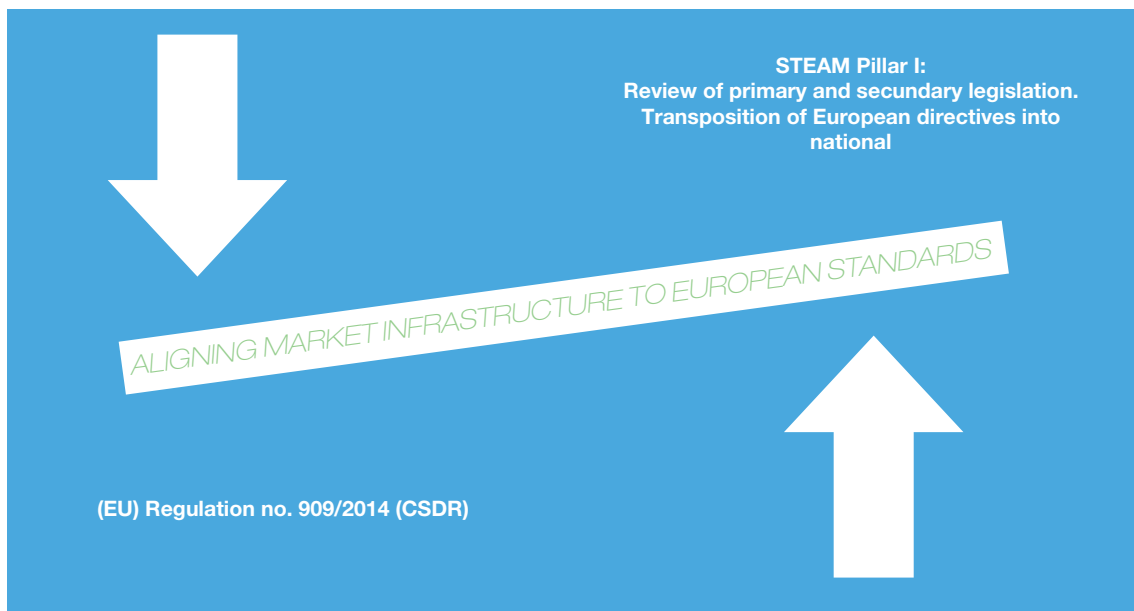
Pillar V: Developing the retail market and promoting financial education

Under this pillar, FSA participated alongside potential partners (market operators, professional associations etc.) in a number of meetings with managers/agents of representative companies that are not listed on the Romanian capital market and facilitated the development of operating conditions for new types of collective investment undertakings, as part of the draft law concerning alternative investment funds and in the draft regulation on the implementation of the AIFM and AIF laws. From the same perspective, FSA also developed accounting rules compliant with IFRS and applicable to the supervised entities in the capital market.

ALIGNING MARKET INFRASTRUCTURE TO EUROPEAN STANDARDS

FSA's strategic objective for 2015 was to align the market infrastructure to the European standards, in view of improving the regulation of the capital market. To such effect, FSA envisaged the transposition of

certain European Directives into the national law that are included as strategic objectives under Pillar I (revising primary and secondary law) of the STEAM Project, as well as Regulation (EU) no. 909/2014 (CSDR)

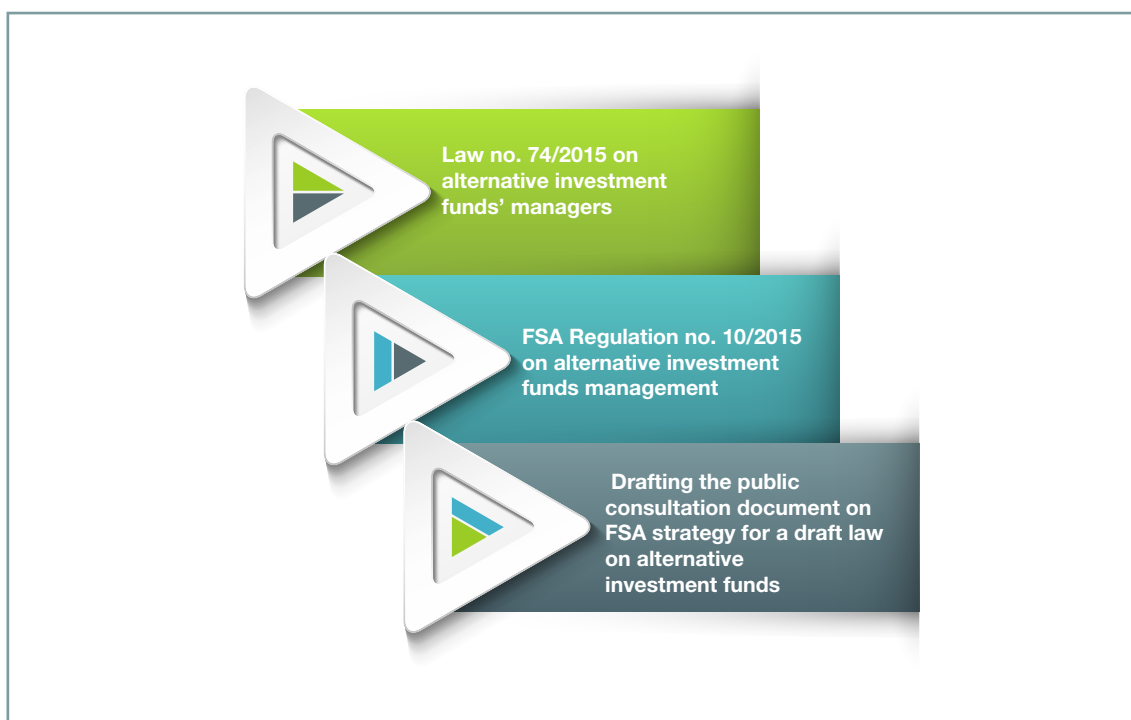


The new provisions of Regulation no. 909/2014 (CSDR) on securities settlement in the European Union and central depositories of securities include:

- Settlement of financial instruments:
 - Uniform obligation for settlement of financial instruments throughout the EU;
 - Requirement that the financial instruments of EU issuers be recorded in a book-entry system;
 - Settlement cycle not exceeding 2 working days (T+2) – as from 1 January 2015;
 - Measures to prevent and address settlement fails – to be detailed in standards.
- Authorisation of central depositories (CD)
 - Requirement to authorise and supervise central depositories based on uniform EU rules;
 - Mandatory organisational/ conduct of business/ prudential requirements for CD of EU;
 - European passport for authorised CD's;
 - Requirements for CD links;
 - In 2016, the transposition of this Regulation continues in the European Union and at national level, thus:
- EU level:
 - The European Commission issuing technical standards (TS) for the application of Regulation no. 909/2014 (ESMA has finalised the draft TS's in February 2016) on: detailed procedure for the approval of CD's, detailed organisational and operational requirements applicable to CD's, detailed measures for preventing settlement fails;
 - Within 6 months from the coming into force of the TS, all EU CD's shall apply for reauthorisation under EU Regulation no. 909/2014 and notify their relevant links with other central depositories.
- National level:
 - Obligation for the two central depositories in Romania to reauthorize as central depositories under EU Regulation no. 909/2014;
 - Revising primary and secondary law in line with the new European regulations (amend Law no. 297/2004 and FSA regulations);
 - Until the reauthorisation of depositories under EU Regulation no. 909/2014, the national regulations on authorisation and recognition of central depositories shall remain in force.

REGULATING ALTERNATIVE INVESTMENT FUNDS' MANAGERS

As part of this activity, the FSA developed a number of draft laws aimed at improving the development of the investment administrators' market.



One first activity was the development of Law no. 74/2015 on alternative investment funds managers, transposing into national law the provisions of Directive no. 61/2011/EU on alternative investment funds managers (AIFMD). The main innovations introduced by the law are:

1. Requirement for reauthorisation by FSA, by the end of the transitional period (May 23, 2016), of:
 - NON-UCITS managers authorised/ approved by CNVM/FSA before May 23, 2015 and that meet the AIFMD criteria for being included in the category of managers that are required to comply unconditionally with AIFMD;
 - Managers of investment funds covered by AIFMD not authorised/ approved by CNVM/FSA before May 23, 2015.
2. Requirement to register with FSA by May 23, 2016 for all a managers of alternative investment funds currently not governed by the capital market laws and that, given the value of the managed portfolios, are not required to authorise under AIFMD. This category also includes managers of venture capital funds or of social entrepreneurship funds that want to market units in the EEA, operating under the name of EuVECA or EuSEF, and whose activity is regulated by EU Regulations no. 345/2013 and no. 346/2013 on European venture capital funds and European social entrepreneurship funds since 22.07.2013.
3. Transparency and reporting obligations for NON-UCITS managers currently governed or not by the capital market laws, which, given the value of the managed portfolios, are not required to authorise under AIFMD, in compliance with Articles 22-24 of AIFMD and Articles 103 - 110 of the Commission Delegated Regulation no. 231/2013 of 19.12.2012 supplementing Directive 2011/61/EU of the European Parliament and of the Council with regard to exemptions, general operating conditions, depositaries, leverage, transparency and supervision.

Another draft law concerns FSA Regulation no. 10/2015 on the administration of alternative investment funds.

With a view to implementing Law no. 74/2015 and detailing some of the provisions of the Commission Delegated Regulation no. 231/2013 for the implementation of AIFMD, FSA issued Regulation no. 10/2015 on the management of alternative investment funds. Regulation no. 10/2015 covers the issues related to managers of alternative investment funds (AIFM), alternative investment funds (including AIF depositaries) addressing only the obligations (e.g. reporting) of AIFM.

Besides AIFM operating aspects, the Regulation includes provisions regulating cross-border distribution of units, in particular since FSA Rule no. 13/2013, as subsequently

amended and supplemented, was automatically repealed when Law no. 74/2015 came into force. In its annexes, the draft regulation includes a number of AIFM authorisation and registration forms that were developed based on the best practice principles, considering the models used by other Member States that implemented AIFMD previously, whilst the format and contents of AIFM reports is that provided for in the annexes to Regulation (EU) no. 231/2014, considering the reporting format provided in the ESMA AIFMD document - Reporting - XML documents - V1.2. (ESMA-ITMG contributed substantially to this alongside FSA representatives), as well as the explanations/ clarifications of the ESMA Guide no. 869/2014 and the answers provided by ESMA in Section III of the questions and answers document on the implementation of AIFMD.

A third direction is the preparation of the public consultation document on FSA's strategy to develop a draft law de on alternative investment funds (AIF)

In July 2015, a public consultation document was published on FSA 's website (a premiere in regulatory terms, in that the public was consulted before proposing a draft act). The draft law was aimed at reconfiguring the national regulatory framework applicable to collective investment undertakings other than transferable securities collective investment undertakings (namely NON-UCITS listed under Articles 114 and 115 of Law no. 297/2004 on the capital market, as subsequently amended and supplemented), through FSA's intention to develop a draft law on alternative investment funds, as well as certain related amendments.

The purpose of the public consultation document was to receive positions from all the stakeholders on FSA's strategy for regulating the operation of NON-UCITS, in the context of the latest EU and national legal developments. The observations and proposals received during the consultation session, alongside FSA's own analysis of the regulation of FIA operation in other members states, were considered in the process of developing the draft law.

The approach proposed by FSA in the consultative document was aimed at creating two regulatory tiers, namely one applicable for UCITS and investment management companies (IMC) that manage such undertakings, and one applicable for AIF (current NON-UCITS) and their respective managers (AIFM). This approach is consistent to FSA's vision (materialised in the STEAM Project) to reconfigure / revise the primary laws applicable to capital markets, based on the models of the European Union, namely categorising the primary regulations depending the specifics of the operations governed.

The above-mentioned initiative of the FSA was taken in the context whereby, following the coming into force of Law no. 74/2015 on managers of alternative investment

funds and Regulation no. 10/2015 on the management of alternative investment funds, starting in May 2016, the operation of managers of current NON-UCITS (future alternative investment funds – AIF) should comply with the new regulations.

For this reason, it is necessary to reconsider the laws applicable to this type of entities, whose activity is regulated by a number of the special laws and regulations

governing the capital market and, at the same time, in the case of investment companies, is subject to general primary laws, namely the Companies Law no. 31/1990 and/or specific regulations governing the establishment of such entities (such as Law no. 133/2006 and Law no. 247/2005, whereby the establishment of the five SIF and the Proprietatea Fund was enacted).

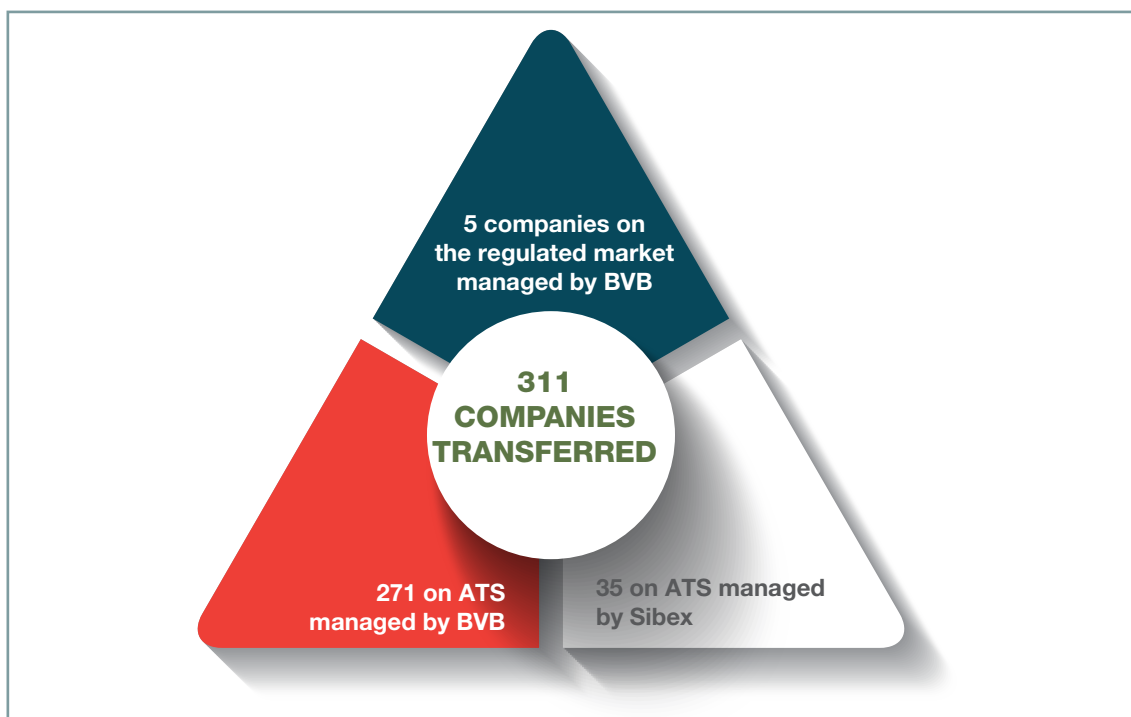
Completion of the RASDAQ Project

Clarifying the RASDAQ market status was a significant step towards settling an older set of issues that were left unresolved with since 2004.

The Parliament of Romania supported FSA's efforts by issuing a primary law establishing the rules for restructuring RASDAQ, materialised as Law no. 151/2014 that provided a one year deadline for clarifying the status of issuers traded on this market and close down RASDAQ. Law no. 151/2014 was implemented throughout 2015 as a complex process, entailing significant efforts from the issuer, but also from the two stock exchanges and FSA.

The Authority supervised issuers' compliance with the procedure imposed by law, any breach being subject to sanctions. The operation of the RASDAQ and the unlisted securities markets ceased on the 27th of October 2015 by operation of the law.

As a result of completing the restructuring of the RASDAQ and unlisted securities markets, 311 companies whose shares were traded on the RASDAQ or unlisted securities markets were transferred to the regulated/ ATS market, thus:



587 issuers were withdrawn from trading for failure to comply with the procedures required by the Law, and FSA issued 208 sanctioning decisions.

Capital market supervision

COLLECTIVE INVESTMENT UNDERTAKINGS

The main objective of supervising collective investment undertakings is to protect investors in units and promote trust in this type of investment that encourages the mobilisation of the populations' savings. In compliance with the new approach based on specific supervision risks and responsibilities, the main objectives for 2015 were:

- Improve quality, efficiency and coherence of supervision by implementing proactive measures;
- Identify the main vulnerabilities and issues that may require supplementary supervision measures;
- Reconfigure objectives by gradually implementing risk-based supervisory principles in correlation with remodelling the conformity component;
- Enhanced supervision of high-risk financial entities;
- Develop the role of cross-check in supervising activities, with a view to identifying potential disparities, errors or fraud risks:
 - Ensure mechanisms for improving supervision efficiency, by the development of a suitable computer-based reporting system, allowing regular checking of compliance with the minimal capital requirements by the investment management companies;
 - Verify the evaluation and recording of financial assets included in the CIS portfolio, by automated

access of data from an international data terminal (Bloomberg, Reuters);

- Identify special operations/ transactions carried out by the supervised financial entities;
 - Comply with investment limits of the financial instruments held by CIS – warnings;
 - Standardise financial reporting by the supervised entities;
 - Build early warning systems signalling the deterioration of prudential indicators.
- Monitor key elements of the entities operations (assets evaluation and calculation, prudential requirements, conflict of interests, etc).

When reviewing the weekly reports and/or information received from fund depositaries indicated violations of the applicable regulations (e.g. exceeding legal investment limits, errors in entering instruments from the fund's assets, mismatches between the portfolio and the structure presented in the issue prospectus or errors in the valuation of assets in the fund's portfolio), the causes of such situations were analysed and action was taken as and when needed to correct any deviations from the applicable regulations. The violations/errors were generated by factors such as:

Price of stock in portfolio value increased concomitantly with a decrease in the worth of the open investment funds' assets;	Maturity of investments in money market instruments and keeping such money in current accounts until the identification of new investment opportunities;
Repurchasing more units than issued, thus causing the decrease in the value of the funds;	Changes in the law governing the valuation of CIS assets.

In such situations, FSA requested the investment management funds to take the required measures such as to ensure legal compliance.

DEFICIENCIES FOUND IN THE SUPERVISION OF IMC/CIS

01

Errors related to:

- Charging operational accounts with amounts subscribed, but unallocated to fund unit;
- Recording financial instruments in portfolio of certain CIS;
- Trading certain financial instruments from the portfolio

02

Imprecise / erroneous interpretation in applying regulations:

- Clarifications regarding the process of liquidating CIS

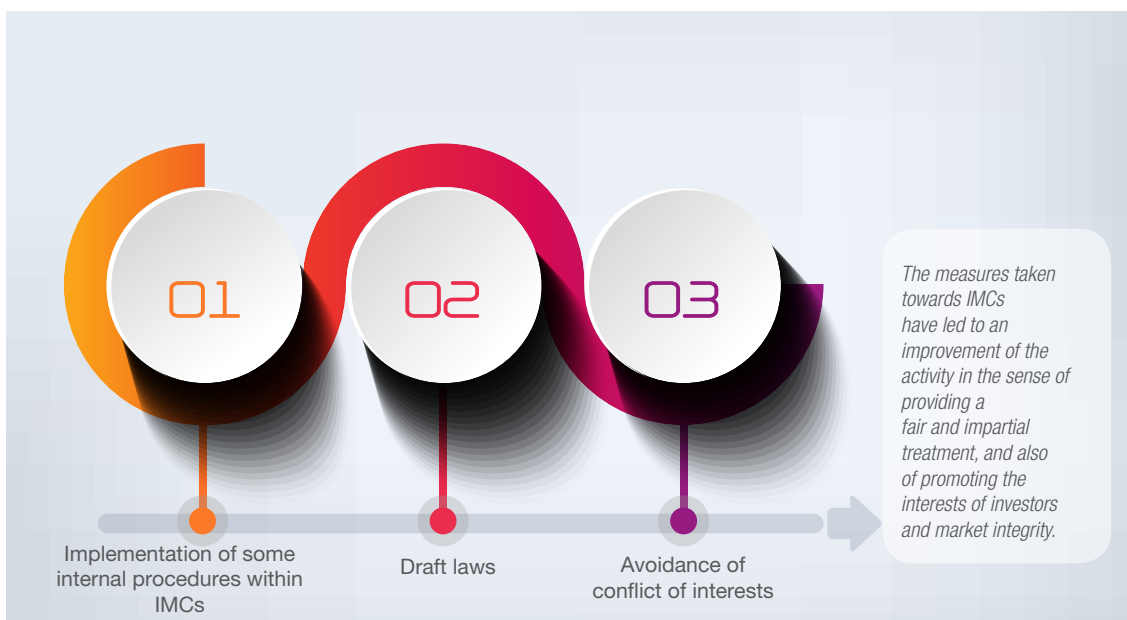
03

Failure of CIS to operate within the investment framework set out through legal provisions and their own prospectus

As a result of the findings from the supervision of IMC/ CIS, the investment management companies took measures to correct the situations in the shortest time possible, in compliance with the applicable regulations and upholding investors' interests, by correlating investment / divestment with the opportunities provided by the Romanian money and capital market, namely the

sale of packages of shares, diversification/ reorientation of portfolios by investing in other types of more liquid financial instruments.

Following the investigations and identification of certain shortcomings, the main measures taken to improve the activity and operation of the supervised entities were:



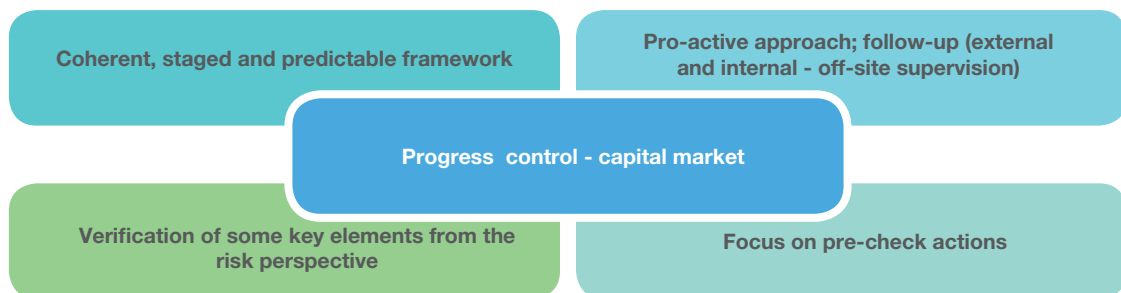
The expected outcomes from the implementation of particular significant approaches are:

- Improving efficiency of supervision;
- Zero tolerance of violations of the applicable regulations;
- Early identification of the main risks associated to supervised entities;
- Implementing measures to prevent adverse factors that may trigger chain reactions and crises in the Romanian capital market and overall financial system;
- Implementing early reaction measures depending on the identified risks, for the purpose of preventing or mitigating the potential impact of such entities going bankrupt;
- Ensuring a seamless transition from mainly conformity-based to risk-based supervision within SIIF.

ON-SITE SUPERVISION

A significant progress towards improving the efficiency of control activities was made by paying more attention to the preparation stage. This objective was achieved both internally, through closer collaboration between the supervisory structures and the SIIF control units,

and externally, by simplifying the role and reducing the efforts of controlled entities (using questionnaires in preparation of the audit, standardising certain requested data etc.).



Under the new approach, the proactive dimension of the control operations was developed, materialised in recommendations / guidelines provided during the control mission, concomitantly with close monitoring of the remedial processes implemented by the controlled entities (follow-up). Starting with 2015, the FSA Council receives six-monthly notifications on the progress in the controlled entities implementation of the measures ordered following on-site supervision activities. The requests for remedial action formulated based on the on-site supervision of the capital market and the positive feedback received from the supervised entities show that the measures ordered were indeed necessary and lead to improving the operations and significant reduction of a number of potential risks to companies and the overall market.

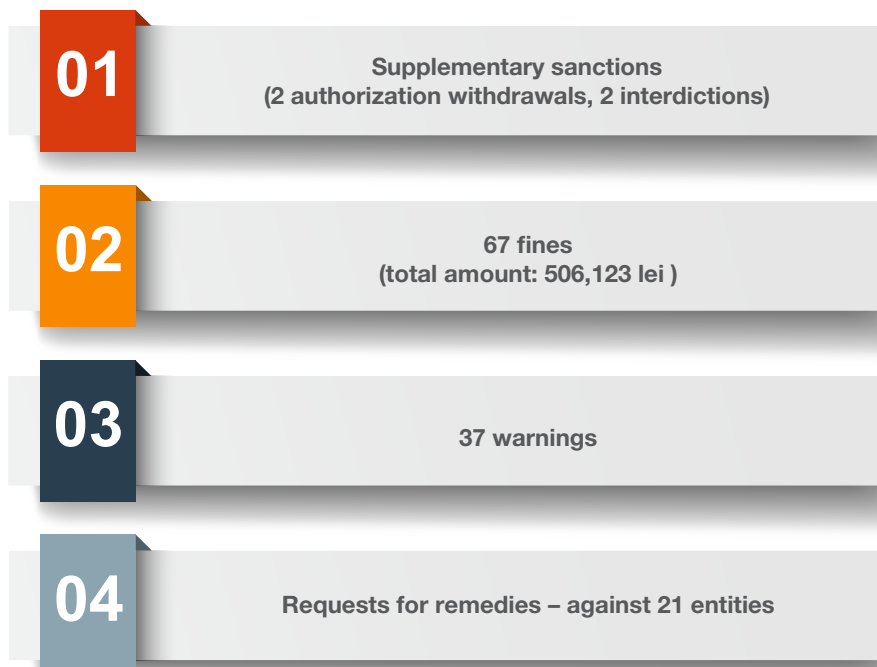
By reconfiguring, in early 2015, the control topics, in compliance with the new vision of the Authority, the control activities were focused mainly on key risk elements

in the operation of the entities (investment policies, risks/ vulnerabilities, safekeeping of clients' assets, conflict of interests, know your client etc.). Furthermore, special attention will be paid to cross-verification of operations and data (brokers / central depository, management companies / depositaries).

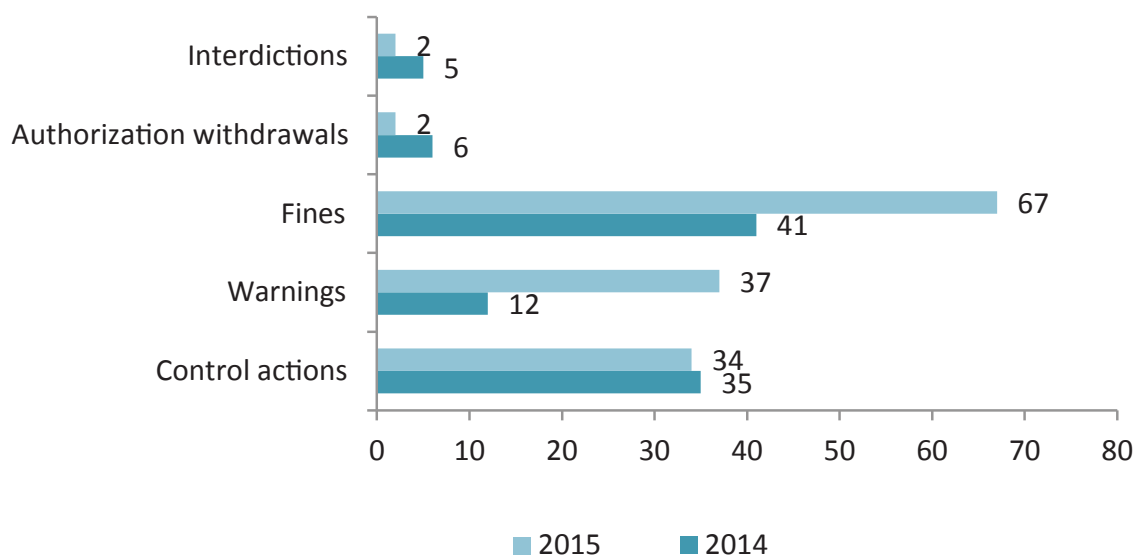
In setting the priorities for control activities in 2015, the objective of ensuring enhanced supervision of high-risk entities was observed. 32 scheduled audit (control) missions were carried out (10 IMC, 3 depositaries, one market operator, 18 brokers) and 2 on the spot inspections at brokers.

In terms of coherence and proportionality of measures ordered / sanctions applied, FSA applied unbiased and indiscriminating treatment, in its attempt to send out a message of zero tolerance for serious infringements and to impose corrective action plans.

Results of control activities organized among the capital market entities



Number of controls and applied sanctions



For 2016, the main objective of the capital market control unit is to consolidate direct cooperation with supervisory services in pre and post – control stages, in the preparation stage, and in enhancing the preventive function of control (focus on recommendations/ remedial

action requests and follow-up). These measures are a continuation of the initiatives of 2015, aimed mainly at developing the synergy of off-site and on-site supervision functions.

Other Projects and Activities

REGULATIONS

The process of developing regulations (rules, regulations, instructions, and decisions) aimed at creating or supplementing the legal framework required for suitable operation of capital market entities regulated and supervised by SIIF of FSA was focused on the following main directions:

- Developing regulations for the application of the laws in force and transposition of the Community acquis;
- Developing regulations in response to requests addressed to FSA by capital market entities to amend or supplement acts;
- Developing regulations as a result of changes in capital market acts issued by the Parliament or Government of Romania and/or European regulators, the implementation of which required amendments to regulations in force, to the extent to which such changes did not require amending Law no. 297/2004.

AUTHORISATION – MONITORING INTERMEDIARIES, CAPITAL MARKET INSTITUTIONS AND COLLECTIVE INVESTMENT UNDERTAKINGS

In view of FSA's strategic objectives, new risk-based approach and objectives to improve the quality, efficiency and flow of authorisation and monitoring intermediaries and capital market entities, the Authority initiated a Project to automate the authorisation-monitoring process. The Project is aimed at increasing the efficiency and effectiveness of the authorisation-monitoring process, through the development and implementation of an integrated computer-based system to be used by FSA for the centralised management of all types of data and information available in SIIF.

Another noteworthy aspect in 2015 was the adoption of measures to improve and increase efficiency of the mechanisms put in place for protection against theft and abusive/ unauthorised use (without the client's agreement) in transfers of financial instruments from Section 1 to Section 2 and vice versa.

Intermediaries (SSIF and credit entities)

In 2015, the previous years' trend to reduce the number of intermediaries (SSIF and IC) active on the capital market continued, with a 7% decrease compared the previous year. On 31.12.2015, 30 SSIF and 8 credit institutions were operational. During the year, the licenses were withdrawn from two SSIF's and two credit institutions operating in Romania. Since gradual capital market restructuring will continue, we should note that one SSIF's application for the withdrawal of the operating license is pending resolution.

An aspect that stands out in 2015 is FSA authorising a SSIF entity, namely the ROMANIAN COMMODITIES EXCHANGE SA that will provide investment services and operations, as well as the non-core services provided for by Law no. 297/2004. Thus, alongside trading of standardised commodities, the company will also trade financial instruments.

Of the SSIF's on FSA's records at the end of 2015, 57% were authorised to provide all the financial investment services and operations and non-core services provided by Article 5 (1) and (11) of Law no. 297/2004

on the capital market, as subsequently amended and supplemented, with an initial share capital at least equal to the Lei equivalent of 730,000 Euros, and 43% were not trading financial instruments on their own account nor subscribing issues of transferable securities based on firm commitments. Concerning the operation of FSA registered credit institutions on FSA regulated and authorised markets, 62.5% of such credit institutions were participants and custodians on the markets (Bancpost SA, Banca Comercială Română SA, BRD Groupe Société Générale SA, Raiffeisen Bank SA, Piraeus Bank Romania SA), admitted in the clearing-settlement system administered by the Central Depository SA. Moreover, in relation to the above, two more credit institutions acted as participants and custodians, namely Libra Internet Bank SA and Unicredit Bank SA. We should point out that Alpha Bank Romania SA is in neither of the above-mentioned situations, but is carrying out the capital market business mentioned in Articles 5 (1) a), g) and (11) c), e) of Law no. 297/2004, as subsequently amended and supplemented.

Authorised personnel of entities supervised by FSA (AFIS, TA, RCCI)

In the case of agents for financial investment services (AFIS) and tied agents (TA) providing investment services and activities on behalf of brokers operating on the Romanian capital market, the previous years' trend continued to reduce the number of staff in the above-mentioned categories. In 2015, 94 AFIS and 58 TA were stricken off the FSA's Public Register, resulting in a 3% reduction in the total number of such entities registered with FSA (672 AFIS and TA). Furthermore, applications were made for 15 new registrations in the Public Register of FSA as representatives of the internal audit department and 27 withdrawals of authorisations / removals from this capacity. Therefore, on 31.12.2015, 108 representatives of internal audit departments were operating in the registered offices of intermediaries, market operators and central depositories or branch-type places of business set up by SSIF's as part of their territorial network.

Capital market institutions

With respect to market / system operators, two operating licenses were modified in 2015, as a result of changes in the membership of management board by the appointment of new (of which one interim) managers. Four persons were validated as managers, and FSA rejected one application on grounds of non-compliance with the applicable regulations.

In compliance with the requirements of Article 129 of Law no. 297/2004 on the capital, as subsequently amended and supplemented, the amendments brought to the incorporation articles of SC Sibex - Sibiu Stock Exchange SA and Bucharest Stock Exchange were subject to approval by FSA, in terms of the stock held by the two market operators. In line with the previous year's trends, FSA stroke-off 57 derivative financial instruments tradable on the regulated market administered by SIBEX. Also, FSA issued registration certificates for 11 new derivative financial instruments (futures contracts) tradable on this market. No changes were brought to the derivative financial instruments registered with FSA in the regulated futures market administered by BVV.

Central depositories

In 2015, two amendments to the operating license of SC Central Depository SA were made, as a result of twice extending by 90 days the deadlines for appointing a new Director General, and subsequently four managers were approved, as well as changes in the membership of the Board of Management.

SC Central Depository SA was licensed to allocate and manage FISN1 codes, in compliance with the ISO2 18774 Standard..

In 2015, the Evaluation Report of the ROCLEAR clearing-settlement system was approved, and the recommendations of ESCB-CESR on EU financial instruments settlement systems were taken in.

Clearing houses

SC Casa de Compensare București SA (CCB SA) applied for authorisation as central counterparty, in compliance with FSA Regulation no. 3/2013. The application was rejected because the supporting documents submitted were incomplete. Given SC Casa de Compensare București SA's intention to maintain its license as clearing house for other types of financial instruments than derivatives, as notified in March FSA requested an official opinion from ESMA on the above-mentioned situation. We should note that, at the time of writing this Report, FSA had not yet received an answer (from ESMA) in relation to CCB SA's request. In 2015, SC Casa de Compensare București SA did not carry out business.

Casa Română de Compensare SA Sibiu applied for the withdrawal of its operating license and removal from the FSA Register – Section “Entities that carry out post-trading operations”, Subsection “Clearing houses / Central counterparts (CC/CC).

In 2015, FSA approved the FCI strategy on exposure of financial resources of the SC Fondul de Compensare a Investitorilor SA.

Investment management companies (SAI)

At the end of 2015, 21 SAI's were registered in FSA's Public Register, of which 6 managed individual investment portfolios. During 2015, Pioneer Asset Management SAI SA, SAI Star Asset Management SA and Zepter Asset Management SAI SA limited their scope of business by giving up the management of individual de portfolios and investment consulting

Collective investment undertakings

In Romania, the collective investment sector has witnessed a constant increase in the number of undertakings, with the permanently expanding open investment funds standing out from the rest. Compared to the situation on 30.12.2014, when 71 open investment funds, 32 closed investment funds, 5 NON-UCITS financial investment companies with diversified investment policies and SC Fondul Proprietatea SA (special NON-UCITS entity, established as a closed investment company) operated on the Romanian capital market, on 31.12.2015, 74 open investment funds were registered in the FSA's Public Register, whilst the number of closed investment funds was the same as in the previous year.

In 2015, FSA issued operating licenses for 5 open investment funds, namely: Open investment fund PROSPER INVEST, Open investment fund BT EURO CLASIC, Open investment fund BRD USD FOND, Open investment fund OTP EURO PREMIUM RETURN and Open investment fund OTP GLOBAL MIX. The Closed investment fund RAIFFEISEN DOLAR PLUS was reorganised as an open investment fund. Three Romanian closed investment funds were registered in the Public Register of FSA, namely: Closed investment fund ALCHEMIST, Closed investment fund OPTIM INVEST și Closed investment fund MICHELANGELO. Also, 3 open investment funds were stricken off the FSA Register as a result of their merger or acquisition by other UCITS. The operating license was withdrawn from three NON-UCITS for reaching maturity date or as a result of mergers.

In 2015, amendments were authorised to UCITS's documents for meeting the requirements of Regulation no. 9/2014. Some 6 depositories provide safekeeping of collective investment undertakings' assets. During the period under review, the approval granted to the Credit institution Banca Românească SA as depositary was withdrawn on request.

With respect to the free movement of services, on 31.12.2015, in FSA's Register were registered: 9 investment management companies based in other EU Member States and licensed to operate in Romania, 37 UCITS from other EU Member States, 22 investment companies and 50 open investment funds, 12 alternative/ closed investment companies and 35 managers of alternative investment funds from other Members States,

¹ Financial Instrument Short Name

² International Organization for Standardization

which notified their intention to operate in Romania as per Article 6 (4) of AIFMD

Investment consultants

The changes introduced in the area of consulting services for trading of financial instruments on the Romanian capital market were represented by withdrawal on demand of licenses as Investment Consultants granted by FSA to four natural persons and one juristic person. Considering that, at the end of 2015, 23 natural and 2 juristic persons were licensed as consultants, the overall reduction was of 16%

Evaluators

A new juristic person, AVENSIS CAPITAL CONSULTING SRL, joined the evaluators' core and can carry out evaluation on the capital market, in compliance with Ordering of measure no. 16/2009 and no. 9/2010, being registered accordingly in the FSA Register, Section 16 - Evaluators, Sub-section 2 – Evaluators: juristic persons (specialisation: company evaluation) (EVPJ), and Sub-section 4 – Independent evaluators: juristic persons (specialisation: real property) (EIPJ). No changes occurred in the number of natural persons licensed as evaluators on the Romanian capital market (4 individuals).

IT system auditors

Following the development of Rule no. 6/2015 on the management of operational risks generated by generate by IT systems used by entities regulated, authorised / approved and/or supervised by FSA, which entered into force on the 3rd of April 2015, FSA processed 8 application for approval as IT auditors (two natural and six juristic persons).

Financial auditors

În On 01.01.2015, Rule no. 21/2014 on the financial audit of entities authorised, regulated and supervised by the Financial Supervision Authority came into force, establishing the requirements for approval / authorisation of financial auditors that carry out financial audits of entities authorised, regulated and supervised by FSA. 31.10.2015 was the deadline set for compliance with the Rule by financial auditors aiming to carry out financial audits of entities authorised, regulated and supervised by FSA.

At the end of 2015, the applications of three natural and six legal persons to carry out financial audits of entities authorised, regulated and supervised by FSA – Financial instruments and investments sector had been approved.

Groups of companies admitted to trading

An important aspect for 2015 is the registration with FSA of a new group, in compliance with the requirements of Instruction no. 11/2005, as subsequently amended and supplemented, comprising ten companies, where the mother company is SIF MOLDOVA. Furthermore, based on a request submitted to FSA, a new change was made in the membership of the OMV PETROM SA Group.

Training organisations

With respect to training organisations that provide training programmes for certification in various capacities (agent for financial investment services, tied agent, staff of internal audit departments and investment consultants), as well as for updating competencies, no new such organisations came on the market during the period under review.



