FINANCIAL SUPERVISION COMMISSION

Annual Activity Report 2017

List of abbreviations used

ABI – Association of Bulgarian Insurers
ABIRD – Association of Bulgarian Investor Relation Directors
SPIC – Special Purpose Investment 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 – Common 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
RRCIFFA – Recovery and Resolution of Credit Institutions and Investment Firms Act
IC – Insurance Company
CISOUCIA – Collective Investment Schemes and Other Undertakings for Collective Investments Act
SPICA – Special Purpose Investment 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
POSA – Public Offering of Securities Act
MFIA – Markets in Financial Instruments Act
IC – Investment Company
IF – Investment Firm
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
SWF/C – Sovereign Wealth 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
SMPF – Supplementary Mandatory Pension Fund
SPF – Supplementary Pension Fund
ICF – Investor Compensation Fund
CSD – Central Securities 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 AD	www.bse-sofia.bg
Central Depository AD	www.cdad.bg
Bulgarian National Bank	www.bnb.bg
Ministry of Finance	www.minfin.bg
Council of Ministers	www.government.bg
Association of Bulgarian Insurers	www.abz.bg
National Social Security Institute	www.noi.bg
National Statistical Institute	www.nsi.bg
Privatization Agency	www.priv.government.bg
Investor Compensation Fund	www.sfund-bg.com
Guarantee Fund	www.guaranteefund.bg
Association of Bulgarian Investor Relation Directors	www.abird.info
Bulgarian Investor Relations Association	www.birsbg.org
Bulgarian Association of Supplementary Pension Security Companies	www.assoc.pension.bg
Bulgarian Association of Asset Management Companies	www.baud.bg
National Bureau of Bulgarian Motor Insurers	www.nbbaz.bg
Ministry of Labour and Social Policy	www.mlsp.government.bg
Commission for Protection of Competition	www.cpc.bg
European Commission, Directorate-General for the Internal Market	http://ec.europa.eu/internal_market/index.htm
European Parliament	www.europarl.europa.eu
Council of the European Union	www.consilium.europa.eu
European Systemic Risk Board (ESRB)	www.esrb.europa.eu
European Securities and Markets Authority (ESMA)	www.esma.europa.eu
European Insurance and Occupational Pensions Authority (EIOPA)	www.eiopa.europa.eu
European Banking Authority (EBA)	www.eba.europa.eu
International Organization of Securities Commissions (IOSCO)	www.iosco.org
International Association of Insurance Supervisors (IAIS)	www.iaisweb.org
International Organisation of Pension Supervisors (IOPS)	www.iopsweb.org
European Central Bank	www.ecb.int
International Monetary Fund	www.imf.org

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ADDRESS OF THE CHAIR

Dear Ladies and Gentlemen,

I am pleased to present to you the 2017 Annual Activity Report of the Financial Supervision Commission (FSC).

Two thousand and seventeen was the first reporting year for me after I was elected as FSC Chair by the National Assembly. It was a year filled with challenges, during which the legislative framework was refined so as to improve the transparency, trust and efficiency of the financial markets. In 2017, the FSC, as an institution committed to maintaining stability in the non-banking financial sector, implemented a consistent policy for strengthening trust in the markets, which was reflected in its overall regulatory, licensing and control operations, as well as its increased international activities.

In 2017, we successfully completed the review of the assets of the pension funds in Bulgaria and the review of insurers' and reinsurers' balance sheets, as well as the stress tests of insurers and reinsurers. We completed this task fittingly, which prior to Bulgaria had not been achieved anywhere in the European Union, except in Romania. The results indicated that the insurance sector and the supplementary pension insurance in Bulgaria are sustainable. A second review was ordered to monitor the implementation of the prescribed measures by the business. It was found that for five insurers the eligible own funds covering the solvency capital requirement as at 31 December 2016 were insufficient. Following the presentation of the final reports of the conservators, the FSC went ahead to apply the final supervisory measure for two companies – withdrawal of authorisation so as to ensure market stability and consumer protection.

A highlight of our regulatory activities throughout the year was the initiative to amend the Amendment and Supplement Act of the Financial Supervision Commission Act. The amendments to the Financial Supervision Commission Act (FSCA) approved by the National Assembly solve the following three main groups of issues: securing the budget of the Financial Supervision Commission, taking actual measures to implement the recommendations of the Financial Sector Assessment Program of the International Monetary Fund (IMF) and the World Bank (FSAP), which refer to the non-banking financial sector in Bulgaria, as well as enacting measures to ensure the performance of commitments undertaken by our state through the adoption of European Legislation into the national law assigning additional powers to the national supervisory authorities of the Member States. This allowed the FSC to become a truly independent regulator, whereby its budget no longer depends on the state, but is instead provided by fees collected from supervised entities. This measure was necessary because FSC was facing increasing difficulties in exercising its supervisory and regulatory powers, supervising the entire non-banking financial sector with a large number of supervised entities and a large volume of various assets, which they own and manage.

