



**FINANCIAL SUPERVISION COMMISSION**

**ANNUAL  
ACTIVITY REPORT  
2016**

### **List of abbreviations used**

ABI - Association of Bulgarian Insurers  
ABIRD - Association of Bulgarian Investor Relation Directors  
SIPC – Special investment purpose company  
BICA - Bulgarian Industrial Capital Association  
AIF - Alternative Investment Fund  
APC -Administrative Procedure Code  
AEAV - Act of Established Administrative Violations  
AEPDS - Act of Established Public Debts to the State  
BASPSC - Bulgarian Association of Supplementary Pension Security Companies  
BALII - Bulgarian Association of Licensed Investment Intermediaries  
BAAMC - Bulgarian Association of Asset Management Companies  
GDP - Gross Domestic Product  
BNB - Bulgarian National Bank  
BIA - Bulgarian Industrial Association  
BSE - Bulgarian Stock Exchange  
GF - Guarantee Fund  
SANS - State Agency for National Security  
VPF - Voluntary Pension Fund  
VPFOS - Voluntary Pension Fund with Occupational Schemes  
CF - Contractual Fund  
GS - Government Securities  
EEA - European Economic Area  
EC - European Commission  
EC - European Community  
EP - European Parliament  
EU - European Union  
IB - Insurance Broker  
IAU - Internal Audit Unit  
RRCIIFA - Recovery and Resolution of Credit Institutions and Investment Firms Act  
IC - Insurance Company  
CISOU CIA - Collective Investment Schemes and Other Undertakings for Collective Investments Act  
SIPCA - Special Investment Purpose Companies Act  
CIA - Credit Institutions Act  
FSCA - Financial Supervision Commission Act  
LMML - Law on Measures against Money Laundering  
LMFT - Law on Measures against the Financing of Terrorism  
LMMAFI - Law on Measures against Market Abuse with Financial Instruments  
LAMMAFI - Law on the Application of Measures against Market Abuse with Financial Instruments  
LPOS - Law on Public Offering of Securities  
MFIA - Markets in Financial Instruments Act  
IC - Investment Company  
II - Investment Intermediary  
IC - Insurance Code  
CIS - Collective Investment Schemes  
KRIB - Confederation of Employers and Industrialists in Bulgaria  
SIC - Social Insurance Code  
FSC - Financial Supervision Commission  
AIFM - Alternative Investment Fund Managers  
MI - Ministry of Interior  
IMF - International Monetary Fund  
NRA - National Revenue Agency  
NIF/C - National Investment Funds/Companies  
NBBMI - National Bureau of Bulgarian Motor Insurers  
NCGC - National Corporate Governance Committee  
PW - Penal Warrant  
KID - Key Information Document  
GMS - General Meeting of Shareholders  
CAM - Coercive Administrative Measure  
PC - Public Company  
UCITS - Undertakings for Collective Investment in Transferable Securities  
PIC - Pension Insurance Company  
PPF - Professional Pension Fund

MC - Management Company  
UPF - Universal Pension Fund  
SVPI - Supplementary Voluntary Pension Insurance  
SMPIF - Supplementary Mandatory Pension Insurance Fund  
SPIF - Supplementary Pension Insurance Fund  
ICF - Investor Compensation Fund  
CD - Central Depository  
ESMA - European Securities and Markets Authority  
EIOPA - European Insurance and Occupational Pensions Authority  
EBA - European Banking Authority  
ESFS - European System of Financial Supervisors  
ESRB – European Systemic Risk Board  
HHI – Herfindahl-Hirschman index

#### Useful links

Bulgarian Stock Exchange - Sofia JSC	<a href="http://www.bse-sofia.bg">www.bse-sofia.bg</a>
Central Depository AD	<a href="http://www.cdad.bg">www.cdad.bg</a>
Bulgarian National Bank	<a href="http://www.bnb.bg">www.bnb.bg</a>
Ministry of Finance	<a href="http://www.minfin.bg">www.minfin.bg</a>
Council of Ministers	<a href="http://www.government.bg">www.government.bg</a>
Association of Bulgarian Insurers	<a href="http://www.abz.bg">www.abz.bg</a>
National Social Security Institute	<a href="http://www.noi.bg">www.noi.bg</a>
National Statistical Institute	<a href="http://www.nsi.bg">www.nsi.bg</a>
Privatization Agency	<a href="http://www.priv.government.bg">www.priv.government.bg</a>
Investor Compensation Fund	<a href="http://www.sfund-bg.com">www.sfund-bg.com</a>
Guarantee Fund	<a href="http://www.guaranteefund.bg">www.guaranteefund.bg</a>
Association of Bulgarian Investor Relation Directors	<a href="http://www.abird.info">www.abird.info</a>
Bulgarian Investor Relations Association	<a href="http://www.birsbg.org">www.birsbg.org</a>
Bulgarian Association of Supplementary Pension Security Companies	<a href="http://www.assoc.pension.bg">www.assoc.pension.bg</a>
Bulgarian Association of Asset Management Companies	<a href="http://www.baud.bg">www.baud.bg</a>
National Bureau of Bulgarian Motor Insurers	<a href="http://www.nbbaz.bg">www.nbbaz.bg</a>
Ministry of Labour and Social Policy	<a href="http://www.mlsp.government.bg">www.mlsp.government.bg</a>
Commission for Protection of Competition	<a href="http://www.cpc.bg">www.cpc.bg</a>
European Commission, Directorate-General for the Internal Market	<a href="http://ec.europa.eu/internal_market/index.htm">http://ec.europa.eu/internal_market/index.htm</a>
European Parliament	<a href="http://www.europarl.europa.eu">www.europarl.europa.eu</a>
Council of the European Union	<a href="http://www.consilium.europa.eu">www.consilium.europa.eu</a>
European Systemic Risk Board (ESRB)	<a href="http://www.esrb.europa.eu">www.esrb.europa.eu</a>
European Securities and Markets Authority (ESMA)	<a href="http://www.esma.europa.eu">www.esma.europa.eu</a>
European Insurance and Occupational Pensions Authority (EIOPA)	<a href="http://www.eiopa.europa.eu">www.eiopa.europa.eu</a>
European Banking Authority (EBA)	<a href="http://www.eba.europa.eu">www.eba.europa.eu</a>
International Organization of Securities Commissions (IOSCO)	<a href="http://www.iosco.org">www.iosco.org</a>
International Association of Insurance Supervisors (IAIS)	<a href="http://www.iaisweb.org">www.iaisweb.org</a>
International Organisation of Pension Supervisors (IOPS)	<a href="http://www.iopsweb.org">www.iopsweb.org</a>
European Central Bank	<a href="http://www.ecb.int">www.ecb.int</a>
International Monetary Fund	<a href="http://www.imf.org">www.imf.org</a>

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## ADDRESS OF THE CHAIR

Dear Ladies and Gentlemen,

I am pleased to present to you the 2016 Annual Activity Report of the Financial Supervision Commission (FSC).

This was a dynamic year in the field of finance that posed a number of challenges to me as a new FSC Chair elected by the National Assembly in July 2016.

The shortage of financial resources can be pointed as the most serious problem and limitation of our plans for development of the FSC. The available budget creates insurmountable obstacles for the FSC. We are unable to provide the resources necessary to attract highly qualified experts required to apply the legislative reform in the non-banking sector with regard to the newly-introduced requirements by the European Commission.

As regards the financial instrument markets, the capital suitability of investment intermediaries, the market manipulations, the insurers' solvency, etc. the European rules and regulations place more and wider responsibilities to FSC which also require more specialised expertise. Due to those financial limitations however, we are unable to hire the necessary experts.

The FSC experiences serious problems even with the current maintenance and is unable to respond to the need for increasing the rent for the administrative building. It is absolutely impossible to update the FSC's premises and facilities which encounters us with the unpleasant reality of experts working with hopelessly outdated computers and archaic software. The lack of an integrated financial system for the entire non-banking sector seriously hampers the supervisory activity at the level of groups and financial conglomerates. There is an urgent need to update and develop the FSC's information systems in view of the increased requirements and expectations however it is difficult to maintain even the current IT infrastructure with the available budget.

Substantial amounts are also needed for payment of membership fees to European supervisory authorities and international organizations. Nearly half of the subsidy that we receive from the state budget is used to pay membership fees to European supervisory authorities and international organizations. These costs stem from commitments that Bulgaria has undertaken as a country upon accession to the European Union.

There is a significant increase in the assets (12%) managed by the supervised entities. Their amount has reached nearly BGN 22.8 billion or 26% of the GDP. Despite the growth of business, the costs for supervision that the Commission can afford decrease. In the context of these financial constraints, we have made serious efforts to improve the business processes in the Commission, to work well and efficiently and to deserve the trust of the consumers, the supervised entities and the society.

Despite the difficulties as Chair, together with all FSC members, assisted by the administration, I have invested the required efforts to increase the efficiency and to enhance the Commission's capacity to implement the commitments made to the Members of Parliament. Evidence for this claim can be found in this report.

Although the number of proceedings has increased considerably, we have seriously shortened the period for pronouncement, which is a clear illustration of the Commission's increased efficiency. We approached extremely carefully and conservatively the assessment of those who wanted to enter the Bulgarian market in order to provide more reliable protection for investors and service users. Thus we

created the impression that the rules for access to the Bulgarian non-banking financial sector can not be circumvented.

Structurally the presented report consists of two parts. The first part outlines the activities of the FSC pursuant to its competencies as regulatory and supervisory body of the non-banking financial sector. The second part of the report represents a comprehensive market analysis of the non-banking financial sector in Bulgaria under the conditions of the global and European economic environment in 2016.

We have devoted special attention to the regulatory activity by presenting the bills and regulations that the FSC has drafted, introducing the European legislation and improving the regulatory framework for operating in the non-banking financial sector in our country.

The activities of the FSC regarding the protection of the consumers of non-banking financial services and its role in informing the market participants and the society are also discussed. We have stepped up the work in this direction because raising public confidence in the use of financial products and services and providing protection to the consumers of such services is one of the strategic objectives of the Financial Supervision Commission. An important step in terms of the good communication with the companies and addressing the problems "on the move" was the opening of "the FSC's doors" to the businesses which has an indirect impact on consumer protection. I set the beginning of the Business Meetings initiative where meetings are organized every week in the Commission at which a branch association or an individual company can share its thoughts and opinions with the FSC's management and appropriate measures can be taken to improve the functioning of the market .

The Financial Supervision Commission attaches the utmost importance to raising the financial culture and awareness of Bulgarian citizens about non-bank financial services. Therefore, in 2016 it continued the implementation of traditional educational initiatives such as one-week educational programme for students and other thematic one-day trainings.

The report reflects also our work on the international cooperation and joint operations with national authorities as well as the institutional development of the Commission. The Recovery and Resolution of Credit Institutions and Investment Firms Act (RRCIIFA) pointed the Financial Supervision Commission as the body responsible for the resolution of investment intermediaries which necessitated the setting up of a new directorate within the general administration to support the Commission in that respect.

It should be taken into consideration that the Commission's activity evolved last year in the context of stabilized economic activity and revival of the financial markets in Bulgaria. The capital market development was a major commitment that I made to the Parliament when I was elected FSC Chair and my actions as FSC Chair are aimed at achieving this goal. In this regard, we have made the first successful steps - a Capital Market Development Council was set up bringing together all the players on the capital market - businesses, associations, BSE, Central Depository and FSC. The Council adopted a Strategy for the Development of the Capital Market and the FSC has an active role in its implementation. The first measures taken to implement the strategy created an opportunity for new diversified and quality financial instruments to enter the Bulgarian capital market as a result of which Bulgaria has its first exchange traded fund. The emergence of this new instrument changed significantly the situation on the capital market by raising the turnover, all market indices ended the year with a steady positive growth and the market capitalization increased significantly. Real hope emerged that the market will come out of its stagnation and will develop steadily. We started active work and consultations with the business on extremely important changes in the Law on Public Offering of Securities.

In addition to developing the capital market, the FSC's efforts aim also at the development of the other two financial sectors that are within the scope of the supervisory institution - insurance and social security. It is important to note that the most important challenge in the field of regulation and supervision of the insurance and pension insurance market in 2016 was the organization and conducting

a review of the insurers' balance sheets, a review of the assets of the pension funds and an insurance stress test. The review of pension fund assets and insurers' balance sheets took place from 15 July 2016 to the end of January 2017, and although the results were released in early 2017, the main activity was carried out in 2016.

Significant steps were taken in the reporting year to introduce the long-awaited "bonus-malus" system for the compulsory insurance Motor Third Party Liability. The FSC approved an Ordinance on the Registers of the Guarantee Fund which gives insurers direct access to the data of the Ministry of Interior.

The information presented in the report reflects objectively and in detail the activity of the FSC in 2016. It can also be useful for all those who are interested in the state and prospects for development of the non-banking financial sector in the Republic of Bulgaria.

**Karina Karaivanova**



# I. FSC'S ACTIVITY IN 2016

## 1. Regulatory activities

### 1.1. Amendments to the regulatory framework

#### Amendments to the legal regulatory framework

In 2016 the Financial Supervision Commission drafted the following bills:

#### **Law on the Application of the Measures against Market Abuse with Financial Instruments<sup>1</sup>**

The Law on the Application of the Measures against Market Abuse with Financial Instruments (LAMMAFI) ensures the implementation of Regulation (EU) No 596/2014 of the European Parliament (EP) and of the Council of 16 April 2014 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 and transposes the provisions of Commission Implementing Directive (EU) 2015/2392 of 17 December 2015 on Regulation (EU) No 596/2014 of the European Parliament and of the Council as regards reporting to competent authorities of actual or potential infringements of that Regulation into national law. The need for adoption of the new law arises from the repeal of Directive 2003/6/EC of the European Parliament and of the Council of 28 January 2003 on insider dealing and market manipulation (market abuse) that was transposed into Bulgarian law with the already repealed Law on Measures against Market Abuse with Financial Instruments (LMMAFI). Regulation (EU) No 596/2014 established a new regulatory framework for insider dealing, unlawful disclosure of inside information and manipulation of the market.

The Law on the Application of the Measures against Market Abuse with Financial Instruments also amended and supplemented the Law on the activities of collective investment schemes and other collective investment undertakings transposing in Bulgarian legislation the requirements of Directive 2014/91/EU of the European Parliament and of the Council of 23 July 2014 amending Directive 2009/65/EC 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 amendment introduces additional requirements to the depositaries of collective investment schemes as well as provisions aimed at clarifying their liability in case of loss of assets of collective investment schemes held in their custody or in case of improper performance of their depositary functions. The assumptions and conditions applicable to the delegation of custodial duties by the depositary to a third party are settled. The amendments introduce requirements for the remuneration policies that management companies should adopt and apply. Provisions are also in place that refer to the remuneration policy of the top management, the risk takers and the employees with oversight functions. Amendments are also made to the administrative criminal provisions of the law in line with the requirements of Directive 2014/91/EU.

A draft **Law to Amend and Supplement the Social Insurance Code** was prepared in 2016. The draft law proposes changes in the regulation of supplementary pension insurance, which is further developed and improved in several main directions:

- improvement of the requirements for the members of the management and supervisory bodies;

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<sup>1</sup> Promulgated SG 76/ 30.09.2016

- improvement of the requirements to the governance systems of the pension insurance companies;
- development of the functions of custodian banks;
- improvement of the regime for investing the funds of the supplementary pension insurance funds;
- harmonization of the Bulgarian legislation governing the statutory pension schemes with the requirements of Council Directive 79/7 / EEC on the progressive implementation of the principle of equal treatment for men and women in matters of social security;
  - introducing a requirement to use a Legal Entity Identifier;
  - updating the conditions for entitlement to a pension from the universal pension funds;
  - raising the requirements to the social insurance intermediaries;
  - facilitating the regime for switching participation and transfer of insured persons' funds from one supplementary pension insurance fund to another;
  - increasing the transparency of supplementary pension insurance and the awareness of insured persons;
  - improvement of the procedures for issuing licences and approvals;
  - refinement of the requirements for financial statements;
  - changes in the regulation of administrative penal liability and coercive administrative measures;
  - regulation of the keeping of documents related to supplementary pension insurance;

#### **Amendments in the by-laws and regulations**

In 2016, the Commission adopted the following regulations which were promulgated in the State Gazette:

- ORDINANCE № 51 of 28.04.2016 on own funds and capital requirements of insurance and reinsurance undertakings, and groups of insurance and reinsurance undertakings<sup>2</sup>;
- Ordinance amending and supplementing Ordinance № 33 of 19.09.2006 on individual applications for participation in a supplementary mandatory pension insurance fund<sup>3</sup>;
- Ordinance amending and supplementing Ordinance № 44 of 20.10.2011 on the requirements to the activity of collective investment schemes, closed-end investment companies and management companies<sup>4</sup>;
- Ordinance amending and supplementing Ordinance № 2 of 17.09.2003 on the prospectuses to be published when securities are offered to the public or admitted to trading on a regulated market and on disclosure of information by the public companies and the other issuers of securities<sup>5</sup>;
- Ordinance № 52 of 21.10.2016 on the procedure and method of deducting the investment fee collected by pension insurance companies in the management of supplementary mandatory pension insurance funds<sup>6</sup>;
- Ordinance № 53 of 23.12.2016 on the requirements to the reporting, valuation of assets and liabilities and establishment of technical provisions of insurers, reinsurers and the Guarantee Fund<sup>7</sup>;

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<sup>2</sup> Promulgated SG 38/ 20.05.2016

<sup>3</sup> Promulgated SG 62/ 09.08.2016

<sup>4</sup> Promulgated SG 63/ 12.08.2016

<sup>5</sup> Promulgated SG 63/ 12.08.2016

<sup>6</sup> Promulgated SG 87/ 04.11.2016

<sup>7</sup> Promulgated SG 6/ 19.01.2017

- Ordinance № 54 of 30.12.2016 on the registers of the Guarantee Fund for exchange and protection of information and for issue and reporting of compulsory insurance under Article 461, points 1 and 2 of the Insurance Code<sup>8</sup>.

### **1.2. 1.2. New aspects of EU policy**

The European Commission (EC) focuses on the implementation of the measures of the Action Plan on Building a Capital Markets Union (CMU) of 30.09.2015, with the publication of: the proposal for a regulation on securitisations, the proposal for a regulation on the prospectus to be published in case of public offering or admission of securities to trading, a Green Paper on retail financial services and other measures listed in the published First Implementation Report on the CMU<sup>9</sup>. In view of its competences, the FSC participated in the negotiations on the above proposals jointly with other institutions from Bulgaria.

#### **Directives and Regulations of the European Union**

##### **Directive (EU) 2016/1034 of the European Parliament and of the Council of 23 June 2016 amending Directive 2014/65/EU on markets in financial instruments**

In the middle of the year, the European Parliament and the Council decided to postpone the transposition date of the new Markets in Financial Instruments Directive (MiFID) 2 until 3 July 2017 and to set a new, later date for the start of the implementation - 3 January 2018 . The postponement is necessary in view of the volume and complexity of the data to be collected and processed in order for the new legal framework to be applied, in particular for transaction reporting, calculation of transparency indicators and reporting of positions in commodity derivatives.

##### **Regulation (EU) 2016/1033 of the European Parliament and of the Council of 23 June 2016 amending Regulation (EU) No 600/2014 on markets in financial instruments, Regulation (EU) No 596/2014 on market abuse and Regulation (EU) No 909/2014 on improving securities settlement in the European Union and on central securities depositories.**

The regulation postpones the implementation date, including all delegated acts and implementing acts adopted pursuant to it, until 3 January 2018. The postponement is in line with the amendment to Directive 2014/65 as well as the fact that the lack of the necessary data collection infrastructures would affect the full scope of the new legal framework. The process of implementing data collection infrastructures consists of five steps - requirements for the respective companies, specifications, development, testing and enforcement. ESMA believes that these steps will be implemented by January 2018 provided that there is legal certainty by June 2016 regarding the final requirements in the relevant regulatory technical standards.

The regulation introduces also some substantive amendments. New definitions of package order and package transaction are added. The specific circumstances in which pre-trade transparency requirements would not apply to orders relating to such package transactions, nor to any individual component of such orders are determined. Considering the fact that securities financing transactions as defined in Regulation (EU) 2015/2365 do not contribute to the price discovery process Title II and Title III of Regulation (EU) No 600/2014 will not apply to those transactions.

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<sup>8</sup> Promulgated SG 7/ 20.01.2017

<sup>9</sup> Brussels, 25.4.2016, SWD(2016) 147 final, Capital Markets Union: First Status Report

## **Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution**

The main objective and subject matter of the directive is to harmonize national provisions on the distribution of insurance and reinsurance products. The level of consumer protection compared to Directive 2002/92/EC has been enhanced in order to reduce the need for diverging national measures. Account is taken of the specific nature of insurance contracts as compared to investment products regulated by Directive 2014/65 / EC (Markets in Financial Instruments Directive). The minimum standards have been raised with regard to distribution rules and a level playing field has been created for all insurance-based investment products.

The directive aims to achieve minimal harmonization and should, therefore, not prevent Member States from maintaining or introducing more stringent consumer protection provisions. It promotes equality and a level playing field between intermediaries, regardless of whether they are tied to an insurance undertaking.

All sales of insurance products are included in the scope. The insurance undertakings which sell insurance products directly are included in the scope of this directive similarly to insurance agents and brokers. It includes not only insurance undertakings or intermediaries, but also the other market participants selling insurance products as an ancillary activity, such as travel agencies and car rental companies, unless they qualify for exemption.

The Directive contains provisions on the mandatory registers for insurance intermediaries and the criteria for determining the country in which they will register, and EIOPA establishes, publishes and updates a single electronic register of data on insurance and reinsurance intermediaries. Insurance and reinsurance intermediaries and ancillary insurance intermediaries may benefit from the freedom of establishment and the freedom to provide services provided for in the Treaty on the Functioning of the EU (TFEU).

Member States should:

- establish a single information point which gives access to their registers for insurance, reinsurance and ancillary insurance intermediaries;
- ensure that in good time before the conclusion of an insurance contract, an insurance intermediary provides the customer with at least information on the nature of the remuneration received in relation to the insurance contract;
- ensure that the competent authorities publish any administrative sanction or other measure that has been imposed for breaches of the national provisions implementing this directive and against which no appeal was lodged in time, without undue delay, including information on the type and nature of the breach and the identity of persons responsible for it.

The so-called floors of the maximum sanctions to be imposed for breaches of the directive are introduced.

Member States bring into force the laws, regulations and administrative provisions necessary to comply with this directive by 23 February 2018.

## **Directive (EU) 2016/2341 of the European Parliament and of the Council of 14 December 2016 on the activities and supervision of institutions for occupational retirement provision (IORPs)**

The Directive introduces new rules on institutions for occupational retirement provision (IORPs) in order to contribute to more long-term investment. The normative act is part of the EU's initiative to stimulate new and different ways to release long-term funding. The main objectives of the proposal are three: to ensure that members of a pension scheme are adequately protected against risks; removal of obstacles to cross-border provision of services so that occupational pension funds can take full advantage of the benefits of the single market; to strengthen the ability of occupational pension funds to invest in

financial assets with a long-term economic profile and thus to support the financing of growth in the real economy. The directive strengthens the harmonization of the internal market for occupational retirement provision by reviewing the regulatory framework under the previous Directive 2003/41/EC with a view to introducing a modern risk based IORP management system. It facilitates the cross-border activity of IORPs and the cross-border transfer of pension schemes by providing for appropriate procedures and eliminating unnecessary barriers, regardless of the Member State in which they operate, by centralizing the management of pension services.

The Directive provides minimum of harmonization that allows Member States to maintain or introduce additional provisions to protect members and beneficiaries of occupational retirement provision schemes provided that these provisions are in line with Member States' obligations under Union law. The deadline for transposition of the directive is 13 January 2019. Directive 2003/41/EC, as amended by the directives listed in Annex I, Part A, is repealed with effect from 13 January 2019.

**Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014**

The pricing of many financial instruments and financial contracts depends on the accuracy and reliability of the benchmarks and the practice shows that benchmarks can be subject to manipulation and conflicts of interest. This regulation aims to create a regulation to overcome any weaknesses or doubts in the accuracy and reliability of indices used as benchmarks that could undermine market confidence, cause losses to consumers and investors and distort the functioning of the real economy. The regulation guarantees the accuracy, stability and reliability of the benchmarks and the process for their determination.

In particular, the regulation contributes to the accuracy and integrity of benchmarks as follows: the activity of benchmark administrators will be subject to prior authorization (license) and permanent supervision, depending on the type of benchmark; improving governance and transparency requirements for benchmarking; appropriate oversight of critical benchmarks such as Euribor/Libor, which can pose a risk to many market participants and affect the functioning of markets and financial stability.

The FSC will have the obligation to notify ESMA of any decision to issue a license or to register an applicant within five working days of the date of adoption of that decision. ESMA will maintain a public register containing the identification data of the administrators licensed or registered under the competent authorities responsible for overseeing them as well as other elements specified in the regulation (Article 36). The Regulation also provides for the possibility for a competent authority to delegate the tasks in this regulation to the competent authority of another Member State with its prior written consent.

By 1 January 2018 FSC is to notify the European Commission and ESMA of the sanctions in its national legislation regarding the application of the regulation. Article 42 of the regulation lays down the requirements for penalties, setting, as in the previous regulations, the minimum levels that the maximum penalty (ceiling of the maximum) may reach. For individuals, this minimum ceiling of the maximum penalty is EUR 500,000, and for legal entities - the larger amount is between EUR 1 000 000 or 10% of the total annual turnover. For the competent authorities there is an obligation that the decisions on sanctions be published on the authority's website. FSC should submit to ESMA on an annual basis summary information on all administrative sanctions and other administrative measures imposed in accordance with Article 42. This obligation does not apply to measures for the purpose of investigations. ESMA publishes that information in an annual report.

This Regulation enters into force on the day following that of its publication in the Official Journal of the European Union and applies from 1 January 2018.

**Regulation (EU) 2016/2340 of the European Parliament and of the Council of 14 December 2016 amending Regulation (EU) No 1286/2014 on key information documents for packaged retail and insurance-based investment products (PRIBIP) as regards the date of its application** was published at the end of the year.

The regulation amends the date of application of the main PRIBIP Regulation, which is postponed to 1 January 2018. The postponement was necessitated because of the objection of the European Parliament against the delegated regulation implementing Regulation No 1286/2014 on the key information document (KID) that defines the presentation and content of KID and its standardized format, the methodology underlying the presentation of risk and return and the calculation of costs, the conditions and the minimum frequency of review of the information contained in the KID and the conditions for implementation of the requirement to provide KID to retail investors. The postponement will also enable the persons concerned to prepare for the new requirements.

### Delegated regulations

In 2016, the regulatory activity of the two European bodies, ESMA and EIOPA, was focused mainly on the preparation of the necessary technical standards for the implementation of EU legislation. Under their regulations, the two bodies issue draft technical standards subject to approval by the European Commission. The technical standards are issued in accordance with the provisions for delegated acts under Articles 290 and 291 of the Treaty on the Functioning of the European Union, they are adopted in the form of regulations, published in the Official Journal of the EU and as regulations they are binding in their entirety and directly applicable in all Member States. The delegated regulations are issued on the implementation of the first-level legislative acts (directives and regulations) providing for such delegation. For 2016, over 60 delegated regulations were adopted mainly on the application of the capital requirements regulatory framework, Solvency II (Directive 2009/138/EC and Regulation 2014/35), market abuse, recovery and resolution of investment intermediaries, benchmarking, markets in financial instruments, etc.

It was also expected that the technical standard on the key information document (KID) for packaged retail and insurance-based investment products (PRIBIP) - Regulation (EU) No 1286/2014 - would be approved. In the course of the procedure, the European Parliament exercised its right to objection and was supported by a number of EU Member States, including Bulgaria and in particular the FSC. The objection to the adoption of the technical standard was in view of the short deadlines that the persons obliged under the regulation would have in order to be acquainted with the obligations arising from the regulatory framework regarding packaged retail and insurance-based investment products as well as the necessary actions to bring their activities in line with the new regulatory requirements. Some problematic areas were also noted: the elimination of credit risk from the calculation of risk for insurance products; multi-option products were not clarified; gaps in the methodology for determination of future activity scenarios, thus not fulfilling the requirements of the basic regulatory act, etc. As a result, the technical standard was returned to the EC for revision.

### EC proposals for regulations and directives

At the beginning of the year, the **European Commission published a Green Paper on Retail Financial Services titled “Better products, more choice, and greater opportunities for consumers and businesses”**.

The Green Paper aims to create a real European retail financial services market that will benefit EU consumers regardless of their location. There is currently no such harmonized market and only a small part of the retail financial service purchases are made across borders. The Green Paper will initiate a discussion on how the European retail financial services market, namely insurance, loans, payments, current and savings accounts and other retail investment products, can become even more open and provide better results for consumers and businesses, while ensuring adequate protection for consumers and investors.

The aim is to make it easier for companies based in one EU Member State to offer retail financial services in other EU Member States, for consumers to be able to buy retail financial services offered in other EU Member States, and for citizens to take their financial service products with them if they move from one Member State to another, whether to study, work or retire – so-called “portability”.

**A Proposal for a Regulation of the European Parliament and of the Council amending Regulation 345/2013 on European Venture Capital Funds (EuVECA) and Regulation 346/2013 on European Funds for Social Entrepreneurship (EuSEF) was published on 14 July 2016 on the official website of the European Commission (EC).**

The proposal aims to stimulate investment in both types of funds - EuVECA and EuSEF - extending for that purpose their scope to all fund managers regardless of their size (i.e. large managers who manage assets over EUR 500 million are also included) and extending the scope of the companies in which investments can be made such as as small and medium-sized enterprises listed in emerging markets. The charges when these funds are offered across borders are explicitly prohibited.

**The European Commission’s proposal for a Directive of the European Parliament and of the Council amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Directive 2006/70/EC.**

Although the fourth anti-money laundering directive was adopted on 20 May 2015, the EC acknowledged the need for new amendments to reflect the measures in the “Action Plan to strengthen the fight against terrorist financing” adopted in February 2016 as well as to ensure greater transparency in relation to taxes and the fight against tax abuses. The proposal reinforces the measures introduced by Directive (EU) 2015/849, making in particular the following changes:

- Full public access to the registers of the beneficial owners - Member States will publicly disclose some of the information contained in the registers of the beneficial owners of companies and trusts involving business activities. Information on all other persons will be contained in the national registers and access to it will be available to any person that can demonstrate a legitimate interest. The registers will include the beneficial owners holding 10% in some companies for which there is risk of being used for money laundering and tax evasion. For all other companies this threshold will remain at 25%;
- Interconnection of registers - the registries are to be directly interconnected in order to facilitate cooperation between Member States;
- Expanding the information available to the bodies - existing and new accounts should be subject to comprehensive screening procedures. Thus accounts that could be used for illegal activities

will not remain undetected. Passive companies and trusts, such as those listed in the so called “Panamanian documents” will also be subject to stricter control and stricter rules<sup>10</sup>.

### **Proposal for a Regulation of the European Parliament and of the Council on a framework for the recovery and resolution of central counterparties and amending Regulations (EU) No 1095/2010, (EU) No 648/2012, and (EU) 2015/2365**

The European institutions report that, although EU central counterparties (CCPs) adhere to high standards in view of their significant role in the economy and the additional risks undertaken by them, there are no harmonized rules in the cases where CCPs would face serious difficulties or would not be able to perform their duties at all. It is considered appropriate and necessary to provide for recovery and resolution measures for them just like Directive 2014/59/EC envisaged for major investment intermediaries and banks. As such, these measures are intended to protect, without being at the expense of taxpayers, key and vital functions in order to preserve the ability of the financial system to finance economic growth and to avoid socio-economic costs in case of a financial collapse. Given their central and growing role in financial markets, all CCPs in the EU are considered to be systemic and, therefore, the measures will be applicable to all of them. The efficient regulation and strict supervision of CCPs are essential because a significant part of the financial risk to the Union’s financial system is concentrated in CCPs that handle this risk on behalf of clearing members and their clients<sup>11</sup>.

## **2. Licensing activity, licensing regimes, notifications and certification**

### **2.1. Licensing activity and licensing regimes**

#### **Investment intermediaries, Central Depository and regulated markets**

The total number of investment intermediaries at the end of 2016 is 65, including 41 investment intermediaries (II) holding a license issued by FSC, and 24 banks. In 2016, one license of investment intermediary BG ProInvest AD was withdrawn based on a decision taken by the company to refuse the license. In addition, an application for voluntary refusal of a license was considered, which was withdrawn after a change of the persons holding interest in the investment intermediary. Four refusals to issue a licence for activity as an investment intermediary were issued (Kim Capital Group AD, InterGlobe Direct OOD, Neo Fin Capital EAD and Trade 7 EOOD). New licenses for investment intermediaries were not issued in 2016.

At the end of the year, the total number of investment intermediaries (banks and non-banking institutions) holding a full license (with right to carry out transactions and services in relation to financial instruments on own account) was 43 and the total number of investment intermediaries with a partial license was 22 (20 of them have an option to hold client assets and 2 do not have this right).

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<sup>10</sup> European Commission - Press release “Commission strengthens transparency rules to tackle terrorism financing, tax avoidance and money laundering”, Strasbourg, 5 July 2016.

<sup>11</sup> Brussels, 28.11.2016 COM(2016) 856 final 2016/0365 (COD).



**Table 1. Licensing activity in respect of investment intermediaries, regulated market and CCP**

	Number as at 31.12.2015	Licences issued	Licences withdrawn	Number as at 31.12.2016
Investment intermediaries including:	67	0	2	65
Banks	25	0	1*	24**
Non-banking institutions***	42	0	1	41
Regulated market	1	0	0	1
Multilateral trading facility	1	0	0	1
Central Depository	1	0	0	1

Notes: \*The number of banks offering investment services decreases in view of the merger of Alfa Bank - Bulgaria Branch with Eurobank Bulgaria AD in 2016. \*\*The number of investment intermediary banks includes those that operate on the territory of the country through a branch. \*\*\* The investment intermediaries operating in Bulgaria through a branch under the conditions of freedom of establishment are not included in the total number of non-banking investment intermediaries.

In 2016, a total of 109 proceedings related to the activity of investment intermediaries were finished: 6 are related to the issue, refusal and revocation of a licence, 10 are related to notifications for acquisition and transfer of qualified holdings in the capital or the votes in the general meeting of an investment intermediary, 28 are related to applications for approval of members elected in a management or a supervisory body of an investment intermediary, 12 are related to notification procedures of Bulgarian investment intermediaries and 53 are related to notifications of changes in the general conditions of investment intermediaries.

In 2016, nine assessments were made of the acquisition of a qualifying holding in an investment intermediary. In connection with a change in the applicable regulations mainly related to the liberalisation of the regime on how to conclude contracts with clients, almost all investment intermediaries (53 out of 65) adopted changes in the general conditions applicable to the conclusion of contracts with clients.

One of the requested approvals in 2016 of a member of a management and supervisory body of an investment intermediary ended with a refusal, and the others - with a positive decision. Some of the proceedings under Article 11 of the Markets in Financial Instruments Act are already linked to the approval of members of a supervisory body of significant investment intermediaries within the meaning of Article 13 of Ordinance № 50 of 19.06.2015 on the capital adequacy, liquidity of investment intermediaries and supervision of their compliance.

During the reporting year replies were sent to multiple inquiries from foreign entities regarding the requirements applicable to the issue of licences for activity as an investment intermediary in the Republic of Bulgaria. Applications for investment intermediary licences were filed at the end of 2016 and are due to be reviewed in 2017.

In 2016 a proceeding for approving amendments to the Rules and Regulations of Bulgarian Stock Exchange - Sofia AD was heard. No proceedings related to Central Depository AD have been heard.

After the first multilateral trading facility was launched in the Republic of Bulgaria in 2016, amendments were made to its Rules and Regulations creating new segments of existing markets.

**Table 2. Administrative procedures in respect of investment intermediaries, regulated market and CCP**

	Not concluded as at 31.12.2015	New in 2016	Concluded in 2016	Not concluded as at 31.12.2016
Investment intermediaries	7	106	109	4
Regulated market	0	1	1	0
Central Depository	0	0	0	0
Other proceedings	0	59*	56	3

Notes: \*Replies to inquiries and requested opinions in relation to the activity of investment intermediaries, the regulated market and the Central Depository.

### Collective investment schemes and management companies

Three applications for a licence to operate as a management company were received in 2016. One refusal was made and one management company licence was issued (Deltastock Asset Management EAD). A refusal was issued to the third application in February 2017. In 2016 FSC did not withdraw licences of management companies.

During the reporting year, nine authorizations for the organization and management of a contractual fund were issued. Seven authorizations were issued in connection with the management of the classical contractual funds (to Management Company (MC) UBB Asset Management EAD for contractual funds UBB Global Children Fund, UBB Global Dividend and UBB Global Growth, to MC Capman Asset Management AD for contractual funds S-BONDS and S-MIX, to MC ELANA Fund Management AD for contractual fund Elana Bulgaria, to MC DSK Asset Management AD for contractual fund DSK Global Companies).

**The first authorization for the organization and management of exchange-traded fund Expat Bulgaria SOFIX UCITS ETF was issued in the Republic of Bulgaria to MC Expat Asset Management EAD during the reporting year.** The fund follows the performance of the SOFIX index, which consists of the 15 most liquid companies traded on the Bulgarian Stock Exchange - Sofia AD. Expat Bulgaria SOFIX UCITS ETF adheres to the method of full physical replication of the followed index.

In 2016, one authorisation was issued for organizing and managing a feeder collective investment scheme to management company Raiffeisen Asset Management (Bulgaria) EAD for contractual fund Raiffeisen (Bulgaria) Global Mix. The same decision contained also approval under Article 69, para. 1, first sentence, in connection with Article 12 of the Law on the activities of collective investment schemes and other collective investment undertakings (LACISOCIU), regarding the investment of contractual fund Raiffeisen (Bulgaria) Global Mix in a chief collective investment scheme - contractual fund Raiffeisen Security organized and managed by Raiffeisenbank Kapitalanlage-Gesellschaft MBH - Austria. With the issued authorization, the feeder schemes in the Republic of Bulgaria became three, all of them managed by management company Raiffeisen Asset Management (Bulgaria) EAD.

During the year an application for organization and management of contractual fund Compass Plus was submitted by management company Compass Invest AD and the authorisation for its organization was issued in January 2017.

In 2016, two authorisations were issued for the transformation of a contractual fund (to management company Alaric Capital AD for transformation of contractual fund Aurora Capital Balanced through acquisition by contractual fund Alaric - Global Raw Materials and to management company DV

Asset Management EAD for transformation of contractual fund DV Comfort through acquisition by DV Harmony).

During the reporting year, an application was submitted by management company Elana Fund Management AD for the issuance of an authorisation for the transformation of investment company Elana High-Yield Fund into contractual fund Elana High-Yield Fund. The authorisation for transformation was issued in January 2017 and after the transformation procedure ends the last open-end investment company in the Republic of Bulgaria will be terminated by transforming it into a contractual fund.

**Table 3. Licensing activity in respect of MC, CF and IC**

	Number as at 31.12.2015	Licences/authorisations issued	Licences/authorisations withdrawn	Number as at 31.12.2016
Management companies	30	1	0	31
Contractual funds	110	9	2*	117
Investment companies	1	0	0	1

Notes: \*The decreasing number of contractual funds is due to the transformations in 2016 through the acquisition of two funds.

In 2016, 5 administrative procedures were conducted for approval of a new member of a management company's management body without issuing refusals of approval, and two procedures for assessment of persons acquiring a qualifying holding in a management company.

Most of the administrative procedures for contractual funds during the year involved approvals of amended rules. In 2016 the procedures for issue of 45 approvals of contractual fund rules under Article 13, para. 2 of LACISOCIU were finished, 16 approvals for changes of portfolio valuation rules and determination of the net asset value, 9 approvals for changes of risk assessment and management rules, 6 approvals for changes in the contracts for depository services and for replacement of a depository of contractual funds.

It should be noted that Commission Regulation (EC) 2016/438 of 17 December 2015 supplementing Directive 2009/65/EC of the European Parliament and of the Council with regard to obligations of depositories (Regulation (EC) 2016/438) entered into force on 13.10.2016. The latter governs the content of contracts with depositories and has direct effect. With regard to the new regulation, the FSC explicitly requested in letters to all management companies to take action to change the contracts for depository services of the collective investment schemes managed by them in accordance with Regulation (EC) 2016/438 and the latest amendments to the LACISOCIU concerning the depository services.

In view of the above, 61 applications were submitted at the end of 2016 for approval of contracts for depository services, some of which ended in early 2017 with approval. Moreover, in view of the amendments to the applicable legislation, 101 proceedings were initiated at the end of 2016 to approve changes in the rules under Article 13, para. 2 of LACISOCIU, the risk management rules and the portfolio valuation rules and the determination of the net value of the assets of contractual funds, some of which ended in January and February 2017.

Insofar as there is just one open-end investment company in 2016, there are no proceedings related to an investment company apart from the initiated procedure for transformation of the investment company into a contractual fund.

**Table 4. Administrative procedures in respect of MC, CF and IC**

	Not concluded as at 31.12.2015	New in 2016	Concluded in 2016	Not concluded as at 31.12.2016
Management companies	1	9	9	1
Contractual funds	8	249	87	170
Investment companies	0	1	0	1
Other proceedings	2	20*	19	3

Notes: \*Replies to inquiries and requested opinions on the activities of management companies and collective investment schemes.

### National investment funds and alternative investment fund managers

With the amendments to the Law on the activities of collective investment schemes and other collective investment undertakings (LACISOCIU) - in effect from 20.12.2013 - title 1 of Part III "Other undertakings for collective investment" regulating closed-end investment companies was repealed and a regulation of the national investment funds was created by adding a new title 1 of Part III of LACISOCIU "National Investment Funds". Pursuant to Article 74 of LACISOCIU, closed-end investment companies should comply with the requirements of Part III, Title 1 of the law. In connection with the reports in 2014 and 2015, the two closed-end investment companies brought their activities in line with the new regulatory framework with their transformation into closed-end national investment companies, which are one of the four forms of a national investment fund. In 2016 finished also the examination of the application submitted by Concord Asset Management AD for an authorisation for the organization and management of a closed-end national investment fund, namely Concord Fund - 7 South East Europe. The proceeding ended with the issuance of the required authorisation with which the national investment funds in the Republic of Bulgaria became three - all of which closed-end national investment funds. What is specific of this type of national investment funds is that they are subject to a considerable amount of the provisions regulating the status of public companies in the Law on Public Offering of Securities (LPOS). In addition to that, the national investment funds are Bulgarian alternative investment funds.

In connection with the amendments adopted in Ordinance № 44 of 20.10.2011 on the requirements for the activity of the collective investment schemes, the management companies, the national investment funds and the managers of the alternative investment funds, which established the regulatory framework for the activity of national investment funds, the operation of existing national investment funds will be further aligned with the changes in the applicable legislation. The first changes were initiated in December 2016.

**Table 5. Licensing activity in respect of NIF and AIFM**

	Number as at 31.12.2015	Licences/authorisations issued Registrations	Licences/authorisations withdrawn Deregistrations	Number as at 31.12.2016
National investment funds	2	1	0	3
Alternative investment fund managers	2	1	0	3

Until the end of 2016 no license was issued to an alternative investment fund manager. In connection with the finished proceeding for issuing an authorisation for organizing and managing Concord Fund - 7 South - East Europe on the grounds of Article 214 of the Law on the activities of collective investment schemes and other collective investment undertakings, management company Concord Asset Management AD was registered as an alternative investment fund manager.

In 2016 a proceeding for approving amendments to the statutes of national investment company Nadezhda AD was conducted. In addition, an application was submitted in December 2016 for approval of changes to the contracts for depository services of the company.

**Table 6. Administrative procedures in respect of NIF and AIFM**

	Not concluded as at 31.12.2015	New in 2016	Concluded in 2016	Not concluded as at 31.12.2016
National investment funds	0	3	2	1
Alternative investment fund managers	0	1	1	0
Other proceedings	0	11*	10	1

Notes: \*Replies to inquiries and requested opinions on alternative investment fund notifications and the persons who manage them.

### Public companies, special investment purpose companies and other issuers of securities

The downward trend of the investor's interest in the specific activity of the special investment purpose companies continued also in 2016 (securitisation of real estate and securitisation of receivables). The prolonged stagnation in the real estate market impacts the activities of the special investment purpose companies securitizing real estate, and the purchase of slow assets and receivables at preferential prices is hampered by the low interest rates offered by commercial banks. These circumstances have a direct impact both on the number of applications for issuing a licence to operate as a special investment purpose company and on the ability of some licensed companies to operate under the licence issued to them.

In 2016 there were no applications for issuing a licence for operation as a special investment purpose company while at the same time the licences of 3 companies were withdrawn: One licence was due to declared voluntary termination at the initiative of the company (Real Estates - Pomorie SIPC) and the withdrawal of two licences was enforced (Properties Capital Invest SIPC and Solid Invest SIPC).

At the end of 2016, the number of companies operating as SIPCs was 60, of which 52 were for securitisation of real estate and 8 - for securitisation of receivables.

**Table 7. Licensing activity with respect to SIPCs**

	Not concluded as at 31.12.2015	New in 2016	Concluded in 2016	Not concluded as at 31.12.2016
SIPCs including:	62	-	2	60
SIPCs for securitisation of receivables	8	-	-	8
SIPCs for securitisation of real estate including:	54*	-	2	52
SIPCs (agricultural land)	7	-	-	7

Note: \*The number of SIPCs for securitisation of real estate at the end of 2015 does not include companies for which the Commission issued a decision to revoke the licence.

Irrespective of the public status of special investment purpose companies, given the exceptional nature of their object of activity aiming to maintain their nature of a securitisation instrument, the special investment purpose companies are subject to stricter regulatory requirements requiring prior approval by FSC for changes in the statutes and in the other statutory documents of the special investment purpose companies as well as in case of replacement of the depository bank and the servicing company.

In relation to the activity of special investment purpose companies and the regulatory requirements for that activity, during the reporting year the FSC reviewed and issued decisions on:

- 16 applications for approval of amendments to the statutes of special investment purpose companies; approval of the proposed amendments to the statutes of the special investment purpose company was refused under one of them;
- 2 applications for approval of the replacement of a servicing company under which the FSC has approved the planned replacement.

During the reporting period the FSC did not receive any applications for approval of replacement of a depository bank of a special investment purpose company.

The other public companies (excluding special investment purpose companies) and issuers of securities are not subject to licensing but to registration, respectively deregistration, from the special register of public companies and other issuers of securities kept by the FSC. 3 public companies and 2 issuers of securities were entered in the register in 2016. A total of 23 companies were removed in 2016 from the register of public companies and other issuers of securities kept by the FSC; 16 of them are public companies and 7 are issuers of securities. One public company was refused deregistration from the register of public companies and other issuers of securities kept by the FSC.

The total number of public companies (excluding special investment purpose companies) and the other issuers of securities registered at the end of 2016 in the register kept by the FSC is 335.

**Table 8. Public companies and other issuers of securities**

	Number as at 31.12.2015	Licences issued	Licences withdrawn	Number as at 31.12.2016
Public companies and other issuers*	353	5	23	335

Notes: \*The number of public companies and other issuers does not include collective investment schemes.

Regarding the activity of public companies and issuers of securities, apart from the proceedings for registration (6) and deregistration (23) of public companies and issuers from the register kept by the FSC, 2016 witnessed a significant increase in the number of applications for approval of prospectuses compared to previous years. The applications for approval of prospectuses for initial public offering of securities, respectively for admission of securities to trading on a regulated market, are 35, which is about 46% more than in 2015, of which 4 applications for approval of prospectuses were in a process of review at the end of 2016. The number of prospectuses approved in 2016 is 23 or a 53% increase compared to the previous year.

The structure of the prospectuses approved in 2016 is as follows:

- 12 of the approved prospectuses are for initial public offering of issues of shares for increase of the capital of the companies;
  - 8 of the approved prospectuses are for admission to trading of issues of bonds issued under the terms of the primary private offering within the meaning of the Commercial Law;
  - 2 of the approved prospectuses are for admission of issues of shares to trading on a regulated market;
  - 1 prospectus is for initial public offering of warrants.

During the reporting year, 4 refusals for approval of prospectuses were issued (two for initial public offering of shares, one for admission of shares to trading on a regulated market and one for admission of bonds to trading), and four proceedings for approval of prospectuses were terminated at the request of the applicants. At the end of 2016, four proceedings for approval were under review.

During the reporting period 1 supplement to a prospectus for initial public offering of shares was approved.

A total of 23 issues of securities were entered in the FSC register in 2016 as a result of the approved prospectuses for initial public offering of securities (respectively after successful subscription and registration of the capital increase in the commercial register) or for admission to trading on a regulated market of securities. The structure of securities entered in the register is as follows:

- 14 issues of shares were registered, 4 of which were made by new companies admitted to trading on a regulated market for the first time and the other 10 issues were issued as a result of a subsequent increase in the capital of public companies;
  - 8 issues of bonds were registered as a result of the approval of a prospectus for admission to trading on a regulated market of the bonds issued under the terms of primary private offering within the meaning of the Commercial Law;
  - One issue of warrants was entered as a result of successful initial public offering of the securities.

During the reporting period, 24 issues of securities were deleted from the register kept by FSC, of which 15 issues of shares, 7 issues of bonds and 2 issues of warrants. One refusal to delete an emission of securities from the register kept by the FSC was made because the public company issuing the securities refused the deregistration.

Seven proceedings on registered tender offers for purchase of the shares of other shareholders of public companies were heard and closed in 2016, two of which concerned tender offers registered in 2015 and were not concluded at the end of the year. FSC took the following decisions regarding the reviewed tender offers:

- Regarding six of the tender offers the FSC issued a temporary ban on their publication and after the necessary corrections were made the FSC decided not to issue a final ban on their publication;
- In one proceeding the FSC issued a temporary ban on the publication of the tender offer and, subsequently, since the disclosed deficiencies were not removed, decided to impose a final ban on its publication.
- One tender offer was registered during the reporting period, which was withdrawn in the course of consideration by the offeror as a result of which the proceeding initiated on the basis of the registered offer was terminated by a decision of the FSC.
- Three further tender offers were registered at the end of the reporting period but the tender review procedures were not completed by the end of the reporting year.

Two decisions for approval of documents related to transformation with the participation of public companies were issued in reporting year 2016 as well as one decision to include an auditor in the list of independent auditors approved by the Deputy Chair of the FSC in change of Investment Activity Supervision Division. One procedure for approval of the documents for transformation with the participation of public companies initiated in 2015 was terminated at the initiative of the applicant.

**Table 9. Administrative procedures with respect to SPCs, PCs and other issuers**

	Not concluded as at 31.12.2015	New in 2016	Concluded in 2016	Not concluded as at 31.12.2016
SPCs	1	20	21	-
PCs and issuers	14	61	69	6
Other proceedings*	4	37	41	-

Notes: The replies to inquiries, opinions on complaints and other issues related to the activities of public companies and issuers were reported as other proceedings in 2016.

### Insurance and reinsurance

During the reporting period the number of licensed insurance companies performing insurance activity on the territory of the Republic of Bulgaria was 53. Of these, the insurers licensed to perform insurance activities under Sections I and II of Annex № 1 to the Insurance Code decreased with 2 companies and their number at the end of the year was 44. In 2016, 11 insurance companies with headquarters in an EU Member State carried out insurance activity through the right of establishment /a branch/ in the territory of the Republic of Bulgaria.

Three licences were issued in 2016 to expand the scope of the licence of insurers with a group of insurance classes under Annex № 1 of the Insurance Code (IC).

In April 2016, a licence was issued to extend the scope of the licence of Insurance Joint-Stock Company European Health Insurance Fund with a group of insurance classes under Section II, letter "A" of Annex № 1 of the IC as follows: Item 1 "Accident (including industrial injury and occupational diseases)"; Item 7 "Goods in transit (including merchandise, baggage, and all other goods)"; Item 8 "Fire and natural forces"; Item 9 "Other damage to property"; Item 16 "Miscellaneous financial loss" and Item 18 "Travel Assistance (assistance)".



Also in 2016 licences were issued to extend the scope of the licence of Insurance Company Nadezhda AD with a group of classes of insurance under Section II, letter "A" of Annex № 1 of the IC as follows: Item 13 "General liability"; Item 14 "Credit"; Item 15 "Suretyship"; Item 17 "Legal expenses" and of Insurance Joint-Stock Company "DallBogg Life and Health" AD with a group of classes of insurance under Section II, letter "A" of Annex № 1 of the IC as follows: Item 10 "Third Party Liability insurance related to the possession and use of motor vehicles"; Item 14 "Credit"; Item 15 "Suretyship".