Capital market regulations, instructions, rules and decisions prepared by FSA in 2015

REGULATIONS		
1	FSA Regulation no. 1/2015 on the supply of certain activities by investment firms and application of certain provisions of the capital market legislation in the case of the fiducia (trust) contract (published in the Official Journal, Part I no. 142 of 25 February 2015)	Lays down rules on the application of certain provisions of the capital market law in the case of the fiducia contract, as regulated by Law No. 287/2009 on the Civil Code, and on the activities which may be supplied by investment firms, other than investment services and activities, and non-core services.
2.	FSA Regulation no. 3/2015 amending and supplementing Regulation no. 1/2006 of the National Securities Commission on issuers of and operations with securities and the Regulation no. 6/2009 of the National Securities Commission on the exercise of certain shareholder rights in relation to general meetings of companies (published in the Official Journal no. 206 of 27 March 2015);	- The context of amending Law no. 297/2004 by EOG no. 90/2004 and Law no. 10/2015 was defined. - Clarifications were made on the payment agent and date of payment. - A new method for payment of dividends was detailed, via the Central Depository and participants in the clearing-settlement system and the Register. A procedure was established for the disbursement of dividends / other amounts due to holders of transferable securities, both for shareholders with and without securities accounts with a broker participating in the clearing-settlement system and in the Register of the Central Depository. - The provisions regulating public offerings were reconfigured (e.g. amendments to eliminate the requirement for publishing of public offerings and adapted provisions on advertising), in view of their adaptation to the new requirements of the primary law. - The changes brought about by the Regulation also covered the implementation of a provision of Directive 2014/51/EU ("Omnibus II") amending Article 5 paragraph (4) the third paragraph of the Prospectus Directive 2003/71/EC, which must be transposed into the Member States' law by 31 March 2015
3	FSA Regulation no. 4/2015 amending and supplementing CNVM Regulation no.13/2005 on the authorisation and operation of the central depository, clearing houses and central counterparties and amending paragraph (1) of Article 9 of the CNVM Regulation no.5/2010 on the use of global accounts system, implementation of mechanisms with or without pre-validation of financial instruments, performance of securities lending operations, operations of establishing associated guarantees and short selling operations (published in the Official Journal, Part I no. 213 of 30 March 2015)	Amends and supplements CNVM Regulation no. 13/2005 (Article 2, Article 40, Article 42, Article 51-55, Article 61-64, Article 100-101) and amends Article 9 of CNVM Regulation no. 5/2010.
4	FSA Regulation no. 5/2015 on the listing on a Member State market, through depository interests, of the shares admitted to trading on a regulated market in Romania (published in the Official Journal no. 264 of 21 April 2015);	Supplements the measures set forth by FSA between October 2014 and March 2015, aimed at increasing the liquidity of the Romanian capital market and attracting foreign investors
5	FSA Regulation no. 6/2015 amending and supplementing Regulation no. 3/2006 on the authorisation, organisation and operation of the Investor Compensation Fund, approved by Order no. 12/2006 of the National Securities Commission (published in the Official Journal no. 378 of 29 May 2015);	- The Regulation provides that, in case of a member's incapacity to repay the money funds and/or financial instruments owed or belonging to investors, held and/or managed in their name within the context of the supply of financial investment services, the investors that do not have a contract with the broker / intermediary in question may receive compensation, under certain conditions, from the Investor Compensation Fund (ICF). - Amends the provisions covering the investment of the Fund's financial resources, eliminating the effective limits of individual exposure on each low-risk financial instrument and on each issuer of that financial instrument. The strategy on the Fund's exposure, both for financial instruments, and for each issuer, shall be established annually by the Fund's board of directors.
6	FSA Regulation no. 7/2015 amending paragraph (4) of Article 58 of FSA Regulation no.3/2013 on the authorisation and operation of central counterparties issued in accordance with the provisions of Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (published in the Official Journal, Part I no. 373 of 28 May 2015)2015)	Amends paragraph (4) of Article 58 din FSA Regulation no.3/2013 on the deadline for withdrawal of the operating authorisation of "Casa Română de Compensatie" and "Casa de Compensare București"

REGULATIONS		
7	FSA Regulation no. 8/2015 on financial investment services agents, tied agents and amending and supplementing Regulation No. 32/2006 on financial investment services, approved by Order no. 121/2006 of the National Securities Commission (published in the Official Journal, Part I no. 465 of 29 June 2015)	Establishes rules and procedures for the authorisation and operation of financial investment agents and tied agents, for the implementation of Law no. 297/2004 on the capital market.
8	FSA Regulation no. 9/2015 regarding the solving procedure, by the entities regulated and supervised by the FSA under Law no. 297/2004 on the capital market and Law no. 74/2015 on alternative investment fund managers, of the petitions relating to their activity in the capital market, (published in the Official Journal Part I no. 537 of 20 July 2015)	- Fully transposes the ESMA/EBA Joint Guidelines on complaints-handling for the securities in the transferable securities (ESMA) and banking (EBA) sectors and establishes obligations for the both FSA supervised and non-supervised capital market participants, based on the relevant capital market laws, on: - Internal procedures for dealing with petitions; - Registration, management and reporting of petitions; - Permanent review of petitions data, in view of identifying and dealing with any recurrent or systemic issues, as well as preventing any potential legal and operational risks; - Ensuring transparency in the registration and resolution of petitions and investors' access to information.
9	FSA Regulation no. 10/2015 on alternative investment fund management (published in the Official Journal, Part I, no. 562 of 28 July 2015)	Establishes rules for the authorisation, registration and operations of alternative investment fund managers (MAIF), as well as for the appointment and responsibilities of the depositary of an alternative investment fund (FIA).
10	FSA Regulation no. 11/2015 amending and supplementing certain regulations (published in the Official Journal al Romania, Part I, no. 747 of 7 October 2015)	- Implements certain provisions of the European "Market Standards for Corporate Actions Processing". - Introduces new relevant provisions, in the context of the current capital market developments. - The Regulation includes provisions of certain CNVM Ordering of measures and introduces transparency rules for issuers whose shares are traded on ATS.
11	FSA Regulation no.12/2015 amending the introductory part of paragraph (4) of Article 58 of the FSA Regulation no. 3/2013 on the authorisation and operation of central counterparties issued in accordance with the provisions of Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories, approved by Decision no. 28/2013 of the Council of the Financial Supervisory Authority (published in the Official Journal, Part I no. 892 / 27.11.2015)	Amends the existing provisions of Regulation no. 3/2013 on the deadlines for FSA withdrawing the license of clearing houses that did not get an authorisation as central counterparty, in compliance with EMIR.
12	FSA Regulation no. 14/2015 on the assessment and approval of the members of the management structure and of persons holding key functions in the entities regulated by the Financial Supervisory Authority (published in the Official Journal, Part I, no. 975 of 29 December 2015)	- Updates and harmonises the FSA rules for the authorisation and approval of regulated and supervised entities in the three sectors covered, by: - Introducing a set of consistent rules, by the setting uniform criteria and procedures for the valuation and, as applicable, the approval of management and key personnel of the FSA regulated entities. - Introducing consistent and harmonised requirements on the experience, reputation, integrity and good governance, adequate to the nature, size and complexity of the operations regulated by.

INSTRUCTIONS

1	FSA Instruction no. 1/2015 amending and supplementing Instruction no. 2/2014 on the application of international financial reporting standards by the entities authorised, regulated and supervised by the Financial Supervisory Authority in the financial investment and instruments sector (published in the Official Journal no. 343 of 19 May 2015);	Clarifies the optimal implementation of the requirements of Instruction no. 2/2014
2.	FSA Instruction no. 2/2015 amending Article 2 (1) of the FSA Instruction no. 2/2014 on the application of international financial reporting standards by the entities authorised, regulated and supervised by the FSA (published in the Official Journal, Part I no. 665 of 02 September 2015)	Instruction no. 2/2015 introduces the obligation to use IFRS as accounting standards, starting on the 1st of January 2016.

RULES

1	FSA Rule no. 6/2015 on the management of the operational risks arising from the information systems used by the entities regulated, authorised/licensed and/or supervised by the ASF (published in the Official Journal, Part I, no. 227 of 03.04.2015).	- The Rule covers the continuous evaluation of the operational risks associated with the use of IT systems by entities regulated by FSA, using the entities' employees, processes and systems or outsourced services. - Improving the internal control environment and increasing the maturity and organisation of the entities that should take specific measures, depending on their risk category defined according to the Rule. - FSA shall carry out prudential supervision of the operational risks generated by the entities' IT
2.	FSA Rule no. 39/2015 approving the accounting regulations in accordance with the International Financial Reporting Standards, applicable to entities authorized, regulated and supervised by the Financial Supervisory Authority (published in the Official Journal, Part I no. 982 of 30 December 2015)	- Rule no. 39/2015 was issued for the implementation of Instruction no. 2/2014, and includes rules for preparing, approving, auditing and publishing the consolidated annual statements of entities required to use IFRS, as well as accounting rules for financial and economic operations and the applicable chart of accounts. - Also, the Annex to Rule no. 39/2015 transposes the requirements of Directive 2014/95/CE.
3	FSA Rule no. 40/2015 approving the accounting rules for annual and consolidated financial statements, applicable to entities authorised, regulated and supervised by FSA – the financial instruments and investment sector (published in the Official Journal, Part I no. 980 of 30 December 2015)	- Rule no. 40/2015 transposes Directive 2013/34/CE, and its provision apply to traders and investment consultants. - Rule no. 40/2015 repeals Regulations no. 3/2011 and no. 4/2011.

DECISIONS

1	FSA Decision no. 479/18.03.2015	Approves the Evaluation Report of the RoClear clearing-settlement system managed by the Central Depository SA. The evaluation was carried out against the ESCB-CESR Recommendations for settlement of operations with financial instruments in the European Union.
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INSURANCE- REINSURANCE MARKET

1

**PREPARE THE INSURANCE MARKET TO
IMPLEMENT SOLVENCY II STARTING WITH
1 JANUARY 2016**

2

**BALANCE SHEET AUDIT FOR THE INSURANCE
MARKET**

3

**IMPLEMENT AND STRENGTHEN RISK-BASED
OFFSITE/ONSITE SUPERVISION**

4

**MODERN INTERVENTION (RESOLUTION)
RULES AND MECHANISMS FOR CREDIT-
IMPAIRED UNDERAKINGS**

5

**MEASURES ADOPTED TO NORMALISE THE
MTPL MARKET**

6

**OTHER MEASURES FOR THE PROPER
OPERATION OF THE INSURANCE MARKET**

Prepare the insurance market to implement Solvency II

In the last years, the insurance sector in Romania has faced various vulnerabilities leading to the need to implement new standards on the financial soundness of insurance companies and on the quality of the distribution of insurance products.

In 2015, the car insurance segment accounted for 56.87% of the total of gross written premiums (GWP), while the MTPL ratio in the PBS increased to 37.59%

The stronger competition in the MTPL insurance market had as a direct consequence underrated prices, which, combined with the increasing number of claims for bodily injuries and non-economic losses, and the deficiencies of the road infrastructure lead to pressure on the profitability of this line of business. Moreover, in order to

strengthen consumer protection and market behaviour and to prevent unfavourable future developments, ASF had to take firm supervision action for several players in the market.

The decreasing trend manifested in previous years for the main indicators of the insurance market (e.g. gross written premiums, insurance penetration – calculated as the ratio between the gross written premiums and GDP, insurance density), the high dependence of the car insurance sector, and the need to align to the provisions of the new regime Solvency II starting with January 1, 2016 led to decisive actions of ASF and turned 2015 into a year of change and stabilisation of the insurance sector.

SOLVENCY II REGIME

For the insurance sector in Romania and Europe, 2015 has been an important cornerstone which marked the transition to the implementation of the European mechanism Solvency II.

What is the Solvency II regime?

Solvency II

Solvency II is a sound, robust and proportionate prudential supervision regime which will be implemented throughout the European Union.

Starting with 1 January 2016, the European Union applies a new risk-based supervision framework for the insurance market - Solvency II.

Solvency II leads to a paradigm shift in the risk culture of the companies. Well capitalised insurers will allow the sector to cope with unforeseen shocks. By encouraging good governance and risk management, Solvency II will increase the protection of insurance products consumers. Reporting and public disclosure shall be harmonized and shall provide supervisors key information to act immediately. As it was designed based on the proportionality principle, this regime will not be a burden for small companies.



What is the difference between Solvency I and Solvency II?

Solvency II will replace Solvency I, which represents a set of 14 EU Directives and provides for 28 national supervision regimes. Starting with 1 January 2016, the range of 14 European Directives shall be replaced by Solvency II. Solvency II is a common regime which shall be implemented by all 28 EU Member States.

Solvency II benefits

Solvency I	Solvency II
Several different supervision regimes.	A sole supervision regime across the EU.
Undertakings do not have to carefully monitor certain categories of risks.	Undertakings understand risks better and manage risks more efficiently.
Consumers suffer most if the insurance company is affected by the economic reality.	Good governance and robust risk management.
Supervisors do not have the full picture on the company profile.	Improved reporting allows supervisors to anticipate possible problems and react promptly.

Solvency II is structured by three pillars:

Pillar 1	Pillar 2	Pillar 3
Financial requirements	Governance and supervision	Reporting and transparency
- Two thresholds: -Solvency Capital Requirement (SCR); -Minimum Capital Requirement (MCR); - There are harmonised standards for valuation of assets and liabilities.	- Functional risk management system; - Own Risk & Solvency Assessment (ORSA); - Supervision and intervention	Companies understand risks better and manage risks more efficiently.

Starting with 1 January 2016, Romania implements Solvency II in the insurance and reinsurance field, which involves the shift to risk-based supervision. In the context of the implementation of the new Solvency II regime, ASF has undertaken various steps to support insurance undertakings.

TRANSPOSAL OF DIRECTIVE 2009/138/EC ON SOLVENCY II REGIME

In October 2015 the Romanian Parliament passed Law no. 237/2015 on the authorisation and supervision of the business of insurance and reinsurance, which represents a new framework for the authorisation, operation and supervision of insurance undertakings, according to the Solvency II regime. The requirements applicable to insurance undertakings (both under Solvency II, and under the national regime) and stipulated by Law no. 237/2015 are effective starting with 1 January 2016, except for Art. 166(1) – (3), which is applicable starting with 1 November 2015. The amendment of the primary legal framework was the main event for the insurance-reinsurance sector.

The draft Law on the authorisation and supervision of the business of insurance and reinsurance was submitted in December 2014 to obtain the approvals of the line ministries and to be promoted in the Romanian Parliament, and in the spring of 2015 it obtained approvals from MJ, MFP and CSIPPC.

Law no. 237/2015 transposes Directive 2009/138/EC on the taking-up and pursuit of the business of

Insurance and Reinsurance (Solvency II), as further amended and supplemented by: Directive 2011/89/EU (FICOD), Directives 2012/23/EU and 2013/58/EU (QFD I and QFD II (extending the transposal and implementation), Directive 2013/23/EU and Directive 2014/51/EU (Omnibus II).

Law no. 32/2000 as further amended and supplemented continued to be enforced until Law no. 237/2015 entered into force. However, pursuant to the provisions of Solvency II, the draft law imposed ASF duties starting with 1 April 2015, for the implementation of the Solvency II regime, by implementing the first set of EIOPA Guidelines.

Law no. 237/2015 focuses exclusively on the activity of insurance and reinsurance undertakings, and on the ASF duties related to the supervision and control of the activities of such entities, in national and European contexts. Insurance/reinsurance brokers are not covered by the Solvency II, as further amended and supplemented, as they are regulated by Directive 92/2002 on insurance mediation.

USEFUL INFORMATION ON SOLVENCY II

In order to support insurance undertakings which will perform activities according to the provisions of the new risk-based supervision regime (SII), ASF developed a document which correlates: the text of the Directive Solvency II, the text of the draft Law on the authorisation and supervision of the business of insurance and reinsurance, as well as the secondary and tertiary European legislation (Delegated Regulation EC 2015/35,

implementing technical standards, regulatory technical standards and guidelines issued by EIOPA).

This document – entitled Mapping Table for implementation documents on Solvency II – was published on the ASF website, under the Solvency II section. The same section includes the Solvency II Glossary, which was revised in 2015.

PREPARATORY STAGES IN ASF TO IMPLEMENT THE NEW PROVISIONS OF SOLVENCY II

Reports and IT” Solvency II – preparatory stage

- Working Group focused on quantitative reports SII

According to the ASF Decision no. 47/24.12.2013 on the implementation of the preparatory guidelines for the implementation of Solvency II issued by EIOPA, 11 undertakings had the obligation to submit annual information/reports during the preparatory period and only 6 of them had the obligation to submit quarterly information during the preparatory period.

This working group collected the annual and quarterly quantitative information which insurers had the obligation to submit by 04.06.2015 (annual reports for 2014), and by 26.11.2015 (quarterly reports for 2015), in the Solvency II format – preparatory stage, ensuring that proper information is submitted to EIOPA. Insurers submitted the reports through the application provided by EIOPA “tool for undertakings – T4U”, a temporary solution for submitting Solvency II reports.

This working group also analysed the need to maintain or cancel the reporting requirements imposed on the insurance market by secondary legislation, following the publication of Law no. 237/2015 on Solvency II. The working group discussions and analyses produced:

- A set of conclusions on the enforcement of secondary legislation;
- The obligation of undertakings to submit Solvency II reports in .xbrl format;
- Requests for other reports for permanent supervision purposes;
- Removal of obligation to submit printed reports, as they were replaced by electronic reports with electronic signature.

Qualitative Analysis” - Solvency II

- The working group collaborated with mirror groups organised within UNSAR. Several joint working meetings were organised on governance and ORSA, which have solved so far more than 90% of the issues raised for debate.

Quantitative Analysis - Solvency II

- The main objective of the working group consisted in analyzing the internal models and the standard formula, the applicability of the standard formula for the risk profile of the insurance undertaking and the necessary additional reports for undertaking applying an internal model.

SECONDARY LEGISLATION ON SOLVENCY II

Decisions

1. Decision 3223/2015 on the application by the insurance undertakings of the Guidelines issued by European Insurance and Occupational Pensions Authority for the implementation of the Solvency II regime

The EIOPA Guidelines supplement the primary European legislation (Solvency II Directive, which Member States have the obligation to transpose into domestic legislation) and the secondary legislation (EC Delegated Regulation 2015/35, implementing technical standards – ITS, and regulatory technical standards – RTS, which apply directly).

The guidelines are issued to ensure unitary enforcement of European legislation in Member States and convergence of national supervision practices under the Solvency II regime, and pursuant to Art. 16 (3) of the EIOPA Regulation, the competent authorities and financial institutions make every effort to comply with the guidelines and recommendations.

Rules

1. Rule no. 34/2015 on the quantitative requirements set by the European Insurance and Occupational Pensions Authority (published in the Official Journal of Romania, Part I, no. 973 of 29 December 2015)

- For the entities provided by Art. 1(1) letter a) - d) of Law no. 237/2015 on the authorisation and supervision of the business of insurance and reinsurance the rule sets some quantitative requirements additional to those provided by Law no. 237/2015, by the Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), by implementing technical standards, by regulatory technical standards, and by the delegated provisions;

Rules
The rule implements the requirements mentioned by paragraph (1) of the European Insurance and Occupational Pensions Authority Guidelines, provided by Annexes 1-17) which are an integrant part of the rule.
2. Rule no. 35/2015 on the qualitative requirements set by the European Insurance and Occupational Pensions Authority (published in the Official Journal of Romania, Part I, no. 971 of 29 December 2015) - For the entities provided by Art. 1(1) letter a) - d) of Law no. 237/2015 on the authorisation and supervision of the business of insurance and reinsurance the rule sets some qualitative requirements additional to those provided by Law no. 237/2015, by the Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), by implementing technical standards, by regulatory technical standards, and by the delegated provisions; - The rule implements the European Insurance and Occupational Pensions Authority Guidelines on the governance system, and the European Insurance and Occupational Pensions Authority Guidelines on own risk and valuation of solvency.

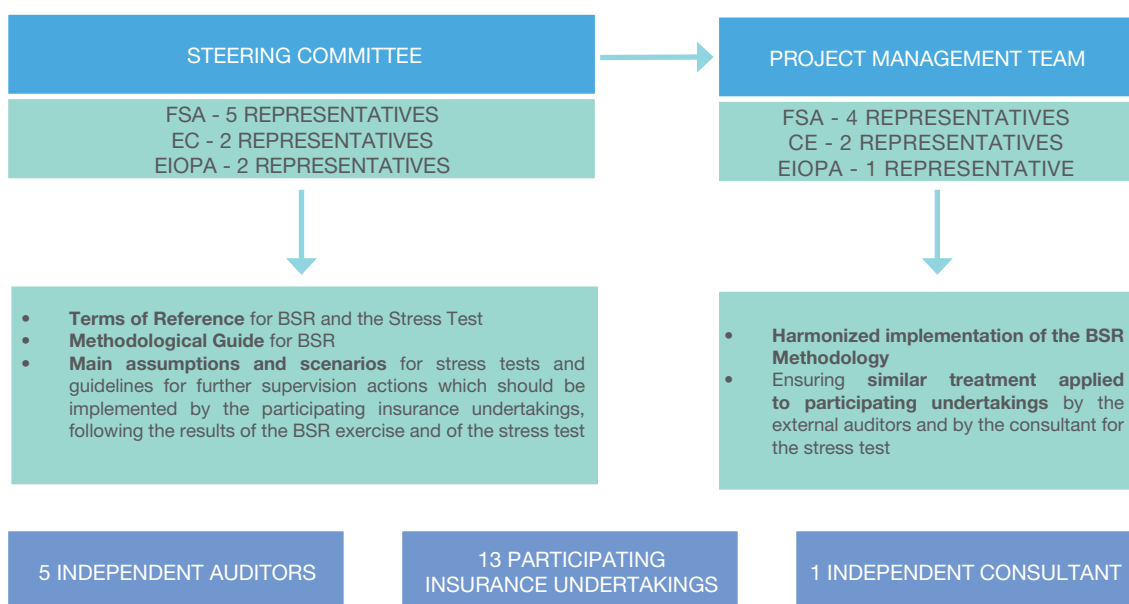
Balance sheet audit for the insurance market

During the period of 2014 – 2015, ASF performed 2 exercises – BSR and BSRE – whose main objective was to assess the readiness of insurance undertaking participating in these exercises to move to the Solvency II regime.

BALANCE SHEET REVIEW – BSR

Under the third programme for the Balance of Payments between Romania and the European Union (EU) and the current Stand-by Agreement between Romania and IMF, in June 2014 Romanian authorities agreed to launch a comprehensive balance sheet review (BSR) exercise and a stress test in the insurance sector in Romania, with the

involvement of third parties to maintain the stability of the insurance sector and to enhance trust in insurance products. This was the first comprehensive BSR exercise and stress test involving third parties in the insurance sector, performed in an EU Member State.



The goal of the exercise was to assess the accuracy of the accounting balance sheets of participating insurance undertakings, including the adequacy of the technical provisions and recalculation of prudential indicators following the adjustments applied on balance sheets prior to BSR (Solvency I – adjusted balance sheet, Solvency II):

- **Analysis of the insurance portfolio of participating undertakings:** set the obligations arising from insurance contracts, review the adequacy of the technical provisions and provide an estimation of their economic value;
- **Assess the efficiency of the instruments used for risk transfer** to third parties for risks related to (re)insurance contracts written by insurance undertakings, including finite reinsurance contracts;
- **Assess the adequacy of the recognition and review principles applied for all liabilities**, not just for the technical provisions, and for all assets, not just for those admitted to cover the technical provisions, with a special focus on the impact

of operations and transactions with natural or legal persons closely related to the insurance undertakings;

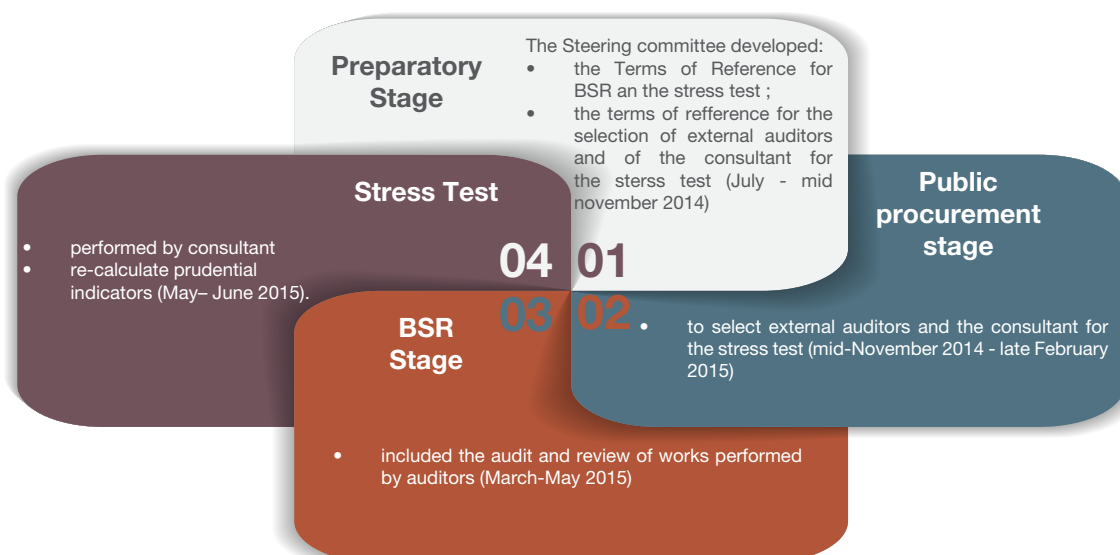
- **Assess the coverage** of the technical provisions with assets admitted for all participating insurance undertakings and the adequacy of the own funds of the participating insurance undertakings to the solvency requirements, including negative scenarios.

The stress test had the following objectives:

- **To assess the resilience of insurance undertakings to stress scenarios** (starting from the balance sheet according to the Solvency II regime);
- **To assess the compliance of the insurance companies with the capital requirements of the Solvency II regime (minimum capital requirement – MCR and solvency capital requirement – SCR)** both before and after the stress test.

Specific insurance scenarios	Economic scenarios
Severe earthquake Severe floods severe	Appreciation Depreciation
Major impact factor: Possible insolvency of reinsurer	Major impact factors: Fluctuations of stock exchange indices, interest rates, interest margins, real estate prices; Credit impairment

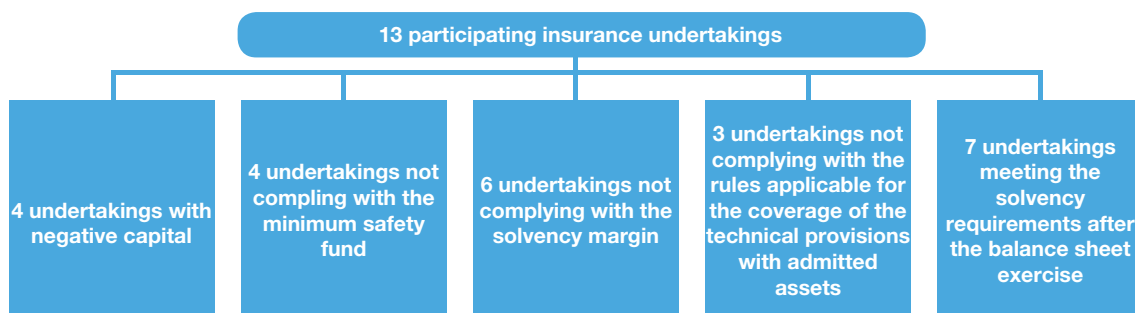
The BSR exercise and the stress test included four main stages:



Following the BSR exercise, significant adjustments were brought to the balance sheets of participating insurance undertakings on the reference date for this exercise (30 June 2014), which were reflected in the adjusted balance sheets of these companies, drafted according to the prudential regime Solvency I. Moreover, these adjustments had impact on the main prudential indicators of those companies.

The balance sheets drafted by auditors according to the prudential regime Solvency II, in cooperation with insurance undertakings, were the basis for the calculation of capital requirements according to the prudential regime Solvency II (Minimum Capital Requirement – MCR and Solvency Capital Requirement – SCR), both before and after the stress test.

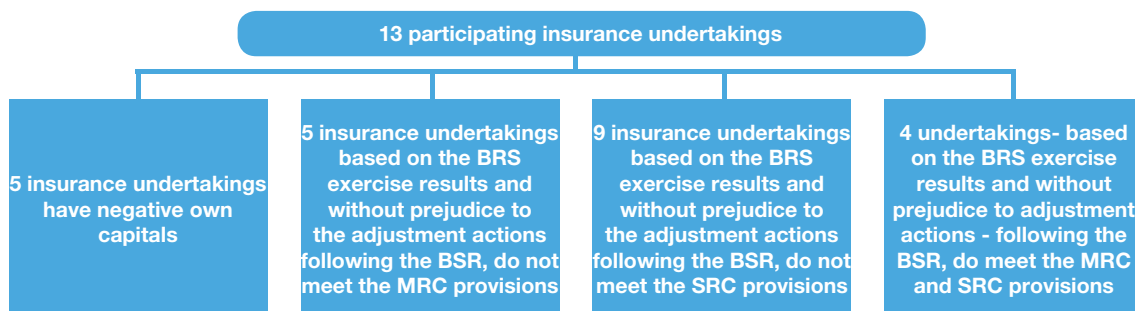
Results according to the supervisory regime Solvency I



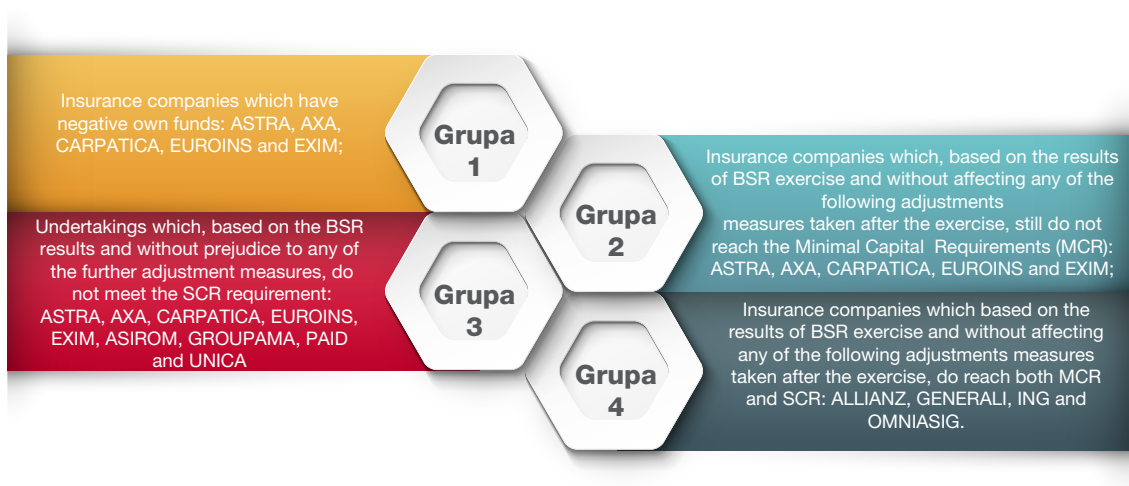
Based on the balance sheet drafted according to the prudential regime Solvency I, the 13 participating insurance undertakings were grouped as follows:

1. Group 1 of insurers: insurance undertakings which have negative own capitals: ASTRA, CARPATICA, EUROINS and EXIM;
2. Group 2 of insurers: insurance undertakings which do not comply with the minimum safety fund: ASTRA, CARPATICA, EUROINS and EXIM;
3. Group 3 of insurers: insurance undertakings which do not comply with the solvency margin: ASTRA, CARPATICA, EUROINS, EXIM, GROUPAMA and ASIROM;
4. Group 4 of insurers: insurance undertakings which do not comply with the rules applicable to the coverage of technical provisions with admitted assets: ASTRA, CARPATICA and EUROINS;
5. Group 5 of insurers: insurance undertakings which fulfil the solvency requirements following the assets and liabilities review exercise (for example, solvency ratio over 100% and compliance with the minimum safety fund): ALLIANZ, AXA, GENERALI, ING, OMNIASIG, UNIQA and PAID.

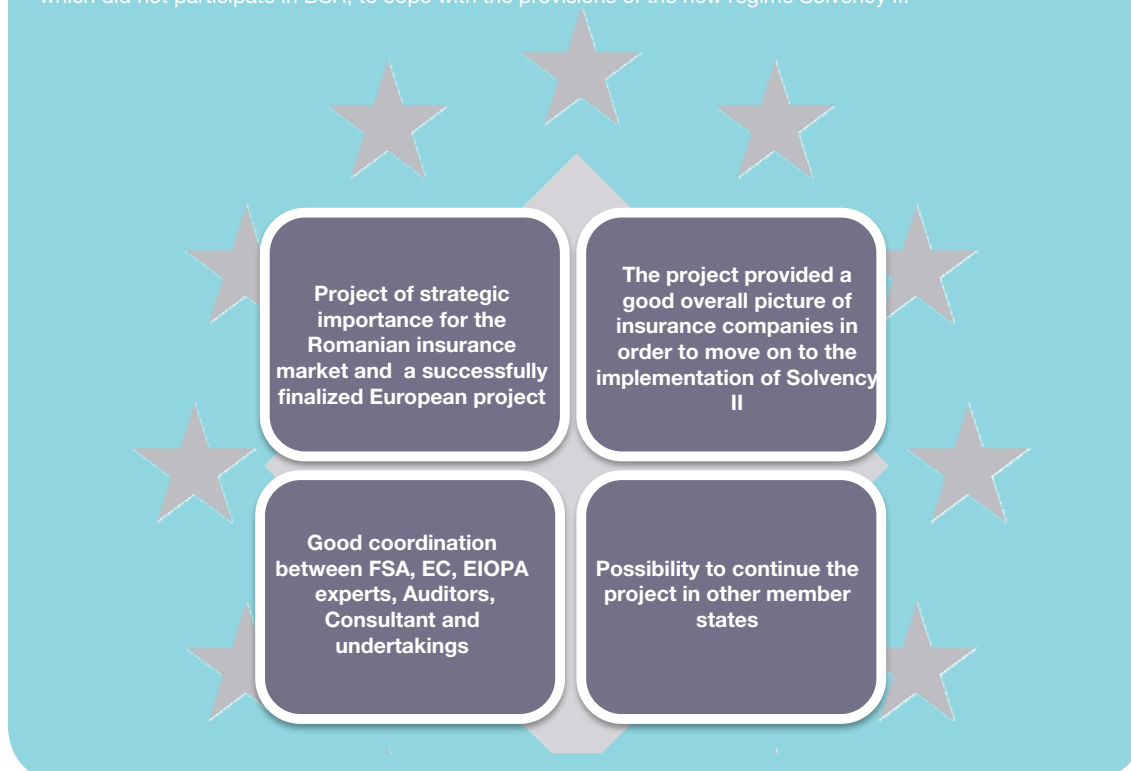
Results according to the supervisory regime Solvency II



Based on the balance sheet drafted according to the prudential regime Solvency I, the 13 participating insurance undertakings were grouped as follows:



The BSR exercise performed by FSA in cooperation with EIOPA and the European Commission represented a snapshot of the insurance market in Romania, by independent auditors, this project being a first in the history of insurance and a good practice example for other Member States. Further, FSA continued with a second exercise, BSRE, performed solely with national resources, which evaluated the readiness of 21 insurance undertakings, which did not participate in BSR, to cope with the provisions of the new regime Solvency II.

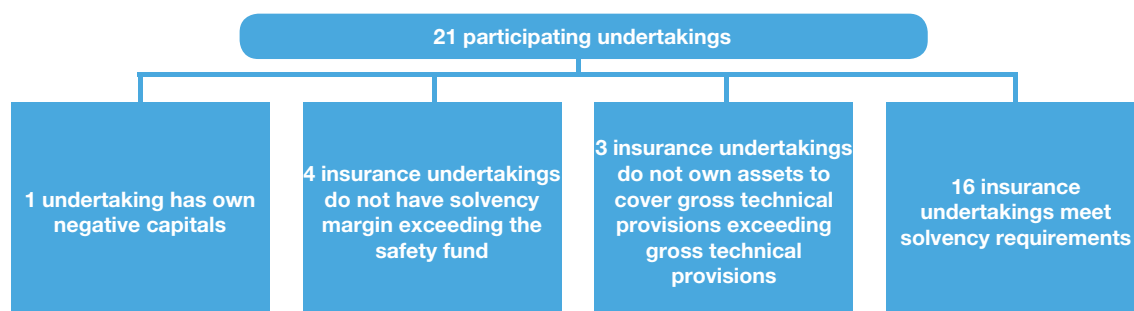


BALANCE SHEET REVIEW EXTENDED – BSRE

The main objective of the BSRE exercise was to assess the readiness of the 21 participating insurance undertakings, which did not participate in BSR, to cope with the requirements and the provisions of the new Solvency II regime, which entered into force starting with 1 January 2016.

Similarly to the BRS exercise, the BSRE aimed at assessing the financial soundness and the solvency of the participating undertakings based on the Solvency I, through the analyses performed for the reference date 31 December 2014 (unlike the BSR exercise where the reference date was 30 June 2014) by 7 independent financial auditors, with relevant international experience, selected by each participating undertaking.

Results according to Solvency I supervision regime

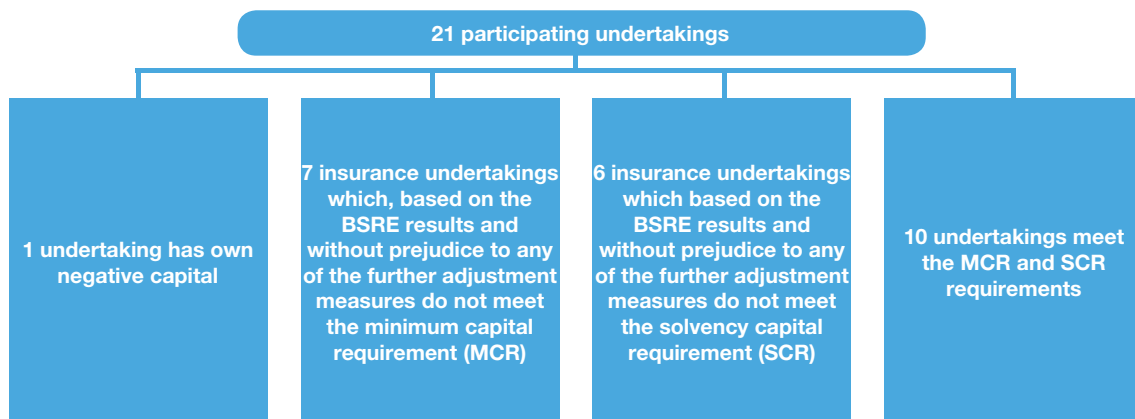


Following the BSRE exercise and based on the provisions of the Solvency I regime, the participating insurance undertakings were grouped as follows:

1. Group 1 of insurers: insurance undertakings which have negative own capitals - LIG;
2. Group 2 of insurers: insurance undertakings which do not have available solvency margin exceeding the safety fund- FORTE, ABC, ASITO KAPITAL and CERTASIG
3. Group 3 of insurers: insurance undertakings which do not have available solvency margin exceeding the minimum solvency margin – none identified;
4. Group 4 of insurers: insurance undertakings which do not own assets admitted to cover gross technical provisions exceeding gross technical provisions - FORTE, LIG și CERTASIG;
5. Group 5 of insurers: insurance undertakings which meet the solvency requirements (for example the available solvency margin exceeding the minimum solvency margin and fondul de siguranță) - 16 undertakings: ASIMED, BRD VIATA, GOTHAEER, GRAWE, UNIQA VIATA, BCR VIATA, ONIX, ATE, GARANTA, ERB GENERALE, ERB VIATA, ERGO, SIGNAL IDUNA, FATA, CREDIT EUROPE and CITY. However, CITY does not meet the minimum liquidity requirements.