The amendments allow the FSC to be an effective regulator and to begin operating under a similar model as most European supervisory authorities, which are self-financed by fees from supervised entities.

Our regulatory activities also benefited significantly from the adoption of the Amendment and Supplement Act of the Social Insurance Code. The most important regulation introduced by this law is the expansion of the definition of "related parties" and limiting the options for investing in related parties. The need for this legislative amendment was also confirmed unequivocally by external experts in their recommendations following the review of pension funds' assets in Bulgaria. It needs to be underlined that the overall philosophy of the new texts is aimed at providing better protection of the interests of the insured. I consider the amendments to the Markets in Financial Instruments Act and the Public Offering of

Securities Act proposed by the FSC and approved by the National Assembly in 2017 to be a major step towards the protection of significant public interests.

The intensity of the supervisory activities performed throughout the year is evidence both of the greater number of inspections carried out by the FSC and the increased number of administrative procedures.

The report, which details the regulatory, licensing and supervisory activities of the Commission during the year and discusses the activities of the FSC regarding the protection of consumers of non-banking financial services, as well as its role in informing the market participants and the society. In this regard, it is important to note that an Information Centre was created in 2017, providing information and support for consumer protection. It replies immediately to specific inquiries from citizens and businesses on issues within the competence of the FSC, assists in the resolution of specific cases filed by post, e-mails sent to FSC, via telephone and on-site.

The implementation of traditional educational initiatives such as the one-week educational programme for students and other themed one-day trainings continued during 2017. A highlight of the educational initiatives were the three workshops for supervised entities organised to inform the latter about new European regulations. Participants on the capital market were acquainted with the new legal framework MiFID II, and the representatives of insurance and reinsurance companies with the European legal framework for implementation of Solvency II.

In this address, I could not touch on all significant activities and measures taken by the FSC during the year and described in the report. However, I would like to mention that our efforts were aimed at putting regulation and supervision of the non-banking financial sector on a qualitatively higher level, and I believe that to a large extent we succeeded in doing that.

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 and 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 2017.

The information presented in the report reflects objectively and in detail the activities of the FSC in 2017. It can 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 2017

1. Regulatory activities

1.1. Amendments to the regulatory framework

Amendments to the legal regulatory framework

In 2017, the Financial Supervision Commission drafted the following bills:

Act to Amend and Supplement the Financial Supervision Commission Act[1]

The amendments to the Financial Supervision Commission Act (FSCA) solve three main groups of issues: securing the budget of the Financial Supervision Commission (FSC); provisioning the measures to implement the recommendations of the Financial Sector Assessment Program of the International Monetary Fund (IMF) and the World Bank (FSAP), which refer to the non-banking financial sector in Bulgaria, as well as enacting measures to ensure the performance of commitments undertaken by our state through the adoption of European Legislation into national law conferring additional rights to national supervisory authorities of Member States.

By implementing the recommendation of FSAP and as a result of the long-standing problems with securing financing for the activities of the FSC, the amendments to the FSCA guarantee the budget needed by the Commission through its financing by fees, collected in performance of its statutory powers.

The amendments also ensure the participation of the FSC in European bodies both on an expert and management level, enabling Bulgaria to actively take part in the process of preparing European regulatory documents, which are implemented directly on our capital, social security and insurance market.

The amendments are also aimed at improvement of the administrative capacity of the Commission by recruiting and training employees for the necessary professional qualifications – CFA, ACCA and actuarial licence to acquire the knowledge and skills for the performance of effective supervision.

In this connection, the status of a civil servant and the provisions of the Civil Servants Act is found to be unsuitable for building and maintaining the high-qualification administrative capacity of the officials of the FSC and therefore their employment status has been switched from state officials to employees. The adopted amendments allow the recruitment of persons who have been trained and certified for the management of assets, audit and accounting.

An annex to the FSC Act stipulates all fees, which the Commission collects when exercising its powers under the Public Offering of Securities Act (POSA), Markets in Financial Instruments Act (MFIA), Collective Investment Schemes and Other Undertakings for Collective Investments Act (CISOUCIA), Special Purpose Investment Companies Act (SPICA), Insurance Code (IC) and Social Insurance Code (SIC), as well as the general financial supervision performed thereby. New fees are introduced, resulting solely from the amendments to the legislation after 2011 – the adopted CISOUCIA, the amendments to POSA, as well as European regulations related to exercising the new supervisory powers of the FSC. At the same time, the fees were determined so as to provide incentives for the development of the capital markets by introducing a term of three years, during which in the course of the prospectus confirmation proceedings, the FSC shall not collect fees.