During the reporting period, the FSC issued decisions for the voluntary termination of 2 insurance companies with which the licences for insurance operations of Generali Life Insurance AD were withdrawn on the basis of the application submitted by the company and Mutual Insurance Cooperative Dobrudzha-M Life so the company was terminated voluntarily. The FSC also approved the transfer of the insurance portfolio of Mutual Insurance Cooperative Dobrudzha-M Life, consisting of 1 387 contracts, to Life Insurance Company Saglasie EAD.

**Table 10. Licensing activity in relation to insurance and reinsurance**

	Number as at 31.12.2015	Licences issued	Licences withdrawn	Number as at 31.12.2016
Insurers including:	44	-	-	42*
Non-life insurance	29	0	-	29
Life insurance	13	-	1*	12
Mutual insurance cooperatives	2	-	1*	1
Branch of a foreign insurance company	11	-	-	11
General reinsurance companies	1	-	-	1
Insurance brokers	398	12	16	394

Notes: \*During the reporting period Generali Life Insurance AD and Mutual Insurance Cooperative Dobrudzha-M Life are terminated voluntarily by decisions of the FSC.

12 decisions were issued by the Deputy Chair of the FSC in charge of the Insurance Supervision Division in 2016 which allowed the entry of 12 brokers in the register kept by the FSC on the grounds of Article 30, para. 1, item 12 of the FSCA. During the reporting period the Deputy Chair of the FSC in charge of the Insurance Supervision Division issued 16 decisions to delete 16 brokers from the register; 7 of them were issued at the request of the insurance broker on the grounds of Article 312, paragraph 1, item 11 of the IC as follows: Insurance Brokerage Company Sofia Auto EAD, Lines Broker OOD, Inter Brokers EOOD, Kayen 69 OOD, Georgiev-2000 OOD, Elevan AD and EuroGroup Insurance Broker EOOD. On 31.12.2016 the total number of companies registered in the register of insurance brokers is 394.

In 2016, on the initiative of the Deputy Chair of the Financial Supervision Commission in charge of the Insurance Supervision Division, 9 decisions for deletion of insurance brokers from the register kept by the FSC were issued on the basis of Article 312, para. 1, item 8 of the IC, because the mentioned brokers did not fulfil their obligation to pay their financial obligations in connection with their activity as insurance brokers: Insurance Broker Ros Ins EOOD, Bieks Auditing EOOD, Arsi Brokers EOOD, Aspro Borker EOOD, Deva Consult 2008 EOOD, GPA Group AD, MG Broker OOD, TN Group and TSN Broker EOOD.

The trend of decreasing number of insurance agents, which was 19 249 at the end of the year, continued also in 2016. The decline was highest for individuals (with -4 148), the legal entities decreased by 1 612, and the sole traders decreased by 709.

**Table 11. Registration in the register of insurance agents**

	Number as at 31.12.2015	Number as at 31.12.2016
Insurance agents including:	25 718	19 249
Legal entities	9 059	7 447
Sole traders	2 521	1 812
Natural persons	14 138	9 990

A total of 179 decisions were issued under licensing, authorization, registration and approval regimes in 2016 in connection with the administrative procedures initiated under the Insurance Code and the regulations for its implementation:

- 3 decisions for additional licences issued by the Financial Supervision Commission to Insurance Joint Stock Company European Health Insurance Fund, Insurance Company Nadezhda AD and DallBogg: Life and Health AD to extend the scope of the insurance licence with a group of classes of insurance under Section II, letter "A" of Annex № 1 to the IC;

- 4 decisions for termination of administrative proceedings;

- 6 decisions of the Financial Supervision Commission to authorize a change in the status of the insurer under Article 37 of the Insurance Code so that Life Insurance Company Saglasie AD, Insurance Joint Stock Company European Health Insurance Fund, FiHealth Insurance AD, Tokuda Health Insurance AD, Insurance Company Mediko-21 AD and OZF Doverie Insurance Joint Stock Company AD will conduct their activity without right of access to the single market. In view of this, these insurers are to operate in accordance with the requirements of Part II, Title IV, Article 198 - Article 213 of the Insurance Code. They are also subject to the requirements of Chapter 7, "System of Governance" of the IC on the establishment of an effective system of governance in order to ensure reliable and prudent management of the activity.

The other insurance companies with a right of access to the single market continue to operate in accordance with the provisions of Part II, Title III, Article 152 - Article 197 of the Insurance Code and in compliance with the requirements of Chapter Seven "System of Governance" of the Insurance Code.

- 1 decision of the Financial Supervision Commission for refusal to issue authorisation for voluntary termination of Mutual Insurance Cooperative Dobrudzha-M Life;

- 1 decision for approval of a direct intragroup acquisition - Decision No 204 - OZ of 31 March 2016 of the Financial Supervision Commission approves the change applied for by Clenmey Enterprises Limited, Republic of Cyprus, in the shareholding of Health Insurance Company - Planeta EAD - direct intragroup acquisition by Clenmey Enterprises Limited, Republic of Cyprus, to 5 000 000 (five million) ordinary, registered, dematerialized voting shares, each with nominal value of BGN 1 (one), representing 100% of the shares in the capital of Health Insurance Company - Planeta EAD;

- 1 decision of the FSC to amend the liquidation plan of DZI - Health Insurance AD - in liquidation, city of Sofia;

- 76 decisions of the Deputy Chair of the FSC in charge of the Insurance Supervision Division for approval of executive directors, procurators, members of management and control bodies;

- 30 decisions of the Deputy Chair of the FSC in charge of the Insurance Supervision Division for approval of a compliance function holder of an insurer or a reinsurer;

- 28 decisions of the Deputy Chair of the FSC in charge of the Insurance Supervision Division for approval of an internal audit function holder of an insurer or of a person in charge of the unit that performs such function;

- 1 decision of the FSC for recognition of the capacity of a responsible actuary;

- 12 decisions of the FSC Deputy Chair in charge of the Insurance Supervision Division for entry of 12 insurance brokers from the register kept by the Commission;

- 16 decisions of the FSC Deputy Chair in charge of the Insurance Supervision Division for deletion of 16 insurance brokers in the register kept by the Commission;

**Table 12. Administrative procedures in respect of insurance and reinsurance**

	Not concluded as at 31.12.2015	New in 2016	Concluded in 2016	Not concluded as at 31.12.2016
Insurance companies	5	169	156	18
Insurance brokers	1	29	29	1
Other proceedings	0	1	1	0
<b>Total</b>	<b>6</b>	<b>198</b>	<b>185</b>	<b>19</b>

Note: Number of administrative procedures under the IC that ended with issue of an individual administrative act of the competent authority.

### Supplementary pension insurance

During reporting year 2016 there were no applications for issue of licences and for transformation of pension insurance companies and/or supplementary pension insurance funds, for voluntary winding-up of existing companies, and the FSC has not established grounds to withdraw issued pension licences. As a result of an initiated procedure for liquidation of a pension insurance company whose pension licence was withdrawn in 2015 as it did not start operating in the period provided for by law, in 2016 the pension insurance company was deregistered from the Commercial Register at the Registry Agency.

In view of the above, the number of licensed pension insurance companies at the end of 2016 is 9 and the number of supplementary pension insurance funds - 29 pension funds, including 9 universal, 9 professional, 9 voluntary and two voluntary pension funds with occupational schemes, and as at 31.12.2016 one of them is not active.

**Table 13. Licensing activity in relation to supplementary pension insurance**

	Number as at 31.12.2015	Licences issued	Licences withdrawn	Number as at 31.12.2016
Pension insurance companies	9	-	-	9
Supplementary pension insurance fund (SPIF)	29	-	-	29

The powers of the FSC's Deputy Chair in charge of the Social Insurance Supervision Division include exercising preliminary supervision both with regard to particular actions and with regard to the approval or affirmation of different documents of major importance for the operation of the pension insurance companies and the pension funds managed by them. Some of the proceedings related to the authorization and approval regimes within the competence of this administrative authority are initiated at the request of the persons obliged to do that by the regulations, while other proceedings are carried out ex officio by the supervisory authority.

A certain percentage of the administrative proceedings falling within the category of authorization and approval regimes concern the approval of various documents that the pension insurance companies adopt for implementation of their statutory obligations in relation to the management of the pension

funds. These include the adoption of amendments to the regulations on the organization and operation of the pension funds, which, pursuant to the requirement of the law, come into force after approval by the supervisory authority.

Due to changes in the legal framework in the field of supplementary pension insurance a total of 48 proceedings were initiated at the FSC to review the amendments to the rules for the organization and operation of the pension funds managed by the pension insurance companies. Until the end of 2016 the Deputy Chair of FSC in charge of the Social Insurance Supervision Division decided to approve the requested changes in 47 of them and one of the administrative proceedings is to conclude in 2017. One of the pension insurance companies amended the rules for the organization and operation of the supplementary mandatory pension insurance funds managed by it also due to changes in other internal documents of the same company. The amendments to the rules were submitted for approval at the end of 2016 and their review continued in January 2017.

Also during the reporting period, the Deputy Chair of FSC in charge of the Social Insurance Supervision Division issued 3 decisions for approval of the submitted biometric tables used in the actuarial estimates of two universal pension funds and one voluntary pension fund and a total of six decisions for the approval of the technical interest rate applicable for the determination of the amount of pensions under Article 169 and Article 246, para. 1 and 2 of the SICs.

In view of the statutory mandate of the Deputy Chair of the FSC in charge of the Social Insurance Supervision Division, the following decisions were issued in 2016:

- 8 decisions to determine the minimum rate of return from the management of the assets of the supplementary mandatory pension insurance funds;
- 1 decision approving changes in the template of the annual statements from the individual accounts of the insured persons in an professional pension fund;
- 1 decision for approving of the technical interest rate and the biometric mortality tables to be used for the calculation of the pension reserves as at 31.12.2016 by the pension insurance companies managing a universal pension fund and/or a supplementary voluntary pension insurance fund

**Table 14. Administrative procedures regarding supplementary pension insurance**

Object of the procedure	Not concluded as at 31.12.2015	New in 2016	Concluded in 2016	Not concluded as at 31.12.2016
Rules	-	50	47	3
Biometric tables and technical interest rate	-	9	9	-
Proceedings initiated ex officio	-	10	10	-
Total for pension insurance companies	-	69	66	3

An ongoing review of other documents submitted by the companies and the custodian banks was carried out in 2016 as well, which, although not subject to approval, were checked in terms of their compliance with the law. In case discrepancies are found in their content their elimination is required.

## 2.2. Notifications

In 2016, **187 notifications were received from investment intermediaries from EU Member States** having the intention to operate on the territory of the Republic of Bulgaria under the freedom to provide services and 1 notification from an investment intermediary from a Member State (Cyprus) intending to operate on the territory of the Republic of Bulgaria by establishing a branch. In 2016, 1 branch of an investment intermediary from a Member State (Estonia) ceased its operations in the territory of the Republic of Bulgaria. At the same time **69 investment intermediaries ceased their passportisation** and thus the total number of investment intermediaries from Member States having the intention to operate in Bulgaria in 2016 was 1 711.

During the reporting year, **19 notifications were received from management companies** from EU Member States regarding their intention to offer shares in **71 classes of securities from 34 funds/sub-funds of 3 collective investment schemes from Member States** on the territory of the Republic of Bulgaria. **3 notifications of termination of the offer of a total of 50 classes of securities of 32 sub-funds of 3 collective investment schemes from Member States** were received over the same period, and thus the **total number** of offered classes of collective investment schemes from Member States that intend to operate in Bulgaria is **718 classes of securities of 246 funds/sub-funds of 29 collective investment schemes from Member States**.

Two notifications from management companies from a Member State intending to operate on the territory of the Republic of Bulgaria under the terms of free provision of services were received in 2016 and thus the **total number of management companies** from Member States intending to operate in Bulgaria at the end of 2016, is **16**.

**13 notifications** were received in 2016 **from AIFMs from EU Member States** that intend to operate on the territory of the Republic of Bulgaria. At the same time **2 AIFMs ceased their passportisation** during the period and thus the **total number of AIFMs** from Member States having the intention to operate in Bulgaria in 2016 is **46**.

**9 notifications** were received in 2016 **in connection with the offer of 46 alternative investment funds (AIF)** from EU Member States on the territory of the Republic of Bulgaria. At the same time, **26 alternative investment funds ceased their passportisation** and thus the total number of Member State AIFs offered in Bulgaria at the end of 2016 was **88**.

In 2016, **1 notification was received in connection with the offer of 1 European venture capital fund (EuVECA)** from an EU Member State on the territory of the Republic of Bulgaria. At the same time, **1 fund ceased its passportisation** and thus the **total number of EuVECA funds** from Member States offered in Bulgaria at the end of 2016 was **11**.

FSC received in 2016 a **total of 24 notifications** under Article 18 of the Prospectus Directive, 9 of which are notifications of **new prospectuses**, and **15 notifications concerned additions** to base prospectuses.

In 2016 the Commission **received 54 notifications for insurers from EU Member States** about their intention to operate on the territory of the Republic of Bulgaria under the freedom to provide services. Thirteen of these insurers have ceased their operations in Bulgaria. Given this, **the total number of insurers from EU Member States** authorized to operate on the territory of the Republic of Bulgaria in 2016 is **564**.

**200 insurance intermediaries from EU Member States** stated their intention in the reporting year to carry out insurance mediation on the territory of the Republic of Bulgaria under the right of establishment and under the freedom to provide services. **The intermediaries who ceased doing business in Bulgaria** in that period were **47**, and **their net number** at the end of the year was **2 217**.

**Table 15. Notifications of foreign companies intending to operate on the territory of the Republic of Bulgaria**

	Number as at 31.12.2015	New in 2016	Terminated in 2016	Number as at 31.12.2016
Investment intermediaries	1592	188	69	1711
Management companies	14	2	0	16
Collective investment schemes (classes)	697	71	50	718
Alternative investment scheme managers	35	13	2	46
Alternative investment funds	68	46	26	88
European Venture Capital Funds (EuVECA)	11	1	1	11
Prospectuses	82	24	0	106
Insurance companies	523	54	13	564
Insurance brokers	2,064	200	47	2,217
Institutions for occupational retirement provision	-	-	-	-

In 2016 **notifications were received from 4 investment intermediaries licensed by the FSC** (Investment Intermediary BenchMark Finance AD, Investment Intermediary Beta Corp AD, Investment Intermediary Matador Prime OOD and Investment Intermediary Varchev Finance EOOD) regarding the intention of the companies to carry out activities under **the freedom to provide services without opening a branch in the territory of other Member States** (Spain, the United Kingdom, Austria, Ireland, Portugal and Italy). No notifications from Bulgarian investment intermediaries to establish a branch in the territory of another Member State were received in 2016.

During the reporting year, the only notification received from a management company concerns the intention of MC Expat Asset Management EAD for public offering of shares of contractual fund EXPAT Bulgaria SOFIX UCITS ETF on the territory of the United Kingdom of Great Britain and Northern Ireland. The proceeding finished in January 2017.

During the reporting period the FSC did not receive applications for notification of prospectuses for securities issued in the Republic of Bulgaria for admission to trading on foreign markets.

In 2016, **2 insurance companies based in the Republic of Bulgaria** notified the Commission of their intention to operate in the territory of another EU Member State. At its meeting the FSC took a decision under Minutes No 6 of 08.02.2016 to send **a notification to the competent authority of the Italian Republic regarding the intention of Insurance Company Allianz Bulgaria to carry out insurance activity under the conditions of the freedom to provide services**. The types of insurances that the insurer intends to make are:

- Fire and natural forces - all damage to or loss of property other than the property included in classes 3, 4, 5, 6 and 7;
- Insurance General Liability - any liability for damages other than those listed in classes 10, 11 and 12;
- Insurance Miscellaneous Financial Loss.

At its meeting, the FSC took a decision under Minutes No. 34 of 15.06.2016 to **notify the competent authority of the Italian Republic of the intention of Generali Insurance AD to carry on insurance business under the conditions of freedom to provide services**. The types of insurances that

the insurer intends to make are: Accident (including industrial injury and occupational diseases); Sickness; Land vehicles (other than railway rolling stock): all damage to or loss of: land motor vehicles and land vehicles other than motor vehicles; Railway rolling stock; Aircraft; Ships; Goods in transit (including merchandise, baggage, and all other goods); Fire and natural forces; Other damage to property; Third Party liability related to the possession and use of aircraft; Third Party liability related to the possession and use of ships; General liability; Credit; Suretyship; Miscellaneous financial loss; Legal expenses; Travel Assistance (assistance).

During the reporting period **no insurance company based in the Republic of Bulgaria has ceased its activities** in the territory of another EU Member State. **At the end of 2016, the number of insurance companies operating in the territory of the Member States is 14.**

In 2016 the FSC sent a notification to the competent authority supervising the insurance companies in the Republic of Portugal **concerning the termination of the right of Insurance Company Lev Ins AD and Armeec Insurance JSC to perform insurance activity under the freedom to provide services under Third Party Liability insurance related to the possession and use of motor vehicles.**

During the reporting period **Insurance Joint-Stock Company DallBogg: Life and Health AD notified the FSC of its intention to expand its insurance activities under conditions of freedom to provide services** in the territory of the following Member States: the Republic of Romania, the Kingdom of Belgium and the French Republic, the Kingdom of Spain (without insurance Travel Assistance (Assistance)), the Federal Republic of Germany, the United Kingdom of Great Britain and Northern Ireland, the Republic of Austria and the Kingdom of the Netherlands. In view of this, the Commission has duly notified those EU Member States.

In connection with the **intention of the Insurance Company Nadezhda AD to extend its activities to the territory of the Republic of Italy with classes “General Liability”, “Credits”, “Legal Expenses”, “Suretyship”** at its meeting, FSC took a decision under Minutes № 29 of 25.05.2016 to notify the competent authority of the EU Member State.

**With respect to Bulgarian insurance brokers**, the Commission sent **8 notifications** for insurance intermediation on the territory of EU Member States in the reporting year. The total number of insurance intermediaries operating in the territory of Member States amounted to **46** at the end of 2016.

**Table 16. Notifications of Bulgarian companies intending to operate on the territory of other Member States**

	Number on 31.12.2015	New in 2016	Terminated in 2016	Number on 31.12.2016
Investment intermediaries	165	8	0	173
Management companies	3	0	0	3
Prospectuses	4	0	0	4
Insurance companies	12	2	0	14
Insurance brokers	39	8	1	46
Institutions for occupational retirement provision	-	-	-	-

No notifications by institutions for occupational retirement provision from EU Member States intending to operate on the territory of the Republic of Bulgaria as well as no notifications of local pension insurance companies intending to operate in the territory of the EU were received in 2016.

## 2.3. Certification

In 2016 examinations for acquiring rights to operate as securities broker and as investment consultant were held on 19.01.2016 and 20.01.2016. 11 candidates were admitted to the examination for acquiring a right to operate as a securities broker and 22 candidates - for an investment consultants. The exams were successfully passed by 11 persons (6 for brokers and 5 for investment consultants) to whom certificates were issued. In addition, 9 certificates were issued as a result of a recognized legal capacity to operate as an investment consultant. The right of one person to act as a broker of securities was withdrawn in 2016.

During the reporting period, there were no examinations for the acquisition of a right to operate as an insurance broker. One application was reviewed and the capacity of a responsible actuary was recognized by the Financial Supervision Commission to a person who successfully passed an examination before a professional organization of actuaries (Bulgarian Actuarial Society).

**Table 17. Dynamics of certified persons**

	2012	2013	2014	2015	2016
Investment consultant	12 (6)	28 (20)	6	19 (11)	14 (5)
Securities brokers	(11)	(13)	0	6 (7)	5 (6)
Insurance brokers	-	1	14 (6)	8 (13)	-
Actuaries	-	-	11 (5)	1	1

Note: The table shows the total number of persons who acquired the right in the respective year to carry out the activity determined by law (the persons who have obtained the relevant qualification after passing an examination before the FSC are shown in brackets) The change in the number of the persons holding the respective qualification includes both the issued and the withdrawn authorizations for the activity during the reporting period.

## 3. Supervisory activity

### 3.1. Off-site supervision

#### Investment intermediaries, Central Depository and regulated markets

Off-site supervision aims to constantly monitor and periodically evaluate the financial position of the investment intermediaries and the legality of their business activity. The collected information allows the supervisor to respond in a timely manner to emerging problems and inconsistencies with the regulatory requirements. 3 types of inspections are performed within the framework of the off-site supervision: current inspections, which are carried out on a regular basis, when current information is received from the supervised persons required according to the statutory requirements; thematic inspections - aimed to make a complete inspection of one or more functions and/or requirements to the activity, inspections of complaints, inquiries and signals against supervised persons and/or companies without a licence to operate as investment intermediaries.

During the reporting period **9 757 ongoing inspections** were carried out, including 856 inspections on the financial status of the companies, 756 inspections on of clients assets held and 7851 inspections of the transactions with financial instruments admitted to trading on a regulated market. In the course of off-site supervision, instructions for entering the circumstances in the public register kept by the FSC are



drafted, **with 510 circumstances entered** in respect of IP, the regulated market, investment consultants and brokers for 2016.

During the reporting year, **260 inspections of complaints**, signals and inquiries from physical persons, legal entities and state bodies were carried out. Documents and information from both investment intermediaries and third parties were required in the course of these inspections. The review of the received information analysed the degree of regulatory compliance of the supervised entities. This type of inspections ended with the issue of an opinion on a submitted inquiry or a complaint or a direct response to the entity. As a result of this type of off-site supervision, 7 signals were also sent to the bodies of the Prosecutor's Office, SANS and BNB for taking action by competence.

### Collective investment schemes and management companies

The scope of the off-site supervision regarding the collective investment schemes (CIS) and the management companies (MC) covers the annual and half-yearly financial statements submitted to the FSC as well as the monthly balance sheet for the CIS and an annual financial report and quarterly reports for the MC. During the reporting period, **a documentary inspection of 1 751** annual and half-yearly financial statements, quarterly reports of the MC and monthly balances of the CIS managed by the management companies (MC) was made. During the year, **139 documentary inspections were carried out on the information provided by the MC through the e-Register system** regarding the obligation to submit to the Commission and publish prospectuses of the CIS and documents with key investor information.

Under the statutory requirements, MCs provide on a regular basis information on the issue value and the redemption price of the shares of the CIS in every instance of their determination (no less than twice a week). In addition to this information, the MC provides bi-monthly summary information at regular intervals about the estimated issue values and the redemption price of the shares of the CIS. **Inspections and approvals of 24 716 forms for the issue value and redemption price of contractual funds** were performed during the year. **2 736 summaries of aggregate information were received and verified** at the FSC regarding the specified issue values and the redemption price of the shares of the CIS.

62 inspections were made of the lists of persons with direct or indirect qualifying holdings (10 per cent or more than 10 per cent of the voting rights at the general meeting of the shareholders of the MC) submitted twice a year by the MC, as well as of information about their votes in the general meeting of the shareholders of the company.

89 inspections were carried out during the reporting period on the basis of notifications received by the Commission for breaches of investment restrictions due to reasons beyond the control of the MC and CIS **in connection with the supervision of the compliance with the investment restrictions by the MC in the CF managed by them.**

**437 entries of circumstances** were made with an order of the Deputy Chair of the FSC in charge of the Investment Activity Supervision Division in the public register kept by the FSC regarding the MC and the CIS as a result of documentary inspections outside those mentioned above.

### Public companies, special investment purpose companies and other issuers of securities

The off-site supervision of public companies, special investment purpose companies and other issuers of securities include an examination of the annual and quarterly notifications of the financial position/financial reports of the activity provided to the Commission as well as of consolidated financial statements submitted by issuers that are required to prepare consolidated financial statements. In addition, the issuers of bonds present a report on the fulfilment of their obligations under the terms of

the bond issue to the FSC (to the trustee of the bondholders and to the regulated market where the bonds are traded), and on the other hand the bondholders' trustee submits to the Commission a quarterly report . **A documentary examination of 5 352 annual and quarterly** (individual and consolidated) financial statements as well as reports on the fulfilment of the obligations of the issuers of bonds and the submitted reports of the trustees of bondholders was carried out.

In connection with the convening and holding of **general meetings of the shareholders/bondholders in 2016, 1048 documentary inspections** were made of the content and time of the invitations and the attached materials provided to the FSC (announcement in the Commercial Register) as well as the decisions taken by the general meeting and noted in the minutes submitted to the Commission.

**1 052 entries of circumstances** were made with an order of the Deputy Chair of the FSC in charge of the Investment Activity Supervision Division in the public register kept by the FSC **regarding the public companies, SIPC's and the other issuers of securities.**

**Regarding the disclosure of interest in the equity of a public company, another issuer of securities and a SIPC, 52 inspections were carried out** during the year of the information received regularly from the Central Depository AD and the submitted notifications.

Until the entry into force of Regulation (EU) № 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (the Market Abuse Regulation in force since 3 July 2016) and the Law on the Application of the Measures against Market Abuse with Financial Instruments (Promulgated in State Gazette 76 of 30.09.2016, in effect since 30.09.2016) repealing the then Law on Measures against Market Abuse with Financial Instruments as part of the regulated information, the liable persons disclosed to the Commission and to the public inside information that is specific, that is not publicly disclosed, relates directly or indirectly to one or more issuers of financial instruments or to one or more financial instruments if its public disclosure could have a material effect on the price of those financial instruments or the price of related derivative financial instruments. The formal verification of this information, part of which is also disclosed in the financial statements of public companies and other issuers of securities, determines whether it meets the legal definition of inside information, whether the order and the manner of its disclosure have been respected, including whether it has been appropriately disclosed both to the FSC and the public. **1 648 disclosures were made by the supervised entities** with electronic forms for disclosure of inside information in 2016 **that were analysed in the course of off-site supervision** during the reporting period. During the review of the disclosed information an assessment is made of the need to check the compliance with the other special requirements of the law, for example: compliance with the regime of large value transactions, market manipulations and misuse of inside information, etc.

**33 inspections were carried out** during the reporting period **related to the ongoing supervision exercised by the FSC for compliance with the imperative provisions of the LPOS** and its implementing acts. The inspections include mainly review of the data in the submitted regulated information, cross-checks to establish any administrative violations as well as lawful convening and holding of general meetings of the shareholders. All SIPC's and MCs were also checked regarding the compliance with the conditions under which they were issued a licence. The presence of non-compliances serves as grounds for revocation of the licence.

**196 proceedings were opened during the reporting period for enforcement of administrative measures** as a result of the off-site review of the annual and quarterly financial statements/notifications of the financial status (individual and consolidated) of the public companies, other issuers of securities and SIPC's submitted to the FSC and published by the media, the reports on the fulfilment of the obligations of the issuers related to bond issues and the reports given to the trustees of bondholders as

well as related to the compliance with the legal provisions for convening and conducting GMS. In view of the non-fulfilment of the enforcement of administrative measures and due to the absence of grounds for terminating the proceedings, **109 decisions were issued obliging the supervised persons to bring their activity in compliance with the law** by fulfilling the prescribed actions.

In connection with the process of compulsory collection of overdue fees for general financial supervision, **74 acts of the established public debts to the State (AEPDS) under the obligations for fees for general financial supervision due for the previous years 2012 and 2013 were prepared and sent in 2016 for compulsory collection to the NRA.**

After the LPOS was amended and supplemented (promulgated in SG 42/2016, in force as of 03.06.2016), **pursuant to Article 1e of the Supplementary Provisions of the LPOS, the provisions of chapter six "a" on information disclosure are also applied to the entities whose activity is regulated by the Energy Act and the Water Supply and Sewerage Services Regulation Act by the Energy and Water Regulatory Commission,** the state enterprises under Article 62, para. 3 of the Commercial Law and the commercial companies with more than 50 per cent state or municipal participation in the equity which do not meet at least two of the following criteria: average number of employees for the year - up to 10 people; carrying amount of the assets at 31 December - up to BGN 700 000; net sales revenue for the year - up to BGN 300 000. In this regard, the addressees of Article 1e of the Additional Provisions of the LPOS are obliged to submit annual financial statements, six-month financial statements and quarterly financial notifications/reports for their activities for the 1st, 3rd and 4th quarter of the year. **FSC received 3 011 such reports/notifications** in reporting year 2016.

## Insurance

A new Insurance Code (IC) entered into force on 01.01.2016 which implements Directive 2009/138/EC of the EP (the Solvency II Directive) and introduces new rules both for insurers and reinsurers as well as for supervisors.

A risk-based approach is introduced for determination of the capital requirements of insurers and reinsurers. The solvency margin, which was applied as the main regulatory instrument for the solvency of insurers and reinsurers until 31.12.2015, is replaced by the so-called

"Solvency Capital Requirement". The concept of the Solvency Capital Requirement is to take into account any quantifiable risks to which the insurer or reinsurer is exposed and to determine a sufficient amount of capital required to meet all commitments undertaken under concluded insurance contracts.

Transition is made to principle-based supervision with regard to the supervisory process. The primary role of the supervisory institution is to evaluate, approve and eventually adjust these company policies and to monitor their performance by insurers and reinsurers.

In the beginning of 2016, out of 44 insurers and 1 reinsurer on the Bulgarian insurance market, **39 of them apply the Solvency II regime** and have a right of access to the European Union and the European Economic Area market. These insurers and reinsurers comply with the European Commission's acts for implementation of Solvency II. Letters were sent to these insurers with guidelines regarding the data they should provide to the supervisory authority and the reporting period for the first year of application of Directive 2009/138/EC and the subsequent periodic quarterly reports.

**The other 6 insurance companies were issued decisions by the FSC for change in the status** under Article 37 of the Insurance Code, namely from an insurer operating under the common rules for access to the single market to an **insurer operating under the rules for insurers without the right to access the single market.**

The off-site supervision in 2016 is based on annual and periodic reports by insurers and reinsurers, insurance groups and the Guarantee Fund, as well as on the required additional information for certain areas of their activities. **612 off-site document inspections** of insurers, reinsurers, insurance groups and Guarantee Fund were performed during the year. The reviewed information includes annual and periodic reports and statements from insurers and insurance groups based in the Republic of Bulgaria and submitted to the FSC in accordance with the obligations to report the supervisory body as required by Implementing Regulation (EC 2015/2450) and § 9, para. 3 of the Transitional and Final Provisions of the IC.

To this end, **in 2016, the data submitted by the insurance companies and insurance groups to the FSC in respect of the first year of application of Directive 2009/138/EC were provided to the European Insurance and Occupational Pensions Authority (EIOPA)**. The implementation of the legal provisions of the IC regarding the Minimum Capital Requirement and the Solvency Capital Requirement was checked in 2016 in the course of the ongoing off-site supervision of the periodic reports and statements submitted by the insurers applying the Solvency II regime.

**A review of the assets to cover the technical provisions of insurers and of their compliance with the statutory requirements in respect of the types of assets and their structure was performed in 2016 in relation to insurance companies without right of access to the single market**, as well as whether the amount of the assets to cover the technical provisions corresponds to the amount of the technical provisions set up to the last quarter.

**Inspection was made of the sufficiency of the own funds** of companies without access to the single market for coverage of the solvency margin/guarantee capital and for compliance with the solvency requirements at the end of each quarter.

The off-site supervision includes a **verification of the sufficiency of the established technical provisions**. In connection with the **determination of the amount provisions for incurred but reported claims under Third Party Liability** insurance for motorists, information on the amount and number of the claims made and paid under the insurance, the value of the development factors, the market share of each company in the number of insured motor vehicles and the total market size of the provision for incurred but reported claims is aggregated and provided to the insurers at the end of each quarter. By the end of each quarter of 2016 a check was made to ensure that there is compliance with the legal requirements to the method used to determine the amount of the provision for incurred but not reported claims under Third Party Liability insurance for motorists.

In 2016, the reports on the results of the assessment of the aggregate solvency needs presented by insurers and reinsurers were also examined.

Participation was taken during the year in the meetings of the supervisory colleges of all the insurance companies based in the Republic of Bulgaria and having their parent company in a Member State. Participation was also taken in various quantitative market studies and questionnaires of European supervisory authorities. **A quantitative and qualitative questionnaire was completed in connection with Article 77f “Review of long-term guarantee measures and measures on equity risk” of Directive 2009/138/EC and sent to EIOPA** as a result of the collection and aggregation of information from insurers, reinsurers and insurance groups applying the Solvency II regime.

In 2016, **EIOPA conducted a stress test of the insurance sector in the EU involving 4 Bulgarian life insurance companies**. The stress test is based on the Solvency II standards and reporting. The assessment of all data was as at 1 January 2016. The aim was to assess the sustainability of the European insurance sector in a scenario of long-term low yield and a “double hit” scenario covering both the low risk-free interest rate and the higher risk premium.

### **3.1.1.** *FOCUS TOPIC: Review of balance sheets and stress test of insurers in Bulgaria*

In order to guarantee the effective functioning of the financial system and due to the need to ensure greater transparency of the transactions on the local financial market as well as in line with the National Reform Programme (NRP) in implementation of Europe 2020 Strategy and on the basis of §10 of the Transitional and Final Provisions of the Recovery and Resolution of Credit Institutions and Investment Firms Act (RRCIIFA ) the Financial Supervision Commission organizes a review of the balance sheets of insurers with the participation of independent external individuals and institutions with high professional reputation.

The Stress Test exercise was overseen by a Steering Committee that includes representatives of the FSC, the Ministry of Finance (Observer), the Bulgarian National Bank (Observer) and from international institutions - the European Commission (Observer) and the European Insurance and Occupational Pensions Authority (EIOPA; member of the Steering Committee). The FSC chose the consultant Regional Consortium Ernst & Young (Ernst & Young) as Project Manager responsible for drafting the methodology for balance sheet review that was approved by the Steering Committee, and for ensuring, in close cooperation with the Steering Committee, the harmonized application of the review methodology by the independent external experts performing the review and the similar treatment of the companies subject to the review by the relevant independent external reviewers.

The review of the balance sheets was carried out with the assistance of 7 independent external reviewers (IER), selected according to the criteria of the review terms of reference as follows: Deloitte Audit OOD, Bulgaria, DZZD GD Consortium Grand Thornton Bulgaria - Greece, KPMG Audit SRL, Romania, Mazars SA, France, Milliman SP. Z.O.O., Poland, PRICEWATERHOUSECOOPERS Audit OOD, Bulgaria, Willis Towers Watson, The Netherlands.

The reviews of the insurers' balance sheets were conducted from 15 July 2016 until the end January 2017 and involved 49 insurance companies, including insurance groups and subgroups.

The main purpose of the balance sheet review was:

- Analysis of the insurance portfolio of each insurance company in order to establish the liabilities under the insurance contracts, to assess the adequacy of the technical provisions under Solvency II and to make a reasonable estimate of the economic value of the relevant technical provisions;
- To make an assessment in line with the Solvency II framework of the appropriateness of the principles of recognition and measurement applied to all assets and liabilities with particular emphasis on the assessment of the impact of the operations and transactions with natural persons or legal entities with close links to the insurer;
- To assess the effectiveness, in line with the Solvency II framework, of the transfer of risks to third parties arising from (re)insurance contracts concluded by insurers, including finite reinsurance contracts;
- To recalculate the prudential indicators in line with Solvency II (minimum capital requirement (MCR) and solvency capital requirement (SCR));
- To review insurers' risks and provide information and raise the awareness of the risks and weaknesses in the insurance sector, including possible contamination of the rest of the financial sector and the real economy.

The regulatory framework of Solvency II, in force since 1 January 2016, introduced higher capital requirements for the insurance industry, as well as a different regulatory framework for reporting and assessing risks. The full scope of the review of the Bulgarian insurers' balance sheets in the first year since the introduction of the Solvency II regime provides a competitive advantage for the Bulgarian industry. The review enhances the credibility of the industry and allows the companies and the FSC to better target their efforts towards weaknesses.

The regime of Solvency II and the International Financial Reporting Standards (IFRS) are standards based on principles and include the use of judgement. In this regard, the Project Manager assessed the situations in which the economic reality of similar transactions and events was not assessed in an equivalent manner. This conformity assessment has been taken into account in the implementation of the follow-up measures.

Prior to the compliance procedures, the insurers' balance sheet review showed an aggregated Solvency Capital Requirement (SCR) of 154 % and an aggregated Minimum Capital Requirement (MCR) of 308% for the companies at solo level. After the compliance checks carried out by the project manager, the aggregate SCR is 157% and the aggregate MCR is 313% for companies at solo level, the SCR for the non-life insurance sector - 147% and MCR - 333%, for the life insurance sector the SCR is 235% and the MCR - 238%. The SCR for groups/subgroups is 107% and MCR- 187%, and all of these values are above the prudential requirements.

As a result of the balance sheet review carried out in 2016, the FSC has obliged 44 insurers and groups to report the results and findings of independent external experts in the Solvency II quantitative reporting templates by 30.06.2016 (under Commission Implementing Regulation (EU) 2015/2450 of 2 December 2015). The Deputy Chair of FSC in charge of the Insurance Supervision Division issued 43 CAMs ordering the insurers to fulfil by 31.12.2017 the recommendations with regard to the system of governance in the report based on the review of the company's balance sheet by the independent external expert.

The review of the insurers' balance sheets found that 13 companies had insufficient total amount of the eligible own funds covering SCR and/or MCR by 30 June 2016. Of those companies with established deficits on 30.06.2016. 7 insurers have taken the necessary steps to increase their own funds to the required level in accordance with the results of the balance sheet review. These are Armeec Insurance JSC, Bulgaria Insurance JSC, Euroins Health Insurance EAD, Insurance Company EIG RE EAD, Insurance Company BUL INS AD, Insurance Joint-Stock Company DallBogg:Life and Health AD and Insurance Company CCB LIFE EAD. These actions include raising capital, attracting subordinated debt, and selling financial instruments.

Another part of the other companies have also taken actions that have led to strengthening of their capital base, although this is not yet sufficient. As a result, the FSC took supervisory measures following an assessment of the follow-up actions to restore the solvency of Trade Union Mutual Insurance Co-operative - TUMICO, Insurance Company Euroins Life EAD, IC Nadezhda AD and Life Insurance Company Saglasie AD obliging them to implement a coercive administrative measure within one month from the date of receipt of the decision in order to prepare and submit to the FSC a short-term scheme for restoration of the eligible own funds to a level providing coverage of the Minimum

Capital Requirement, respectively of the guarantee capital. The Minimum Capital Requirement should be covered within three months from the date of completion of the insurers' balance sheet reviews.

Every insurer is required to submit to FSC progress reports setting out the measures taken and the progress made to meet the Solvency Capital Requirement by the end of 2017, taking advantage of the transition period to comply with the Solvency II regime.

The FSC organized a stress test of the insurers and the reinsurers on the basis of §10, para. 4 of the Transitional and Final Provisions of the Recovery and Resolution of Credit Institutions and Investment Firms Act. The stress test was conducted by Ernst & Young on the basis of input data and information received from the participating (re)insurance companies. The stress test was conducted for 42 separate (re)insurance companies in addition to 7 groups of (re)insurers operating on the Bulgarian market.

The basis for the stress test were the adjusted balance sheets (i.e. the final adjusted balance sheets after the review and prepared in compliance with the requirements of Solvency II) and the quantitative reporting templates (QRT) based on the results from the review of the companies' balance sheet. Ernst & Young assessed the resilience of the (re) insurance entities under the stress test scenarios specified by the Stress Test Methodology provided by the FSC. Ernst & Young assessed the compliance of the (re)insurance companies' own funds following the stress test using the Solvency Capital Requirement (SCR) for each of the scenarios.

The purpose of the stress test was to assess the sustainability of the Bulgarian insurance sector by means of market shock scenarios (simultaneous shocks of various variables) and insurance shock scenarios (three predefined scenarios for non-life insurance enterprises including one factor and one predefined scenario for life insurance enterprises).

The scenario presents an extreme situation caused by two events, in particular a rapid increase in the yield of all government bonds in the EU countries coupled with a fall in the risk-free interest rate.

The insurance stress test was conducted separately from the stress test on the market in order to assess the adverse outcomes in several independent scenarios. Three scenarios involving one factor are defined for non-life and reinsurance companies:

- Earthquake;
- Flooding;
- Stress test of lack of reserves - portfolio Motor Third Party and Other Non-Life Insurance Business Lines.

One scenario is set for life insurance companies and reinsurance companies - Longevity Stress.

The results of the stress test show that for the majority of (re)insurance companies there is a coverage/excess of the assets over the liabilities under the baseline scenario. The aggregated SCR coefficient for the insurance market is 145%, while the aggregated MCR ratio is 295%.

### Supplementary pension insurance

The off-site supervision of supplementary pension insurance is carried out in two main directions - daily and periodic supervision. Monitoring is also carried out on the PIC websites.

The daily supervision is effected on the basis of daily reports received from the PIC and the custodian banks on the activities of the SPIF. 7,056 daily inspections were carried out in 2016. The

inspections monitor the legality of the transactions concluded with the assets of the pension funds, the compliance with the legal restrictions and prohibitions on the investment of the assets of the funds, the ratio of the investments in individual types of financial instruments to the assets of the pension funds, the investments held in one issuer, the method of assessment of the assets and their proper reporting by the PICs and in the custodian banks' registers. The daily supervision monitors also the correct deduction of the investment fee and the fee from each contribution to the supplementary mandatory pension insurance funds, the change in the value of the net assets, the correct determination of the number of shares corresponding to the amounts received and withdrawn and the correct calculation of the value of one share.

Periodic supervision is carried out on the basis of monthly, quarterly and annual financial reports and statements on the activities of the PIC and the SPIF managed by them. **A total of 486 inspections were carried out in 2016**, including 122 inspections of the submitted financial statements and reports on the activities of the PIC and 364 inspections of the submitted financial statements and reports on the activities of the SPIF. The statutory and general financial indicators for the activity of the PIC and the SPIF are calculated and analyzed on the basis of the information in the financial statements and reports. The statutory indicators are used to monitor the lawful implementation of PIC activities on a monthly basis. The statutory indicators are capital adequacy of PIC, liquidity of PIC and SPIF, deducted investment fee for PIC from VPF and VPF with occupational schemes, management fee from the insurance contributions of VPF and VPF with occupational schemes, a reserve to guarantee the minimum yield for SMPIF. The growth of assets and insured persons in the SPIF, the investments and the profitability of the pension funds are analysed on a monthly basis. The general financial indicators are calculated and analysed on an annual basis. These indicators are related both to the activities of the PIC - equity, assets, income and expenses of the PIC, as well as to the activities of the SPIF - assets, participants, investments, profitability and income of the pension funds.

Monthly inspections of the PICs' websites were made during the year also to check the compliance with the provisions of the SIC and the Requirements to the content of advertising and written information materials of the pension funds and the pension insurance companies. The checks did not find any significant deficiencies or inconsistencies. The publication of information on the volume and structure of investments by types of assets and issuers of financial instruments is also checked on a regular basis (10th day of the month following the respective quarter).

During the year the FSC monitored intensively the individual financial instruments in SPIF portfolios, the receivables from investment properties as well as the capital adequacy and liquidity of some PICs.

### **3.1.2. FOCUS TOPIC: Review of the assets of the pension funds in Bulgaria**

In May 2015, the Council of Ministers adopted an update of the National Reform Programme aiming to improve the coordination of the economic policies in the European Union. It contained the commitments of the government in relation to individual policies including for the non-banking financial sector. In implementation of the programme and on the grounds of § 10 of the Transitional and Final Provisions of the Recovery and Resolution of Credit Institutions and Investment Firms Act, adopted in August 2015, a review of the assets of the pension funds was carried out in parallel with the review of the insurance companies' balance sheets.

The Steering Committee (SC) oversaw the whole process of reviewing the pension funds' assets - from the preparation to the announcement of the results. All decisions of the FSC regarding the



organization, monitoring and control of the review process were taken in full compliance with the decisions of the SC

The asset review was carried out with a reference date 30 June 2016 in accordance with a methodology developed by the Project Manager Regional Consortium Ernst & Young and approved by the FSC. On the basis of predefined criteria were determined the independent external experts KPMG Audit SRL, Romania, PRICEWATERHOUSECOOPERS AUDIT OOD, Bulgaria and HLB Bulgaria OOD, Bulgaria, which performed valuation of the assets of the pension funds as at the reference date and carried out other procedures under the review as set out in the methodology. The review of the assets covered all 18 supplementary mandatory pension insurance funds (universal and professional) and all 9 supplementary voluntary pension funds. The voluntary pension funds with occupational schemes did not participate in the review.

The main objectives of the review of the assets were:

- verification whether there are present the assets of the pension funds, kept by the custodian banks;
- valuation of the assets in the pension funds' portfolios in accordance with the provisions of Ordinance 9 of FSC of 19.11.2003;
- checking whether there are investments of the pension funds in securities issued by parties related to the pension insurance company managing the fund within the meaning of §1, para. 2, item 3 of the Supplementary Provisions of the Social Insurance Code;
- review of the risks of pension funds in accordance with the provisions of the applicable legal framework and further identifying the main risks that were not captured or not fully captured by the legal framework.

The independent external experts carried out the review of the assets of the pension funds in communication with the project manager and presented final reports on the funds they had reviewed. Based on the adopted methodology, the reports contain a description of the procedures performed in the course of the review, findings and recommendations regarding the corporate governance, the internal control and the accounting policy; conclusions on the reliability, quality, sufficiency and relevance of the data provided by the pension insurance companies, valuation of the assets of the pension funds; assessment of the risks in the sector and checks for investments in related parties.

The reviews of pension funds' assets took place from 15 July 2016 to the end of January 2017. The results of the review of pension funds' assets were published on 3 February 2017 in the form of (full and aggregated) reports prepared by the project manager on the basis of the final reports of the independent external experts on the individual pension funds.

Main conclusions and results from the review of the assets of the pension funds:

- The assets of the pension funds are present and are kept by the custodian banks in accordance with the statutory requirements;
- There are no deviations from the applicable regulatory framework with respect to the check for investments in parties related to the pension insurance company managing a pension fund;
- The requirements of Ordinance № 9 of the FSC in the course of the valuation of the assets and liabilities of the pension funds are generally complied with;

- No problems have been found regarding the compliance by pension insurance companies with the quantitative restrictions for the respective categories of pension fund investments set out in the Social Insurance Code;
- The independent external experts propose adjustments totalling BGN 33 million or 0.3 per cent of the assets of the 27 pension funds checked as at 30 June 2016. The proposed adjustments concern two categories of assets owned by some pension funds - investment property and bonds (corporate and municipal).

As part of the follow-up undertaken by the FSC, all pension insurance companies were required to submit a Programme for implementation of the recommendations given in connection with the completed review of the pension fund assets as at 30.06.2016 that is to be approved by the management body of the pension insurance company and to contain the specific actions that the company will take to implement the recommendations given on all topics of the review report.

### **3.2. On-site inspections**

The on-site inspections are an essential part of the ongoing supervision by the FSC of the non-banking financial sector in accordance with its mandate defined under the Bulgarian and the European legislation. The on-site inspections consist of a set of actions to investigate, analyse and evaluate data, facts and circumstances that can not be detected and verified in the framework of off-site supervision in order to establish the lawfulness of the activities of the supervised entities, to identify and reduce the level of the risk and to apply good market practices to protect the interests of the investors and the insured persons.

The FSC has established and operates a mechanism for annual planning of inspections on the basis of which the companies are categorized according to specific criteria. The inspections are divided into scheduled and unscheduled (extraordinary) inspections, and in terms of their scope they can be comprehensive (complex) or thematic. Depending on the officials who carry them out, they can be independent, parallel and joint. Extraordinary on-site inspections are carried if necessitated due to specific circumstances established in the course of the off-site supervision or in connection with complaints and alerts received. The thematic inspections focus on and analyse specific directions of the activity of the inspected person while the complex inspection examines its overall activity. The inspections of one supervised entity performed by experts from one of the divisions of the FSC are independent inspections as opposed to the parallel inspections that are carried out simultaneously in several entities by a group of employees in one or several divisions of the FSC. The joint inspections are carried out by FSC employees together with other control bodies - European or Bulgarian (SANS, BNB, NRA, etc.).

Particular attention was paid in 2016 to inspections of companies for which there were doubts and evidence that they provide investment services and carry out investment activities without a licence as well as to inspections of the compliance with the requirements of Regulation (EC) № 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories. In addition to monitoring the compliance with the legislation on capital markets, the priorities of the FSC and its structural units in on-site inspections during the period include compliance with anti-money laundering requirements.

#### **Investment intermediaries, Central Depository and regulated markets**

In 2016, **six extra inspections of companies suspected of providing investment services and carrying out investment activities without a licence were initiated.** One of these on-site inspections was necessitated because of the multiple complaints and alerts received from foreign citizens. The inspection did not find performance of investment services and activities on the territory of the Republic of Bulgaria but after its completion signals were sent to the State Agency for National Security, Sofia District Prosecutor's Office and Sofia Directorate of the Ministry of Interior in connection with suspected fraud and money laundering. Another of the six extraordinary inspections was carried out jointly with the bodies of the SANS and Sofia Directorate of the Ministry of Interior. The police authorities seized the company's servers and the review team of FSC employees collected documents and information that were included in another inspection and the same were analysed in relation to an administrative measure imposed on an investment intermediary with a revoked licence to settle the relations with its customers.

**Two thematic inspections of investment intermediaries** were carried out, **one of which concerns the compliance with the requirements of the LMML and the LMFT.** A total of 16 recommendations were made under the two inspections. 19 inspections on the compliance with the requirements of Regulation (EC) № 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories, and in particular with the deadlines and manner of reporting of the concluded derivative contract by the investment intermediaries under Article 8, para. 1 of the MFIA, some of which were opened in the previous year, were completed in 2016. The companies subject to these inspections are all investment intermediaries under Article 8, para. 1 of the MFIA. 4 acts of administrative violations were drawn up and 1 recommendation was made in the course of the inspections,

A comprehensive inspection of the Investor Compensation Fund (ICF) was carried out during the reporting period to establish the compliance with the provisions of the Law on Public Offering of Securities and the Regulations for the structure and activity of the ICF, and two recommendations were made. The inspections found expired mandates of two members after which the necessary appointments were made.

### **Collective investment schemes and management companies**

The inspections examine and analyse on the one hand the organization of the activities of the management companies (MC) and the collective investment schemes (CIS) managed by them and, on the other hand, their activity with regard to the contractual funds (CF) organized and managed by them in order to ensure compliance with the applicable capital market legislation. The issues related to the capital adequacy and liquidity of the MC, the relations of the MC with the depository and the investment intermediaries, the determination of the net asset value, the issue value and the redemption price of the shares of the CIS, the valuation of the assets in the CIS portfolio, the sale and redemption of units of the CIS, the structure of the assets and liabilities of the CIS, as well as the reporting of CIS are examined in detail. With regard to the MC, providing additional services under Article 86, para. 2 of LACISOCIU, the inspections include examination of the management of portfolios of investors and the provision of investment advice. Particular attention is paid also to the compliance with the Law on Measures against Money Laundering (LMML) and other relevant regulatory acts.

**1 inspection of an MC and the 10 CIS managed by it was opened during the reporting period. The inspection was extraordinary and thematic in nature, carried out jointly with another specialized body of the executive authorities.** Subject of the inspection was the compliance of the MC with the legislation in the field of anti money laundering. The relations with the distributor of CIS units, the internal rules, policies and procedures of the MC, the identification and assessment of the risk profile of

the clients, the origin of the funds, the transactions executed and the counterparties to them were examined for that purpose. The inspection was not completed within the reporting period.

### Public companies, special investment purpose companies and other issuers of securities

The inspection of the activities of the special investment purpose companies (SIPC) covers, on the one hand, the activity of a company as a specific type of joint stock company licensed under the Special Investment Purpose Companies Act to perform a particular type of activity, namely securitisation of real estate or securitisation of receivables. On the other hand, the inspection examines the fulfilment of the obligations of the SIPC as a public company (PC) and in this sense it encompasses both the compliance with the SIPCA and with the LPOS, the regulatory acts for its implementation and the LMMAFI (repealed with Article 3 of the Transitional and Final Provisions of the LAMMAFI - SG 76 of 30 September 2016, in force as of 30.09.2016). The relations with the servicing companies and their activities, the relations with the depository bank, the investments made, the sources of financing of the activities of the SIPC, the distribution of profits, the storage and the investment of free funds, the disclosure of regulated information, the costs for management and servicing of the company, the obligations to hold general meetings of the shareholders as well as all internal documents and contracts concluded by the company are analysed in the course of the inspection of the SIPCs.

Extraordinary inspections of public companies are carried out when in the course of ongoing supervision there are problems that can not be clarified off-site. An object of such inspection is usually the compliance with the provisions of the LPOS and the statutory instruments for its implementation.