Of the total number of 21 insurance undertakings participating in the BSRE exercise, five undertakings (FORTE, ABC, ASITO KAPITAL, CERTASIG and LIG), which write only risks in the category of non-life insurance do not comply, after the adjustments performed by auditors, with the legal provisions on solvency, of which three (FORTE, CERTASIG and LIG) do not comply with the provisions on the coverage of technical provisions with admitted assets.

Results according to Solvency II supervision regime

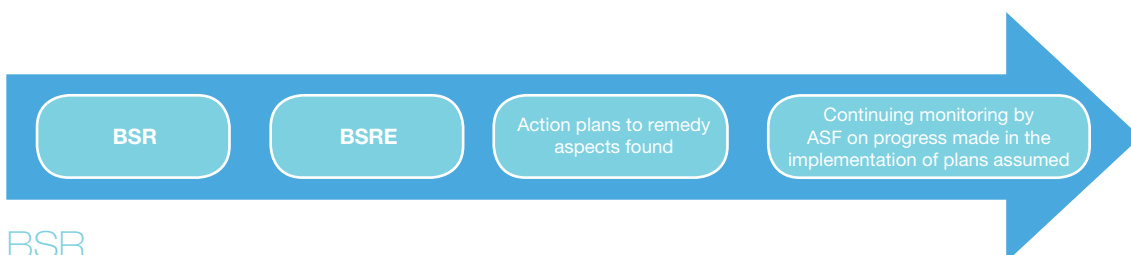


Following the BSRE exercise and based on the provisions of the Solvency II regime, the participating insurance undertakings were grouped as follows:

1. Group 1 of insurers: insurance undertakings which have negative own capitals - LIG;
2. Group 2 of insurers: insurance undertakings which, based on the BSRE exercise results and without affect any of the adjustment actions taken after the exercise, do not comply with the provisions on the minimum capital requirement (MCR) - SIGNAL IDUNA, FORTE, GOTHAEER, FATA, ABC, ATE and ASITO KAPITAL;
3. Group 3 of insurers: insurance undertakings which, based on the BSRE exercise results and without affect any of the adjustment actions taken after the exercise, do not comply with the provisions on the solvency capital requirement (SCR) - SIGNAL IDUNA, FORTE, GOTHAEER, CERTASIG, CREDIT EUROPE and CITY;
4. Group 4 of insurers: insurance companies that, based on the BSRE exercise results, meet the MCR and SCR provisions - ONIX, BRD VIATA, ASIMED, ERB GENERALE, ERB VIATA, UNIQA VIATA, GRAWE, GARANTA, BCR VIATA și ERGO.

Thus, of the total number of 21 participating insurance undertakings, 4 do not comply with the minimum capital requirement (MCR), but they comply with the solvency capital requirement (SCR), 3 undertakings do not comply with SCR, but they comply with MCR, 4 undertakings do not comply either with MCR or with SCR, and the other 10 undertakings comply with the regulatory framework Solvency II.

MONITOR THE IMPLEMENTATION OF PLANS ASSUMED BY INSURANCE UNDERTAKINGS PARTICIPATING IN THE BSR AND BSRE EXERCISES



BSR

After the BSR exercise, finalised on 15 July 2015, the participating insurance undertakings submitted FSA action plans to remedy various aspects identified during the exercise, which were analysed and produced the following conclusions:

- One of the insurance undertakings, under financial recovery procedure, was to continue to carry out the actions set in the recovery plan assumed. However, the undertaking proposed FSA a set of additional actions, approved by the Authority Board, which supplements the initial recovery plan.
- For 10 undertakings, the FSA Board approved the action plans they submitted because the analysis indicated they meet the adjustment needs following the BSR exercise.
- In case of another undertaking participating in the BSR exercise, the action plan presented on 4 August 2015 did not fully meet the adjustment needs resulted from the BSR exercise. The action plan presented initially provided as essential corrective measures, following the BSR exercise, two capital add-ons in amount of RON 100 million each, with deadlines 31 December 2015, and 30 June 2016, and a new reinsurance contract for MTP. The analysis of those aspects indicated that the deadlines proposed by the undertaking for registered capital add-ons exceed the 3-month deadline after the publication of the BSR exercise results (15 October 2015), and the total amount presented by the undertaking in this add-on agenda is not sufficient for recovery, both in terms of own capital deficit (Solvency I), and own funds (Solvency II). Consequently, FSA requested the action plan should be amended and then reanalysed.

At the beginning of this year FSA ordered the enforcement of Law no. 246/2015 on insurers' recovery and resolution and appointed the Policyholder Guarantee Fund as temporary administrator, in order to cooperate with the management body of the insurer, and the Administration Board of the company has the obligation to implement measures to attract an investor, so as to reach again the level of eligible basic own funds covering the minimum capital requirement (MCR) calculated on 01.01.2016 or the change of the risk profile so as to fulfil the minimum capital requirement (MCR), within 3 months from the date this decision was communicated – namely on 25.04.2016 and to reach again the level of eligible own funds which cover the solvency capital requirement (SCR) calculated on 01.01.2016, or the change of the risk profile so as to fulfil the solvency capital

requirement (SCR) again within 6 months from the date this decision was communicated (25.07.2016). The FSA monitoring activity to check the implementation of these action plans by the insurers indicated that 6 undertakings either finalised the actions assumed in these plans, or they have not exceeded the deadlines assumed for ongoing actions.

Other two undertakings have finalised the implementation of the main actions, and for one of these undertaking the management should approve some last partial amendments to the Solvency II procedures, while ongoing governance-related actions still require monitoring for the second undertaking.

Another insurance undertaking initiated financial recovery plans in October 2015, and currently it fulfils the MCR requirement assumed in the recovery plan, after the capital add-on performed in 3 tranches, while for another undertaking participating in the BSR exercise, FSA decided at the beginning of 2016 to apply the resolution measures. Consequently, following the analysis on the financial statements of this insurance undertaking and of other factors which substantiate the need to protect insurance creditors, to minimize impact on protection funds and to avoid significant negative effects on the financial stability of the insurance market, FSA ruled on the enforcement of Law no. 246/2015 on insurers' recovery and resolution and appointed the Policyholder Guarantee Fund as temporary administrator.

Another insurance undertaking will be further monitored to establish SCR level and of the rest of deadlines assumed in the plan regarding procedures or operations, while in case of another undertaking the conclusion was the need to reanalyse it in terms of MCR and SCR, after having performed the capital add-on assumed in the action plan following the BSR exercise.

In case of another insurance undertaking participating in BSR there is a need for a detailed supervisory analysis of the undertaking based on the financial results presented by the undertaking for 31 December, 2015 followed by a decision.

BSRE

With regard to the BSRE exercise, performed in the second half of 2015, 6 participating undertakings (**GOTHAER, UNIQA VIATA, SIGNAL IDUNA, ASITO, KAPITAL, ATE, ABC**) reported registered capital add-ons and have finalised or are finalising the actions assumed in the action plans, while they are still under monitoring in the continuing supervisory activity.

A number of 11 participating undertakings (**BRD Viață, GRAWE, ASIMED, ERGO, ERB VIATA, ERB GENERALE, CERTASIG, CREDIT EUROPE, GARANTA, BCR VIATA, ONIX**) have finalised or are finalising the actions assumed in the action plans, while they are still under monitoring in the continuing supervisory activity, without needing registered capital add-ons following the BSRE exercise.

FATA submitted FSA for approval an action plan following the BSRE exercise, but in November 2015 the undertaking notified FSA on their decision to initiate winding-up procedures, as lichidator. The undertaking assumed to maintain the necessary capital level until the voluntary winding-up procedure is finalised, and has a registered capital add-on under approval by FSA.

FORTE performed a capital add-on in June 2015, and

planned other 2 subsequent add-ons, and attracting a strategic investor, namely an investment bank, which has not been accomplished yet.

LIG should have performed capital add-ons in 2 tranches. Although the extraordinary shareholders meeting decided on a capita add-on on 08 February 2016, after 60 days when they found that they had not identified the necessary resources for the capital add-on and during a new extraordinary shareholders meeting on 05 April 2016 they decided to revoke the initial capital add-on decision, and proposed a recovery plan should be initiated (according to Art. 99 (2) of Law no. 237/2015) by the end of 2016. The other measures assumed by the undertaking in the BSRE plan were accomplished.

On 31 March 2016, CITY assumed a capital add-on, until 15 July 2016. They also performed an inventory of the approved claim dossiers, and checked 22,888 dossiers, which led to an increase in outstanding claims reserves and finalised the asset revaluation process. In April 2016, the FSA Board decided on initiating the plan-based financial recovery procedure. The FSA decision is based on the conclusions of a supervisory diagnostic analysis and of an unannounced verification which found various deficiencies in terms of solvency and capital.

Implementation and strengthening of risk-based mixed (offsite/onsite) supervision

The supervisory activity in insurance-reinsurance was redesigned in 2015, and the activities and resources focused on identifying all significant aspects related to the insurance undertakings. The main objectives underpinning these efforts were to manage and collect all information on the insurance undertakings, to create the necessary

framework to perform **risk-based supervision** of insurance undertakings. The shift to this principle means that authorities should understand and forecast the risks assumed by an insurance undertaking, as well as the active monitoring of risk management approaches.



During 2015, there has been significant progress towards risk-based supervision:

- Development of an appropriate system to measure risks and identify the risk profile of the supervised undertakings – by identifying the qualitative and quantitative information resulted from previous offsite/onsite control activities and actions necessary for a good understanding of the activities of the supervised undertakings, of their risk profile, in order to update and fill in the undertaking form, a necessary instrument to identify any significant risk the undertaking is exposed to;
- Initiation of activities and projects aimed at developing and enhancing the supervisory framework for the purposes of clarification, documentation and improvement of specific activities identified at the level of the Authority.

ISH PROJECT- INSURANCE SUPERVISORY HANDBOOK

The ISH (Insurance Supervisory Handbook) aims at implementing within FSA the EIOPA Guidelines on the supervision process, as well as the general principles described by EIOPA in the draft Guidelines on the supervisory handbook. Thus, the development of the handbook is an important step to align to the European supervisory practices and to the risk-based supervisory principles of Solvency II.

ISH sets the quantitative and qualitative criteria, defines the indicators which will be considered and sets the aggregation matrix based on which the insurance undertakings will receive a risk score and an impact score, used to group insurance undertakings by risk groups. Each risk group will have described its supervisory measures, thus creating the possibility of proper allocation of necessary resources to manage

the supervision of undertakings. The valuation will be performed annually, the valuation result will be communicated to those undertakings together with the justifications/shortcomings identified which generated the classification of each indicator in a higher risk group, and the supervisory activity will be focused/oriented towards monitoring the weaknesses identified for each undertaking.

Thus, the handbook has a new approach, meaning that, for the first time, FSA will ensure the transparency of methodologies used in performing internal valuations, and this methodology will be debated with the undertakings and will be published on the FSA website, so that the undertakings are motivated to take the necessary steps to improve the indicators analysed by FSA.

OFF-SITE AND ON-SITE SUPERVISION OF INSURANCE UNDERTAKINGS

In 2015, FSA continued to develop the supervisory and prudential intervention capacity to ensure the prerequisites to improve the quality of services and strengthen the financial capacity of insurance undertakings.

Thus, FSA continued the activities initiated the previous year, and performed significant supervisory and control actions, which led to measures of significant impact on the entire insurance market against insurance

undertakings which no longer had sufficient capital to perform their activities and ensure customer protection, of which we mention: Astra, Carpatica, Euroins, Lig Insurance, Forte Asigurări.

At the end of 2015, 35 insurance undertakings were operating (after operating licence was withdrawn for ASTRA SA), of which 20 undertakings which performed only non-life insurance activities, 8 life insurance undertakings, 7 composite insurance undertakings.

Main off-site supervision activities undertaken by ASF

Main activities	Results obtained
Development of the exhaustive description of each insurance undertaking (including the undertaking form): documents related to each undertaking were reanalysed and regrouped, namely prudential reports, qualitative reports (risk management, control and internal audit), financial reports, audit reports, information on the organisational structure (management/key positions), previous control reports/measures, in order to identify sensitive elements which may generate significant risks in the insurance activity.	- Better knowledge of the individual situation of each insurance undertaking by the person in charge with the supervision of that undertaking; collection of non-financial (qualitative) information – e.g. – a synthesis of the reinsurance programme, syntheses of the findings of internal audit, internal control, risk management, statutory audit reports, necessary for the risk assessment of the undertakings; - Development of an insurance undertaking form in the EWS system to allow for automatic generation and updating of primary information related to the prudential indicators and the licensing data of an insurance undertaking.
Registration, validation and verification of correlations related to monthly/quarterly/biannual/annual reports of the insurance undertaking	Identification of potential errors which might occur or of inconsistencies in the monthly/quarterly/biannual/annual reports of the insurance undertakings and removal of errors or inconsistencies by requesting corrective reports.
Ongoing monitoring of the prudential financial indicators of the insurance undertakings	- Improvement of insurance undertakings supervision activity; - Improvement of authority's capacity to react in case prudential indicators worsen; - Development of a pro-active approach due to knowledge and ongoing verification of the financial soundness of the insurance undertakings under supervision.

Dedicated prudential supervision actions (action/monitoring plans)

The following action plan monitoring activities were undertaken in 2015:

- GROUPAMA Asigurări SA – following unannounced control actions finalised in the 4th quarter of 2015;
- FATA Asigurări SA – following periodical control actions undertaken in 2014, finalised in the 3rd quarter of 2015;
- Credit Europe Asigurări-Reasigurări SA – following periodical control actions undertaken in 2014, pending finalisation;
- Euroins România Asigurare-Reasigurare SA – under plan-based financial recovery procedure, starting with October 2015;
- Carpatica Asig SA – under plan-based financial recovery procedure starting with May 2014; ongoing monitoring of progress made with the measures approved by ASF; monthly presentation of information reports on the implementation progress within the ASF Board;
- Onix Asigurări – following periodical control actions undertaken in 2014, finalised in the 2nd quarter of 2015;
- City Insurance – following unannounced control

actions undertaken in 2014/2015, under verification; currently, there is an ongoing unannounced control action at the insurance undertaking headquarters;

- Lig Insurance – following unannounced control actions undertaken in 2014/2015, under monitoring (undertaking with suspended activity);
- Forte Asigurări – following the ongoing control actions undertaken in 2014, under monitoring (undertaking with class 15 suspended);
- Monitoring of the activity of the special administrator of Astra Asigurări, and management of the entire correspondence regarding Astra Asigurări, including drafting documents related to the decision to initiate bankruptcy procedures for the undertaking, and the subsequent documents.

Periodical/unannounced controls were performed at the headquarters of the insurance undertakings, to supplement the prudential supervision activities performed in 2015. Consequently, unannounced control actions were initiated for 9 insurance undertakings and remedial measures or sanctions were disposed for the shortcomings identified, then follow-up actions were performed to monitor their progress.

OFF-SITE AND ON-SITE SUPERVISION OF INSURANCE INTERMEDIARIES

At the beginning of 2015, according to FSA records, there were 595 brokers holding operating licences. At the end of December 2015, 552 insurance brokers held operating licences, of which 97 brokers had their activities temporarily suspended/prohibited.

In 2015, FSA intensified permanent control activities, finding shortcomings in drafting and submitting periodical reports by the insurance brokers. After having centralised the reports for the 3rd quarter of 2015, they found shortcomings with drafting and submitting reports, and notified the insurance and/or reinsurance brokers which had failed to comply with the legal provisions in force. After having analysed the answers received, in February 2016, FSA issued 6 sanctions.

At the same time, based on the permanent control on the activity undertaken by insurance and/or reinsurance brokers, there was a cross-check of their legal situation according to the records of the Trade Register operated by the National Trade Register Office and of the Insurance Brokers Register opened and operated by the Financial Supervisory Authority. Following this analysis, operating licences were withdrawn for 20 insurance brokers, and the information was updated in the Insurance Brokers Register operated by FSA.

5 periodical controls and 19 unannounced controls were scheduled for the 2nd and 3rd quarters of 2015, and 3 periodical controls and 8 unannounced controls were scheduled for the 4th quarter of 2015.

Modern intervention (resolution) rules and mechanisms for undertakings with problems

LEGAL FRAMEWORK ON INSURERS RECOVERY AND RESOLUTION

Law no. 246/2015 on insurers' recovery and resolution provides for rules and procedures on the recovery and resolution of insurers, Romanian legal entities. In performing its duties provided this law, the Financial Supervisory Authority considers the nature, scope and complexity of the activities undertaken, the shareholders' structure, the type of legal entity, the risk profile, the size, the interconnection with other financial institutions or with the financial system in general.

The law on insurers' recovery and resolution aims at creating a new legal framework for crisis management in the financial sector, by introducing provisions which include various actions and instruments to provide early and fast intervention in case of a non-viable insurer or of an insurer about to become credit-impaired.

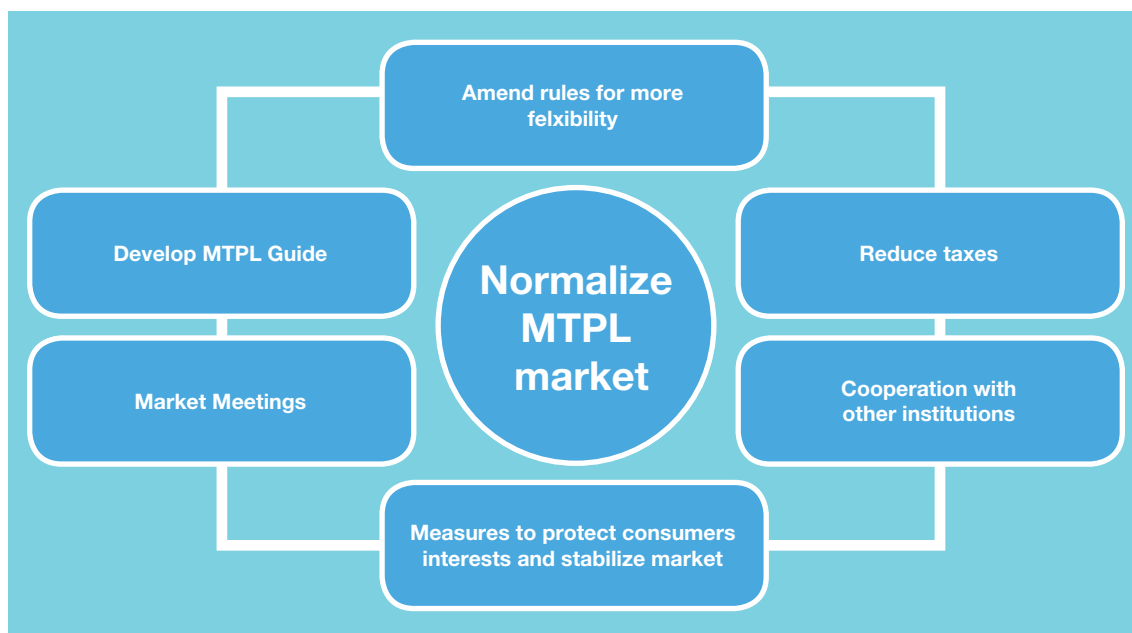
The goal of these measures and instruments is to guarantee the protection of insurance creditors, to minimise impact on the protection funds, to protect public funds by reducing the dependence on public financial support to the minimum, to avoid significant negative effects on the financial stability of the insurance market, especially by preventing contagion, including on the market infrastructures and to maintain discipline in the market. Crisis management aims at the three main parts: crisis prevention, early intervention and resolution.

Working Group Secondary Regulations – Resolution Law was created in November 2015 to develop the rules on the enforcement of Law no. 246/2015 on insurers' recovery and resolution, and drafted the following:

- Regulations on the critical services the Financial Supervisory Authority may request from institutions under resolution procedure to allow a receiver to perform efficiently any transferred activity;
- Regulations on the details regarding the information, qualitative and quantitative indicators, as well as series of scenarios on serious financial and macroeconomic crisis, relevant for the specific conditions of the insurer, which include systemic events and relevant specific crises, which should be included in the recovery plans;
- Regulations on the activities, services and operations which can be included in the category of critical functions, and criteria to establish activity lines and related services which are under the category of essential activity lines;
- Regulations on the criteria for assessing the impact of credit-impaired insurers on the insurance market and on other insurers;
- Regulations on the adequate circumstances for the implementation of the recapitalisation measures taking into account the factors related to those measures.



Measures adopted to normalize the MTPL market



1. Regulation	2. Supervision	3. Consumer Protection
- Amend ASF rules applicable to MTPL; - Repeal provisions invoked as pretexts for premium increases; - Impose the review of the latest actuarial calculations related to MTPL premiums, until 28 February 2015; - Focus on reducing administrative and brokerage expenses.	- Repeated working meetings with UNSAR/ UN-SICAR and companies in the market; - Verify actuarial calculations of premiums; - Create the prerequisites to customise the risks related to MTPL premiums (DRPCIV database, development of CEDAM); - Cooperation protocols with the Romanian Actuarial Association and Romanian Police; - Solve structural problems (including independent valuation and stress test).	- Cooperation with ANPC and with consumer protection associations; - Individual analysis and solutions of petitions; - MTPL Guideline; - Consumer information actions.

Rule no. 2/2015 amending the Financial Supervisory Authority Rule no. 23/2014 on compulsory insurance against civil liability for prejudices caused by vehicle accidents (published in the Official Journal of Romania, Part I, no. 826 of 12 November 2014)

FSA took action in 2015 by amending certain provisions of Rule no. 23/2014 on compulsory insurance against civil liability for prejudices caused by vehicle accidents to provide a more flexible regulatory framework, allowing insurance undertakings to optimise their portfolios to reduce the differences registered between the premium fees for various age groups. Consequently, paragraph 1 of Article 21, most frequently invoked by insurers as a source to stimulate the increase of MTPL premium prices, was repealed. The article stipulated the insurer's obligation to establish MTPL premium fees so as to cover all arrangements arising from concluding insurance contracts for this segment.

Tax decrease

In order to support and develop the insurance market in Romania by lowering the financial effort, FSA amended Regulation no.16/2014 on the revenues of the Authority, reducing certain taxes, fees and contribution rates applicable to insurance undertakings operating in the insurance market. The amendments to the Regulation enter into force on 1 January 2016 and include a 20% reduction of fees for insurance undertakings.

The amendments also included a reduction from 1% to 0.8% of the contribution rates on the gross premiums paid for MTPL related to the contribution to the development and maintenance of CEDAM database and for exercising supervision and control over the insurance against civil liability for prejudices caused by vehicle accidents owed by insurance undertakings.

Cooperation with other institutions

In February 2015, FSA signed a **cooperation protocol with the Romanian Actuarial Association (RAA)** regulating the cooperation between the two entities in terms of exchange of information for the purposes of developing areas of common interest. This agreement covers aspects such as: development of legislation applicable to actuaries, provision of specific professional training and improvement activities, and substantiation of market research to provide accurate information to the consumers in the insurance services market.

A first project to be developed under this protocol aims at developing an analysis of the claims registered for the segment of civil liability insurance for vehicle owners, research which will use consolidated data at the level of the entire insurance market for a period of three years.

The results of this project will be welcome benchmarks for the insurance market and this transparency exercise will be useful for the policyholder to understand the process of setting the MTPL tariffs.

ASF initiated cooperation with the **Driving Licence Regime and Vehicle Registration Directorate (DRPCIV)** by implementing a protocol with DRPCIV. The goal of this agreement is to increase the coverage by insurance of the vehicle park in Romania. This project will be beneficial for the development of the insurance market as a whole, but it will also have an impact on the level of compulsory insurance premiums – by reducing the costs of damages paid from the Street Victim Protection Fund, created by insurers from the insurance premiums paid.

Measures to protect consumer interests and stabilise the market

SHORT-TERM ACTIONS

unannounced control actions to all 9 MTPL-authorized undertakings; undertakings were requested to reconsider fee calculation formulas notified for 2016; removal of 10% threshold for discounts; contract an actuarial consultant to develop a reference MTPL grid for the entire market; discussions with ARA on the development of a set of good practice of setting MTPL tariffs.

MEDIUM AND LONG TERM ACTIONS

organizarea unui grup de lucru format din reprezentanți ai tuturor părților implicate - ASF, asigurători, consumatori, Parlament - pentru găsirea celor mai bune soluții de modernizare a legislației privind RCA.

Meetings with representatives of insurance undertakings to identify possibilities to reduce MTPL tariffs

In 2015 there were meetings with insurance undertakings representatives on the topic of setting the MTPL tariff by homogeneous groups. Thus, in the first part of the year, the joint efforts of FSA and insurance undertakings focused on the identification of options to reduce MTPL tariffs for young people. A similar campaign was initiated in October for carriers, which led to a more detailed analysis of the adequacy of tariffs for the 9 undertakings which provide MTPL.

Development of MTPL Guide

In 2015, FSA developed the MTPL Guide, a publication providing full and useful information on civil liability insurance for vehicle owners. The main objective is to answer frequently asked questions on MTPL premiums. The MTPL Guide includes information on how the premium is calculated, the definition of the bonus-malus system, how to check the information on a premium in the CEDAM system.

WHAT'S NEXT
IN 2016?

FURTHER
EFFORTS TO
NORMALISE
MTPL MARKET

NEW MTPL
LAW

Other measures for the proper operation of the insurance market

DEVELOPMENT AND IMPROVEMENT OF THE SECONDARY LEGISLATION FRAMEWORK

REGULATIONS	
1	Rule no. 5/2015 on the approval of mutual funds for the management of certain agricultural activity risks - published in the Official Journal of Romania, Part I, no. 169 of 11 March 2015: stipulates the conditions and documents based on which FSA grants prior approval of mutual funds for the management of certain agricultural activity risks for the purposes of registration with the Register of Associations and Foundations, and the operating permit, according to the provisions of the Government Emergency Ordinance no. 64/2013 on the establishment, approval and registration of mutual funds for the management of certain agricultural activity risks, in order to grant financial compensations to the members for economic losses caused by adverse climate events, animal diseases, plant diseases or environmental incidents, approved with further amendments by Law no. 2/2014, as further amended, hereinafter called GEO no.64/2013.
2	Rule no.6/2015 on the management of the operational risks arising from the information systems used by the entities regulated, authorised/licensed and/or supervised by ASF - published in the Official Journal, Part I, no. 227 of 03.04.2015: - lays down the requirements at the level of the entities authorised/licensed, regulated and/or supervised by FSA for the identification, prevention and reduction of the potentially adverse impact of the operational risks arising from the use of the information and communications technology in terms of persons, processes, system and external environments, including cybercrime; - lays down activities and operations for the assessment, supervision and control of the operational risks arising from the use of information systems and information security.
3	Rule no. 9/2015 on the authorisation and operation of insurance and/or reinsurance brokers- published in the Official Journal of Romania, Part I, no. 268 of 22 April 2015: regulates the conditions that have to be fulfilled and the documents that Romanian legal persons have to submit to obtain the operating licence as insurance and/or reinsurance brokers, and the conditions for maintaining it, the merger and division of insurance and/or reinsurance brokers, the conditions that must be met and the documents that insurance and/or reinsurance brokers must submit to conduct the brokerage activities in Member States.
4	Rule no. 10/2015 on the implementation of the Accounting Reporting System as of 30 June 2015 for undertakings in the insurance field - published in the Official Journal of Romania, Part I, no. 606 of 11 August 2015: implements the Accounting Reporting System as of 30 June 2015 for undertakings in the insurance field.
5	Rule no. 15/2015 on the trading, by electronic means, of insurance contracts - published in the Official Journal, Part I, no. 641 of 24 August 2015: lays down the conditions under which the Financial Supervisory Authority regulates the trading, by electronic means, of insurance contracts. Considering the increasing number of internet websites offering insurance policy, the regulation of such activities became an obvious need. Regardless how the insurance product is offered for sale, the consumers must have access to information and there must be a level of protection in place. In order to protect the interests of the policyholder, the assumption was that "regardless the communication means, the product selected by the policyholder should satisfy their needs. In order to achieve that, it was necessary that the policyholders should have access to all information related to the insurance, so that they can understand the type of product offered and eventually to be able to make the best choice. The online means are important information channels, and an ethical and professional conduct of operators will maintain public trust in the insurance system.
6	Rule no. 16/2015 on Policyholder Guarantee Fund - published in the Official Journal of Romania, Part I, no. 667 of 2 September 2015: regulates the procedures for the establishment of the Policyholder Guarantee Fund provided for in Art. 1 of Law No. 213/2015 on Policyholder Guarantee Fund, management and use of its financial resources, and the procedure and conditions for making disbursements from its available resources.
7	Rule no. 17/2015 on contribution rates owed by insurers to the Policyholder Guarantee Fund - published in the Official Journal of Romania, Part I, on 31 August 2015: - sets the following contribution rates owed to the Policyholder Guarantee Fund by insurers, including their branches pursuing business in the territory of another EU Member State: a) 1% contribution rate for non-life insurance; b) 0.4% contribution rate for life insurance.
8	Rule no. 19/30.10.2015 on the application of International Financial Reporting Standards by insurance, insurance-reinsurance and reinsurance undertakings - published in the Official Journal of Romania, Part I, no. 834 of 9 November 2015: - lays down the method of drawing up the annual separate financial statements for information purposes in line with the International Financial Reporting Standards, hereinafter referred to as IFRS, by the insurance, insurance-reinsurance and reinsurance undertakings certified, regulated and supervised by the Financial Supervisory Authority, hereinafter referred to as FSA - The provisions of this rule shall not apply to branches seated in Romania of insurance, insurance-reinsurance and reinsurance undertakings seated abroad.

REGULATIONS	
9	Rule no. 20/2015 amending and supplementing the ASF Rule no. 7/2013 on the form and clauses included in the compulsory home insurance contracts against earthquakes, landslides and floods - published in the Official Journal of Romania, Part I, no. 861 of 19 November 2015;
10	Rule no. 21/2015 amending the ASF Rule no. 23/2014 on the compulsory insurance against civil liability for the damage caused by vehicles accidents - published in the Official Journal of Romania, Part I, no. 931 of 16 December 2015;
11	Rule no. 28/2015 on the operation of supervised insurers in accordance with the national regime - published in the Official Journal of Romania, Part I, no. 978 of 30 December 2015: • sets out the conditions in which the insurers supervised in accordance with the national regime carry out their activity, as follows: a) the conditions in which the insurance activity is carried out; b) the conditions and documents required for the approval of the insurers' merger or division; c) the conditions and documents required for the approval of portfolio transfers; d) the conditions and documents required for submitting reports; e) other matters related to the insurance and/or reinsurance activity.
12	Rule no. 29/2015 on the Register of Insurers-Reinsurers and Register of Insurance and/or Reinsurance Brokers - published in the Official Journal of Romania, Part I, no. 974 of 29 December 2015: • Insurance and reinsurance undertakings based within the territory of Romania, hereinafter referred to as insurers and reinsurers, shall be registered in the Register of insurers and reinsurers; • Insurance and/or reinsurance brokers authorised to pursue business within the territory of Romania under Law No. 32/2000 on the business and supervision of insurance and reinsurance intermediaries, as subsequently amended and supplemented, shall be registered in the Register of insurance and/or reinsurance brokers; • The registers referred to in Art. 1 shall be kept and updated by the Financial Supervisory Authority, in electronic format, and the data therein shall be always publicly available on FSA's website.
13	Rule no. 30/2015 on the rights, obligations and powers of the special administrator - published in the Official Journal of Romania, Part I, no. 974 of 29 December 2015: • According to the provisions of Art. 16 of Law no. 503/2004 on financial recovery, bankruptcy, dissolution and voluntary winding-up of insurance undertakings, as republished and further amended, hereinafter called Law no. 503/2004, when financial recovery by special administration is applied, as provided by Art. 8 (1) letter b) of the same law, the Financial Supervisory Authority shall appoint, by decision, a legal or natural person as special administrator.
14	Rule no. 31/2015 on the conditions to be fulfilled by persons certified to value assets – land and constructions – owned by insurers - published in the Official Journal of Romania, Part I, no. 974 of 29 December 2015: • Assets represented by land and constructions, owned by insurers, may be valued by certified valuers if they meet the following conditions: a) Hold a quality certificate as members of the National Association of Certified Valuers of Romania (ANEVAR), endorsed for the current year; b) Hold an civil and professional liability insurance contract with minimum coverage limit equivalent to EUR 100,000 euro, concluded with an insurer, other than the insurer for whom they perform the asset valuation.
15	Rule no. 32/2015 on the inventory of assets, liabilities, own capital and transactions related to the insurance and reinsurance activities of insurers/reinsurers and insurance and/or reinsurance brokers - published in the Official Journal of Romania, Part I, no. 971 of 29 December 2015: • Applies to insurers, Romanian legal entities, branches or subsidiaries of an insurer from a third country, as well as to branches of an insurance undertaking or of a mutual undertaking from a Member State, which holds an authorisation issued by the competent authority of the Member State of origin, to reinsurers, legal entities authorised pursuant to law by the Financial Supervisory Authority, hereinafter called FSA, or by the competent authority of the Member State of origin, to insurance and/or reinsurance brokers, Romanian legal entities, and to brokers from a Member States who undertake mediation activities in the territory of Romania, hereinafter called entities. Pursuant to the accounting regulations specific to the insurance field and to the Accounting Law no. 82/1991, as republished and further amended and supplemented, the entities have the obligation to inventory assets, liabilities and own capitals owned at the beginning of their activity, at least once during the financial exercise during their operations, in case of portfolio transfer, merger, division, winding-up or cease of activities or withdrawal of operating authorisation, and in the following situations: a) upon request of FSA and of other public institutions, when they perform a control; b) When there are indications that the balance sheet would include excesses or deficits which may only be established by means of inventory; c) In natural disasters or force majeure cases; d) In other cases provided by law.
16	Rule no. 33/2015 on the approval of allocation of capital necessary to authorize insurers as administrators of optional pension funds, from the capital related to life insurance activities - published in the Official Journal of Romania, Part I, no. 974 of 29 December 2015): • Insurers supervised according to part II of Law no.237/2015 on the authorisation and supervision of the business of insurance and reinsurance may request, according to the specific legislation, authorization to administrate optional pension funds.
17	Rule no. 34/2015 on the quantitative requirements set by the European Insurance and Occupational Pensions Authority - published in the Official Journal of Romania, Part I, no. 973 of 29 December 2015: • For the entities provided by Art. 1(1) letter a) - d) of Law no. 237/2015 on the authorisation and supervision of the business of insurance and reinsurance the rule sets some quantitative requirements additional to those provided by Law no. 237/2015, by the Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), by implementing technical standards, by regulatory technical standards, and by the delegated provisions; • The rule implements the requirements mentioned by paragraph (1) of the European Insurance and Occupational Pensions Authority Guidelines, provided by Annexes 1-17) which are an integral part of the rule.

	REGULATIONS
18	Rule no. 35/2015 on the qualitative requirements set by the European Insurance and Occupational Pensions Authority - published in the Official Journal of Romania, Part I, no. 971 of 29 December 2015: - For the entities provided by Art. 1(1) letter a) - d) of Law no. 237/2015 on the authorisation and supervision of the business of insurance and reinsurance the rule sets some qualitative requirements additional to those provided by Law no. 237/2015, by the Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), by implementing technical standards, by regulatory technical standards, and by the delegated provisions; - The rule implements the European Insurance and Occupational Pensions Authority Guidelines on the governance system, and the European Insurance and Occupational Pensions Authority Guidelines on own risk and valuation of solvency.
19	Rule no. 36/2015 approving the accounting regulations concerning the separate and consolidated annual financial statements applicable to insurance and/or reinsurance brokers - published in the Official Journal of Romania, Part I, no. 976 of 29 December 2015: - Stipulates that accounting regulations apply to insurance and/or reinsurance brokers undertaking insurance mediation activity on Romanian territory, based on an authorisation or on the freedom of establishment, according to the provisions of art. 33 (1) of Law no. 32/2000 on the business and supervision of insurance and reinsurance intermediaries, as further amended and supplemented; - Partly transposes the provisions of Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC published in the Official Journal of the European Commission series L, no. 182 of 29 June 2013.
20	Rule no. 37/2015 on the procedure for drafting and issuing vehicle repair documents - published in the Official Journal of Romania, Part I, no. 974 of 29 December 2015 specifies: The entities defined at Art. 1 (2) point 56 of Law no. 237/2015 on the authorisation and supervision of the business of insurance and reinsurance, hereinafter called insurers, or companies specialised and mandated for damage notification and liquidation shall appoint dedicated staff for the acknowledgment, and resolution of damage cases and issuance of vehicle repair documents, when policyholders have a valid optional Casco insurance, issued by that insurer, and report damages to the insured vehicle, pursuant to the provisions of Art. 79 (2) letter b), Art. 80 (2) and Art. 801 of the Government Emergency Ordinance no. 195/2002 on traffic on public roads, as republished and further amended and supplemented.
21	Rule no. 38/2015 on technical provisions created for insurance activities, and calculation for the purposes of drafting annual financial statements and the special register recording the assets they cover - published in the Official Journal of Romania, Part I, no. 981 of 30 December 2015 - Regulates the types of technical provisions created for non-life insurance activities, and for life insurance activities, as well as their calculation for the accounting purposes and to draft annual financial statements; - Applies: a) To companies provided by Art. 1 (1) letter a) of Law no. 237/2015 on the authorisation and supervision of the business of insurance and reinsurance, hereinafter called companies; b) To branches located on Romanian territory of companies from third countries, pursuant to the provisions of part I title I chapter X of Law no. 237/2015; c) To branches located on Romanian territory of companies authorised in other Member States, pursuant to the provisions of Art. 111 and 112 of Law no. 237/2015.
22	Rule no. 41/2015 approving the accounting regulations concerning the separate and consolidated annual financial statements of the entities pursuing the insurance and/or reinsurance business - published in the Official Journal of Romania, Part I, no. 2 and 2 bis of 4 January 2016: - The accounting shall apply to the following entities: a) insurance and reinsurance undertakings based in the territory of Romania, Romanian legal persons, authorised to pursue business under Law No. 237/2015 on the authorisation and supervision of the business of insurance and reinsurance; b) Subunits without legal personality, based in Romania/abroad, belonging to the undertakings referred to in Letter a); c) Subunits without legal personality established in Romania under Law No. 237/2015, belonging to legal person insurance and reinsurance undertakings, based in third countries; d) Subunits without legal personality established in Romania under Law No. 237/2015, belonging to legal person insurance and reinsurance undertakings, based in other Member States. - The entities must have their annual and consolidated financial statements audited according to the legal provisions in force.



The Working Group on Accounting Regulations was created in the third quarter of 2015 to develop the draft Accounting Regulations in compliance with the European Directives applicable to insurance/reinsurance undertakings which transpose Directive 91/674/EEC on annual accounts and consolidated accounts of insurance undertakings, as further amended and supplemented and Directive 2013/34/UE on annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC.

The draft Accounting Regulations compliant with the European Directives applicable to insurance/reinsurance undertakings was approved during the FSA Board meeting on 19.10.2015.

The IFRS Working Group was created in order to develop an action plan on the implementation and enforcement of the International Financial Reporting Standard (IFRS), an analysis on the progress made by the three financial supervisory sectors in terms of IFRS implementation and enforcement, and to assess the impact of IFRS implementation at sectoral level, SAR and SIIF.

Rule no. 19/30.10.2015 on the enforcement of the International Financial Reporting Standard (IFRS) by the insurance, insurance-reinsurance and reinsurance undertakings was published in the Official Journal of Romania of 9 November 2015.

The Working Group for drafting the Accounting Regulations applicable to the Policyholders Guarantee Fund was created on 9 October 2015 in order to develop the accounting regulations applicable to the Policyholders Guarantee Fund, considering the fact that, after the publication of Law no. 213/2015 on the Policyholders Guarantee Fund, this is no longer a public institution.