The inspection performed by the IMF and the World Bank also indicates the need to strengthen the legislative framework towards legal protection of the supervisory authority's employees. In performance

[1]Promulgated, State Gazette, issue 95 of 28 November 2017

of the recommendation, an amendment was proposed for the texts of the law that stipulate the liabilities of the members of the Financial Supervision Commission and the officials of its administration in order to harmonise the rules under Article 9 of the Act on the Liability for Damage Incurred by the State and the Municipalities, according to which recourse may be pursued only if a crime is committed and recognised as such by a court.

In performance of the recommendations of the IMF and the World Bank, the Act to Amend and Supplement the FSCA has amended the IC, POSA, MFIA, CISOUCIA, the Supplementary Supervision of Financial Conglomerates Act and the Law on the Application of the Measures against Market Abuse with Financial Instruments (LAMMAFI), according to which the Commission shall exercise numerous powers, which under current applicable legislation are assigned as powers to the members of the Commission.

Act to Amend and Supplement the Social Insurance Code[2]

The Act changes the regulation of supplementary pension insurance, which is further developed and improved in several main directions:

- **improvement of the requirements for the members of management and controlling bodies** – the members of the management and controlling bodies cannot be persons who have been dismissed from a similar position as the result of a coercive administrative measure, who have managed companies, whose licence has been withdrawn, as well as those who have had administrative sanctions imposed for systematic violations. Their professional experience shall have been acquired within financial sector companies whose operations are comparable to that of the pension insurance company. Executive directors and procurators are not allowed to hold another position under employment unless it is in the capacity of lecturers at higher education institutions or associates in research institutes. The overall management and representation of the company shall be exercised jointly by at least two persons, which ensures greater accountability when making decisions. The participation of independent members is provided in the Board of Directors or the Supervisory Board. An approval regime is introduced for the members of management and supervisory bodies of the companies with regard to holding the position within a specific pension insurance company. The regime for issuing prior approval for the acquisition of shareholding amounting to 10% or more of the capital of the pension insurance company, etc. is further developed;
- **improvement of the requirements for the governance systems of the pension insurance companies** – the pension insurance company shall be required to establish an effective risk management system, as well as an internal control system to ensure compliance with regulations, internal documents, signed contracts and the principles for cost-effectiveness, efficiency and effectiveness of operations. The internal audit within the company is regulated, requiring that it shall be carried out by a separate person or specialised unit and shall include assessments of the suitability and effectiveness of the internal control system and of the other elements of the management system;
- **development of the functions of custodian banks** – custodian banks shall be required to exercise control over the assessment of the assets of each pension fund. Current obligations are expanded;
- **improvement of the regime for investment of the supplementary pension funds** – introducing the possibility for investments in new financial instruments, such as debt securities, issued or guaranteed by international financial institutions, shares and bonds offered under the terms of an initial public offering, and shares and/or stakes in alternative investment funds, managed by a person authorised under Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010;

[2]Promulgated, State Gazette, issue 92 of 17 November 2017

- **harmonisation 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 prohibition on the use of gender as an actuarial factor when determining the amount of life-long retirement pensions granted in connection with insurance by a universal pension fund;
- **introducing a requirement to use a Legal Entity Identifier**;
- **raising the requirements to the social insurance intermediaries** – an obligation for pension insurance companies is stipulated to provide training to the social insurance intermediaries they intend to employ. An obligation is introduced for the pension insurance company to exercise compliance control over the activities of the insurance intermediaries with regard to the requirements of the SIC and to carry out regular inspections of the lawful performance of these activities;
- **facilitating the regime for switching participation and transfer of insured persons' funds from one supplementary pension fund to another** – reduction of the duration of the period during which people are restricted with regard to changing their participation in a fund for supplementary mandatory pension insurance. The provisions of Article 171, Paragraph 1 of the SIC are supplemented to enable insured persons to switch their participation after exercising their right under Article 124a of the SIC to renew their insurance in a pension fund. The fee for transferring accumulated funds under the individual insurance account from one supplementary voluntary pension fund or a supplementary voluntary pension fund under professional schemes to another respective fund, managed by a different pension insurance company are eliminated;
- **increasing the transparency of supplementary pension insurance and the awareness of insured persons** – at a legislative level, it is stipulated that pension insurance companies are obligated to create and maintain electronic files of all insured persons and pensioners in the pension funds they manage;
- **improvement of the procedures for issuing licences and approvals** (the FSC as a collective body makes decisions to issue approval for acquisition of qualifying holding in the pension insurance company, for licensing the management of a supplementary pension fund and a supplementary voluntary insurance for unemployment or professional qualification, for issuing approvals for a recovery programme of the pension insurance company, for issuing approval for amendments and supplements to the rules for the organisation and activities of the supplementary pension fund and the supplementary voluntary insurance for unemployment or professional qualification, as well as for registration of a professional scheme.);
- **refinement of the requirements for financial statements**;
- **changes in the regulation of administrative penal liability and coercive administrative measures** (the draft bill stipulates the differentiation of the size of fines and sanctions for violation of the provisions of Part II of SIC depending on their severity, which enables the body imposing an administrative sanction to determine a fairer penalty. The sanctions and fines imposed for violations of the SIC and the secondary regulations for its application are increased, including those for failure to implement a coercive administrative measure and operating without licence. In order to ensure compliance with the requirements for the capital of the pension insurance company, the draft bill stipulates the option for the deputy chairperson of the FSC in charge of the Social Insurance Supervision division to require the company to limit its operating costs when capital requirements are violated or there is immediate danger of their violation. With regard to operations, the supervisory body is also empowered to impose a temporary ban on the performance of the functions of the governing or control body or another person authorised to manage and/or represent the supplementary social insurance company. In order to eliminate problems found in the course of operations, the supervisory body shall be allowed to appoint an auditor in addition to another independent expert for the performance of inspections of specific issues related to the activities of the pension insurance company);