**2 planned comprehensive inspections of SIPCs and their servicing companies were opened and completed** during the reporting year that inspected the whole activity of the supervised entities in the last 2 years. **1 procedure for issuing an individual administrative act, which ended with issuing a decision for enforcement of a compulsory administrative measure, was opened** in relation to one of the inspected SIPCs. The compulsory administrative measure relates to established grounds for repayment of the amount paid by the SIPC under a contract concluded with a third party. The compulsory measure is enforced. **Grounds for withdrawal of the licence for operation under the SIPCA were established with regard to 1 of the SIPCs inspected during the period** and the relevant actions were also taken in this respect.

Apart from this, **one comprehensive and extraordinary inspection** of a SIPC and the company servicing its activity was opened and ended.

In 2016, the work on one **extraordinary thematic inspection** of a public company opened in 2015 continued and was completed during the reporting period.

Grounds for making **56 recommendations** were established as a result of the on-site inspections of SIPC and PC. **One signal** was filed to the prosecutor's office during the reporting period to take action within its jurisdiction. As a result of the inspections, a total of **35 acts of established administrative violations** were executed during the reporting period.

### Insurance

**Three on-site inspections of insurance companies were completed** in 2016. This does not include the reviews of the balance sheets of all insurance companies with reference date 30.06.2016 organized by FSC with the participation of the European Insurance and Occupational Pensions Authority (EIOPA) and performed by independent external experts of high professional standing.

### Insurance companies

The on-site inspections of insurers in 2016 covered **one planned inspection of an insurance company opened in 2015, one thematic inspection of an insurance company, also opened in 2015, and a second thematic inspection opened in 2016.**

The planned inspection of an insurer was comprehensive and covered the following areas of activity of the inspected entities:

- **verification and assessment of the amount of the established technical provisions** and the financial position;
- **verification** of the data presented in the regular reports and statements
- **assessment of the sufficiency of the provision established for reported but not settled claims as well as for incurred but not reported claims.**

The scope of one of the thematic inspections covered the payment of insurance benefits under compulsory Third Party Liability insurance of motorists in case of events occurring outside the territory of the Republic of Bulgaria.

The second thematic inspection concerned the compliance with the LMML and its implementing rules and includes an examination of:

- **the registers under Article 8 para. 1 of the LMML;**
- **the internal rules for anti-money laundering measures approved by SANS;**
- **notifications to SANS regarding identified persons** suspected of money laundering;
- **compliance with the procedures for identification and verification** of company client data;
- **company structure showing the person responsible for the compliance with internal rules;**
- **examination of a three-year programme for anti-money laundering measures** under Article 33 para. 1, point 5 of the IC.

### Insurance intermediaries

In 2016, **a total of 810 inspections of insurance intermediaries were carried out** – off-site and on-site. **33 inspections** of all inspections during the reporting period **are on-site and based on signals, 16 are general inspections and 17 are thematic inspections.**

777 off-site documentary inspections were performed on the basis of the regular reports and statements submitted to the FSC.

**The general inspections of the activity of insurance intermediaries include monitoring of the compliance with the requirements of the IC and its implementing instruments** and prevention of offences, checking the distribution of insurance products and the persons offering and comparing such products. The compliance with the requirements to guarantee the activity and the deadlines for reporting the insurance premium collected by the intermediaries is monitored. The scope of the on-site inspections of insurance intermediaries in 2016 **includes also inspection of the compliance with the requirements of Article 301, para. 2 in connection with contracts for assignment of insurance mediation and the requirements of Article 306, para. 1 of the Insurance Code to guarantee the performance of the obligations of the intermediary to transfer the insurance premium paid to it and intended for the insurer or to transfer to the beneficiary of insurance services the insurance benefit paid by the insurer.**

The deadlines for transferring the collected insurance premiums from the intermediaries to the insurers were checked within the scope of the thematic inspections of insurance intermediaries in connection with the offer and conclusion of compulsory Third Party liability insurance of motorists.

**32 acts were drawn up for 33 administrative violations** found as a result of the above inspections of insurers and insurance intermediaries, **where 24 violations of insurance intermediaries resulted from delayed reporting or lack of reports.**

### Supplementary pension insurance

**A total of 15 on-site inspections were opened in 2016, 14 of which were carried out in whole** and were completed during the reporting period with service of statements of findings.

**General planned inspections** of the activity of the pension insurance companies (PIC) and the supplementary pension insurance funds (SPIF) managed by them **were opened also in the 9 licensed PICs.** The inspections of 8 pension insurance companies were finished and only one of the general inspections was continued in 2017. During the reporting year were also performed **4 thematic inspections of the PIC. Two inspections of the custodian banks of the SPIF were carried out together with the Banking Supervision Department of the BNB.**

**With the general on-site inspections the supervision covers all major activities that the pension insurance companies carry out:** checks of the management and organization of PIC's activities; financial condition of PIC and financial reporting; organization of asset management and risk management; setting up and maintenance of pension reserves in the company; contractual relations with the custodian bank, the investment intermediaries and the investment consultant; activities of the insurance intermediaries; organization and operation of the internal control service; changing the participation and transferring the funds of insured persons from one supplementary pension insurance fund to another; provision of information to insured persons. In the case of supplementary pension funds, the general inspections cover: structure of the investment portfolios of the SPIF; transactions for investment of the assets of the SPIF; receivables and payables related to investments of the SPIF and their proper accounting in the financial statements; compliance between the system of internal rules and procedures for making decisions for investing the funds of the SPIF and the practical execution of this activity; subsequent assessment of the assets and liabilities of the SPIF; contractual relations with insured persons and pensioners; obligations and payments to insured persons and pensioners.

In the case of thematic inspections, the supervision is limited to one or several separate lines of the activity of the pension insurance companies. The object of supervision in the course of the four thematic in-site inspections carried out in 2016 are the activities related to:

- **compliance with the statutory provisions on the investments, receivables and liabilities of the SPIF;** minimum return guarantee reserve at SMPIF; compliance with the statutory provisions on the selection of a fund for supplementary mandatory pension insurance;
- **compliance with the statutory provisions on the financial condition of the PIC,** capital base and minimum liquidity;
- **compliance with the statutory provisions on the minimum return guarantee reserve in the SMPIF;**
- **compliance with the Law on Measures against Money Laundering (LMML).** (The inspection was carried out jointly with employees of the Specialized Administrative Directorate for Financial Intelligence of the State Agency for National Security).

**A total of 94 recommendations were made** in the findings reports as a result of the general and thematic inspections to the management bodies of the pension insurance companies **to improve their activities and to protect the interests of the insured persons.** 85 recommendations were given as a result of the general planned inspections of PICs, and 9 - as a result of the thematic inspections. The most frequently given recommendations are focused on the following activities:

- **investment activity:** to compare the achieved results with the investment objectives; to undertake specific targeted actions for the management of the properties owned by the pension funds in order to generate revenues and to increase the return on investment in real estate; to undertake timely actions to receive the payments due from the SPIF for investments in financial instruments, as well as the interest for overdue payments;

- **risk management:** to organize regular documentation of the comparison of the measured investment credit risk of the SPIF portfolios based on the methods applied by the company that verifies the compliance with the requirement of Article 179c, para. 4 of the SIC; further improvement of the credit analyses of issuers that have deteriorated financial performance with proposals for specific actions in order to maintain the credit risk of the respective fund at an acceptable level; to review and discuss the levels of individual risk categories in order to adopt measures to prevent or mitigate the risks;

- **internal control:** to give specific recommendations for improving the organization of operations in the respective company; to continue the practice of performing systematic checks of the compliance with the voluntary principle when a supplementary mandatory pension insurance fund is selected.

No violations of statutory acts on supplementary pension insurance were found during the inspections of the two custodian banks. A total of 8 recommendations were made in the prepared reports aimed at improving the custodian activity and enhancing the quality of the control exercised over the lawful investment of the SPIF funds.

### 3.3. Law enforcement

In 2016, **with regard to the investment community, the number of acts of established administrative violations (AEAVs) was reduced by half (272 AEA Vs)** compared to 531 AEA Vs in the previous year. Most of the violations are related to the activities of the public companies (PC) and other issuers of securities, special investment purpose companies and investment intermediaries. This decrease is due to the efficient supervision exercised by the FSC as well as to the preventive effect of the sanctions imposed in previous reporting periods. **The total amount of the penal warrants (PW) enforced in 2016 is BGN 2 459 900**, and BGN 20 000 of that amount is due under 2 PW issued by the FSC Chair under the SIPCA. The majority of the penalties in the total amount enforced in 2016 is related to the **PW (194) issued and entered into force in 2016, amounting to BGN 1 379 500**.

Penalties with total amount of BGN 2 066 500 were imposed with the PW (296) issued in 2016, of which 76 PW imposing penalties with total amount of BGN 497 500 are under appeal. Six of all PW issued with regard to the investment community in 2016 are issued by the Chair of the FSC for violations under the SIPCA and total amount of BGN 60 000. Four of them are appealed and the legal proceedings have not finished yet. 71 PW for violations related to the activities of PC and other issuers of securities, SIPC and investment intermediaries and MC with total amount of BGN 419 400 were revoked in 2016.

A total of **118 complaints were received against acts of the Deputy Chair of the FSC in charge of the Investment Activity Supervision Division** in 2016. 100 of them are against PW and 18 are against individual administrative acts. Seven complaints against PW were received from investment intermediaries and 93 - from public companies, SIPC and other issuers of securities, including CIS and MC. Fifteen complaints against individual administrative acts were filed by public companies, SIPC and other issuers of securities, and 3 complaints were filed by investment intermediaries.

In 2016, the opened and respectively enforced administrative measures with respect to public companies, SIPC and other issuers of securities relate mainly to the disclosure of regulated information (196). Proceedings for the enforcement of coercive administrative measures were initiated both as a result of non-fulfilment of obligations under CAM and the lack of grounds for terminating the proceedings (109 decisions for implementing CAM) and as a result of on-site inspections (1 CAM).

**509 AEA Vs** were issued in 2016 to persons subject to supervision by the Deputy Chair of the FSC in charge of the Insurance Supervision Division. One act was issued to a legal entity operating as an insurance agent without being entered in the register under Article 30, para. 1 of the Financial Supervision Commission Act. One AEA V was issued to a legal entity that was not entered in the register under Article 30, para. 1 of the FSCA and did not have a licence to provide payment services and had infringed the prohibition to accept insurance premium payments.

**A total of 688 administrative offences were established** with the acts issued in 2016, and the acts were served in accordance with the provision of Article 18 of the Administrative Offences and Penalties Act. The violations were found in the course of examination of complaints of users of insurance services and signals given by natural or legal persons, as well as during inspections of the activities of the persons supervised by FSC.

**A total of 344 penalty warrants** were issued in the field of insurance supervision in 2016, setting out and imposing pecuniary sanctions and fines to persons supervised by the FSC for violations committed under the IC and its implementing acts, and **20 PW were issued by the Chair of the FSC for obstructing the Commission**, its bodies and duly authorised employees of its administration in the exercise of supervisory powers (violation of Article 32 of the FSCA). The total amount of pecuniary sanctions and fines imposed in 2016 is BGN 1 014 000, of which BGN 56 500 was imposed by the Chair of the FSC under penalty warrants.

The total amount of the **pecuniary sanctions and fines under the PW issued by the Deputy Chair of the Financial Supervision Commission in charge of the Insurance Supervision Division and enforced in 2016 is BGN 1 363 100.**The main part of the amount (BGN 1 246 100) is formed by enforced penalty warrants resulting from the administrative and penal liability of non-life insurance companies. **3 PW issued by the Chair of the FSC to penalize non-life insurance companies were enforced** in the reporting year and pecuniary sanctions with total amount of BGN 10 000 were imposed on the same companies due to violation of Article 32 of the FSCA.

**Table 18. Enforcement in 2016**

	Executed AEA Vs	Issued PW*	Value of enforced PW** (BGN)	Proceedings opened under CAM	Decisions for implementation of CAM***
Investment intermediaries, CCP, BSE and other entities	20	18	312,000	7	3
CIS, MC, SIPC, PC and other issuers	252	272	2 127 900	197	110
Non-life insurance companies	490	349	1 256 100	35	14
Life insurance companies	3	2	8,000	-	-
Insurance brokers	13	6	106,000	10	10
Insurance agents/persons acting as insurance agents without being entered in the register of the FSC	3	5	2,000	-	-
Guarantee Fund, NBBMI	-	2	1,000	-	-



Pension insurance companies/their representatives	15	21	303,100	-	7
Other legal entities and physical persons	1	1	5,000		

Notes: \*The number of PW issued in the reporting year includes both PW issued on the basis of AEAV of the same year and PW issued on the basis of AEAV of the previous year. This is due to the fact that the deadline for issue of a PW is 6 months after the date of issue of an AEAV according to Article 34, para. 3 of the Administrative Offences and Penalties Act. \*\*The amount of the enforced PW in 2016 includes also the PW issued in previous periods. \*\*\*A decision to enforce a CAM is taken in case the companies fail to comply with the opened proceeding to enforce a CAM. The provisions of the APC are not applied to the explanations and objections of the interested parties in case of enforcement of a CAM under the SIC.

**15 acts of established administrative violations (AEAV)** of provisions of the Social Insurance Code (SIC) were executed in 2016. **21 penalty warrants were issued** with fines and pecuniary sanctions amounting to BGN 350 900. The comparatively small number of the compiled AEAVs and the issued PWs is due to the preventive effect of the fines and sanctions imposed during the previous reporting periods which have educational, warning and dissuasive effect on the persons.

All PW issued in the year under review were appealed, and the FSC did not receive any information until the end of 2016 regarding enforced penalty warrants issued in the same year. 31 penalty warrants issued in previous years **entered into force** in 2016 and the fines and pecuniary sanctions imposed with them **totalled BGN 303 100**. One of these penalty warrants, for the amount of BGN 2 000, was issued by the Chair of the FSC for violation of Article 32 of the FSCA.

**7 coercive administrative measures** were applied to pension insurance companies during the reporting period. With three of the applied coercive administrative measures, **the pension insurance companies were obliged to accept applications for change of participation of insured persons**, and with another four - **to suspend violations of SIC**. The coercive administrative measures were implemented by the pension insurance companies within the set deadlines.

A total of **25 complaints were received against acts of the Deputy Chair of the FSC in charge of the Social Insurance Supervision Division** in 2016. 21 of these are against issued penalty warrants and 4 - against issued individual administrative acts for application of coercive administrative measures.

#### Investment intermediaries, Central Depository and regulated markets

There was a certain change in the type of violations related to the activities of investment intermediaries in 2016. The violations related to the submission of the statutory information to the FSC prevailed during the reporting period. Infringements related to the reporting of clients' orders and transactions concluded on their account in the investment intermediary's journals prevailed in the reporting period.

**Table 19. The most frequent violations in the sphere of II, CCP and BSE in 2016**

Type and basis of the violation	Executed AEAVs	Issued PW*
The investment intermediary did not enter a transaction with derivatives in the transaction register (Article 9(1) of Regulation No 648/2012)	4	0
The investment intermediary does not submit to the FSC a monthly statement of client assets (Article 77n, para. 12 of the LPOS)	2	6
The investment intermediary does not inform the FSC about changes of the	2	4

persons under Article 39, para. 1 and 2 of Ordinance No 38 and of the investment consultant (Article 85, para. 1, point 7 of Ordinance No 38)		
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Note: \*The number of PW issued in the reporting year includes both PW issued on the basis of AEA V of the same year and PW issued on the basis of AEA V of the previous year. This is due to the fact that the deadline for issue of a PW is 6 months after the date of issue of an AEA V according to Article 34, para. 3 of the Administrative Offences and Penalties Act.

### Collective investment schemes and management companies

The body imposing an administrative sanction issued a decision in 2016 under **2 PW** for violation of Article 51 of the LACISOCIU, **the MC did not bring its assets in compliance with the investment limitations**, and 1 PW for violation of Article 106, para. 1, point 1 of the LACISOCIU, the MC did not notify the FSC about the delegation of functions and actions to a third party under Article 86, para. 1 of the LACISOCIU.

### Public companies, special investment purpose companies and other issuers of securities

During the reporting period there was a **decrease in the overall violations committed by public companies and issuers of securities, while the type of violations remained unchanged**. A significant number of the violations found includes failure or delay to submit regulated information. Another important part of the violations relates to the non-fulfilment of the administrative coercive measure (CAM) applied under Article 212 of the LPOS, the failure to convene a regular annual general meeting of shareholders (GMS) within the statutory period.

**Table 20. Most frequent violations in the sphere of PC, SIPC and other issuers of securities in 2016**

Type and basis of the violation	Executed AEA Vs	Issued PW*
No submission or delayed submission of annual and/or quarterly financial statements on the activities of the PC and the issuers (Article 31, para. 1 of Ordinance No 2 and Article 100n, para. 1 of the LPOS)	45	49
Non-compliance with an applied CAM under Article 212 of the LPOS (Article 221, para. 6 of the LPOS and Article 221a, para. 1, point 2 of the LPOS)	45	75
No submission or delayed submission of consolidated annual and/or quarterly financial statements on the activities of the PC, SIPC and the issuers (Article 31, para. 3 of Ordinance No 2, Article 100n, para. 2 of the LPOS and Article 40 of Ordinance No 2)	40	59
Failure to convene a regular annual general meeting of shareholders by the end of the first semester of 2016. Failure to present the invitation and the materials thereto on the website of the company and to the FSC (Article 115, para. 1, para. 4, para. 5 of the LPOS)	30	34
Failure to present the minutes from the GMS to the FSC and the public following the statutory procedure and time limits (Article 117, paragraphs 1, 2, 3 and 5 of the LPOS)	28	16

Note: \*The number of PW issued in the reporting year includes both PW issued on the basis of AEA V of the same year and PW issued on the basis of AEA V of the previous year. This is due to the fact that the deadline for issue of a PW is 6 months after the date of issue of an AEA V according to Article 34, para. 3 of the Administrative Offences and Penalties Act.

### Insurance

In 2016 the main offences committed by the insurance companies were again **absence of conclusions on the insurance claims for payment of insurance benefits within the deadlines** set out in Article 108, para. 1 and Article 496, para. 1 of the Insurance Code, for which a total of **252 AEAVs** were issued. A large number of violations were also established under Article 107, para. 1 of the IC /repealed/ (failure of the insurer to issue a conclusion on an insurance claim within the statutory 15-day period from the submission of all relevant evidence) and Article 271, para. 2 of the IC /repealed/ (**failure of the insurer to issue a conclusion on a Third Party liability insurance of motorists claim within the statutory three-month period from the submission of the claim**) for which a total of 136 AEAVs were issued. 15 AEAVs were issued for violations of Article 290, para. 2 of the Insurance Code pursuant to which an insurer must respond to a complaint from a user of insurance services within the statutory deadline of one month from the filing of the complaint.

**Table 21. The most frequent violations in the sphere of insurance and reinsurance in 2016**

Type and basis of the violation	Executed AEAVs	Issued PW*
Failure of the insurer to issue a conclusion on an insurance claim within the statutory period of 15 business days from the submission of all relevant evidence (Article 108, para. 1 of the IC in effect from 01.01.2016)	179	53
Failure of the insurer to issue a conclusion under a Third Party liability insurance of motorists claim within the statutory three-month period from the submission of the claim (Article 496, para. 2 in conjunction with para. 1 of the IC, in force since 01.01.2016)	73	10
Failure of the insurer to respond to a complaint filed by a consumer of insurance services within the statutory period of one month from the filing of the complaint (Article 290, para. 2 of the IC in force since 01.01.2016)	15	3
Failure of the insurer to issue a conclusion on an insurance claim within the statutory 15-day period from the submission of all relevant evidence (Article 107, para. 1 of the IC /repealed/)	110	164
Failure of the insurer to issue a conclusion on a regression insurance claim within the statutory 30-day period from the submission of all relevant evidence (Article 213a, para. 3 in conjunction with para. 1 of the IC /repealed/)	12	12
Failure of the insurer to issue a conclusion under a Third Party liability insurance of motorists claim within the statutory three-month period from the submission of the claim (Article 271, para. 2 in conjunction with para. 1 of the IC /repealed/)	26	29

Note: \*The number of PW issued in the reporting year includes both PW issued on the basis of AEAV of the same year and PW issued on the basis of AEAV of the previous year. This is due to the fact that the deadline for issue of a PW is 6 months after the date of issue of an AEAV according to Article 34, para. 3 of the Administrative Offences and Penalties Act.

### Supplementary pension insurance

**The prevailing number of the issued PW (10) out of a total of 21** concerned violations of Article 126 and Article 209, para. 3 of the SIC **related to the failure to take due care** of the management of the funds of the supplementary pension insurance funds. The other 11 PW imposed fines and pecuniary sanctions for various types of violations of the SIC. There were no violations of regulation on supplementary pension insurance.

**Table 22. The most frequent violations in the field of supplementary pension insurance in 2016**

Type and basis of the violation	Executed AEA Vs	Issued PW*
The PIC did not manage the funds of a supplementary pension insurance fund with due care (Article 126 and Article 209, para. 3 of the SIC)	9	10

Note: \*The number of PW issued in the reporting year includes both PW issued on the basis of AEA V of the same year and PW issued on the basis of AEA V of the previous year. This is due to the fact that the deadline for issue of a PW is 6 months after the date of issue of an AEA V according to Article 34, para. 3 of the Administrative Offences and Penalties Act.

### 3.4. Market abuse

The term market abuse includes manipulation of the markets in financial instruments, insider dealing and unlawful disclosure of inside information. There is a change in the legal framework since 30.09.2016 regarding the measures to prevent and detect market abuses. The Law Against Market Abuse was repealed with the entry into force of the Law on the Application of the Measures against Market Abuse with Financial Instruments and the provisions of Regulation (EU) No 596/2014 of the EP and the Council of 16 April 2014 on Market Abuse (Market Abuse Regulation) and its implementing acts.

With regard to the prevention of market abuse **the focus is first and foremost on the timely disclosure of accurate and reliable information to investors in line with regulatory requirements** including by the issuers and the senior managers of the issuers and their closely related parties. Market abuse is disclosed through the continuous supervision of the trading of financial instruments admitted to trading on a regulated market or a multilateral trading system as well as through the information disclosed through various sources and different communication channels about financial instruments admitted to the mentioned trading venues or their issuers. In the course of the supervisory activity information is exchanged with the BNB, with other state bodies and institutions, with the local authorities and the local administration and with non-governmental organizations. A proposal for notification of the prosecution is made in the course of the inspections carried out in case of a suspected crime.

**11 acts of established administrative violations and 7 penal warrants were issued in 2016** as a result of the inspections.

A total of 7 PW were issued for market manipulations in the reporting period to impose sanctions with total value of BGN 57 000; currently PWs with value of BGN 72 500 are under appeal. The sum of the enforced PW that were issued in 2016 and those under appeal does not yield as a result the total amount of the penalties imposed in 2016 because some PW were not served on the offenders or the period for appeal after the serving has not expired. During the reporting period the amount of the enforced PWs comes up to BGN 5 500 and 5 PW totalling BGN 220 700 were revoked in 2016.

**A total of 501 entries were made in the FSC register** by order of **the Deputy Chair of the FSC in charge of the Investment Activity Supervision Division** under Article 16 of the LMMAFI during the reporting period.

**Table 23. Most common violations related to unfair trading in securities, market abuse, inside information and insiders in 2016**

Type and basis of the violation	Executed AEAVs	Issued PW*
Infringement of the obligation of the persons performing management functions in an issuer and the persons closely related to them to notify the FSC in writing within the statutory term regarding transactions concluded on their own account for more than BGN 5 000 within one calendar year with shares issued by the issuer ((Article 16 of the LMMAFI)/Article 19(1), sentence 1, letter “a” in conjunction with Article 19(1), para. 2 of Regulation 596/2014)	6	6
Manipulation of the market for financial instruments by concluding transactions or submitting orders that create false or misleading idea about the demand, supply or price of financial instruments or the determination of the price of certain financial instruments at an unusual or artificial level (Article 11 in conjunction with Article 6, para. 1, point 1 of the LMMAFI)	3	0
Non-disclosure by the issuer of inside information directly related to it in compliance with the statutory procedure and term (Article 12 of the LMMAFI)	1	0

Note: \*The number of PW issued in the reporting year includes both PW issued on the basis of AEAV of the same year and PW issued on the basis of AEAV of the previous year. This is due to the fact that the deadline for issue of a PW is 6 months after the date of issue of an AEAV according to Article 34, para. 3 of the Administrative Offences and Penalties Act.

#### 4. Protection of the users of non-bank financial services

Increasing public confidence in the use of non-bank financial products and services and providing protection to the consumers of such services is one of the strategic objectives of the Financial Supervision Commission. FSC’s activities include, besides regulating the non-banking financial sector, measures for the stability of the capital, insurance and pension insurance market, and also protection of the rights of the consumers of financial services and organization of financial literacy initiatives. To achieve these goals, it is crucial to provide access to up-to-date information about the non-banking financial sector and the market participants and to increase the financial literacy of the public regarding the financial markets.

The main aspects of consumer protection include provision of:

- Financial stability and good corporate governance of financial institutions;
- Transparency of financial products, provision of accurate and clear information (with an emphasis on innovative and structured products) and ways for trading with them;
- Timely and fair resolution of consumer disputes;
- Financial literacy of consumers.

The aim is to make timely and adequate changes to the regulatory framework and supervisory activity in line with the European requirements and the national market specificities, with an emphasis on business practices, ensuring equal treatment of consumers, provision of access to sufficient, clear and unbiased information.

##### 4.1. Access to financial information

In conducting its communication policy, the Financial Supervision Commission is consistently guided by the principles of legality, publicity, accessibility and transparency.

The public is informed in due time about the current aspects of the FSC's activities and the functioning of the non-banking financial markets through daily publications on the official website of the Commission [www.fsc.bg](http://www.fsc.bg), media coverage, participation in public events and forums and by replying to specific inquiries from citizens and businesses on issues within its competence sent by mail, e-mail, telephone and on-site.

The Commission publishes on its website and disseminates to the media numerous recommendations, clarifications, warnings to the users of financial services as well as up-to-date and useful information for the participants in the investment, insurance and social insurance markets.

Seven applications for access to public information were submitted to the FSC in 2016 under the Access to Public Information Act (APIA). Replies were sent to each one of them within the statutory period.

FSC maintains regular contacts with central and regional printed and electronic media in order to inform the general public about its activities. More than thirty media activities of the FSC Chair and Deputy Chairs were organized in 2016 - participation in electronic and printed media, in public discussions, conferences and other forums; higher levels of activity were registered after the election of Karina Karaivanova as Chair of the FSC in July 2016. More than a hundred and fifty expert opinions, references and answers were provided to topical questions asked by consumers, journalists, analysts, students and others. The contact with representatives of the mass media was stepped up and their questions are answered expeditiously and exhaustively.

FSC updates the sections on its website on a regular basis in order to information to consumers, supervised entities, media, partners and all stakeholders in the country and abroad. 372 news articles and 648 decisions were published during the year: 141 of them were decisions of the Commission and the rest were decisions of the Chair and the Deputy Chairs of the FSC.

30 materials with statistical data were published for the needs of the insurance market and regular updates are made of the lists of insurers and insurance brokers, the lists of insurers and insurance intermediaries from EU Member States that have notified the FSC that they wish to carry out insurance activity on the territory of the Republic of Bulgaria as well as the lists of Bulgarian insurers and reinsurers intending to carry out insurance activities on the territory of the European Union.

The performance of the supplementary pension insurance by quarters, the profitability statements of the supplementary pension insurance funds on an annual basis, the results of the changes in the holding and the transfer of insured persons' funds from one pension fund to another for a relevant period, the information about the insured persons and the funds accumulated in the supplementary pension insurance funds were summarized in 19 publications during the year.

Regulatory documents of the European legislation, directives of the European Parliament and the Council of the EU, regulations and decisions of the Council and of the European Parliament were published in 2016 in the European Affairs section of the FSC website. There have been 335 warnings from European and world supervisory institutions to investors in Bulgaria related to global market abuse by unlicensed companies offering different deals with securities without financial cover, etc.

Important information was provided to the general public in section "For the Consumers" in order to implement the consumer protection policy more effectively. Citizens make extensive use of the opportunity to submit complaints and signals directly to the e-mail address: [delovodstvo@fsc.bg](mailto:delovodstvo@fsc.bg). Through the e-portals, the participants in the non-banking financial sector submit promptly the information required by the FSC signed with an electronic signature. Detailed information on the companies is provided through the public register which is accessible both on the website under the "Electronic register (ERiK)" and the "News from e-Register", as well as on-site at the Commission.

In 2016, the FSC prepared two issues - a monthly electronic edition of the FSC Bulletin (12 regular and two extraordinary issues) and the Annual Report of the Financial Supervision Commission in 2015

summarizing the activity of the supervisory institution and reflecting the state of the non-banking sector in Bulgaria during the year.

#### **4.2. Complaints and inquiries by users of non-banking financial services**

In 2016, in line with the general trend in the European Union to enhance the protection of financial services users, one of the main priorities of the policy pursued by the Financial Supervision Commission continues to be the effective protection of the consumers of products and services on the investment and insurance market in Bulgaria.

The Financial Supervision Commission has put in place and operates a comprehensive and effective mechanism for dealing with complaints and inquiries of users of non-banking financial services. Each complaint or inquiry is approached individually taking into consideration the specificities of the particular case, and a reply with a description of the actions undertaken by the institution and the results achieved, is sent to the complainant within an optimal time frame.

The complaints received by the FSC, including signals and inquiries by users of non-bank financial services, are systematized and analysed in order to identify problems related to the functioning of the insurance, social insurance and investment market and to take action to resolve them. If necessary, amendments are made to the applicable regulatory framework, including in order to increase the protection of users of non-banking financial services.

In 2016, the FSC received 1 274<sup>12</sup> complaints and inquiries concerning the activities of the entities supervised by the FSC. Their number increased in 2016 from 1 242 in 2015. There is no clear upward or downward trend in the number of complaints and inquiries received at the FSC in the period from 2012 to 2016. In 2012 the number of complaints received against actions of entities supervised by the FSC was 1 665. 2013 witnessed a decrease, with the number dropping to 1 356. A slight increase with 13 complaints was noted in 2014 compared to 2013 when the complaints and inquiries reached 1 369. In 2015 the number of the received complaints decreased by 127 compared to 2014 and their number reached 1 242. The decreasing trend in the number of complaints in 2015 as compared to 2014 changed in 2016 and the number of complaints increased with 32.

In 2016, the FSC received 1 089 complaints regarding which the institution is competent to make a decision. For the period from 2012 to 2016 there is again no clear upward or downward trend in the number of complaints and inquiries. 1 125 such complaints were reported in 2013 compared to 1 429 in 2012, and a slight increase in 2014. A decrease was observed in 2015 compared to 2014 with 107 complaints, and the number of complaints in 2015 was 1 026. Their number increased in 2016 and reached 1 089.

Besides complaints, the FSC also receives inquiries, on which the institution is competent to issue a decision. From 2012 to 2015, there is a steady downward trend in the number of inquiries which ended in 2016 with a slight increase.

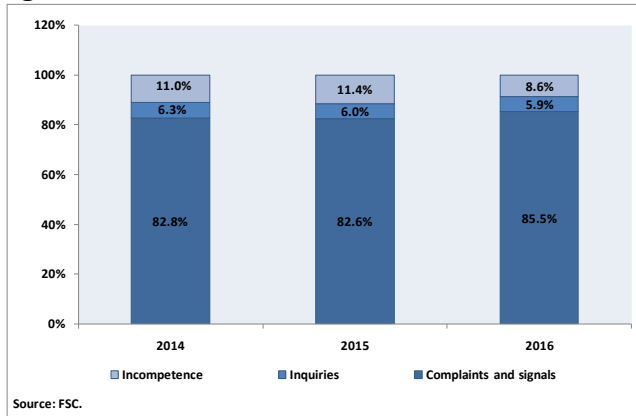
The FSC also receives complaints regarding which the institution is not competent. Their number for 2016 is 110. Since 2015 there was a downward trend in the complaints that were not within the competence of the institution with 8 fewer complaints outside the competence of the FSC compared to 2014. Compared to the previous year the decrease in 2016 is by 32 complaints. In 2013 and 2014 the

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<sup>12</sup>The number of the aforementioned 1 274 complaints is obtained by deducting the related complaints or the complaints submitted multiple times by the same complainant as well as the complaints that are not against actions of entities supervised by the FSC from 1 324 filed cases.

number of such complaints increased respectively with 9 and 20.

**Figure 1. Dynamics of complaints, inquiries and signals filed with the FSC**



The complaints regarding which the institution is competent to rule represent 85.5% of the total number of complaints and inquiries received in 2016. For the period 2014-2016, this share is relatively constant, and for 2015 it is 82.6%, and for 2014 - 82.8%. The inquiries range from 5.9% to 6.3%, with a share of 6.3% in 2014, 6.0% in 2015 and 5.9% in 2016. The share of complaints regarding which the institution is not competent to resolve also varies within narrow limits. In 2014, their share is 11.0%, in 2015 - 11.4%, and in 2016 - 8.6%.

There is an upward trend in 2016 compared to 2015 in the number of complaints regarding which the institution is competent. In terms of the inquiries falling within the competence of the FSC there is a slight downward trend compared to the previous year - from 6% in 2015 to 5.9% in 2016. The complaints outside the competence of the FSC decreased from 11.4% in 2015 to 8.6% in 2016.

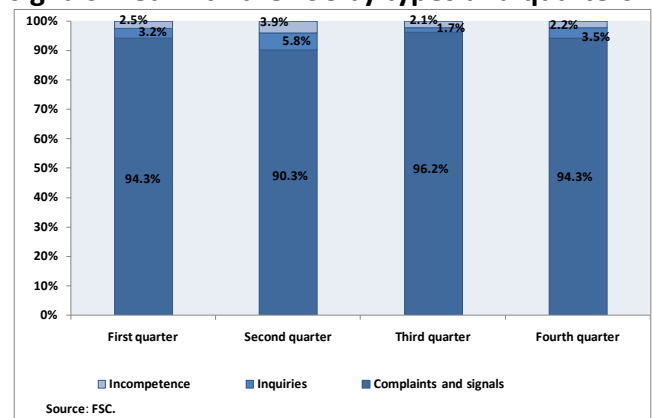
The overall picture of the ratio of complaints, inquiries and complaints regarding which the institution is not competent is preserved also on a quarterly basis in 2016. The complaints within the competence of the FSC account for 94.3% of all complaints or inquiries received in the first quarter of 2016. Their share declined to 90.3% in the second quarter and rose to 96.2% in the third quarter of the year. A

downward trend is also reported in the fourth quarter when the proportion of complaints reaches 94.3%.

There is no clear trend of increase or decrease of inquiries. In the first quarter of 2016 their share was 3.2%; in the second quarter of the year there was an increase to 5.8%; in the third quarter a decrease was registered and their share reached 1.7%, and in the fourth quarter of 2016 the share of inquiries was 3.5%.

The complaints outside the competence of the FSC in the first quarter of 2016 account for 2.5% of all complaints and inquiries, increasing to 3.9% in the second quarter and decreasing to 2.1% in the third quarter. A slight increase occurred in the fourth quarter of 2016, when their share grew to 2.2%.

**Figure 2. Dynamics of complaints, inquiries and signals filed with the FSC by types and quarters**



In 2016 there were 1 089 complaints regarding which the institution was competent, with the highest number of complaints against actions of entities operating on the insurance market. Their number is 1 021. Significantly fewer are the complaints related to the services offered on the insurance market - 29. The complaints against actions of entities operating on the investment market are 39. In 2016 there were 128 complaints regarding the insurance market compared to 2015. This is an increase of 14.3% compared to 2015. By comparison, there was an increase in the complaints of the insurance market by 5.4% in 2014 compared to

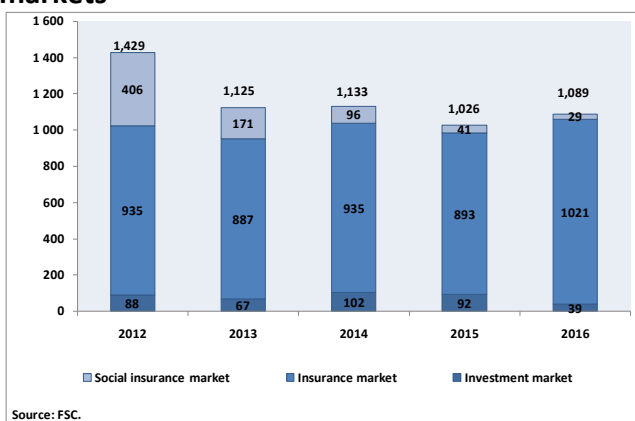


2013 and a decrease of 4.5% in 2015 compared to 2014.

A downward trend in the complaints concerning the insurance market has been observed since 2012 when their number was 406. In 2013 their number dropped to 171 and in 2014 it reached 96. An almost double decrease was reported in 2015 as compared to 2014 when the complaints related to the insurance market dropped to 41. In 2016 the complaints related to the insurance market decreased by 29.3% compared to the previous year. By comparison, there was a decrease in the complaints related to the insurance market by 43.9% in 2014, compared to 2013, and in 2015 the decrease was 57.3% on an annual basis.

Since 2014 there has been a steady downward trend in the complaints concerning the investment market. Their number is 102 in 2014 and 92 in 2015. A significant decrease of 53 complaints in relation to the investment market was also observed in 2016 compared to 2015, with a decrease of 57.6%. By comparison, there was an increase of the complaints related to the investment market by 52.2% in 2014, compared to 2013, and a decrease of 9.8% was registered in 2015 compared to 2014.

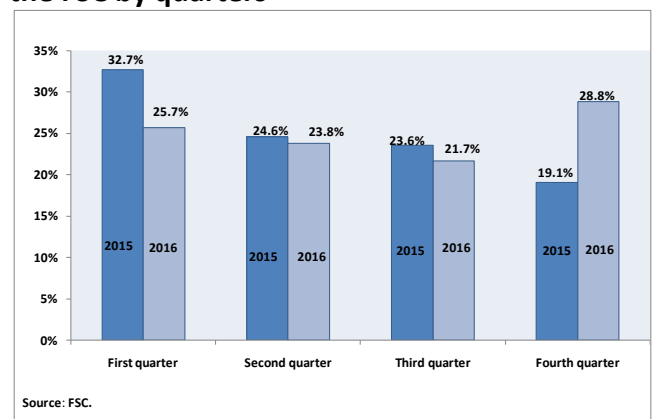
**Figure 3. Dynamics of complaints at the FSC by markets**



No clear upward or downward trend is observed on a quarterly basis in the number of complaints received by the institution in 2016. 25.7% of complaints within the competence of the FSC were received in the first quarter of

2016. This percentage is low compared to 2015. 23.8% of the complaints within the competence of the FSC were received in the second quarter of 2016 with no significant change compared to 2015. 24.6% were received in the second quarter of 2015, and 21.7% - in the third quarter of 2016. This share is lower compared to the third quarter of 2015. 28.8% of the complaints were received in the fourth quarter of 2016. By comparison, the share in the fourth quarter of 2015 was 19.1%. The increase in the complaints received in the fourth quarter of 2016 is a result of the numerous complaints related to the determination and subsequent payment of insurance benefits under filed claims.

**Figure 4. Dynamics of the complaints filed with the FSC by quarters**



The complaints related to the insurance market represent the largest share of the complaints within the competence of the FSC received in 2016 (93.8%). By comparison, their share in 2013 was 78.8%, in 2014 - 82.5% and in 2015 - 87.0%. The share of complaints related to the insurance market accounts for 2.7% of all received complaints within the competence of the FSC. Their share has been steadily declining since 2013, with 15.2% in the same year, 8.5% in 2014, and 4.0% in 2015. The complaints against entities operating on the investment market are 3.6% of all complaints received in 2016. Their share is 6.0% in 2013 and 9% in 2014 and 2015.

The general trend is preserved on a quarterly basis also in 2016. In the first quarter of 2016, the share of complaints in relation to

the insurance sector was 94.3% and is equal to the share in the fourth quarter of 2016. The highest relative share (96.2%) of the complaints in relation to the insurance sector was in the third quarter of 2016. In the second quarter of 2016, the percentage of complaints related to the insurance market was 90.3%. The complaints against the companies in the insurance market had the highest relative share in the second quarter of 2016 and the lowest in the third quarter of the year. The complaints in relation to the investment market had the highest relative share in the second quarter of 2016, and the lowest in the third quarter of the year.

**Table 24. Dynamics of the structure of complaints by market segments**

	2013	2014	2015	2016				2016
				Q1	Q2	Q3	Q4	
Insurance market	78.8%	82.5%	87.0%	94.3%	90.3%	96.2%	94.3%	93.8%
Investment market	6.0%	9.0%	9.0%	3.2%	5.8%	1.7%	3.5%	3.6%
Social insurance market	15.2%	8.5%	4.0%	2.5%	3.9%	2.1%	2.2%	2.7%

In connection with the inquiries addressed to the FSC, which fall within the competence of the institution, most of them concern general practices in 2016. These inquiries account for 54.7%. They are followed by inquiries regarding insurance status (18.7%) and inquiries about financial instruments (14.7%). The inquiries about the availability of insurance coverage account for 10.7%. Fewest are the inquiries about investment bonds with 1.3%. The structure of the inquiries under the first three positions is the same in 2015.

**Table 25. Dynamics of the structure of inquiries by subject of the inquiry**

	Q1	Q2	Q3	Q4	2016
Inquiry about common practices (method of consultation)	66.7%	62.5%	56.3%	0.0%	54.7%
Inquiry about insurance status	0.0%	6.3%	22.9%	40.0%	18.7%
Inquiry about financial instruments	33.3%	6.3%	14.6%	20.0%	14.7%
Inquiry about the availability of insurance coverage (insurance)	0.0%	18.8%	6.3%	40.0%	10.7%
Inquiry about investment bonds	0.0%	6.3%	0.0%	0.0%	1.3%
	100.0%	100.0%	100.0%	100.0%	100.0%

In 2016 the FSC also received complaints in relation to which the institution is not a competent body. The largest share of complaints falling outside the competence of the FSC are complaints related to credit products (41.8%). Second come the complaints related to money transfers (13.6%). The complaints relating to

savings products account for 1.8%. In the first quarter of 2016, the complaints relating to credit products accounted for 29.2%. Their share grew to 40.6% in the second quarter of 2016. In the third quarter of the year that share rose to 42.4% and its value was the highest in the fourth quarter (57.1%). The complaints relating to money transfers in the first quarter of 2016 are 20.8%. Their share declined to 12.5% in the second quarter, continued to decrease in the third quarter and reached 6.1%. There was an increase to 13.6% in the share of complaints related to money transfers in the fourth quarter of 2016. The Complaints relating to savings products were filed only in the third quarter of 2016.

**Table 26. Structure of the complaints outside the competence of the FSC in 2016**

	Q1	Q2	Q3	Q4	2016
Credit products	29.2%	40.6%	42.4%	57.1%	41.8%
Money transfer	20.8%	12.5%	6.1%	19.0%	13.6%
Savings products	0.0%	0.0%	6.1%	0.0%	1.8%
Mobile services	0.0%	0.0%	0.0%	0.0%	0.0%
Taxes	0.0%	0.0%	0.0%	0.0%	0.0%
Other	50.0%	46.9%	45.5%	23.8%	42.7%
	100.0%	100.0%	100.0%	100.0%	100.0%

The FSC maintained its practice to redirect the complaints regarding which the FSC is not competent to the competent institutions.

In 2016, the FSC received complaints outside its competence and mainly within the competence of three institutions in the country. Most of the complaints (95.2%) were within the competence of the Bulgarian National Bank (BNB). The competent authority for 3.6% of the complaints outside the competence of the FSC was the National Revenue Agency (NRA). The third institution is the Communications Regulation Commission (CRC) with a share of 1.2%.

In the first quarter of 2016, 90.9% of complaints fell within the competence of the BNB. In the second quarter all referred complaints were within the competence of the BNB. That share fell to 95.0% in the third quarter and to 95.2% in the fourth quarter.

The complaints within the competence of the NRA in the first quarter of 2016 accounted

for 4.5%, in the third quarter - 5.0% and in the fourth quarter - 4.8%. No such complaints were received in the second quarter of the year.

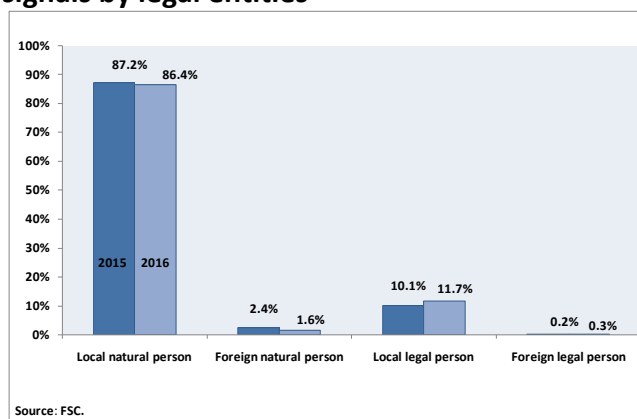
Complaints within the competence of the Communications Regulation Commission were received only in the first quarter of 2016 when they accounted for 4.5% of all complaints outside the competence of the FSC during the quarter.

**Table 27. Structure of complaints by competent institutions other than the FSC in 2016**

	Q1	Q2	Q3	Q4	2016
Bulgarian National Bank	90.9%	100.0%	95.0%	95.2%	95.2%
National Revenue Agency	4.5%	0.0%	5.0%	4.8%	3.6%
Communications Regulation Commission	4.5%	0.0%	0.0%	0.0%	1.2%
	100.0%	100.0%	100.0%	100.0%	100.0%

The local individuals have filed the largest share of complaints and inquiries in 2016 of all received complaints and inquiries (86.4%). The local legal entities account for 11.7% in 2016. The foreign individuals have a share of 1.6% and the foreign legal entities - 0.3% in 2016. An increase in the percentage in 2016 compared to 2015 is noted only for the local legal entities - a rise from 10.1% to 11.7%. A decrease in the share from 87.2% to 86.4% was registered for local individuals and from 2.4% to 1.6% for foreign individuals. An insignificant decrease was observed in relation to foreign legal entities.

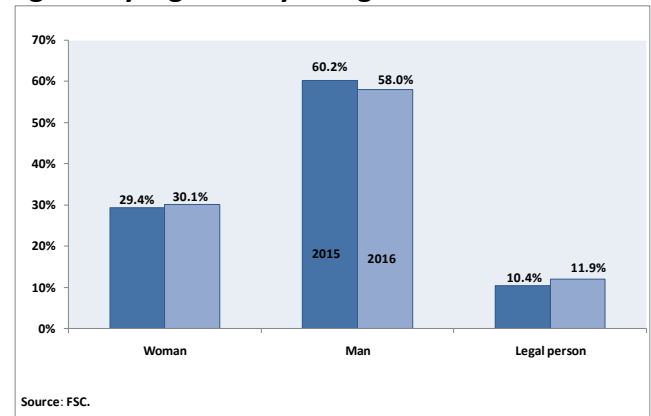
**Figure 5. Dynamics of complaints, inquiries and signals by legal entities**



The analysis of complaints shows that men are more active than female complainants. Their share in 2016 is 60.2% compared to 30.1%

for women. The complainants - legal entities account for 11.9% of all complaints and inquiries. The overall situation compared to 2015 does not change - men account for 60.2% of complaints and women - for 29.4%.

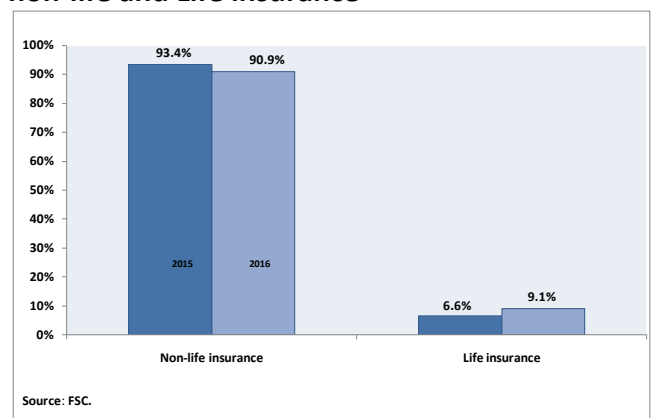
**Figure 6. Dynamics of complaints, inquiries and signals by legal entity and gender**



## Insurance market

The trend for complaints relating to the insurance market to have the highest relative share persists also in 2016. Non-life insurance continues to take up a major portion of the complaints concerning the insurance segment, although their share declined from 93.4% in 2015 to 90.9% in 2016. Accordingly, the proportion of life insurance complaints increased from 6.6% in 2015 to 9.1% in 2016.

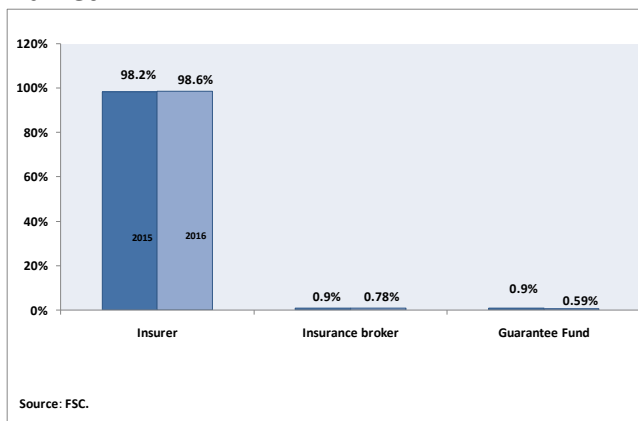
**Figure 7. Dynamics of complaints related to non-life and Life insurance**



Most often, the subject of complaints concerns insurers' actions. In 98.6% of the

received complaints against persons acting on the insurance market, the subject of the complaint concerns the activity of an insurer. The share increased insignificantly from 98.2% to 98.6% in 2015. During the year, the complainants also complained about actions of insurance brokers and the Guarantee Fund, however their share is minimal. In 2016 8 complaints were filed against actions of insurance brokers and 6 complaints against actions of the Guarantee Fund.

**Figure 8. Dynamics of complaints in terms of supervised entities operating on the insurance market**

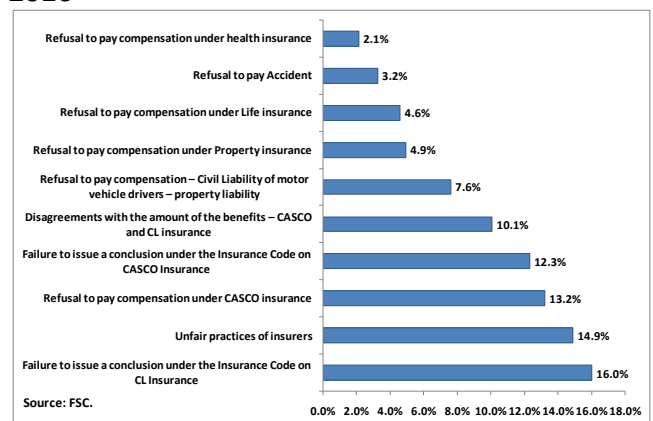


Most often the subject of complaints concerning the insurance sector is related to failure to issue a decision under insurance claims within the deadlines of the Insurance Code regarding Third Party liability insurance of motorists (16%). The second most common complaint is about unfair practices on the part of insurers (14.9%). At the third place, with 13.2% of the complaints concerning the insurance market, are the complaints objecting against refusals for payment of benefits under CASCO insurance. The complainants also objected against the non-compliance with the deadlines of the Insurance Code for issuing decisions under insurance claims for CASCO Insurance, disagreements with the amount of the benefits under CASCO insurance and liability insurance of drivers, as well as against refusals for payment of benefits under the Third Party liability insurance of motorists, under property

insurance, life insurance, accident insurance and health insurance.

For comparison, in 2015, the most frequent complaints relating to the insurance sector concerned the refusal for payment of benefits under CASCO insurance. The same subject ranked third in 2016 with a share of 13.2%. The failure to issue a decision within the deadlines under the Insurance Code regarding the Third Party liability of motorists comes second in 2015 with a share of 14.9% and the unfair practices of insurers - third (13.2%).

**Figure 9. Distribution of complaints in the insurance market by subject of complaint in 2016**

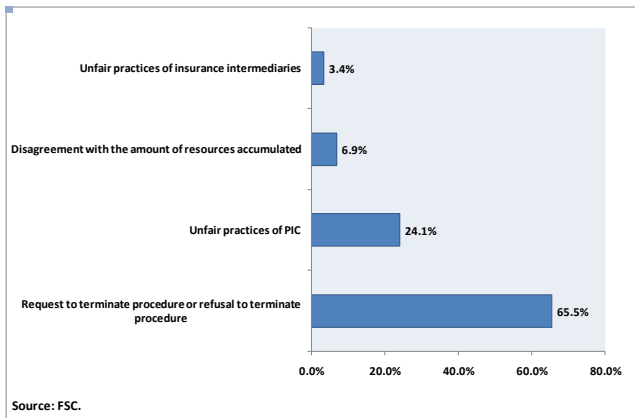


### Social insurance market

Requests for termination of the procedure or refusals to terminate the procedure for transfer of holding is the most common subject of complaints relating to the insurance market in 2016. Their share is 65.5% of all complaints filed in connection with the insurance market. The second most common complaint is about unfair practices on the part of pension insurance companies (24.1%). The disagreement with the amount of the accumulated funds (6.9%) and the unfair practices of the social insurance intermediaries (3.4%) are in the third and fourth places in terms of the most common complaints against actions of entities operating on the social insurance market.