PRIVATE PENSION MARKET

1

**REVIEW OF INVESTMENT RULES FOR
PRIVATE PENSIONS (PILLAR II)**

2

**REVIEW OF VOLUNTARY PENSION
PACKAGE (PILAR III)**

3

**EXPLORING “LIFE CYCLE” AND
“OCCUPATIONAL PENSIONS” MODELS**

4

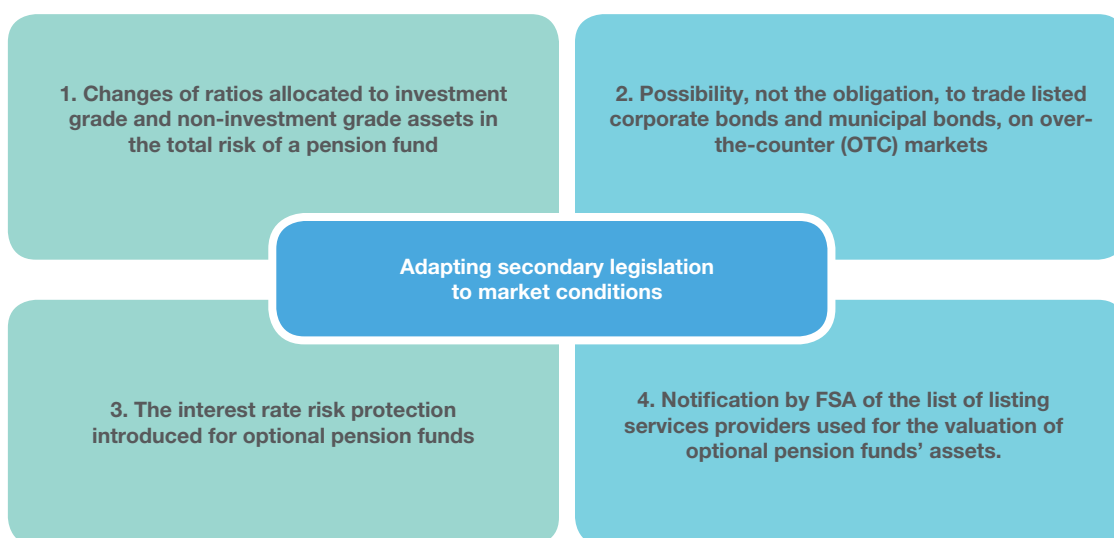
**FINALISE DRAFT REGULATION ON PRIVATE
PENSION PAYMENT**

5

**SUPERVISION OF PRIVATE PENSION
SYSTEM IN ROMANIA**

Review of investment rules for private pensions (Pillar II)

The amendments to secondary legislation aimed at encouraging diversification of private and optional pension funds, including the adjustment of certain restrictions according to the market development level.



Thus, amendments included changes of ratios allocated to investment grade and non-investment grade assets in the total risk of a pension fund, namely an increase from 0% to 25% of non-investment grade financial instruments and from 50% to 75% for investment grade corporate bonds in risk calculation.

The amendments also introduced the possibility, not the obligation, to trade listed corporate bonds and municipal bonds, on over-the-counter (OTC) markets.

The decision on trading corporate and municipal bonds on an over-the-counter market must be assumed and substantiated by the investment manager for each transaction and will have to be mentioned in the statement on the investment policy (approved by FSA), and must be reflected accordingly in the internal risk management policy and procedures. Among the motivations supporting the proposal that private pension funds should trade on over-the-counter (OTC) markets corporate and municipal bonds listed on regulated markets we mention the high trading costs and the very low liquidity of these instruments on the regulated market, as transactions with these financial instruments are carried out mainly on OTC markets.

For pension funds, it is important that the corporate and municipal bonds in the portfolio should be listed on a regulated market, having regard that listing requires the obligation to draft a prospectus approved by a supervisory authority, and the obligation of reporting on the issuer, coupon payments etc., which are displayed by the electronic system of the regulated markets. However, for the purposes of efficient portfolio

management, liquidity and smooth trading the permission to perform OTC transactions with these financial instruments is useful.

Having analysed the administrators' requests, and the regulated markets listing the corporate and municipal bonds, the conclusion was that administrator may trade corporate and municipal bonds on OTC markets as well, on the following conditions:

- The OTC traded instruments must be listed on a regulated market;
- The statement on the investment policy of the pension fund, submitted to FSA for authorisation, must clearly indicate the financial instruments for which OTC transactions will be performed;
- The risk management policies and procedures must provide clear overall criteria for selecting the offsetting entry, how the price and instrument liquidity are established, and any other criteria leading to the conclusion that transactions are performed for the benefit of the participants;
- The decision on each transaction is assumed by the investment manager and must be substantiated in writing with aspects related to the selection of the offsetting entry, price, lack of liquidity for that instrument on the regulated market etc.;
- FSA may require the substantiation of the trading decision anytime;
- The price of the instrument, used for the daily valuation of the net asset, according to the regulations in force, shall be provided by Bloomberg/Reuters/closing settlement price of the regulated market.

Moreover, the interest rate risk protection was introduced for optional pension funds.

Having analysed the administrators' requests, and their understanding of the use of derivatives, namely to cover the interest rate risk, since this is a high risk financial instrument, and the administrators' explanations do not highlight the clear difference between the use of this instrument for hedging purposes and for speculative purposes, the decision was that, for a fixed period of time, namely one year, these instruments should only be used by the optional pension funds, exclusively for the purposes provided by the regulations in force (hedging).

The operation and usefulness of this financial instrument will be followed-up during this period, including by means of reporting and supervision. Since the Romanian market

does not include mechanisms to ensure transparency of listings and fair valuation of these instruments, there will be additional analyses and simulations, using real data, carried out by the ASF, for a period of one year, to ensure results relevance.

At the end of this period, FSA will decide whether to extend or to eliminate the possibility to use these instruments for private pension funds.

Another clarification was the notification by FSA of the list of listing services providers used for the valuation of optional pension funds assets. Thus, a new rule was introduced, stipulating that the administrators shall notify FSA on the list of listing services providers used for the period 1 July current year – 30 June of the following year, by 31 May each year.

Review of voluntary pension package (Pillar III)

In 2014 and 2015, the Romanian Association of Private Pension Funds (APAPR) submitted FSA various proposals on the amendments of the primary and secondary legal framework applicable to voluntary pensions. These proposals underpinned consistent cooperation with the representatives of private pension funds administrators, which resulted in the amendment of a series of legal provisions. The following amendments were adopted in 2015:

Rule	Objective	Amendments
Rule no. 13/2015 amending and supplementing Rule no. 11/2011 on the investment and valuation of assets of private pension funds, in force since 3 September 2015	Review of the investment policy for private pension funds	- The current manner of calculating the risk level was reviewed, and the shares allocated to the various asset categories were modified; - Possibility to protect the portfolio against the interest rate risk for voluntary pension funds, for those assets whose remaining maturity exceeds 5 years, calculated on the date of the transactions; - Trading of listed corporate and municipal bonds was allowed on the OTC market as well.
Rule no. 16/2014 amending and supplementing Rule No. 2/2011 on the adhesion and record of participants to the voluntary pension funds and Rule no. 18/2015 amending Rule no. 2/2011 on the adhesion and record of participants to the voluntary pension funds	A more flexible contribution collection process for Pillar III	- The goal was to eliminate situations when administrators return the amounts paid by participants, for various reasons; - The goal was to eliminate the obligation to indicate in the individual adhesion document a fixed amount to be paid and replace it with a minimum amount, without the need to return the contributions to the payer; - The participant may suspend, cease or modify the payment of contribution anytime, in compliance with the legal provisions and with the provisions of the voluntary pension scheme prospectus; - The requirement that administrators should check the actual agreement for the eligible persons was eliminated, considering that, unlike Pillar II, the agreement of the participant in Pillar III is expressed by payment of the premium
Rule no. 8/2015 on the use of the net personal assets of the participant in the voluntary pension fund	Improvement of the process of payment of net asset in case of minor beneficiaries	Possibility that the requests of payment of net assets for minor beneficiaries should be signed by the surviving parent.
Rule no. 25/2015 on the reporting and transparency obligations in the voluntary pension system.	Simplified reporting framework of SSPP entities	
Rule no. 23/2015 on the authorisation of the voluntary pension fund	Identify the necessary actions and documents for the authorisation of the pension fund, and publicity of amendments to the memorandum of association	

There were other projects supporting the development of Pillar III, namely the support and promotion of the derogation from the Civil Code to simplify the amendment of the civil memorandum of association and to reduce the administrator expenses; draft Law amending Art. 10 of Law no. 411/2004 on private pension funds and supplementing Art. 44 of Law no. 204/2006 on voluntary pensions.

The draft law introduced the possibility that the

memorandum of association may be amended by majority, not unanimously, as provided by the Civil Code, considering the specificity of the pension funds, where the memorandum of association includes numerous persons as parties.

The improvement of the regulatory framework applicable to Pillar III has been a constant concern and activity for FSA in order to develop the market and the public trust in this savings option.

Exploring “life cycle” and “occupational pensions” models

LIFECYCLE FUNDS – A MODEL FOR PRIVATE PENSIONS IN ROMANIA?

Lifecycle funds are based on the concept of asset investment depending on the participant's age. For participants who are beginning to accumulate, the contributions to the private pension system should be invested in assets with high growth potential, to preserve earnings obtained during the accumulation period, the personal asset will be invested in less volatile financial instruments.

In order to analyse the opportunity of completing the regulatory framework applicable to private pensions by introducing lifecycle funds, FSA requested technical assistance from international bodies with experience in the field, namely the World Bank and the European Bank for Reconstruction and Development.

At the same time, FSA identified the main aspects which required the need to analyse the possibility, relevance and implementation options for a lifecycle system in Romania. These aspects focused mainly on:

Transition from the current pension system to the multi-fund system, characteristic for lifecycle funds:

- Establish a relevant model, applicable to the private pension system in Romania, after analyzing how similar systems implemented in other countries operate;
- Establish the optimal transition period, so as not to impact on the current activities of the private pension funds and on the participants' costs;
- The period within which the legal framework on the multi-fund system would be developed – if applicable.

Establish the structure of the multi-fund system:

- Establish a type of system with funds or sub-funds and how assets would be separated between them, if applicable;
- Establish the minimum number of necessary funds to achieve optimal balance between risk and return, based on the age groups established;

- Establish the age group for participants in each fund;
- Establish the investment limits for each age group;
- Establish how participants would transfer from one age group to another;
- Establish the allocation of persons who do not chose to adhere to any fund.

Impact analysis

In order to implement a multi-fund pension system, FSA appreciated as necessary an analysis of costs for:

- System implementation;
- Transition from the old to the new system:
 - Costs for the private pension administrators and for the Authority to implement the new system.
 - The capacity of private pension administrators which will have to manage various investment strategies and various participant transfer rules, by age group, and the Authority's capacity to regulate and supervise a market with a significantly higher number of funds with different risk profiles.

Analysis on the functionality of multi-fund private pension systems implemented in other states:

- The implementation manner and period, interim periods.
- The efficiency of similar systems implemented before in other countries and various development stages of such systems.

In this context, FSA and EBRD organised on 24 September 2015 a conference on “Life-cycling and the Romanian pension funds”. The conference hosted discussions between FSA representatives, EBRD experts and representatives of large international investment funds on the Romanian private pension system and its adequacy for introducing lifecycle funds..

The conclusions reached by EBRD and communicated to FSA identified 5 prerequisites for introducing lifecycle funds:

1. Adequate legal framework
2. A capital market to ensure necessary liquidity
3. A larger financial market than the currently existing one in Romania
4. Strengthening the market entities' capacity to manage a wider variety of financial assets categories
5. Better communication with participants in the private pension system

According to EBRD, Romania is not yet ready to introduce the lifecycle system. At the right time and following the implementation of the steps mentioned above, EBRD expressed availability to support the introduction of a new pension system by identifying the

necessary legal amendments, while indicating that these will involve a redesign of the current guarantee system and of the current investment limits which are considered too restrictive/conservatory, and of the structure of fees charged by pension funds administrators.

OCCUPATIONAL PENSIONS



Romania introduced the voluntary pension system with Law no. 204/2006 on voluntary pensions. The implementation of the voluntary pension system was an important step in the pension reform whose goal is to remove the pressure on the public pension system, a pressure generated by the demographic forecasts: future population ageing, decrease of birth rate and of the active workforce rate.

Law no. 204/2006 on voluntary pensions transposed Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision.

Other European states have in place occupational pension plans, as a major component of the system, to supplement already existing pension schemes. Forecasts indicate a substantial increase in the number of retired persons, at the same time with a reduction in the number of employees, which means that the amounts charged from employees will show a decreasing trend, while the amounts to be paid to pensioners will increase. At the same time, forecasts indicate an increasing trend for life expectancy,

which places additional pressure on the states to find sustainable solutions so as to ensure decent living standards for population after retirement.

Having regard to the need and the importance of obtaining additional pensions to those provided by the public system, FSA believes that the optional pension system should be supplemented by implementing occupational pension schemes. Consequently, FSA cooperated with representatives of APAPR and of the Ministry of Labour, Family, Social Protection and Elderly, to develop the draft Law amending and supplementing Law no. 204/2006 on voluntary pensions, to supplement the existing provisions with additional elements specific to occupational pensions.

In May 2015, pursuant to the provisions of Art. 23 letter g) of Government Emergency Ordinance no. 50/2005 on setting-up, organization and operation of the Romanian Private Pension Supervision Commission, as further amended and supplemented, FSA submitted proposals amending and supplementing Law no. 204/2006 on voluntary pensions.

MAIN AMENDMENTS OF THE DRAFT LAW AMENDING AND SUPPLEMENTING LAW NO. 204/2006 ON VOLUNTARY PENSIONS

- Individual adhesion act, introducing the option of a document (individual document, addendum to employment contract etc.);
- Administrator – the administration structure specific to voluntary pension funds is maintained. Administrators may be newly set-up pension undertakings, insurance undertakings, investment management companies;
- Administration contract – the object of the contract will include occupational pension funds;
- Voluntary pension fund – which may be an occupational pension fund based on a scheme proposed by an employer;
- Occupational pension scheme – newly introduced definition;
- Vesting – newly introduced definition. Only for occupational pension schemes;
- Contribution shares and fees may be differentiated for occupational pension schemes; only when fees for voluntary funds are increased, it should be communicated 6 months in advance, and for occupational pension schemes the modification and communication should be performed according to the scheme, with notification to ASF;
- Prospectus authorisation and amendment procedures for occupational funds will be provided by ASF rules (the law stipulates that the prospectus shall be authorised and modifications shall be notified; the modification shall be performed by the employer, without consulting participants);
- Occupational funds are excepted from the provisions on publicity and marketing;
- Introduce specific identification, namely the obligation that the title of the fund should reflect its nature, namely voluntary/ voluntary occupational and should indicate that the fund headquarters is the same with the administratoradministrators' headquarters;
- Participants in the occupational funds may be informed by the employer (according to the administration contract);
- It introduced conditions establishing the eligibility of participants in the occupational fund, namely the quality of employee of the employer who proposed the scheme;
- It introduced a section with specific provisions for the participants in occupational funds..

AMENDMENT OF PROVISIONS APPLICABLE TO REGULATED ENTITIES, AUTHORISED AND SUPERVISED PURSUANT TO LAW NO. 204/2006 WHICH NEED CLARITY AND TRANSPARENCY IN ENFORCEMENT

- Rephrase the article on the organisational structure of the administrator so as to include – internal audit, internal control, risk management and investment;
- Introduce provisions on activities which may not be outsourced. Activities which may be outsourced – liaison with third parties, development, presentation, submission, publication and distribution of annual reports, document management and archiving;
- Introduce provisions on administrators merger (from rules to law) – the possibility, instead of obligation to perform funds merger with the administrators' merger, the ban on mergers between two or more administrators resulting in the administration of assets exceeding 40% of the net total assets in the optional pension market;
- Repeal the provisions on administrator's investments;
- Eliminate investment limits for pension funds, with a possibility for FSA to introduce temporarily thresholds, if they appreciate it is necessary;
- Introduce in the scope of fund incomes the amounts unclaimed in the general prescription term, amounts refused by beneficiaries and the administrator's contribution when they have to cover from own resources the profitability difference of the fund below minimum profitability;
- Modify the period within which FSA should announce participants on the need to choose a new administrator, or on initiating special administration (in force – 1 day, proposal 15 days);
- Introduce the notion of income assimilated to salary;
- Eliminate the 15% share as maximum allowed to contribute to optional pension funds and monthly payments;
- Modify the cumulative conditions for claiming the asset payment, namely when the participant retires from the public system, contribution period of at least 7.5 years;
- Annual information of participants in optional funds may also be submitted by electronic communication means.

Finalise draft regulation on private pension payment



In 2015, the draft Law on the organisation and operation of the private pension payment was under approval.

The development of the draft Law on the organisation and operation of the private pension payment aimed at achieving the objective set under the reform of the pension system to complete the private component, by creating the legal framework for the payment of pensions due to participants and beneficiaries after the accumulation period. The draft law provides, among others, rules on the payment system for private pensions, categories of private pensions, introduces prudential principles and minimum operation requirements for the private pension provider.

The draft law also provides for the setting-up and authorisation of funds providing private pensions. The funds providing private pensions shall be administered by the private pension provider holding the fund administration authorisation issued by FSA. The fund providing private pensions shall be created by memorandum of association, upon exclusive initiative of the provider.

The prudential rules established by the rules of the Financial Supervisory Authority, which the private pension providers must comply with throughout their activities include, without limitation to: establishing the main activity and development lines of the private pension provider, the accounting policies and the financial control system, and the approval of the financial planning, establishing adequate administrative and accounting procedures, safety and control procedures for electronic data processing, and adequate internal control mechanisms, and adequate procedures to ensure separation of assets and liabilities.

PRIVATE PENSION PROVIDERS MUST COMPLY WITH THE RULES OF CONDUCT ISSUED THROUGH ASF RULES.

The private pension provider has, at least, the following obligations: to act with honesty, fairness, and due diligence, in order to protect the interests of the

members and the market integrity, to avoid conflicts of interests and ensure that the members of the pension fund benefit from a fair and impartial treatment, to undertake their activities in compliance with the regulations of the Financial Supervisory Authority, applicable for the purposes of protecting the interests of the private pension fund members and the integrity of the private pension payment system.

With regard to the organisation of the private pension payment system, 12 months prior the fulfilment of the retirement conditions, pursuant to law, the administrator of a private pension fund and/or of an optional pension fund has the obligation to notify the participant in writing on the value of the gross contributions paid, the value of the net personal asset, and the possibility to choose any private pension provision fund. On the date they fulfil the retirement conditions, participants in a private pension fund and/or in an optional pension fund may choose the private pension provider.

The private pension provider shall establish the amount of the private pension, by actuarial calculation, based on the net personal asset, in the participant's account. The private pension may be a lifelong pension or a limited pension, or other type of pension regulated by the rules of the Financial Supervisory Authority. Participants in the private pension funds who turn 70 years old and do not choose a private pension provider shall be randomly distributed by the Financial Supervisory Authority.

The participant in a private pension fund and/or an optional pension fund, who benefits from disability pension according to Law no. 263/2010 on the unitary system of public pensions, as further amended and supplemented, may become a member of a private pension fund and may obtain a private pension, in compliance with legal provisions.

The resources of the private pension fund shall be created from the amounts generated by the net personal assets of the members, amounts generated by the investment of such assets and possible amounts generated by the technical provisions of the provider.

The pension fund investments are highly conservative, as the goal is to protect the fund from negative variations of the market, ensuring the ability to pay the pensions established.

With regard to the solvency of the private pension fund, the draft law indicates that the funding rate must be at least 105% at all times. Starting with a funding rate exceeding 110%, the excess of assets may be redistributed, by actuarial calculation, to the members of the private pension fund, after full recovery of the amounts used by the private pension provider to finance the private pension fund. Such redistribution shall be performed by increasing the pension with the same percentage for all private pension fund members.

At the same time, the draft law uses the principle of individual liability, with detailed sanctions in the private pension payment stage. The provisions on the procedure to identify and ascertain infringements, and on enforcement

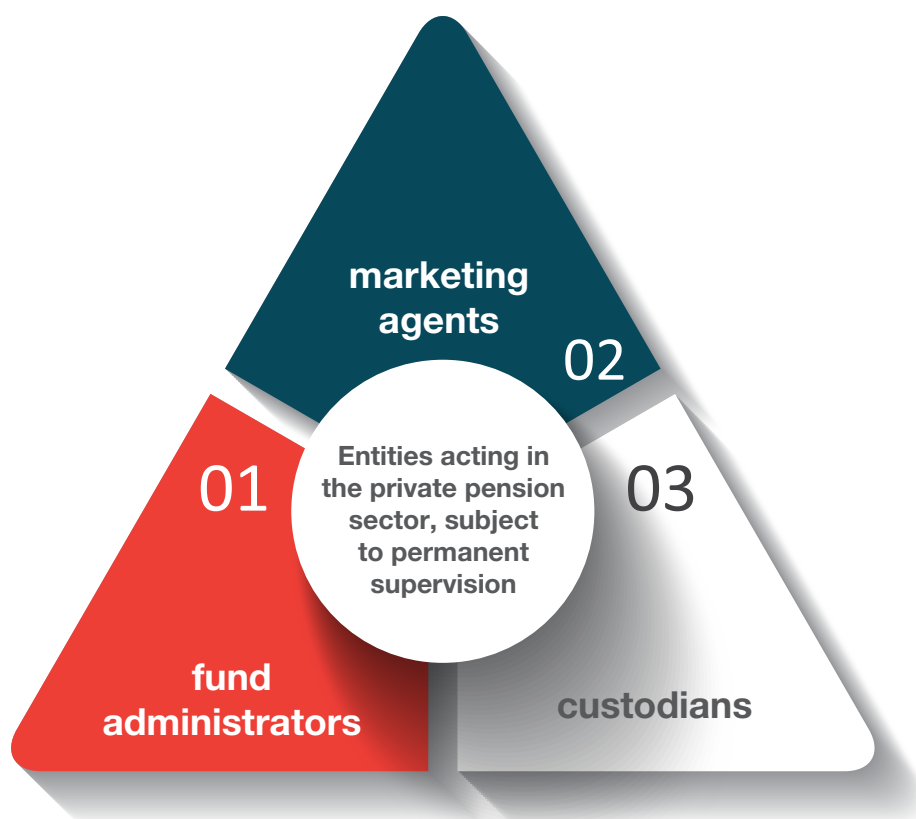
of sanctions, are derogations from the provisions of the Government Ordinance no.2/2001, approved, amended and supplemented by Law no.180/2002, as further amended and supplemented.

The private pension provider, the custodian, auditor and actuary are accountable to the members and beneficiaries, as appropriate, for any damage caused by failure to perform or improper performance of their obligations, except for force majeure cases. The liability may be civil, contraventional or criminal liability, as appropriate. The draft law stipulates that the fines shall be established as follows: between 0.1% and 5% of the registered capital, for legal entities, or the equivalent of 1 to 6 average salaries, paid by that legal entity to its employees, calculated based on the existing salary level during the last financial exercise finalised. Both amounts generated by fines applied to legal entities and amounts generated by fines applied to individuals shall become income to the state budget.

Supervision of private pension system in Romania

The private pension system in Romania started in 2007, when the first contributions to voluntary pension funds were collected.

The compulsory pension pillar started in 2008, with the initial adhesion process. Since then, the value of total assets and of the participants has increased significantly, leading to the development of a supervisory framework by the regulatory and supervisory authority, which should best face challenges and ensure the long-term sustainability of the system.



Under Pillar II, an administrator may manage only one fund. Their number decreased, both as a result of withdrawing funds which had not attracted sufficient participants, and as a result of mergers. Currently, there are 7 administration companies which manage 7 private pension funds.

Under Pillar III, one administrator may manage several optional pension funds, and expectations from the market potential led to an increase in the number of participating entities until 2010. Further, their number decreased to 8 administrators who manage 11 optional pension funds as a result of mergers. The custodians of private pension funds are credit institutions in Romania authorized by the National Bank of Romania, according to the banking legislation, or branches from Romania of credit institutions authorized in other Member States of

the European Union or states of the European Economic Area, licensed to act as custodians, pursuant to law; custodians are trusted with all assets of the private pension funds for safekeeping.

Custodians have an active role in the supervision process, as they check the investment activities carried out by administrators, and have the obligation to report to FSA on any suspicion of breaches of the applicable legal framework. Currently there are 3 custodians.

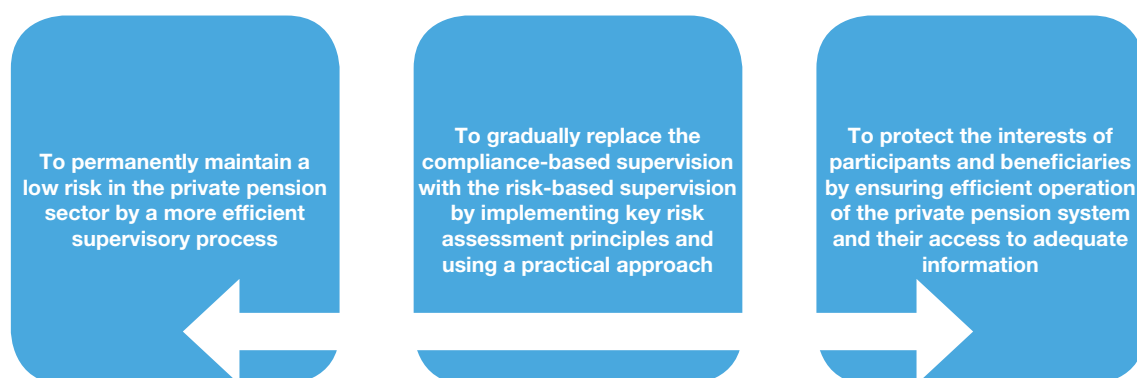
From the very beginning, the marketing agents have had an important role in the promotion and development of the system; however, due to their large numbers, the supervision of the marketing agents activity has been a real challenge. The irregularities found were sanctioned, according to the applicable law, including by submission of criminal complaints to the competent bodies.

Private Pension System in Romania– 2015

	Pillar II	Pillar III	Total
Administrators	7	8 (9*)	10 (11*)
Funds	7	11	18
Custodians	3	3	3
Brokers	14	21	26
Assets (billion RON)	24.69	1.25	25.94
Participants (million persons)	6.56	0.38	6.94

** In 2015, following the merger of FPAP EUREKO with FPAP VITAL, FPAP EUREKO and EUREKO – private pension fund management company had their authorizations withdrawn and were removed from the FSA Register*

Main strategic objectives of the supervisory and control activities in 2015:



The supervisory activity performed by ASF relied on the following principles:

- To protect the interests of participants and beneficiaries by ensuring efficient operation of the private pension system and their access to adequate information;
- Supervisory activities should be adequate according to the nature, size and complexity of the risks assumed by each entity;
- The supervisory process should be preventive and anticipative;
- FSA should act adequately, as appropriate, especially in case of negative situations evolving in fast dynamics-.

Off-site and on-site supervision – the control of entities carried out either by monitoring and analysis of all information received by FSA – Private Pension Sector through mandatory reports, and by any other means, such as mass-media, or by inspections performed at the headquarters of the entities under supervision;

- The supervisory activity included the development of analysis specific to the risk-based supervision principles and of assessments of possible risks which might affect the pension fund portfolios.
- A framework was created to analyse and follow-up a minimum set of risks related to the private pension fund portfolios: asset concentration risk, portfolio liquidity risk, currency risk and interest rate risk.
- In 2015, FSA carried out stress tests for the private pension portfolios, to follow-up the impact of certain negative developments of assets owned: shares and mutual funds, bonds, other assets, and the influence of an unfavourable evolution of the exchange rate.
- The supervisory activity also consisted in analyses on the evolution of the number of participants in the private pension funds, monitoring the contribution payment behaviour (monthly paid contributions, individual accounts without contributions, average contribution), and the evolution of the average value of individual accounts.

OFF-SITE SUPERVISION OF THE PRIVATE PENSION SYSTEM IN ROMANIA



An important element for a more efficient off-site supervision activity and for improving prudentiality (due to the capacity of early identification of possible problems and of assisting with their analysis and correction before they have a significant impact on the interests of participants and beneficiaries) was the permanent improvement of the IT support and automation of reporting processes.

The goal in 2015 was to improve the reporting process and the verification of data and information submitted by entities within the private pension system, and the quality of reports, analyses and syntheses developed, by enhancing the relevance and accuracy of data and information, activities which were finalised by amending the reporting rules for entities within the private pension system.

In the context of institutional changes within ASF, various projects were launched to improve the efficiency of services, the results and the relevant data management:

- **The development of an automation handbook** was a priority action. This handbook supports the

development of software to perform automatic verifications of form and contents of reports received from supervised entities. Moreover, the handbook includes cross-checks of data reported in various annexes. This creates the prerequisites for a better approach on the supervisory activity, in order to strengthen the capacity to prevent and/or reduce possible problems the private pension system might face.

- **Periodical requests and reports which can be fully automated were identified**, so as to lead to a more efficient allocation of time and human resources for activities related to the supervisory activity.
- **Development of a methodology to measure various costs paid by participants in the process of payment and accumulation of contributions and the investment result**, which will lead to a more transparent choice of the fund by a participant, completing current information on performance and risk level (initiative on sole cost indicator)

One of the standing working groups identified possible gaps and insufficient regulations in the legislation on private pensions in Romania and submitted proposal for improvement and amendment.

Periodical reports on the activity of entities within the system (private pension funds, administrators, custodian, auditors, marketing agents, natural and legal persons) submitted to the authority through the IT reporting system, including amending reports, were processed and analysed.

The supervisory activity involved continuing monitoring of currency exposure, concentration level, interest rate risk, liquidity, volatility and profitability of pension funds. Moreover, with the increase of the amount of information received, analyses and impact surveys were performed, as well as a more intense monitoring of exposures of

private pension funds in countries which faced economic and financial problems.

The activity of providing detailed descriptions for each of the 11 companies managing private pensions and of the 18 private pension funds continued in 2015, with the improvement and permanent update of the Company Form which included the sanctions applied and/or the action plans adopted following control actions, or requested by FSA to correct and prevent error occurrence, the management system, the members of representative structures and persons responsible with various activities and authorised by ASF¹.

In the period of January – December 2015, solutions were provided for operational problems for which there were requests for viewpoints and measure and action plans to correct the problems identified, including corrective measures, such as: warning or, as appropriate, sanctions:

- Erroneous registration of a forward contract (the administrator assume the implementation of an action plan to prevent similar situations);
- Investment in a financial instrument not allowed by legal provisions;
- Failure to comply with legal provisions on investment activities: size of derivative contracts owned for the purposes of protecting the portfolio against investment risks.

The situations described above led to decisions to fine the investment managers or issue a warning against the custodian of that pension fund, as appropriate.

Another request was that both the administrators and the custodian should implement action plans to prevent similar cases in the future, and specific persons were appointed to ensure the implementation of the action plan. Administrators were requested to amend

the investment procedures and the risk management procedures.

Prudential supervision focused on strengthening reporting discipline, monitoring deviations from investment limits, monitoring the allocation of the risk category, the profitability rate of private pension funds and ensuring permanent and correct information of participants, which solved various issues, as follows:

- exceeding the risk level;
- exceeding investment limits to certain issuers which were considered passive infringements of the legislation in force;
- exceeding exposure on derivatives (passive infringement);
- erroneous processing of transaction fee payments related to the private pension funds (warning issued for the pension fund custodian);
- erroneous acceptance of the price used in the valuation of a corporate bond or in case of a municipal bond;
- reporting of new issuers from the private pension fund portfolios;
- failure to comply with legal provisions on the erroneous payment to the state budget account.

Written warnings were issued against the administrator and custodian of a pension fund, as appropriate, for the facts described above.

Other solutions were identified for problems related to failure to inform participants within the legal deadline on the situation for the personal asset, failure to comply with legal provisions on contribution conversion and liquidity transfer, and improper performance of obligations on

the distinct organization, registration and management of fund assets separately from other activities and from administrator's own accounting, without the possibility of transfer between funds or between funds and administrator (administrators were warned with regard to infringements of legal provisions)².

Internal control, internal audit and risk management reports are monitored for the purposes of monitoring the operational risk of the administrators of private pension funds.

1. The goal was to ensure continuity in those positions; there were cases when important positions (internal control coordinator and/or risk management coordinator) were not held by dedicated persons.

2. Other aspects focused on reporting; withdrawing the provision from the accounts; calculation and reporting on the audit fee or the entry into force of Regulation no. 16/2014 on ASF revenues, which required that entities should be informed on its enforcement in the private pension sector.

There was a special focus on the enforcement of the provisions on internal control, internal audit and risk management in the private pension system. Consequently, during the first semester there was a wide process of assessment of internal control systems implemented by administrators, while during the second semester there was a focus on the risk management function (the assessment of the organisational and operational framework for risk management at the level of pension fund administrators was initiated). This process allows for the follow-up and identification of procedural and actual approaches used by administrators for risk management, both in the private pension fund management and in their own activities.

The analysis indicated that all administrators ensured the necessary procedural and organisational framework to manage the risks faced by pension funds and administrators, and that they have dedicated organisational structures, specific policies and procedures, authorised persons in charge, and Risk Committees.

With regard to the risks reported, the analysis indicated that risks are identified, evaluated and monitored by all administrators. However, their methods are different, and such differences in approaches are related also to the requirements and know-how from their group, the expertise of those who perform risk management activities and the technical equipment available.

The internal control reports for the second semester, drafted according to the report template, demonstrated that the indications and guidelines on internal control were observed. This supported the comparability of the implementation and operation of internal control within entities, in terms of activities undertaken by those responsible, and of the conclusions of the reports and of measures to be implemented by entities.

In case of internal audit reports drafted by administrators, the conclusion was that most audit missions had respected the schedule and during the first quarter of 2016 there should be meetings with the internal auditors of the administrators, in order to evaluate the lines of defense and the prevention activities undertaken by administrators³.

Considering the increase in the amounts of payments for pensions, disability and deaths in the period 2014 - 2015, compared to previous years, and in the number of participants in the optional pension funds in the age groups over 55 years old and in the number of participants in the private pension funds over 50 years old, administrators were asked to provide scenarios they intend to apply in the future on the management of assets and liabilities of pension funds they are managing.

The conclusions of these scenarios demonstrated that administrators have the necessary liquidities to cope with participants' exit in the forthcoming period but, on

the other hand, it is necessary to build in advance efficient operational structures dedicated to the implementation of a effective framework for proper assets and liabilities management (future payment obligations), so as future payment requests, in a constantly increasing trend, could be paid timely and fairly.

Another analysis focused on the notifications of administrators and marketing agents, legal entities, regarding the infringements of marketing agents, natural persons, and on the measures disposed to correct them (infringement causes: delayed submission of individual adhesion documents, exceeding the legal deadline, failure to observe the legal deadline for notification and submission to administrators of copies of amended documents initially submitted for endorsement as marketing agent, transfer of participants' contributions on their behalf, suspicions on the actual willingness to act of participants, drafting individual adhesion documents by marketing agents whose authorisation was no longer valid).

With regard to actuaries, the analysis focused on aspects related to the calculation model using the internal model of certain administrators, and on the proposal to introduce the option to cover the net contribution guarantees through a capital requirement and to use the swap curve rates for RON as discount rates in the standard model instead of the spot curve of government bonds listed AAA, published by the European Central Bank.

Another analysis included the reports on the value of expected payments submitted by the administrators of private pension funds, and the impact of the EIOPA stress test results on the technical provisions, and during the second semester there were meetings with administrators, and a scientific seminar to discuss the standard model of calculation of the technical provision for private pension funds.



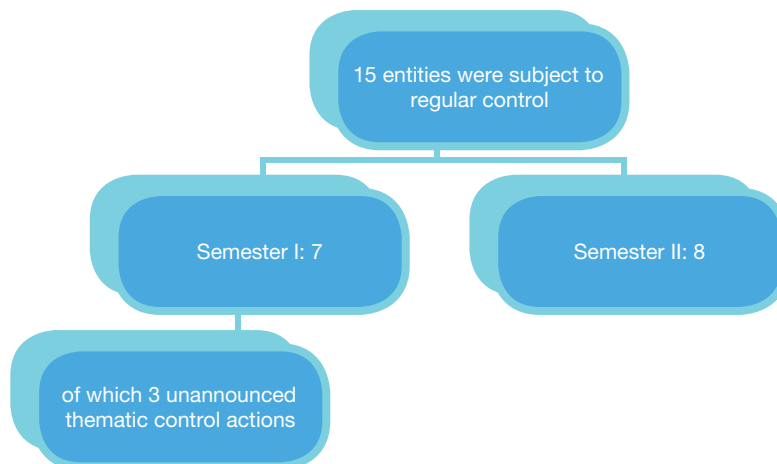
3. The goal was to issue guidelines and recommendations on improving the operations, and to build a starting point for the implementation of risk-based supervision, where the administrators' internal defense lines should support the supervisory role of the Authority through efficient assessment and mitigation of inherent risks.



ON-SITE SUPERVISION OF THE PRIVATE PENSION SYSTEM IN ROMANIA

The control of entities in the private pension sector has the role to prevent or correct situations which might damage the interests of the participants and beneficiaries in the private and optional pension funds, with the goal to protect the stability of the private pension system and to strengthen and protect the stability of the entire system.

According to the Annual Integrated Plan to control the supervised entities for 2015, in the period January– December 2015:



The control actions carried out in the first half of 2015 with five administrators were finalized.

The objective of the controls was: to verify and evaluate the activities undertaken, considering the nature, cause, impact, remedy and/or mitigation, and related risks.

The control actions performed led to remedial measures or sanctions, and FSA further monitored their timely implementation⁴.

12 investigations on claims related to forgery in deeds by private signature were finalized in 2015 ⁵.

⁴ There were no cases when the entities involved in the private pension system for which corrective measures were requested did not comply with the provisions of the ASF Decisions

⁵ Offences provided and punished according to Article 290 of the Criminal Code, namely forged signatures on the individual adhesion documents regulated by Law no. 411/2004..

OTHER RELEVANT ASPECTS OF THE PRIVATE PENSION SYSTEM IN ROMANIA

In 2015, ASF withdrew the authorisation of the Private Pension Fund EUREKO, the private pension prospectus for the Private Pension Fund EUREKO, and the authorization to manage a private pension fund for EUREKO Private Pension Administrator Ltd, following the merger of the Private Pension Fund EUREKO (absorbed fund) with the Private Pension Fund AEGON (absorbing fund).

A new optional pension fund was authorised in 2015, the Optional Pension Fund AEGON ESENȚIAL, managed by AEGON PENSII Private Pension Administrator Ltd and the merger of Optional Pension Fund EUREKO CONFORT (absorbed fund) with the Optional Pension Fund AEGON ESENȚIAL (absorbing fund) was authorized).

Due to the changes in the top management of private pension administrators, to the FSA requirements on the corporate governance principles of administrators and to the concept fit & proper, transposed in secondary

legislation, 18 members of the supervisory board /board of administration, 5 directors/ managers, 4 persons responsible with risk management, 2 persons responsible with internal control and 3 investment directors were authorized individually in 2015

With regard to the custodians of the assets of private pension funds, in 2015 UNICREDIT BANK SA was authorised as custodian of assets of private pension funds and BANCA ROMÂNEASCĂ SA was withdrawn the authorisation of custodian of assets of private pension funds.