- **regulation of the keeping of documents related to supplementary pension insurance** – the documents, data and information relevant to exercising the rights of the insured persons, pensioners or their heirs shall be kept by the pension insurance company for at least 50 years as of the termination of the respective insurance relationship. This term may be longer when it is necessary to keep the documentation over an extended period in view of the interests of the entitled persons.

Act to Amend and Supplement the Public Offering of Securities Act[3]

The law amends the definition for public offering of securities by increasing the number of persons from 100 to 150 for a non-public issue. The amendments introduce a new exception from the obligation to publish a prospectus for the issue of securities with a total value within the European Union (EU) below the BGN equivalent of EUR 1,000,000, which is a threshold calculated over a period of twelve months. The term is reduced for the review and ruling by the FSC on applications for approval of prospectuses by issuers without securities allowed for trading on the regulated market that have not offered securities publicly, therefore facilitating the access of the companies to the regulated market.

The law introduces the obligation for the issuer to purchase, at the request of a bondholder, the bonds at issue value within seven days of receiving the request, if after six months following the issue the bonds have not been allowed for trading on the regulated securities market. An obligation of the issuer to assist the trustee of the bondholders in the preparation and conduct of the general meeting of bondholders is also introduced.

The amendments to the law modify the conditions under which the bonds are issued and the early repayment of bond issues. Minimum requirements are stipulated for the quorum and majority of the general meeting. Nullity of the decisions of the general meeting is regulated in cases where the amendments are not stipulated in the prospectus and the respective procedure is not followed.

The **Act to Amend and Supplement the Public Offering of Securities Act makes the following changes:**

- The range of persons allowed to be trustees of bondholders is expanded, stipulating the possibility for these to be banks whose seat is in an EU Member State, as well as an investment firm;
- The terms are reduced for proceedings for admission to trading on a regulated market;
- An explicit obligation is introduced for the general meeting to make decisions for capital reductions of public companies due to forfeiture of shares acquired in violation of Article 187a, Paragraph 5 and Article 187d of the Commerce Act;
- An extension is provided for the term within which the Central Depository (CSD) shall open accounts for the right of persons who have acquired shares no later than 14 days following the date of the general meeting for capital increase, respectively the persons, who have acquired shares no later than seven days following the notification publication date as per Article 92, Paragraph 1 of the POSA;
- The regime under Article 114 of the POSA is changed in order to overcome the problems found in the supervisory practice of the FSC, whereby the payment of a six-month dividend is allowed, and rules in this regard are introduced. The statutory term for payment of dividends by public companies is shortened;
- The concept of "conflict of interests" is introduced;
- The persons holding jointly or severally at least 5% of the public company's capital are not allowed to include in the agenda of the general meeting any new items for decision-making as per Article 114, Paragraph 1 of the POSA;
- Changes are made in the regulations pertaining to the Investor Compensation Fund;

[3]Promulgated, State Gazette, issue 62 of 1 August 2017

- A coercive administrative measure is stipulated under Article 212a, Paragraph 1, Item 2 of the POSA so as to be applicable also with regard to persons as per §1e of the Additional Provisions of the POSA. The provisions of the POSA are specified for the disclosure of information, which are to be observed by those persons, specifically indicating that they shall prepare and present their financial statements in accordance with the applicable accounting standards.

Draft Markets in Financial Instruments Act

A draft of a new **Markets in Financial Instruments Act** was prepared and filed for consideration by the National Assembly in 2017.