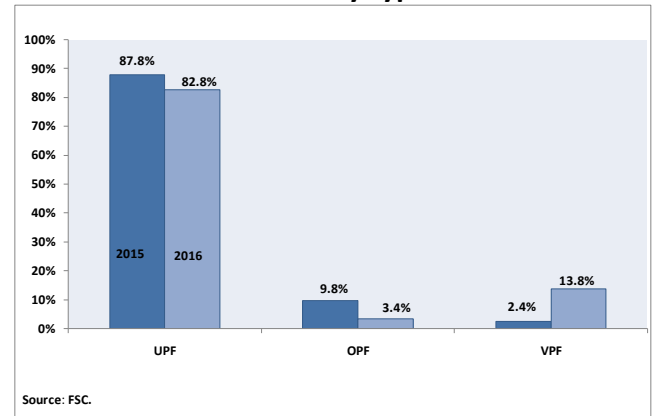
In 2015, the request for termination of the procedure or the refusal to terminate the procedure for transfer of holding is the second most common complaint in the social insurance market with 39%. The most frequent complaint in 2015 is the unfair practices of pension insurance companies (41.5%) which comes second in 2016.

**Figure 10. Distribution of complaints in the social insurance market by subject of complaint in 2016**



The trend of complaints related to the social insurance market and concerning mainly universal pension funds (UPF) remains unchanged also in 2016. Their share is 82.8% of all complaints received in relation to the social insurance market. The complaints relating to professional pension funds (PPF) account for 3.4%, and to supplementary pension insurance funds (SPIF) - 13.8%. The proportion of UPF-related complaints decreases in 2016 compared to the previous year, from 87.8% to 82.8%. The same change was observed also for PPF, with the share falling from 9.8% in 2015 to 3.4% in 2016. Accordingly, the SPIF registered an increase in the complaints rate from 2.4% in 2015 to 13.8% in 2016.

**Figure 11. Distribution of complaints in the social insurance market by types of funds**



### Investment market

A significant number of the complaints concerning the investment market are related to the provision of investment services by companies without the relevant licence. In this regard, the FSC focuses its efforts on taking effective actions to limit the supply of investment services by non-licensed companies and to create a competitive environment with adequate investor protection for the development of the investment business.

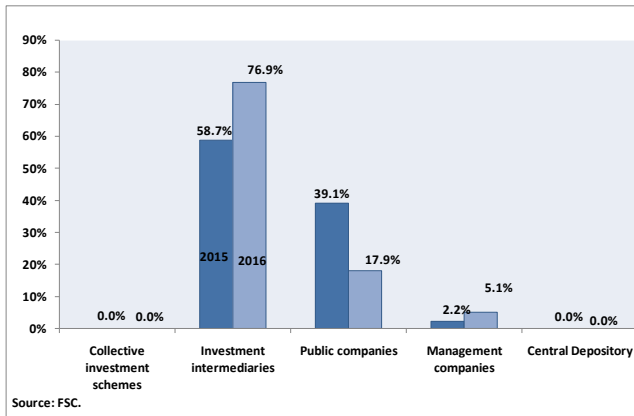
The analysis of the received complaints indicates that there is a growing activity in the offering of investment products over the phone. In this respect, the amendments to the legal framework will regulate the term "tied agent" thus regulating the terms and conditions for advertising and offering investment services through agents of investment intermediaries.

In 2016, the most complaints relating to the investment market are against actions of investment firms. Their share in 2016 is 76.9%, with an increase seen in 2015. Second come the complaints against public companies with a share of 17.9% in 2016, and third - the complaints against actions of management companies with 5.1%.

Complaints against public companies dropped from 39.1% to 17.9% compared to 2015. Contradictory developments are reported in the complaints related to the activities of management companies, their share rising to

5.1% in 2016 compared to 2.2% in 2015. In 2016 no complaints were received against actions of collective investment schemes and the Central Depository.

**Figure 12. Distribution of complaints in terms of supervised entities operating on the investment market**



### Results from the processing of complaints, signals and inquiries in the FSC

The Financial Supervision Commission registers and reviews every complaint, signal or inquiry received by the institution. Detailed examination of the relevant documents is performed in each particular case and additional documents and explanations are requested from the supervised entities subject of the complaint. The necessary measures are taken after the examination in case an infringement of the legal requirements by the supervised entity is detected.

The analysis of the responses to the complainants found that in 50.0% of cases the consumers of insurance services are advised on the possibilities to protect their rights. In 32.3% of the cases a benefit is paid after a complaint has been filed to the FSC, and 10.8% of the complainants are given specific information relevant to the complaint.

Information to consumers of insurance services on the possibilities to protect their rights is given in 47.2% of the cases in 2015 compared to 50.0% in 2016. The provision of specific information relevant to the complaint

comes third in 2015 with a share of 15.0% compared to 10.8% in 2016.

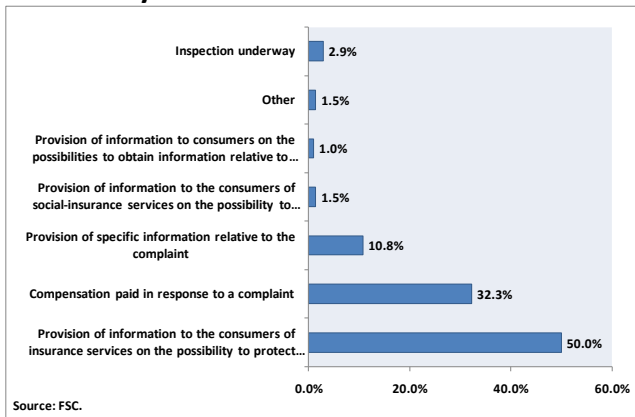
Very often, the consumer complaints filed with the FSC involve civil litigation between the complainant and the supervised entity which is beyond the competence of the FSC and which should be referred to the competent court for consideration and resolution under the current legislation.

The Financial Supervision Commission regularly informs in its replies to complaints the complainants that filed complaints against entities supervised by the FSC regarding the possibility of out-of-court settlement of disputes.

There is a significant increase from 18.5% to 32.3% in the cases where a compensation is paid after a complaint has been filed to the FSC. The growing rate of payment of particular insurance benefits after the FSC has taken legal measures shows consistently the increasing efficiency of the institution in relation to its function to protect the consumers of investment, insurance and social insurance services.

In cases where violations of statutory provisions are found during a complaint investigation, the FSC takes action to hold the regulated entities responsible under the administrative regulations by drawing up acts of established administrative violations and issuing penalty warrants and also by implementing coercive administrative measures.

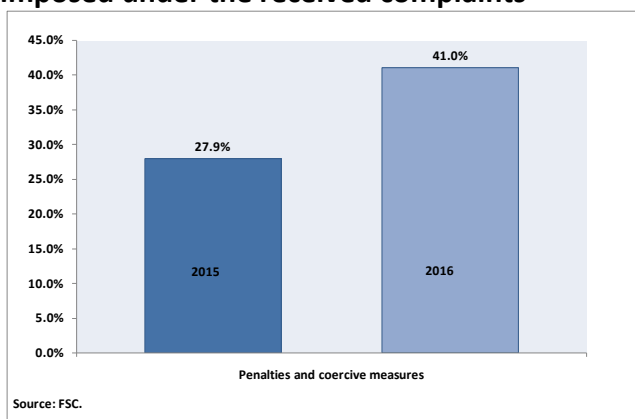
**Figure 13. Structure of the actions taken in response to complaints, inquiries and signals received by the FSC**



In 2016 there is an increase in the cases where sanctions are imposed and administrative coercive measures are applied to supervised persons and the percentage of those cases rose to 41% of all complaints within the competence of the FSC compared to 27.9% in 2015.<sup>13</sup>

The analysis of the responses to the complaints and inquiries as well as the actions taken in connection therewith shows that the complainants' claims tend to be satisfied as a result of the actions and measures taken by the institution.

**Figure 14. Penalties and coercive measures imposed under the received complaints**

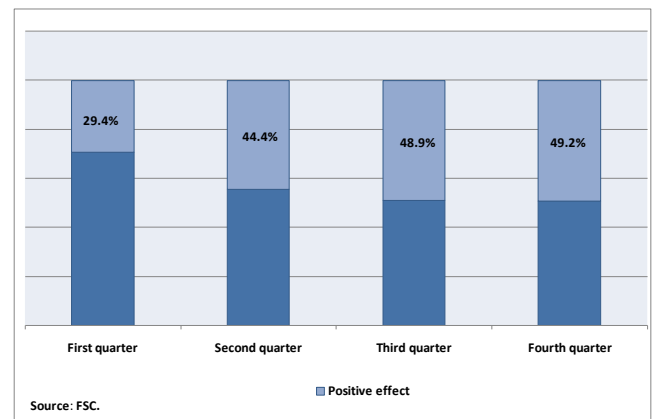


The complainants' request was fulfilled in 43.1% of the complaints and inquiries in 2016, .

<sup>13</sup> The proportion of the sanctions imposed and the coercive administrative measures applied to supervised persons is determined on 31.12.2015 for 2015 and on 15.03.2017 for 2016.

For comparison, that share is 33.5% in 2015. In the first quarter of 2016, the complainants' claims were satisfied in 29.4% of the complaints and inquiries. That share increased over the year reaching 44.4% in the second quarter, 48.9% in the third quarter and 49.2% in the fourth quarter of 2016.

**Figure 15. Effect of the FSC's activity on protecting the interests of the consumers of non-bank financial services**



### 4.3. Policy of financial literacy

One focus of the Financial Supervision Commission is increasing the public's financial literacy. Financial literacy is of a preventive nature when it comes to protecting the interests of the consumers of non-banking financial services. The very need to protect consumers comes from the imbalance of resources – information, power, etc. – between financial institutions and consumers, with consumers being at a disadvantage. Financial institutions are aware of the typical features of the products and services they offer while consumers find it most difficult to seek out and interpret the information they need. In view of reducing this imbalance, the Financial Supervision Commission implements, as a priority activity, a financial literacy policy.

The new Chair of the Financial Supervision Commission – Karina Karaivanova, elected by the National Assembly in July 2016, maintained and strengthened the tradition concerning consumers' protection and improving financial literacy. Activities are ongoing under the Programme for the protection of consumers of non-banking services and increasing financial literacy which has a special focus on both public awareness through the provision of clear and accessible information on financial markets and on the Commission's activity as well as on educational initiatives.

During the reporting year the Commission organized and actively participated in various fora – conferences, workshops, work meetings and educational initiatives aimed at the protection of consumers and increasing the financial literacy of various social groups.

In February representatives of the Commission took part in the work meeting under “BG Map of Financial Literacy” project of Financial Literacy Initiative foundation which involves state institutions, NGOs, business organisations, the academia and the media. The participants from the Commission were actively involved in the “mapping” of the field of financial literacy in Bulgaria and in analysing the results, as well as in pinpointing the measures required to increase financial literacy in the country.

During the year FSC also organized several trainings of supervised persons. In April a two-day training course was held jointly with the State Agency for National Security on the topic of “Funding Terrorism. Sanctions, additional measures adopted by the United Nations Security Council (UNSC) and EU. Recognition indicators”. Training was intended for the staff of pension insurance companies and for insurers, as well as for the staff of management companies and investment intermediaries, including Bulgarian Stock Exchange – Sofia JSC and Central Depository AD.

In October FSC, in cooperation with the National Revenue Agency (NRA) and the Bulgarian Industrial Capital Association (BICA) organized a discussion workshop for certified, non-certified investors, and representatives of the investment business for the purpose of increasing investors' financial literacy. Key points of investing in financial instruments were presented, including the information provided or received upon conclusion of contracts with investment intermediaries, the rights and obligations of the customer, the intermediary's obligations for accountability, as well as the key aspects in the field of taxation in trading with financial instruments. Lecturers of FSC and NRA acquainted the public with investment intermediaries' obligations in their relations with customers through the prism of European Markets in Financial Instruments Directives MiFID I and MiFID II, and emphasized the risks related with trading in financial instruments through platforms, trading in currency pairs (FOREX) and other speculative products. Special attention was also paid to tax legislation.

Probably the most complicated challenge in the Commission's responsibilities towards society in 2016 was to present the procedure involved in the review of the financial statements of insurers and of the assets of pension funds to the public, and to clarify the need for such a review.

On 01 July 2016 FSC organized a conference to present the Methodology for review of the financial statements of insurers and of the assets of pension funds organized in cooperation with the



Bulgarian CFA Association, and „Banker” newspaper. The purpose of the two-day forum was to introduce clarity about the Methodology to be used in the reviews, since no methodologies for a review of the non-banking sector on such a scale had been prepared and applied in Bulgaria up to that moment. During the conference, all questions raised by stakeholders were considered, and the need for the review was explained, the purpose of which was to draw an objective picture of the state of the pension insurance and insurance sectors. The event was attended by representatives of the Steering Committee (SC) that manages the review exercises, of the independent external consultant – “Regional Consortium Ernst & Young” Union that was elected to perform those exercises, as well as the members of the Bulgarian Association of Supplementary Pension Security Companies (BASPSC), and the Association of Bulgarian Insurers (ABI). The review was initiated on 15 July 2016 and involved 81 entities supervised by FSC.

The 14th edition of the traditional educational programme for pupils was held in the beginning of July jointly with Atanas Burov Foundation and the Ministry of Education and Sports. The programme which was exclusively practical, acquainted in an interactive manner 20 pupils and their teachers from professional high schools from all over the country, with the structure, participants and processes in the non-banking financial sector, providing them with an excellent opportunity for career guidance and to try-out their theoretical knowledge in practice. In addition to the theoretical part the students had the opportunity to witness the functioning of the non-banking sector in a visit to the Bulgarian Stock Exchange, and investment intermediary, an insurance company, and a pension insurance company.

In 2016, too, the Financial Supervision Commission took part in the initiative “Manager for a Day” of Junour Achievement Bulgaria and on 17 November 2016 the pupil Simona Dimitrova served as a representative of FSC under the guidance of the Chair Karina Karaivanova.

During the second half of 2016 the Commission’s meetings with the business saw an uprise. A new initiative was started that allows for the direct contact between a regulator and a business. Each week FSC would open its doors and each association or company on the market would have the opportunity to share its opinions and problems encountered with the management of FSC. Meetings were held with representatives of the Association of Bulgarian Insurers (ABI), the Association of the Insurance Brokers in Bulgaria (AIBB), the Bulgarian Association of Licensed Investment Intermediaries (BALII), the Bulgarian Association of Asset Management Companies (BAAMC) and with members of the Managing Board of the Bulgarian Association of Supplementary Pension Security Companies (BASPSC) where current issues and future joint initiatives for enhancing the trust in the Bulgarian non-banking financial sector were discussed.

The traditional annual meeting of the financial journalists from leading media and PR experts from state institutions was held in 2016, too, where valuable experience was shared and a strategy for future joint events was outlined.

The Financial Supervision Commission’s initiatives in the field of protection of financial services consumers and improvement of the financial literacy of Bulgarian citizens of any age are mainly intended to increase the consumers’ trust in the market of securities, insurance and supplementary pension insurance, and solidify FSC’s leading role in Bulgaria.

## **5. International activity and cooperation**

### **5.1. European dimension**

One of the Financial Supervision Commission's (FSC) main priorities concerning international cooperation is related to the Bulgarian non-banking sector’s association with the single European financial market. As part of the European System of Financial Supervision (ESFS), FSC attends meetings of the Boards of the European Securities and Markets Authority (ESMA) and the European Insurance and

Occupational Pensions Authority (EIOPA), supporting the activities of the European supervisory authorities. Apart from that, FSC attends as a non-voting member the meetings of the European Systemic Risk Board (ESRB), and cooperates with the European Banking Authority (EBA).

### **Key aspects of ESMA's work**

During the past year ESMA continued working to improve the protection of investors and to enhance the stability of financial markets. The most significant regulatory act that the European body worked on was the Markets in Financial Instruments Directive – MiFID II. The main goals of the directive are related to increasing security, transparency and efficiency of EU markets, as well as ensuring level-playing field for the participants on these markets.

ESMA is tasked with developing technical standards for the implementation of MiFID II, and in 2016 it finished working on those for the provision of information about ESMA in connection with the sanctions – Art. 71, para. 7; for the cooperation between competent authorities in the field of supervision of on-the-spot verifications or investigations – Art. 80, para. 4 ESMA's provision and centralized publication of reports on positions – Art. 58; technical standards for the exchange of information – Art. 81, para. 4; standards on identifying derivatives traded only at trading venues under MiFID – Art. 32, etc.

In 2016, ESMA also worked on technical standards concerning Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014. The technical standards developed include ones related to the procedures and forms for exchanging information with the national competent authorities – Art. 35, para. 3; on the form and contents of the request for recognition by third-country administrators – Art. 21a, para. 9; on identifying quality criteria for significant benchmarks – Art. 14c, para. 8; on the minimum contents of cooperation agreement with third-country national supervisory authorities – Art. 20, para. 4, etc.

Moreover, ESMA also developed technical standards for packaged retail and insurance-based investment products (PRIIPs), as well as technical standards concerning Regulation (EU) No 596/2014 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.

During the reporting year ESMA continued being strongly committed to its obligation to develop guidelines for the purposes of improving the protection of EU investors. ESMA's guidelines elaborate on basic standards of EU legislation in order to harmonize its application throughout the Member States.

**In 2016 FSC declared to ESMA compliance with the following guidelines:**

#### **Guidelines on complex debt instruments and structured deposits**

The purpose of these guidelines is to specify the criteria for the assessment of debt instruments incorporating a structure, risk involved and structured deposits incorporating a structure, so that the

client is able to understand the risk of return or the cost of exiting the product before term. ESMA expects that these guidelines will enhance the protection of investors and encourage convergence in the classification of “complex’ or “simplified” financial instruments of structured deposits.

**Guidelines related to the Regulation on market abuse (MAR) – „Persons receiving market soundings“ and Guidelines related to the Regulation on market abuse (MAR) – „MAR guidelines on legitimate interests to delay disclosure of inside information and situations in which the delay of disclosure is likely to mislead the public“**

The guidelines, related to the Regulation on market abuse (MAR) – „Persons receiving market soundings“, are intended to ensure a common, unified and permanent approach towards the requirements that the persons receiving soundings are subject to. Compliance with the guidelines will reduce the overall risk of disseminating inside information disclosed during the market research, and will provide the competent authorities with instruments for effective investigations of alleged cases of market abuse.

The Guidelines „MAR guidelines on legitimate interests to delay disclosure of inside information are intended to provide guidance by providing examples of supporting issuers in their decision to delay public disclosure of inside information pursuant to Art. 17, para. 4 MAR.

The Regulation introduces requirements for issuers to publicly disclose inside information concerning them as soon as practicable. In that regard the guidelines provide a model list of six circumstances where issuers have legal interests in delaying the disclosure of inside information, with three situations where delaying the disclosure of inside information may mislead the public.

**Guidelines on practices of cross selling**

The main purpose of the Guidelines on practices of cross selling is the establishment of a continuous and effective approach on the supervision of companies to which the directives listed under it. 3 of the said guidelines apply, which will contribute to enhancing the protection of investors in the Member States. Therefore, the guidelines will help clarify the expected standard of behaviour and the organisational measures of these companies which participate in practices of cross selling for the purpose of mitigating the related damages to investors.

**Guidelines on reasonable remuneration policies pursuant to the Directive on undertakings for collective investment in transferable securities (UCITS) and Guidelines on reasonable remuneration policies pursuant to the Directive on alternative investment fund managers (AIFM)**

The main purpose of the Guidelines on reasonable remuneration policies pursuant to the Directive on UCITS is to ensure a common, uniform and continuous implementation of the provisions concerning remuneration under Art. 14a and 14b of the Directive on UCITS. The guidelines are applied to policies and practices for the remuneration of management companies and their identified staff. The Guidelines define the scope of remunerations to which they apply.

All remunerations are categorized by permanent remuneration (payments or income not depending on any performance criteria) and variable remuneration (additional payments or income depending on performance criteria or in some cases of other contractual criteria). Instructions have been

given on the application of the said categorization, as well as for the treatment of some payments, income or non-monetary benefits.

The purpose of the Guidelines on reasonable remuneration policies pursuant to the Directive on AIFM is to amend the guidelines already adopted for application in 2013 by FSC. The current ones have the same scope of application as the ones already adopted and have been applied since 1 January 2017.

### **Guidelines for the assessment of knowledge and competence**

The purpose of the Guidelines is to define the criteria for evaluation of knowledge and competence pursuant to Art. 25, para. 1 of Directive 2014/65/EU of the EP and the Council of 15 May 2014 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC (Directive 2014/65) pursuant to Art. 25, para. 9 of the said Directive.

The implementation of the guidelines will accomplish relative similarity within the single market between the knowledge and competence of the employees of investment intermediaries providing investment advice or information about financial instruments, structured deposits, investment services or additional services to clients. The guidelines define standards in order to support investment intermediaries in the fulfilment of their obligations to act in their clients' best interest, as well as to support FSC in evaluating the way in which investment intermediaries fulfil their obligations.

Moreover, guidelines will support intermediaries in identifying practical examples about the way in which requirements of guidelines could be fulfilled, which would in turn enhance the protection of investors.

Another core activity of **ESMA is performed through the Supervisory Convergence Standing Committee** which periodically organizes and conducts **peer reviews** of competent authorities in order to increase the continuity of end results from their supervisory activity.

In 2016 ESMA conducted a **peer review on the Guidelines of ESMA on enforcement of financial information**. By 28 October 2016 FSC had to fill-in a questionnaire on a tailor-made section on ESMA's webpage. The questionnaire covered FSC's work on the statements from 2014 (annual) and 2015 (interim and annual).

The analysis made by the representatives of ESMA of all national competent authorities' answers to the questionnaire resulted into the decision of which of the authorities to be subject to on the spot verification of their conformity to the guidelines, and FSC was not selected for such a verification..

During that reporting year another **Peer review on the application of ESMA's guidelines on MiFID suitability requirements** was initiated. With regard to the review, FSC had to fill-in a questionnaire on a tailor-made section on ESMA's webpage by 25 November 2016. The questions included in the questionnaire covered the period between 1 July 2014 and 30 June 2016. As a result of ESMA's analysis of the responses, FSC was not selected as one of the national competent authorities whose compliance with the guidelines would be subject to on-the-spot verification.

In the last quarter of 2016 ESMA performed a **review of the measures taken** by the national competent authorities as a result of its **peer review of the best execution requirements** under the Markets in Financial Instruments Directive 2004/39/EC which was conducted in 2014. After information was exchanged and data was provided by FSC, ESMA declared its recommendations fulfilled.

## Key aspects of EIOPA's work

In 2016, one of EIOPA's main strategic goals was to ensure transparency, simplicity, accessibility and fair conditions for consumers of the internal market. In relation to the European Supervisory Authority's priority of providing information about existing national practices concerning the possibility to transfer pension entitlements, a report on the topic was drafted. Considering the drafting of technical standards by EIOPA the work on PRIIPs was also completed. Moreover, the main information document (MID) on non-life insurance was finalized, thus getting further on achieving the goal of the supervisory authority to encourage equality within the internal market and the protection of consumers.

In order to improve consumers rights protection EIOPA issued a report addressed to the insurance and pension sector concerning the ways of providing simplified and accessible products.

In relation to one of EIOPA's tasks to provide the technical standards and guidelines necessary for the consistent implementation of Solvency II, in 2016 standards and guidelines were drafted, including ones concerning the revision of the Siena Protocol.

Besides, EIOPA is aiming at contributing to the enhancement of convergence and continuity of supervisory practices and instruments in the European Union, and in that regard it has continued in 2016 to work on policies on supervision by creating guidelines on the Supervisory Review Process (SRP), guidelines on SRP, as well as revising the General Protocol.

EIOPA has developed reporting instruments and procedures that provide effectiveness to the process and the quality of the submitted data, thus the European Supervisory Authority supports the national competent authorities and enterprises in meeting the reporting requirements under Solvency II. In that regard, in 2016 instructions were drafted for the national supervisory authorities and for the insurance companies concerning XBRL Taxonomy.

As an EU-level Supervisory Authority EIOPA further developed and supported the implementation of basic standards of the EU legislation during that year, too, in order to harmonize the regulatory framework in all Member States. In 2016 **FSC declared to EIOPA conformity to the following guidelines:**

### **Preparatory Guidelines on product oversight and governance arrangements by insurance undertakings and insurance distributors**

EIOPA issued the Preparatory Guidelines in relation to the activities during the preparatory period before the transposition of Directive (EU) 2016/97 of the EP and the Council of 20<sup>th</sup> of January 2016 on the distribution of insurance products and the implementation of its stipulated delegated acts.

The guidelines are 21, their main task being to support and guide the competent authorities, and to be used in the transition period until the provisions of Directive (EU) 2016/97 become fully implemented.

### **EIOPA Guidelines on the supervision of branches of third-country insurance undertakings**

EIOPA's guidelines on the supervision of branches of third-country insurance undertakings introduce further requirements on the branches of third-country insurance undertakings. The guidelines are related to Arts. 162 — 171 of Directive 2009/138/EC of EP and the Council that regulate the activities of branches. An analysis by FSC revealed that the Guidelines in question do not

contradict the existing legislation described, nor the regulations related to the contents of the Guidelines require any amendments.

### **Key aspects of ESRB's work**

The main focus of the work of ESRB's bodies and structures in 2016 was dedicated to evaluating the risks for the financial stability in EU related to weaknesses in the financial statements of banks, insurance and pension funds due to low-interest-rate environment, the change in the global risk premium, the high indebtedness of the public and the private sector, as well as the state of the real estate sector.

In implementation of **ESRB's recommendation of 18 June 2014 on guidelines for setting countercyclical buffer rates (ESRB/2014/1)** on the grounds of Art. 13, para. 1, it. 25 FSCA, in relation to Art. 111 of Ordinance No. 50 of 19/06/2015 on capital adequacy, the solvency of investment intermediaries and the supervision of their compliance, the Financial Supervision Commission, at its meetings, made decisions to recognize the countercyclical buffer rate as defined by BNB in the amount of 0% in 2016, applied to credit risk exposures in the Republic of Bulgaria. Moreover, an analysis was conducted in relation to **Recommendation ESRB/2015/1 on recognising and setting countercyclical buffer rates for exposures to third countries**, which purpose is to standardise EU countries' policies concerning the recognition and identification of the countercyclical buffer for exposures to third countries.

As a result of FSC and BNB's joint work on the follow-up report drafted by ESRB on the actions taken in response to **ESRB Recommendation on intermediate objectives and instruments of macroprudential policy (ESRB/2013/1)**, the general assessment of the recommendation's implementation is that there is **full compliance**. A resume report is published on ESRB's website.

The real estate sector that has been evaluated as one of the sources of systemic risk in the medium term in some EU Member States still bears great significance for macroprudential actions. In September 2016 ESRB adopted eight warnings for risk related to the residential real estate market, for the following countries: Austria, Belgium, Denmark, Finland, Luxembourg, the Netherlands, Sweden and Great Britain. In parallel, a **Recommendation on closing gaps in real estate data (ESBR/2016/1)** was issued. The purpose of the recommendation is for national macroprudential bodies to implement a framework for monitoring the changes in the real estate sector of importance to the financial stability on the basis of the recommended general target definitions and indicators.

### **Bulgarian Presidency of the Council of EU – January – June 2018.**

In relation to the Financial Supervision Commission's commitments during the forthcoming Presidency of Bulgaria of the Council of EU during the first half of 2018, representatives of FSC from functional groups 5 and 6 on the preparation of the Presidency were selected. Coordinators from FSC on the main areas of preparation and realization of the Bulgarian presidency were also selected. Correspondence was exchanged with representatives of the National Center on the preparation and the realisation of the Bulgarian Presidency of the Council of EU concerning the categorization of events to be

held in Bulgaria during the Presidency. Representatives of FSC also attended a training course of the Public Administration Institute concerning the practical aspects of the Bulgarian Presidency of the Council of EU, as part of the National Training programme for the team of the Presidency.

## **5.2. International cooperation, projects and initiatives**

FSC's cooperation with international organizations and financial institutions is an important aspect of the regulator's activity which becomes even more important in the context of globalized financial markets. The Commission is a member in the three international organizations which issue standards in the sector of securities, insurance and pension insurance, namely the **International Organisation of Securities Commissions – IOSCO**, the **International Association of Insurance Supervisors – IAIS** and the **International Organisation of Pension Supervisors – IOPS**, FSC being among the founders of the latter.

With regard to FSC's activity in exchanging information with foreign regulatory and supervisory authorities related to the investigations of natural persons and companies, license and other procedures, during the reporting year FSC continued to provide active support. A total of 23 requests for cooperation were complied with pursuant to IOSCO and ESMA's memoranda of understanding that included provision of information for the purposes of supervision with foreign financial supervision bodies, include FSC's requests for assistance to Austria, USA, Saint Vincent and Grenadine, Luxembourg, Great Britain, the National Bank of Slovakia, Poland, the Czech National Bank and Romania. The following countries sent FSC requests for assistance: o. Mauritius, Canada, Tanzania, Estonia, Poland, Italy, Germany and USA.

FSC was also actively involved in the activity of coordination committees engaged in the supervision, cooperation and information exchange of cross-border insurance groups. Representatives of all supervisory institutions from the Member States where insurance companies have subsidiaries were involved in the activity of coordination committees. Within the supervisory college of EuroIns Insurance Group AD, whose leading group supervisory body is FSC, two meetings were held (18/04/2016 and 14–15.11.2016) with representatives of the Romanian financial supervisory authority and the Macedonian insurance supervisor, and the meetings were also attended by representatives of EIOPA.

In 2016, too, FSC continued its policy of maintaining and strengthening partnership relations with supervisory authorities of South-Eastern Europe. On October 6th and 7th a regional workshop on the topic of "Risk-Based Supervision" was held in Ohrid, Macedonia, organized by the Macedonian Insurance Supervision Agency in cooperation with the group of the World Bank and EIOPA. Topics of joint interest were discussed, including issues related to the supervisory revision process, own risk and solvency assessment, and corporate management, as well as a discussion was held on issues on macroprudential perspective. FSC's representative made a presentation on the risk-based supervision of the mandatory Third Party Liability insurance of motorists.

Within the cooperation between FSC and the World Bank (WB) in September 2016 a meeting was held between the management of FSC and Alexander Pankov – main financial specialist of WB, for the purposes of resuming the discussions on the potential implementation of a common project for improving regulatory and supervisory framework of non-banking financial institutions and increasing FSC's institutional capacity. WB's representatives once again emphasized the institution's wish to provide

technical assistance in regard to the priority fields and discussed the possible new instruments to fund such assistance.

During the second half of October 2016 the first mission of the International Monetary Fund (IMF) and the World Bank (WB) was held in relation to the revision requested by Bulgarian institution concerning the Financial Sector Assessment Program – FSAP. Meetings with BNB, the Ministry of Finance, the Ministry of Justice, the Deposit Insurance Fund, FSC and the Advisory Council on Financial Stability were organized. The preparation for the mission, including the completion of IMF’s and WB’s questionnaires was jointly coordinated by the Ministry of Finance and the Bulgarian National Bank. The FSAP revision included an overall evaluation of FSC’s powers related to the existing legislation, as well as the strict and unified implementation of the European legislation by the national regulator. FSC presented detailed information on the functioning of its administration, the applicable legal framework, the structure of the insurance sector and the pension system, as well as on the state of both sectors. In December 2016, additional discussions were held with representatives of FSC during a visit by IMF. A preliminary report with IMF’s and WB’s recommendations is to be presented for discussion in 2017.

In August 2016 FSC met with a Korean delegation in view of their programme “Knowledge Sharing” of the Republic of Korea's Ministry of Strategy and Finance. Part of this programme covers the capital market development and SME promotion in Bulgaria. The meeting was held through the intermediation of the Bulgarian Academy of Sciences. The purpose of the project is to examine the Korean experience and policies for improving the interest towards the capital market by investors and by the companies. The present mission is aiming at identifying the main problems of the Bulgarian capital market and seeking, based on that, the possibilities to utilize the Korean experience in encouraging the companies’ and the market investors’ involvement. In that regard a conference is to be organized and a package of measures are to be presented to interested bodies in Bulgaria. The Korean delegation's programme also included meetings with the Bulgarian Stock Exchange, BALII and the Ministry of Finance. The programme's term is one year, and the final report will be drafted in April/May 2017. The report will include policies for stimulating the capital market in Bulgaria along with shared Korean experience in that field.

**5.2.1. FOCUS TOPIC: FSC has signed the Multilateral Cooperation Memorandum with IAIS**

In August 2016, FSC signed the IAIS Multilateral Memorandum of Understanding on Cooperation and Information Exchange (IAIS MMOU) with the International Association of Insurance Supervisors (IAIS) as a result of successful cooperation and sharing of expert experience. IAIS was established in 1994 and its members include more than 200 jurisdictions in nearly 140 states, as well as a number of international organizations accounting for 97% of the global insurance business. Thus FSC significantly expanded its opportunities in the field of international cooperation and the sharing of information for the needs of the proper and effective financial supervision, as well as for the better protection of the rights of insurance services consumers. After joining the memorandum, FSC will have the opportunity to exchange supervisory information with 61 supervisory authorities – parties to the memorandum in cross-border cases of insurance activity. The memorandum covers all aspects of exchanging supervisory information



such as licensing, current supervision and termination of activity. Being party to the memorandum, FSC has proved to be an internationally recognized national institution whose work rules meet not only European standards, but the highest international standards, too.

### 5.3. Cooperation with institutions in Bulgaria

The Commission cooperates actively with industry associations in solving problems related to the activity of persons supervised by FSC regarding issues on specific productions within the coordination procedures involved in adopting amendments to the applicable legislation, as well as in preparing the exams to acquire capacity organized by FSC.

In 2016, at the initiative of FSC and the Central Depository, and in partnership with the Association of Banks in Bulgaria (ABB), the Association of Bulgarian Insurers (ABI), the Association of Bulgarian Investor Relation Directors (ABIRD), the Special Investment Purpose Companies Association, the Bulgarian Industrial Capital Association (BICA), the Bulgarian Association of Supplementary Pension Security Companies (BASPSC), the Bulgarian Association of Licensed Investment Intermediaries (BALII), the Bulgarian Association of Asset Management Companies (BAAMC), the Bulgarian Chamber of Commerce (BCC), the Bulgarian Stock Exchange - Sofia, the Confederation of Employers and Industrialists in Bulgaria (KRIB) and the National Corporate Governance Committee (NCGC), the **Bulgarian Capital Market Development Council** was established. The Council developed a Strategy on the development of the Bulgarian capital market including specific measures for the revival of that segment, with specific deadlines for the implementation of each measure that are to have a positive effect on the capital market in Bulgaria.

During the reporting year, also a Cooperation Contract was signed between FSC and the CFA Institute.

In 2016, the Insurance Supervision Directorate cooperated closely with the Ministry of Interior. Their main activity was focused on the development of the draft Ordinance No. 54 of 30.12.2016 on the **registers of the Guarantee Fund for exchange and protection of information and for issuing and reporting of compulsory insurance** under Article 461, points 1 and 2 of the Insurance Code (Ordinance No. 54), as well as of the draft Ordinance amending and complementing Ordinance No 13-41 of 12.01.2009 **on the documents and the order of their compilation in cases of road accidents, as well as the order for notifications between the Ministry of Interior, the Financial Supervision Commission and the Information Center under the Guarantee Fund**. On the basis of an order of FSC's president, a working group was established involving representatives of various MIA directorates, as well as representatives of the Ministry of Transport, information technologies and communications, the Guarantee Fund, the Association of Bulgarian Insurers and the National Bureau of Bulgarian Motor Insurers. The working group had several meetings where the ordinances' texts were coordinated, and later placed for public discussion and adopted by the competent authorities. In the course of working on the draft Ordinance No. 13-41, the "Road accident with injured persons" Protocol and the "Road accident with material damages" Protocol were revised in cooperation with the representatives of the Ministry of Interior.

**Detailed documents on the form and contents of the data to be supplied by insurers when generating the policies under the mandatory Third Party Liability insurance of motorists and Accident of passengers in the public transport vehicles insurance, as well as when submitting data on claims made and paid under the mandatory Third Party Liability insurance of motorists and Casco of motor vehicles insurance** were drafted in cooperation with representatives of the Ministry of Interior (MI), the Association of Bulgarian Insurers, the Guarantee Fund, and the National Bureau of Bulgarian Motor Insurers. Later, those documents were integrated in Decision No 529 – ПГФ/27/03/2017. The main

requirements as to the contents and form of the data to be submitted under Arts. 6 and 12 of Ordinance No. 54 to the registers of insurance policies and of the reported claims were coordinated, as well as the data source, specifying the cases where they should be filled-in by the insurer, and the case where they will be automatically generated on the basis of data presented by MIs information system.

Another joint task involving representatives of FSC, MI and the Guarantee Fund was the development of selection criteria and the **selection of a consultant having international experience in the field of risk evaluation and actuarial science** to prepare single requirements for adjustment of insurance premiums **for the purpose of introduction of the “bonus-malus” system.**

FSC’s representatives took part in a working group with representatives of MIA and the Guarantee fund for the purpose of defining machinery and information and communication technologies suppliers for the improvement of traffic safety, to be funded with resources from the Guarantee fund pursuant to Art. 560 of the Insurance Code.

In 2016 FSC’s representatives, and in particular representatives of Social Insurance Supervision Division, continued to take part in the permanent work groups under the European Matters Council, more specifically in Working Group 26 “Financial Services”, with leading institution the Ministry of Finance, and Working Group 13 “Social Policy and Employment” under the Ministry of Labour and Social Policy.

A representative of Social Insurance Supervision Division regularly participates in the procedure for ex officio distribution of the persons who haven’t chosen a supplementary mandatory pension insurance fund, which is performed pursuant to Instruction No. 1 of 21/02/2006. The ex officio distribution is performed four times a year by a commission established under the National Revenue Agency which includes one authorised representative of NRA, FSC and the Bulgarian Association of Supplementary Pension Security Companies.

In relation to alternative resolution of consumer disputes, FSC experts actively participated in three sectoral dispute resolution bodies for the resolution of national and cross-border disputes in the form of an extra-judicial conciliation on a voluntary basis under the Consumer Protection Commission:

- Sectoral dispute resolution commission dealing with disputes in the field of insurance and insurance intermediation, including the provision of distance financial services in these sectors;
- Sectoral dispute resolution commission dealing with disputes in the field of supplementary social insurance, of insurance intermediation activities, including the provision of distance financial services in these sectors;
- Sectoral dispute resolution commission dealing with disputes in the field of activities and services under Art. 5, paras. 2 and 3 of the Markets of Financial Instruments Act and of activities and services under Art. 86, para. 1 and 2 of the Act on the activities of collective investment schemes and of other collective investment companies, including the provision of distance financial services in these sectors.

## **6. Institutional development of FSC**

### **6.1. New points in FSC’s management and structure**

The Transitional and Final Provisions of the Recovery and Resolution of Credit Institutions and Investment Firms Act (RRCIIFA) defined the Financial Supervision Commission (FSC) as the body concerned with the resolution of investment intermediaries, and in that activity the Commission should be supported by an independent structural unit.

Pursuant to a change in the Rules of Structure and Activity of the Financial Supervision Commission and its Administration (RSAFSCA)<sup>14</sup> in 2016 the Directorate of “Resolution of Investment Intermediaries” (RII Directorate) was established as an independent structural unit within a common administration separated from the specialized administration of Investment Activity Supervision Division.

The resolution activity has been entirely regulated by the European legislation. Directive 2014/59/EU of the European Parliament and of the Council of 15/05/2014 establishing a framework for the recovery and resolution of credit institutions and investment firms is transposed in the Recovery and Resolution of Credit Institutions and Investment Firms Act. The legislative framework has been supplemented with a number of delegated regulations, implementing regulations directly effective in each Member State, including Bulgaria. In relation to implementing regulations, a number of Guidelines have been issued related to the implementation of the directive by the European Banking Authority (EBA).

In implementation of its function, the Directorate has prepared opinions, reports, proposals and other documents, including opinions and proposals on behalf of FSC's member under Art. 3, it. 5 FSCA to FSC on the adoption of decisions related to the exercise of its functions as a body dealing with the resolution of investment intermediaries.

The main goals of the Directorate are related to:

- ensuring the availability (maintaining and updating) of suitable resolution plans of investment intermediaries on an individual and consolidated basis, and of the meaningful branches doing business in the Republic of Bulgaria;
- ensuring the application of measures of resolution of investment intermediaries which have been identified as meeting all the conditions on taking actions for resolution at the same time;
- ensuring a revision of the plans for resolution of investment intermediaries in view of identifying the actions stipulated in the plan that might have a negative effect on the possibility for resolution;
- ensuring the replenishment of the Investment Intermediaries Resolution Fund (IIRF) and the control on the payment of the contributions payable by investment intermediaries for the replenishment of IIRF.

When performing its functions and tasks, the Directorate interacts with Investment Activity Supervision Division, the Legal Directorate, the International Cooperation Directorate as well as with the other units and employees of FSC, where necessary.

The Directorate issues opinions and prepares the overall documentation related to the Commission's cooperation with EBA. The Directorate is responsible for issuing opinions and taking actions related to FSC's participation in the capacity of a resolution body in resolution colleges that provide cooperation and coordination between the resolution bodies of Member States or third countries where investment intermediaries, their subsidiaries or parent companies do business.

## 6.2. Human resources management

FSC's structure and functions are defined by the Financial Supervision Commission Act (FSCA), the Rules of Structure and Activity of the Financial Supervision Commission and its Administration (RSAFSCA), the special acts and regulations that regulate the investment, insurance and social insurance activity. The total number of employees working at FSC as of the end of 2016 was 255 (5 commissioners and 250 persons working in administration). The administration is divided in general (89 employees), specialized (154 employees) and units and positions directly subordinate to the Chair: internal audit unit (4

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<sup>14</sup> Promulgated SG 67 of 26.8.2016.

employees), secretary general (1 employee), state inspector (1 employee) and 1 information security employee.

The general administration supports the Commission's Chair in exercising his powers as the manager of administration, provides technical support to the activity of the Commission and to the specialized administration, and performs the administrative service activities for citizens and legal persons. In the end of 2016, the following directorates comprised the general administration:

- Legal Directorate – 20 permanent posts;
- Records and Administrative Services Directorate – 9 permanent posts;
- Financial and Economic Activities Directorate – 20 permanent posts;
- International Cooperation Directorate – 10 permanent posts;
- Information Technologies Directorate – 8 permanent posts;
- Public Relations and Protocol Directorate – 6 permanent posts;
- Coordination, Analyses and Policy of Regulatory and Supervisory Activity – 6 permanent posts;
- Resolution of Investment Intermediaries Directorate – 10 permanent posts

The specialized administration supports and ensures the exercise of the powers of the Commission and its bodies, and is comprised of the following directorates:

- Regulatory Regimes of Investment Activity Directorate – 22 permanent posts;
- Regulatory Regimes of Insurance Supervision Directorate – 17 permanent posts;
- Regulatory Regimes of Social Insurance Supervision Directorate – 15 permanent posts;
- Supervision of Investment Activity Directorate – 51 permanent posts;
- Insurance Supervision Directorate – 30 permanent posts;
- Social Insurance Supervision Directorate – 19 permanent posts.

A decisive factor of achieving the Financial Supervision Commission's strategic goals, is the building and keeping of motivated employees who are committed to the administration, on all levels of the organizational process. For that purpose management of human resources was aimed at pooling the management resources provided by the legislation in the field of civil service (selection, training, evaluation and career development) for the purpose of maintaining high level of satisfaction among employees.

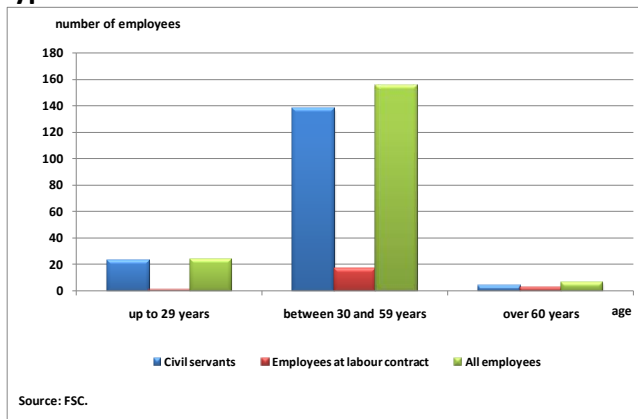
In 2016 the efforts to attract highly qualified people to work at FSC continued. As a result of the 9 competitions held pursuant to the Ordinance on Competitions for Civil Servants, 8 new employees were appointed at the Commission, two of them were hired using the option to appoint a candidate that came second or third in the competition. Two of the procedures ended without appointed persons due to the lack of sufficiently qualified candidates. A main problem in attracting staff through competition was once again that the remuneration offered did not match the high requirements for the candidates.

FSC is faced with a serious problem in ensuring the resources necessary to attract highly qualified experts required to apply the legislative reform in the non-banking sector with regard to the newly introduced requirements by the European Commission. As regards the financial instrument markets, the capital suitability of investment intermediaries, the market manipulations, the insurers' liquidity, etc. the European rules and regulations place more and wider responsibilities to FSC which also require more specialised expertise. Due to those financial limitations however, we are unable to hire the necessary experts.

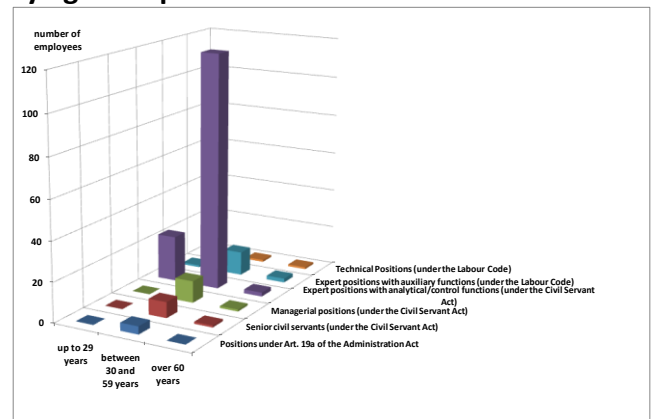
The trend of attracting young people to work at FSC continued during the reporting year, too, with the employees aged below 29 years of age account for 16% of employed staff. The largest part of

employees falls into the 30 – 59 years age group – 74.12 %. The employees of the Commission aged over 59 years are 7.

**Figure 16. Distribution of employees by age and type of labour contract as of the end of 2016.**

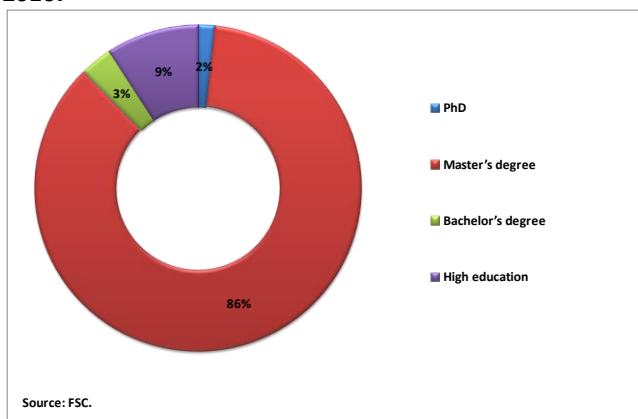


**Figure 17. Distribution of appointed employees by age and position as of the end of 2016.**

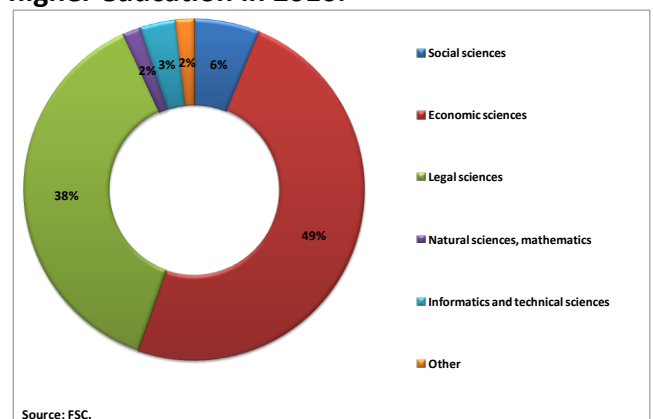


The educational and professional qualification structure of the persons employed at FSC meets the real needs required to implement the tasks and goals of the Commission. Employees with higher education are predominant, accounting for 91 % of the employees in 2016, including those having a PhD Degree (2 %), a Master’s Degree (86 %) and a Bachelor's Degree (3 %). The share of employees with secondary education is the lowest (9 %). The distribution of FSC’s employees by areas of higher education is as follows: the highest percentage (49 %) are employees with higher education in the field of economic sciences, 38 % – in the field of legal sciences, 6 % – in the field of social sciences, 3 % – technical sciences and informatics, 2 % – natural sciences and mathematics, and 2 % have education in other fields.

**Figure 18. Distribution of staff by educational degree in 2016.**



**Figure 19. Distribution of employees by areas of higher education in 2016.**



Increasing qualifications and acquiring new skills by employees is a prerequisite for the FSC’s effective regulatory and supervisory activity. Maintaining the basic skills and improving the competences of staff is ensured through their participation in current and specialized trainings. To fulfil this goal, FSC’s employees underwent trainings at the Institute of Public Administration (IPA).

**Table 28. Trainings held at the Institute of Public Administration (IPA) of FSC's employees in 2016.**

Topic of training	Number of trainings held	Number of staff trained
Implementation of APC (for non-jurists)	1	1
Effective methods of prevention and fight against fraud	1	1
Annual meeting of human resources specialists	1	2
EU Judiciary and key procedures before the Court at Luxembourg	1	2
Risk Management in the activity of the administration	1	1
Evaluation and counteraction to the corruption risk	1	1
Annual meeting of inspectorates under the Administration Act	1	1
Practical issues of administrative offences and penalties (for jurists)	3	10
Practical issues of administrative offences and penalties (for non-jurists)	3	4
Organisation of the document turnover in the state administration	1	1
Application of the Civil Procedure Code (for jurists)	1	1
Influence of the European administrative law on the development of the Bulgarian administrative law	1	3
Evaluation of impact – module course	1	1
Practical Aspects of the Presidency of the Council of EU	1	2
EU Legislative Process after the Lisbon Treaty	1	1
Methods of preventing corruption in public administration – legal framework and practices	1	1
<b>Total</b>	<b>20</b>	<b>33</b>

In 2016 training courses at other training institutions in the country were performed aimed at enhancing the professional knowledge of employees from the general and specialized administration of FSC so as to successfully execute its strategic functions, improve the employees' key skills in view of optimizing work processes, and enhancing the personal motivation of employees.

**Table 29. Trainings held at other training institutions in Bulgaria of FSC's employees in 2016.**

Training institution	Topic of training	Number of staff trained
Public finances school	“Financial management and control in the public sector – main requirements, risk management and annual reporting”	2
Public finances school	“Drafting an audit report – main requirements, practical guidelines	2
“Atlas Consulting Holding Group” EODD	“The State and the municipalities’ responsibility in light of the mandatory case law under the State and Municipalities Damages Responsibility Act (SRA)”	4
Public finances school	“Preliminary legality supervision before the	5

	taking up of obligations and before incurring costs, and a double signature system in the public sector organisations”	
National Advisory Center “Reshenie”	The new legislation about public procurements. The new Act on public procurements.”	1
Public finances school	Risk management in the public sector	2
National Advisory Center “Reshenie”	Current issues of commercial law	6
National Advisory Center “Reshenie”	Civil Procedure	4
National Advisory Center “Reshenie”	Current issues of contract law	1
“TechnoLogica” EAD	Training programme administrators on using the human resources management programme HeRMes	1
Public finances school	Public Procurements Act – new rules of procedure and requirements, application practice	22
Jurists’ Union, “APIS Evropa” AD and EC's Directorate General for Translations	Linguistic and terminological aspects of the European Union Law	1
Public finances school	Drafting working documents and their application in the audit activity	1
Public finances school	Operational Programme “Good Management 2014–2020 – scope and goals. Development of high-quality proposals. Conditions for applying through EUMIS 2020. Project evaluation and approval.	1
Unitax Training	Practice and current issues on the new Act on Public Procurements (APP) and its implementing rules”	2
Dobi Press	Annual accounting year-end at the budget organizations for 2016.	2
<b>Total number of staff trained</b>		<b>57</b>

FSC continued maintaining its useful partnership relations with a number of international institutions – JointVienna Institute, International Monetary Fund, EIOPA, ESMA, etc. During the reporting period 39 employees participated in trainings organized by institutions abroad.