Due to the strengthening of the private pension market, considering the high percentage of randomly distributed participants in the private pension funds, 2015 maintained an increasing trend in withdrawn authorisations, compared to the authorisations/reauthorisations of marketing agents – natural persons





CONSUMER PROTECTION

1

STRENGTHENING THE CONSUMER PROTECTION FUNCTION

2

FINANCIAL EDUCATION AND PROFESSIONAL TRAINING

3

MODERNISING THE PETITION PROCESSING MECHANISM

Protecting and defending the rights and legitimate interests of the consumers against unfair, possible abusive or fraudulent practices

Granting professional assistance to consumers

The main objectives consist in:

Observing the applicable legal/contractual provisions

Educating and promoting trust in the financial services, products and instruments specific to non-banking markets

*FSA CONTRIBUTED TO PORTRAYING A
EUROPEAN IMAGE OF THE CONSUMER AND
OF THE FACTORS AFFECTING CONSUMER
RIGHTS.*



2015 was a year of modernization and adaptation to consumer needs for FSA. The recently established Directorate for Consumer Protection took over the functions of handling petitions for the three sectors supervised by the FSA, of consumer assistance, an approach based on the rights and legitimate interests of each consumer and created new functions such as monitoring noncompliant practices and financial education.

In 2015, the FSA activities in the field of consumer protection became complementary instruments to the prudential regulations and supervision by approving specific strategies and tactics. Moreover, new instruments and procedural and operational leverages were created to reach objectives.

In addition, FSA continued to take part in the European activity regarding consumer protection, reporting to EIOPA and ESMA data on the content of consumer complaints.

*FSA CREATED THE CONTINUOUS DIALOGUE
ADVISORY GROUP IN THE FIELD OF CONSUMER
PROTECTION*

In 2015 FSA also created the Continuous Dialogue Advisory Group in the field of consumer protection, consisting in consumer protection associations, relevant associations on the financial markets, representatives in

international groups, the National Agency for Consumer Protection and which meets periodically, issuing opinions and regulations to support consumer rights. The cooperation with consumer protection agencies also considered the more in depth implementation of certain protection measures. Examples in this respect include already the cooperation with ANPCPPSR-InfoCons¹ focusing on promoting value, quality, protecting consumer interests, but also monitoring actions carried out alongside AURSF².

The framework for the alternative dispute resolution for consumer disputes (Directive 2013/11/EU of the European Parliament) was already established, also for implementing GEO no.38/2015 on alternative dispute resolution for disputes between consumers and traders. Furthermore, all measures were taken to create SAL-FIN a centre for alternative dispute resolution for disputes including entities on the regulated markets. Such an entity will make available to any consumer an easy, quick and free of charge channel of dispute resolution. The entire documentation necessary to establish SAL-FIN was submitted with the competent authority for registering the centres in Romania dealing with alternative dispute resolution.

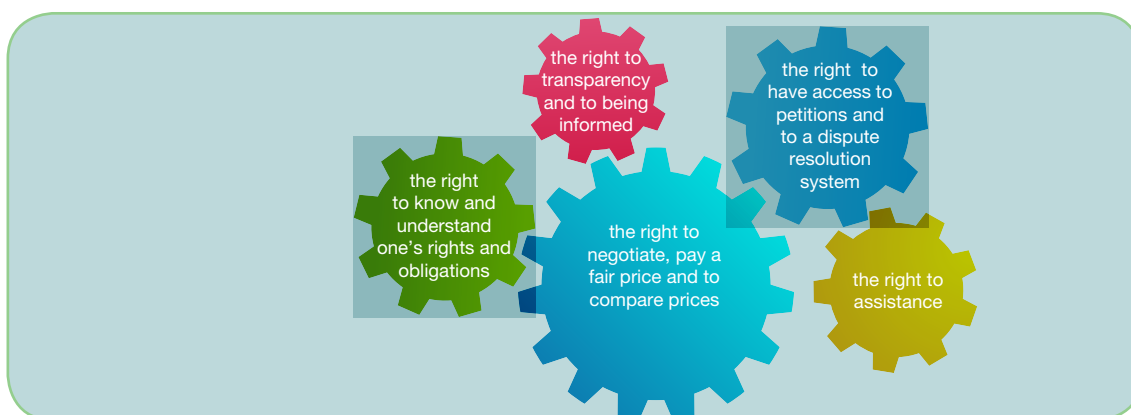
The system that supports consumers affected by certain insolvent or bankrupt entities was also put in place. Depending on specific issues faced, consumers were guided onto the best methods of resolving their issues, including by means of written materials and social media communication.

¹ ANPCPPSR-InfoCons – The National Association for Consumer Protection and Promoting Programs and Strategies in Romania

² AURSF – The Association of Romanian Users of Financial Services

Strengthening the consumer protection function

In 2015, FSA defined and monitored the essential rights of consumers of financial products and services:



Furthermore, the following activities were also carried out to strengthen the consumer protection function:

the strategy to integrate the added value of consumer protection to the regulatory, prudential supervision and control system was drafted

bottom-up monitoring by means of the new Mystery Shopping monitoring concept, used for the first time in Romania on the non-banking financial market

identifying and measures taken to adjust the behaviors of market players or to regulate distribution channels for the products they sell

Monitoring the interaction between consumer and financial entity by looking into possible unfair, fraudulent, unauthorized, deceitful practices or providing inaccurate or incomplete information, false advertising, nontransparent or unauthorized activities or to prevent discriminating behaviors

to increase trust in the functioning of the financial market

to ask for FSA control actions if unfair practices are found

*FSA INVESTIGATED
HOW NON-BANKING
FINANCIAL SERVICES
CONSUMERS ARE
TREATED*

- 6 mystery shopping exercises (2 for the capital market and 4 for the insurance market, of which 3 focused on how the MTPL policy is traded). As a result of this type of exercises, FSA issued a norm on the online trading of insurances, a measure that comes to support the consumers, providing them all the necessary information in a transparent manner, but also that observes their rights set in law;
- participation to a European monitoring exercise on the quality of the information and behavior toward consumers of products and services provided by investment companies present in Romania based on free movement;
- monitoring actions were carried out on possible brokerage/service provision by unauthorized companies to retail customers in Romania, with results being sent to the competent bodies to take the required measures for protecting consumers of financial products and services. Several such cases were looked into and a series of public alerts were created and broadcasted publicly so that the consumer of financial services be informed on these unauthorized companies.

Throughout 2015, the Public Relations activity within FSA supported the consumers of non-banking financial products by means of the following:

- granting quality specialized assistance to clarify all their requests, also facilitating indiscriminate access to active systems of handling applications, requesting information and petitions;
- assistance in observing the legal procedures to submitting and filling in the documentation by the consumers so as to handle all matters brought forward verbally, via telephone, in written or directly at the FSA headquarters;
- standardizing the answers to information requests, a functional single entry and exit point for communicating information requested by various categories of the public and all petitions regarding the activity of entities specific to the supervised non-banking financial markets;
- integrating and improving the petitions' circuit, standardizing types of applications and forms to facilitate indiscriminate access of consumers of non-banking financial products to petition resolution mechanisms, all with a focus to automate, render efficient and facilitate the relation with the consumers, reducing to a minimum manual processes and harmonizing internal regulations with European practices and legislation;
- identifying possible irregularities/breaches of the applicable legislation that could scale up and generate petitions and a swift reaction to prevent such circumstances;
- managing the ASTRA situation – centralized individual calls regarding ASTRA; efficient information of petitioners on matters raised in their petitions addressed to FSA on the ASTRA topic; cooperating with the Policyholders' Guarantee Fund to solve issues raised by the consumers.

QUANTITATIVE ASPECTS OF 2015

- 14,180 calls coming through the FSA Call Centre, of which 13,390 were inbound and 790 calls were outbound from the FSA Call Centre for proactive activities, mystery shopping, feedback to the consumers;
- 90% consumer satisfaction level, provided by internal survey;
- the Call Centre's activity increased by over 51.8% in Q3 of 2015 – number constant also in Q4 - compared to Q2 of 2015 (which could be explained by the increase in the level of financial education, consumers' becoming more aware of their rights, as well as the ASTRA situation);
- Higher accessibility levels for consumers by increasing the FSA Call Centre capacity from 2 to 8 telephone lines and setting up the space for consumers requesting meetings;
- Implementing two Mystery Shopping projects – on the quality of assistance services provided by market entities and on the prices of MTPL policies.

Financial education and professional training

Financial education sets the foundation of a good understanding of concepts that an adult is faced with throughout life. The level of education is important for a good functioning of real economy overall. As far as the non-banking financial market is concerned, preparing the young for adulthood focuses on conveying financial knowledge, understanding the phenomena in economy, consumer protection, training skills and behaviours that add real value in economy.

The financial ability, as result of financial education, is a decisive factor of economic growth and welfare.

The strategic program of the Financial Supervisory Authority aims, within the joint policies, to launch communication, financial education and professional training programs. The low level of non-banking financial knowledge led in time both to keeping the markets underdeveloped, helped only by state interventions (e.g., privatization through the Stock Exchange, mandatory insurance or mandatory private pension), and to a high level of public distrust which, in the end, causes instability, low liquidity and narrow-mindedness.

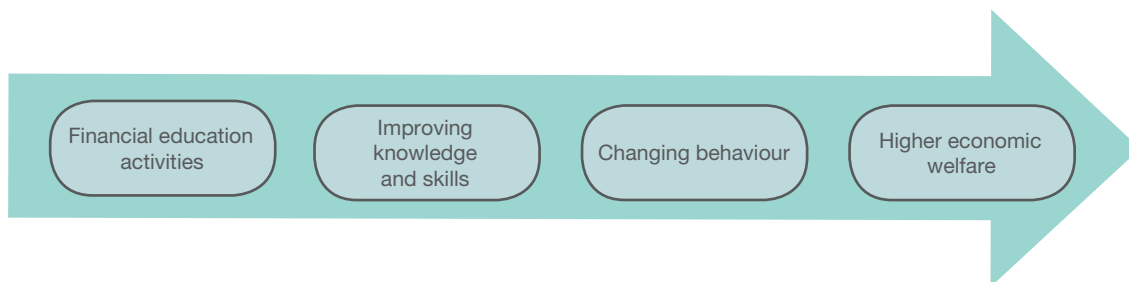
Increasing the general level of information among the population regarding the non-banking financial system and increasing the quality of education in this sector are important factors for protecting the consumer of financial services, instruments and products. Hence, the FSA strategy for Financial Education 2015-2018 aims to be the cornerstone of future activities in the field of consumer protection and specific financial education.

"Let's talk about the non-banking financial market" is the FSA project on financial education focused on the pre-university education. The content of the educational program in Romania must be adapted to the current realities of economy and society and it must forge, by developing skills, future generations.

FSA wanted to initiate its own program of educational support, justifying this involvement by means of its fundamental objectives, set in law, of which the most important regards consumer protection. The young are the future consumers of non-banking financial products and services (especially of the mandatory ones: Pillar II pensions, MTPL, PAD - mandatory home insurance).

*THE GENERAL
EDUCATIONAL
OBJECTIVES SET
BY FSA FOR THIS
PROGRAM WERE AS
FOLLOWS*

- Increasing the level of information among pre-university students by providing basic, relevant and independent information.
- Developing skills among the target audience and raising awareness on financial opportunities and risks.
- Providing a better understanding of the features of financial products and services regulated by FSA.
- Broadening the horizons of the choices available to the target audience and making sure that its choices are a perfect reflection of its needs and expectations.
- Creating a starting point to establish general culture on finance.
- Involvement in improving the level of knowledge from the lower-secondary curriculum.



Financial education helps balance real economy, teaching the population how to manage their incomes and save money, but also how to be more knowledgeable about the financial instruments used (e.g., mandatory insurances) or that various financial institutions are trying to sell. In order to use these services, people need to understand to what extent they meet their needs and their rights and obligations as customers.

Initiating this project within FSA brought about the need to conclude a protocol with the Ministry of National Education and Scientific Research, namely with the School Inspectorates in Bucharest, Cluj and Iasi in order to perform financial education activities in schools for children and youth. The program "Let's talk about the non-banking financial market" was dedicated to 7th and 9th graders in several schools units in the three cities. 17 schools with 29 grades took part in 2 hours/semester, the program also including practical learning activities organized during the week Doing School Differently. 22 lecturers, FSA employees, were allocated for the 2450 pupils in the project, who used a modern

module of presentations, dialogues and games with the pupils. Interactive, pupil-oriented teaching took into account that certain terms were completely new for them, therefore formal and non-formal methods of teaching had to be used to introduce certain ideas. By means of examples, the children and the young learn about financial planning, different types of insurance and risks, investment benefits and risks as well as about the importance of saving for an independent and healthy financial life. Acquiring these notions will help define an adult with a certain level of financial education, turning them into smart consumers.

The program had a very good impact, FSA receiving requests both to continue it, but also to expand it in other school units and in other areas of the country. Moreover, several school units asked for their own economics classes that they use materials provided by FSA in their program. FSA will give a positive answer to all these requests, continuing its financial education programs and expanding the target range so as to include the university environment as well.

In this manner we want to say that:

*FINANCIAL EDUCATION MAKES AVAILABLE TO PEOPLE THE KNOWLEDGE, THE SKILLS AND THE TRUST
THAT THEY CAN TAKE FINANCIAL DECISIONS BY HAVING THE INFORMATION AND UNDERSTANDING
THE SELECTED FINANCIAL SERVICES AND INSTRUMENTS.*

In 2015, FSA also started the series of events organized in its own headquarters, with the support of the Institute for Financial Studies – "Be Smart!". These events are dedicated to children between 10 and 14 years of age. The first edition was organized before the winter holidays and

it consisted in learning by games and practical exercises about financial planning depending on the needs and possibilities, by explaining to the children important financial notions to use their "piggy bank" rationally, rendering their own financial resources more efficient



The financial education activity carried out by FSA also included sending alerts, warnings and useful information to raise public awareness on certain specificities of financial products and services.

The FSA guidelines were dedicated to the general public, with Investor's Guide, MTPL Guide and Pillar II Guide being distributed in 2015. The same collection also included a brochure for the young. In the years to follow, the FSA's Guidelines Collection will grow, making available to youth and adults an informative tool useful to taking financial decisions tailored to their needs.

Insurance Market	Capital Market	Private Pensions Market
MTPL Guidelines - has full and useful information on concluding a motor third party liability policy; - how a policy is calculated, on the bonus-malus system, checking a policy details in the CEDAM system etc. Astra Guideline	Investor's Guideline - has useful information on investment opportunities provided by the capital market in Romania; - provides full information on the steps that an investor should take and the mechanisms to know so that investment risks be minimum.	Participant's Guideline - to the privately managed pensions system (Pillar II); - to the voluntary pensions system (Pillar III); - has useful information about the pensions system: - how it works, system benefits, becoming member in a pensions' fund, transferring participants in this system, information on protection of the participant etc.

The Authority's Facebook page was launched in the first half of the year, becoming a useful means of communication and conveying educational and informational messages.

Supporting the consumer of financial services with this approach, FSA aimed to apply a modern and easy approach, tailored to the realities of the current society. Each person asking for information or raising an issue on Facebook received their individual answer.

The average reaction period to consumer requests consisted in minutes, irrespective of the day of the week when the issue was raised. Facebook was also an important channel of spreading information or of education, with posts that were created for the general public.



Modernizing the petition processing mechanism

MANAGING PETITIONS

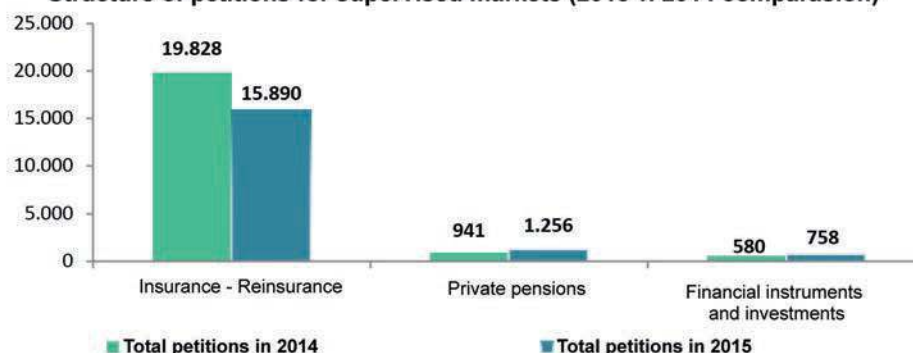
The petition resolution activity is regulated by Government Order no.27/2002 on regulating the activity for petition resolution, approved by Law no. 233/2002 and by the applicable legislation in the FSA field.

Apart from the actual resolution of issues raised by the petitioners, this activity also aims to constantly identify and monitor at the level of entities supervised and/or regulated by the FSA shortcomings in their activity, as well as to analyze the systemic nature of these shortcomings in the market so as to determine the

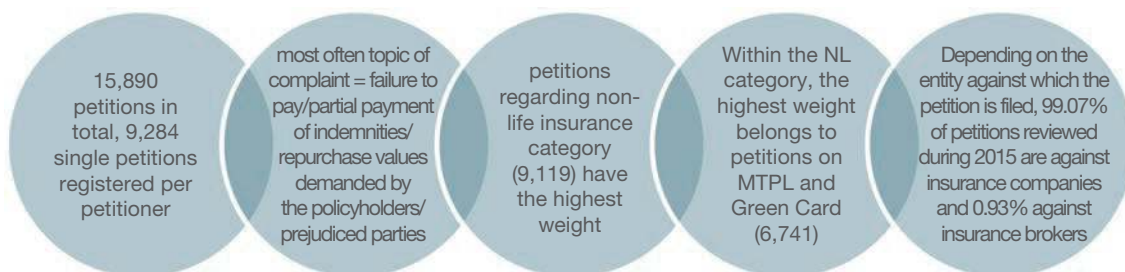
measures required to remedy them. Moreover, through the answers provided to the petitioners, FSA provides specialized assistance to applicable legal/contractual regulations and recommends the petitioners the steps to be taken to resolve the matters brought forward.

In 2015, 17,904 petitions were filed in total, decreasing by 16.14% compared to the same period of 2014, as a result of a decrease in the number of petitions for the insurer-reinsurer market.

Structure of petitions for supervised markets (2015 v. 2014 comparasion)



Sectorul asigurărilor – reasigurărilor



As a result of the activity of acting upon and resolving petitions, various shortcomings/practices were identified in 2015 for the remedy of which measures were taken both at the authority level, of the supervised entities, but also at the level of other competent authorities.

In some cases, the issues found were failure to observe the provisions of FSA Norms, possible abusive provisions in voluntary insurance contracts, wrong practices by selling MTPL policies online, issuing false MTPL policies, faulty communication upon taking on an insurance

regarding risks and exceptions to the insurance products provided as well as wrong evaluation of the insured risk.

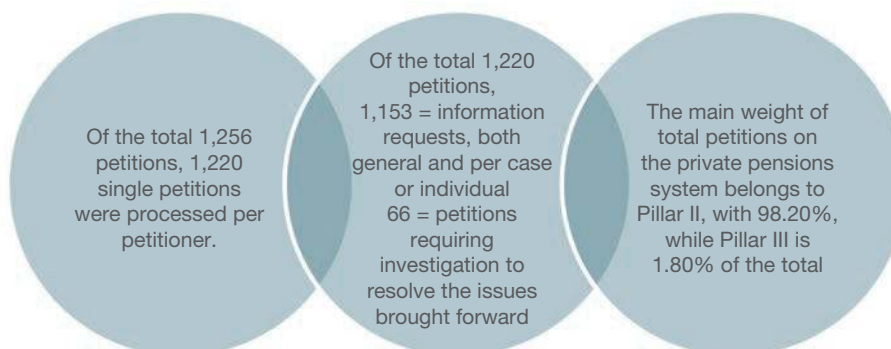
The petition resolution activity also led to the conclusion that the policyholders' rights "on reimbursing the repatriation expenses and/or amounts paid by tourists in case of insolvency or bankruptcy of the travel agency" were not protected, as per the provisions in the Order of the Ministry of Tourism no.235/2001, also laying down the insurance terms and conditions.

*MEASURES WERE
TAKEN FOR ALL
THESE
CIRCUMSTANCES:*

- recommendations were sent to entities against which complaints were filed in the sense of reviewing the insurance conditions so as to avoid breaching/limiting policyholders' rights;
- entities were recommended to file criminal complaints in all cases in which false MTPL policies were used;
- proposals were made to amend certain legal acts;
- the identification of unfair practices regarding online sale of MTPL policies led to initiating the Mystery-shopping online MTPL project;
- measures were taken with the National Tourism Authority to amend Order of the Ministry of Tourism no. 235/2001;
- in all cases with differences of opinion on solutions taken to specific cases, insurers were summoned to the FSA headquarters. In most cases regarding life insurance contracts, insurers kept their opinion, namely to deny payment of the demanded compensation, based on the insurance conditions;
- meetings were organized with the consumers at their request; meetings between the parties were made possible at the FSA headquarters at the request of either party, for cases with differences of opinion on solutions taken to specific cases.

From the matters raised by petitions, as well from the documentation made available by the insurance companies, apart of the unfair practices of supervised entities, FSA also found unfair practices of the repair shops, by unjustifiably increasing the repair costs, failure to present permits from the Romanian Vehicle Registry etc., and as a result of these findings it informed the National Agency for Consumer Protection so as to look into the matter.

Private Pensions Sector



Of the total petitions filed by the participants to Pillar II, the ones requesting information on membership to privately managed pension funds as a result of the random allocation procedure were most dominant, with 54.80%.

Information requests on the name of the private pensions fund consisted in 39.52%. The remaining 5.68% are information requests about: the private pensions system, transferring the participant's private assets, means of payment of the privately managed pension – death/disability, withdrawal from the privately managed pension system, account balance or lack of contributions to privately managed pension funds as well as petitions about suspected fraud, double accounts (retired army personnel – currently civilians, MoI/MoD).

The petitions filed by the participants in Pillar III were mainly focused on withdrawing from the system of voluntary pension fund and transferring from one fund to the other, abroad and to the country, means of payment of the voluntary contribution/pension, details about the contributions to voluntary pensions, terms and methods of payment, taxation of the voluntary pension and of deductibility, about personal assets or voluntary pension.

Unfair practices were found as a result of the petitions pertaining to the private pensions system, as follows:

- false documentation regarding individual memberships concluded by marketing agencies;
- abusive application of asset transfer penalties from one fund to the other.

*MEASURES WERE
TAKEN FOR ALL
THESE
CIRCUMSTANCES:*

- As a result of analyses carried out during the petition resolution activity, the fraud allegations brought forward were confirmed in the sense of deceitful practices being used in the process of participants joining certain funds. In order to remedy said situations, legal measures were taken to annul the false individual membership documents and, as a result, reinstatement of the assets to the previous situation, namely returning contributions to pensions Pillar I.
- For all cases where abusive transfer penalties were charged, the authority ordered a remedy of the situation by reinstating the assets of the participants.

Financial instruments and investments sector



As a result of investigating and resolving the petitions regarding the capital market, in 2015 certain shortcomings/deceitful practices were identified at the level of regulated/supervised entities, as follows:

- consequent to the situation created with SSIF Harinvest SA, the need to change the secondary legislation became apparent, in the sense of protecting the rights of consumers acting in good faith;
- noncompliant practices of the entities were found in relation to the implementation of provisions of Law no.151/2014 on clarifying the RASDAQ market status and of Regulation no.17/2014 issued to implement the law, practices that prejudiced shareholders' interests;
- the Central Depository was found to apply an unfair practice of charging fees to shareholders withdrawing from companies traded on RASDAQ.

*MEASURES WERE
TAKEN FOR ALL
THESE
CIRCUMSTANCES:*

- In order to resolve the situation created in the case of SSIF Harinvest SA, FSA issued Regulation no.6/2015 to amend the provisions of FSA Regulation no.3/2006, creating the legal framework to compensate the receivables of individuals and legal entities in the name of and on whose behalf financial operations were carried out, without their consent, as a result of fraudulent means. Consequently, on February 12th 2016, Investor Compensation Fund paid due compensations to all prejudiced investors on the List of payments.
- In order to protect shareholders' rights, FSA fined the directors of the companies that did not observe the provisions of Law no.151/2014, namely that they did not summon on time the Shareholders' Meeting to decide on the transfer to a regulated market, that they did not take the necessary measures to prepare the mandatory evaluation report and/or that they did not pay the amounts due to the shareholders choosing to withdraw from the company.
- The decision was taken to eliminate the unfair practice of the Central Depository to charge fees for the withdrawal of shareholders from companies traded on RASDAQ, so that minority shareholders could exercise their unencumbered right of withdrawal.
- With respect to the activity on the FOREX market, measures were taken to protect the financial instruments' consumers prejudiced by investment companies licensed in Member States, including by drafting and posting alerts.
- Furthermore, the petitioners are alerted clearly by means of answers sent on the risks of transactions carried out in this framework and interested investors are constantly recommended to consult in advance the Registry of Financial Instruments and Investments so as to check whether a broker or an agent is licensed to provide financial investment services.

PETITION RELATED INDICATORS

The indicators specific to the consumer protection activity, expressed in a relative format, proved to be more relevant in analyzing the results of the petitions received with FSA compared to absolute numbers.

RELATIVE INDICATORS OF PETITIONS ARE INTERPRETED AS FOLLOWS:

- Indicator values less than or equal to the market's benchmark of 100% indicate a good level of compliance by company products compared to the rights and financial needs of their customers, observing the company's obligations in investigating and liquidating claim files, as well as compliance of solutions taken in claim files with the legal/contractual provisions ;
- Indicators with values between 100% and 200% show an average level of compliance of the company's products with the financial needs of its customers;
- Indicators with values above 200% show a low level of compliance of the company's products with the financial needs of its consumers.

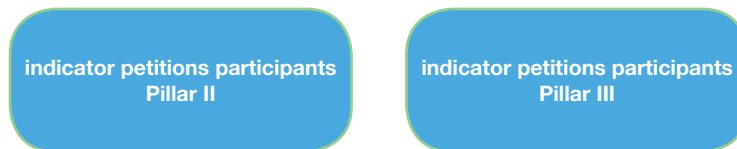
Three indicators were analyzed for the insurance-reinsurance market:

<u>The index petitions/ contracts- lp/contracts:</u>	<u>The index petitions/ confirmed claims - lp/claims:</u>	<u>The index favourable petitions/ confirmed claims - lpf/claims:</u>
measures the variation of petitions' weight in contracts in force at the end of the reporting period for each reviewed company, compared to the level of the same indicator determined at the market level. This indicator's values show the level of compliance of a company's products with the rights and financial needs of insurance consumers. The lower the values of this indicator, the higher the level of compliance	measures the variation of single petitions' weight in confirmed claim files in a certain period compared to the level of the same indicator determined at the market level. This indicator's values show the level of observance of obligations by the company in investigating and liquidating claim files. The lower the values of this indicator, the higher the level of compliance.	measures the variation of the weight of single petitions with a favourable result in confirmed claim files in a certain period, for each reviewed company, compared to the level of the same indicator determined at the market level. This indicator's values show the level of compliance of solutions applied to claim files with the legal/contractual provisions. The lower the values of this indicator, the higher the level of compliance.

The review of the averages in the three indicators shows the following:

Companies with a good level of compliance	• Groupama SA, Allianz-Tiriac SA and Generali Romania SA registered average values below the market benchmark, of 100%, for all the three indicators under review; • Omniasig VIG SA and Uniqa Asigurari SA only register average values below the 100% threshold for the indicators petitions/claims and favourable petitions/claims.
Companies with an average level of compliance	• Carpatica Asig SA has values between 100% and 200% for all the three indicators under review; • Omniasig VIG SA, Uniqa Asigurari SA and Euroins SA register average values between 100% and 200% for the indicator petitions/contracts.
Companies with a low level of compliance	• City Insurance SA and Asirom VIG SA register values over 200% for all the three indicators under review; • Euroins SA registers average values above the 200% threshold only for the indicators petitions/claims and favourable petitions/claims.

Two indicators were analyzed for the private pensions market:



A calculation was carried out based on the 2015 data for the privately managed and voluntary pension funds, taking into account the statistical data in FSA records on petitions received for this market, as well as the public statistical data in FSA records - Private Pensions Sector.

The review of the indicator petitions/participants Pillar II shows the following:

Funds with a good level of compliance	BCR, NN, ALICO and VITAL have values below the market benchmark of 100%;
Funds with an average level of compliance	ARIPi and AZT VIITORUL TAU have values between 100% and 200% for indicators petitions/ participants in Pillar II.

The review of the indicator petitions/participants Pillar III shows the following:

Funds with a good level of compliance	AZT MODERATO has a value below the market benchmark of 100% for this indicator;
Funds with an average level of compliance	NN OPTIM, AZT VIVACE, PENSIA MEA and NN ACTIV have values between 100% and 200% for indicators petitions/ participants in Pillar III.

HOWEVER, CONSIDERING THE LOW NUMBER OF PETITIONS RECEIVED FOR THIS LINE OF BUSINESS, THE CALCULATED INDICATORS HAVE LOWER STATISTICAL RELEVANCE, BEING RATHER SPECIFIC COMPLIANCE INDICATORS.

These indicators are calculated depending on the number of petitions received for each fund pertaining to the two pillars, and the significant weight of petitions received by the FSA for Pillar II belongs to requests of information on the random allocation of participants to privately managed pension funds or on the functioning mechanisms of the system. This is why we can conclude that the shortcomings highlighted by these indicators stem from how the participants were informed both in the pre-membership phase and in the membership phase, on the one hand by lack of information being provided - the number of randomly allocated individuals is high-, and on the other hand, by incomplete and inaccurate information being provided.

Regarding Pillar III, most petitions focused on requests to withdraw from the voluntary pensions system, how the participants' personal assets are taxed and lack of a legal framework to provide pensions.

This is why we can conclude that shortcomings highlighted by these indicators stem from the information provided to the participants in the pre-membership phase on the conditions of the prospectus and the applicable legal framework, as well as from the need to supplement it.

Three compliance indicators were reviewed for the capital market regarding the entities' behaviour toward consumer rights that reflect the level of customer satisfaction for the main categories of entities:

Compliance indicator for SSIF

Compliance indicator for IMC

Compliance indicator for SIF

In order to reflect the importance of these indicators, a calculation was carried out using 2015 data for the entities regulated and supervised by FSA taking into account the statistical data in the records held by the Consumer Protection Directorate on petitions received for the capital market, as well as statistical data in FSA records – Financial Instruments and Investments Sector.

The review of the SSIF compliance indicator shows the following:

Funds with a good level of compliance	• BT SECURITIES has a value below the market benchmark of 100% for this indicator;
Funds with an average level of compliance	• TRADEVILLE, ESTINVEST have indicator values between 100% and 200%.
Funds with a low level of compliance	• PRIME TRANSACTION and BLUE ROCK FINANCIAL SERVICES have indicator values above 200%.

The review of the IMC compliance indicator shows the following:

Funds with a good level of compliance	• ERSTE ASSET MANAGEMENT and RAIFFEISSEN ASSET MANAGEMENT have a value below the market benchmark of 100% for this indicator;
Funds with an average level of compliance	• TRADEVILLE, ESTINVEST have indicator values between 100% and 200%.
Funds with a low level of compliance	• SAFI INVEST has indicator values above the 200% threshold.

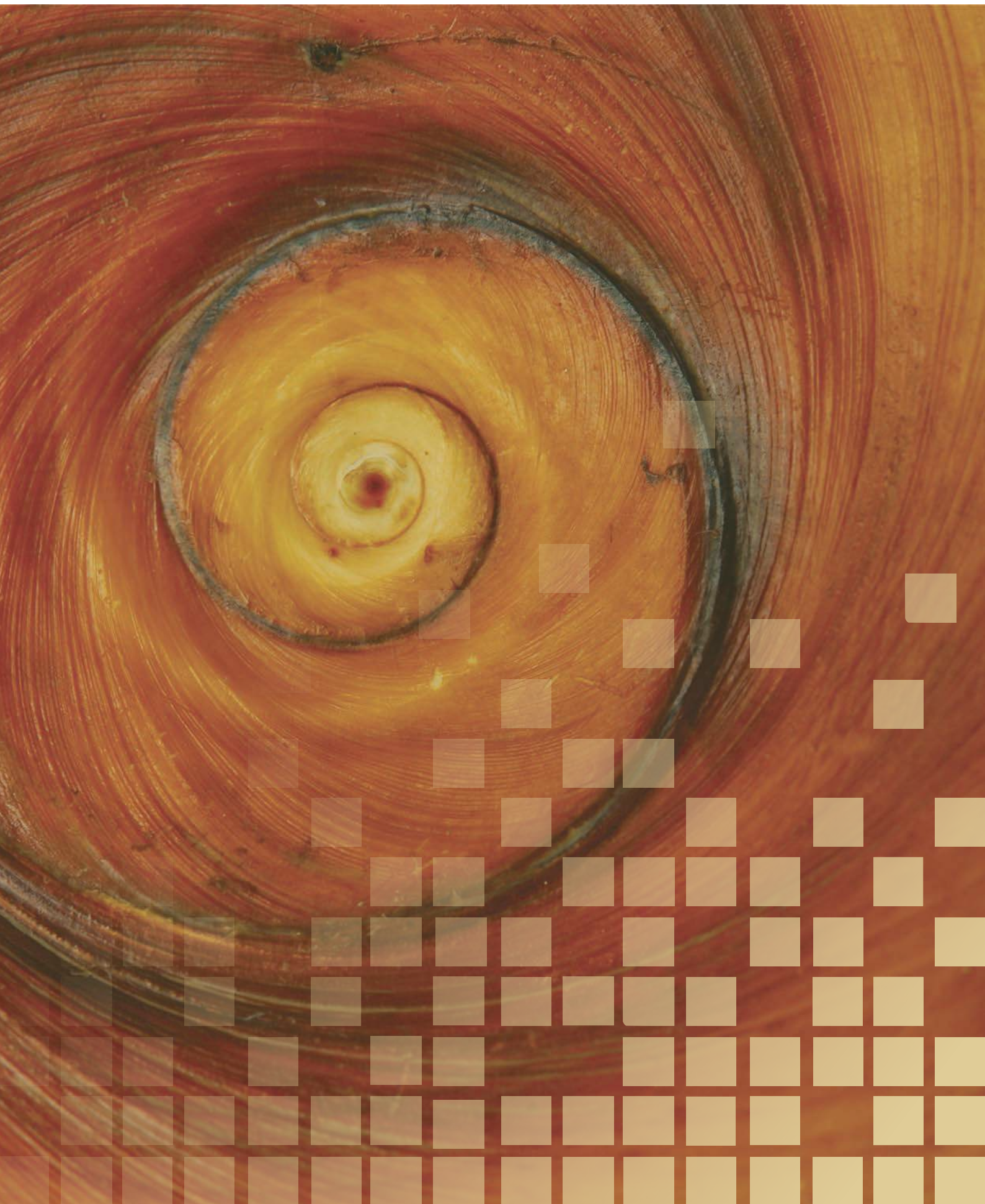
The review of the SIF compliance indicator shows the following:

Funds with a good level of compliance	• SIF 2 Moldova, SIF 5 Oltenia, SIF 4 Muntenia and SIF 1 Banat Crisana have values below the market benchmark of 100% for this indicator;
Funds with an average level of compliance	• SIF 3 Transilvania had the indicator value between 100% and 200%.

To conclude the review of the three indicators carried out on 2015 data, for the main entities supervised and regulated by the FSA and against which petitions were filed with the FSA, we notice a positive behaviour of financial investment services companies, investment management companies, financial investment companies compared to customer needs, showing the proper interest to the customer-company relation.

The main shortcomings resulted from lack of information provided to the customer about the provided financial products so that, upon purchase, consumers be completely aware of the risks they are undertaking.

Moreover, we noticed an increased interest among consumers in the provided non-banking financial products.



COMMUNICATION AND INSTITUTIONAL TRANSPARENCY

New means of communication and premiere events



2015 consisted in efforts to reposition and strengthen FSA's public communication, supporting the Authority's most important lines of action - developing new projects for the three regulated markets and finalizing the institutional reconstruction process started in 2014. In this context, the communication objectives focused on increasing awareness regarding the role and activity of the Authority, strengthening its institutional reputation as well as promoting consumer trust in regulated markets.

In order to reach these objectives, the means of communication were diversified, new debate topics were launched in the relation with the interest public, creating its own events platform - "FSA Days" in order to facilitate direct launch of the Authority's messages and to present the powers of the new organizational structure.

At strategic level, public communication also entailed ensuring constant presence in relevant organized events with respect to the markets, the messages on FSA's line of actions and priorities.

RELATION WITH THE MEDIA

Continuing an honest dialogue with the media was for this year as well the key prerequisite in ensuring a fair understanding and interpretation of the Authority's activity. Throughout 2015, FSA issued and sent over 100 press releases on topics such as decisions of the FSA Board, specific cases in the market (Astra, Euroins, Carpatica, BSR and BSRE exercises, measures taken on the MTPL market, STEAM project for the capital market etc.), the evolution of supervised markets, the FSA activity (institutional reconstruction, strategic projects, competitions organized to fill vacancies, budget implementation).

FSA answered promptly to the over 250 requests for information, interviews, TV broadcasts, participations in Radio/TV shows coming from the media. Moreover, the Authority organized 4 press conferences meant to inform the public on important topics regarding the FSA activity and the supervised markets.





FSA DAYS

A premiere for the Authority, organizing the “FSA Days” at the end of May marked a defining moment for the integrated approach to dialogue with the institution’s stakeholders. The series of events carried out under this new concept started with a conference organized in partnership with the University of Economic Studies, as a debate platform for topics regarding the role and future development of non-banking financial markets. The event was enriched with the contributions from renowned representatives of the local and international financial market and of the academia, such as Academic Mugur Isarescu, the Governor of the National Bank of Romania, Mr. Steven Maijoor, Chair of ESMA, Mr. Andrew Candland, Head of Financial Stability EIOPA, Professor Pavel Nastase, Rector of the University of Economic Studies, Academic Lucian Albu, Director of the Institute of Economic Forecasting (IPE).

The scientific presentations during the panels were also posted on the conferences’ website –www.asfconference.ro – focusing on major topics for the three regulated sectors (insurance, capital market, private pensions) as well as for financial stability and consumer protection.