In 2014, Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (Directive 2014/65/EU) and Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012 (OB, L 173/84 of 2014) (Regulation (EU) No 600/2014) were adopted. At the start of 2017, Commission Delegated Directive (EU) 2017/593 of 7 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to safeguarding of financial instruments and funds belonging to clients, product governance obligations and the rules applicable to the provision or reception of fees, commissions or any monetary or non-monetary benefits (Directive 2017/593), as well as most of the delegated regulations for supplementing Directive 2014/65/EU were adopted.

The goal of the new MFIA is to increase the transparency of markets in financial instruments, to improve the protection of investors, to strengthen trust and not to allow unregulated trade in financial instruments. The proposed draft bill for Bulgarian legislation introduces the requirements of Directive 2014/65/EU by upgrading the existing statutory regime for the organisational activities of investment firms and regulated securities markets. With regard to the requirements for capital adequacy and liquidity of investment firms, the requirements of the current MFIA are kept, under which the Bulgarian legislation adopts the provisions of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (Directive 2013/36/EU).

The draft bill stipulates the powers of the FSC and the Deputy Chairperson of the FSC in charge of the Investment Supervision Division with regard to markets in financial instruments. In accordance with the recommendations of the report of the Financial Sector Assessment Program (FSAP), the draft bill includes significant regulatory and supervisory powers to be exercised by the Commission as a collective body and not the Deputy Chairperson of the FSC in charge of the Investment Activity Supervision Division. The draft bill mostly assigns supervisory powers that are operational and current in nature. The draft bill also provides for measures to apply Regulation (EU) No 600/2014, Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, as well as the regulations on the application of Directive 2014/65/EU and Directive 2013/36/EU.

The draft bill is structured in three parts (Part I “General Provisions”, Part II “Market Participants” and Part III “Supervision”), additional provisions and transitional and final provisions.

Part I regulates the subject and goals of the law, determines the competent authorities to regulate and supervise legal compliance, defines the financial instruments subject to the scope of the law and the cases where the law is not applicable.

Part II of the draft bill defines the status and activities of market participants – investment firms, regulated markets and suppliers of data reporting services.

The draft bill regulates the main terms and conditions related to the concept of the investment firm and the types of investment services and activities that the investment firm may perform. Separate sections stipulate the requirements for the management bodies of investment firms and the issuing and withdrawal of investment firm licences. An investment firm is to be managed and represented jointly by at least two persons. Detailed requirements are introduced for good standing, professional qualification and experience of the members of management and control bodies of the investment firm. The current regime for approval of members of management and control bodies of the investment firm are kept. Taking into consideration the significance of this power, it is proposed that the FSC, as a collective body, shall issue approval instead of the Deputy Chairperson of the FSC in charge of the Investment Supervision Division.

Another new item in the regulations introduces the possibility for investment firms to enter into contracts with tied agents.

In accordance with the right of establishment and the freedom to provide services, the terms and conditions for conducting operations in another Member State by an investment firm whose seat is in the Republic of Bulgaria are stipulated, as well as for conducting activities within the territory of the country by investment firms whose seat is in another EU Member State.

Detailed regulations are also stipulated with regard to the relations pertaining to the acquisition and increase of qualified holding in an investment firm. A new item in the regulations to be noted is that the Commission (a not the Deputy Chairperson of the FSC in charge of the Investment Activity Supervision Division) shall make decisions about the acquisition and increase of holdings in the investment firm.

The draft bill regulates the requirements with regard to the management and the internal organisation of the investment firm, also introducing requirements pertaining to significant investment firms.

The protection of the interests of investors is at the core of the legal regulations for the activities of investment firms and their relations with clients. The draft bill includes provisions which are aimed at guaranteeing that investment firms perform their activities in accordance with the best interests of their clients, taking into account whether these are non-professional clients, professional clients or acceptable counterparties.

At the legislative level, the requirement for the existence of an investment services and activities contract to establish a file of investment firm’s clients, as well as requirements for the general terms and conditions in cases where investment firms apply general terms and conditions for their activities.

A new element of the regulatory framework of the markets in financial instruments are the requirements, which are to be observed when the investment firm uses algorithmic trading.

The draft bill provides opportunity for the investment firm to organise a trading facility in addition to a multilateral trading facility.

A new multilateral trading facility is established – growth market, where no less than 50% of the issuers, whose financial instruments are allowed to trade in that trading location, are small and medium-sized enterprises.

Title II of Part II “Market participants” regulates the background related to the concept regulated market and market operator, as well as the issuing and withdrawal of authorisation for operation as a regulated market. The requirements for the activity on the regulated market and the performance of services as a market maker on the regulated market are detailed in compliance with the requirements of Delegated Regulation (EU) 2017/578 of the European Commission of 13 June 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments with regard to regulatory technical standards specifying the requirements on market making agreements and schemes. The operators on the regulated market can also organise a multilateral trading facility and an organised trading facility according to the respective provisions of current legislation.