**Table 30. Trainings held for FSC employees at other training institutions abroad in 2016.**

Training institution	Topic of training	Number of staff trained
ESMA	On-site inspections	1
	“Introduction to ISO 20022 and communications under the Markets in Financial Instruments Directive (MiFID)” and “Access to transactions registers –	3

	implementing a project for information technologies and communications under the European Market Infrastructure Regulation (EMIR)	
	On-site inspections Part 2	2
	Commodity Derivatives	1
	“Introduction to MiFID and MiFID	1
	MiFID II Data Processing Project	1
	“Introduction to ISO 20022 and communications under the Markets in Financial Instruments Directive (MiFID)” and “Access to transactions registers – implementing a project for information technologies and communications under the European Market Infrastructure Regulation (EMIR)	1
	“Introduction to MiFID and MiFID	1
	MiFID II Data Processing Project	1
	Workshop on transposing and implementing the new legal framework on financial instruments market MiFID 2/MiFID	2
	Central Counterparties	1
	Testing the receipt of reference data by consumers	1
EIOPA	Workshop related to the implementation of the Solvency II Directive	2
	Impact Assessment in Practice	2
	Supervisory Aspects of Car Insurance	1
	Workshop on the supervision of insurance groups	2
	Risk-Based Supervision	2
IMF/JVI	Legal aspects of international financial institutions	1
	Macroprudential Supervision	1
	Written communication in English	1
EC	Workshop on LEI	1
Bank for International Settlements (BIS)	Solvency and global capital standards	2
The International Organisation of Pension Supervisors (IOPS) and the Pension Funds Vigilance Commission in Italy (COVIP)	International Conference	1
Financial Conduct Authority	Supervisory approach	2
Financial Conduct Authority	Training on the Markets in Financial Instruments Directive (MiFID II)	1



Polish Supervisory Authority	Risk Management of Insurance Companies	2
The Polish Body of Financial Supervision (KNF)	The financial supervision educational initiative (TIFS) "On-site and off-site supervision of investment companies and funds" organized jointly with	1
Organisation for Economic Co-operation and Development (OECD), International Organisation of Pension Supervisors (IOPS) and the Body on Mandatory Pension Schemes of China (MPFA)	Global forum on private pension insurance 2016 and a Workshop on supervisory practices and issues in private pension insurance	1
<b>Total number of staff trained</b>		<b>39</b>

The professional development of civil servants consists in improving their qualifications to execute their professional duties and to take a higher position at the administration. A manifestation of an improved qualification as a combination of knowledge and skills acquired is the employees' promotion. In 2016 FSC's employees demonstrated their motivation and commitment to the goals set by the Commission which was noted in the annual evaluation of their professional performance. In 2016 68 employees of the Commission were promoted.

**Table 31. Final annual evaluations of professional performance at FSC in 2016.**

Evaluations	Civil servants	Employees having a labour relation	Total by type of evaluation
Exceptional performance	2	-	2
Performance exceeds requirements	48	2	50
Performance fully meets requirements	74	10	84
Performance does not fully meet requirements	3	-	3
Unacceptable performance	5	-	5
Total by type of relation	132	12	144

The motivation to have a better performance and achieve high results in the employees' activities is related to career growth, possibilities for training and financial stimulation, in accordance with the high results achieved within the legislation regulating civil service. In 2016, 25 competitive selection procedures were held which resulted in promotions.

The Financial Supervision Commission continued employing interns – students in the Students Internships Programme in the state administration and persons who have obtained higher education, following the requirements of the Ordinance on Students' Internships at the state administration. In order to ensure practical experience that would supplement the students' theoretical knowledge, the Commission gave 22 young persons the opportunity to have their internship at FSC.

### **6.3. Development of information technologies for the needs of supervision**

Due to having serious financial restrictions, FSC is unable to provide new equipment, thus the Commission's experts are faced with the reality of working with hopelessly amortized computers and archaic software. Given the increased requirements and expectations, the need to renovate and develop FSC's information systems is urgent, but it is hard for the Commission to maintain even the current IT infrastructure with the means available to it.

Despite these serious obstacles, FSC has done its best for the development of information systems to continue to be marked by sustainability and conformity with the current trends of information technologies development. The purpose is to ensure the maximum functionality of IT services and systems required to perform the Commission's administrative and legal activities.

During the reporting period, a project was devised to upgrade the electronic E-register and the card index in the section of "Insurance supervision of the shift towards automatic submission of circumstances of insurance agents to be entered", as well as their publication pursuant to Ordinance No. 15.

A project on the expansion of the Management Information System "Insurance supervision in the section of automatic submission and receipt of the statements of insurance and re-insurance companies in XBRL form for the individual and group reporting under Solvency II" under EIOPA.

The renovation of the internal information infrastructure was focused on optimising server equipment. The "desktop" virtualisation solution was further improved.

During the reporting period maintaining current state of information in FSC's registers continued. The information in e-Register is updated by supervised persons – public enterprises and securities issuers (including the companies having a special investment goal), and by the managing companies. The portal works continuously and contains the latest information submitted by the supervised persons. All the other circumstances are duly updated in the e-Register and the card index on the basis of the information submitted by divisions in the orders. During the reporting period the preparation and building of an integrated electronic system – Module e-Register, Art. 1d began for the purpose of information sharing between the addressees of Art. 1d of the Supplementary Provisions (SP) of LPOS and the Commission.

FSC's webpage was widely visited by various groups of consumers – supervised persons, the media and the public representatives. Its development and enrichment with new modules and additional contents, as well as with FSC's and the non-banking financial sector activity statistics continued.

The Commission continued to actively participate in the activity of the respective European supervisory authorities. In 2016 the scope of data supplied to ESMA member states through the TREM system was expanded. FSC joined the projects EMIRT and FIRDS. It participated actively in EIOPA's activity both as regards the introduction of the unified register of insurers and re-insurers of European Union countries, and as regards the new versions of Taxonomy 2.2.

#### **6.4. FSC's budgetary implementation report for 2016.**

The Financial Supervision Commission (FSC) is a legal person supported by the state budget pursuant to Art. 2, para. 3 FSCA. FSC's Chair is the primary budget spender. The Commission's budget is prepared, applied and accounted for pursuant to the Act on Public Finances.

The statement on cash amounts in FSC's budget for 2016 reports profits in the amount of BGN 6,520,907 that also include revenues collected by the National Revenue Agency (NRA) in the amount of BGN 90 265. The revenues collected by NRA are specified in the reporting section of the statement by the minus symbol, pursuant to the instructions of the Ministry of Finance, and as a result, the final amount of revenues according to the statement on cash amounts in FSC's budget for 2016 is in the amount of BGN 6,430,642.

The structure of FSC's revenues for 2016 is as follows:

- revenues from state taxes on the grounds of Art. 27, para. 1 FSCA and the Tariff on Fees collected by the Financial Supervision Commission pursuant to the Financial Supervision Commission Act, including those collected by NRA, amount to BGN 3,890,798, which represent 59.67 % of the total amount of revenues;
- revenues from fines, financial fines and interests, including those collected by NRA – BGN 2,621,721, representing 40.20 % of the total amount of revenues;
- other revenues – BGN 8.388, representing 0.13 % of the total amount of revenues.

In 2016 the costs incurred for FSC's staff (salary, other remunerations, compensations under the Labour Cod and the Civil Servant Act, and mandatory insurance contributions paid by the employee), for the current expenses of the administration, and external services, for the payment of annual European Supervisory Authorities membership fee, and international organisations membership fee, and for capital expenses, amount to BGN 13,220,484. Nearly half the subsidy received from the state budget is used to pay the European Supervisory Authorities membership fee, and international organisations membership fee. These expenses arise from commitments made by Bulgaria upon its accession to the European Union. The statement also includes expenditure for remunerations and mandatory insurance contributions under the "Career Start" Programme in the amount of BGN 3,927. The total budget expenditure amount to BGN 13,224,411.

Funding those costs has the following ratio:

- budget revenues received in cash – BGN 6,430,642 or a relative share of 48.63%;
- transfer from the central budget – BGN 6,789,842, or a relative share of 51.34%;
- transfer from the Ministry of Labour and Social policy in relation to the "Career Start" Programme – BGN 3,927, or a relative share of 0.03 %.

There is a significant growth in assets (12%) managed by supervised persons. Their amount reached nearly BGN 22.8 billion or 26% GDP. Despite the growth in activities, the expenses for supervision the Commission can afford are dropping. In our opinion the most rational approach is for the Commission to replace the budget funding with self-support from the fees collected from the business. This is the financial scheme typical of most European Union countries in relation to the operation of national regulators, and besides it is approved by the business.

## **6.5. Activity Report on the Internal Audit at FSC for 2016**

During the reporting period the Internal Audit Unit (IAU) at FSC operated in accordance with the Internal Audit Strategic Plan for 1016–2018, and the Annual Plan for Audit Tasks for 2016 elaborated on the basis of the former.

When planning and implementing audit tasks, the approach of auditing FSC's main activities is applied. The audit reports provide information and comparative analyses on the implementation of the respective activity, the level of control, the good performance, and the weaknesses in different units. The internal audit activity is aimed at encouraging the introduction of unified procedures and promotion of the best practices to improve the conditions for the Commission's functioning as an effective unified supervisory authority of the non-banking financial sector.

In 2016 IAU performed the following audit tasks and activities:

- assurance audit for the purpose of evaluating the activities of the administration by FSC's three divisions so as to achieve compliance with the legislation and support of the Commission and their bodies in the exercise of their powers to issue (refuse to issue) licenses, permits and approvals, legality and adequacy of the existing Tariff (in the section of administrative procedure fees), the internal rules

and procedures regulating the regulatory regimes and their related activities, the state of internal control;

- advisory commitment by supporting the management in the performance of self-evaluation, completion of a questionnaire and preparing a report on the state of financial management and control systems (FMCS) at FSC for 2015;
- consulting through monitoring and reporting the implementation of activities stipulated on FSC's Risk Register for 2015;
- advisory commitment to coordinate the activity and provide methodological support in the drafting of FSC's Risk Register for 2016;
- activities related to audits performed during the previous year to verify the legality of activities involved in the contracting and implementing public procurements, and the consistency between the actions planned and actually performed in relation to IAU's recommendations in 2012–2015;
- audit commitments being under implementation during the reporting year and are transitional to the following year – evaluation of the administration activities by Investment Activity Supervision Division according to the review and valuation of the plans for recovering investment intermediaries pursuant to the Act on recovery and resolution of credit institutions and investment firms, as well as verifying the conformity of FSC's activity to the Public Procurement Act.

As a result of internal audits, a total of 19 recommendations were given. IAU assisted in the preparation of action plans and performed implementation monitoring, supporting a unified database of recommendations and responses planned in that regard, and implemented result status monitoring procedures.

In recent years, a consistent trend has emerged in that the internal audit's recommendations are accepted by FSC's management and the managerial officials, as well as by the audited structures. A high degree of implementation of the activities planned in relation to the recommendations given is maintained, and in 2016 they were implemented at 80 %. This shows that communication during the audit commitments is effective, as well as that internal auditors' abilities to form suitable proposals for improvement of FSC's control and activity, have improved.

The amendments and improvements in the Commission as a result of the audit activity during the reporting period are mostly related to indicated possibilities for legislative changes.

As a result of the internal audit activity, the following main statements and conclusions on the functioning of FMCS at FSC could be summarized:

- A steady process of goal setting has been established with regard to the availability of outlined short-term strategic goals and priorities, and the determining of annual activities to achieve those. During recent years, FSC's budget has only covered costs which hinders the institution's development and goal setting;
- Risk management is an integral part of the activity and the general management process at the Commission. A standardized approach is applied in the field of risk aimed at planning and undertaking adequate actions towards risks that jeopardise the organisation's goals. With regard to that, every year risk-registers of the administrative units and of the Commission are developed, and monitoring of the implementation of planned activities is performed. In 2016, IAU reported progress concerning the improvement of FSC's risk-register quality. The comparative analysis shows that during the last years there has been identified an unfavourable circumstance which hinders the Commission's work, namely the lack of financial resources mainly for the development of information systems and infrastructure;
- Risks are generally taken into account in the rules and procedures regulating the activities at FSC. In the analysis of control mechanisms it is important to deepen the interrelation with the risks

identified and evaluated for the purposes of identifying unnecessarily sophisticated internal procedures where the costs for resources (time or human) do not match the benefits of application, as well as undertaking of adequate measures for their simplification;

- Control mechanisms are integrated in FSC's activity and are generally applied effectively thus ensuring the compliance with applicable legislation and internal acts;
- There are reliable communication and information management systems at the Commission;
- Activity is effectively monitored, thus allowing for changes or corrective actions, where necessary. Improvements are important in view of providing not only adequate, but timely actions.

In 2016, for the purposes of improving IAU's activity, there was performed:

- continuous and periodical review (annual self-assessment) of the audit activity;
- review and update of all the rules regulating the internal audit activity (Statute, Internal Rules of Organizing the work at IAU, Quality assurance and audit improvement programme);
- feedback from the managers of audited structures and analysis of the information obtained on their level of satisfaction with auditing services.

The strengthening of the administrative capacity of the unit was achieved by:

- enhancing the professional knowledge and skills of internal auditors through the development and implementation of a training plan consistent with IUA's development needs, the individual needs of the employees, and FSC's budget possibilities. During the reporting year, internal auditors took part in more organized trainings compared to those reported during the previous period. Competences and qualifications were upgraded by attending trainings of the School of Public Finances under MF, self-training, discussions within the unit and communication with other IAU;

- improving knowledge in the field of the specialized activity of the Commission by profiling internal auditors by type of market.

## **6.6. Report of the Inspectorate**

The activity of the state inspectorate during the reporting period was aimed at performing administrative control on the work of structural units and employees in the Commission's administration, performing on-site inspections following an annual plan approved by the Chair, as well as random inspections in the order specified in the internal rules of the state inspector.

The documents issued provide a comprehensive, objective, impartial and accurate clarification of the cases being checked, and propose measures for their solving in view of preventing and dealing with breaches, overall improvement of the work of the administration, as well as prevention and detection of possible cases of corruption.

When implementing its control functions, the state inspector performed the following targeted inspections:

- on the issuing of an additional license under an application submitted by ZK Nadezhda AD, city of Sofia;
- on opinions presented on signals given to the Commission by Intransmash Engineering AD, IJSC Bulstrad VI AD, and Euroins Insurance Group AD with regard to procedures initiated and the method of notifying supervised persons about their completion;
- on the issuing of an additional license under an application submitted by European Health Insurance Fund IJSC city of Sofia;

- regarding opinions submitted by employees of the Financial Control Commission with regard to letters and applications of supervised persons concerning decisions made by the Commission;
- with regard to a signal submitted to “Reception” unit at the Administration of the Council of Ministers, against draft regulations published;
- thematic inspections – regarding the fulfilment of the work obligations of an employee at Off-site Supervision Unit, Supervision of Investment Activity Directorate, for a period of one year in accordance with the job description, because of an identified breach of the Professional Ethics Code, as well as to identify the presence of conflict of interests pursuant to the Act on conflict of interests prevention and identification.

In implementation of Order No. P-68/31.3.2014 of the Prime-Minister of the Republic of Bulgaria whereby the ministers, the presidents of state agencies, and other power authorities are obliged to establish a Methodology for the evaluation of the corruption risk for the respective administration; taking account of the specifics of the sectoral policy, the state inspectorate prepared a draft Methodology for the evaluation of corruption risk in the financial supervision commission and a model form of an anonymous questionnaire.

FSC’s inspectorate initiated the adoption of Internal Analysis and Evaluation Rules on the efficiency of the activities for the Financial Supervision Commission’s administration, as well as the making of a decision about initiating verification aimed at analysing and evaluating the effectiveness of the activity on a structural level by FSC specialized administration for 2016.

In performing his functions, the state inspector requested and presented data, information and references necessary to perform the verifications, as follows:

- Information required from BTC EAD on the occasion of an inspection related to a signal submitted against an employee of FSC by a member of the BAR and six natural persons who are Bulgarian citizens;
- Information sent to:
  - ✓ The Public Financial Inspection Agency with regard to a signal concerning an evaluation received about the rating of an applicant to a public procurement;
  - ✓ Directorate General of Civil Registration and Administrative Services of the Ministry of Regional Development and Public Works concerning alleged access by FSC’s consumers in implementation of FSC’s powers granted under the Financial Supervision Commission Act in relation to the supervised persons being inspected;
  - ✓ The bodies of MIA concerning an inspection related to a prosecution file No. 8190/2016 of Sofia Regional Prosecution Office.

A signal was also forwarded to the Minister of Labour and Social Policy of the Republic of Bulgaria as the competent body in such cases.

## II. MARKET ANALYSIS OF NON-BANKING FINANCIAL SECTOR

### 1. External environment and economic activity

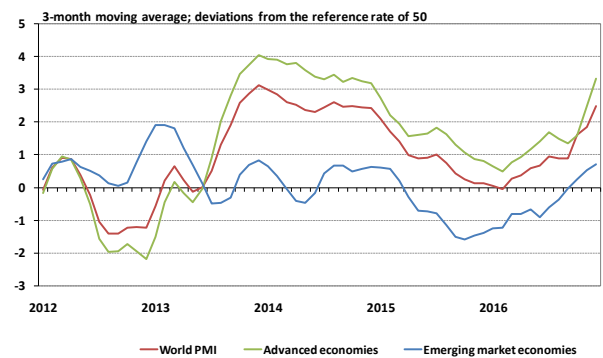
#### 1.1. External environment

In 2016 the global economy continued its recovery reporting growth of 3.1% compared to 3.2% in the previous year. The real GDP growth slowed down among developed economies, reflecting the weaker growth in USA and the uncertainty about economic development following the vote in June in Great Britain to withdraw from the EU. While this dynamics is in favour of the lower interest rate policy, the gradual increase in prices on international markets and the inflation, as well as the recovery of confidence in global demand would put an end to this trend, for which the Federal Reserve took actions in the end of 2016. The economic performance of developing countries is quite different. While in China economic growth remained stable, supported by the implemented policy, economic activity in India slowed down as a result of the currency policy implemented, and Brazil continued to be in recession.

In 2016 the global PMI that reports the business' attitudes, was marked by an upward dynamics, closing in December the best quarter for the industry since the beginning of 2014. The global index' growth was the result of the contributions of both industry and services sectors.

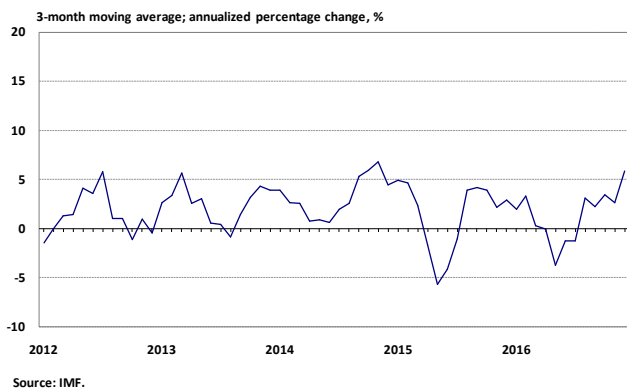
PMI for USA and the euro area reached respectively 21 and 68 monthly peaks, and in Great Britain it reported its best level for the last two years and a half. PMI performance in Asia improved as well, dominated by its positive dynamics in China. Nevertheless, movements there were in diverse directions as the indices for India and South Korea went downwards. At the end of the year economic activity improved mainly in developed countries, except for Japan where the composite PMI remained below the neutral rate of 50 at the end of 2016.

**Figure 20. Manufacturing PMI**



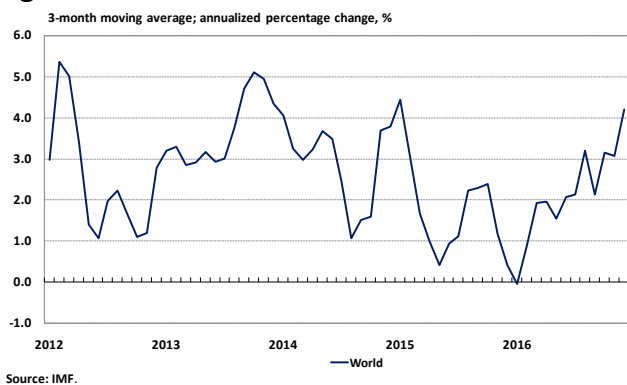
In 2016 the volume of world trade had a slight increase compared to the previous year. The growth in trade was due to the developed countries, while trade in developing countries hardly showed any change. Advanced economies reported differences by countries, with trading in the euro area and Japan during the first months of 2016 increasing on an annual basis, while in the USA the weak GDP growth and the drop in industrial production during the first half of 2016 contributed to a decrease in foreign trade compared to the same period in the previous year.

**Figure 21. World trade**



Global industrial production grew since the beginning of the year reflecting the favourable development of prices and the stabilization of demand on a global scale.

**Figure 22. Industrial Production**

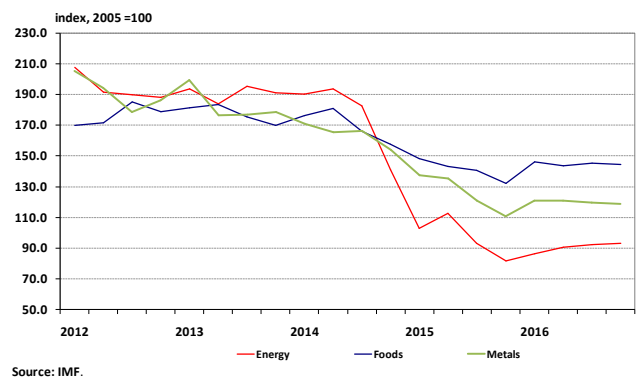


Since the beginning of 2016, the price of crude oil began a gradual increase. Although the prices of energy and non-energy products on average for 2016 remained below their levels of 2015, in the second half of the year international markets reported a decrease in the inconsistency between quantities demanded and quantities produced, which led at the end of 2016 to an increase on an annual basis of prices of energy and of a large amount of non-energy products. The main factors that contributed to the increase in energy products' prices during the second half of 2016 were parameters negotiated in September, November and December 2016 of the restriction on oil extraction planned for early 2017 in OPEC states and other major producers such as Russia, as well as the decreasing extraction in USA.

The price of metals followed an increasing trend on a chain basis since the start of 2016 both in EUR, and in US dollars. The main factors that contributed to the increased prices of metals were the increased demand by China related to the increased state investment expenditure, and the reduction in energy products' prices. The expectations of stronger demand by USA related to their new president's intentions to make infrastructure investments, also had an impact.

The general food price index dropped in 2016 by 2.7 % approximately.

**Figure 23. Dynamics of the prices of food, raw energy products and metals**



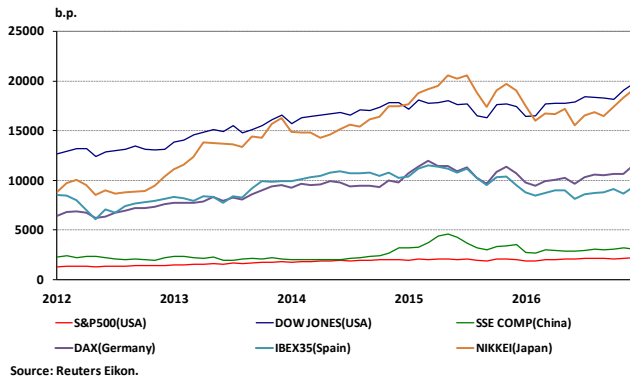
In 2016, global financial markets were surprised by the occurrence of major political events. In the first months, stock exchange indices continued moving upwards from their levels in the previous year, supported by the permanent less demanding conditions for funding from the main central banks in developed economies. In June, uncertainty on capital markets on a global scale increased following the results of the referendum in Great Britain. Since the central banks responded immediately, markets calmed down, and no special market events were reported, except for the clearances in some real estate funds in Great Britain. Within the euro area the German DAX reported a 6.87% increase, while the Spanish IBEX35 dropped by 2.01%.

Despite the surprise caused also by the elections in USA, its effect was only temporary, and at the end of the year the American indices



S&P500 and DOWJONES reported growth respectively of 9.53% and 13.42% on an annual basis. Movements on the stock exchange markets on the Asian continent were diverse, with China's main index closing the year with a drop of -12.31%, and Japan reporting a minimal growth (0.42%).

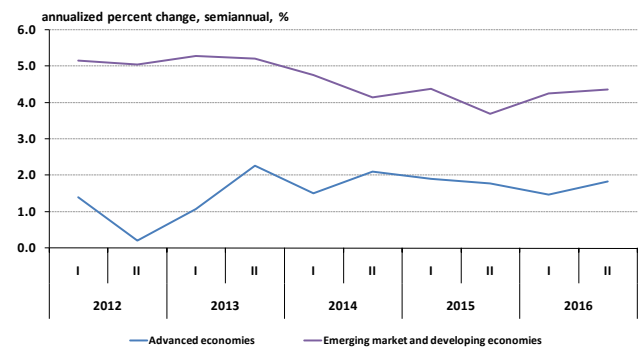
**Figure 24. Capital markets**



Considering the trends in the international state of affairs, global growth in 2016 was slowed down to 3.1% (3.2% in 2015) due to a lower annual growth in advanced countries and the maintained real growth in emerging and developing countries on levels close to those from the previous year. In 2016 advanced economies reported smaller growth of 1.7% as compared to the 2.1% in 2015, reflecting the weaker than expected activity in USA during the first half of the year, as well as the effect of the Brexit referendum. During the second half of the year, the economic activity in USA remained below expectations mainly due to the drop in the level of consumer spending, public spending and investments.

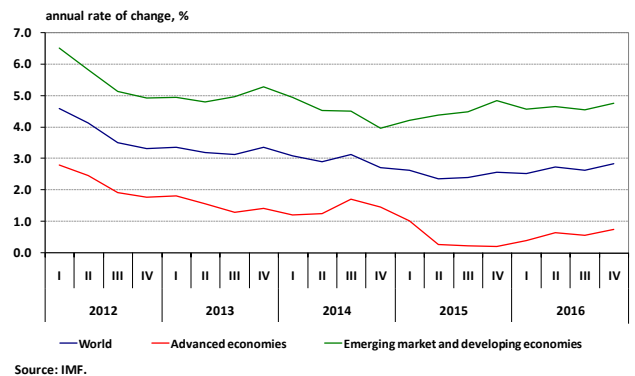
For 2016, the real GDP of China grew by 6.7% which was consistent with the economic growth interval target, set between 6.5% and 7.0%. The strong fiscal support and the wider monetary policy, as well as the rise in the real estate market during the year were the main factors of economic growth in China.

**Figure 25. Real GDP growth**



Global inflation continued to increase during the year mainly under the influence of rising prices of main raw materials. Both the developing and the advanced economic regions reported increase in the growth of consumer prices. The rate of inflation in advanced economies reached 0.8% at the end of 2016, compared to 0.3% in 2015, mostly due to the increase in the prices of energy commodities.

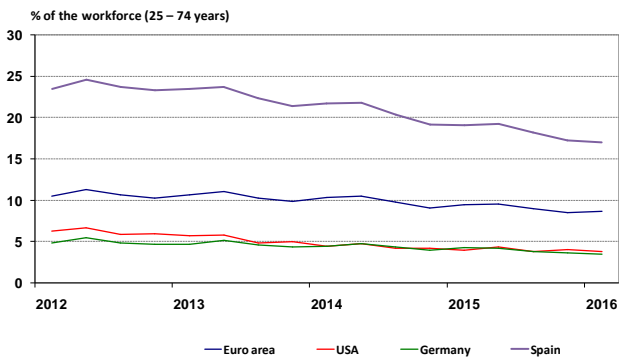
**Figure 26. Inflation**



The state of the labour market in the euro area continues to improve, with unemployment dropping to 8.9% in 2016. During the last month of the year the level of unemployment remained the highest in Greece (23.1%) and Spain (19.2%), both countries reporting a moderate drop in the indicator. Unemployment rate in Germany remained the lowest (4.1%).

The labour market conditions in USA also continued to improve in 2016, with the unemployment rate in USA dropping to 4.7% as of December.

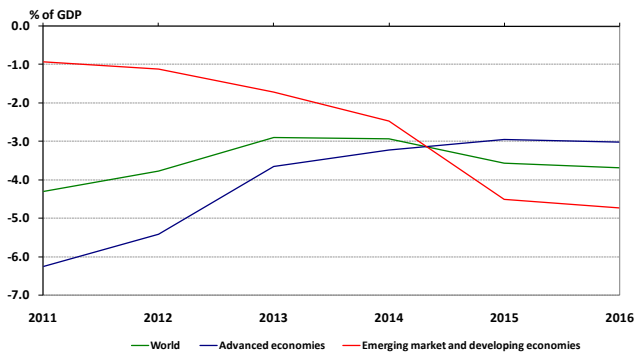
**Figure 27. Unemployment dynamics on a global scale**



Source: Reuters.

In 2016 there was an increase in budget spending on a global scale. Budget deficit grew up to -3.68% of GDP as a result of the fiscal policies implemented to stimulate economic growth, especially among developing countries. Among advanced economies budget deficit reached -3.02% of GDP which is an unsubstantial change compared to the -3.02% reported in the previous year. The economies with emerging markets reported a more significant worsening of public finances, accounting for a negative budget balance up to -4.7% of GDP as of the end of 2016, compared to -4.5% a year earlier.

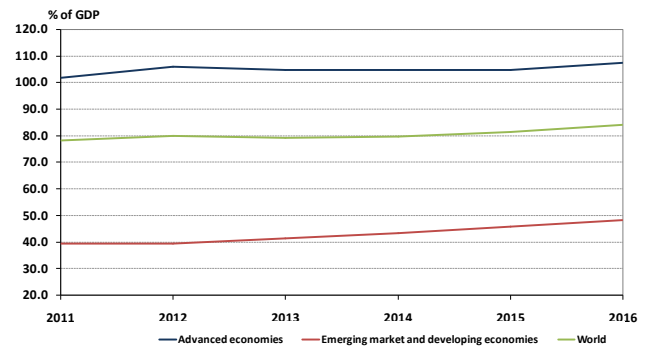
**Figure 28. Balance of public finances**



Source: IMF.

The public debt on a global scale continued to grow and in 2016 it reached the level of 84.1% of GDP. In developed countries the amounts of public debt grew up to 107.5% GDP. Public debt in developing economies is significantly lower as a GDP percentage, increasing to 48.3% in 2016.

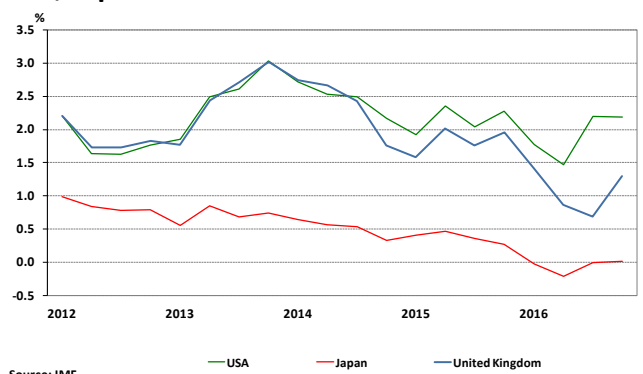
**Figure 29. Public debt on a global scale**



Source: IMF.

Ten-year sovereign bond yields remained low in 2016 as well. In USA and Japan there was an average annual yield of respectively 2.1% and 0.4%. Great Britain experienced an increase in sovereign bond yields after the referendum in June, which was related to the increased uncertainty as regards the United Kingdom's economic development.

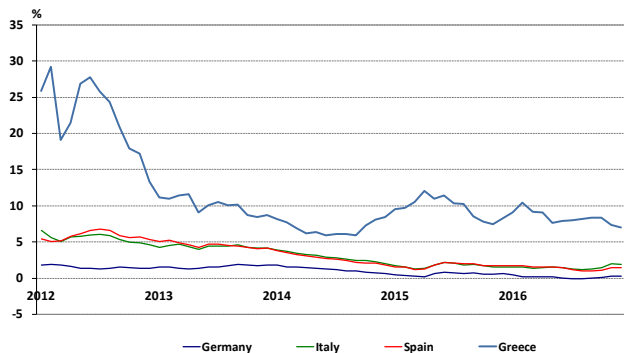
**Figure 30. 10-year sovereign bond yields of USA, Japan and Great Britain**



Source: IMF.

As a result of the liquidity infusion measures by ECB the 10-year sovereign bond yields continued to drop, with even negative yield levels being reported in Germany. In general, average 10-year sovereign bond yields reached 0.8% in the euro area.

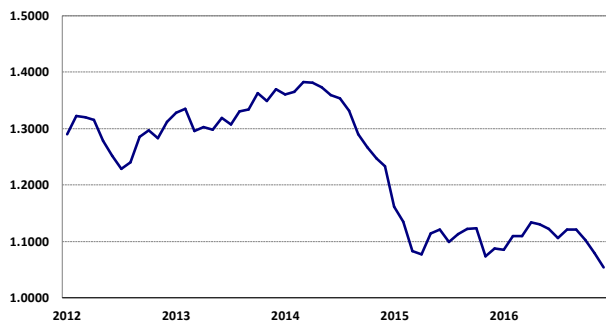
**Figure 31. 10-year sovereign bond yields of Germany, Italy, Spain and Greece**



Source: ECB

In 2016 the single European currency was marked by a diverse dynamics. During the first half of 2016 it followed an upward trend, interrupted by the results of the referendum in Great Britain. Despite the fade-out of that effect in August and September, the increase in interest rates by the US Federal Reserve in December and the continued measures to infuse liquidity by ECB depreciated the euro, which lost 3.1% of its value on an annual basis at the end of the year, reaching minimal value of 1.05 US dollars per euro.

**Figure 32. USD/EUR Exchange Rate**

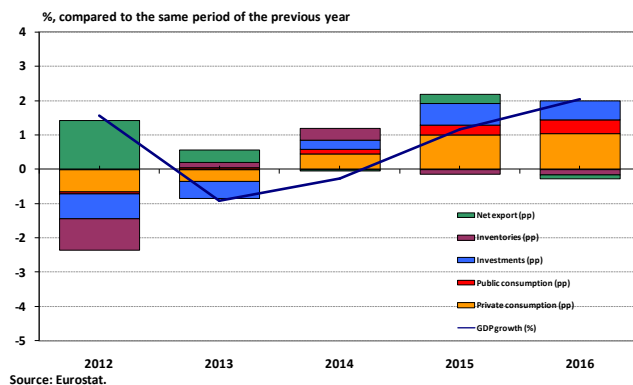


Source: ECB.

In 2016 GDP of the euro area continued to recover with real growth reaching 1.7% in 2016 compared to 2%, reported in 2015. Following the analysis by components, a main contributor to the growth in the euro area was the private consumption (1 p.p.), supported by the favourable conditions of monetary policy and low inflation. In 2016 investments also grew, contributing 0.5 p.p. to the GDP growth. There

was also an insignificant increase in the government spending in the euro area, contributing 0.4 p.p. to the real growth. Despite the drop in the value of the European currency, the net export had a negative contribution of -0.1 p.p. due to the global economic slowdown and the continued sanctions against Russia. Inventories had a negative contribution of -0.1 p.p.

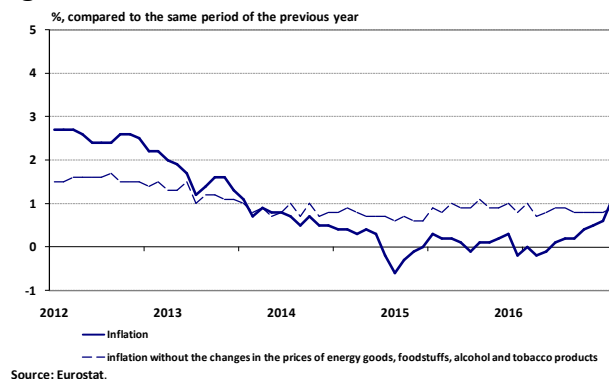
**Figure 33. GDP growth in the euro area**



Source: Eurostat.

In 2016 inflation in the euro area measured through the harmonised index of consumer prices (HICP) grew, reporting negative values in the first months mainly due to the drop in food prices and the low prices of oil. Inflation measured without the prices of energy goods, foodstuffs, alcohol and tobacco products, remained relatively stable in 2016 at 0.85% but far below ECB's target 2%.

**Figure 34. Inflation in the euro area**



Source: Eurostat.

In Central and Eastern Europe (CEE), a key factor in the economy's slow-down in 2016 was the drop in the absorption of EU funds due to

the transition to the new 2014–2020 programme period. Investments were reduced, with the largest drop being in Poland and Hungary – the countries in the region having the largest level of EU funds absorption rate. There was also a drop in exports compared to 2015, which reflects to a certain extent the weaker demand in the EU. Meanwhile, private consumption generally grew supported by the improvement in the labour market, the higher growth of salaries in some countries and the recovery of bank lending.

Brexit's effect on the real GDP of CEE countries is generally assessed to be 0.5 pp<sup>15</sup>, the smallest open economies in Central Europe being the most affected, while that effect was to a more limited extent in countries having larger domestic markets, such as Poland, Romania and Turkey.

**Table 32. Real GDP growth in CEE**

	2015	2016
<b>Czech Republic</b>	4.5	2.4
<b>Hungary</b>	3.1	2.0
<b>Poland</b>	3.9	2.8
<b>Romania</b>	3.9	4.8
<b>Turkey</b>	6.1	1.5

Note: Amendment compared to the previous year (%). The values for 2016 are preliminary.  
Source: IMF, National Statistical Institutes.

In 2016 inflation in CEE countries remained low, with some countries such as Poland and Romania reporting negative values measured by the average annual inflation rate. Low inflation in CEE was the result of low prices of commodities on a global scale, and of food in particular.

**Table 33. Inflation in CEE**

	2015	2016
<b>Czech Republic</b>	0.3	0.6
<b>Hungary</b>	-0.1	0.4
<b>Poland</b>	-0.9	-0.6
<b>Romania</b>	-0.6	-1.5
<b>Turkey</b>	7.7	8.4

Note: Average annual inflation rate.  
Source: IMF, National Statistical Institutes.

Unemployment levels continued to drop in 2016 in CEE countries as a result of the growing workforce demand in several countries in the region. Only in Turkey was there a slight growth of unemployment (10.5%) to levels close to those reported in the previous year (10.3%). In Poland and Hungary unemployment dropped to 6.3% and 5.2%. In the Czech Republic unemployment dropped to 4% and in Romania - to 6%.

**Table 34. CEE unemployment rate**

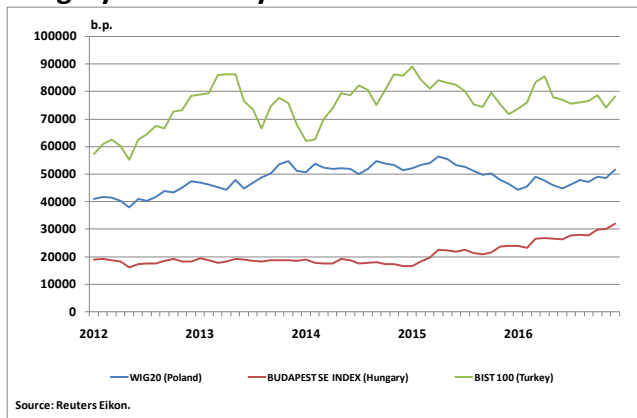
	2015	2016
<b>Czech Republic</b>	5.1	4.0
<b>Hungary</b>	6.8	5.2
<b>Poland</b>	7.5	6.3
<b>Romania</b>	6.8	6.0
<b>Turkey</b>	10.3	10.5

Note: The data are average on an annual base (% of the workforce).  
Source: Reuters Eikon, National Statistical Institutes.

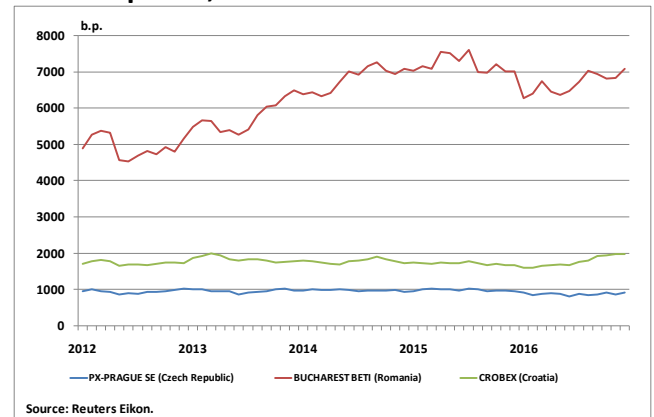
In 2016 the values of main stock-exchange indices in CEE countries moved diversely. Capital markets in CEE were also affected to some extent by Great Britain's withdrawal from EU referendum but without any long-term effects. At the end of the year the Czech PX-PRAGUE SE reported a drop of 3.63%, while the Hungarian BUDAPEST SE INDEX, the Croatian CROBEX and the Polish WIG20 increased respectively by 33.79%, 18.06% and 11.38%. The Turkish BIST 30 and the Romanian BUCHAREST BETI had a slight increase of 8.94% and 1.15%.

<sup>15</sup> According to evaluations of the research unit at UniCredit Group.

**Figure 35. Capital markets dynamics in Poland, Hungary and Turkey**



**Figure 36. Capital markets dynamics in the Czech Republic, Romania and Croatia**



## 1.2. Overview of economic activity in Bulgaria in 2016

In 2016 real GDP growth in Bulgaria, according to preliminary data, amounted to 3.4% on an annual basis, which is mostly due to the positive foreign trade balance. The current account surplus expanded, reaching EUR 1809.6 mln. during the year. The volume of foreign investments in Bulgaria amounted to EUR 701.7 mln. – a significant drop compared to the previous year. Bulgaria’s gross external debt grew by 2.0% as a result of the active issuing policy of the government, reaching at the end of the year the amount of EUR 34.6 bln. Credit activity during the year entered positive territory as household lending is recovering at a faster rate. The budget balance on a cash basis was on surplus amounting to BGN 1465.5 mln., which is 1.6% of GDP. Consumer prices’ harmonized index continued to report deflation in 2016, while housing prices increased its positive rate of change on an annual base to 8.1% during the last quarter of the year.

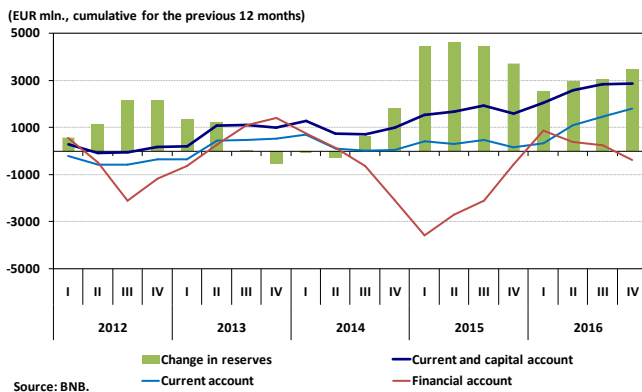
In 2016 the positive balance of the current and capital accounts reached the considerable EUR 2877.1 mln. For the period between January and December 2016, the surplus on the current account of the balance of payments was in the amount of EUR 1809.6 mln., representing GDP 2.0%<sup>16</sup>. This dynamics is mainly due to the shrinking trade deficit. The capital account surplus decreased by EUR 354.1 mln. compared to the previous year to EUR 1067.5 mln. in 2016, as a result of limited inflows under the new EU operational programmes.

The balance of the financial account for the year was negative (EUR -368.7 mln.), EUR 214.6 mln. less than the negative balance reported in 2015. According to data from the balance of payments, international foreign reserves of the

country grew by EUR 3467.3 mln. After taking into consideration the changes from foreign exchange valuation adjustments and price revaluation, the foreign reserves on BNB balance sheet increased by EUR 3613.2 mln. (BGN 7.1 bln.) as the assets of the Issuing Department reached BGN 46.7 bln. at the end of 2016.

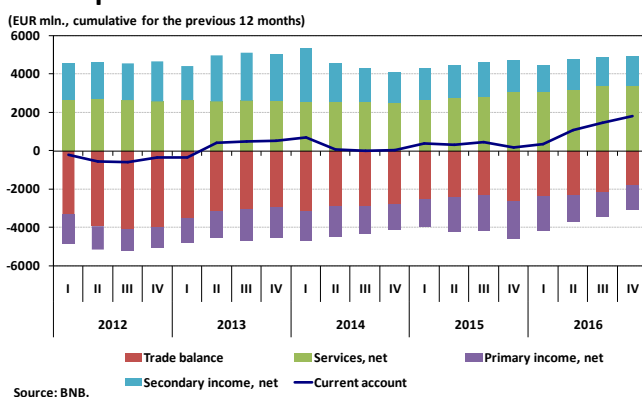
<sup>16</sup> According to preliminary data of the National Statistical Institute, GDP in 2016 was BGN 92643.6 mln.

**Figure 37. Dynamics of the main accounts of the balance of payment**



The substantial expansion of the current account surplus by EUR 1637.2 mln. in 2016 compared to the previous year was mainly due to the favourable trading conditions with the trade balance deficit decreasing by EUR 832.5 mln. As a result of the good revenues from tourism, the positive balance on services grew by EUR 287.4 mln. A positive contribution to the surplus of the current account was also due to the lowered negative balance by EUR 608.0 mln. of the item “primary income, net” as a result of the smaller outgoing flows in the form of dividends and distributed profit. Due to the still low level of funds absorption under EU operational programmes for the 2014–2020 programming period, the surplus of “secondary income” item decreased by EUR 90.7 mln. during the year.

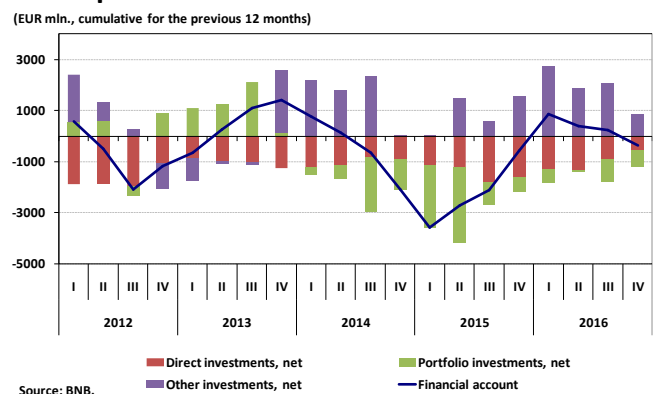
**Figure 38. Dynamics of the current account and its components**



For the period between January and December 2016, the balance on the financial account amounted to EUR -368.7 mln. mainly due

to the larger growth of foreign liabilities than the increase in foreign assets. In March, the government issued Eurobonds on foreign international markets which resulted in increased liabilities of the country in the form of portfolio investments. The balance of the positive change of foreign assets and liabilities in the category of direct investments is also negative. The positive balance in the form of other investments (other than direct and portfolio investments) accumulated for the previous 12 months significantly shrunk during the fourth quarter of the year due to the growth of foreign liabilities, despite also the growth of assets abroad. That increase also reflected the utilisation in December by the Bulgarian Deposit Insurance Fund of EUR 298.5 from the loan, guaranteed by the state, granted by the European Bank for Reconstruction and Development, and of EUR 250 mln. from the loan guaranteed by the state, granted by the International Bank for Reconstruction and Development (World Bank), for the purpose of partial early repayment of the loan granted by the state budget for the smooth process of reimbursement of the guaranteed deposits at Corporate Commercial Bank AD.

**Figure 39. Dynamics of the financial account and its components**



For the period between January and December 2016, the flow of direct foreign investment (DFI) in Bulgaria amounted to EUR 701.7 mln., 72.3% less than in the previous year. A larger amount of DFI in Bulgaria during the year were in the form of equity (EUR 634.9 mln.) and reinvested profit (EUR 338.9 mln.). The flow of

DFI in the form of debt instruments was negative for the second year in a row, being EUR -272 mln. in 2016.

**Table 35. FDI dynamics in Bulgaria by type of investment**

	2014	2015	2016
<b>Total</b>	1161	2535	702
<b>Equity</b>	314	1668	635
Reinvested earnings	421	940	339
<b>Debt instruments</b>	427	-74	-272

Note: The data are about DFI volume in Bulgaria (in EUR mln.) and for 2016 they are preliminary.  
Source: BNB.

The distribution of DFI at home by sectors reported some dynamics in 2016 compared to previous years. The sector “Wholesale and retail trade; repair of motor vehicles and motorcycles” attracted the largest volume of DFI in the amount of BGN 154.5 mln, ranking from third place in 2015 to the first place in 2016, followed by the sector “Construction” with EUR 115.9 mln. The sector “Financial and insurance activities” came down from second place in 2015 to third place with net flow of DFI amounting to EUR 94.6 mln. in 2016.

**Table 36. DFI in Bulgaria by economic sectors**

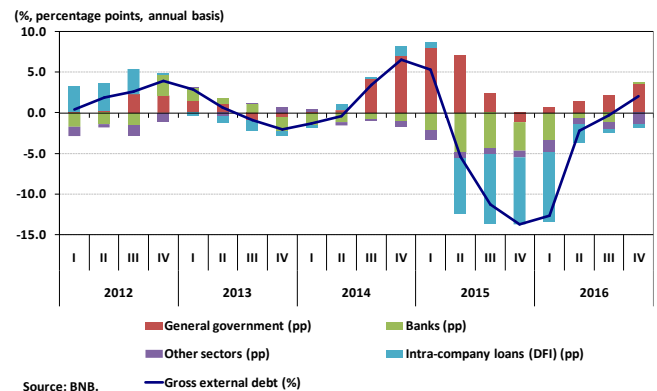
	2014	2015	2016
Mining and quarrying	21.9	72.5	14.1
Manufacturing	-174.6	528.9	72.0
Electricity, gas, steam and air conditioning supply	403.5	112.4	55.7
Construction	306.6	182.5	115.9
Wholesale and retail trade; repair of motor vehicles and motorcycles	229.9	354.0	154.4
Transportation and storage	43.1	41.5	-13.9
Accommodation and food service activities	-25.4	3.4	23.0
Information and communication	120.6	74.1	40.6
Financial and insurance activities	319.9	516.7	94.6
Professional, scientific and technical activities	105.1	123.9	-8.5

Note: Data are in EUR mln. and are preliminary for 2016. The structure covers ten leading economic sectors.  
Source: BNB.

In 2016 the gross external debt grew by 2.0% on an annual basis, reaching by the end of the year EUR 34.6 bln. (73.1% of GDP) as the public external debt represented 15.3% of GDP. The largest contribution to the debt's growth is that of the General Government sector (3.5 p.p.) as a result of the active issuing policy of the government on the international financial

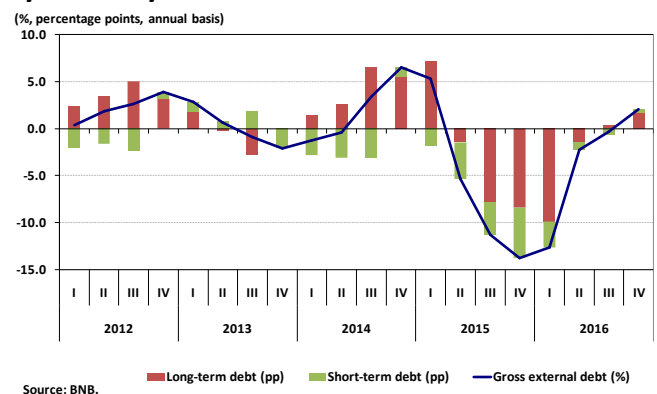
markets. The banks also increased their foreign liabilities, contributing by 0.2 p.p. to the total growth of the gross external debt on an annual basis. The categories of “Other sectors” (-1.4 p.p.) and Intra-company loans (-0.4 p.p.) reported a drop, which in essence represents direct foreign investments.

**Figure 40. Dynamics of the gross external debt by institutional sectors**



The maturity structure of the external debt changed in 2016, with the long-term component growing by 2.2% on an annual basis and accounting for 78% of the total external debt at the end of the year. Short-term debt also grew by 1.7% and represented 22% of the country's external debt of the end of 2016.