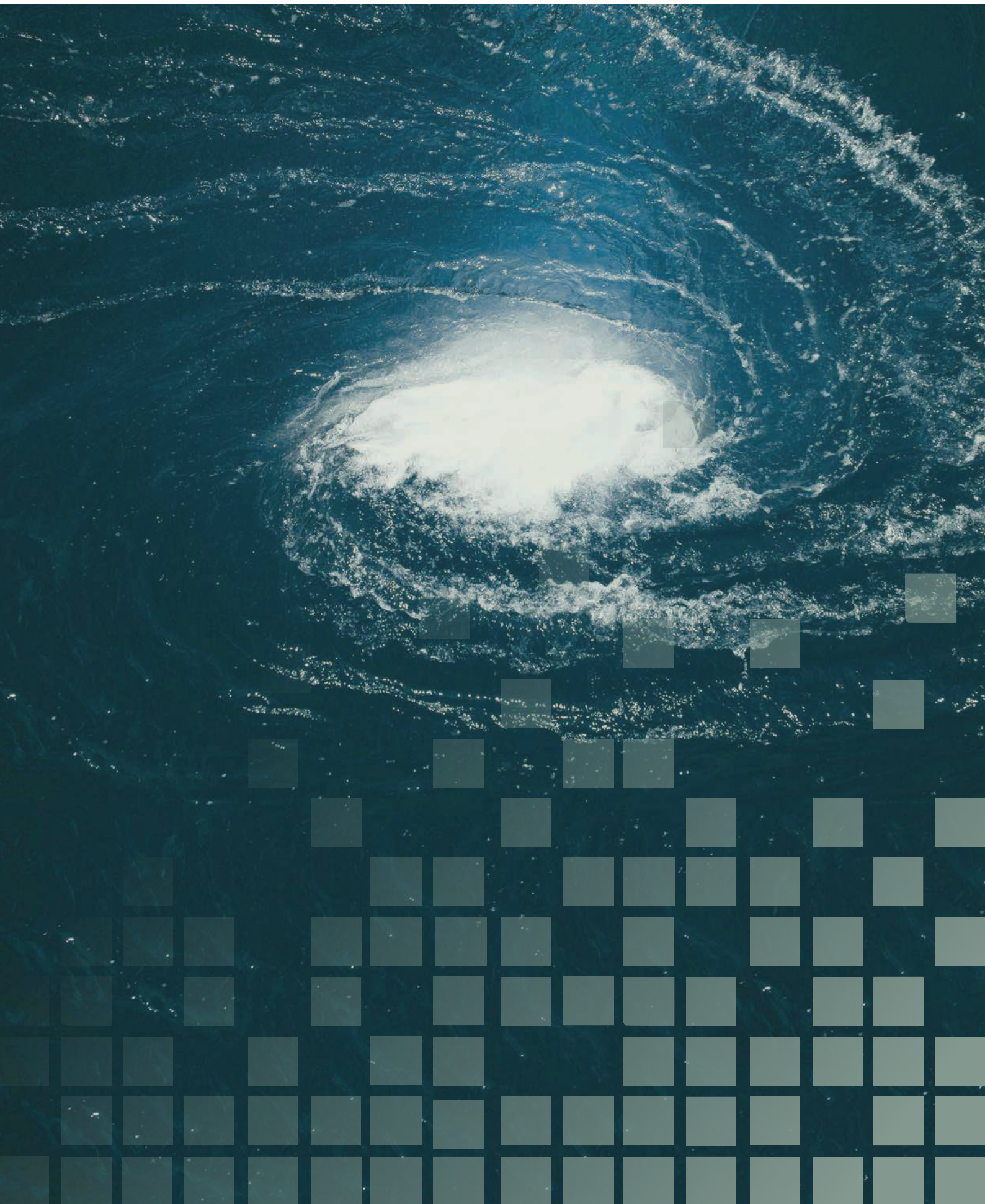
SOCIAL MEDIA

2015 marked the onset of the Authority’s presence on social media, an integral tool not only to business communication, but also among public institutions. FSA launched its Facebook page this year to open yet another direct channel for the dialogue with financial product consumers, but also its LinkedIn and Youtube accounts meant to inform the social media users on the projects and actions undertaken by the Authority.



WWW.ASFROMANIA.RO

The FSA official website continued to be in 2015 a platform showing “in real time” the current activity of the Authority through information posted daily on the site’s main sections (about 180 posts per month). The website structure has been constantly improved to integrate projects in progress from the three sectors, creating 13 new sub-sections, among which we mention: Consumers - Information on Astra, Legislation - Integrated Regulations, STEAM, Solvency II, Publications - Market Reports. The English version of the website was also updated regularly with the relevant legislation on the operational framework of markets regulated by the Authority.



FINANCIAL STRATEGY AND STABILITY

1

INTRODUCING THE RESOLUTION MECHANISM FOR INSURANCE COMPANIES

2

IDENTIFICATION, ASSESSMENT AND MONITORING OF SYSTEMIC RISKS

3

COOPERATION WITH THE NATIONAL BANK OF ROMANIA, MINISTRY OF FINANCE WITHIN THE NATIONAL COMMITTEE FOR FINANCIAL STABILITY;
COOPERATION WITH THE EUROPEAN SYSTEM RISKS BOARD (ESRB)

4

CONTRIBUTIONS TO EUROPEAN PROJECTS AND PARTICIPATING TO ACTIVITIES OF EUROPEAN BODIES WITH A ROLE IN ENSURING STABILITY OF THE FINANCIAL SYSTEM

5

STRESS TESTING OF OPERATORS ON NON-BANKING FINANCIAL MARKETS

6

SUPERVISION OF OPERATIONAL RISKS

7

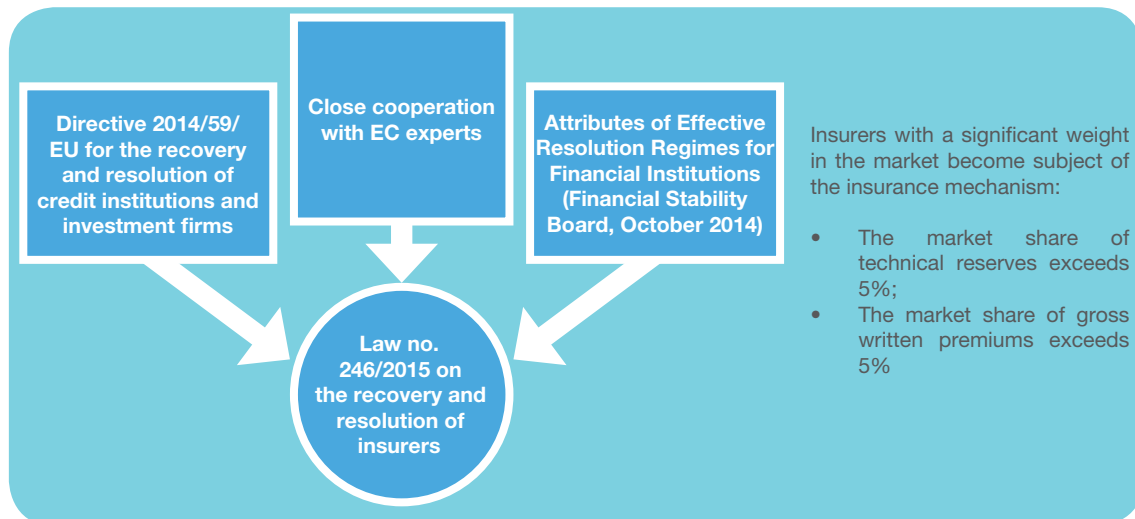
HARMONIZING THE REGULATION OF COMMON POSITIONS

INTRODUCING THE RESOLUTION MECHANISM FOR INSURANCE COMPANIES

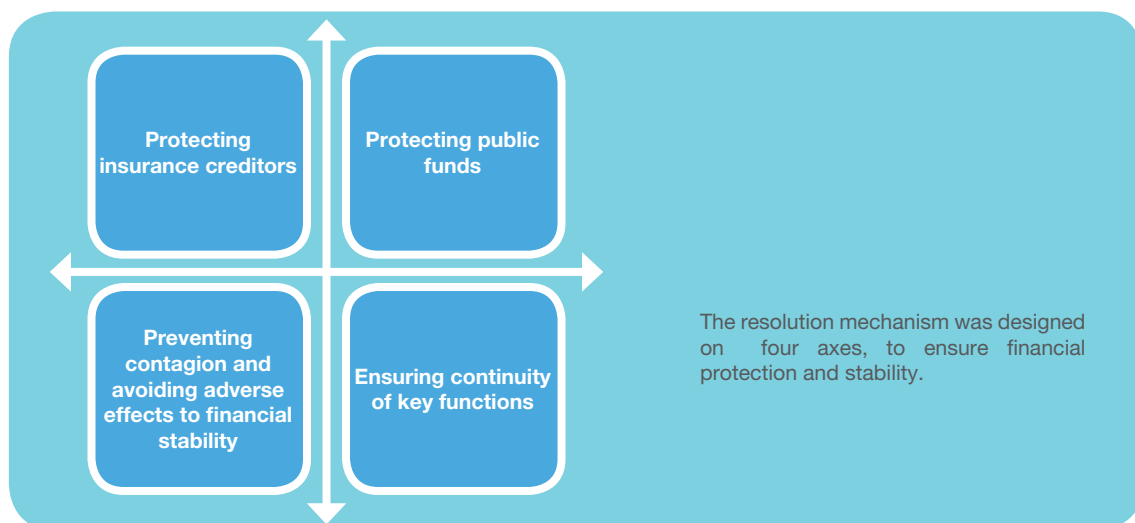
After a series of structural vulnerabilities happened in 2014 on the insurance markets, peaking with major difficulties faced by one of the most important players, FSA had to take firm supervisory actions to ensure consumer protection and prevent negative evolutions in the future. During the joint IMF/EC/WB evaluation mission in June 2014, a series of measures were agreed on to help manage the situation: amending the legislation regarding insurance and the Policyholders' Guarantee Fund so as to introduce insurance resolution mechanisms and allow that they be funded by the PGF. Thus, it created the crisis management legal framework for the financial sector, offering ways to act early and swiftly in managing situations in which insurers could go bankrupt.



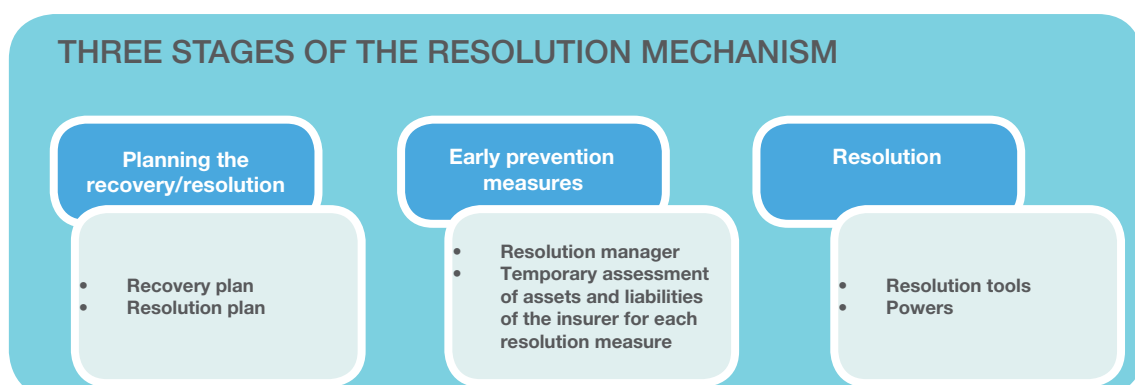
CREATING THE RESOLUTION MECHANISM



RESOLUTION OBJECTIVES



FUNCTIONING OF THE RESOLUTION MECHANISM



FUNCTIONING PRINCIPLES OF THE RESOLUTION MECHANISM

- 1** the insurers' shareholders bear first losses;
- 2** the insurers' creditors under resolution bear losses after the shareholders, in accordance with the order of priority of their claims;
- 3** management is replaced, except in those cases where the retention is considered necessary for the achievement of the resolution objectives;
- 4** management shall provide all the necessary assistance for the achievement of the resolution objectives;
- 5** natural and legal persons are made liable under civil and criminal law for their responsibility for the failure of the insurer;
- 6** creditors of the same class are treated in an equitable manner;
- 7** no creditor shall incur greater losses than would have incurred if the institutions had been wound up under normal insolvency proceedings (the principle "no creditor worse off");
- 8** assets allowed to cover technical provisions are fully protected.

RESOLUTION TOOLS

Sale of business	- FSA has the right to transfer to a buyer entity (other than a bridge institution) the shares or any other category of assets, rights or liabilities, including insurance portfolios belonging to the institution under resolution. - The transfer will occur without the approval of the shareholders or of any other third parties, except for the buyer.
Bridge institution	- FSA has the right to transfer to a bridge institution shares or any other category of assets, rights or liabilities of the insurance institution under resolution, without the approval of the shareholders or of any other third parties. - The bridge institution is a legal person controlled by FSA as resolution authority and is created to receive and manage the abovementioned items, maintaining access to critical functions.
Asset separation	- FSA has the right to transfer assets, rights or liabilities of an insurer under resolution or of a bridge institution to one or more asset management vehicles without the approval of the shareholders or of any other third parties. - Asset management vehicles are legal persons controlled by FSA and created to perform such a transfer that shall manage the assets taken over for future sale or ordered liquidation.

Creating the legal framework to implement the resolution mechanism proved to be a necessary measure, since there is an insurance company that entered this mechanism shortly thereafter.

IDENTIFICATION, ASSESSMENT AND MONITORING OF INTERSECTORAL AND SYSTEMIC RISKS

FSA follows the best practices of the European Securities and Markets Authority (ESMA), European Insurance and Occupational Pensions Authority (EIOPA), European Systemic Risks Board (ESRB) as well as of national supervisory authorities in the financial sector in Member States of the European Union with respect to the identification, assessment and monitoring of systemic risks.

In this context, FSA created assessment methods and risk monitoring indicators at sectoral and intersectoral level for the non-banking financial entities and markets it supervises. This approach adds to the micro-prudential supervision and is meant to identify possible vulnerabilities that could impact major parts of the national financial system, as well as possible channels of contagion and transmission of risks between entities, sectors or from the outside environment.

The results of permanent risk monitoring and assessment actions at intersectoral and systemic level materialize in periodical and circumstance-dictated analyses that lead to identifying prevention actions to mitigate risks and vulnerabilities.

COOPERATION WITH THE NATIONAL BANK OF ROMANIA, MINISTRY OF FINANCE WITHIN THE NATIONAL COMMITTEE FOR FINANCIAL STABILITY; COOPERATION WITH THE EUROPEAN SYSTEMIC RISKS BOARD (ESRB)

FSA cooperates constantly with institutions such as the National Bank of Romania (BNR) and the Ministry of Finance by exchanging information on possible risks and vulnerabilities, their impact on the real economy and the means of transmission.

The National Committee for Financial Stability

The Ministry of Public Finance

The National Bank of Romania

The Financial Supervisory Authority

The Bank Deposit Guarantee Fund

In this context, the main forum of analysis and decision regarding the necessary actions to mitigate risks and vulnerabilities in the national financial system is the National Committee for Financial Stability (CNSF) established in 2007. The three authorities participate voluntarily to this Committee, based on cooperation agreements, with activities carried out without hindering on the powers and responsibilities of the signatory parties, resulting from the legislation in force based on which they perform their activity.

In 2015, CNSF assessed the macro-prudential objectives and instruments previously undertaken by BNR and FSA, paying special attention to buffer capitals which could be

imposed on credit institutions and financial investment service companies, apart from the minimum equity requirements so as to boost the resilience of the financial sector and to limit possible negative effects on the stability of the financial system and on economic stability. Considering the analyses carried out and the proposals brought forward by the participating institutions, in November and December 2015 CNSF recommended to BNR and FSA to activate certain specific buffer capitals.

Moreover, alongside BNR, FSA is involved in the European information exchange on systemic risks in the financial sector within ESRB.

CONTRIBUTIONS TO THE EUROPEAN PROJECTS AND PARTICIPATING TO ACTIVITIES OF EUROPEAN BODIES WITH A ROLE IN ENSURING THE STABILITY OF THE FINANCIAL SYSTEM



As member of European Securities and Markets Authority (ESMA) and of the European Insurance and Occupational Pensions Authority (EIOPA), in 2015 FSA contributed to the development and enactment of projects initiated by these European authorities, having both a technical involvement through its experts part of the activities of permanent committees and groups, and a decision-making role, by casting its vote during the meetings of the Board of Supervisors.

ACTIVITY WITHIN ESMA

One of the priority activities for ESMA in 2015 was implementing joint IT projects, namely: MiFIR Instruments Reference Data (FIRDS) and Single Access to Trade Repositories (TRACE). FSA decided to get involved both in the FIRDS project, by delegating to ESMA duties on collecting, storing and processing reference data of financial instruments sent by trading venues, performing transparency calculations and managing the withdrawals from trading of financial instruments and in the TRACE project, through which FSA will have access to data made available by the trade repositories within the single portal created to this end.

In 2015, the ESMA regulatory activity focused on preparing the draft technical standards, most being prepared to implement the Directive and the Regulation on markets in financial instruments (MiFID II/MiFIR) – 44 projects and the Market Abuse Regulation (MAR) – 18 projects. ESMA also prepared draft standards for implementing the Central Securities Depositories Regulation (CSDR), the Regulation on Over-The-Counter Derivatives, Central Counterparties and Trade Repositories (EMIR), the Transparency Directive, the Omnibus Directive and the Directive on Undertakings for Collective Investment in Transferable Securities (UCITS). FSA's involvement in the preparation process within the standing committees of ESMA and in the process of enactment of these documents, aiming to clarify and detail the provisions of the level 1 community legislation, gives the Authority the possibility of having a good understanding of the aspects that must be considered in order to implement it at national level.

After ESMA published in 2015 the guidelines applicable to competent authorities, FSA notified the European authority on the intention to implement the provisions of the Guidelines on alternative performance measures, but it did inform ESMA that implementing the Guidelines on using definition C6 and C7 according to MiFID will double the obligations set in the Regulation on Wholesale Energy Market Integrity and Transparency (REMIT) to the companies trading with energy products and that, consequently, FSA does not intend to implement these provisions. For the other two guidelines published by ESMA in 2015, namely the Guidelines on complex debt instruments and structured deposits and the Guidelines on cross-selling practices, FSA will notify ESMA at the beginning of 2016 on the intention to comply or not with the provisions of these guidelines.

FSA's constant and active involvement in the ESMA activity, both at technical and at decision-making levels, was also acknowledged by electing the FSA Chair, Mr. Misu Negritoiu, as Chair of the Committee for Economic and Market Analysis (CEMA) within ESMA, with a two year term. CEMA consists of representatives of the competent authorities in supervising the capital market within the EU and benefit from the experience of a group of professors of finance and economics in great European universities and specialised analysts in the field of financial markets. The main lines of action that the committee focuses on are the proactive identification and micro-prudential assessment of evolutions and possible risks and vulnerabilities on the financial markets, alongside cost-benefit analyses and impact analyses regarding market regulatory and supervisory initiatives.

ACTIVITY WITHIN EIOPA

Given that as of January 1st 2016 the new solvency directive applies as per the Solvency II Directive, in 2015 EIOPA's activity focused on finalizing the regulatory framework and on promoting the convergence of the supervisory process at the level of Member States.

At the beginning of July, EIOPA published the second set of Implementation Technical Standards (ITS) and Guidelines for the implementation of Solvency II, covering aspects on quantitative requirements, qualitative requirements and reporting and transparency requirements.

FSA contributed to drafting the aforementioned by getting involved in the work groups' activity discussing them, their provisions being taken over and implemented subsequently by the FSA within the supervisory process.

Also for implementing Directive Solvency II, EIOPA prepared 28 guidelines and FSA notified on the compliance or intention to comply for 27 of them, stating to the EIOPA that the provisions of one of these guidelines do not apply to the Romanian authority.

EIOPA added new chapters to the Supervisory Handbook, an instrument aiming to support national authorities

by identifying best supervisory practices, but without imposing the obligation to observe the recommendations brought forward. Although the handbook allows each authority to act based on the principle of "prudent person", FSA reviews how the recommendations in this handbook will be integrated in the internal procedures so as to strengthen the supervisory activity according to the new solvency regime and to harmonize it with the European practices.

In 2015, EIOPA finalized the Report on the peer review mission regarding the insurance activity carried out based on the freedom to provide services (FoS), with FSA being part of the review team of the other jurisdictions members of EIOPA.

The objective of the project was to assess the dimensions of the insurance activity carried out at UE level by means of FoS, how national authorities supervise these activities, both from the position of state of origin and from that of host state, as well as determining best practices and recommendations that improve and ensure the convergence of supervisory practices by means of FoS at the level of Member States. FSA was included on the list of states that were visited by peer reviewer team asking

for clarification on the self-assessment survey filled in by the Romanian supervisory authority.

The stress-test applicable to IORPs, aiming to test the IORPs' resilience to negative scenarios and to identify the mechanisms that cascade this impact onto real economy, was completed in 2015 by EIOPA. Romania was not involved in the stress test given the lack of practicability of this test to the private pensions system in Romania.

In order to highlight and ensure transition from the regulatory stage to the supervisory stage, in the last month of 2015 EIOPA discussed and approved the restructuring of its organization. The new structure is under implementation until April 2016.

FSA appointed an expert in the work group created to revise the Solvency Capital Requirements (SCR) and is represented in the Work Group on recovery and resolution of insurance companies which was established in 2015.

In 2015, a premiere for a market supervisory authority in Romania was to elect as member of the EIOPA Management Board the FSA Chair, Mr. Misu Negritoiu. The Management Board consists in the Chair of the EIOPA and six members (representatives of the supervisory authorities in Belgium, France, Germany, Italy, Romania and Slovakia), selected from the 28 members of the EIOPA Council of Supervisors. Its role is to make sure that the authority fulfils its mission and exercises its prerogatives applicable as per the Regulation on establishing the European authority.

ACTIVITY WITHIN THE WORK GROUPS OF THE COUNCIL AND OF THE EUROPEAN COMMISSION

The set of laws for the financial sector under negotiation in 2015 and that FSA was part of through its experts appointed in the Council and the European Commission's work groups debating these drafts focused on: the insurance distribution draft directive (Work Group on IDD), preparing level 2 measures in implementing MiFID II and MiFIR (Work Group on financial services), recovery and resolution of central counterparties (CCP), revising the directive on the prospectus and replacing it with a European Regulation (Work Group on the Committee of European Securities Regulators), revising the directive on the activity and supervision of institutions for occupational retirement provisions (Work Group on IORP II), revising the directive on corporate governance (Work Group on Corporate Governance).

After new work groups were established in the Council and in the European Commission respectively in 2015, FSA appointed its experts to take part in drafting and negotiating the draft laws under the scope of the groups. The group on "Securitisation", created in the Council, aims to discuss the draft Regulation on laying down common rules on simple, transparent and standardised securitisation, while the Commission's group on the Capital Markets Union focused its activity on debating the action plan drafted based on the conclusions taken from public consultation, as well as on initiating measures to regulate securitisation, amendments to Solvency II and CRR and proposals to revise the Prospectus Directive.

STRESS TESTING OPERATORS ON NON-BANKING FINANCIAL MARKETS

Stress tests have recently been an important instrument used at European and international level to identify vulnerabilities and increase the resilience of the financial system to risks. If in the first years after the onset of the world financial crisis stress test exercised focused exclusively on banks, the interest increased later on for similar measures targeting the other components of the financial sector.

In 2014, EIOPA in cooperation with the competent national authorities carried out a very complex exercise, at European level, of stress testing insurance companies, both for groups and for individual undertakings. EIOPA will resume the exercise in 2016, for the life insurance segment, based on an updated approach. Furthermore, in 2015, EIOPA carried out a stress test at European level for occupational pension funds. Moreover, in the past years, the International Monetary Fund started including in the insurance sector stress tests carried out during the regular assessment program of national financial systems for the 29 countries considered to be of maximum systemic importance worldwide. Going even further, ESMA is

reviewing the system impact of asset management activities and of financial infrastructures, and in 2016 it will run a stress test on central counterparties.

Aligning to these European and international trends, FSA carried out two stress tests in 2015 on the insurance market in Romania, with the participation of most local companies. For this, FSA received the experience and direct support from EIOPA and the European Commission. The results pointed to a series of shortcomings in some of the participating companies, as a result of which FSA decided to take remedial measures according to a clear schedule.

In 2016, FSA will continue to use stress tests to increase consumer trust in non-banking markets and financial instruments, as well as to strengthen stability and ensure a healthy functioning of the markets. Thus, FSA will implement its own stress testing exercise focused on local open-end funds and closed-end funds and will take part in the European stress testing exercise of life insurance companies carried out by EIOPA.

SUPERVISION OF OPERATIONAL RISKS

In the past years, operational risks have caught the attention of supervisory authorities around the world due to the asymmetric and catastrophic effects they can cause. Assessing these risks is a challenge, experts throughout the world trying to create methodologies that provide results as close as possible to reality. In this context, special focus is placed on the correct identification of risks, reducing their likelihood of occurrence and mitigating their negative effects.

The Report on Risks and Vulnerabilities in the EU¹ Financial System published in September 2014 by the Joint Committee consisting of ESMA, EIOPA, EBA, ESRB, ECB dedicates a special section to IT related operational risks and cyber risks. These sections include the following main issues:

- Compared to spring 2014, there are increased concerns on the persistence, intensity and sophistication of information technology (IT), IT related operational risks as well as cyber risks among financial institutions. At the EU level, the European Commission highlighted that cyber risk is a major risk area;
- Most financial institutions react to the increasing IT related operational risks by taking measures such as increasing costs allocated to IT systems' security and resilience, as well as by strengthening governance plans and the going concern. Nevertheless, supervisory authorities should be cautious and analyze whether this general perspective among financial institutions truly catches the relevant risks;
- There is need for a strong professional culture on risks that may react quickly to new threats and that provides adequate warning levels on the evolution of IT related risks;
- The supervisory authorities also increased their CERT (Computer Emergency Response Team) activities in many countries and organizations;
- Nonetheless, IT risks in banks and other financial institutions still seem not to be fully understood. Institutions should set as high priority managing IT related risks, strengthening IT checks and performing audits that cover all parties along the chain of entities involved in providing IT added value (e.g., IT service providers, system and communication third party providers, as well as outsourced IT service providers);

- It also seems that these risks are still not sufficiently acknowledged by supervisory authorities which should assess regularly IT risks and factors that could mitigate IT related risks, including to perform specialized and detailed checks of the IT systems. The supervisory authorities are encouraged to make sure that the banks, insurance companies, investment firms and other market participants allocate sufficient resources and due diligence to the proper management of the IT environment and to IT related risks.

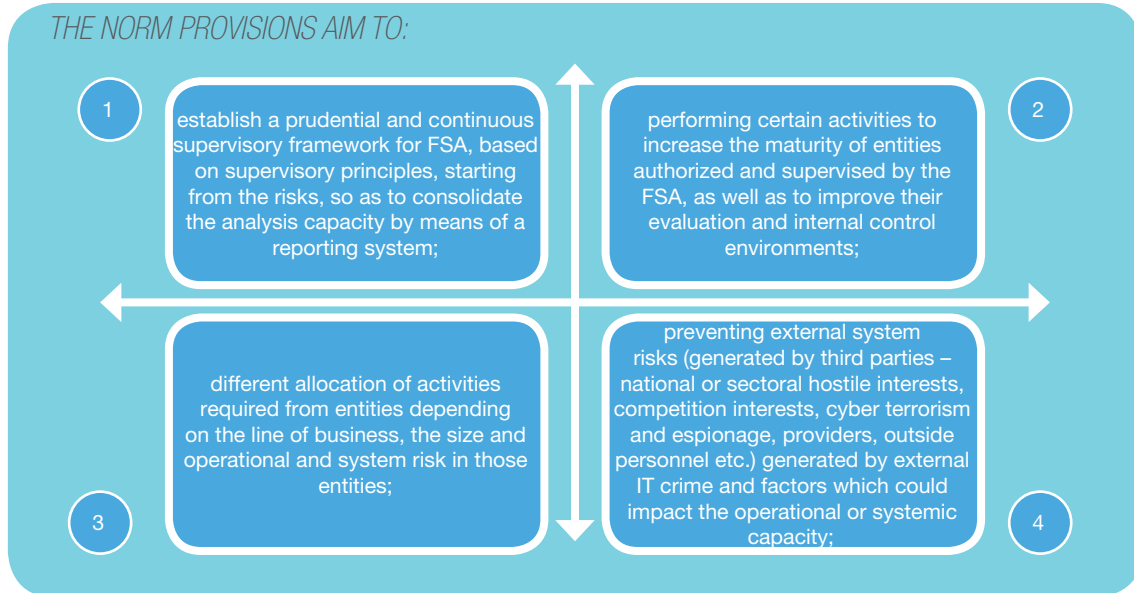
For the best performance of the supervisory activity regarding operational risks, at the end of 2015 the final actions were taken to approve the FSA Norm no.6/2015 on the management of operational risks arising from information systems used by the entities regulated, authorized/licensed and/or supervised by the FSA. The norm was published in the Official Gazette of Romania, Part I, no.227 of April 3rd 2015.

The dire need for the measures put forward in this norm was the conclusion even of the debates and meetings of FSA specialists with representatives of entities and associations in the sector. From the main observations and conclusions following discussions (not exhaustive and not applicable to all), we mention:

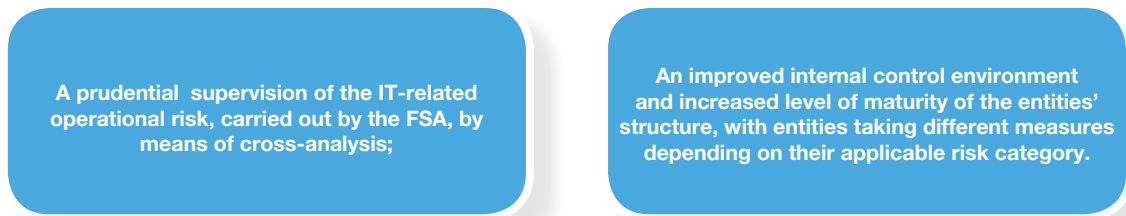
- different maturity levels in the reviewed entities, depending on being part of a group, the nature, the size, the complexity and the line of business, with different risk profile and various levels of risk exposure;
- failure to identify in all entities a clear remedial approach against operational risks caused by systems, people, processes and external factors, a lack of risk registry and pertaining check points;
- lack of process-based organization, lack of proper tracing of changes brought to the systems, lack of change management;
- lack of separated tasks and clear procedures on access rights to information and databases;
- lack of records and traceability-related vulnerabilities;
- dependence on key people and suppliers;
- existence of significant risks for the entities caused by the IT service providers due to a lacking structured work method between the parties and to a failure to observe best practices described in detail in specific standards.

¹ Joint Committee Report On Risks And Vulnerabilities In The Eu Financial System August 2014
http://www.esma.europa.eu/system/files/jc_2014_063_report_on_risks_and_vulnerabilities_in_the_eu_financial_system_autumn_2014.pdf

THE NORM PROVISIONS AIM TO:



THE DULY IMPLEMENTATION OF THE NORM AIMS TO ENSURE:



In order to make available to the supervised entities relevant and useful information on managing operational risks, FSA prepared and published a Guideline for implementing the activities carried out by the entities in observing with the Norm on the management of operational risks arising from information systems.



Moreover, a methodology was also posted on the FSA website on the internal assessment of operational risks, the risk assessment method of calculation, as well as the template for the annual reporting of the internal risk assessment.

The methodology states that each lines of business within an organization will assess all the relevant risk categories, documenting them in the risk registry. All possible operational issues will be identified and split into four categories: people, processes, systems/technologies and the external environment, including outsourcing and external providers of IT and communication products and services.

HARMONIZING THE REGULATION OF COMMON POSITIONS

Among the objectives to strengthen FSA's institutional capacity, a relevant aspect is the review, consolidation and simplification of the regulatory framework in order to help boost the level of intersectoral convergence.

In order to reach this objective, a broader project was initiated and developed which started in 2015 and was finalized at the beginning of 2016, aiming to "Update and harmonize in FSA authorization and licensing norms for entities regulated and supervised in the three sectors of financial supervision".

The components of this project included drafting and enacting Regulation no.14/2015 on the approval of the members of the management structure and of persons holding key positions in the entities regulated by FSA and respectively Regulation no. 3/2016 on the applicable criteria and the procedure for the prudential assessment of acquisitions and increase of shareholdings in the entities regulated by FSA, as well as a set of operational procedures on the authorization process.

The two integrated regulations set requirements and eligibility criteria for assessing the adequacy of persons appointed on management positions in the regulated entity, of those holding key positions and of major shareholders, reviewed based on single procedures, irrespective of the line of business, taking into account

the principle of proportionality (nature, size and complexity of the activity, as well as the responsibilities of the position and the weight of having the voting rights in the entity in question).

By implementing these new regulations, the aim is to:

- eliminate differences in the sectoral secondary legislation as well as in the same sector between the various regulated entities;
- remove current parallel approaches in secondary regulations issued by each sector;
- harmonize requirements on approving the management structure, the persons holding key positions and the major shareholders in the regulated entities by centralizing provisions in single regulations;
- provide the possibility to submit a single set of documents and perform a single evaluation of persons in the management structure/ major shareholders of entities that are active simultaneously on several sectors of financial supervision;
- align to current practices in force applicable to entities in the European financial system and to facilitate better cooperation and information exchange with NBR and with other supervisory authorities in other Member States.



FINANCIAL AUDIT

The financial system overall has become far more dynamic and complex, causing overlaps at institutional and operational levels. In this context, it is fundamental to ensure a quality financial audit so as to give more credibility to the financial information of entities authorized, regulated and supervised by the FSA, as well as to protect financial product consumers.

In 2015, the process to develop the legal framework for the financial audit continued, with the drafting of the Norm on the financial audit activity among entities authorized, regulated and supervised by the FSA. This is mainly an integrated regulation that complements the regulations on financial audit from a prudential perspective on how the financial audit activity is performed, by setting professional qualification criteria for the

financial auditors, on their independence and on avoiding conflict of interests.

FSA aimed to ensure transparency, stability and integrity of the three financial markets, as well as to protect against noncompliant entities with the regulated framework. One of instruments used in this respect was financial audit which reflects an opinion on the financial statements of the entities active on the three markets so as to boost public trust in the annual and/or consolidated financial statements, as applicable. Completing the legal framework meant implementing the best practices in the field of financial audit carried out with entities that operate on non-banking financial markets and regulating a single action framework for financial auditors so that they provide to the FSA useful information for the supervisory activity.



CORPORATE GOVERNANCE

In 2015, the draft regulation to implement the principles of Corporate Governance among entities authorized, regulated and supervised by the FSA was initiated. The regulation aims to determine a conceptual framework that will ensure the consistent application of the principles of corporate governance, without hindering the development of these principles in the three sectors of financial supervision, depending on the particularities of the activities carried out by the regulated entities.

In fact, the draft legal act is based on identifying generally applicable benchmarks, common requirements for the entities regulated in the three sectors of financial supervision so that corporate governance allows for an increase in value and quality of management and

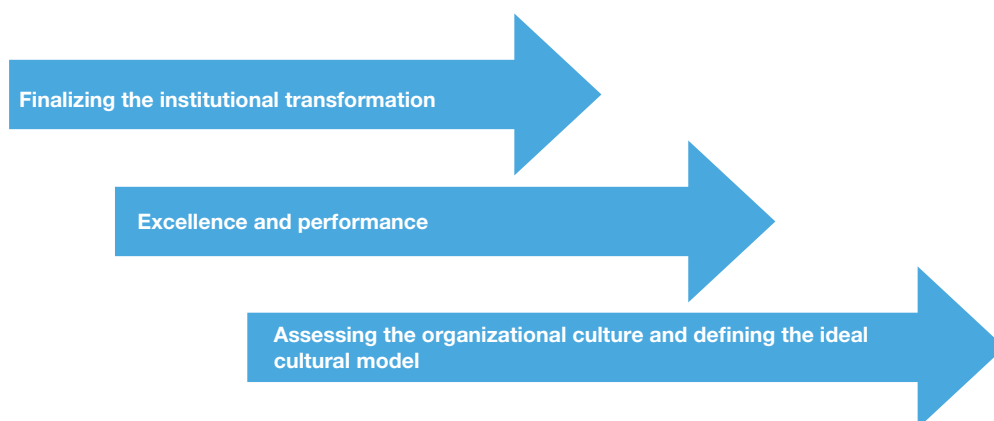
promotes sustainable development by applying the best practices based on transparency and trust.

According to the new context, applying the principles of corporate governance will contribute to the following, without the claim of this being a full list: knowing the entities' actions, policies and decisions, reaching long term objectives, creating a culture of ethics, compliance and promoting a responsible conduct, managing conflicts of interest, improving the quality of provided services and products by means of a permanent dialogue with the consumers of financial products, performing an activity that meets shareholders' expectations, improving the entities' reputation and boosting the trust of financial product consumers in their activities.



INSTITUTIONAL GOVERNANCE AND HUMAN RESOURCES

In 2015, the human resources activity focused on 3 major lines of action



Finalizing the institutional transformation

Under the motto “Restore trust and reach performance”, FSA completed as at January 1st 2016 the broad process of organisational transformation aiming to lay down functional foundations for the institution, compatible with the European standards in the field.

In May 2014, a PwC report noted that “the current structure has a low level of activity integration, with the three sectors (capital market, insurance and private pensions) functioning rather independently, based on an operational model inherited from the old structures”. In addition to this, the World Bank issued a report

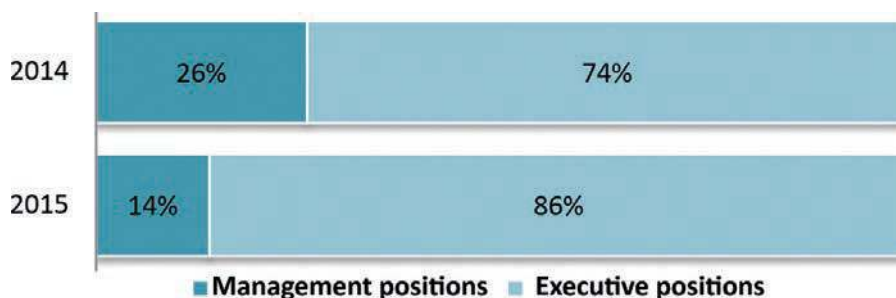
(“Institutional Assessment and Reform of the Romanian FSA”, September 2014) starting from the experience in other countries facing similar issues and the best practices in the field, to reorganise, integrate and strengthen the institution so as to render more efficient basic functions and to modernize approaches.

The entire reorganisation and restructuring process of the authority as well as the subsequent integration and definition of the FSA as an efficient organisational structure by improving governance were constantly monitored by the IMF and the European Commission.

PHASE 1

The first phase of the reform focused on organisational structure and governance by adopting the Rules of organisation and functioning, the new Organisational Chart and the amended List of Positions which entered into force on January 1st 2015. After finalizing this phase, the

hierarchical structure was reduced from 5 to 3 levels (Board – Directorates – Units) and therefore led to eliminating 6 departments (six positions of Head of Department) and 24 positions of Deputy Director, reducing the number of Directorates from 25 to 17 and Units from 106 to 53.



As a result of the new organisational structure, the weight of management positions in the total approval positions in 2015 decreased to 14% from 26% in 2014.

The new Organisational Chart for 2016 includes the Consumer Protection function, creates the Directorate for Financial Strategy and Stability and the integrated supervisory position, integrates the support positions, but it especially strengthens the supervision and control positions for the three sectors.

PHASE 2

The second phase consisted in aligning the salaries for all executive/management positions in the FSA organisational structures, taking into account the level of compensation for similar positions in the financial market (GEO no.93/2012, Art.15(2)).

For a more objective perspective, FSA contracted two renowned consultancy companies in the field, Hay Group and PwC (one for management positions and the other for executive positions), that performed a benchmark analysis with the non-banking financial services market

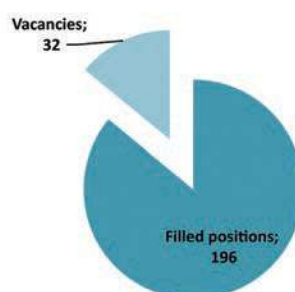
and recommended the structure and salary grid. Consequent to the consultants' reports, the "Regulation on compensation of Board members and FSA staff" was enacted and in July 2015 the entire organisation had a new Salary Grid.

Currently, FSA employees are compensated mostly with a flat salary, with lower performance premiums compared to the financial market (3-5% in FSA compared to 8-10% on the market).

PHASE 3

The third phase of the reform focused on aligning the personnel with the new List of Positions of FSA by means of internal competitions organized both for management positions and for executive positions, a process carried out according to the "Internal Recruitment and Selection Policy".

After merging and transforming directorates/units and positions in the FSA organisational structure, 323 people took part in the internal selection (65% of the staff).



In 2015, FSA organised 228 internal competitions for which over 1000 applications were filed.

The outcome at March 1st 2015: 466 positions filled, including the Policyholders' Guarantee Fund (turned in June 2015 into a separate public entity), of which 14 Director positions, 46 Head of Unit positions and 406 executive positions. At the same time, about 150 employees left the FSA, of whom 96 by voluntary termination of the labour contract. More than half of the 14 directors were new employees in the institution and the rest were senior FSA employees renewed on the director positions.