The draft bill stipulates the requirements related to defining steps for the tick size regime for shares, depositary receipts, exchange traded funds, certificates and other financial instruments in accordance with Delegated Regulation 2017/588 of the European Commission of 14 July 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards on the tick size regime for shares, depositary receipts and exchange-traded funds. The so-called "synchronisation of reporting time" is introduced, which means that the regulated market and its participants synchronise the date and time of registration of each event subject to reporting.

Title II of Part II regulates the relations with regard to the restrictions, management and reporting of positions in commodity derivatives.

One of the objectives of the new legal framework is to improve transparency and quality of information related to transactions with financial instruments that is published. The draft bill includes the obligation for the investment firm to prepare and keep records of all telephone calls and messages or calls and messages via electronic communication channels related to transactions, at their own account or until the acceptance, transfer or performance of client orders regardless whether the transaction is completed. Chapter XVI regulates the status and activities of suppliers of data reporting services (operators of publishing facilities, consolidated data providers, operators of reporting facilities).

Part III of the draft bill "Supervision" reproduces the provisions of the effective Part I, Chapter III, Section VII of MFIA "Supervision on Consolidated Basis".

In accordance with the requirements of Directive 2014/65/EU, refinements are made to the provisions for implementation of coercive administrative measures against an investment firm, tied agent, regulated market or provider of data reporting services, their employees and members of management or controlling bodies, persons contracted to perform management functions, persons concluding transactions on behalf of the investment firm and persons with qualifying holdings.

The provisions of Chapter XXVI of the draft bill "Administrative and Penal Liability and Pecuniary Sanctions" fully comply with the requirements of **Directive 2014/65/EU** and Directive 2013/36/EU. The Deputy Chairperson of the FSC in charge of the Investment Supervision Division is authorised to impose administrative penalties.

The Additional provisions introduce the concepts used in **Directive 2014/65/EU**, respectively in the draft bill. In connection with the introduction in the Bulgarian legislation of Directive 2014/65/EU by the draft bill, the Final and Transitional Provisions stipulate amendments in SIC, IC, FSCA, CISOUCIA, Supplementary Supervision of Financial Conglomerates Act, SPICA, Credit Institutions Act, POSA, Accounting Act, Recovery and Resolution of Credit Institutions and Investment Firms Act (RRCIIFA), LAMMAFI, Act Restricting Administrative Regulation and Administrative Control over Economic Activity, etc.

The changes in LAMMAFI are related to the need to define the factors, which persons receiving market soundings must take into account when information is disclosed to them within the framework of market sounding in order to assess whether the information is internal, as well as the measures which these persons shall undertake if internal information is disclosed to them so as to ensure compliance with Articles 8 and 10 of Regulation (EU) No 596/2014. Simultaneously, the administrative and penal constituent items stipulated in the act are specified.

The draft bill introduces measures for the implementation of **Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs),** 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 and Regulation (EU) 2015/2365 of the European Parliament and of the Council of 25 November 2015 on transparency of securities financing transactions and of reuse and amending Regulation (EU) No 648/2012. The amendments proposed for FSCA, IC, SIC and MFIA stipulate the provisions which ensure the implementation of Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories.

As a result of the introduction of the requirements of the new MFIA, market transparency is expected to improve with regard to non-share financial instruments, which enables more effective pricing processes, improving competition between liquidity providers, ensuring better information for the investors and a reduction of costs for transactions with financial instruments.

Amendments in the by-laws and regulations

In 2017, the FSC adopted the following regulations, which were promulgated in the State Gazette:

- Ordinance amending and supplementing Ordinance No 15 of 5 May 2004 on keeping and storing registries by the Financial Supervision Commission and the circumstances subject to entry[4];
- Ordinance amending and supplementing Ordinance No 13 of 22 December 2003 on tender offers for purchase and exchange of shares[5];
- Ordinance amending and supplementing Ordinance No 41 of 11 June 2008 on the requirements to the content of the rationale of the price of the shares of a listed company, including to the application of pricing methods in case of transformation, joint venture contract and commercial offering[6];
- Ordinance No 55 of 11 July 2017 on determination of the regulated markets from third countries that are equivalent to the regulated markets or multilateral trading systems in a European Union Member State or in another Member State of the European Economic Area;[7]
- Ordinance amending and supplementing Ordinance No 49 of 16 October 2014 on the compulsory insurance under Article 249, Item 1 and 2 of the Insurance Code and on the methodology for settlement of claims for damages caused to motor vehicles[8];
- Ordinance amending and supplementing Ordinance No Iз-41 of 12 January 2009 on the documents and rules for their preparation in case of traffic accidents and the procedure for exchange of information between the Ministry of Interior, the Financial Supervision Commission and the Guarantee Fund (Title amended – SG, issue 19 of 2017)[9];
- Ordinance to repeal Ordinance No 42 of 2010 on the development and maintenance of an information system for risk assessment, management and control, including for the issue of policies under the obligatory insurances under Article 249, Item 1 and 2 of the Insurance Code[10];
- New Rules of Organisation and Operation of the Financial Supervision Commission and its Administration[11]