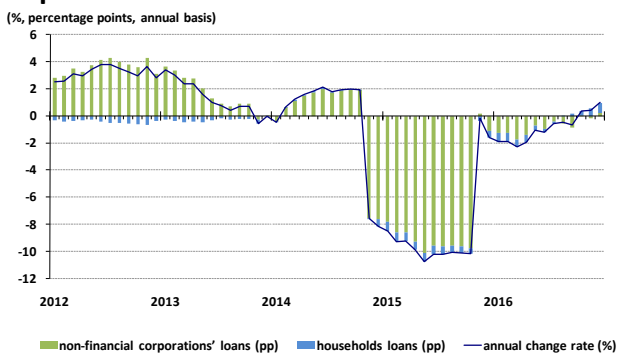
**Figure 41. Dynamics of the gross external debt by maturity structure**



The banks' credit activity entered positive territory in 2016, with the loans for non-financial companies and households in Bulgaria reporting a growth of 1.0% on an annual basis at the end of the year. Household loans recovered more

quickly, reporting a 2.0%-growth, thus contributing by 0.8 p.p. to the total growth of private non-financial sector lending. Non-financial companies' loans reported a significantly smaller growth (0.3%), contributing by 0.2 p.p. to the total dynamics. The main factor that would continue to determine the dynamics of loan activity in Bulgaria is companies' and households' propensity to accumulate liabilities in accordance with their perspective to make profits and earn income.

**Figure 42. Dynamics of loans to non-financial corporations and households**

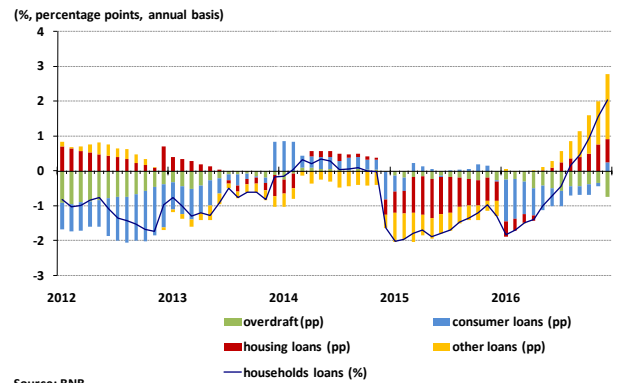


Source: BNB

Annual growth of household loans at the end of the year was mainly due to the significant growth of 46.6% on an annual basis of loans, other than consumer, housing and overdraft loans, which contributed by 1.9 p.p. to the total growth of loans for households. Housing and consumer loans contributed respectively by 0.7 p.p. and 0.3 p.p. It was only the overdraft loans for households that limited the total growth by their negative contribution of -0.7 p.p.

The quality of banks' credit portfolio improved in 2016 as according to the monetary statistics, bad and restructured loans decreased by -11.3% on an annual basis. Their share in the total loan for the non-governmental non-financial sector dropped from 23% at the end of 2015 to 20.1% at the end of 2016. This share remained the highest for the loans to corporations, decreasing to 24.3%, and for the loans to households it dropped to 14.9%.

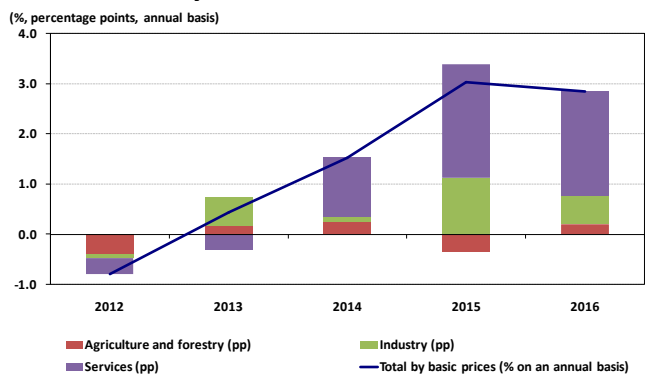
**Figure 43. Dynamics of household loans**



Source: BNB

The gross added value in the economy grew in real terms by 2.9% in 2016. All the sectors of the economy had a positive contribution to the growth during the year, the largest contribution being the one of the services sector (2.1 p.p.), followed by Industry (0.6 p.p.) and agriculture (0.2 p.p.).

**Figure 44. Growth of gross value added and contribution by sectors**



Source: NSI.

A detailed breakdown of added value in the economy by sectors shows that among services with the highest contribution to the growth of gross added value in 2016 was the sector "Wholesale and retail trade, repair of motor vehicles and motorcycles; transportation and storage, accommodation and food service activities" (0.9 p.p), followed by the sector "Operations with real estate" (0.6 p.p). The sector "Manufacturing, mining and quarrying; Electricity, gas and water supply" contributed with 0.7 p.p. to the total growth of the gross added value during the year.

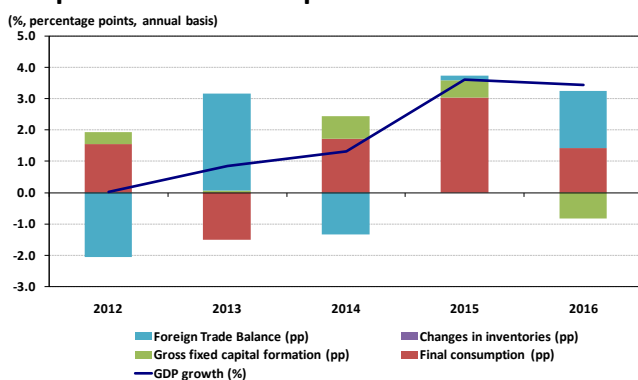


**Table 37. Dynamics of Gross value added by sectors**

	2014	2015	2016
<b>Total for the economy (%)</b>	<b>1.5</b>	<b>3.0</b>	<b>2.9</b>
<i>Contribution (pp), incl:</i>			
Agriculture, forestry and fisheries	0.3	-0.4	0.2
Manufacturing; Mining and quarrying ; Electricity, gas and water supply	0.2	1.0	0.7
Construction	-0.2	0.1	-0.1
Wholesale and retail trade, repair of motor vehicles and motorcycles; transportation and storage, accommodation and food service activities	0.2	1.3	0.9
Creation and distribution of information and creative products; telecommunications	0.0	0.1	0.2
Financial and insurance activities	0.0	-0.1	0.2
Operations with real estate	0.1	0.4	0.6
Professional activities and research; Administrative and auxiliary activities	0.1	0.4	0.1
Public administration, defence, education, human health and social work activities	0.7	0.1	0.1
Culture, sports and entertainment; Other activities	0.1	0.1	0.0
Note: The data for 2016 is preliminary.			
Source: NSI.			

According to preliminary data, the real GDP growth in 2016 amounted to 3.4% on an annual basis. The main engine of economic growth was the positive foreign trade balance, which contribution amounted to 1.8 p.p., followed by final consumption (1.4 p.p.) and the change in inventories (1.0 p.p.). Investments reported a drop (gross fixed capital formation), which put a limited GDP's growth by its negative contribution of -0.8 p.p.

**Figure 45. GDP growth and contribution of the components of final expenditure**



The export of Bulgarian goods and services in 2016 amounted to EUR 23.5 mln. increasing by 2.6% compared to the previous year. The largest contribution to that growth came from the export of investment goods (2.9 p.p.), followed by the export of consumer goods (0.8 p.p.). The

export of raw materials and supplies (-0.7 p.p.) and of energy resources (-0.4 p.p.) limited the nominal growth of export, reflecting the international conjuncture.

**Table 38. Contribution of main groups of goods to the exports' dynamics**

	2015	2016
<b>Exports (% on an annual basis)</b>	<b>4.0</b>	<b>2.6</b>
<i>Contribution (pp)</i>		
Consumer goods	1.6	0.8
Raw materials and supplies	1.3	-0.7
Investment goods	2.6	2.9
Energy resources	-1.6	-0.4
Source: BNB.		

The nominal growth of the import of goods and services in 2016 on an annual basis was negative (-1.0%), amounting to EUR 26.0 mln. The main contribution to that dynamics was that of the import of energy resources (-2.6 p.p.) and of commodities and materials (-1.2 p.p.). Positive contribution had respectively the import of investment goods (1.4 pp) and consumer goods (1.3 p.p.).

**Table 39. Contribution of main groups of goods to the import dynamics**

	2015	2016
<b>Import (% on an annual basis)</b>	<b>0.9</b>	<b>-1.0</b>
<i>Contribution (pp)</i>		
Consumer goods	1.9	1.3
Raw materials and supplies	2.3	-1.2
Investment goods	0.7	1.4
Energy resources	-4.0	-2.6
Source: BNB.		

In 2016, real growth of final consumption slowed down to 1.8% from 3.8% in 2015. The main contributor to this dynamics is the individual consumption of households (1.6 p.p.) and the individual consumption of the government contributed by 0.2 p.p. Collective consumption shrunk, restricting the real growth of final consumption by -0.04 p.p.

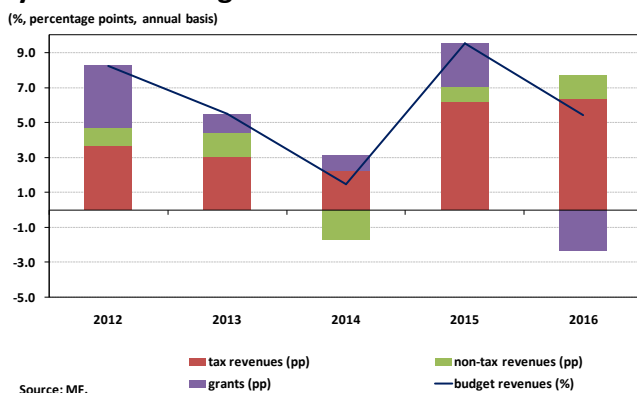
**Table 40. Growth of final consumption expenditures and contributions of its components**

	2013	2014	2015	2016
Final consumption (%)	-1.9	2.2	3.8	1.8
individual consumption (pp)	-2.0	2.3	3.5	1.8
consumption of households (pp)	-2.0	2.1	3.4	1.6
individual consumption of general government (pp)	0.0	0.1	0.0	0.2
collective consumption (pp)	0.1	-0.1	0.3	0.0

Note: The data for 2016 is preliminary.  
Source: NSI.

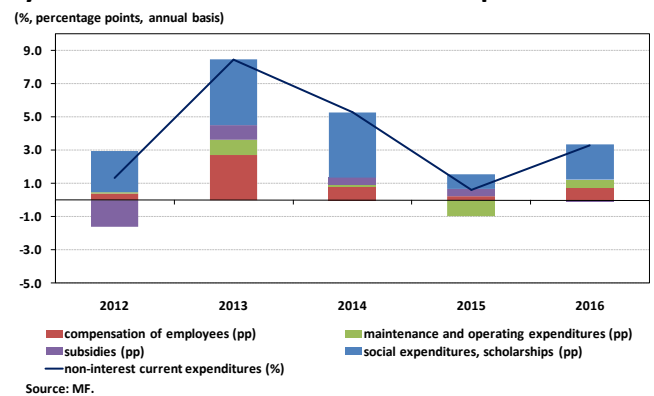
The budget balance of the Consolidated Fiscal Programme (CFP) on a cash basis in 2016 was positive – in the amount of BGN 1465.5 mln., representing a surplus of 1.6 % GDP. Revenues reported a 5.4% growth due mainly to the tax proceeds (6.4 p.p.). They included significant proceeds from VAT (2.5 p.p), profit tax and income tax (1.4 p.p.), and from social and health-insurance contributions (1.2 p.p.). Non-tax proceeds also had a positive contribution (1.4 p.p.) while grants limit the growth of revenues by -2.3 p.p.

**Figure 46. Contribution of components in the dynamics of budget revenues**



In 2016 budget expenditures decreased by -6.4% compared to the previous year mainly due to the shrinking in capital expenditures (-8.7 p.p.) due to the delayed start of EU-funded projects for the 2014–2020 programme period. Current non-interest expenditures grew by 3.3% on an annual basis mainly due to the social expenditures and scholarships (2.1 p.p.), compensation of employees (0.8 p.p.) and maintenance and operating expenditures (0.5 p.p.).

**Figure 47. Contribution of components in the dynamics of non-interest current expenditures**



In 2016 employment in Bulgaria dropped by 0.5% on an annual basis, with the number of employed persons aged 15 or more being 3 016 thsnd. persons. This dynamics is mainly due to a decrease in women employment (-0.5 p.p.) as the largest drop by age groups is reported in employed persons aged between 25 and 34 years. The number of persons employed under a labour contract dropped by -1.0% on an annual basis to 2 232 thsnd. persons. This dynamics is influenced by the drop in persons employed both in the private sector (-0.7 p.p.) and in the public sector (0.3 p.p.), albeit to a lesser extent. By economic activities, there was a drop in the number of employed persons mainly in construction (-0.6 p.p.), manufacturing industry (-0.5 p.p.), and in the sector “Wholesale and retail trade, transportation and storage” (-0.3 p.p.). The number of employed persons grew among agricultural, forestry, and fishery workers (0.2 p.p.) as well as in accommodation and food service activities (0.2 p.p.).

Workers’ income measured by the compensating of employees, representing gross income that also includes changes in social insurance contributions, grew by 5.0% in 2016 compared to 6.7% in the previous year. The unemployment rate continued to decrease reaching 7.6% of the workforce in 2016. The significant reduction in the workforce by 2.2% on an annual basis limited the more sizeable decrease of the unemployment rate.

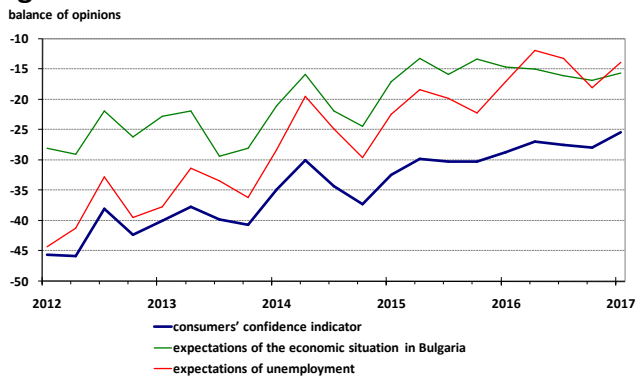
**Table 41. Dynamics of employment and income**

	2013	2014	2015	2016
Employed persons	0.0	1.6	1.7	-0.5
Employees	0.3	0.6	0.6	-1.0
Compensation of employees	7.6	5.4	6.7	5.0
Unemployment*	12.9	11.4	9.1	7.6

Note: The data about dynamics show a change compared to previous years (%), the data about 2016 are preliminary; \*unemployment coefficient on average for the period (% of the workforce).  
Sources: NSI.

The indicator of consumers' confidence continued to improve in 2016. Their expectations of their financial situation, about inflation and unemployment were more optimistic than a year earlier. Only the expectations about the country's economic state for the next 12 months worsened in the second half of the year.

**Figure 48. Consumers' confidence indicator**



Source: NSI.

Note: Expectations about unemployment are with the opposite sign. An increase in the indicator shows that consumers have optimistic expectations, and vice versa.

Households' income grew more quickly in 2016, reporting a 2.6% growth on an annual basis, mainly due to pensions (2.2 p.p.), withdrawn savings (0.5 p.p.) and other social benefits (0.2 pp). A constraint to the growth of households' income during the year was imposed by the income from self-employment (-0.9 p.p.) and income other than salary (-0.2 p.p.). The households' demand for loans and credits entered positive territory, growing by 19.5% in 2016.

**Table 42. Dynamics of households' income**

	2013	2014	2015	2016
Total	12.4	0.6	1.5	2.6
Salary and wages	12.4	4.3	3.4	0.6
Withdrawn savings	0.0	-4.1	0.9	18.7
Loans and credits	111.3	-51.0	-23.1	19.5

Note: The data is on an annual basis (%).  
Source: NSI.

Households' expenditures grew by lower rates (0.5%) compared to their income. Consumer expenditures decreased (-1.3%), which was mainly due to a reduction in the expenditures for food and transportation. Taxes and other household expenditures grew, contributing respectively by 0.2 p.p. and 0.4 p.p. to total expenditures. Households maintain high propensity to save as their expenditures on deposits grew by 45.1% and expenditures on debt payment or loan granting shrank by 9.2%.

**Table 43. Dynamics of households' expenditures**

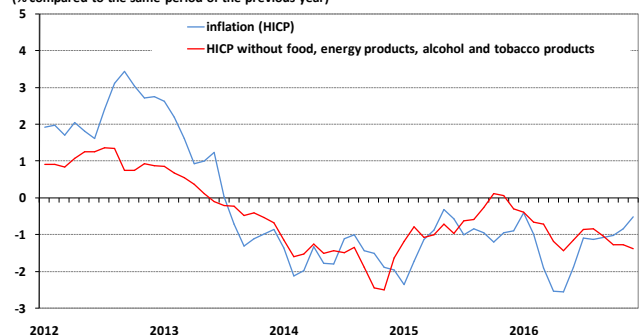
	2013	2014	2015	2016
Total	10.8	3.4	2.3	0.5
Total consumer expenditures	10.0	3.2	2.3	-1.3
Taxes	9.5	2.3	4.5	4.3
Deposit	14.9	54.8	15.0	45.1
Paid debt and granted loan	20.3	-9.5	-8.6	-9.2

Note: The data is on an annual basis (%).  
Source: NSI.

Inflation continued being on a negative trend reporting end-2016 deflation of 0.5% on an annual basis. Aside from the volatile prices of foodstuffs, energy products, alcohol and tobacco, deflation rate deepened to -1.4%.

**Figure 49. Inflation**

(% compared to the same period of the previous year)



Source: NSI.

The largest contribution to the deflation accumulated during the year had industrial goods (-0.5 p.p.). Prices of services also recorded a drop,

the biggest negative contribution to total inflation among them being that of the prices for transport (-0.3 p.p.) and telecommunication services (-0.3 p.p.). Prices of foodstuffs and tobacco products counteracted to a certain extent to the deflation dynamics of the general inflation with their positive contribution of 0.2 p.p. each.

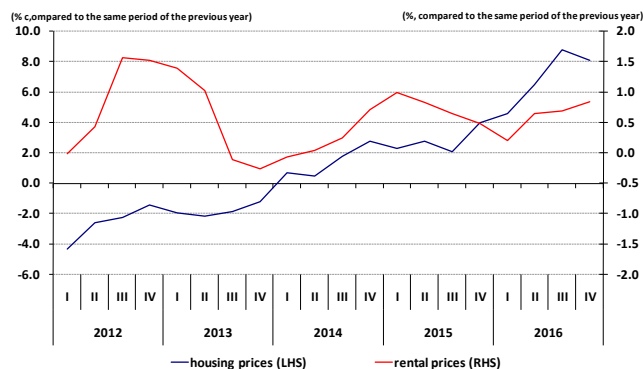
**Table 44. Contribution to inflation of main groups of goods and services**

	2014	2015	2016
Инфляция (% спрямо дек. на предх.г.)	-2.0	-0.9	-0.5
<i>приноси (пр.п.)</i>			
Хранителни продукти	-0.2	0.1	0.2
Непреработени храни	-0.1	0.0	0.1
Преработени храни	-0.2	0.1	0.1
Услуги (всичко без стоки)	-0.4	0.2	-0.4
Обществено хранене	0.1	0.1	0.1
Транспортни услуги	0.1	-0.1	-0.3
Телекомуникационни	-0.4	-0.1	-0.3
Енергия и отопление за дома	0.4	-0.1	-0.1
Течни и транспортни горива	-1.3	-0.8	0.0
Промислени стоки	-1.4	-1.3	-0.5
Тютюневи изделия	0.0	0.0	0.2

Източник: НСИ.

Housing prices accelerated their positive growth since the beginning of the year reporting 8.1% on an annual basis during the fourth quarter of 2016. Rental prices also had a positive change, albeit at a slower rate reaching 0.8% in the last quarter of the year compared to the same period of the previous year.

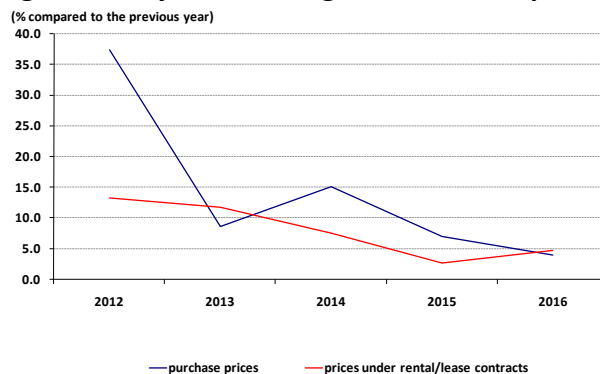
**Figure 50. Dynamics of housing and rental prices**



Source: NSI.

The tendency for agricultural land to become more expensive continued, albeit at a slower pace. The average purchase price of agricultural land in Bulgaria in 2016 was 761 BGN/decar, increasing by 4.0% compared to the previous year. The average price of agricultural land for rent or lease, according to the contracts concluded, was 44 BGN/decar, increasing by 4.8%, accelerating its growth from the previous year.

**Figure 51. Dynamics of agricultural land prices**



Source: NSI.

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

In 2016 assets in the non-banking financial sector grew by 12.1% and reached by the end of the year BGN 22.8 bln., with all the companies in the non-banking financial sector reporting a positive change on an annual base. The largest contribution of 7.0 p.p. came from the net assets of pension funds, followed by the growth of non-banking investment intermediaries' assets (2.3 p.p.), of insurance companies (1.4 p.p.), the change in the assets of collective investment schemes and national investment funds (1.4 p.p.) and the growth of the special investment purpose companies' assets (0.01 p.p.). As a result of that positive dynamics, the role of the non-banking financial sector in the structure of financial intermediation grew, with the assets of that segment's participants reaching 19.8% of the assets of the whole financial sector in Bulgaria. The depth of financial intermediation for the whole non-banking

financial sector also grew to 26.3% of GDP, reaching its highest point since 2008. Among individual segments, the largest share of GDP was accounted for by net assets of pension funds (11.6%), followed by the market capitalisation of the stock exchange market (10.5%) and the insurers' assets (4.3%).

The assets of non-banking investment intermediaries (II) grew by 9.7% in 2016, reaching BGN 5.4 bln. by the end of the year – an amount closer to their value at the end of 2008. Generally the dynamics of the non-banking investment intermediaries' assets is predetermined by investment intermediaries with a full licence due to their large relative share of 83% of the total value of assets. Non-

banking investment intermediaries with a full license have a positive contribution of 7.0 p.p. in the annual rate of total assets' change, and non-banking investment intermediaries with a partial license have a positive contribution of 2.7 p.p. The main determinant for the assets' value to increase is the increase in clients' assets, and securities in particular.

**Table 45. Structure of financial intermediation by institutional investors (%)**

Indicators	2012	2013	2014	2015	2016
Assets of II	4.6	4.6	4.9	4.5	4.7
Assets of CIS and closed-end IC/NIF*	0.5	0.8	0.8	0.8	1.0
Assets of SIPC	1.7	1.5	1.4	1.4	1.3
Assets of insurance and health-insurance companies**	3.2	3.2	3.4	3.4	3.4
Assets of pension funds***	5.8	6.6	7.8	8.7	9.4
<b>Non-banking financial sector</b>	<b>16.0</b>	<b>16.6</b>	<b>18.4</b>	<b>18.8</b>	<b>19.8</b>

Notes: Pursuant to IMF's methodology of measuring financial soundness indicators, the indicators cover the total amount of assets of institutional investors in the non-banking financial sector. \*In 2014 closed-end investment companies were being pre-licensed into national investment funds. \*\*Since the end of 2013 there have been no health-insurance companies. \*\*\*Net pension funds' assets.

Source: BNB, FSC.

The assets of collective investment schemes (CIS) and the national investment funds (NIF) significantly grew compared to the previous year (32.3%), with the amount of assets accumulated reaching BGN 1.142 bln. The reported dynamics was mainly due to an increase in the number and assets of contractual funds, which were 117 as of the end of the year, and their assets' amount reached BGN 1 125 mln. Due to the relatively small absolute value of assets, collective investment schemes had a 1.0% share in the financial intermediation structure.

In 2016 the assets of special investment purpose companies (SIPC) grew insignificantly by 0.2.% on an annual basis, and their amount at the end of the year was BGN 1.5 bln. Assets of SIPCs, that securitize receivables, grew and contributed by 3.0 p.p. to the total growth, while

the dynamics of assets of SIPCs, that securitize real estate and agricultural land, was opposite and limited the total growth with their negative contribution of -2.9 p.p. In relative terms, the share of special investment purpose companies' assets in the structure of financial intermediation at the end of 2016 is 1.3%.

All insurers' assets grew by 7.9% in 2016 compared to 2015 as their share in the structure of financial intermediation in Bulgaria was maintained at 3.4%. The largest contribution of 4.2 p.p. to the growth of insurance market assets was that of the growth in life insurers' assets by 10.8%, while the growth of non-life insurance assets of 6.1% contributed by 3.7 p.p. to the total growth of assets in the insurance segment.

The growth of net assets of pension funds accelerated from 14.4% in 2015 to 15.2% in 2016. The increase in their assets was due both

to receipts from social insurance contributions, and the positive result from investing the funds accumulated in individual accounts. As a result of this dynamics, pension funds continued being the largest institutional investor in the non-

banking sector, with the amount of their net assets at the end of the year being BGN 10.7 bln. Their relative share in the financial intermediation structure grew by 0.7 p.p. and amounted to 9.4% at the end of the year.

**Table 46. Depth of financial intermediation (% of GDP)**

	2012	2013	2014	2015	2016
Market capitalization of the stock exchange market	12.0	12.1	11.7	9.7	10.5
Assets of insurance and health-insurance companies*	3.9	4.0	4.2	4.1	4.3
Assets of pension funds**	6.9	8.3	9.8	10.5	11.6
<b>Non-banking financial sector</b>	<b>22.8</b>	<b>24.4</b>	<b>25.7</b>	<b>24.4</b>	<b>26.3</b>

Notes: Pursuant to IMF's methodology of measuring financial soundness indicators, the indicators cover the total amount of assets of institutional investors in the non-banking financial sector, and the market capitalization of the stock-exchange market. According to preliminary data of NSI, GDP for 2016 was BGN 92,635 mln.\* Since the end of 2013 there have been no health-insurance companies. \*\*Net pension funds' assets.

Source: FSC, NSI.

The depth of the non-banking financial sector in financial intermediation in Bulgaria grew from 24.4% GDP in 2015 to 26.3% in the end of 2016. During the reporting year, the assets of pension funds, insurance companies and market capitalization of the stock exchange market grew by 13.0% on an annual basis. The largest positive contribution to that growth came from the oncrease in the net assets of pension funds (6.6 p.p.), followed by the contribution of the increased market capitalisation of the stock exchange market (5.1 p.p.), and the change in insurers' assets contributed by 1.3 p.p. to the total growth of the three segments of the non-banking financial sector.

In 2016 the Bulgarian stock-exchange markets' indicators reported an upward dynamics. Market capitalization grew by 12.8% on an annual basis and reached BGN 9.7 bln. at the end of the year. A significant growth of 38.7% was reported in the capitalization of the Premium Shares segment. The growth in Standard Shares segment was 4.0% and that of Alternative Market shares was 35.2%. There was an increase in the exchange traded products as the listing of the first exchange trade fund at the

end of the third quarter accounted for a turnover of over BGN 2.5 mln. in the fourth quarter.

All stock-exchange market indices increased in 2016. The main index SOFIX grew by 27.2% compared to its level at the end of 2015. The wide index BGBX40 reported a nearly 20% growth on an annual basis and BGTR30 grew by 19.6% for 2016. The sectoral index BGREIT grew monotonously during the whole year, increasing by 11.4% on an annual basis at the end of 2016.

In 2016 the insurance services sector reported an increase in the depth of its financial intermediation amounting to 4.3% of GDP. Just like in the previous year the growth of life insurers' assets contributed mostly to the dynamics reported during the reporting year.

The supplementary pension insurance funds were marked by an increasing depth of financial intermediation, with their net assets increasing their share from 10.5% GDP in 2015 to 11.6% at the end of 2016. The increase in the assets of these funds is expected to continue as a result both of the accumulation of pension insurance contributions from insured persons, as well as of the positive profitability realized through the managed assets.

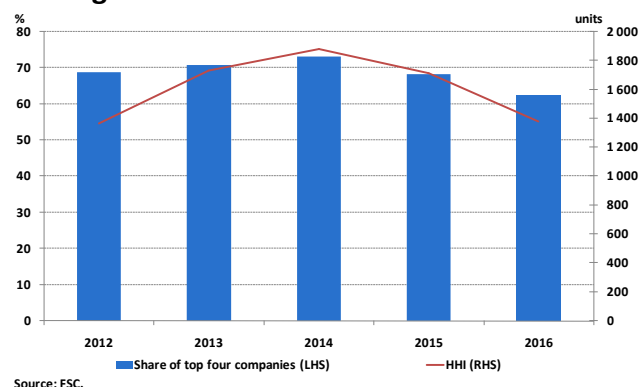
In 2016 the competitive market environment in the non-banking financial sector was enhanced. At the end of the year the segments characterized by a strong competitive environment were: collective

investment schemes and national investment funds (CIS and NIF), the special investment purpose companies (SIPC), management companies (MC) and the non-life insurance services market. Market concentration significantly dropped among non-banking investment intermediaries and almost reached the levels of market concentration among life insurers, with both segments characterized by moderate competition. Despite the pension insurance services market's entering a moderately competitive environment, it still reported the highest levels of concentration among the non-banking financial sector segments.

Among the non-banking investment intermediaries the concentration, measured on the basis of client assets, maintained its downward trend since 2014. At the end of 2016 the four largest investment intermediaries held 62.5% of the total amount of all client assets.<sup>17</sup> Although a large part of the total amount of client assets was held by the top four investment intermediaries, much lower concentration was observed among the rest of the companies, where the average share of client assets held was 1.0%.

The Herfindahl-Hirschmann Index (HHI)<sup>18</sup> on the non-banking investment intermediaries market, calculated by client assets, also dropped in 2016, and its value, as of the end of the year, was 1 381 units, 333 units less than the previous year. Despite the significant reduction of concentration, the market of services provided by non-banking investment intermediaries continued to be characterized as moderately competitive.

**Figure 52. Concentration on the market of non-banking II**



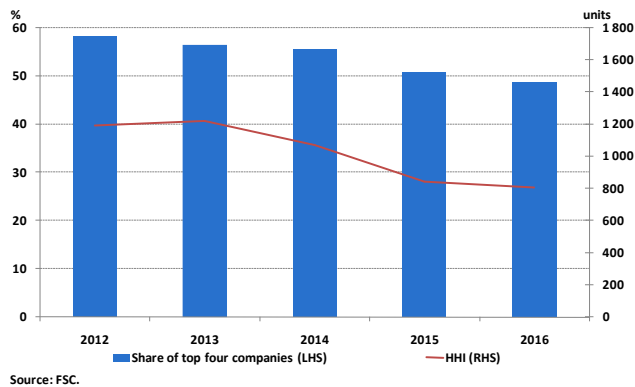
The concentration on the market of services provided by managing companies continued in 2016 to drop for the third consecutive year. The four management companies having the largest share in managed assets held 48.6% of the total amount<sup>19</sup>. The value of the Herfindahl-Hirschmann (HHI) index of the market of management companies calculated by assets managed for 2016 dropped by 38 units to the level of 805 units. This reduction continued the trend of improvement of the competitive feature of the market that continues to be strongly competitive.

<sup>17</sup>Those are First Financial Brokerage House OOD, Elana Trading AD, Euro Finance AD and Aval In AD.

<sup>18</sup>The Herfindahl-Hirschmann Index (HHI) is calculated as the sum of the squares of the market share of each market participant, with its value varying between 0 and 10 000. With a value of less than 1000 units, the market is defined as strongly competitive, between 1000 and 1800 units – a moderate competitive environment, and with over 1800 units – the market is characterized by a strong concentration.

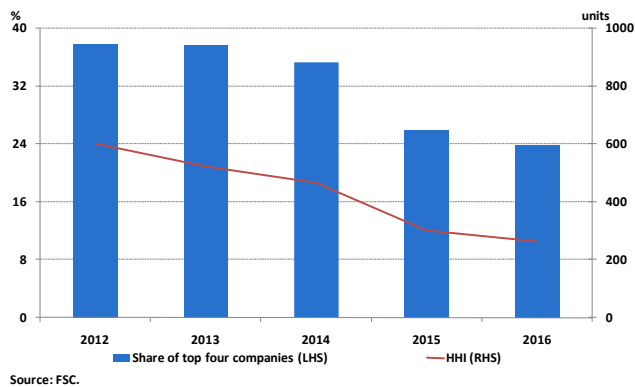
<sup>19</sup>Those are MC DSK Asset Management AD, MC DV Asset Management EAD, MC Raiffeisen Asset Management EAD and MC OBB Asset Management AD.

**Figure 53. Concentration on the market of MC**



The market of CIS and NIF is defined as strongly competitive. In 2016 the trend of smooth reduction in market concentration that had begun in 2012, continued. That dynamics was supported both by the change in the Herfindahl-Hirschmann (HHI) index whose value dropped from 302 units in 2015 to 264 units in 2016, and by the share of the top four funds which dropped respectively from 26.0% to 24.0%.<sup>20</sup>

**Figure 54. Concentration on the market of CIS and NIF**

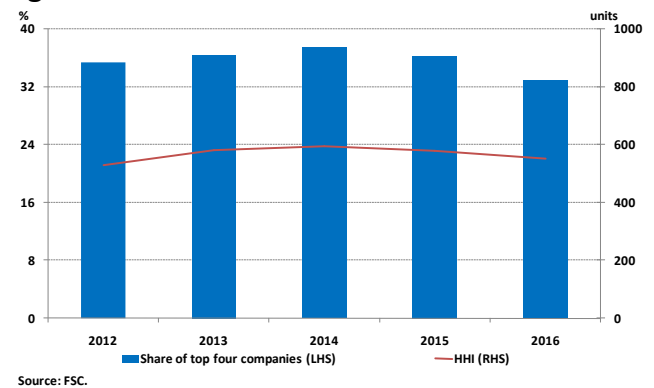


The segment of special investment purpose companies remained highly competitive. The drop in the value of Herfindahl-Hirschmann (HHI) index was maintained for the second consecutive year, reaching a level of 533 units, 27 less compared to the previous 2015. The same dynamics was also reported in the change in the share of the top four companies

<sup>20</sup>CF Raiffeisen Conservative Funds (Bulgaria), CF DSK Money Market Fund, CF DSK Standard and CF OOB Platinum Bonds.

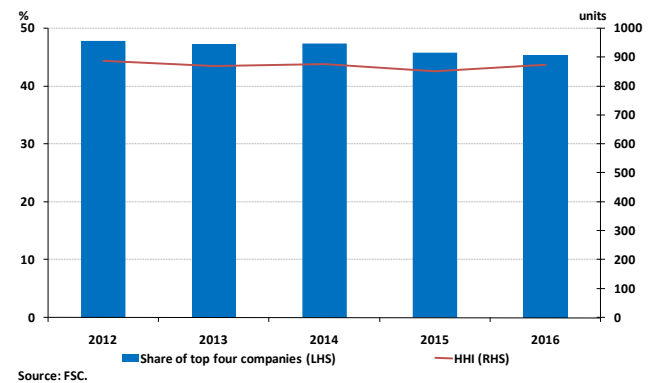
which dropped from 36.3% during the previous year to 32.8% in 2016.<sup>21</sup>

**Figure 55. Concentration on the market of SIPC**



The non-life insurance services market is defined as strongly competitive, with the value of the Herfindahl-Hirschmann (HHI) index in 2016 increasing by 22 units compared to the previous year, and reaching 874 units by the end of 2016. The market share of the four non-life insurance companies, whose premium income was the highest<sup>22</sup>, continued to drop, reaching 45.4% at the end of 2016.

**Figure 56. Concentration on the non-life insurance market**



In 2016, the life insurance services market was marked by a moderate competitive environment. At the end of 2016 the Herfindahl-Hirschmann (HHI) index curve, which had in the

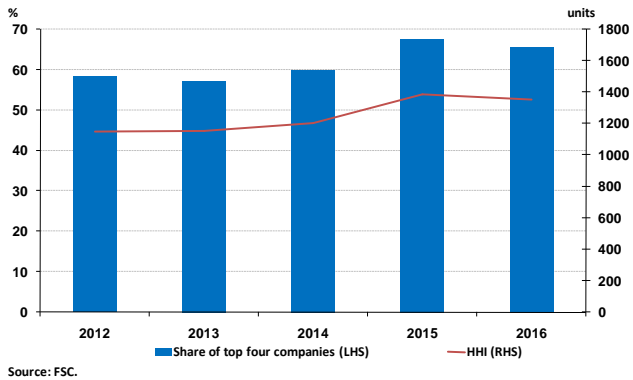
<sup>21</sup>Those are Advance Terrafund SIPC, Capital Management SIPC, Sopharma Imoti SIPC and Real Estate Bulgaria Fund SIPC.

<sup>22</sup>Those are IC Lev Ins AD, Insurance JSC Bulstrad Insurance Group AD, IJSC, and DZI-General Insurance EAD.



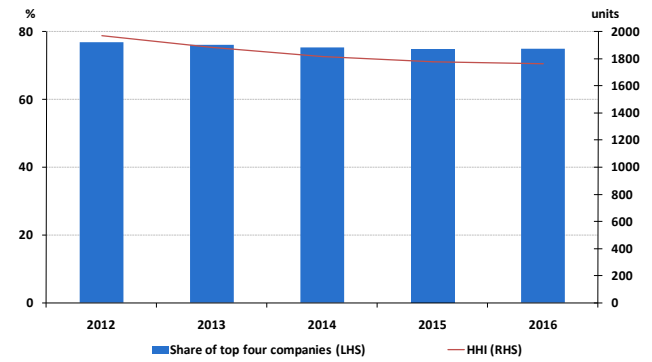
previous four years an upward tendency, dropped from 1386 units in 2015 to 1355 units at the end of 2016. The share of the top four life insurance companies<sup>23</sup> at the end of the year amounted to 65.7% of the gross premium income in the segment, reporting a -2.8 p.p. reduction on an annual basis.

**Figure 57. Concentration on the life insurance market**



At the end of 2016 the share of top four companies<sup>24</sup> on the pension insurance services market according to their balance sheet assets remained at a level very close to that reported during the previous year. The other indicator measuring market concentration – the Herfindahl-Hirschmann (HHI) index – dropped to 1763, 17 units below the level from the previous year. Despite that the value of that index describes the pension insurance market as moderately competitive, the share of the assets of top four companies is significantly high (75%).

**Figure 58. Concentration on the pension insurance market**



<sup>23</sup> Those are IJSC Bulstrad Life Vienna Insurance Group AD, IJSC Allianz Bulgaria Life AD, IC Unica Life AD, and DZI Life Insurance EAD.

<sup>24</sup> Pension Insurance Company (PIC) Doverie AD, PIC Allianz Bulgaria AD, PIC DSK-Rodina AD, and PIC Saglasie AD.

## 2.1. Review of risks and main market trends

In 2016, the main **macroeconomic risks** on international scale were related to the advanced economies' performing less than expected, reflecting the weaker growth in USA and the uncertainty regarding the economic development after the voting in June for Great Britain's withdrawal from EU. While such dynamics supports the policy of low interest rates, the smooth increase in the prices of international markets and inflation, as well as the recovery of confidence in global demand during the second half of the year led to the end of that trend, for which the Federal Reserve took actions in 2016. The dynamics of international financial markets during the year was influenced by the growing divergence between ECB's monetary policy and US Federal Reserve, the heightened geopolitical insecurity on a global scale, the expectations of growth slowing down and fluctuations on China's financial and currency markets, and responding also to main political events such as Brexit and the presidential elections in the USA.

Economic activity in Bulgaria stabilized, reporting real GDP growth of 3.4% during the year against 3.6% in 2015. Unlike the previous year, when growth was determined by domestic demand, the main engine of growth in 2016 was the positive foreign trade balance. The flow of direct foreign investments in Bulgaria during the year was significantly smaller than the previous year amounting to EUR 701.7 mln. As a result of the high tax revenues and the smaller expenditures, the budget balance on a cash base was in surplus in the amount of BGN 1465.5 mln. representing 1.6% of GDP. Bulgaria's gross external debt grew by 2.0% as a result of the active issuing policy of the government, reaching at the end of the year the amount of EUR 34.6 bln. Credit activity reported a positive trend, with household lending recovering at a quicker rate. Despite that the level of unemployment continued to drop reaching 7.6% in 2016, the significant reduction in the workforce by 2.2% on an annual basis would limit a more significant reduction of the unemployment levels. Households maintained high propensity to save as their expenditures on deposits grew while expenditures on debt payment or loans granting shrank. The consumers' expectation about the development of their financial situation, the inflation and unemployment continued to be optimistic.

In 2016 in lengthy period of low interest rates, the tendency of a stronger interest on the part of institutional investors to private securities (shares, bonds, shares in collective investment schemes) continued at the expense of the reduction in the amount of their investments in fixed-term bank deposits. The participants on the capital market in Bulgaria **looked for alternative investments offering greater profitability**. In that regard, FSC took specific actions for the development of the capital market, providing the conditions necessary to offer new and high-quality financial instruments in Bulgaria as well, and as a result the first exchange traded fund investing in shares included in the SOFIX index was listed. The emergence of this new instrument changed the situation on the capital market by raising the turnover, all market indices ended the year with a steady positive growth and the market capitalization increased by 12.8% on an annual basis. Despite that the number of deals included on the capital market during the year was still limited, there were indications of our stock-exchange market's coming out of stagnation, with the perspectives for sustainable development of the capital market in Bulgaria, which is expected to be supported by the favourable economic activity in European and national plan as well.

The life insurance segment is vulnerable in the conditions **of persistently low interest rates**, when guaranteed profitability investment products are offered. In order to overcome the risks related to low-interest rates in the long term, life insurance products with variable profitability are increasingly offered where profitability follows the market conjuncture. In 2016 the investments of non-life insurers grew by 10% on an annual basis, which reflected an increase in debt securities exposures, and in particular in state-issued and guaranteed debt securities, as well as investments in shares and other securities with variable

profitability and shares in investment funds. Life insurers also reported a 13%-increase in the total amount of investments on an annual basis as a result of an increase in investments in state-issued and guaranteed securities of 22%, reaching a 48%-share, increase in investments in other loans (12%) with a 10%-share in the total amount of investments in the sector, as well as increase in investments in equities and shares in subsidiaries, joint and associated companies (15%), taking-up 8% of companies' investment portfolio. As a result of the investment policy implemented, the return on investments in total for the insurance sector increased.

In 2016 *the market risk* was the most significant to the supplementary pension insurance funds faced with the challenge to achieve good profitability through the search for financial instruments with acceptable levels of profitability and risk. The funds' increased interest for government securities and variable profit instruments during the year resulted in a significant increase in their relative shares in the aggregated investment portfolio respectively to 50.4% and 31.4% of all investments. The tendency of growing pension funds' investments abroad was ceased as their share continued to decrease, reaching 46% as of the end of 2016. Due to the higher profitability of the domestic market, it was observed that sources were shifted from foreign to local equities.

## 2.2. Analysis of the participants on the capital market

Market capitalisation of the Bulgarian Stock-Exchange – Sofia AD (BSE) amounted to BGN 9.7 bln. at the end of 2016 or 10.5% of GDP with 9.7% GDP during the previous year. The sector “Financial and insurance activities” maintained the first place by turnover during the year. The assets of non-banking investment intermediaries registered a 9.7%-growth on an annual basis amounting to BGN 5.4 bln. at the end of 2016, representing 5.8% of GDP. In 2016 the assets of special investment purpose companies grew by 0.2.% on an annual basis reaching BGN 1.5 bln. (1.7% of GDP). The assets of collective investment schemes and the national investment funds reported a significant growth of 32.3%, reaching BGN 1.1 bln. The assets of management companies grew by 29.8% and amounted to BGN 1.5 at the end of 2016.

### 2.2.1. Investment intermediaries

In 2016 the number of investment intermediaries (IIs) was 69, 24 being banks (including 3 banking investment intermediaries, operating on the territory of the country through a branch), and 41<sup>25</sup> were non-banking financial institutions, not including 4 non-banking investment intermediaries, operating on the territory of the country through a branch.

Depending on the authorisations they have, non-banking IIs are divided into three groups: (1) IIs with a full license<sup>26</sup>, for which the required capital is BGN 1 500 000, (2) IIs with a partial

license<sup>27</sup>, for which the required capital is BGN 250 000, and (3) IIs with a small license<sup>28</sup>, for which the required capital is BGN 100 000. At the end of 2016, FSC register included 19 IIs with a full license, 20 companies with a partial license, and 2 companies with a small license. In 2016 the license of one investment intermediary was revoked upon request of the company.

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<sup>25</sup>The number of non-banking investment intermediaries does not include those companies who had their license revoked as of 31/12/2016.

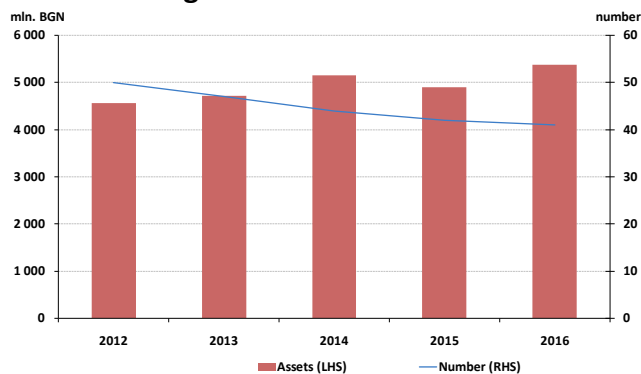
<sup>26</sup>They can perform all investment services and activities stipulated under Art. 5, para. 2 of the Markets in Financial Instruments Act (MFIA).

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<sup>27</sup>They may not carry out transactions for their own account or underwrite financial instruments and/or place financial instruments on a firm commitment basis to subscribe/acquire financial instruments for their own account.

<sup>28</sup>They can perform services and activities under Art. 5, para. 2, it. 1 and/or 5 MFIA, namely: receiving and forwarding instructions related to one or more financial instruments, including intermediation in the conclusion of transactions with financial instruments, as well as providing investment consultations to a client.

**Figure 59. Dynamics in the number and assets of non-banking IIs**



Source: FSC.

The amount of non-banking investment intermediaries' assets<sup>29</sup> at the end of 2016 was BGN 5.3 bln. (5.8% of GDP) reporting a 9.7% growth compared to the end of 2015. Out of them, client assets are in the amount of BGN 5.0 bln. Non-banking investment intermediaries having a full percentage have a positive contribution of 7.0 p.p., and those with a partial license – a positive contribution of 2.7 p.p. to the annual rate of change of total assets.

In 2016 the number of non-banking investment intermediaries with direct foreign ownership from the EU decreased by two companies and at the end of 2016 they were 3 companies. In terms of indirect foreign ownership from the EU, the number of investment intermediaries at the end of 2016 was only one compared to two at the end of 2015. There was no foreign participation in terms of direct ownership from third countries at the end of 2016 with one investment intermediary of that kind during the previous year. In terms of indirect ownership from third parties, the number of IIs remained unchanged – one company.

<sup>29</sup>The amount of total assets also includes the amount of conditional assets.

**Table 47. Number of IIs with foreign ownership**

	2015		2016	
	Direct	Indirect	Direct	Indirect
EU ownership	5	2	3	1
Third countries' ownership	1	1	0	1

Source: FSC.

The amount of assets of non-banking investment intermediaries with a small license dropped by 19.5% in 2016 and decreased from BGN 0.3 mln. at the end of 2015 to BGN 0.2 mln. at the end of 2016. Non-banking investment intermediaries with a partial license increased their assets by 17.0% in 2016 – from BGN 782.3 mln. to BGN 915.0 mln. The main reason for that increase was the increase of their client assets. The amount of assets of non-banking investment intermediaries with a full license increased from BGN 4.1 bln. to BGN 4.4 bln. at the end of 2016, registering a 8.3%-growth on an annual basis. The main reason was the increase in the amount of client portfolios, and in particular investments in shares due to the improvement of business indicators in the context of low interest rates.

**Table 48. Assets, capital stock and equity of IIs**

	2012	2013	2014	2015	2016
<b>IIs with a small licence</b>					
assets	1.1	0.4	0.4	0.3	0.2
capital stock	0.8	0.5	0.5	0.5	0.5
equity	0.9	0.3	0.3	0.3	0.2
<b>IIs with a partial licence</b>					
assets	1 216.5	659.2	726.1	782.3	915.0
capital stock	11.2	9.7	9.8	9.7	9.6
equity	76.6	20.8	15.2	14.7	16.5
<b>IIs with a full licence</b>					
assets	3 338.6	4 057.6	4 413.7	4 111.1	4 452.7
capital stock	64.5	62.8	56.3	55.0	59.2
equity	77.3	81.1	89.7	93.0	105.2
<b>Total IIs</b>					
assets	4 556.2	4 717.2	5 140.3	4 893.8	5 367.9
capital stock	76.4	73.0	66.5	65.2	69.3
equity	154.8	102.1	105.1	108.0	121.9

Note: The data is in million BGN unless indicated otherwise.

Source: FSC.

The capital stock of the non-banking investment intermediaries grew by 6.2% on an annual basis – to BGN 69.3 mln. at the end of 2016. The investment intermediaries' equity grew by 12.9% on an annual basis – up to BGN 121.9 mln. at the end of 2016. The main contribution to the annual rate of change of equity

was the positive financial result achieved by investment intermediaries during the year.

The market value of the trading and investment books of non-banking investment intermediaries at the end of 2016 was BGN 91.7 mln. Thirteen non-banking investment intermediaries formed trading books with a market value of BGN 78.5 mln. at the end of the year. Non-banking investment intermediaries that formed investment books were 28 at the end of 2016 with a market value of BGN 13.3 mln.

At the end of 2016 twenty three non-banking investment intermediaries performed trust management. The market value of securities held under trust management was BGN 82.7 mln. and the cash funds were BGN 10.5 mln. at the end of the period.

The number of transactions concluded on the regulated market in 2016 dropped by 2.7% on an annual basis to 58.4 thsnd. transactions, and the lots traded dropped by 14.6% on an annual basis to 186.0 mln. lots. Trade activity on BSE regulated market, measured through the turnover, increased by 1.3% on an annual basis up to BGN 416.0 mln. in 2016. The reduction in the number of deals in combination with the increase in turnover led to a slight increase in the average value of one transaction.

**Table 49. Number of transactions, turnover and volume (lots) on BSE's regulated market**

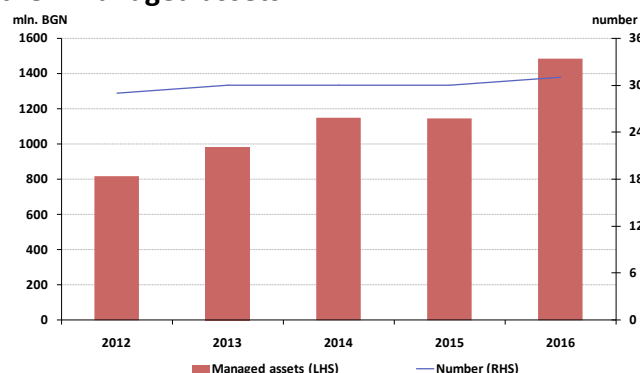
	2012	2013	2014	2015	2016
Number of transactions	68 855	87 069	118 074	60 047	58 442
Turnover (BGN mln.)	864	1 522	775	411	416
Volume (mln. lots)	354	706	677	218	186

Source: BSE, FSC.

### 2.2.2. Collective investment schemes and other collective investment undertakings

At the end of 2016 the number of management companies was 31 and they managed the activity of 118 collective investment schemes (CISs), including contractual funds and one open-end investment company. The number of contractual funds (CFs) in 2016 grew by 7 and reached 117 at the end of the year.

**Figure 60. Dynamics in the number of MCs and their managed assets**



Source: FSC.

The number of managing companies (MCs) in 2016 grew by one company and MCs at the end of the year were 31. The amount of managed assets grew in nominal terms by BGN 341.0 mln. and reached BGN 1.4 bln. at the end of the year, reporting a 29.8%-growth.

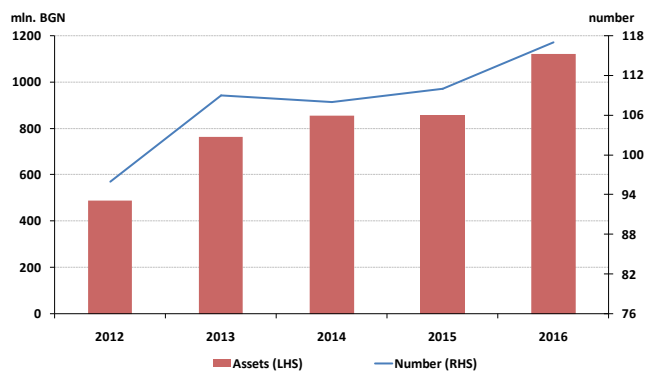
In 2016 there was no change in the number of closed-end ICs (there is one such company at the end of the year) and its assets were retained at BGN 3.4 mln.