PHASE 4

The fourth phase of the reform entailed amendments and completions brought to the Rules of organisation and functioning of the FSA, with annexes (Organisational Chart and List of Positions), applicable as of January 1st 2016, according to the requirements in the recently enacted legislation and to the provisions of European Directives on regulating and supervising capital markets, insurance – reinsurance and private pensions system.

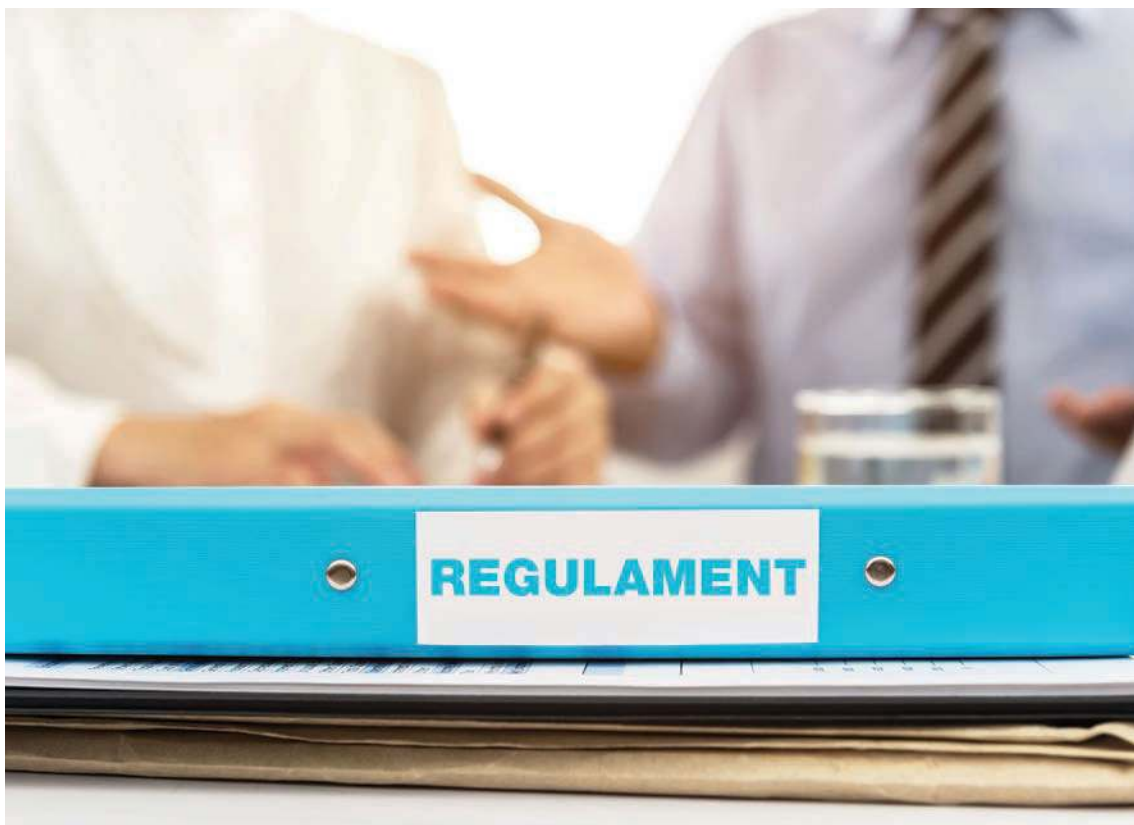
In preparing the amendments and completions to the Rules of organisation and functioning of the FSA, the legal framework was considered amending, by transposing into the national legislation the European Directives, but also the specific FSA objectives set for 2016. These objectives

complement and continue the actions set in 2015 and are, in fact, a qualitative upscaling of the current activity, namely:

- To ensure an adequate, prudent and sustainable legal framework;
- To boost consumer trust by means of transparency, accessibility and equity;
- To strengthen the process of rendering efficient the supervisory, control and authorisation activity;
- To modernize intervention instruments of the Financial Supervisory Authority aiming for financial recovery and resolution.

Along with putting in practice the fourth phase of the FSA Reform, the following aspects and principles were taken into account that stemmed both from the legal amendments and from the European Directives, and from the objectives undertaken by the Financial Supervisory Authority, namely

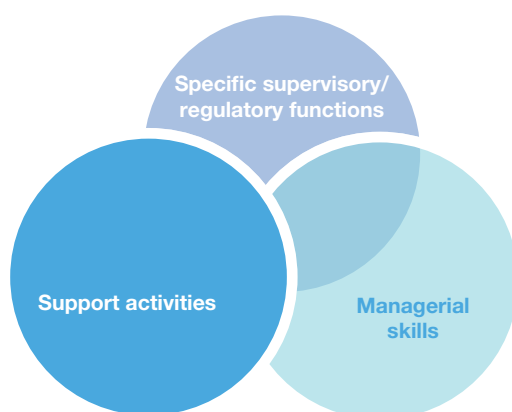
- Strengthening the harmonizing supervisory positions.
- Creating a consistent framework both at sector level and at the level of the entire organization on performing authorization – licensing functions, but also on harmonizing, simplifying and rendering them automated, in the context of market reorganisation and maturity.
- Creating the resolution function and correlating it with financial stability. Harmonizing and simplifying regulatory positions, ensuring a high level of transparency for regulations applicable to markets supervised by the FSA by aligning the legislation to European regulations as well as by having the organisational structures involved in drafting impact assessment.
- Introducing new positions for consumer and investor protection.
- Launching the “Young Talent” project and selecting the first winners in December 2015. The Competition Commission selected five young professionals that proved to have specialized knowledge, social-professional skills and great potential for personal and professional development.



Excellence and Performance

Along with completing solid foundation of the institutional setup, the sustainable development of human resources and cultivating performance are a constant priority for FSA in order to constantly perform its duties with professionalism and to adapt to the inherent innovations of the dynamic financial sector.

Continuous professional training – constantly completing and developing the necessary knowledge and skills



Given that one of the objectives was risk-based supervision, throughout 2015 the FSA specialists participated in the “Risk-based Supervision” seminar organised by the European Insurance and Occupational Pensions Authority (EIOPA), in cooperation with the Financial Supervisory Authority in Austria and the World Bank. The seminar focused on the links between the offsite and onsite supervision and the need to understand the company specificities, based on the business model, the risk profile and the quality of the risk management process as a key part of the supervisory process.

Another seminar consisted in the “Supervision Handbooks” that brought forward the role of supervisory handbooks in the EU Member States and of promoting consistent, efficient and effective supervisory practices.

FSA organised in September 2015, along with the European Bank for Reconstruction and Development (EBRD), the seminar on Risk Management of Defined Contribution Pension System.

The phase on preparing the implementation of the Solvency II regime entailed, among others, the participation of FSA specialists in internal and external

training programs, consisting in shared experience and specific seminars:

- The conference with the topic “Solvency II – What can go wrong”, organised on September 2nd 2015 by the Slovenian authority, debating with the national authorities in the other EU Member States the associated risks of implementing Solvency II, governance under Solvency II and the markets’ conduct risk;
- Shared experience with the supervisory authority in Austria, FMA, on September 24th 2015 – providing details on the Reorganisation of Department II Supervision of Insurances and Pensions within FMA in order to transition to the new regime set by Solvency II;
- “Implementing Solvency II – practical approach” – course organised by the Institute for Financial Studies during October 29th – 30th 2015;
- A series of courses focusing on specific issues of implementing the new solvency regime, organised by FSA alongside UNSAR, within the joint activities of the Solvency II project: creating the technical provisions to life insurance, reporting, creating a partially internal model, creating the technical provisions to non-life insurance.

The program for the continuous development of the personnel and increasing professional expertise also consisted in a temporary participation by secondment of FSA specialists to professional activities within international bodies in the sector of which FSA is a member or with which it cooperates: EIOPA (one person), EBRD (one person) and the City of London Program (six persons).

Just as other competent authorities in the EU, by means of extensive reorganization processes and reforms, FSA adapted its institutional framework and internal organizational structures to be able to perform new tasks set in the European legislation, linked with the legal reform occurring both in the capital markets’ sector and in the insurance sector.

Assessing the organisational culture and defining the ideal cultural model



In order to substantiate the qualitative part of the institutional reconstruction project, FSA carried out an extensive survey on organisational culture with the participation of over 80% of the employees. The diagnosis of the current cultural model in 2015 highlighted both positive aspects such as: clear objectives, trust in leaders, quality communication, and aspects that need further attention: redefining tasks and the decision-making flow, promoting participatory management.

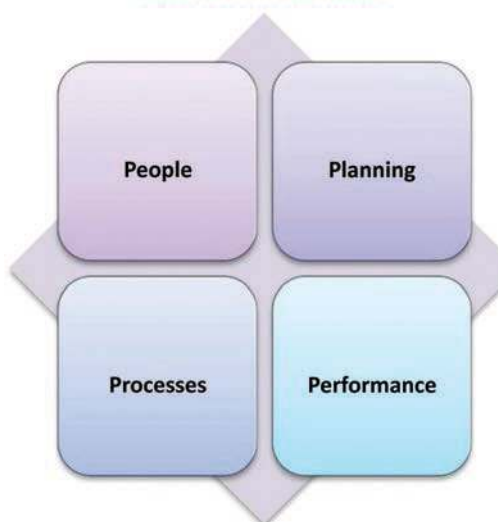
The current, conventionally-dependent model is yet to be the desired model, and the employees and the management both agree that FSA's strategic objectives

are compatible with a constructive, encouraging, performance-oriented, self-improvement and participatory cultural model.

Getting closer to the ideal cultural model entails a broad action program which includes changes at the level of structures, systems, technology and skills/qualification, all of these being lines of action that are part of the extensive cultural change process initiated in 2015.

According to the priorities showed by the organisational culture survey, FSA will focus on the future on implementing the performance management system, on developing employees, management skills and leadership.

Strategic areas of intervention:



Key stages in the FSA team development process:



Management v. Leadership: "The boss drives his men, the leader coaches them.", Harry Gordon Selfridge



RENDERING EFFICIENT OPERATIONAL ACTIVITIES AND DATA PROCESSING

In order to increase operational efficiency, FSA has implemented a series of extensive projects to modernize the hardware and software of the institution and operational processes.

Modernizing the integrating IT infrastructure – projects in process

Centralized infrastructure	Decentralized infrastructure	Network telecommunication and security infrastructure (LAN/WAN - ASF)	Centralized printing/ digitisation solution
Purchasing hardware, software infrastructure and IT services in the context of FSA's 2015-2017 IT Strategy and of implementing the "Petition Management System within FSA".	Renewing the PC and laptop stock within FSA and implementing IT coding to ensure the mobility of FSA's PC and laptop pool.	Analysis of the current LAN/WAN network and implementing a simplified architecture, using current hardware, but also designing a new network architecture and providing technical support services.	Improving printing services and reducing pertaining costs.

Support Processes

Enterprise Resource Planning (ERP)

The current stage of this planning is reviewing the internal demands and it aims to render more efficient the human resources and financially-administrative processes from the perspective of the duration, operational costs, internal efforts, operational risks, harmonization with legal provisions, as well as increasing quality and accessibility of data for the support activities.



FSA'S ANNUAL FINANCIAL STATEMENTS FOR 2015

The Financial Supervisory Authority is an autonomous, specialized administrative authority, a legal independent, self-financed entity, established as per Art.1(2) in GEO 93/2012 on the establishment, organisation and functioning of the Financial Supervisory Authority approved by Law no.113/23.04.2013, as amended and completed.

The financial statements as at December 31st 2015 were prepared according to the provisions of Accounting Law no.82/1991, of the Order no.2021/2013 of Minister of Public Finance on amending and completing the Implementation Guidelines for the organisation and management of public institutions' bookkeeping, the Plan of Accounts for public institutions and implementation instructions thereof, Order no.82/2016 of the MFP on approving the Implementation Guidelines for preparing and submitting financial statements of public institutions as at December 31st 2015.

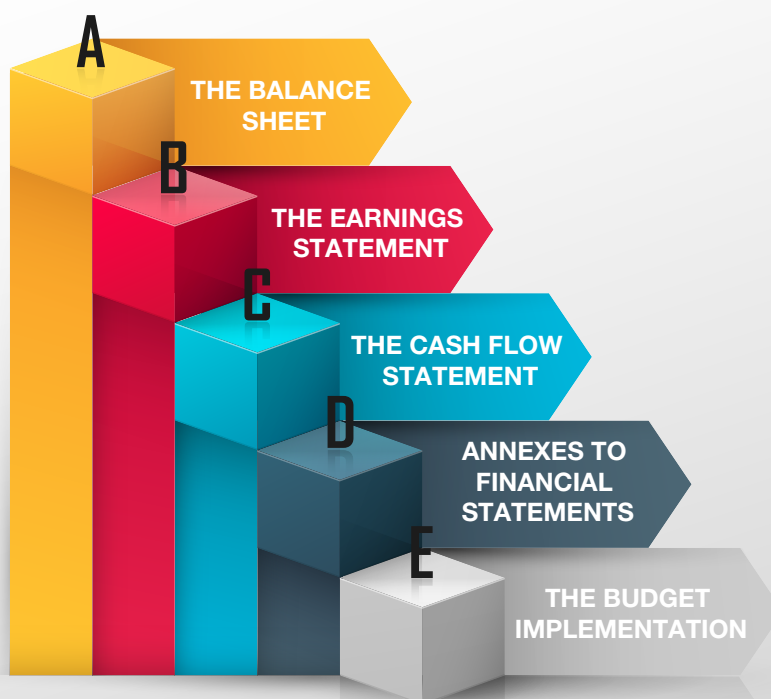
According to Law 213/2015, the Policyholders' Guarantee Fund was established, a public law legal entity with its own Articles of Association. Under the circumstances, FSA handed over to the new entity - based on Acceptance Reports dated August 31st 2015, the personnel, the available cash and all the rights and obligations of the Guarantee Fund Department within FSA. The FSA financial statements are prepared according to the accounting principles and regulations stipulated in the legislation in force and include the following



The financial statements provide relevant information for taking economic decisions and reliable information in the sense that they represent the accurate earnings and the financial position. These are neutral, cautious and full according to all relevant aspects. The financial statements are prepared in Lei, the monetary items are in foreign currency, the receivables and debts in foreign currency, the non-monetary items purchased in foreign currency are assessed and reported and the NBR exchange rate valid on December 31st 2015.

The annual financial statements were audited by PriceWaterhouseCoopers.

The auditors' opinion was that the financial statements convey an accurate image (except for aspects in the paragraph regarding the restructuring provision for the reorganisation plan carried out during 2013 which impacted the final result of 2014 and the opening of 2015).



FSA Balance sheet as of 31.12.2015

LEI

No	INDICATORS	Row Code	Balance at the beginning of the year	Balance at the end of the period
A	B	C	1	2
A	ASSETS	01	X	X
	NON-CURRENT ASSETS	02	X	X
1.	Intangible assets (ct. 2030000+2050000+2060000+ 2080100+2080200+ 2330000-2800300-2800500-2800800-2900400-2900500-2900800-2930100*)	03	4,902,122	3,427,300
2.	Plant and machinery, motor vehicles, animals, plantations, fixtures and fittings (ct.2130100+2130200+2130300+2130400+2140000+2310000 - 2810300-2810400-2910300-2910400-2930200*)	04	2,398,756	2,123,859
3.	Freehold land and buildings (ct.2110100+2110200+2120000+2310000-2810100- 2810200 -2910100-2910200-2930200)	05	15,429,701	14,713,473
4.	Other non-financial assets (ct.2150000)	06	0	0
5.	Other non-current financial assets (long term investments) over one year (ct. 2600100+2600200+2600300+2650000+2670201+2670202+ 2670203+2670204+2670205+2670208-2960101-2960102-2960103-2960200), of which:	07	0	0
	Equity investments (ct. 2600100+2600200+2600300-2960101-2960102-2960103)	08	0	0
6.	Non-current receivables – amounts which are to be collected after a period longer than one year (ct.4110201+4110208+4130200+4280202+4610201+4610209- 4910200-4960200), of which:	09	190,150	80,745
	Non-current commercial receivables – amounts which are to be collected after a period longer than one year (ct. 4110201+4110208+4130200+4610201-4910200-4960200)	10	24,275	15,225
7.	TOTAL NON-CURRENT ASSETS (rd.03+04+05+06+07+09)	15	22,920,729	20,345,377
	CURRENT ASSETS	18	x	x
1.	Inventories(ct. 3010000+3020100+3020200+3020300+3020400+3020500+ 3020600+3020700+3020800+3020900+3030100+303020+ 3040100+3040200+3050100+3050200+3070000+3090000+3310000+ 3320000+3410000+3450000+3460000+3470000+3490000+3510100+ 3510200+3540100+3540500+3540600+ 3560000+3570000+3580000+ 3590000+3610000+3710000+3810000+/-3480000+/-3780000-3910000- 3920100-3920200-3930000-3940100-3940500-3940600-3950100- 3950200-3950300-3950400-3950600-3950700-3950800-3960000- 3970000-3980000)	19	2.070.917	1.726.124
2.	Current receivables – amounts which are to be collected in less than one year –	20	x	x
	Receivables resulted from commercial operations, advances and other reimbursements (ct.2320000+ 2340000+4090101+4090102+ 4110101+4110108+4130100+4180000+4250000+4280102+ 4610101+4610109+4730109**+4810101+4810102+4810103 +4810200+4810300+4810900+4820000+4830000+4890000-4910100- 4960100+5120800), of which:	21	17,133,299	17,975,800
	Commercial receivables and advances (ct.2320000+2340000+4090101 +4090102+ 4110101+4110108+ 4130100+4180000+4610101-4910100- 4960100), of which :	22	16,482,134	17,865,967
	Advance payments made	22.1	X	X

No	INDICATORS	Row Code	Balance at the beginning of the year	Balance at the end of the period
A	B	C	1	2
	Budget receivables (ct. 4310100**+4310200**+4310300**+4310400**+4310500**+4310700**+4370100**+4370200**+4370300**+4420400+4420800**+4440000**+4460000**+4480200+4610102+ 4630000+4640000+4650100+4650200+4660401+4660402+4660500+4660900+4810101**+4810102**+4810103**+ 4810900**+4820000**-4970000), din care:	23	243,193	515,670
	Receivables from the general consolidated budget (ct. 4630000+4640000+4650100+4650200+4660401+ 4660402+ 4660500+4660900-4970000)	24	0	0
	Receivables from operations with non-reimbursable external funds and national budget funds (ct. 4500100+4500300+4500501+4500502+4500503+ 4500504+4500505+4500700+4510100+4510300+4510500+ 4530100+4540100+4540301+4540302+4540501+4540502+ 4540503+4540504+4550100+4550301+4550302+4550303+4560100+4560303+4560309+4570100+4570201+4570202+ 4570203+4570205+4570206+4570209+4570301+4570302+4570309+4580100+4580301+4580302+4610103+4730103**+4740000+4760000), din care:	25	0	0
	Amounts to receive from the European Commission / other donors (ct. 4500100+4500300+4500501+4500502+4500503+ 4500504+ 4500505+4500700)	26	0	0
	Short term loans provided(ct. 2670101+2670102+2670103+2670104+2670105+2670108+2670601+2670602+2670603+2670604+2670605+ 2670609+4680101+4680102+4680103+4680104+4680105+ 4680106+ 4680107+4680108+4680109+4690103+4690105+ 4690106+ 4690108+4690109)	27	34.384.359	70.116.677
	Total current receivables (rows 21+23+25+27)	30	51,760,851	88,608,147
3.	Short term investments (ct.5050000-5950000)	31		0
4.	Accounts in treasuries and credit institutions	32	x	x
	Accounts in treasury, petty cash in lei (ct. 5100000+5120101+5120501+5130101+5130301+5130302+5140101+5140301+5140302+5150101+5150103+5150301+5150500+5150600+5160101+5160301+5160302+5170101+5170301+5170302+5200100+5210100+5210300+5230000+5250101+5250102+5250301+5250302+5250400+5260000+5270000+5280000+5290101+5290201+5290301+5290400+5290901+5310101+5500101+5520000+5550101+5550400+5570101+5580101+5580201+5590101+5600101+5600300+5600401+5610100+5610300+5620101+5620300+5620401+5710100+5710300+5710400+5740101+5740102+5740301+5740302+5740400+5750100+5750300+5750400-7700000)	33	17,870,734	18,695,562
	Interest to receive, other securities, treasury advance payments (ct.5180701+5320100+5320200+5320300+5320400+ 5320500+ 5320600+5320800+5420100)	33.1	1,764	1,764
	Deposits	34	x	x
	Accounts in credit institution, National Bank of Romania, petty cash in foreign currencies (ct. 5110101+5110102+5120102+5120402+5120502+ 5130102+5130202+5140102+5140202+5150102+5150202+ 5150302+ 5160102+5160202+5170102+5170202+5290102+5290202+5290302+5290902+5310402+5410102+5410202+ 5500102+ 5550102+5550202+5570202+5580102+5580202+ 5580302+5580303+5590102+5590202+5600102+5600103+ 5600402+5620102+5620103+5620402)	35	23,935,961	22,690,730
	Interest to receive, treasury advance payment (ct.5180702+5420200)	35.1	351,043	138,878
	Deposits	36	X	X
	Total cash accounts and other securities (rd.33+33.1+35+35.1)	40	42,159,502	41,526,934
5.	Cash accounts in Central Treasury and local treasury branches (ct. 5120600+5120700+5120901+5120902+5121000+5240100+ 5240200+5240300+5550101+5550102+5550103 -7700000)	41	0	0
	Interest to receive, other securities, treasury advance payments (ct. 5320400+5180701+5180702)	41.1		0
6.	Advance expenses (ct. 4710000)	42	0	0

No	INDICATORS	Row Code	Balance at the beginning of the year	Balance at the end of the period
A	B	C	1	2
7.	TOTAL CURRENT ASSETS (rows 19+30+31+40+41+41.1+42)	45	95,991,270	131,861,205
8.	TOTAL ASSETS (row 15+45)	46	118,911,999	152,206,582
B	DEBTS	50	x	x
	NON-CURRENT DEBTS- amounts that are to be paid over a period longer than one year	51	x	x
1.	Non-current amounts- amounts that are to be paid over a period longer than one year (ct. 2690200+4010200+4030200+4040200+4050200+4280201+ 4620201+4620209+5090000), of which:	52	0	0
	Commercial debts (ct.4010200+4030200+4040200+4050200+4620201)	53	0	0
2.	Long term loans (ct. 1610200+1620200+1630200+1640200+ 1650200+1660201+ 1660202+1660203+1660204+1670201+1670202+1670203+1670208+1670209-1690200)	54	25,728	0
3.	Provisions (ct. 1510201+1510202+1510203+1510204+1510208)	55	14,628,364	0
	TOTAL NON-CURRENT DEBTS (rows 52+54+55)	58	14,654,092	0
	CURRENT DEBTS - amounts that are to be paid within one year	59	x	x
1.	Commercial debts, advances and other reimbursements (ct.2690100+4010100+4030100+4040100+4050100+ 4080000+ 4190000+4620101+4620109+4730109+4810101+ 4810102+ 4810103+4810200+4810300+4810900+4820000+ 4830000+ 4890000+5090000+5120800), of which:	60	1,291,592	719,775
	Commercial debts and advances (ct. 4010100+4030100+4040100+4050100+4080000+ 4190000+ 4620101), of which:	61	1,001,393	671,995
	Advance payments received	61.1	X	X
2.	Debts towards budgets (ct.4310100+4310200+4310300+4310400+4310500+ 4310700+4370100+4370200+4370300+4400000+4410000+4420300+4420800+4440000+4460000+4480100+4550501+ 4550502+4550503+4620109+4670100+4670200+4670300+ 4670400+4670500+4670900+4730109+4810900+4820000), of which:	62	3,759,713	2,981,076
	Debts of public institutions towards budgets	63	x	x
	Social contributions (ct. 4310100+4310200+4310300+4310400+4310500+4310700+4370100+4370200+4370300)	63.1	2,464,640	2,138,147
	Amounts due to the budget from external non-reimbursable funds (ct.4550501+4550502+4550503)	64	0	0
3.	Debts from operations with external non-reimbursable funds and national budget funds, other debts towards international bodies (ct. 4500200+4500400+4500600+4510200+4510401+ 4540402+ 4540409+4510601+4510602+4510603+4510605+ 4510606+ 4510609+4520100+4520200+4530200+4540200+4540401+4540402+4540601+4540602+4540603+4550200+4550401+4550402+4550403+4550404+4560400+4580401+4580402+4580501+4580502+4590000+4620103+4730103+4760000)	65	0	0
	of which: amounts due to European Commission / other donors (ct.4500200+4500400+4500600+4590000+4620103)	66	0	0
4.	Short term loans – amounts that are to be paid within one year (ct. 5180601+5180603+5180604+5180605+5180606+5180608+ 5180609+5180800+5190101+5190102+5190103+ 5190104+5190105+5190106+5190107+5190108+5190109+5190110+5190180+5190190)	70	0	0

No	INDICATORS	Row Code	Balance at the beginning of the year	Balance at the end of the period
A	B	C	1	2
5.	Long term loans – amounts to be paid during the current fiscal year (ct. 16 10100+1620100+1630100+1640100+1650100+ 1660101+1660102+166 0103+1660104+1670101+1670102+1670103+ 1670108+1670109+1680100+1680200+1680300+ 1680400+ 1680500+ 1680701+1680702+1680703+1680708+ 1680709 -1690100)	71	0	0
6.	Employees wages (ct. 210000+4230000+4260000+4270100+4270300+4280101)	72	4,255,915	4,384,065
7.	Other rights for other categories (pensions, unemployment benefits, scholarships) (ct.4220100+4220200+4240000+4260000+4270200+ 4270300+ 4290000+4380000), of which:	73	0	0
	Pensions, unemployment benefits, scholarships	73.1	x	x
8.	Advance revenues (ct.4720000)	74	0	0
9.	Provisions (ct.1510101+1510102+1510103+1510104+1510108)	75	14,679,745	27,185,657
10.	TOTAL CURRENT DEBTS (rows 60+62+65+70+71+72+73+74+75)	78	23,986,965	35,270,573
11.	TOTAL DEBTS (rows 58+78)	79	38,641,057	35,270,573
12.	NET ASSETS = TOTAL ASSETS – TOTAL DEBTS = OWN CAPITAL INSTRUMENTS (row 80= rows 46-79 = row 90)	80	80,270,942	116,936,009
C.	OWN CAPITAL INSTRUMENTS	83	x	x
1.	Reserves, funds (ct.1000000+1010000+1020101+1020102+1030000+ 1040101+1040102+1050100+1050200+1050300+1050400+ 1050500+ 1060000+1320000+1330000+1390100)	84	3,446,010	3,273,329
2.	Retained earnings (ct.1170000- credit balance)	85	61,763,565	76,605,693
3.	Retained earnings (ct.1170000- debt balance)	86	0	0
4.	Profit/loss for the period (ct.1210000- credit balance)	87	15,061,367	37,056,987
5.	Profit/loss for the period (ct.1210000- debt balance)	88	0	0
6.	TOTAL OWN CAPITAL INSTRUMENTS (rows 84+85-86+87-88)	90	80,270,942	116,936,009



FSA Profit/Loss Account

LEI

Nr. crt.	INDICATORS	Row code	Previous year	Current year
A	B	C	1	2
I.	OPERATIONAL REVENUES	01		
1.	Revenues from taxes, fees, contributions to insurance and other budget revenues (ct. 7300100+7300200+7310100+7310200+7320100+7330000+7340000+7350100+7350200+7350300+7350400+7350500+7350600+7360100+7390000+7450100+7450200+7450300+7450400+7450500+7450900+7460100+7460200+7460300+7460900)	02		0
2.	Revenues from economic activities (ct.7210000+7220000+7510100+7510200+/-7090000)	03		0
3.	Grants, subsidies, transfers, special budget allocations (ct. 7510500+7710000+7720100+7720200+7740100+7740200+7750000+7760000+7780000+7790101+7790109)	04	10,392	104,105
4.	Other operational revenues (ct. 7140000+7180000+7500000+751030+7510400+7810200+7810300+7810401+7810402+7770000)	05	183,435,263	175,728,468
	TOTAL OPERATIONAL REVENUES (rd.02+03+04+05)	06	183,445,655	175,832,573
II.	OPERATIONAL EXPENSES	07		
1.	Wages and social contributions for the employees (ct. 6410000+6420000+6450100+6450200+6450300+6450400+6450500+6450600+6450800+6460000+6470000)	08	121,372,874	96,421,069
2.	Subsidies and transfers (ct. 6700000+6710000+6720000+6730000+6740000+6750000+6760000+6770000+6780000+6790000)	09	4,402,062	4,345,223
3.	Supplies, stationery, works and services provided by third parties (ct. 6010000+6020100+6020200+6020300+6020400+6020500+6020600+6020700+6020800+6020900+6030000+6060000+6070000+6080000+6090000+6100000+6110000+6120000+6130000+6140000+6220000+6230000+6240100+6240200+6260000+6270000+6280000+6290100)	10	16,445,710	18,016,987
4.	Capital expenses, depreciation and provisions (ct. 6290200+6810100+6810200+6810300+6810401+6810402+6820101+6820109+6820200+6890100+6890200)	11	27,623,647	21,122,065
5.	Other operational expenses (ct.6350000+6540000+6580101+6580109)	12	57,412	712,655
	TOTAL OPERATIONAL EXPENSES (row 08+09+10+11+12)	13	169,901,705	140,617,999
III.	OPERATIONAL ACTIVITY BALANCE SHEET	14		
	- PROFIT (row 06- row 13)	15	13,543,950	35,214,574
	- LOSS (row 13- row 06)	16		
IV.	FINANCIAL REVENUES (ct. 7630000+7640000+7650100+7650200+7660000+7670000+7680000+7690000+7860300+7860400)	17	1,896,571	1,482,095
V.	FINANCIAL EXPENSES (ct. 6630000+6640000+6650100+6650200+6660000+6670000+6680000+6690000+6860300+6860400+6860800)	18	379,322	152,803
VI.	FINANCIAL ACTIVITY BALANCE SHEET	19		
	- PROFIT (row 17- row 18)	20	1,517,249	1,329,292
	- LOSS (row 18- row 17)	21		
VII.	CURRENT ACTIVITY BALANCE SHEET	22		
	- PROFIT (rows 15+20-16-21)	23	15,061,199	36,543,866
	- LOSS (rows 16+21-15-20)	24		
VIII.	INCIDENTAL REVENUES (ct.7910000)	25	168	513,121
IX.	INCIDENTAL EXPENSES (ct.6900000+6910000)	26	0	0
X.	INCIDENTAL ACTIVITIES BALANCE SHEET	27		0
	- PROFIT (row 25-rd 26)	28	168	513,121
	- LOSS (row 26-row 25)	29		0
XI.	ASSET-BASED BALANCE SHEET FOR THE FINANCIAL YEAR	30		
	- PROFIT (rows. 23+28-24-29)	31	15,061,367	37,056,987
	- LOSS (rows 24+29-23-28)	32		

Cashflow Status

LEI

INDICATORS	Code	TOTAL	5310101	5600101*, 770*	Other available sources (ct.5xx)
A	B	1	2	10	15
I.CASHFLOW FROM OPERATIONAL ACTIVITIES	1				
1. Inflows	2	156,230,612	517,237	155,713,375	
2. Outflows	3	117,346,066	517,237	116,828,829	
3. Net cashflow resulted from operational activities (row 02- row 03)	4	38,884,546		38,884,546	
II. CASHFLOW FROM INVESTMENT-BASED ACTIVITIES	5	0	0	0	
1. Inflows	6	0	0	0	
2. Outflows	7	2,354,626	0	2,354,626	
3. Net cashflow resulted from investment-based activities (row 06-07)	8	-2,354,626	0	-2,354,626	
III. CASHFLOW FROM FINANCING ACTIVITIES	9	0			
1. Inflows	10	-35,706,000	0	-34,500,000	-1,206,000
2. Outflows	11	1,142	0	1,142	0
3. Net cashflow resulted from financing activities (row 10-row 11)	12	-35,707,142	0	-34,501,142	-1,206,000
IV. NET INCREASE (DECREASE) OF CASH AND CASH EQUIVALENT (row 04+row 08+row 12)	13	822,778	0	2,028,778	-1,206,000
V. CASH AND CASH EQUIVALENT AT THE BEGINNING OF THE YEAR	14	17,870,734	0	16,664,734	1,206,000
- amounts recovered from the surplus recorded during the previous year *	14.1	0	0	0	0
- amounts used from the surplus recorded during the previous year *	14.2	0	0	0	0
VI. CASH AND CASH EQUIVALENT BY THE END OF THE PERIOD (row 13+row 14+14.1 - 14.2)	15	18,693,512	0	18,693,512	0

TREASURY CASHFLOW SITUATION IN COMMERCIAL BANKS BY 31.12.2015

LEI

INDICATORS	Code	TOTAL	5310402	5500102, 5600402, 5120402, 550
A	B	1	2	3
I. CASHFLOW FROM OPERATIONAL ACTIVITIES	01			
1. Inflows	02	27,834,950	506,534	27,328,416
2. Outflows	03	28,956,263	506,504	28,449,759
3. Net cashflow resulted from operational activities (row 02- row 03)	04	-1,121,313	30	-1,121,343
II. CASHFLOW FROM INVESTMENT-BASED ACTIVITIES	05			
1. Inflows	06	0	0	0
2. Outflows	07	0	0	0
3. Net cashflow resulted from investment activities (row 06- row 07)	08	0	0	0

INDICATORS	Code	TOTAL	5310402	5500102, 5600402, 5120402, 550
A	B	1	2	3
III. CASHFLOW FROM FINANCING ACTIVITIES	09			
1. Inflows	10	0	0	0
2. Outflows	11	0	0	0
3. Net cashflow resulted from financing activities (row 10-row 11)	12	0	0	0
IV. NET INCREASE (DECREASE) OF CASH AND CASH EQUIVALENT (row 04+row 08+row 12)	13	-1,121,313	30	-1,121,343
V. CASH AND CASH EQUIVALENT AT THE BEGINNING OF THE YEAR	14	23,935,961	0	23,935,961
1. Favourable exchange rate differences	15	5,969	83	5,886
2. Unfavourable exchange rate differences	16	129,887	113	129,774
VI. CASH AND CASH EQUIVALENT BY THE END OF THE PERIOD (rows 13+14 +15-16)	17	22,690,730	0	22,690,730

Revenue and expense budget progress

LEI

INDICATORS	Budget Code	BVC 2015	Progress 2015	Achiev. degree %
1	2	3	4	5=4/3*100
TOTAL CURRENT REVENUES	I= 1+2	155,054,500	157,267,248	101.43
REVENUES RESULTED FROM CORE BUSINESSES 1=1.1.+1.2.+1.3.+1.4.	1	149,654,500	157,267,248	105.09
Insurance-Reinsurance Sector	1.1.	51,660,000	63,009,001	121.97
Operating fees	36.10.50	25,600,000	29,681,287	115.94
MTPL	36.10.50	25,800,000	32,530,967	126.09
Authorization fees	36.10.50	200,000	123,000	61.50
Other legal fees	36.10.50	60,000	673,747	1,122.91
Fines	35.10.01.02	0	0	0
Financial Instruments and Investments Sector	1.2	59,444,500	50,805,340	85.47
Revenues from transactions undertaken on regulated markets and on alternative transaction systems	36.10.50	9,700,000	5,227,407	53.89
Revenues from the net assests value of undertakings for collective investments in securities and other collective investment undertakings, others than UCITS.	36.10.50	33,100,000	36,778,232	111.11
Revenues from the value of IPOs	36.10.50	3,500,000	429,691	12.28
Revenues from the value of public offerings for purchase / take over, among which:	36.10.50	5,150,000	145,333	2.82
- revenues from purchase public offerings	36.10.50	4,150,000	75,349	1.82
- revenues from take over public offerings	36.10.50	1,000,000	69,984	7.00
Revenues from fees or tariffs applied for transactions undertaken on OTC markets and alternative trading systems ion systems	36.10.50	40,000	1,935	4.84
Revenues from fees or tariffs applied for activities where CNVM/FSA issues an individual document	36.10.50	985,000	1,188,900	120.70

INDICATORS	Budget Code	BVC 2015	Progress 2015	Achiev. degree %
1	2	3	4	5=4/3*100
Revenues from fees applied for provision of services towards the entities placed under supervision or to third parties	36.10.50	6,669,500	6,905,855	103.54
Revenues from penalties set out as sanctions through own regulations	36.10.50	300,000	119,827	39.94
Revenues from publishing, publicity, copying activities	36.10.50	0	8.160	
Private Pensions Sector	1.3.	35,360,000	40,075,075	113.33
Operating fees	36.10.50	3,240,000	35,811,035	114.63
Authorization fees	36.10.50	370,000	481,803	130.22
Management fees	36.10.50	3,750,000	3,782,237	100.86
Various revenues	1.4	3,190,000	3,377,832	105.89
Grants from EU/other donors received in the account for incurred expenditure and pre-financing	2	5,400,000	0	0
TOTAL EXPENSES (including non-reimbrisable funds) of which:	II=II. 1+56.01.02	154,854,500	120.767.137	77.99
EXPENSES RESULTED FROM CORE BUSINESSES	II.1	149,454,500	121,831,186	81.52
CURRENT EXPENSES (10 + 20 +30+ 55+56.01.01+.56.01.03)	o1	140,754,500	119,473,456	84.88
STAFF EXPENSES of which:	10	106,874,000	97,321,171	91.06
Wage related expenses in money	10.01.	83,740,000	79,814,216	95.31
Wage related expenses in kind	10.02.	5,054,000	1,012,564	20.03
Social contributions	10.03.	18,080,000	16,494,391	91.23
GOODS AND SERVICES	20	26,198,500	17,832,491	68.07
Goods and services	20.01.	7,900,000	5,450,791	69.00
Maintenance	20.02.	200,000	3,145	1.57
Inventory goods	20.05.	500,000	92,270	18.45
Travel	20.06.	1,075,000	941,561	87.59
Literature, publications and documentation materials	20.11.	85,000	42.	49.62
178	49,62	3,500,000	2,266,295	64.75
Consultancy and know-how	20.12.	3,500,000	2,266,295	64.75
Vocational training	20.13.	630,000	226,032	35.88
Health and safety	20.14.	600,000	266,758	44.46
Judicial and extra-judicial expenses	20.25.	72,000	31,017	43.08
Other expenses	20.30.	11,636,500	8,512,444	73.15
INTEREST	30	12,000	1.142	9.52
TRANSFERS – subscription fees to international bodies	55	4,700,000	4,318,652	91.89
PROJECTS RECEIVING FUNDS FROM EXTERNAL GRANTS	56	8,370,000	0	0
European Social Fund projects	56.02	8,370,000	0	0
National funding	56.02.01	1,350,000	0	0
Non-reimbursable external funding	56.02.02	5,400,000	0	0
Non-eligible expenditure	56.02.03	1,620,000	0	0
CAPITAL EXPENSES	70	8,700,000	2,357,730	27.10
NON-FINANCIAL ASSETS TITLE X	71	8,700,000	2,357,730	27.10
PAYMENTS MADE DURING PREVIOUS YEARS AND RECOVERED DURING THE CURRENT YEAR	85		-1,064,049	0
Current PROFIT / LOSS (III=I-II)	III	200,000	36,500,111	

Report on the Balance Sheet and Earnings Statement

Non-current assets (tangible and intangible assets, financial assets) decreased mainly due the fact that some of the financial investments in balance at the beginning of the year as government securities for more than one year were reinvested as government securities for less than one year.