The new stipulations in the Rules are related to the need to strengthen the capacity of the administrative units of the specialised administration of the FSC, which is one of the recommendations of IMF and the World Bank given under the Financial Sector Assessment Program (FSAP). The amendments to the rules are also necessitated by the requirements of European Union legislative acts which ensure the

[4]Promulgated, State Gazette, issue 95 of 28 November 2017
[5]Promulgated, State Gazette, issue 83 of 17 October 2017
[6]Promulgated, State Gazette, issue 83 of 17 October 2017
[7]Promulgated, State Gazette, issue 55 of 25 July 2017
[8]Promulgated, State Gazette, issue 33 of 25 April 2017
[9]Promulgated, State Gazette, issue 19 of 28 February 2017
[10]Promulgated, State Gazette, issue 19 of 28 February 2017
[11]Promulgated, State Gazette, issue 53 of 4 July 2017

supervisory body has dedicated channels to receive complaints, alerts and information from employees of entities subject to the FSC's supervision about violations of the rules arising from community legislation.

Considering the amendments in RRCIIFA introducing additional powers related to the resolution of investment firms assigned to the member of the FSC assisting its policy on risk analysis and assessment of financial markets, improvement of supervisory policy and protecting the interests of investors and insured persons, it is stipulated that the administrative structures and sections of administrative structures that support the member of the FSC in exercising their statutory powers shall be merged in one unit. The amendments highlight the need to prepare annual and periodic market and sector analysis of the markets in financial instrument, insurance and supplementary social security insurance in order to improve control operations of the FSC and its supervisory and regulatory policy.

- Rules for amending and supplementing the Rules of Structure and Operations of the Investor Compensation Fund[12]

The changes proposed are conditioned by the entry into force of the RRCIIFA. The supplements pertain to the Investment Firms Resolution Fund(IFRF) established based on Article 135, Paragraph 1 of the RRCIIFA. In accordance with Article 135, Paragraph 2 of the RRCIIFA, the IFRF is governed by the Management Board (MB) of the Investor Compensation Fund (ICF). In connection with this, the Rules set forth that supplements shall be made to individual provisions regulating the functions to be performed by the MB of ICF, as well as the powers related to IFRF activities.

A new department in the administration of the ICF – "IFRF Operations" is envisaged, which is independent and separate from the structural units of the ICF assigned operations pertaining to investor compensation and which shall assist the MB of the ICF in exercising its IFRF management and operational functions. Additional texts are provided with the goal of defining the activities of the IFRF Operations Department. Supplements are also proposed in connection with allocating funds for the ICF and their separate management from those for the IFRF.

A provision is stipulated which regulates the possibility for the Rules on the Structure and Operations of the Investor Compensation Fund to be amended and supplemented at the proposal of the Deputy Chairperson of the FSC in charge of the Investment Activity Supervision Division.

1.2. New aspects of EU policy

Directives and Regulations of the European Union

During the year, the following directives and regulations were published in the Official Journal of the EU:

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.

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 directive 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

[12] Promulgated, State Gazette, issue 35 of 2 May 2017

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 harmonisation that allows Member States (MS) 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 translation 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.

Delegated Directive (EU) 2017/593 of the European Council of 7 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to safeguarding of financial instruments and funds belonging to clients, product governance obligations and the rules applicable to the provision or reception of fees, commissions or any monetary or non-monetary benefits.

The Directive is adopted in order to further specify the regulatory framework for safeguarding investors under the main Markets in Financial Instruments Directive. Clients' funds are an important element of this regulation, introducing obligations for investment firms to ensure adequate measures for safeguarding the property and rights of the investor with regard to securities and funds. The Directive comes into force together with the main Directive 2014/65/EU.

Regulation (EU) 2017/1131 of the European Parliament and of the Council of 14 June 2017 on money market funds.

The Regulation governs money market funds (MMF), which, on the demand side, are short-term cash management tools that provide a high degree of liquidity, diversification and stability of value.

The objective of the Regulation is to: preserve the integrity and stability of the internal market; to lay down unified rules across the Union in order to ensure that MMFs are able to honour redemption requests from investors, especially during crises; to ensure the smooth operation of the MMF market by harmonising prudential requirements related to MMFs.

The new rules on MMFs are mandatory for undertakings for collective investment in transferable securities (UCITS) and for alternative investment funds (AIF).

The use of the designation MMF is prohibited unless the undertaking for collective investment has received a permit as a MMF.