At the end of 2016 there were three national investment funds (NIFs) whose assets amounted to BGN 16.8 mln., while at the end of 2015 the number of NIFs was 2 with total value of assets BGN 5.8 mln.

The number of CFs as well as their accumulated assets reported a stable growth in 2016. As of December 2016 there were 117 CFs which total balance sheet asset reached BGN 1.1 bln. (BGN 1.1 bln. of which net assets) reporting an increase in balance sheet assets of 31.3% compared to the previous year.

Out of the total amount of CF's assets, 8.3% were collected from money market funds or BGN 92.8 mln. in total. At the end of 2016 these funds were seven – CF DSK Money Market Fund, CF DSK Money Market Fund in EUR, CF Concord Fund – 6 Money, CF Texim money Markets, CF Trend Fund Money Market, CF Invest Fund Money Market, and CF Invest Fund Money Market – Dollars.

**Figure 61. Dynamics in the number and assets of CFs**



Source: FSC.

At the end of 2016 the number of mutual funds of foreign collective investment schemes dropped by three and at the end of the year they were 27.

**Table 50. Dynamics in the number of foreign CISc**

	2012	2013	2014	2015	2016
Mutual funds - foreign CIS	30	30	30	30	27

Source: FSC.

The total assets accumulated by CISs and NIFs in 2016 reported a 32.2% growth compared to the previous year, reaching BGN 1.1 bln. at the end of 2016. The trend of growth of “Financial Assets and Instruments” item continued, reaching BGN 760.7 mln. with a rate of 38.0% on an annual basis and a positive contribution of 24.2 p.p. in the annual rate of change of assets. The items with the large positive contribution in the annual rate of change were “Shares” (13.6 p.p.), followed by “Debt Securities” (5.2 p.p.), “Shares of CIS” (3.9 p.p.) and “Rights” (0.9 p.p.). The balance sheet item “Cash” had a positive contribution of 9.3 p.p. on the annual rate of asset change. The item “Non-financial assets” and the item “Other”, majority of which represents costs incurred for future periods, limit the growth of CIS and NIF’s assets with their negative contribution, respectively of -0.3 p.p and -1.0 p.p.

**Table 51. Dynamics of CIS and NIF’s assets**

	2012	2013	2014	2015	2016
Cash	280.5	438.2	383.6	286.1	366.7
Term deposits	240.1	390.6	280.6	172.3	159.7
<b>Financial assets and instruments, incl.:</b>	<b>236.3</b>	<b>319.1</b>	<b>446.8</b>	<b>551.3</b>	<b>760.7</b>
Shares	150.9	193.4	215.8	257.3	375.2
Rights	0.0	0.0	0.0	0.0	7.9
Debt securities	59.2	96.2	191.4	207.0	251.9
Shares of CIS	21.8	25.3	31.0	76.7	110.4
Money Market Instruments	0.2	0.4	0.4	1.1	0.9
Derivatives	0.0	0.5	0.0	0.0	0.9
Other financial instruments	4.3	3.3	8.2	9.3	13.5
<b>Non-financial assets (receivables)</b>	<b>8.0</b>	<b>15.1</b>	<b>20.6</b>	<b>16.7</b>	<b>13.8</b>
Other	0.0	1.1	13.8	9.8	1.3
<b>TOTAL</b>	<b>524.9</b>	<b>773.5</b>	<b>864.7</b>	<b>863.9</b>	<b>1 142.5</b>

Note: The data is in million BGN unless indicated otherwise.

Source: FSC.

The relative structure of CIS and NIF’s assets remained stable in 2016. The heaviest weight (66.6%) in assets’ structure remained that of the item “Financial Assets and Instruments”. Despite that in 2016 the item “Cash” grew by BGN 80.6 mln., its relative share in the total structure of assets was preserved at 32.1%. During the last two years there was a tendency of reduction in the relative share of cash, non-financial and other assets in the structure of assets on the account of an increase in financial assets and instruments.

**Table 52. Relative structure of CIS and NIF’s assets**

	2012	2013	2014	2015	2016
Cash	53.4	56.6	44.4	33.1	32.1
Term deposits	45.8	50.5	32.5	19.9	14.0
<b>Financial assets and instruments, incl.:</b>	<b>45.0</b>	<b>41.3</b>	<b>51.7</b>	<b>63.8</b>	<b>66.6</b>
Shares	28.7	25.0	25.0	29.8	32.8
Rights	0.0	0.0	0.0	0.0	0.7
Debt securities	11.3	12.4	22.1	24.0	22.0
Shares of CIS	4.2	3.3	3.6	8.9	9.7
Money Market Instruments	0.0	0.1	0.0	0.1	0.1
Derivatives	0.0	0.1	0.0	0.0	0.1
Other financial instruments	0.8	0.4	0.9	1.1	1.2
<b>Non-financial assets (receivables)</b>	<b>1.5</b>	<b>2.0</b>	<b>2.4</b>	<b>1.9</b>	<b>1.2</b>
Other	0.0	0.1	1.6	1.1	0.1
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Note: The data is in % unless indicated otherwise.

Source: FSC.

### 2.2.3. Special investment purpose companies

As of the end of 2016, the total number of licensed special investment purpose companies (SIPCs) was 60<sup>30</sup>, 52 of which performed real estate securitization, including also agricultural land, and the other 8 securitized receivables. In

<sup>30</sup>The number of SIPCs for securitization of real estate at the end of 2016 does not include companies which had their license revoked as of 31/12/2016. Data of 2015 are revised and do not include companies (securitizing in real estate) with license revoked as of 31/12/2015. For comparative purposes, the data about SIPC securitizing in real estate concern the last two years.

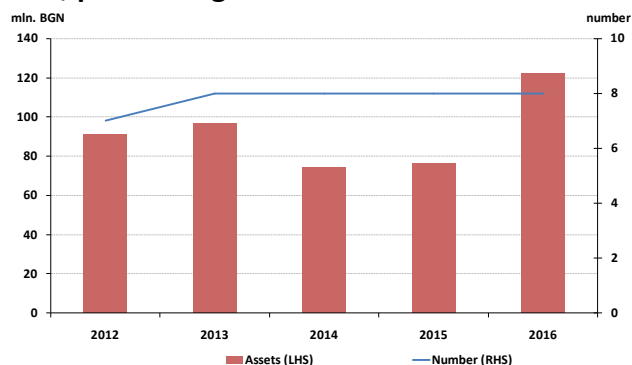
comparison, the number of SIPC's at the end of 2015 was 62, 54 companies of which performed securitization of real estate, including also agricultural land, and 8 SIPC's securitized receivables.

The total value of the assets of all companies with special investment purpose grew by 0.2% on an annual basis, their amount at the end of 2016 being BGN 1.5 bln. or 1.7% of GDP<sup>31</sup>.

The amount of SIPC's assets that perform securitization of real estate dropped by -3.0% in 2016 and reached BGN 1.4 bln. by the end of the year, which was not due to the assets of the two companies which license were revoked during the reporting year.

The amount of accumulated assets of SIPC's, securitizing receivables, grew in 2016 by 59.9% compared to 2015 and at the end of 2016 the assets amounted to BGN 122.6 mln. The contribution of SIPC's, securitizing receivables, to the overall growth of SIPC's assets was positive of 3.01 p.p., which was almost fully compensated by the negative contribution of -2.86 p.p. of SIPC's securitizing in real estate.

**Figure 62. Dynamics in the number and assets of SIPC's, performing securitization of receivables**



Source: FSC.

The absolute value of "Investment properties" item in the structure of assets of SIPC's, securitizing real estate and agricultural land, grew reaching BGN 1 021 mln. at the end of 2016. The growth rate of that item, which is the main item of their activity, during the year was 9.1% compared to the end of 2015, while the

<sup>31</sup>According to preliminary data of the National Statistical Institute, GDP in 2016 was BGN 92,635 mln.

total number of their assets dropped by 3.0% for the same period. The most significant negative contributions for the annual change in those companies' assets was that of "Others" item (-9.7 p.p.), followed by "Receivables" item (-0.1 p.p.). The positive contribution of "Investment properties" and "Cash" was 6.7 p.p. in total, which did not compensate the negative contributions of the rest of the items.

**Table 53. Assets of SIPC's, performing securitization of real estate and agricultural land**

	2012	2013	2014	2015	2016
Investment properties	876.9	869.5	812.8	936.1	1 021.1
Financial assets	0.8	0.2	1.7	0.1	0.2
Cash	202.5	131.7	76.8	41.2	53.5
Receivables	173.8	127.7	200.2	183.4	182.6
Other	369.7	283.5	287.8	289.2	149.0
<b>TOTAL</b>	<b>1 623.9</b>	<b>1 412.6</b>	<b>1 379.4</b>	<b>1 450.0</b>	<b>1 406.4</b>

Note: The data is in million BGN unless indicated otherwise.

Source: FSC.

In 2016 the structure of assets of SIPC's, performing securitization of real estate and agricultural land, was maintained in relative terms. As a result of the growth in the value of their activity's main item "Investment properties" its relative share grew to 72.6% by the end of the year.

**Table 54. Relative structure of the assets of SIPC's, securitizing real estate and agricultural land**

	2012	2013	2014	2015	2016
Investment properties	54.0	61.6	58.9	64.5	72.6
Financial assets	0.1	0.0	0.1	0.0	0.0
Cash	12.5	9.3	5.6	2.8	3.8
Receivables	10.7	9.0	14.5	12.7	13.0
Other	22.8	20.1	20.9	19.9	10.6
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Note: The data is in % unless indicated otherwise.

Source: FSC.

In asste structure of SIPC's, securitizing receivables, there was a reduction in the long-term receivables while short-term receivables increased. The increase of short-term receivables and cash in absolute terms also pre-determined the growth of total assets. Their positive contributions to the change in the total value of assets in 2016 was respectively 94.4 p.p. and 3.3 p.p.

In 2016 “Receivables (up to 1 year)” item significantly grew by BGN 72.3 mln. and at the end of 2016 it reached BGN 77.5 mln. compared to BGN 5.1 mln. at the end of the previous year. “Receivables of over 1 year” dropped by BGN 12.2 mln, reporting a decrease of 26.0% on an annual basis. “Others” item dropped by BGN 16.6 mln., reaching BGN 0.1 mln. by the end of the year.

**Table 55. Assets of SIPC performing securitization of receivables**

	2012	2013	2014	2015	2016
Financial assets	2.0	2.2	3.9	6.3	6.2
Cash	4.3	4.0	1.5	1.7	4.2
Receivables (up to 1 year)	26.7	32.4	22.4	5.1	77.5
Receivables (above 1 year)	58.5	58.1	46.2	46.8	34.6
Other	0.0	0.4	0.2	16.7	0.1
<b>TOTAL</b>	<b>91.5</b>	<b>97.1</b>	<b>74.3</b>	<b>76.7</b>	<b>122.6</b>

Note: The data is in million BGN unless indicated otherwise.

Source: FSC.

In relative terms, in the structure of assets of SIPCs, performing securitization of receivables, there is a reduction in the relative share of “Receivables (over 1 year)” item to 28.3% compared to 61.1% for 2015, of “Others” item to 0.1% compared to 21.8% for the previous year and of “Financial assets” item to 5.0% compared to 8.2% as of the end of 2015. The total relative share of these three main items in SIPC assets for receivables dropped by -57.7 p.p. compared to 2015 and at the end of 2016 it accounted for 33.4% of the assets’ structure. Respectively receivables of up to 1 year and cash increased their share respectively by 56.5 p.p. and 1.2 p.p. in the relative structure of the assets of those SIPCs, securitizing receivables, at the end of 2016.

**Table 56. Relative structure of the assets of SIPCs, performing securitization of receivables**

	2012	2013	2014	2015	2016
Financial assets	2.2	2.3	5.3	8.2	5.0
Cash	4.7	4.2	2.0	2.2	3.4
Receivables (up to 1 year)	29.1	33.3	30.2	6.7	63.2
Receivables (above 1 year)	64.0	59.9	62.2	61.1	28.3
Other	0.0	0.4	0.2	21.8	0.1
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Note: The data is in % unless indicated otherwise.

Source: FSC.

SIPC’s registered capital dropped by 9.0% and the amount of their equity dropped by 1.0% on an annual base at the end of 2016. The SIPCs,

that are crucial to this dynamics, are those, performing real-estate and agricultural land securitization, which dominate the total value of SIPC’s registered capital and equity. Their registered capital reported a 8.9% reduction on an annual basis, amounting to BGN 472.5 mln., and their equity dropped by 0.5% and reached BGN 855.6 mln. at the end of 2016. With SIPCs, securitizing receivables, their registered capital was retained and amounted to BGN 10.0 mln. and the equity reported a 1.9% drop and amounted to BGN 33.7 mln at the end of the year.

**Table 57. SIPC's registered capital and equity**

	Registered capital		Equity	
	2015	2016	2015	2016
SIPC performing securitization of real estate, incl. agricultural land	518.9	472.5	859.6	855.6
SIPC performing securitization of receivables	10.0	10.0	34.3	33.7
<b>TOTAL for SIPC</b>	<b>530.0</b>	<b>482.5</b>	<b>898.2</b>	<b>889.2</b>
	change (%)		9.0	-1.0
	-1.0	-9.0		

Note: The data is in million BGN unless indicated otherwise.

Source: FSC.

In 2016 EU residents’ and third country residents’ investment interests dropped and at the same time the share of Bulgarian resident and USA resident investors in SIPC’s shareholders’ structure increased.

Among the Bulgarian investors in SIPCs the major change in SIPC’s shareholders’ structure was in the groups of “Households” and “Insurance companies and pension funds” whose shares dropped respectively by -2.2 p.p. and -1.7 p.p., and amounted at the end of the year respectively to 17.4% and 16.7%. The group of “Private non-financial companies” remained the largest investor in SIPCs with a share of 50.9% at the end of 2016.

The nominal value of shares held by EU legal persons dropped in 2016 and their share in SIPC’s shareholders’ structure was 2.66% at the end of the year. Among foreign investors only the share of USA legal persons grew insignificantly by 0.5 p.p. reaching 3.15% of the total structure of shareholders.



**Table 58. SIPC shareholders' structure**

	2012	2013	2014	2015	2016
Households	15.86	18.10	17.26	19.66	17.41
Other monetary financial institutions (TB)	4.45	4.45	6.63	1.65	1.81
Insurance companies and pension funds	10.46	12.09	12.14	18.31	16.65
Financial intermediaries except for IC and PF	0.82	0.60	0.68	0.61	0.72
Financial companies engaged in auxiliary financial services	1.00	0.41	3.88	3.36	3.94
Private non-financial companies	53.02	51.76	46.26	45.67	50.87
<b>Bulgaria</b>	<b>85.60</b>	<b>87.41</b>	<b>86.85</b>	<b>89.26</b>	<b>91.40</b>
Households from the EU	0.57	0.50	0.51	0.54	0.43
Legal entities from the EU	6.50	5.48	6.16	4.57	2.24
<b>EU</b>	<b>7.08</b>	<b>5.98</b>	<b>6.67</b>	<b>5.11</b>	<b>2.66</b>
Households from third countries	0.22	0.05	0.16	0.24	0.04
Legal entities from third countries	3.86	3.09	3.07	2.75	2.74
<b>Third countries</b>	<b>4.07</b>	<b>3.14</b>	<b>3.24</b>	<b>3.00</b>	<b>2.79</b>
Households from the USA	0.20	0.21	0.21	0.07	0.08
Legal entities from the USA	3.04	3.26	3.03	2.56	3.07
<b>USA</b>	<b>3.24</b>	<b>3.47</b>	<b>3.24</b>	<b>2.63</b>	<b>3.15</b>
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Note: The data is in % unless indicated otherwise. The relative share of the shareholder groups is calculated on the basis of the nominal value of the shares

Source: CD, FSC.

### 2.2.4. Public companies and issuers

The number of public companies and issuers at the end of 2016 was 335 as public companies decreased (net) by 13 and issuers by 5 during the year.

The prospectuses reviewed in 2016 were 17, 7 of which were of SIPC, 8 – of public companies without SIPC, 1 issue of warrant, and 1 issue of bond. The total value of approved issues was BGN 190.6 mln. of which the amount actually collected was BGN 92.8 mln. The prospectuses confirmed in 2016 allowing trade on a regulated market were 10, two issues of which were of equity of public companies and 8 issues of bonds, with issue value of BGN 97.0 mln. compared to a total of 8 issues with the value of BGN 117.7 mln. in 2015.

**Table 59. Reviewed prospectuses and tender offers**

	2012	2013	2014	2015	2016
Prospectuses for initial public offering (number)	12	17***	18	12	17
Amount of issue*	97.1	292.3	138.0	124.4	190.6
Final prohibition on publishing tender offers (number)	14	11	11	10	6
<b>Turnover**</b>	<b>33.3</b>	<b>95.0</b>	<b>117.1</b>	<b>28.8</b>	<b>25.4</b>

Note: The data is in million BGN unless indicated otherwise. \* The issue's amount is the value of approved issues pursuant to the prospectuses considered for the respective year. \*\* The turnover includes proposals on the number of shares under tender offers for which no final ban has been issued, or which have not been terminated.

\*\*\* The number includes issues of warrants.

Source: FSC.

The tender offers reviewed followed by decision not to issue the final ban on their publication in 2016 dropped by 4 compared to the previous year, whereby a continuing decrease in their turnover of 11.9% was reported. In 2016 a total of 6 tender offers were reviewed without a final ban for the total amount of BGN 25.4 mln.,

of which the shares acquired as a result of the tender offers made amounted to BGN 14.1 mln.

Market capitalisation of top ten companies increased by 22.5% in 2016, reaching 34.6% of the total capitalisation. Top three positions by market capitalisation were taken by Sopharma AD – Sofia, Chimimport AD Sofia and Tchaikapharma High Quality Medicines AD, which have equal relative shares of 4.1% each in the total market capitalization. Speedy AD dropped out of top ten and Alcomet AD – Shumen entered. The last company to join top 10 companies had a market capitalisation of BGN 259.6 mln. There is a narrowing in the range between the capitalisation of the first and the last company from BGN 278.6 mln. in 2015, to BGN 142.1 mln. in 2016.

**Table 60. Top 10 public companies by market capitalisation**

	2015	2016
Bulgartabac Holding AD – Sofia	477.8	Sopharma AD – Sofia 401.7
Sopharma AD – Sofia	369.3	Chimimport AD – Sofia 400.2
Monbat AD – Sofia	311.9	Tchaikapharma High Quality Medicines AD 394.5
Tchaikapharma High Quality Medicines AD	270.3	Monbat AD – Sofia 376.7
CEZ Distribution Bulgaria AD - Sofia	242.9	TB First Investment Bank AD - Sofia 368.5
TB First Investment Bank AD - Sofia	237.7	CEZ Distribution Bulgaria AD - Sofia 334.1
Albena AD – resort Albena	213.6	Bulgartabac Holding AD – Sofia 294.0
Speedy AD – Sofia	208.1	Albena AD – resort Albena 262.6
Chimimport AD – Sofia	206.7	Alcomet AD - Shumen 261.1
M+S Hydraulic AD - Kazanlak	199.2	M+S Hydraulic AD - Kazanlak 259.6
<b>TOTAL</b>	<b>2 737.5</b>	<b>TOTAL 3 353.0</b>

Note: The data is in million BGN unless indicated otherwise.

Source: BSE.

The “Financial and insurance activities” sector again took the first place in the structure of trade among the 10 leading industries on the Bulgarian Stock Exchange – Sofia AD for 2016, with a turnover of BGN 183.5 mln. and a relative share in the total turnover of 53.3%, followed by the “Manufacturing industry” sector with a turnover of BGN 93.5 mln. (share of 27.2%) and “Real estate operations” with a turnover of BGN 30.5 mln. (share of 8.9%).

**Table 61. Trade structure by top 10 sectors on BSE in 2016**

Sector	Transactions (thsnds.)	Volume (mln. lots)	Turnover (BGN mln.)
Financial and insurance activities	31.8	88.3	183.5
Manufacturing industry	12.9	20.9	93.5
Operations with real estate	1.0	10.5	30.5
Professional activities and research	1.2	2.0	10.1
Construction	1.8	2.2	8.4
Creation and distribution of information and creative products; telecommunications	0.1	0.5	5.6
Accommodation and food service activities	1.0	0.1	4.3
Wholesale and retail trade, repair of motor vehicles and motorcycles	2.7	3.5	4.0
Production and distribution of electricity and heat, and of gaseous fuels	0.6	0.0	2.3
Transportation and storage	0.4	0.1	2.0

Source: BSE.

In 2016 there were no significant changes in the shareholders' structure of Bulgarian public companies. Bulgarian resident households and legal persons, as well as third-country and USA households significantly reduced their share in the Bulgarian public companies compared to the increase in the share of equities held by EU legal persons, which relative share increased to 18.5% as of 31/12/2016, as compared to 17.2% at the end of 2015.

At the end of 2016, Bulgarian residents held 80.3% of the ownership in public companies, calculated on the basis of the equity instruments issued by nominal value. The main Bulgarian shareholders, despite the drop during the last year, remain the companies from the "Private non-financial enterprises" group with a relative share of 43.7% and "Households" group with a relative share of 19.7%, followed by "Insurance companies and pension funds" group with a share of 11.4%. The drop in the relative share of "Insurance companies and pension funds" group (-1.6 p.p.) and "Private non-financial enterprises" group (-1.1 p.p.) is compensated by the growth in the share of "Households" (1.2 p.p.) and "Other monetary financial institutions (TB)" (1.1 p.p.).

Main foreign investors in Bulgarian public companies remained EU residents (18.5%), followed by third country residents (0.9%) and USA residents (0.6%), with the total share of foreign investors dropping by -0.8% p.p.

**Table 62. Shareholders' structure of PCs**

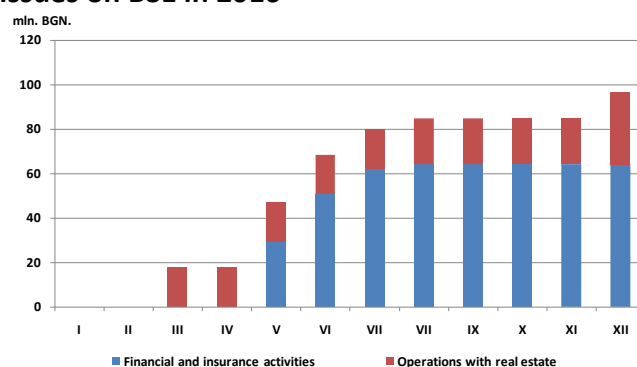
	2012	2013	2014	2015	2016
Households	13.50	15.56	19.96	18.47	19.70
Other monetary financial institutions (TB)	0.99	2.43	1.49	2.72	3.83
State non-financial companies	0.15	0.14	0.05	0.13	0.14
Insurance companies and pension funds	4.95	11.36	6.98	13.00	11.41
Local government	0.01	0.01	0.00	0.00	0.00
Financial intermediaries except for IC and PF	0.38	0.39	0.47	0.36	0.35
Financial companies engaged in auxiliary	0.76	1.43	0.71	1.38	0.91
Central government	0.26	0.19	0.30	0.18	0.20
Private non-financial companies	50.89	45.72	51.06	44.79	43.70
<b>Bulgaria</b>	<b>71.88</b>	<b>77.24</b>	<b>81.02</b>	<b>81.02</b>	<b>80.24</b>
Households from the EU	6.91	3.60	3.26	1.38	1.48
Legal entities from the EU	13.66	14.25	12.60	15.79	17.04
<b>EU</b>	<b>20.57</b>	<b>17.86</b>	<b>15.86</b>	<b>17.17</b>	<b>18.52</b>
Households from third countries	0.15	0.13	0.13	0.11	0.10
Legal entities from third countries	6.12	3.93	1.36	1.05	0.78
<b>Third countries</b>	<b>6.26</b>	<b>4.06</b>	<b>1.49</b>	<b>1.16</b>	<b>0.88</b>
Households from the USA	0.04	0.05	0.05	0.04	0.03
Legal entities from the USA	1.25	0.79	1.58	0.61	0.33
<b>USA</b>	<b>1.29</b>	<b>0.85</b>	<b>1.63</b>	<b>0.64</b>	<b>0.36</b>
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Note: The data is in % unless indicated otherwise. The relative share of the shareholder groups is calculated on the basis of the nominal value of the shares.

Source: CD, FSC.

The newly issued bond debt on the regulated market dropped by 11.1% on an annual base, reaching BGN 96.8 mln. in 2016. Issuers from the "Financial and insurance activities" sector held a share of 66.3% of the total value of debt financial instruments issued in 2016, followed by the sector "Operations in real estate" (33.7%).

**Figure 63. Cumulative volume of bond debt issues on BSE in 2016**



Source: BSE, FSC.

## 2.2.5. Trading vanues

The capitalisation of the Bulgarian Stock Exchange – Sofia AD (BSE) grew by 12.8% on an annual basis and amounted to BGN 9.6 bln. at the end of 2016. All market segments registered growth, most prominently was the increase of the capitalisation of Premium segment of more than BGN 480 mln. or 38.7% compared to the previous year. Standard Segment grew by BGN 223 mln. or 4.0% on an annual base. Market capitalisation of companies on the Alternative

market had a positive trend, growing by BGN 327 mln. or 35.2%. With the rest of the segments on the main and the alternative market there was also an increase in market capitalisation on an annual basis, the special investment purpose companies' segment's growth was 7.7% on the main market, and 7.1% on the alternative market.

**Table 63. Market capitalisation**

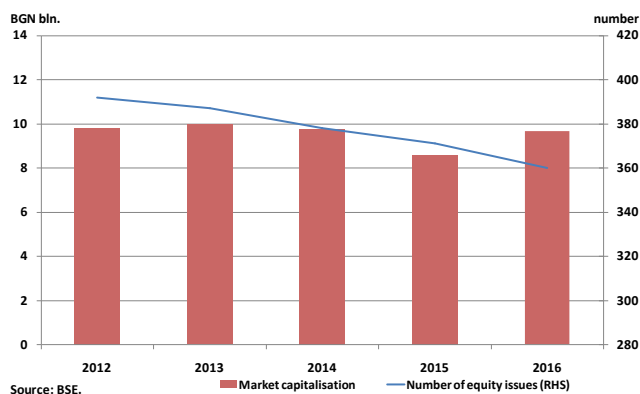
Market or segment	2012	2013	2014	2015	2016
Premium Equities Segment (main market)	971.0	1 542.5	1 682.9	1 240.1	1 720.3
Standard Equities Segment (main market)	6 068.4	5 698.9	5 405.7	5 543.6	5 766.6
SIPC segment (main market)	471.0	516.3	564.9	537.9	579.3
Equities Segment (alternative market)	1 074.0	1 059.5	1 085.7	929.0	1 255.7
SIPC segment (alternative market)	1 243.6	1 143.5	1 017.1	336.7	360.7
<b>TOTAL</b>	<b>9 828.1</b>	<b>9 960.8</b>	<b>9 756.2</b>	<b>8 587.4</b>	<b>9 682.5</b>

Note: Market capitalisation is at the end of the year.

Source: BSE.

The number of financial instruments admitted to trading on the markets organized by BSE in 2016, had a net drop of 9 issues and their number was 425 at the end of the year, 360 of which were issues of shares. The reduction was mainly in the number of the delisted by BSE shares.

**Figure 64. Market capitalisation and number of issues**

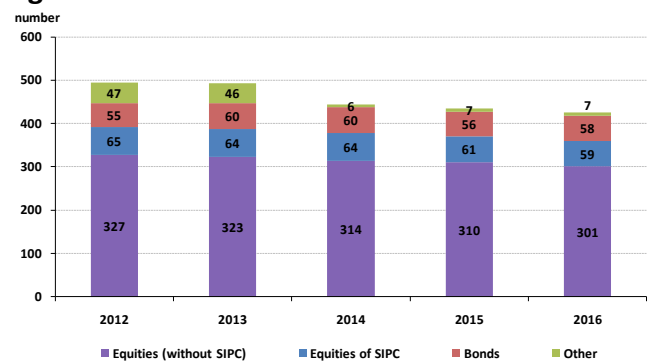


Source: BSE.

On the market of equities without SIPC number of issues dropped from 310 in 2015 to 301 in 2016. On the market of companies with special investment purpose at the end of 2016 the number of issues was 59, which dropped by 2 compared to the end of 2015. Issues of bonds registered on the stock exchange in 2016 grew by 2 and their number was 58 at the end of the year. The issues of other financial instruments that include issues admitted to trading of the Compensatory instruments segment and the

Exchange trade products segment did not change and remained 7 in 2016.

**Figure 65. Structure of issues**

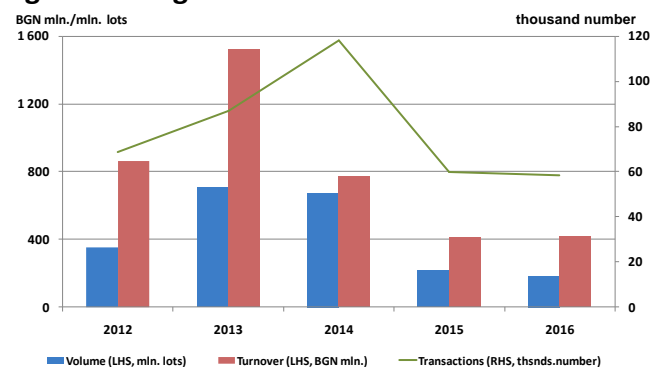


Source: BSE.

The number of transactions dropped by 2.7% on an annual basis – from 60 047 transactions in 2015 to 58 442 at the end of 2016. The total number of lots transferred in 2016 was 185.9 mln. lots, presenting a decrease of -14.6% compared to the previous year. Trading on BSE markets, measured through the turnover, ended with a 1.3% increase - up to BGN 416.0 mln. in 2016. The reason for that was the 21.0% increase in the turnover of the market segments for equities (without SIPC), and there was growth in the market segments for exchange traded products. Turnover for the rest of the segments dropped, as the turnover of bonds on the main market segment decreased by -48.0%.

The average daily turnover on the regulated market in 2016 was preserved and remained BGN 1.7 mln.

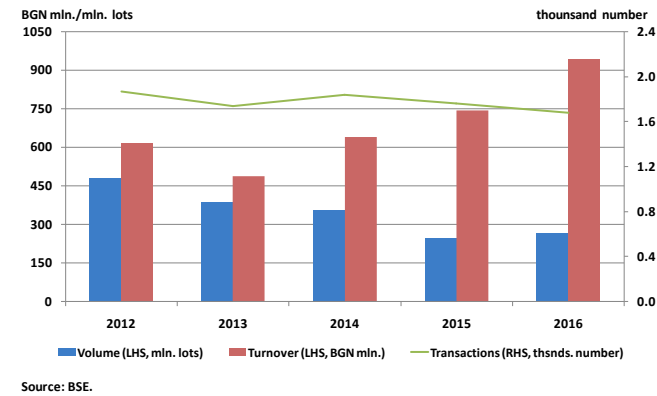
**Figure 66. Regulated market**



Source: BSE.

The annual growth rate of the total turnover on the unregulated market accelerated in 2016, amounting to 26.5% in December, with the total volume reaching BGN 941.1 mln. while it was BGN 743.9 mln. in the previous year.

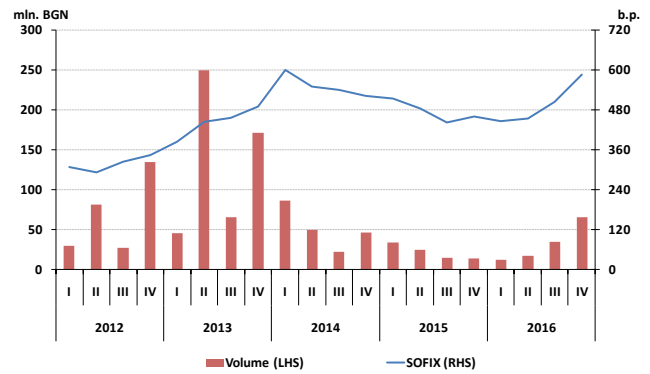
**Figure 67. Unregulated market**



All BSE's indices reported an increase in 2016. During the first quarter, there was a slight drop, then indices took an upward trend, which increased during the second half of the year. Indices had a similar movement during the past year. Only the dynamics of the BGREIT index was an exception from the general trend, growing during the whole year. The turnover of companies included in the indices significantly increased in 2016 with respect to all market indicators.

In 2016 the main exchange index SOFIX reported a 27.2% increase on an annual basis, reaching 586.43 b.p. at the end of the year. This increase was particularly notable during the second half of the year. The market capitalisation of companies included in the index had a share of 39.8% of the total BSE capitalisation at the end of 2016.

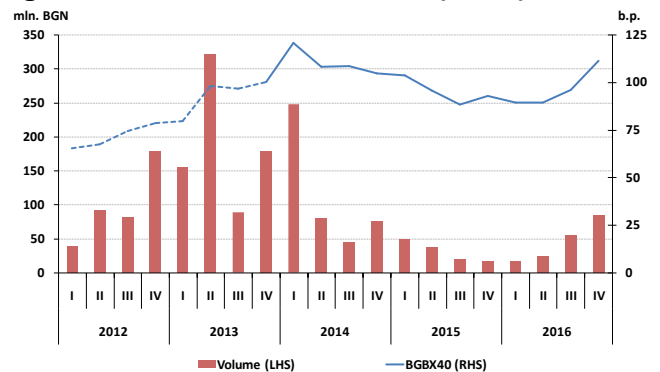
**Figure 68. Market index SOFIX**



Note: The value of indices is the last value for the respective period.

In 2016 the exchange index BGBX40<sup>32</sup> reported a 19.9% growth, ending the year at 111.3 b.p. The market capitalisation of companies included in the index had a share of 74.0% of the total market capitalisation at the end of 2016.

**Figure 69. Market index BGBX40 (BG40)**



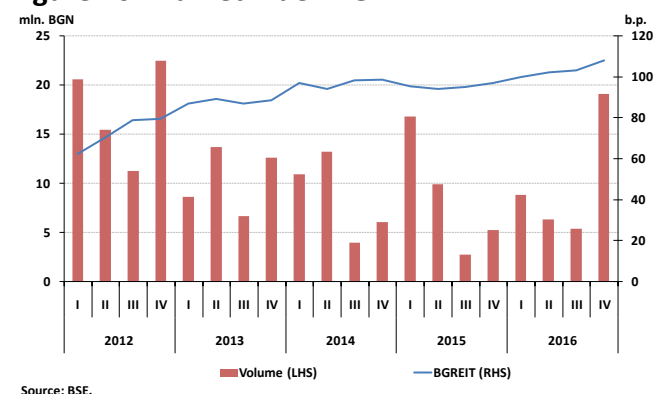
Note: The value of indices is the last value for the respective period.

After the decrease reported in 2015, the sectoral index BGREIT once again took a positive turn. In 2016 it reported a 11.4% increase on an annual basis, ending the year at 108.11 b.p. Its sectoral profiling and the scope of the represented sector results to its limited share of the total market capitalisation at the end of 2016. Market capitalization of the 7 issues included in

<sup>32</sup>BGBX40 started on 01 January 2014 with a base value of 100 and replaced BG40. BGBX40 is an index consisting of the 40 issues of common equities of companies with the largest number of deals and the highest median value of the daily turnover for the last 6 months. In considering various aspects of BGBX40 dynamics, data about the previous broad index BG40, whose successor is BGBX40 is considered for the previous periods.

the index accounted for 4.9% of the total capitalisation at the end of 2016.

**Figure 70. Market index BGREIT**



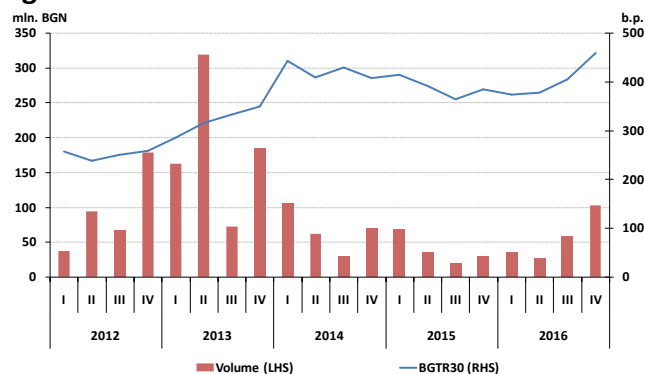
Source: BSE.

Note: The value of indices is the last value for the respective period.

The equally weighted index BGTR30 increased by 19.6% on an annual basis and as at the end of 2016 its value reached 459.19 b.p. The market

capitalisation of companies included in the index amounted to 59.6% of the total capitalisation at the end of 2016.

**Figure 71. Market index BGTR30**



Source: BSE.

Note: The value of indices is the last value for the respective period.

### 2.2.6. Central Depository

The total value of Central Depository AD's assets dropped by 4.9% on an annual basis, amounting to BGN 6.7 mln. at the end of 2016.

For 2016 the total number of concluded transactions reported a 3.4% drop (a total of 61.466 transfers for 2016, 95.3% of which were executed at the stock exchange). Their contribution of the reduction of stock exchanged transactions was -3.8 p.p. to the annual rate of change rate. The transferred financial instruments dropped by 2.4% on an annual basis to 182.4 mln.transactions, as transactions with an object of trading - compensatory instruments, reported a drop of 17.6% on an annual basis to 2 356 transactions. Registered payments with compensatory instruments to state institutions dropped by 46.2% on an annual basis to 239 transactions. Transfers from inheritances increased by 0.9% on an annual basis to 1098 transfers in 2016. The duplicate of issued depository receipts increased from 1085 in 2015 to 1338 in 2016. During the year the number of transactions of rights increased by 62.3% on an annual basis to 297 in 2016, and the rights transfers dropped by 33.4% to 35.4 mln. entitlements.

The favourable conditions provided for the development of the capital market had a significantly beneficial impact on companies' activities, which listed more corporate activities compared to the year before. In 2016 through the system of Central Depository dividends of 40 companies were paid, as well as 198 payments of interests and principals of bond issues at the total amount of BGN 167 mln. During the reporting period 63 companies registered new issues of dematerialized financial instruments (39 companies for 2015), 24 which were issues of equities, 17 – issues of bonds, 12 – issues of rights and 10 – issues of shares of contractual funds. Applications for changes in the register were submitted by 197 companies. Applications for changes in the capital through the issuing of new equities were submitted by 92 companies, many of which were insurance companies. A change in the capital by changing the nominal was registered by 14 companies and 12 companies issued rights issues. An important indicator of the revival of the capital market was the successful completion of the IPO of the two companies and

the increase in the capital through the registration of temporary issues of one company<sup>33</sup>. The number of applications for transcripts from the shareholders' books increased to 3769 in 2016, unlike their number in 2015 (2642).

In 2016, 907 entries were made to the register of special pledges (616 for 2015). Fifty four of them were of a special pledge, 294 – distrains, and 207 – filing of other circumstances.

### **2.2.7. Investor Compensation Fund**

The main activity of the Investor Compensation Fund (the Fund) is protecting the clients of an investment intermediary, in case that intermediary becomes insolvent and is unable to recover their assets. In 2016 the activity of the Fund was mainly aimed at collecting the contributions payable by the participants within the statutory deadline, managing the fund's resources, collecting and analysing the information about clients' assets managed by the participants in the scheme, evaluating the Fund's exposures, as well as other issues concerning the Fund. During the year there were no circumstances related to the payment of compensations.

In 2016 one participant dropped out of the investors' compensation scheme which voluntarily returned its license for its activities as an investment intermediary. Thus, as of 31/12/2016, the total number of participants in the Fund was 90, 39 of which were (non-banking) investment intermediaries (II), 21 were bank-investment intermediaries (B-II) and 30 were managing companies (only 3 MCs held client assets protected by the Fund).

The amount of client assets subject to compensation as of 31/12/2016 was BGN 1.68 bln., the cash resources (CR) of them amounting for BGN 86.4 mln. and the financial instruments (FI) – BGN 1.59 bln. In comparison with 31.12.2015, the client assets protected were BGN 241 mln. more. The amount of unprotected client assets stated by the participants in the fund was BGN 24.4 bln. as of 31/12/2016. It was significantly larger compared to that in the same period of the previous year when it was BGN 20.2 bln. The increase is mainly due to the unprotected FI held by II. The share of unprotected client assets in the total amount of all assets (BGN 26 bln.) managed by participants was 6.4%. As of 31/12/2016, B-II managed the most protected client assets – BGN 1.15 bln. or about 68% of all protected client assets. Investment intermediaries held 31% of the protected client assets, and MC – less than 1%.

The average monthly value of protected FA in 2016 was BGN 1.42 bln., as much as it was in 2015. The average monthly value of protected CR grew reaching BGN 70.7 bln. in 2016, against BGN 66 mln. in 2015, or a 7% increase on an annual basis.

The total number of protected clients as of 31/12/2016 was 68 994 against 66 611 at the end of 2015. The total calculated exposure of the fund to all the intermediaries' groups was in the amount of BGN 225.99 mln. against BGN 220.74 mln. as of 31/12/2015.

As of 31/12/2016 the resources under the Fund amounted to BGN 14.181<sup>34</sup> mln. and were mainly invested in sovereign bonds (98%). The resources of the fund are formed by introductory contributions and annual contributions of IIs, B-IIs and MCs as well as from investment revenues. The annual contributions of the participants in the Fund in 2016 amounted to BGN 1.024 mln. The net revenues from investments were BGN 474 thsnd. against BGN 570 thsnd. in 2015, and included interests on deposits, sovereign bonds coupon payments, profit/loss from the re-evaluation of sovereign bonds, sovereign bonds depreciation costs and other financial revenues/costs.

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<sup>33</sup>IPO of Neo London AD and Advance Terrafund SIPC, Capital Conseptlimited AD – capital increase through the registration of temporary issues.

<sup>34</sup>The amount includes sovereign bonds in their depreciated or re-evaluated value, deposits, cash availability and current accounts on the Fund. The value of sovereign bonds is re-evaluated and depreciated as of 31/12/2016.

In 2016 the Managing Board of the Fund decided to reduce the cash resources contribution for 2017 to half of its maximum amount (to 0.25%). The amount of the financial instruments contribution was also cut to half the maximum – 0.05%. The main reasons for this decision of the MB were: the significant increase in the average monthly value of CR in the recent years, the legislative measures adopted to reduce CR risk and the high degree of coverage of the Fund resources in case compensations have to be paid.

In 2016 FSC examined the Fund's activity. The examination did not reveal any violations in the Fund's management and activity, and only some recommendations were made.

In 2016 the Fund submitted a Proposal amending and complementing the Rules of structure and operation of the Fund in order to compensate investors, which was published for public discussion. The changes proposed were the result of the coming into effect of the Act on recovery and resolution of credit institutions and investment firms and the establishment of Resolution of Investment Intermediaries Fund (RIIF) stipulated under it, to be part of the administration and management of ICF. RIIF is to become functional in 2017.

### **2.3. Insurance market**

As of the end of 2016, the total number of licensed (reinsurers) with a legal seat in the Republic of Bulgaria was 43. From them 29 are non-life insurance companies, 12 – life insurance companies, 1 – mutual life insurance co-operative and 1 – re-insurer whose license allows the company to perform non-life re-insurance activities. 394 insurance brokers and 19,249 insurance agents had the right to carry out insurance intermediation activity as of the end of 2016.

In the end of 2016 the gross premium income realized in Bulgaria by all insurers with legal seat in the Republic of Bulgaria amounted to BGN 2,002<sup>35</sup> mln., representing a growth of 3.0% on an annual basis.

In the end of 2016 the Bulgarian insurance market (non-life and life insurance) was allocated in a 81% to 19% ratio for the benefit of the premiums registered by non-life insurers.

Insurance penetration calculated on the basis of gross premium income as a GDP percentage in 2016. was calculated to be 2.2%, maintaining its level from 2015. Insurance density calculated as a gross premium income per capita<sup>36</sup>, was increased by BGN 282 in the end of 2016, having been BGN 272 as of the end of 2015.

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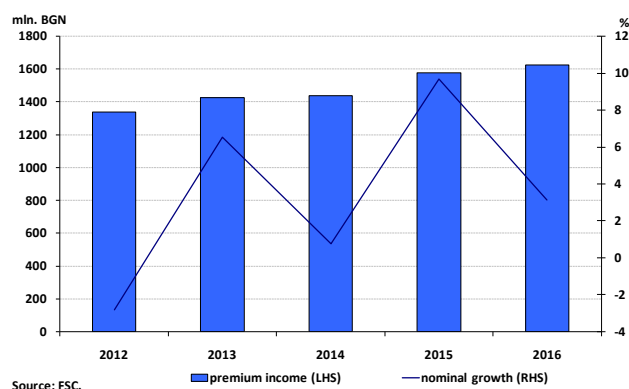
<sup>35</sup> The analysis was made on the basis of preliminary annual data pursuant to the inspections received as of the end of the fourth quarter of 2016 under Ordinance No. 30 of 19/07/2006 on requirements on accounting the form and contents of financial statements, inspections, reports and annexes of insurers and re-insurers.

<sup>36</sup> According to NSI data population in 2016 amounted to 7,102 mln.

### 2.3.1. Non-life insurance

Gross premium income realized by non-life insurers with a legal seat in the Republic of Bulgaria, as of the end of 2016, amounted to BGN 1,625 mln., including BGN 1,593 mln. by direct insurance and BGN 32 mln. by inward re-insurance. Thirteen of the non-life insurance companies reported a drop on an annual basis regarding their premium income.

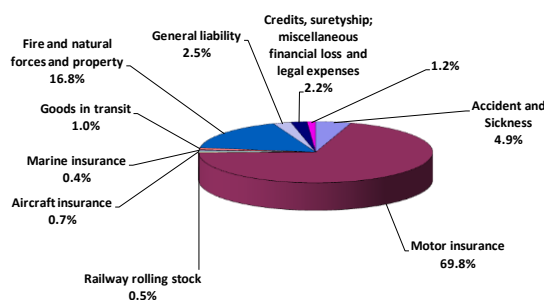
**Figure 72. Gross premium income of non-life insurance**



The insurance penetration indicator in non-life insurance was calculated to be 1.8% in the end of the reporting period, according to the same indicator a year earlier. Insurance density amounted to BGN 229 per capita, its amount having been BGN 220 in 2015.

In 2016 the main share in the structure of the portfolio of those companies active in the non-life insurance field, was that of motor vehicle insurances, accounting for 70 %, with the insurance “Third Party Liability” insurance had a share of 38%, and the insurance “Land vehicles, excluding railway rolling stock” (or the so called “Casco” insurance) – respectively 32%.

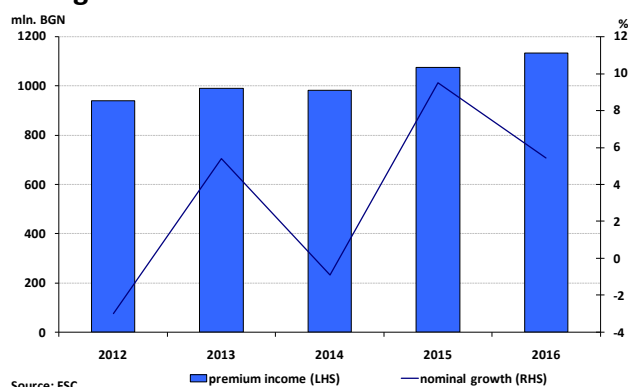
**Figure 73. Structure of the gross premium income by classes of insurance in 2016**



Source: FSC.

The premium income realized under “Third Party Liability” insurance during the past year reported a 5.2% growth on an annual basis and amounted to BGN 621 mln. The premium income under “Third Party Liability” insurance of drivers amounted to BGN 609 mln. compared to BGN 581 mln. in 2015, under “Third Party Liability” insurance for third country (“Green Card”) – BGN 1.1 mln., having been BGN 1.3 mln. a year earlier, “Border “Third Party Liability” insurance of drivers – BGN 6.7 mln., having been BGN 5.4 mln. a year earlier, and under “Third Party Liability” insurance of carriers – BGN 3.8 mln. compared to BGN 2.5 mln. at the end of 2015. The share of the top four companies under that class of insurance is 60%.

**Figure 74. Premium income in motor insurance in Bulgaria**



Source: FSC.

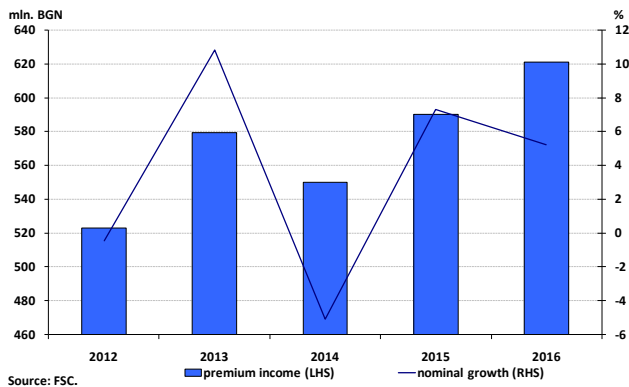
Note: The data include the “Land vehicles, excluding railway rolling stock”, and “Third Party Liability” insurance, related to the possession and use of motor vehicle.

The higher premium income from “Third Party Liability” insurance of drivers was due to



increase in the number of motor vehicles having an insurance contract

**Figure 75. Premium income from “Third Party Liability insurance, related to the possession and use of motor vehicles” in Bulgaria**



During the period January – December 2016 the premium income gained from “Land vehicles, excluding railway rolling stock” insurance amounted to BGN 512 mln., reporting a growth of 5.7% on an annual basis.

In the end of 2016, property insurances Fire and natural forces and Other damage to property in Bulgaria had a 17% share of the gross premium income with that share having been 19% as of the end of 2015. The premium income generated from Fire and natural forces and Other damage to property insurances amounted to BGN 273 mln., reporting a 7.6% drop on an annual basis, after having reported a 10.7% growth as of the end of 2015.

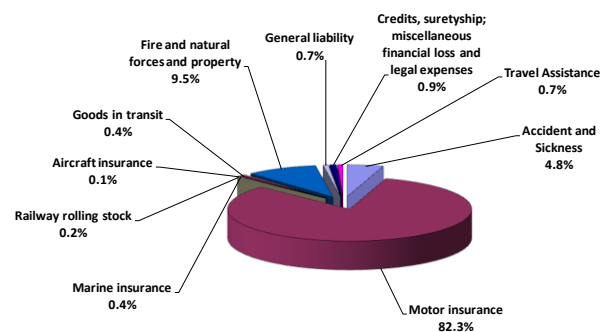
Accident and Sickness Insurance had a 5% share in the structure of the gross premium income as of the end of 2016, generated by non-life insurers. The premium income under the two insurance classes in 2016 amounted to BGN 79 mln., while in 2015 they were BGN 77 mln.

The premiums ceded to reinsurers for 2016 were in the amount of BGN 428 mln., representing 26% of the gross premium income generated in the sector. The rate of retention dropped, estimated to 0.74, having been 0.76 a year earlier. In the structure of ceded premiums to re-insurers by insurance classes, the largest relative share was that of “Third Party Liability insurance related to the possession and use of

motor vehicles” insurance (43%), “Fire and natural forces” insurance (28%) and “Land vehicles, excluding railway rolling stock” insurance (15%).

The claims made in non-life insurance as of the end of 2016, amounted to BGN 891 mln., reporting a 4.5% growth on an annual basis. The amount of compensations paid in the non-life insurance sector in 2016 dropped by 4.2%, amounting to BGN 830 mln. The re-insurance contract’s recovered amounts amounted to BGN 234 mln., representing 28% of the non-life insurance compensations paid in 2016.

**Figure 76. Structure of claims paid by classes of insurance in 2016**



Similarly to the structure of gross premium income, the structure of compensations paid by insurance classes, the largest relative share of 82% was that of motor insurances (“Third Party Liability insurance related to the possession and use of motor vehicles” and “Land vehicles (other than railway rolling stock)”, followed by property insurances “Fire and natural forces” and „Other damage to property“ taking a share of 9%, and „Accident“ and „Sickness“ Insurance – by a share of 5%.

The largest increase in the amount of compensations paid on an annual basis in 2016 was reported in relation to “Third Party Liability insurance related to the possession and use of motor vehicles” insurance (with BGN 28 mln.). The largest reduction in the amount of compensations paid on an annual basis was reported in relation to “Land vehicles, excluding

railway rolling stock)“ insurance (with BGN 29 mln.).

The gross loss ratio in the end of 2016 in general for the market dropped from 0.5, having been 0.67 a year earlier.