The total assets as at December 31st 2015 increased by Lei 33,294,583 due the financial available means cumulated throughout 2015.

The total debts in the balance sheet as at December 31st 2015, amounting to Lei 35,270,573, cover mostly provisions for litigations, restructuring, outstanding leave.

The estimated value of litigations acknowledged in the financial statements is Lei 27,185,657, of which

the provisions of labour litigations involving FSA is Lei 25,789,208. According to FSA estimates, the other asset related litigations with less than 50% chance to be in favour of FSA were assessed at Lei 1,396,449.

The other debts are mostly personnel rights for December paid in January 2016.

The reported earnings increased due to including the surplus from the previous year.

The earnings statement is positive, increasing compared to the previous year due to including under revenues the non-current provisions for asset related litigations left without cause due to resolution/resizing chances of winning.



The Budgetary Implementation

According to the provisions of Art.18 in GEO no.93/2012 on the establishment, organisation and functioning of the Financial Supervisory Authority approved as amended by Law no.113/2013, FSA is funded completely from extra-budgetary own income.

The income and expense budget of the Financial Supervisory Authority for 2015 was approved by Decision of the FSA Board no. 91/27.11.2014, amended throughout 2015 on April 27th, September 18th and November 9th respectively.

Although the income and expense budget for 2015, approved and amended as mentioned above, estimated a current surplus at the end of the year of Lei 200,000, the result of the budget implementation as at December 31st 2015 indicates a high level in current surplus of Lei 36,500,111 due, on the one hand, to the increase in incomes from the main activity (+5.1%) in the context of reduced costs (-18.5%) and, on the other hand, due to the failure to finalize investment projects that will be included in the 2016 activities.

FSA INCOME

The 2015 income (except for proceeds in January 2015 pertaining to December 2014) was cashed based on Regulation no.16/2014 on FSA income, regulation which entered into force starting with January 2015.

The income from the main activity amounted to Lei 157,267,248 (EUR 35,380,708¹), representing 105.1% as compared to previous forecasts. Compared to last year's value, amounting to Lei 165,919,884, the income for 2015 is 5.2% smaller. Compared to 2013, it is higher by 12.5% .

FSA 2015 INCOME STATEMENT PER STRUCTURE

LEI

	Annual forecasts 2015	Implementation as at 12/31/2015	Achievement level compared to forecasts (%)
0	1	2	3=2/1
Insurance Reinsurance Sector	51,660,000	63,009,001	121.97
Financial Instruments and Investment Sector	59,444,500	50,805,340	85.47
Private Pensions Sector	35,360,000	40,075,075	113.33
Other income	3,190,000	3,377,832	105.89
TOTAL INCOME FROM MAIN ACTIVITY²	149,654,500	157,267,248	105.10



¹The average exchange rate calculated for 2015, as per NBR data, was 1 EUR = Lei 4.4450

²The amounts estimated from non-refundable funds (ACOP) were not taken into account because the project was not launched yet.

EVOLUTION OF FSA INCOME DURING 2013-2015 PER STRUCTURE

LEI

	Annual forecasts 2015	Implementation as at 12/31/2015	Achievement level compared to forecasts (%)
0	1	2	3=2/1
Insurance Reinsurance Sector	51,660,000	63,009,001	121.97
Financial Instruments and Investment Sector	59,444,500	50,805,340	85.47
Private Pensions Sector	35,360,000	40,075,075	113.33
Other income	3,190,000	3,377,832	105.89
TOTAL INCOME FROM MAIN ACTIVITY²	149,654,500	157,267,248	105.10

INSURANCE - REINSURANCE

In 2015, the Insurance-Reinsurance Sector generated an income amounting to Lei 63,009,001, an increase compared to annual forecasts (Lei 51,660,000) by 22%. The increase was also due to collecting outstanding debts from Societatea de Asigurare – Reasigurare ASTRA SA (Lei 4,053,358 – representing a functioning fee and MTPL share for April-November 2014).

The main source of the proceeds in this sector for the analyzed period are contributions paid by insurance

companies and brokers, namely the 0.3% functioning fee and the 1% share of MTPL premiums, amounting to a total of Lei 62,212,254.

These contributions are 98.74% of the total income in the Insurance - Reinsurance Sector.

Compared to the results of 2014, the income of the Insurance - Reinsurance Sector increased by 26.7% and with 25.1% compared to 2013.

FINANCIAL INSTRUMENTS AND INVESTMENTS

In 2015, the Financial Instruments and Investments Sector generated income amounting to Lei 50,805,340, a decrease compared to annual forecasts (Lei 59,444,500) by 14.5% (achievement level of 85.5%). The main source of current/monthly income within this sector during the analyzed period consists in the 0.0078% share of net assets, paid by collective investment undertakings: Fondul Proprietatea, FICs, investment funds amounting to Lei 36,778,232, i.e. 72.4% of total proceeds in the Financial Instruments and Investments Sector.

The income forecasted for 2015 for this sector was not reached due to the following factors:

- low level of stock exchange trading - the monthly average in 2015 was about 0.2 billion Euro compared to a target of about 1 billion Euro;
- the estimated gain from sale – purchase – take-over public offerings were not achieved because there were no significant offering during the analyzed period;
- Outstanding amounts from Fondul Proprietatea (Lei 881,145 representing the 0.0078% commission applied to the net assets of January 2015).

Compared to the results of 2014, the income of the Financial Instruments and Investments Sector decreased by 35.2% and by 13.5% compared to 2013.

PRIVATE PENSIONS

In 2015, the Private Pensions Sector generated income amounting to Lei 40,075,075, an increase compared to annual forecasts (Lei 35,360,000) by 13.3%. The main source of income for this sector during the analyzed period consists in contributions paid by entities in the privately managed pensions system - fund managers

(pillar II), amounting to Lei 35,811,035, i.e. 89.36% of total income made by the Private Pensions Sector. Compared to the results of 2014, the income of the Private Pensions Sector increased by 17.4% and by 55.1% compared to 2013.

OTHER INCOME

Other income amounted to Lei 3,377,832 in 2015, an increase compared to annual forecasts (Lei 3,190,000) by 5.9% due mainly to investing and capitalizing in good terms the financial means resulting from the Authority's budget surplus. Apart from financial income received

from investing FSA means in deposits, this chapter also includes government securities and lease of FSA spaces. Compared to the results of 2014, the Other income chapter decreased by 16.9% and by 30.8% compared to 2013.

FSA EXPENSES

Total expenses made in 2015 amounted to Lei 120,767,137 (EUR 27,169,210), i.e. an achievement level of 78.0% compared to the forecast. Compared to the expenses made during the previous year, amounting to Lei 147,631,305, expenses in 2015 are 18.2% less, while

compared to 2013, the expenses are 19.3% less.

Compared to expenses related to the main activity, total expenses decreased by Lei 1,064,049, amount paid by FSA in 2014 due to a lawsuit and recovered in 2015.

FSA EXPENSES IN 2015

LEI

Budget line	Annual forecasts 2015	Implementation as at 12/31/2015	Achievement level compared to forecasts (%)
0	1	2	3=2/1
Personnel related costs, of which:	106,874,000	97,321,171	91.06
- salary costs in money and in kind	86,594,000	78,962,547	91.19
- severage packages	2,200,000	1,864,233	84.74
- contributions to the State Budget and Social Security	18,080,000	16,494,391	91.23
Goods and services costs	26,198,500	17,832,491	68.07
Interests (car leasing)	12,000	1,142	9.52
Membership fees to international bodies	4,700,000	4,318,652	91.89
Capital expenses	8,700,000	2,357,730	27.10
TOTAL EXPENSES RELATED TO THE MAIN ACTIVITY	146,484,500	121,831,186	83.17
Payments made during previous years and recovered in the current year		-1,064,049	
TOTAL EXPENSES	154,854,500	120,767,137	77.9

EVOLUTION OF FSA EXPENSES DURING 2013-2015

LEI

Indicator name	IMPLEMENTATION 2013	IMPLEMENTATION 2014	IMPLEMENTATION 2015
1	3	4	5
Personnel related costs	121,446,110	124,036,322	97,321,171
Goods and services	21,066,422	18,370,833	17,832,491
Interests	6,342	3,849	1,142
Membership fees to international bodies	3,868,510	4,385,723	4,318,652
Capital expenses	3,494,140	834,576	2,357,730
Payments made during previous years and recovered in the current year	-271,037		-1,064,049
TOTAL EXPENSES	149,610,487	147,631,303	120,767,137

The personnel related costs, amounting to a total of Lei 97,321,171 (91.06% of budgetary forecasts), are flat salaries, bonuses, other rights, meal vouchers, plus the contributions paid by the institution.

Personnel related costs in 2015 were about 80% of the authority's total expenses, namely about 62% of the total income.

Compared to results of 2014, the personnel related costs decreased in 2015 by 21.5% and by 20% compared to 2013.

Goods and services costs, amounting to a total of Lei 17,832,491 (68.07% of budgeted forecasts), consisted in:

- purchases of office furniture, cleaning materials, fuel, utilities, telephone, Internet, security, auto repair, maintenance of fuel burning heaters,

archiving services, media agencies (Bloomberg, Reuters) etc.;

- domestic and foreign travel: Lei 941,561 – i.e. 87.6% of the forecasted amount (costs for accommodation, transport, other contingencies, including per diems);
- consultancy and expert services – Lei 2,266,295 – representing payments according to legal services contracts, consultancy, financial audit contracts, but also payments of FSA contribution to the project on auditing insurance companies (BSR - Lei 1,216,000) – the amount actually paid in 2015 is 64.8% of the budgeted forecast;
- other expenses: Lei 8,512,444 mostly consisting in payments made as per the maintenance contract for the CEDAM/ EWS base – Lei 3,648,659 (42.86%), as well as payments representing rent by FSA to EximBank – Lei 3,775,857 (44.36%), other expenses etc.

Compared to the results of 2014, goods and services costs decreased by about 3%, namely from Lei 18,370,833 to Lei 17,832,491 (decrease mainly caused by finalizing the maintenance contract of the CEDAM/ EWS base). Compared to 2013, the decrease in 2015 was by 15.4%.

International transfers – represent membership fees to international bodies (ESMA, EIOPA, IOSCO, IAIS, IOPS) – the total amount paid was Lei 4,318,652, within the limit of the approved budget of Lei 4,700,000.

Capital expenses, amounting to Lei 2,357,730 (27.1% of the budgeted amount), represent the total amount paid in 2015 for the following: the security access system to the headquarters, purchases of two vehicles, licenses/software, IT equipment, two instalments to the FSA contribution in the ESMA project (MiFIR Instruments Reference Data and Single Access to Trade Repositories).

Compared to the results of 2014, investment related costs increased by 282.51%, namely from Lei 834,577 to Lei 2,357,730.

CURRENT SURPLUS FOR 2015 (CURRENT PROCEEDS - PAID EXPENSES)

The current surplus for 2015 amounts to Lei 36,500,111 compared to the budgeted amount for the period of Lei 200,000.

The surplus comes, on the one hand, from an income increase from the main activity (+5.1%) in the context of reduced costs (-18.5%) and, on the other hand, from failure to perform investment projects (capital expenses) that will be registered in 2016.

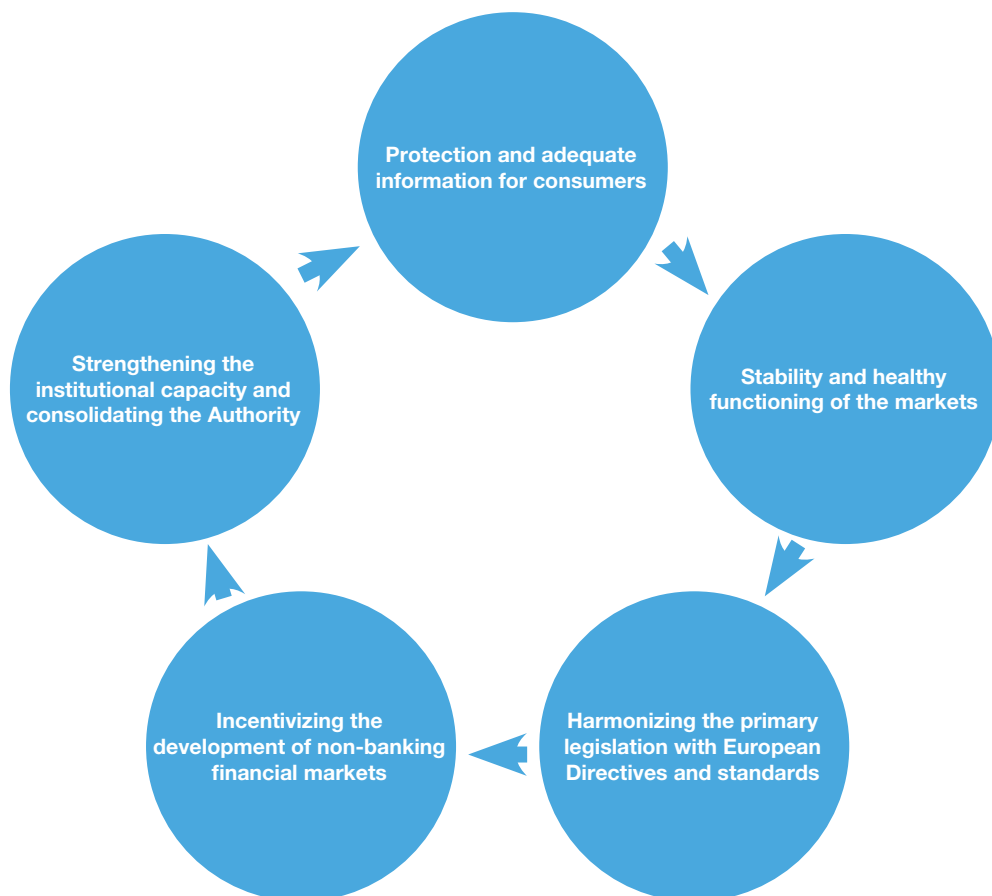
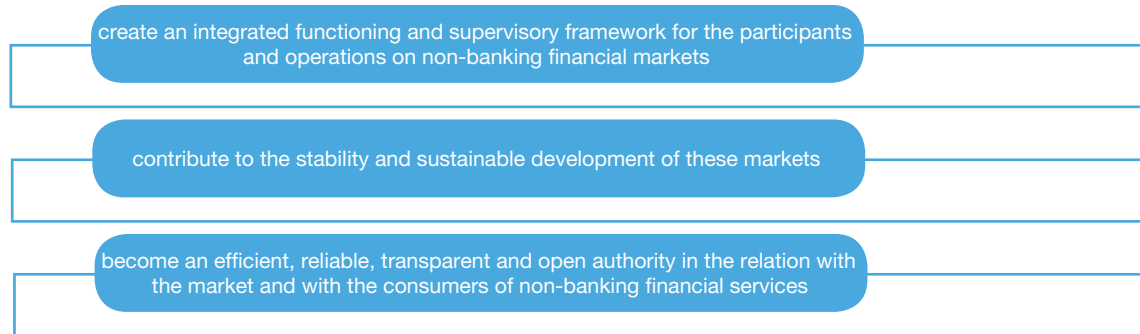
Under the circumstances, the surplus in 2015, namely current proceeds + surplus from previous years - expenses paid will be of Lei 111,277,131 (EUR 25,034,225), of which the surplus reported as at 01/01/2015 from previous years was Lei 74,777,020).





STRATEGIC OBJECTIVES DURING 2016 – 2018

In the following three years, in order to achieve the major objective of transforming the Authority into a modern institution at European level, FSA aims to:

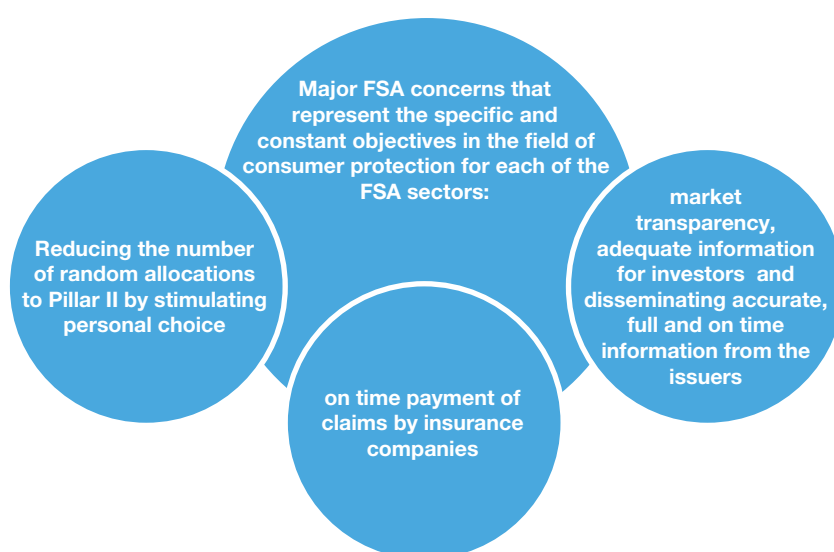


By means of the actions included in its strategic program, FSA will continue to act to mitigate the risks identified during the supervisory process and it will continue to have a strategic and operational approach to risks, elaborating highly proactive strategies and lines of action.

PROTECTION AND ADEQUATE INFORMATION FOR CONSUMERS

Protecting the non-banking financial product consumers – major objective that circumscribes all the other powers granted by law to the Financial Supervisory Authority – will continue to be a key element of the regulatory and supervisory activities.

FSA will continue to monitor possible risks and benefits for non-banking financial product consumers, especially those resulting from innovations and from the specific evolution of each market. We will focus more on preventive actions so that possible remedial actions be ordered before a possible irreversible impairment actually occurs.



In order to meet consumer needs, FSA believes it necessary to guarantee that the information about the provided financial products and services are accurate, clear and not misleading. Along this line, implementation guidelines approved at European level will be issued for the technical standards and warnings will be issued in case of deviations from the rules of conduct or if major risks are identified for possible consumers.

STABILITY AND HEALTHY FUNCTIONING OF THE MARKETS

Implementing the supervision based on a prospective risk-based approach is the major change that the Financial Supervisory Authority undertakes in 2016-2018. This approach will first be applied to the supervisory activity of insurance-reinsurance companies and it will then expand to include the other entities and sectors supervised by the FSA. FSA will ensure the harmonization of sectoral policies regarding supervision, the design of stress tests, risk identification and assessment, the impact analysis of these measures on the markets, activities and institutions under supervision.

One of the main fields that FSA will pay special attention to during 2016-2018 is financial stability, an integrated activity that FSA develops so as to meet the need for systematic approach.

Fully compliant with the actions taken by European authorities ESMA and EIOPA, where FSA is a member, the strategic plan for the next three years includes the following:

Improving quality, efficiency and coherence of supervisory activities by means of:	Identifying, assessing, mitigating and managing risks and threats to the financial stability of the non-banking financial market with a focus on:
- convergent supervisory practices in the three non-banking financial sectors – adopting a unitary set of supervisory policies and practices; - implementing risk-based supervisory procedures and practices.	- monitoring financial activities and innovations and implementing mechanisms to intervene upon financial products in case of emergency; - a risk analysis of the non-banking financial market.

FSA will publish half-annually reports on the risk assessment of the three supervised financial sectors aiming to highlight analyses and estimates on the main trends and vulnerabilities to the stability of supervised financial markets.

HARMONIZING THE PRIMARY LEGISLATION WITH EUROPEAN DIRECTIVES AND STANDARDS – SIMPLIFYING AND HARMONIZING PRIMARY AND SECONDARY LEGISLATION

Aligning the national legislation applicable to non-banking financial markets to the European directives and standards is a continuous process constantly found in the FSA strategy, following the lines of the broad process occurring within the European Union of revising, amending and completing the legislation so as to strengthen and create a harmonized regulatory framework and to eliminate shortcomings in the functioning and transparency of financial markets.

We also aim to identify gaps, incongruities and inconsistencies existing in the primary and secondary legislation, namely to amend and complete FSA legislation and to issue new regulations and guidelines for implementing the primary legislation.

A relevant component along this objective links into simplifying the regulatory framework and ensuring intersectoral convergence by following, where possible, a set of consistent rules applicable to all entities regulated and supervised by the FSA.



INCENTIVIZING THE DEVELOPMENT OF NON-BANKING FINANCIAL MARKETS

The main objectives FSA will focus on to incentivize the development of the three sectors of financial supervision are as follows:

Insurance Market	Capital Market	Private Pensions Market
- cooperating with specialized associations in the insurance business and creating joint work groups with UNSAR and cooperating with the Romanian Actuarial Association to develop mechanisms focused on the needs of the insurance market and to update Law 136/1995 on insurance and reinsurance in Romania; - increasing the level of accessibility and attractiveness of the life insurance market; - incentivizing the increase of health insurances; - balancing the weights of available products to stimulate those most useful for the consumers;	- continuing measures to reach the emerging market status, stimulating an increase in the capital market liquidity - developing the bonds market as financing alternative by means of corporate/municipal bonds' issuances and incentivizing the issue of bonds from companies already listed on the capital market - developing the retail market by increasing the number of active investors, along with an increase in importance and size of investment funds activities, as well as developing the market of derivative financial instruments with support assets, financial securities or commodities, especially for hedging operations - strengthening and developing the capital market infrastructure by relicensing central depositories, by creating a central counterparty or joining a regional central counterparty	- promoting legal measures for the secure development of the pension funds' market, by issuing regulations that focus both on increasing efficiency of the system's functioning and on protecting participants - updating, monitoring and constantly adapting to market conditions of pension funds investment policies - introducing the occupational pensions system - supporting the completing of the legislation regarding the pensions market

STRENGTHENING THE INSTITUTIONAL CAPACITY AND CONSOLIDATING THE AUTHORITY

The actions we plan on implementing during 2016-2018 focus on institutional development from a quality perspective and are part of a more extensive project to Consolidate the Institutional Capacity of FSA, launched in April 2015. The objectives set to this end will focus on the following:

transforming FSA into a fully integrated authority, with modern and harmonized regulations, accessible and efficient;

implementing the risk-based supervisory system;

revising the primary and secondary legal framework;

strengthening the consumer protection function;

staff professional development and training;

finalizing the IT infrastructure, centralizing financial reporting and building an integrated data bank that all FSA's organizational structures be linked into.

The entire strategy and activity schedule of FSA are meant to boost credibility and improve its image before insurance, pensions and capital market consumers.



Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF THE FINANCIAL SUPERVISORY AUTHORITY

Report on the financial statements

1 We have audited the attached financial statements of the Financial Supervisory Authority ("FSA") which include the balance sheet as at December 31st 2015, the earnings statement, the cash flow statement, the budget implementation and the annexes (available from means with special destination, the list of payments made from the budget without justification in goods, works, services at the end of the period, outstanding payments, amendments to the structure of net assets/equity, the depreciable fixed assets statement, the non-depreciable fixed assets statement, the financial assets and liabilities statement of public institutions in the central administration) for the financial year concluded at this date, a summary of the significant accounting policies as well as other explanatory information, included in the "Report on the financial statements of the Financial Supervisory Authority concluded as at December 31st 2015" ("FSA Report"). The abovementioned financial statements refer to:

- Total equity: Lei 116,936 th.;
- The earnings of the financial year (Surplus) Lei 37,057 th.

Management's responsibility for the financial statements

2 The FSA management is liable for the accurate drafting and presentation of these financial statements as per the Order no. 1917/2005 of the Minister of Public Finance as amended and completed and as per the accounting policies described in the notes to the financial statements and for the internal audits that the management deems necessary to prepare financial statements without significant deviations due to fraud or error.

Auditor's responsibility

3 Our responsibility is that, based on the performed audit, we express an opinion on these financial statements. We performed the audit as per the International Audit Standards. These standards demand that we observe the ethical requirements, plan and perform the audit to reach a reasonable reassurance that the financial statements do not include significant deviations.

4 An audit consists in performing procedures to acquire audit evidence on the amounts and information disclosed in the financial statements. The selected procedures depend on the auditor's judgment, including the assessment of risks of a material misrepresentation of the financial statements due to fraud or error. In making those risks assessment, the auditor considers the relevant internal audit for the fair elaboration and presentation of FSA's financial statements in order to design appropriate audit procedures for the given circumstances, but not for the purpose of expressing an opinion on the efficiency of FSA's internal audit. An audit also includes an assessment of the level of appropriateness of accounting policies used and the reasonable nature of accounting estimates made by management, as well as an assessment of the overall presentation of the financial statements.



5 We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for our qualified opinion

6 Through the Decision of the FSA Board no. 60/27.11.2013, the number of FSA positions was reduced and the employees whose positions were made redundant were notified in December 2013. According to the Collective Bargaining Contract, the employees whose positions were made redundant will receive severance packages. As at December 31st 2013, the restructuring provision had not been created. On December 31st 2014, based on Decision no.66/27.08.2014, FSA created a provision covering both obligations from the restructuring in 2013, amounting to Lei 979 thousands, and those from 2014. As a result of this, the results of the financial year concluded on December 31st 2014 were underestimated by Lei 979 thousands. The audit opinion for the financial year concluded on December 31st 2014 was amended accordingly.

Qualified opinion

7 In our opinion, except for the aspects mentioned at paragraph 6, the attached financial statements reflect a fair image, on all aspects, of FSA's financial position as at December 31st 2015, as well as of its financial performance and cash flows for the financial year concluded at this date, according to the Order no.1917/2015 of the Ministry of Public Finance of Romania as amended and completed and according to the accounting policies presented in the FSA Report.

Emphasizing certain aspects

8 We draw attention to the Explanatory Note 1 in the FSA Report stating that according to the provisions of Order 629/2009 of the Minister of Public Finance, FSA's financial statements for the financial year concluded on December 31st 2015 include initial balances of FSA in annexes 1, 2, 40 as well as in the FSA Report. Thus, FSA's financial statements for the financial year concluded on December 31st 2015 present comparative information which exclude the initial balances of the Policyholders' Guarantee Fund Department (PGF). According to the provisions of Law 213/2015 regarding the Policyholders' Guarantee Fund, the public law legal entity recently created on August 31st 2015 took over based on an Acceptance Report the assets belonging to the former PGF department within FSA. Given the only specific provisions of public institutions applicable in case of spin-offs are those covered by Order no.629/2009 of the Minister of Public Finance and in Order no.1917/2005 of the Minister of Public Finance, the FSA management believed this to be the most appropriate method of registration. This method of registration was confirmed by the Ministry of Public Finance by accepting FSA's financial statements prepared as at September 30th 2015. According to Law 213/2015, FSA drafted the draft accounting regulations applicable to annual financial statements for the Policyholders' Guarantee Fund. On the date of this audit report, this draft was reviewed by the specialized directorate within the Ministry of Public Finance, and it will be approved in its final version at a later date. Our opinion does not have reservations on this matter.



9 We draw attention to the Explanatory Note 5 in the FSA Report stating the litigations asking FSA for compensations. The FSA management assessed the situation and registered on December 31st 2015 a provision for litigations amounting to Lei 271,186 thousands. Given the complexity and uncertainty with respect to litigation outcomes, FSA's estimate might differ from the actual liabilities following the final rulings on the litigations. We state that this provision does not impact the implementation of the budget. The implementation will only be impacted by subsequent court fees and possible payments ruled by the court for lost litigations (or reimbursement of court fees for won litigations) following the final rulings on the litigations. Our opinion does not have reservations on this matter.

Other matters

10 This report is exclusively for the FSA Board. We performed this audit to report to the FSA Board on the matters that need reporting on in a financial audit report, and not for any other purposes. If allowed by the law, we do not accept and we are only liable before FSA and its Board, overall, for our audit, for this report or for the expressed opinion.

11 The financial statements are not meant to present the financial position, the profit or loss and a full set of notes to the financial statements as per the accounting regulations and principles accepted in countries and jurisdictions other than Romania. This is why the attached financial statements were not prepared for the use of individuals that do not know the accounting and legal regulations in Romania, including Order no.1917/2005 of the Minister of Public Finance, as amended.

12 As part of our audit on FSA's financial statements for the financial year concluded on December 31st 2015, we audited the adjustments referred to in Explanatory Note 1 to the FSA Report which were applied to amend the initial balances. Those adjustments were caused by the FSA Management, as per the accounting policies and regulations described in Explanatory Note 1.

FSA's financial statements for the financial year concluded on December 31st 2014 were audited by another auditor whose report, issued on February 19th 2015, expresses a qualified opinion on the financial statements in question, due to the matter regarding the restructuring provision described at paragraph 6, but also due to matters regarding receivables depreciation, investment valuation, error corrections, registration of income pertaining to the financial year, losses from building revaluation and capitalizing on development expenses regarding the financial year concluded on December 31st 2013, without an impact on the financial year concluded on December 31st 2014.



13 According to provisions of Government Emergency Order no.93/2012, FSA was established on April 29th 2013 and performs its duties by taking over and restructuring all the tasks and prerogatives of the National Securities Commission (NSC), of the Insurance Supervisory Commission (ISC) and of the Private Pensions System Supervisory Commission (PPSSC).

Vasile Iuga Illegible signature Professional Stamp
Chartered Auditor registered with
The Chamber of Financial Auditors of Romania under no.264/20.12.2000

On behalf of
PrivewaterhouseCoopersAuditSRL
PricewaterhouseCoopersAudit SRL
Audit Company registered with
The Chamber of Financial Auditors of Romania under no.6/25.06.2001 PWC Stamp

Bucharest, February 12th 2016

List of abbreviations

AAAS	=	Authority for Management of State-Owned Assets
AAF	=	Romanian Association of Asset Managers
ADR	=	American Depositary Receipt
AIFM	=	Alternative Investment Fund Managers
AIF	=	Alternative Investment Funds
ANAF	=	National Agency for Fiscal Administration
ANNA	=	Association of National Numbering Agencies
ANPC	=	National Authority for Consumer Protection
AOPC	=	Other Collective Investment Schemes
APAPR	=	Romanian Association of Privately Managed Pension Funds
FSA	=	Financial Supervisory Authority
ATS	=	Alternative Trading System
AWG	=	Analysis Working Group, ESRB
BAAR	=	Romanian Motor Insurers' Bureau
BaFIN	=	Bundesanstalt für Finanzdienstleistungsaufsicht (Federal Authority for Financial Surveillance), Germany
BEI/EIB	=	European Investment Bank
BERD/ EBRD	=	European Bank for Reconstruction and Development
BNR	=	National Bank of Romania
BRRD	=	Bank Recovery and Resolution Directive
BVB	=	Bucharest Stock Exchange
BVC	=	Income and Expenses Budget
CA	=	Board of Directors
CAFR	=	Chamber of Financial Auditors of Romania
CASCO	=	Casualty and Collision Insurance
CBRK	=	Training for executive managers of insurance and/or reinsurance brokers
CCB	=	Bucharest Clearing House
CCP	=	Countercyclical Premium
CCPFI	=	Committee for Consumer Protection and Financial Innovation, EIOPA
CDS	=	Credit Default Swap
CEDAM	=	Database that lists MTPL policies issued in Romania
CEMA	=	Committee for Economic and Markets Analysis, ESMA
CESR	=	Committee of European Securities Regulators
CFD	=	Contract for Difference
CEF	=	Closed-End Investment Fund
CFI	=	Classification of Financial Instruments
CIVM	=	Securities Registration Certificate
CIS	=	Collective Investment Schemes
ECJ	=	European Court of Justice
CNP	=	National Commission for Prognosis
CNPF	=	National Board for Supervision of Financial Markets, Republic of Moldova
CNPP	=	National House of Public Pensions
CNSF	=	National Committee for Financial Stability
CNVM	=	National Securities Commission
ComFrame	=	Common Framework
CCP	=	Central Counterparty
CPF	=	Vocational training for brokers - natural persons
CRA	=	Credit Rating Agency
CRC	=	Romanian Clearing House

CRD IV	=	Capital Requirements Directive IV
CRR	=	Capital Requirements Regulation
CSA	=	Insurance Supervisory Commission
AML	=	Fighting money laundering/fighting financing of terrorism
CSSF	=	Financial Sector Supervisory Board of Luxembourg
CSSPP	=	Private Pension System Supervisory Commission
CD	=	Central Depository
DGPMB	=	General Police Directorate of Bucharest City
DoP	=	Delivery vs. Payment
DPA	=	Insurees Protection Department, FSA
DRPCIV	=	Driving Licenses and Motor Vehicle Registration Department
DS	=	SIBEX Depository
DSGE	=	Dynamic Stochastic General Equilibrium
DSPSC	=	Department for Market Satbility, Supervision and Control
EBA	=	European Banking Authority
EC	=	European Commision
ECB	=	European Central Bank
EIOPA	=	European Insurance and Occupational Pensions Authority
EIOPA		
BoS	=	EIOPA Board of Supervisors
EIOPC	=	European Insurance and Pensions Committee
EMIR	=	European Market Infrastructure Regulation
ERC	=	European Regional Committee
ESA	=	European System of Accounts
ESMA	=	European Securities and Markets Authority
ESMA		
BoS	=	ESMA Board of Supervisors
ESRB	=	European Systemic Risk Board
ETC	=	Exchange Traded Commodities
ETF	=	Exchange Traded Funds
EwS	=	Early Warning System
FATCA	=	US Foreign Account Tax Compliance Act
FATF	=	Financial Action Task Force
FCA	=	Financial Conduct Authority, United Kingdom
FCI	=	Investor Clearance Fund
FED	=	Federal Reserve Bank, United States of America
FGA	=	Insurees Guranatee Fund
FIAR	=	International Forum for Insurance-Reinsurance
FICOD		Financial Conglomerates Directive
FinReq	=	Financial Requirements
FISC	=	Financial Innovation Standing Committee, ESMA
FMA	=	Financial Market Authority, Austria
FoP	=	Free of payment
FOREX	=	Foreign Exchange
FP	=	"Property" Fund
FPAP	=	Privately Managed Pension Fund
FPF	=	Voluntary Pension Fund
FPVS	=	Protection Fund for victims of car accidents
FSB	=	Financial Stability Board, IAIS

FSC	=	Financial Stability Committee, EIOPA
GDR	=	Global Depository Receipt
GEM	=	Growth and Emerging Markets, IOSCO
GLP-MIP	=	Permanent Working Group – Integrated Market Monitoring, FSA
GLSII	=	Working Group Solvency II, FSA
GPLPC	=	Permanent Working Group on Consumer Protection
GMS	=	General Meeting of Shareholders
G-SIFIs	=	Global Systemically Important Financial Institutions
GWR	=	Gross Written Premium
IAIS	=	International Association of Insurance Supervisors
IAS	=	International Accounting Standards
ICAR	=	International Catastrophic Risks Forum
IFD	=	Financial Derivatives
IFIGS	=	International Forum of Insurance Guarantee Schemes
IFRS	=	International Financial Reporting Standards
IGPR	=	General Inspectorate of Romanian Police
IGSC	=	Insurance Group Supervision Committee, EIOPA
IGSRR	=	Internal Governance, Supervisory Review and Reporting Committee, EIOPA
IM	=	Internal Models
IMA	=	Insurance Management Institute
IMC	=	Investments Management Company
IMD II	=	Insurance Mediation Directive II
IMF	=	International Monetary Fund
SMEs	=	Small and Medium Enterprises
IMSC	=	Investment Management Standing Committee, ESMA
INFE	=	International Network on Financial Education, OECD
INS	=	National Statistics Institute
IOPS	=	International Organisation of Pension Supervisors
IORP	=	Institution for Occupational Retirement Provision Directive
IORPs	=	Institutions for Occupational Retirement Provision
IOSCO	=	International Organization for Securities Commission
IPB	=	Gross Wages Paid
IPISC	=	Investor Protection and Intermediaries Standing Committee, ESMA
ISIN	=	International Securities Identification Number
IT	=	Information Technology
IWG	=	Instruments Working Group, ESRB
KNF	=	Komisja Nadzoru Finansowego (Financial Supervisory Authority), Poland
LOS	=	Regular parking location
LTG	=	Long Term Guarantees
LTGA	=	Long Term Guarantee Assessment
MA	=	Matching Adjustment, Directiva Omnibus II
MAD	=	Market Abuse Directive
MAI	=	Ministry of Internal Affairs
MAR	=	Market Abuse Regulation
MDRWG	=	Market Data Reporting Working Group, ESMA
MFP	=	Ministry of Public Finance
MiFID	=	Markets in Financial Instruments Directive
MiFID-		
CoB	=	MiFID Conduct of Business

MIFIR	=	Markets in Financial Instruments Regulation
MISC	=	Market Integrity Standing Committee, ESMA
MMOU	=	Multilateral Memorandum of Understanding, IOSCO
MO	=	Official Journal
MTPL	=	Mandatory Motor Vehicle Civil Liability Insurance
NGARCH	=	Nonlinear Generalized Autoregressive Conditional Heteroskedasticity
OECD	=	Organization for Economic Cooperation and Development
OEF	=	Open-End Investment Fund
ONRC	=	National Trade Registry Office
OMF	=	Order of the Minister of Finance
OMT	=	Order of the Minister of Tourism
ONG	=	Non-Governmental Organization
ONPCSB	=	National Office for Prevention and Control of Money Laundering
OPC	=	Occupational Pension Committee, EIOPA
OPCOM	=	Natural Gas and Energy Market Operator in Romania
OPCVM	=	Collective Investment Schemes in Transferable Securities
ORC	=	Trade Registry Office
OTC	=	Over-The-Counter
OUG	=	Government Emergency Ordinance
PAD	=	Mandatory insurance policy against natural disasters
PAID	=	Insurance Pool against Natural Disasters
PBRK	=	Continuing vocational training for executive managers of insurance and/or reinsurance broker companies
PPS	=	Purchasing Power Standard
GDP	=	Gross Domestic Product
PICCJ- DIICOT	=	Prosecutor's Office attached to the High Court of Cassation and Justice – Directorate for Investigation of Organized Crime and Terrorism
PRA	=	Prudential Regulation Authority, United Kingdom
PRIPs	=	Packaged Retail Investment Products
PTSC	=	Post-Trading Standing Committee, ESMA
PwC	=	PricewaterhouseCoopers
QIS5	=	5th Quantitative Impact Study, EIOPA
RASDAQ	=	Romanian Association of Securities Dealers Automated Quotation
REVER	=	Registry for keeping the record of vehicle-related events
ROF	=	Regulation for organization and operation
RTS	=	Regulatory Technical Standards
SAFPAP	=	Management Company for a Private Pension Fund
SAFPP	=	Private Pension Funds Management Company
SAR	=	Insurance-Reinsurance Sector, FSA
SARIS	=	Suspension and Restoration Information System, ESMA
EEA	=	European Economic Area
SIBEX	=	Sibiu Stock Exchange
SIF	=	Financial Investment Company
SIIF	=	Financial Instruments and Investment Sector, FSA
SIR	=	IT Reporting System
SSIF	=	Financial Investment Services Company
SSPP	=	Private Pension System Sector, FSA
STEAM	=	Set of actions Towards Establishing and Acknowledgment of the emerging Market status
TAIEX	=	Technical Assistance and Information Exchange, EC
TFPP	=	Task Force on Personal Pensions, EIOPA
TREM	=	Transaction Reporting Exchange Mechanism, ESMA

VAT	=	Value-Added Tax
UCITS	=	Undertakings for Collective Investment in Transferable Securities
EU	=	European Union
UNSAR	=	National Association of Insurance and Reinsurance Companies in Romania
UNSICAR	=	National Association of Brokerage Companies and Insurance Consultancy in Romania
VAN	=	Net active value
VaR	=	Risk value
VIG	=	Vienna Insurance Group
VUAN	=	Unitary value of the net active
XBRL	=	eXtensible Business Reporting Language
XL	=	Excess of loss
WB	=	World Bank

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