**Table 64 Gross loss ratio**

	2015	2016*
Accident	0.33	0.30
Sickness	0.69	0.65
rolling stock)	0.68	0.60
Railway rolling stock	0.38	0.27
Aircraft	0.06	0.34
Ships	1.27	0.79
Goods in transit	0.18	0.25
Fire and natural forces	0.33	0.29
Other damage to property	0.28	0.02
Motor vehicle liability	0.92	0.59
Aircraft liability	-0.06	0.07
Liability for ships	-0.03	0.10
General liability	0.42	0.17
Credit	0.38	-0.04
Suretyship	0.40	-0.15
Miscellaneous financial loss	0.08	0.21
Legal expenses	-0.05	0.00
Travel assistance	0.43	0.40
<b>TOTAL</b>	<b>0.67</b>	<b>0.50</b>
Note: *The data for 2016 is preliminary		
Source: FSC.		

The actual costs made by non-life insurance companies in relation to their operational activities grew by 5.2% on an annual basis, amounting in the end of 2016 to BGN 631 mln. They represent 39% of the gross premium income generated in the sector.

Activation costs amounted to BGN 385 mln., representing 61% of the actual costs incurred, and 24% of the gross premium income generated for 2016.

The administrative costs amounted to BGN 164 mln., or 26% of the total costs incurred, and 10% of the gross written premium income.

In 2016, the costs under “Motor Third Party Liability” insurance related to the possession and use of motor vehicles” were in the amount of BGN 216 mln., having been BGN 190 mln. a year earlier. Their share in the premium income amounts to 35%.

During the reporting year, the total actual costs under “Land vehicles, excluding railway

rolling stock” insurance were in the amount of BGN 215 mln., representing 42% of the gross premium income under the insurance. The actual costs in this insurance class grew by 2% on an annual basis.

The gross expense ratio at the end of the reporting period is calculated to 0.36, the same as in 2015.

**Table 65. Gross expense ratio**

	2015	2016*
Accident	0.49	0.48
Sickness	0.26	0.34
rolling stock)	0.40	0.39
Railway rolling stock	0.44	0.27
Aircraft	0.20	0.28
Ships	0.35	0.29
Goods in transit	0.48	0.46
Fire and natural forces	0.36	0.38
Other damage to property	0.49	0.48
Motor vehicle liability	0.29	0.32
Aircraft liability	0.25	0.18
Liability for ships	0.20	0.21
General liability	0.38	0.38
Credit	0.22	0.33
Suretyship	0.50	0.33
Miscellaneous financial loss	0.49	0.72
Legal expenses	1.27	0.88
Travel assistance	0.65	0.57
<b>TOTAL</b>	<b>0.36</b>	<b>0.36</b>
Note: *The data for 2016 is preliminary.		
Source: FSC.		

In 2016, the highest gross technical result on the basis of actual and incurred costs was calculated by the insurances “Motor Third Party Liability insurance related to the possession and use of motor vehicles” (BGN 76 mln.) and “Fire and natural forces” (BGN 73 mln.). With Motor Third Party Liability insurance related to the possession and use of motor vehicles” insurance the gross technical result improved compared to the negative one reported in the amount of BGN 120 mln. in 2015. It has to be noted that data about 2016 are preliminary. Moreover, Ordinance No. 53 of 23/12/2016 on the requirements to the reporting, valuation of assets and liabilities and establishment of technical provisions of insurers, re-insurers and the Guarantee Fund (Ordinance No. 53) applied by insurers as of 01 January 2017, does not

provide for the formation of any additional provision for reported but not settled claims, or any additional provision to provision for unearned premiums as was required respectively under Art. 8a and Art. 11a of the revoked Ordinance No. 27 of 29/03/2006 on the order and methodology of forming technical provisions by insurers and re-insurers. By § 10 of the Transitional and Final Provisions of Ordinance No. 53 insurers are entitled to apply at their discretion the provisions of Section IV “Rules on evaluating for the purposes of mandatory accounting” of Ordinance No. 53 on reports, as of 31/12/2016, and respectively insurers took advantage of the right not to establish the additional provisions specified.

**Table 66. Gross technical result**

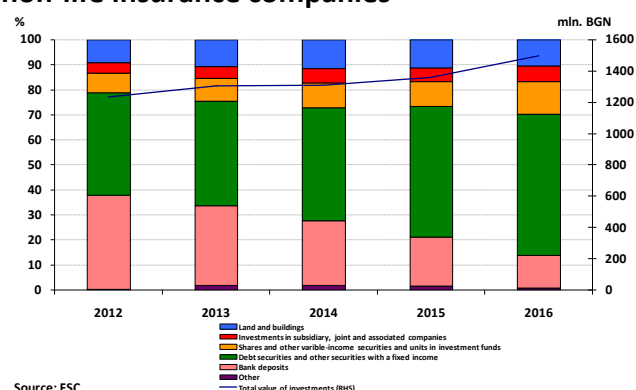
	2015	2016*
Accident	3.1	7.1
Sickness	1.9	1.0
rolling stock)	-43.8	4.4
Railway rolling stock	1.0	2.3
Aircraft	7.2	3.3
Ships	-4.5	-0.2
Goods in transit	5.6	5.0
Fire and natural forces	68.8	72.5
Other damage to property	6.8	26.1
Motor vehicle liability	-120.1	76.1
Aircraft liability	5.8	5.8
Liability for ships	1.1	0.7
General liability	7.2	16.9
Credit	2.9	4.9
Suretyship	-0.9	7.4
Miscellaneous financial loss	4.1	1.0
Legal expenses	0.0	0.0
Travel assistance	-1.3	0.2
<b>TOTAL</b>	<b>-55.3</b>	<b>234.4</b>

Note: The data is in million BGN unless indicated otherwise. The values of “Gross Technical Result” are obtained on the basis of calculating the immediately inherent revenues and costs by types of insurance without taking account of other technical costs and allocated profit from investments stated in the Income Statement. \* The data for 2016 is preliminary.  
Source: FSC.

In the end of the reporting period, the amount of non-life insurers’ assets was BGN 2,358 mln., a 6.1% – growth on an annual basis. The amount of the investments of companies providing non-life insurance grew by 10% in

2016., amounting to BGN 1,494 mln. as of the end of the year, and accounting for a 63 %–share in the total amount of assets. The main share in the structure of the aggregated investment portfolio of the non-life insurance companies was that of government securities (51%), followed by deposits in banks (13%) and investments in shares and other securities with variable income, and shares in investment funds (13%).

**Figure 77. Investment portfolio structure of non-life insurance companies**



Source: FSC.

The share of investments in land and buildings from the total investment portfolio of non-life insurance companies during the last five years remained almost permanent – about 11%. In the last three years the share of investments in subsidiaries, joint and associated companies that companies had a share in, remained unchanged, amounting to 6%. In the end of 2016, the share of investments in shares and other securities with variable income, and shares in investment funds of non-life insurance companies, as well as the share of investments in debt securities and other fixed-profit securities, grew. The share of investments in bank deposits has dropped in the last five years, reaching 13% in the end of 2016.

Non-life insurers’ equity grew by 15% on an annual basis, amounting to BGN 743 mln. in the end of 2016. In 2016 the shareholders’ capital registered in 2016 grew by BGN 39 mln.

In the end of 2016 the amount of gross technical provisions established by non-life

insurance companies for the payment of future compensations, dropped by 2%, reaching BGN 1,934 mln., and the net technical provisions grew insignificantly.

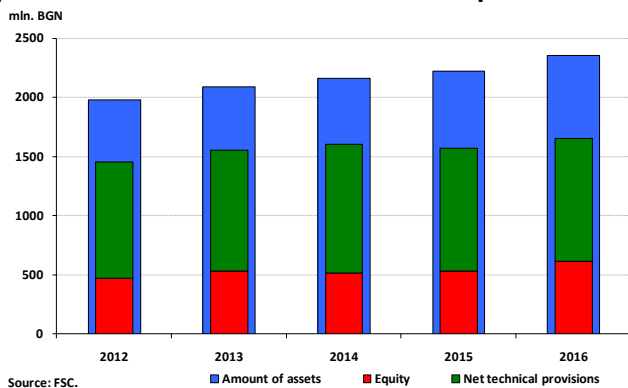
The largest share of 64% in gross technical provisions was that of the claims outstanding provision, which increased by 2% during the last year, amounting to BGN 1,247 mln.

Under “Motor Third Party Liability insurance related to the possession and use of motor vehicles” insurance the claims outstanding provision established in the end of 2016 grew by 4%, reaching BGN 907 mln.

The provision of unearned premiums had a 32% share in gross technical reserves. The amount of that provision in the end of 2016 was BGN 618 mln., reporting a 1% drop on an annual basis.

During the past year, the non-life insurance sector maintained the trend of increasing its assets and equity, and the net technical provisions remained almost unchanged compared to the end of 2015.

**Figure 78. Assets, equity and net technical provisions of non-life insurance companies**



In the end of 2016, the companies in the non-life insurance sector reported a higher net technical result (BGN 80 mln.) compared to the previous year (BGN 42 mln.), with eleven companies ending the period with a negative net technical result.

The positive technical result reported and the higher profits from investments in 2016, compared to the previous year, of non-life

insurers, contributed to the positive net financial result in the amount of BGN 89 mln., their value having been BGN 31 mln. a year earlier. Six of non-life insurance companies ended 2016 with a loss, with the negative financial result of those companies due to the negative technical result.

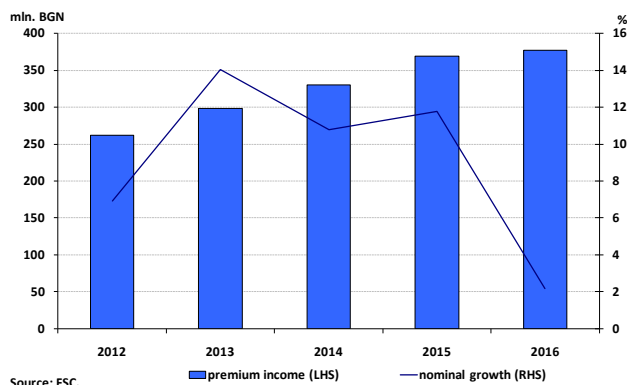
As a result of the positive financial result reported, the return on assets calculated as the ratio between profit (loss) for the financial period and the total amount of assets, grew from 1.4% in 2015 to 3.8% during the reporting year. The return on equity calculated as the ratio between profit (loss) for the period and the equity, grew from 4.7% in 2015 to 12.0% in 2016.

The profit from non-life insurance companies’ investments gained between January and December 2016 grew by BGN 19 mln. and amounted to BGN 95 mln. in the end of the year. Investment costs dropped compared to the costs reported for the same period of the previous year, and amounted to BGN 45 mln. The net income from investments reported as of 31/12/2016 amounted to BGN 50 mln. having been BGN 26 mln. a year earlier.

### 2.3.2. Life insurance

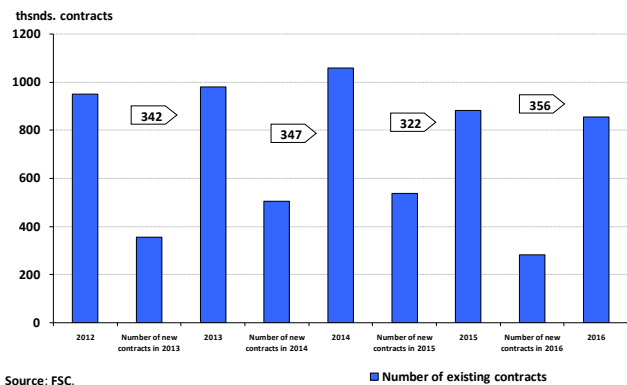
The gross premium income registered by life insurers reported a 2%-growth on an annual basis, and amounted in the end of 2016 to BGN 377 mln., including BGN 367 mln. under direct insurance and BGN 10 mln. under inward re-insurance. Insurance density in life insurance in 2016 amounted to BGN 53 per capita, having been BGN 52 during the previous year, while insurance penetration in the reporting year equalled 0.41%, having been 0.42% in 2015.

**Figure 79. Gross premium income of life insurance**



As of the end of 2016 the number of contracts in effect amounted to 856 thsnd., dropping by 3% on an annual basis. The newly-concluded contracts also dropped by 47% and reached 283 thsnd. as of the end of the year. Despite the smaller number of newly-concluded contracts, there was an increase in the premiums written with regard to them, amounting to BGN 215 mln. in the end of 2016, having been BGN 193 with regard to newly-concluded contracts in 2015.

**Figure 80. Number of newly-concluded and existing contracts**



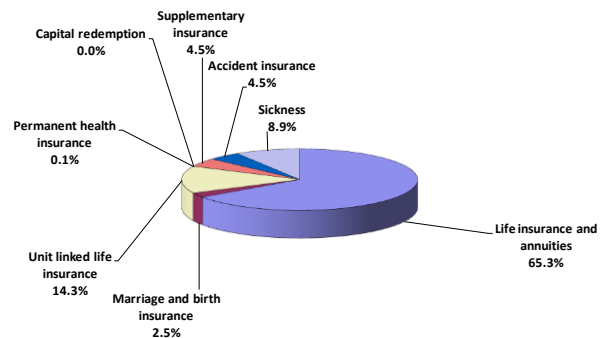
As regards the structure of the portfolio of life insurers by insurance classes as of the end of 2016 there was no significant change compared to previous years, and the main share in it was that of the traditional Life insurance and annuities (65%), Unit-linked life insurance (14%) and Sickness insurance (9%).

The main part of gross premiums under Life insurance and annuities were formed by the

sale of a mixed Life Insurance (58%) and of Risk Life Insurance (only the “death” risk covered) (28%).

There was a significant increase in the share of Unit-linked life insurance from 7% as of the end of 2015 to 14% in the end of 2016.

**Figure 81. Portfolio structure of life insurance companies in 2016**



Source: FSC.

The growth on an annual basis of the premiums’ amount is only reported in relation to Life Insurance, Unit-linked life insurance, and Sickness Insurance. Under all other life insurance classes there was a drop in premiums on an annual basis, which was most substantial in the Pension insurance or annuities (16% or BGN 11 mln.), as a result of a reduction in the number of newly-concluded contracts in 2016.

The premiums ceded by life insurance companies to re-insurers in Bulgaria amount to BGN 21 mln. as of the end of 2016, representing 5.6% of the gross premium income in the sector. The share of re-insurance among life insurance companies remained relatively low, with the retention ratio remaining on the level of the end of 2015 – in the amount of 0.94.

In the structure of premiums ceded to re-insurers by insurance classes, the largest relative share was that of Sickness Insurance (52%), Life Insurance and annuities (29%), and Additional Insurance (16%).

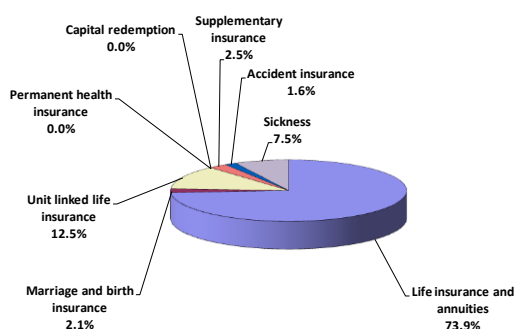
The amounts and compensations paid in 2016 by life insurers amounted to BGN 161 mln. under a total of 186 thsnd. claims. On an annual basis, there was a growth both in the amount of

amounts and compensations paid during the year (12%), and in the number of claims (13%).

Of the total number of claims paid, 53% were under expired or matured contracts, 24% were under surrenders (partially or fully) insurance contracts, 8% were the amounts and compensations paid in cases of death, and 14% were under claims, other than the abovementioned.

In the total structure of claims paid, the largest share was that of Life insurance and annuities (74%), whereby 59% of payments were for a mixed Life Insurance, followed by Unit-linked life insurance (12%), and Sickness Insurance (7%).

**Figure 82. Structure of claims paid by classes of insurance in 2016**



Source: FSC.

In the end of 2016, a reduction was reported in the number of surrenders under all insurance classes, with their total number having dropped by 7%. Surrender amounts were BGN 42 mln. in total in the end of 2016, while in the end of 2015 they were BGN 35 mln.

The re-insurance contract's recovered amounts and compensations amounted to BGN 3 mln., representing 2% of the life insurance claims paid during the period.

The costs incurred by life insurers in relation to their operation, grew by 5% on an annual basis, and, as of the end of 2016, they amounted to BGN 107 mln. in total, representing 26% of the gross premium income gained for the period.

The acquisition costs incurred in 2016 grew by 1% on an annual basis, amounting to BGN 63

mln. in total. Acquisition costs represent respectively 59% of the total costs incurred for the period, and 16% of the premium income gained in the sector.

Administrative costs grew by 8% on an annual basis and amounted to BGN 40 mln. in the end of the year. They represent respectively 37% of the total costs incurred by life insurers, and 10% of the premium income gained in the sector.

The total amount of assets in life insurance sector grew by 11% in 2016, with their value in the end of the year amounting to BGN 1,604 mln.

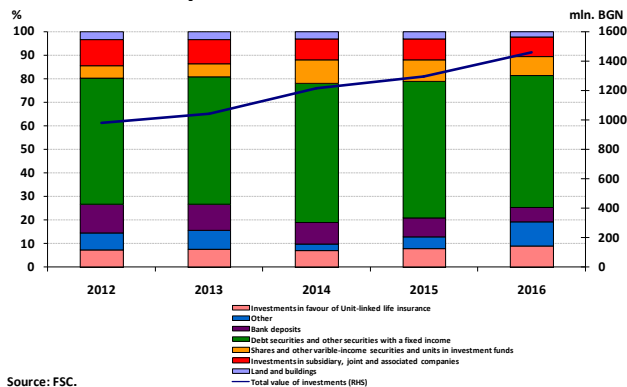
The value of life insurers' investments was BGN 1,460 mln. in the end of 2016, with their representing 91% of the total amount of assets in the sector. The change in the value of investments was estimated at 13% on an annual basis. The main share in life insurers' total investment portfolio as of the end of 2016 was that of securities issued and guaranteed by the state (48%), investments in shares and interests of subsidiary, joint and associated undertakings (8%), and investments in shares and other securities with a variable income, and the shares in investment funds (8%). Investments in other loans represent 10% of the total amount of life insurers' investments.

The largest increase on an annual basis is reported in the amount of investments in securities issued and guaranteed by the state (22%), in other loans (12%), and in shares and interests in subsidiary, joint and associated undertakings (15%). Bank deposits of life insurers dropped by 8% during the past year, and reached as of the end of 2016 BGN 89 mln. The amount of investments in shares and other securities with variable income, and the shares in investment funds also dropped by 5% on an annual basis and amounted in the end of the reporting year to BGN 116 mln.

The amount of investments under Unit-linked life insurance grew by 35% on an annual base, reaching BGN 131 mln. in the end of 2016, those investments representing 9% of the total

amount of investments in the life insurance sector.

**Figure 83. Investment portfolio structure of life insurance companies**



Source: FSC.

The equity committed in the life insurance sector grew by 13% on an annual basis, amounting to BGN 421 mln. in the end of 2016. During the reporting year, six life insurers increased their shareholders' capital.

The gross technical provisions established by life insurers (without the provisions under Unit-linked life insurance) in 2016 grew by 11% and amounted in the end of the year to BGN 964 mln.

The main share in the gross amount of life insurers' technical provisions (without the Unit-linked life insurance provisions) was that of the mathematical provision (66%) and the provision of Capitalised Amount of Pensions (22%). On an annual basis, the amount of those provisions grew respectively by BGN 68 mln. and BGN 18 mln.

The Unit-linked life insurance provision established as of the end of 2016 grew by 35% on an annual basis (BGN 34 mln.). That provision had a 12% share in the total amount of provisions.

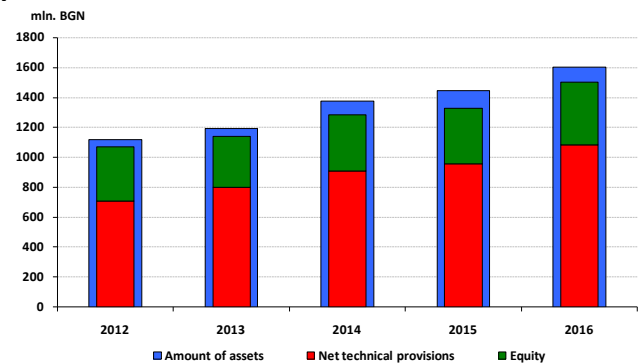
### 2.3.3. Re-insurance

In 2016 inward re-insurance activity was performed by six non-life insurers, three life insurers and one re-insurer.

Their premium income gained during the year amounted to BGN 1.459 mln. (having been BGN 1,455 mln. in the previous year), BGN 32 mln. of which in non-life insurance, BGN 10 mln. in life insurance, and BGN 1,455 mln. from GP Reinsurance EAD. The main share in the active reinsurance activity during the

In the past year, the technical provisions, net of re-insurance, grew by 13 % on an annual basis, amounting to BGN 1,084 mln. in the end of 2016.

**Figure 84. Assets, equity and net technical provisions of life insurers**



Source: FSC.

In the end of 2016, life insurers reported a technical result of BGN 19 mln., while a year earlier it was BGN 20 mln. Five life insurers closed the period with a negative technical result.

The positive technical result reported and the higher profits from investments in 2016, compared to the previous year, of life insurers, contributed to the positive net financial result in the amount of BGN 32 mln., their value having been BGN 29 mln. a year earlier.

The return on assets calculated as a ratio between profit (loss) for the respective period, and the total amount of assets, retained its amount of 2015, and was 2%.

The return on equity calculated as a ratio between profit (loss) for the reporting period, and the equity, also retained its amount of 2015, and was 8%.

reporting year was that of Fire and Natural Forces Insurance (32%), followed by “Third Party Liability insurance related to the possession and use of motor vehicles” (27%).

The compensations paid to assignors amounted to BGN 654 mln. of which BGN 14 mln. in non-life insurance, BGN 1 mln. in life insurance, and BGN 639 mln. from GP Reinsurance EAD. In the structure of compensations paid, the largest share was that of “Third Party Liability insurance related to the possession and use of motor vehicles” insurance (35%), “Fire and natural forces” insurance (24%) and “Land vehicles, excluding railway rolling stock” insurance (24%).

In the end of 2016, the amount of GP Reinsurance EAD's assets was BGN 2,265 mln., reporting an increase of 10% on an annual basis. GP Reinsurance EAD's equity in the end of the year amounted to BGN 886 mln, and the gross technical provisions set aside were BGN 1,384 mln.

As of the end of the year, GP Reinsurance EAD's net technical result was BGN 216 mln., and the financial result was BGN 237 mln.

#### 2.3.4. Guarantee and compensation fund

The Guarantee Fund (GF/the Fund) is a legal person seated in the city of Sofia, making payments of compensations to injured persons with regard to mandatory “Third Party Liability insurance related to the possession and use of motor vehicles” and “Accident” insurances to the passengers in public transport vehicles, recovers amounts paid by an EU Member State compensation body, guarantees insurance receivables in cases of insurer insolvency.

**Table 67. Revenues and costs of the Guarantee Fund (GF)**

Main financial indicators	2015			2016		
	Fund for uninsured motor vehicles	CF	Total	Fund for uninsured motor vehicles	CF	Total
Contributions by insurers	27,348	5,771	33,119	28,445	5,943	34,388
Deferred contributions by re-insurers	-978	-	-978	-2,607	-137	-2,744
Profits from investments	5,347	1,426	6,773	2,822	1,865	4,687
Other profits	3,921	-	3,921	4,155	-	4,155
<b>Total Profits</b>	<b>35,638</b>	<b>7,197</b>	<b>42,835</b>	<b>32,815</b>	<b>7,671</b>	<b>40,486</b>
Paid compensations net of re-insurance	22,755	-	22,755	30,830	-	30,830
Change in reserves net of re-insurance	22,131	-	22,131	578	-	578
Administrative costs	3,409	-	3,409	3,569	-	3,569
Costs for preventive events	1,345	-	1,345	1,262	-	1,262
Other costs	471	-	471	161	23	184
<b>Total costs</b>	<b>50,111</b>	<b>-</b>	<b>50,111</b>	<b>36,400</b>	<b>23</b>	<b>36,423</b>

Note: Data are in BGN thsnd.

GF established and manages the following separate accounts:

- Fund guaranteeing the claims of injured persons from uninsured and unidentified motor vehicles – The Fund for uninsured motor vehicles;



- Fund guaranteeing the claims in case of an insurer's insolvency under Art. 519, it. 2 and 3 IC – Compensation Fund.

In 2016 the revenues of the Fund for uninsured motor vehicles accrued from contributions under mandatory Third Party Liability of motorists insurance and “Accident” insurances to the passengers in public transport vehicles from fines and property and revenues from investing the fund’s resources, etc. amounted to BGN 33 mln., having been BGN 36 mln. as of the end of the same period of the previous year.

The costs for compensations reported a 45% growth compared to the previous year, amounting to BGN 31 mln.

As of 31/12/2016, GF’s financial result was BGN 4,063 thousand, compared to 31/12/2015 when the financial result was negative, BGN -7,276 thousand.

The revenues of the Compensation fund for 2016 amounted to BGN 7.7 mln. and grew by 7% on an annual basis.

## 2.4. Social insurance market

The net assets of the supplementary pension insurance funds (SPIF) managed by pension insurance companies (PIC) grew in 2016, reaching BGN 10.7 bln. as of the end of the year. The increase in the net assets of pension funds during the year was the result of the revenues from contributions for insured persons, who were, as of the end of 2016, 4 472 676 persons, and of the positive result from investing resources under individual accounts. The upward trend in the net assets was maintained despite the right to switch the type of insurance from the supplementary mandatory pension insurance funds (SMPIF) to State social security (SSS).

### 2.4.1. Pension insurance companies

As of 31/12/2016 9 licensed PIC were operational, with the total number of the pension funds managed by them being 29, including 9 universal (UPF), 9 professional (PPF), 9 voluntary (VPF) and two voluntary pension funds with occupational schemes (VPFOS)<sup>37</sup>.

Four of the companies active on the pension insurance market are part of international financial groups – NN PIC EAD – NN Group N.V., PIC Allianz Bulgaria AD – ALLIANZ SE, PIC Doverie AD – Vienna Insurance Group AG WienerVersicherungGruppe and PIC DSC – Rodina AD – OTP BANK NYRT.

In four of the licensed companies there are shareholders directly holding more than 90 per cent of the capital<sup>38</sup>.

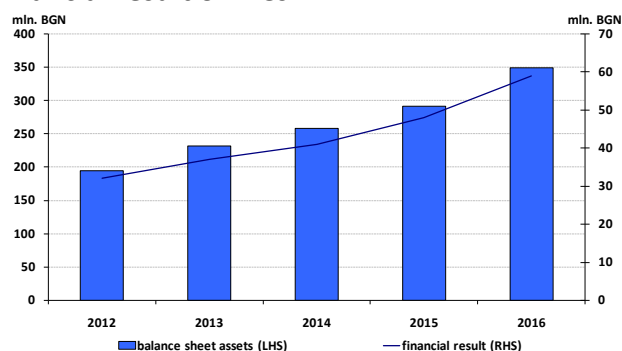
For PIC’s financial assets the growth trend continued, with them reaching BGN 349.2 mln. in the end of the year. (a 21.7% increase compared to 2015). There is a similar dynamics in the total net financial result of PIC, which amounted to BGN 58.6 mln. for 2016 – BGN 10.1 mln. or 20.9% more compared to the total net financial result for 2015.

<sup>37</sup>No insured persons have yet registered in one of the VPFOS.

<sup>38</sup> TBIH Financial Services Group N.V. holds directly 92.58% of the shares of PIC Doverie AD, BANK DSC EAD holds directly 99.75% of PIC DSC – Rodina AD, NN Continental

Europe Holdings B.V. holds directly 100% of NN PIC EAD and MEDIANET INDUSTRIES S.A. holds directly 90.20% of the shares of PIC Badeshte AD.

**Figure 85. Balance sheet assets and net financial result of PICs<sup>39</sup>**



Source: FSC.

The average value of the capital adequacy indicator for 2016 of all the nine licensed pension insurance companies was 427.1% which significantly exceeded the statutory minimal amount of 50% below the minimum capital.

In 2016 the largest part of PIC maintained a high level of capital adequacy. The average value of the indicator in 2016 increased by 58.1 p.p. as a result of the increase in the capital adequacy of six companies, and with the other three the capital adequacy dropped. The main reason for the increase in the capital adequacy in 2016 was the generally higher positive financial result reported by the sector. Where a company comes close to the critical minimum of its capital adequacy, its activity becomes the subject of intensive monitoring. The indicator by separate companies varies between 50.5% and 649.3%. Two companies are exceptions with their capital adequacy amounting to 799.0% and 808.1%.

The liquid funds of PIC and SPIF were higher than the statutory minimal amount, i.e. all companies and the funds they manage were able to cover their current liabilities.

The provisions guaranteeing minimum profitability in UPF and PPF set aside with resources of PIC, amounted as of 31 December 2016 to BGN 119.6 mln, and their amount was in compliance with the statutory requirements.

<sup>39</sup>Including the company in liquidation.

The latter were invested in assets evaluated in compliance with the regulatory framework.

**Table 68. Capital adequacy and liquidity of PIC and SPIF**

	2015	2016
Capital adequacy of PIC (%)	369.0	427.1
Liquidity of PIC (coef.)	11.8	7.1
Liquidity of UPF (coef.)	44.7	41.3
Liquidity of PPF (coef.)	99.3	46.5
Liquidity of VPF (coef.)	92.8	48.0
Liquidity of VPFOS (coef.)	49.4	12.5

Note: The indicators are calculated as an arithmetic mean of the value of individual PIC/SPIF.

Source: FSC.

The level of coverage of the registered capital falls within a wide range, between 58.7% and 311.0%, with the exception of two companies whose indicator's value reached 544.2% and 747.0%. The average non-weighted value of the indicator for 2016 was 273.2% compared to 239.1% for 2015. The registered increase of 34.1 pp. of the indicator is the result of an increase in the profits reported by most (six) companies in 2016 compared to the previous year. Seven pension insurance companies reported an increase in the value of the indicator compared to the previous 2015, and with the two others the level of registered capital coverage dropped.

In 2016 the profitability of equity reported was 23.9% on average for the sector compared to 24.2% for 2015. The -0.3% reduction reported was due to a reduction in the profitability of five PIC, and the profitability of the other four increased. The equity profitability for each PIC ranges wide, its lowest level being (-17.6%), and the highest – 63.8%.

**Table 69. Analysis of PIC's equity**

	2015	2016
Level of coverage of registered capital	239.1	273.2
Profitability of equity	24.2	23.9

Note: The data is in % unless indicated otherwise. The indicators are calculated as an arithmetic mean of the value of individual PIC.

Source: FSC.

The coverage level of managed SPIF's assets falls between 2.0% and 5.5%. The average non-weighted value of the indicator for 2016

increased to 3.5% compared to 3.4% for 2015. The indicator's value change varies among companies, with three of them the indicator's value increasing, with five – decreasing, and with one – remaining the same as compared to the year before. The general increase for the sector was reported to 0.1 p.

Due to the reported positive current financial result of the activity in 2016, all companies had a positive profitability of assets, except for one PIC. The average non-weighted value of the indicator as of the end of 2016 was 13.6% compared to 14.4% for 2015. A -0.8 pp. reduction was reported, and with seven PIC there was a reduction in the indicator, and only with two PICs there was an increase. For individual companies, the indicator of PIC's asset profitability varied widely between (-10.8%) and 34.2%.

**Table 70. Analysis of PIC's assets**

	2015	2016
Level of coverage of SPIF assets	3.4	3.5
Profitability of PIC assets	14.4	13.6
Growth of PIC assets	15.5	18.9
Note: The data is in % unless indicated otherwise. The indicators are calculated as an arithmetic mean of the value of individual PIC/SPIF.		
Source: FSC.		

All companies had a positive growth in their assets during the year, except for one PIC. The average non-weighted value of the indicator grew from 15.5% for 2015 to 18.9% for 2016, due to the significant increase in the indicator during the reporting year for two companies. For individual companies, their assets' growth was between (-5.8%) and 63.9%.

**Table 71. Analysis of PIC income and expenses**

	2015	2016
Efficiency of PIC activities	139.9	143.0
Note: The data is in % unless indicated otherwise. The indicators are calculated as an arithmetic mean of the value of individual PIC.		
Source: FSC.		

The average non-weighted value of the effectiveness indicator about PIC's activity in 2016 was 143.0%, with a 3.1 pp.- growth compared to 2015. The value of the indicator

grew for four companies, and for two of them this was due to a faster income growth rates than the growth rates of costs, for one PIC costs dropped at a quicker rate than the drop in incomes, and for the fourth company incomes grew, and costs dropped. For four PIC the value of the indicator decreased, and for two companies this was due to a faster income growth rates than the growth rates of costs, and for three companies costs increased, and incomes decreased. The value of the indicator varies between 82.0% and 206.6%.

Compared to 2015, PICs profits from charges and deductions per participant in pension fund decreased in general, affected by the decrease in the amount of the investment charge, and the deduction from each contribution for supplementary mandatory pension insurance (SMPI) as a result of the amendments to the Social Insurance Code effective since 01/01/2016. The average non-weighted value for 2016 amounted to BGN 29.61, compared to 30.62 for the previous year. The reduction in the indicator's value by BGN 1.01 is due to the fact that the indicator decreased for eight companies, and increased only in one. The value of the indicator for separate companies was between BGN 19.18 and BGN 39.09.

The costs for PIC's activities per participant in the managed pension funds dropped by BGN 0.04 in 2016, and in the end of the year they were BGN 28.23 compared to BGN 28.27 in 2015. The value of the indicator dropped for four of the companies, and for two of them this was mainly due to the increase in the costs at a slower rate than the increase in the number of participants; for one PIC the costs dropped at a quicker rate than the reduction in the number of participants, and for the fourth company the costs decreased and the number of participants increased. For four PIC the value of the indicator increased, and for four companies this was due to faster income growth rates than the growth rates of participants' number, and for one company costs increased, and the participants' number decreased. The value of

the indicator for separate companies was between BGN 16.26 and BGN 58.40.

**Table 72. Fees, deductions and operating expenses per participant in SPIFs**

	2015	2016
Fees and deductions per participant in SPIFs	30.6	29.6
Operating expenses per participant in SPIFs	28.3	28.2
Note: The data is in BGN unless indicated otherwise. The indicators are calculated as an arithmetic mean of the value of individual SPIF.		
Source: FSC.		

The profits from charges and deductions per BGN 100 assets of the funds as of the end of 2016 were between BGN 1.25 and BGN 1.72 with the average non-weighted value of the indicator amounting to BGN 1.38 compared to BGN 1.62 in 2015. The value of the indicator for all companies in general dropped by BGN 0.24, with all companies reporting a drop in the indicator's value. The smallest reduction is in the amount of BGN 0.10, and the largest – in the amount of BGN 0.31. The value of the indicator for all PIC dropped as a result of the quicker rate of increase in balance assets, compared to the increase of profits from charges and deductions.

The costs for the activity per BGN 100 assets of SPIF for 2016 varied between BGN 0.65 and BGN 1.85, except for one company, which reported BGN 2.32. The average non-weighted value of the indicator reported a BGN 0.16 drop, amounting in the end of 2016 to BGN 1.32 compared to BGN 1.48 as of the end of 2015. The value of the indicator for eight companies dropped in comparison with 2015 due to the quicker rate of increase in SPIF's assets compared to the rate of increase in costs. The indicator grew for only one PIC because the rate of increase in costs was faster than the rate of increase in SPIF's balance assets.

**Table 73. Fees, deductions and operating expenses per BGN 100 of SPIFs assets**

	2015	2016
Fees and deductions per BGN 100 of SPIFs assets	1.6	1.4
Operating expenses per BGN 100 of SPIFs assets	1.5	1.3
Note: The data is in BGN unless indicated otherwise. The indicators are calculated as an arithmetic mean of the value of individual SPIF.		
Source: FSC.		

The supervision of PIC's activity with regard to the management of pension funds in 2016 did not identify any deviations from the statutory requirements regarding the amount of the mandatory charges and deductions paid to PIC.

In 2016 almost all PIC maintained the maximum permitted amounts of charges and deductions pursuant to SIC: 4.5% of each insurance contribution and investment charge in the amount of 0.9% per annum calculated using the value of the fund's net assets depending on the period when they were managed.

Two PICs determined a deduction from each insurance contribution for their managed SMPIF below the maximum amount stipulated under SIC, and for one of the PIC only it applied to its managed universal pension fund.

The amounts of charges and deductions for the management of the supplementary voluntary pension insurance funds (SVPIF) collected by PIC were smaller than the statutory ones. The average amount of the deduction from each social security contribution in VPF increased from 2.8% in 2015 to 2.9% in 2016, and in VPFOS – from 3.8% in 2015 to 3.9% in 2016. The statutory maximum amount of the deduction from each social insurance contribution in SVPIF was 7.0%.

**Table 74. Investment fee and social insurance contributions' fee in SVPIFs**

	2015	2016
Deducted investment fee of VPF	8.7	8.6
Deducted investment fee of VPFOS	9.2	10.0
Average amount of social insurance contributions' fee in VPF	2.8	2.9
Average amount of social insurance contributions' fee in VPFOS	3.8	3.9
Note: The data is in % unless indicated otherwise. The indicators are calculated as an arithmetic mean of the value of individual VPF and VPFOS.		
Source: FSC.		

The investment charge in VPF in 2016 amounted to 8.6% compared to 8.7% in 2015

with the statutory charge being up to 10%, and the lower amount of the charge was the result of its reduced amount for four funds, as evident from the rules of their organization and activity. The investment charge in VPFOS was in compliance with the legal provisions. The increase in the average value of the investment charge in VPFOS was due to the rounding up of output values for its calculation.

#### 2.4.2. *Supplementary pension insurance fund*

During the reporting year, the amount of SPIF's balance assets grew more quickly compared to the previous year. In 2016 the balance assets of SPIF grew by 15.2% in total on an annual basis, while in 2015 the balance assets of SPIF grew by 14.8%.

The rate of assets change varies between funds, with the largest increase (17.6%) reported in the only active VPFOS followed by UPF with a growth of 16.2%. Growth in the assets of PPF and VPF was reported, too, respectively by 12.4% and 8.7%. Compared to the growth of balance assets in 2015, it was only in the VPF that the growth of assets was slowed down (-1.8 p), while the growth of assets in VPFOS accelerated most quickly (4.0 pp), followed by PPF (2.7 pp) and UPF (0.4 pp).

The total amount of UPF's balance assets during the year increased, accounting for the amendments to the legislation in effect since 2015, namely the right to switch social insurance from UPF to SSS.

The same also goes for the amount of PPF's balance assets, given the changes in SIC effective since 01/01/2016, in view of the introduction of the right to a one-time change of social insurance from PPF to the Pensions Fund of SSS.

The market shares of individual companies on the basis of the amount of managed pension funds' balance assets did not change significantly during the reporting year. The pension insurance company with the largest market share held 25.9% of the managed balance shares, and the one with the smallest market share took 1.1%.

The structure of balance assets by types of funds is strongly dominated by UPF. As of the end of 2016, the relative share of that type of funds was 82.8%. As a result of the higher rates of increase in UPF's balance assets, their relative share in the total balance assets of SPIF expanded by 0.7 p.p. compared to 2015 at the expense of the shares of VPF and PPF. As of the end of 2016 the balance assets of PPF, VPF and VPFOS had shares respectively of 8.7%, 8.4% and 0.1%.

The trends observed in balance assets were also reported in net assets. In 2016, the net assets of SPIF increased by 15.2% on an annual basis – 0.8 p.p. more compared to their growth in 2015.

As of the end of 2016 the net assets of SPIF were in the amount of BGN 10.8 bln. They show the total amount of liabilities to socially insured persons and represent a key indicator of the condition of the supplementary pension insurance system. The net assets accumulated as of the end of 2016 equalled 11.6% of the GDP volume in the country<sup>40</sup>.

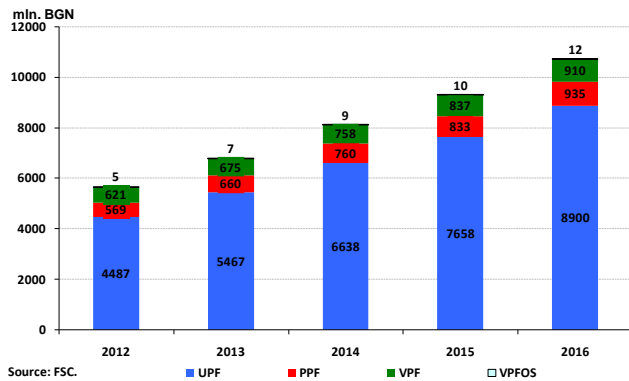
**Table 75. Growth of SPIFs assets**

	2015	2016
UPF	15.8	16.2
PPF	9.7	12.4
VPF	10.5	8.7
VPFOS	13.6	17.6

Note: The data is in % unless indicated otherwise. The indicators are calculated as the ratio of the year's change and their value at the beginning of the year.  
Source: FSC.

<sup>40</sup>According to preliminary data of the National Statistical Institute, GDP in 2016 was BGN 92,635 mln.

**Figure 86. Net assets of SPIFs**



The rate of growth in net assets differed by types of funds, being most significant for VPFOS (17.4%) followed by UPF (16.2%), PPF (12.3%) and VPF (8.8%). The structure of net assets by types of pension funds as of the end of 2016 did not significantly differ from that of the balance assets.

The average non-weighted amount of managed assets per participant in 2016 in UPF was BGN 2,239.27 compared by BGN 1,961.90 in 2015, in PPF – BGN 2,918.20 for 2016 compared to BGN 2,682.26 in 2015, in VPF – BGN 1,480.88 for 2016 compared to BGN 1,409.78 in 2015 and in VPFOS – BGN 1,631.85 for 2016 compared to BGN 1,481.18 during the previous year. In all types of funds there is an increase in the managed assets per participant.

In terms of companies, there are different deviations from the average levels – in UPF the managed assets per participant were between BGN 1,164.97 and 2,996.47, in PPF – between 1,131.17 and BGN 3,948.91, and in VPF – between BGN 634.19 and BGN 3,097.68. The average values of the indicator for PIC were between BGN 976.78 and BGN 2,973.34.

**Table 76. Managed assets per participant in SPIFs**

	2012	2013	2014	2015	2016
UPF	1201.1	1440.6	1726.1	1961.9	2239.3
PPF	1890.5	2183.6	2496.5	2682.3	2918.2
VPF	1053.9	1121.9	1280.1	1409.8	1480.9
VPFOS	935.9	1153.5	1385.2	1481.2	1631.9

Note: The data is in BGN unless indicated otherwise. The indicators are calculated as an arithmetic mean of the value of individual SPIF.  
Source: FSC.

Gross revenues from social-insurance contributions in SPIF in 2016 increased by 3.9% compared to the revenues in 2015, and in absolute terms the increase is most prominent in UPF – BGN 64.7 mln. or 6.3%. That growth is mainly due to the inclusion of newly socially insured person on the labour market. The revenues from social insurance contributions in 2016 reported their highest amount in the last five years.

Both PPF and VPFOS reported growth in gross revenues from social insurance contributions in 2016 with the growth being respectively 6.9% and 0.9% in 2015.

For the first time in five years a reduction has been reported (-19.1%) in insurance contributions in VPF on an annual basis.

**Table 77. Gross proceeds from social insurance contributions**

	2012	2013	2014	2015	2016
UPF	702.9	794.2	871.3	1019.2	1083.9
PPF	75.4	78.2	86.0	93.9	100.4
VPF	56.7	59.1	87.4	122.6	99.2
VPFOS	1.4	1.5	1.4	1.5	1.5
Total	836.4	933	1046.1	1237.2	1285

Note: The data is in million BGN unless indicated otherwise.  
Source: FSC.

The amounts accrued and paid in 2016 increased compared to the previous year by 23.3% in total for all SPIF. The main contribution to the dynamics of amounts charged and paid is that of the amounts paid from VPF whose share in the total amount has been 79.7% on average for the last five years. In the conditions of the developing market of supplementary mandatory pension insurance in Bulgaria which is in the accrual stage, the ratio “amounts paid/funds received” amounts to 0.01 on average for the period 2012 – 2016, while this ratio is 0.60 for VPF.

**Table 78. Accrued and paid amounts**

	2012	2013	2014	2015	2016
UPF	4.0	5.6	7.8	10.7	13.8
PPF	3.2	3.1	4.5	5.2	5.9
VPF	44.8	42.3	46.1	54.1	66.8
VPFOS	0.1	0.1	0.2	0.3	0.2
Total	52.1	51.1	58.6	70.3	86.7

Note: The data is in million BGN unless indicated otherwise.  
Source: FSC.

The average value of the indicator of return on assets managed in 2016 for all funds is 0.05, except for the only operational VPFOS for which the indicator is 0.06 compared to 0.01 in 2015. In comparison with the previous year, the indicator increased in the same rate as for PPF, UPF, and VPF – from 0.03 for 2015 to 0.05 for 2016. The values of the indicator of separate PIC for 2016 were between 0.01 and 0.09, determined by the results for the profit from investing resources in all SPIF.

**Table 79. Return on managed assets**

	2012	2013	2014	2015	2016
UPF	0.08	0.05	0.06	0.03	0.05
PPF	0.08	0.06	0.06	0.03	0.05
VPF	0.08	0.07	0.06	0.03	0.05
VPFOS	0.06	0.07	0.07	0.01	0.06

Note: Data are coefficients. The indicators are calculated as an arithmetic mean of the value of individual SPIF.  
Source: FSC.

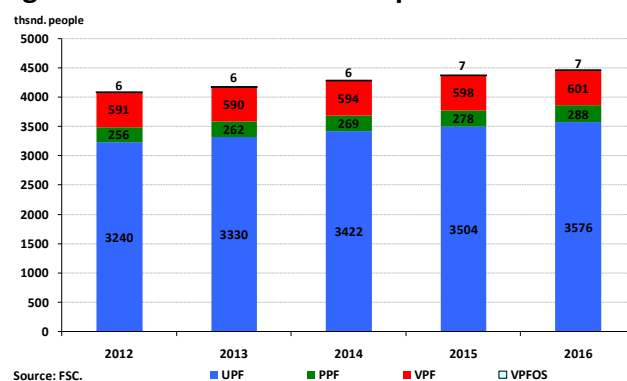
In 2016 all participants in SPIF continued to increase, albeit more slowly than in the previous year. In 2015 the increase was by 2.2% and in 2016 – 2.0%. The increase in participants during the reporting year by funds is as follows: with universal funds with a growth of 2.1%, and in 2015 it was 2.4%, with professional funds – from 3.2% in 2015 it changed to 3.5% in 2016, with VPFOS from 6.3% in 2015 it changed to 6.7% in 2016, and with VPF there was a -0.1 p.p. reduction, reaching from 0.7% in 2015 to 0.6% in 2016. The company with the largest market share concerning the number of participants in the SPIF managed by it maintained its position with 26.8%, and PIC with the smallest market share took 1.8% of the market. The tendency of gradual reduction in the market share of the largest companies was maintained.

**Table 80. Growth in the number of participants**

	2015	2016
UPF	2.4	2.1
PPF	3.2	3.5
VPF	0.7	0.6
VPFOS	6.3	6.7

Note: The data is in % unless indicated otherwise. The indicators are calculated as the ratio of the year's change and their value at the beginning of the year.  
Source: FSC.

As regards the structure of allocation of insured persons between SPIF there were no significant changes compared to the previous year. In the end of 2016, the largest share of insured persons was concentrated in the universal pension funds (80.0%). The persons insured in voluntary and professional pension funds respectively held a share of 13.4% and 6.4% in the structure of allocation of socially insured persons. The smallest share is still that of persons insured in VPFOS – only 0.2%.

**Figure 87. Number of insured persons**

The resources transferred from the individual accounts of persons who changed their participation in supplementary pension insurance funds in 2016 increased in total by 15.7% compared to 2015, and are in the amount of BGN 458.6 mln.

The dynamics of resources transferred depends both on the number of persons that took action to change their participation in SPIF during the year, and on the amount of resources on their individual accounts.

The increase is mainly due to the resources transferred within UPF whose amount is BGN 56.0 or 16.0% larger than the previous year. The rest of the funds also report an

increase in transferred resources, in PPF it was 13.5% and in VPF it was 11.1%.

**Table 81. Amounts transferred from individual accounts**

	2012	2013	2014	2015	2016
UPF	134.4	350.7	336.8	349.7	405.7
PPF	21.9	54.1	46.2	42.2	47.9
VPF	6.7	10.5	8.2	4.5	5
Total	163	415.3	391.2	396.4	458.6

Note: The data is in million BGN unless indicated otherwise.  
Source: FSC.

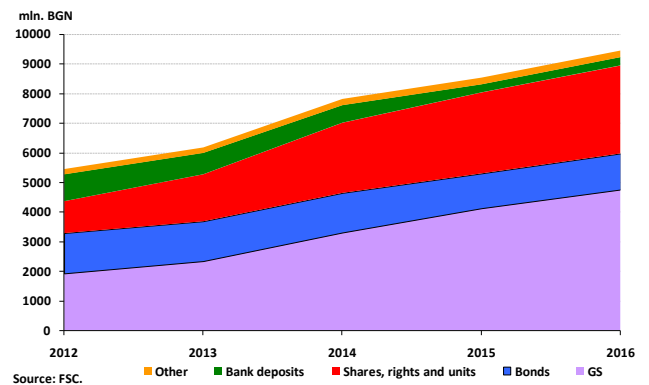
The absolute value of invested resources of SPIF as of the end of 2016 was BGN 9.4 bln., representing 87.3% of their balance assets. SPIF's resources invested in 2016 kept their tendency of increase, reporting a 10.7%-growth compared to the previous year. The structural allocation of invested funds by types of funds was also maintained, with UPF having the highest relative share (82.2%), followed by PPF (8.9%), VPF (8.8%) and VPFOS (0.1%).

In 2012 – 2016, SPIF's investment portfolio developed following the dynamics of accumulation of assets in the sector, the investment experience gained and the development of capital markets.

For five years, there has been a significant increase in the relative shares of the resources invested in sovereign bonds, and those with a variable income, their amount having increased as of the end of 2016 by respectively 15.1 p.p. and 11.6 p.p., and their relative shares in SPIF's portfolio reaching the levels of 50.4% and 31.4%.

The rest of the investment instruments categories – bonds (corporate and municipal), and bank deposits report a drop in their relative shares in SPIF's portfolios. The resources invested in bonds shrank from 25.0% for 2012 to 12.9% in 2016., and bank deposits which in 2012 formed 16.6% of SPIF's investments as of the end of the period, represented only 3.0% of the investment portfolio of the pension funds. The reduction in the share of bank deposits could be explained by the significant reduction of interest levels on deposits in recent years.

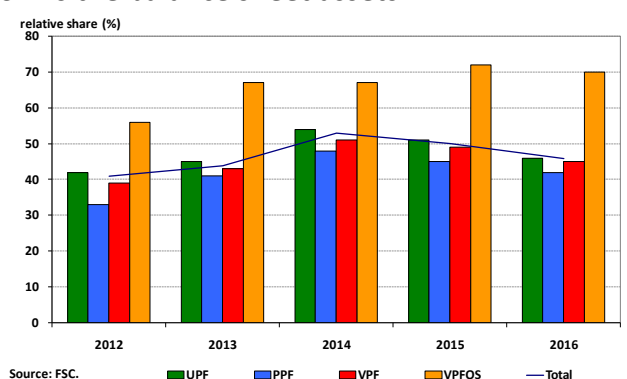
**Figure 88. Aggregate investment portfolio structure**



The relative share of investments abroad in SPIF for the period 2012 – 2014 grew from 41% to 53% of their balance assets. In the last two years (2015 and 2016) their relative share decreased, and in 2016 it represented 46% of the balance assets of pension funds. Due to the higher profitability of the internal market, as reported, there was a re-direction of resources from foreign to local equities.

SPIF's resources abroad were invested in securities registered for trading on regulated markets. As of the end of 2016, in the structure of investments abroad there were mostly sovereign bonds with a share of 51.9%. Securities with a variable income formed 30.6% of investments abroad, and the other 17.5% were invested in corporate debt securities.

**Figure 89. Investments abroad as a percentage SPIFs the balance sheet assets**



The main purpose of managing pension funds' assets is to increase the long-term perspective of their value by achieving



profitability from their investment. After having reported in 2015 a significantly lower average weighted profitability compared to the previous three years, in 2016 there was achieved profitability whose values came closer to those realized in 2013.

**Table 82. Average weighted rate of return\***

	2012	2013	2014	2015	2016
UPF	7.5	4.7	6.1	1.5	4.1
PPF	7.1	5.3	5.9	1.8	4.5
VPF	8	6.4	6.6	1.7	5.2
VPFOS	5.2	6.5	7.3	0.8	4.8

Note: The data is in % unless indicated otherwise. \* Weighted by the value of the net assets of individual funds.  
Source: FSC.

### III. Organisational structure of FSC