The regulation introduces rules on the portfolio of MMFs clearly identifying the categories of assets that are eligible for investment by MMFs. Some financial transactions are prohibited for MMFs in order to guarantee their integrity. For example, MMFs may invest in derivative instruments only to hedge interest rate or currency risk. Rules are also introduced for the diversification of MMF portfolio. Prior to investing in a MMF, investors should be clearly informed about its characteristics and type, for example, if it is short-term (with highest safety) or standard (with higher profitability).

The regulation is implemented as of 21 July 2018, with the exception of Article 11, Paragraph 4, Article 15, Paragraph 7, Article 22 and Article 37, Paragraph 4, which are applicable as of 20 July 2017.

Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC.

The Regulation is part of the initiative to establish a Capital Markets Union in the EU and aims to facilitate access to capital markets for businesses, especially small and medium-sized enterprises (SMEs) by simplifying the rules and administrative procedures for them.

The main objective of the updated regulation is to:

- Facilitate access of SMEs to capital markets;
- Simplify the procedure for secondary issue and regular issues of securities;
- Introduce a summary prospectus containing key information;
- Cover the full cycle of companies from the beginning as start-ups to their transformation into regular issuers on regulated markets;
- Introduce a number of exceptions and exemptions from the obligation to publish a prospectus;
- Introduce a prospectus for SMEs and for raising of small capital (small cap);
- Introduce a “universal registration document” that can be used by issuers for secondary issues.

The Regulation introduces material changes to the scope of the prospectus requirement: a prospectus shall not be required for the offer of securities to the public with a total value within in the Union of less than EUR 1,000,000, which shall be calculated over a period of twelve months (Article 1, Paragraph 3 of the Regulation). Member States shall not extend the obligation to draw up a prospectus to offers of securities to the public of less than EUR 1,000,000. However, they may require other disclosure requirements at national level, to the extent that such requirements do not constitute a disproportionate or unnecessary burden.

An upper threshold of EUR 8,000,000 is introduced, calculated based on a period of twelve months, under which the respective Member State may decide to exempt companies offering securities to the public from the obligation to publish a prospectus – Article 3, Paragraph 2 of the Regulation.

The possibility for a voluntary prospectus is introduced, where any company exempted from the obligation to publish a prospectus may draw up and submit one for approval to the FSC.

Another new item in the regulations is the possibility for drawing up an EU Growth Prospectus. Such a prospectus may be drawn up for offers of securities to the public that do not exceed EUR 20,000,000 outside a regulated market. This allows issuers to choose which option to use – national rules for issues under the thresholds for exemption under the regulation, standard prospectus or EU growth prospectus, which enables them to use all the benefits of EU internal market to raise capital. The requirements and format of this prospectus shall be specified in a delegated regulation of the European Council.

The scopes of the documents that can be included through references is expanded. The summary of the prospectus is reduced in terms of page volume and unified with the basic information document under PRIIPs. A fast-track procedure for approval of regular issuers is introduced – they will be able to use a universal registration document, which is to be published every year and contains all relevant information about the issuer. It is provided that an issuer, which has filed and received approval for a universal registration document from a competent authority for two consecutive years can be allowed to submit all subsequent registration documents and any amendments thereto without prior approval by the competent authority.

A minimum for maximum administrative sanctions is introduced – at least twice the amount of the profits gained or losses avoided because of the infringement where those can be determined; in the case of legal persons – maximum administrative pecuniary sanctions of at least EUR 5,000,000, or – in the Member States whose currency is not the Euro – the corresponding value in the national currency on 20 July 2017, or 3% of the total annual turnover of that legal person. In the case of natural persons: maximum administrative pecuniary sanctions of at least EUR 700,000.

The Regulation is implemented as of 21 July 2019 with the exception of Article 1, Paragraph 3 and Article 3, Paragraph 2, which is implemented as of 21 July 2018 and Article 1, Paragraph 5, Item 1, letters a), b) and c), and Article 1, Paragraph 5, Item 2, which are implemented as of 20 July 2017.

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 as regards the date of its application.

The Regulation amends the date of application of the main Regulation No 1286/2014, which is postponed for 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 standardised 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 Regulation (EU) 2016/2251 of 4 October 2016 supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council on OTC derivatives, central counterparties and trade repositories with regard to regulatory technical standards for risk-mitigation techniques for OTC derivative contracts not cleared by a central counterparty.

The Regulation stipulates the rules for counterparties for collection of collaterals to protect against credit exposures by counterparties to derivatives, where such contracts have not been cleared by a central counterparty. The standards are laid out for the timely, accurate and appropriately segregated exchange of collateral. These standards should apply on a mandatory basis to the collateral that counterparties are required to collect or grant pursuant to this Regulation. However, counterparties which agree to collecting or granting collateral beyond the requirements of this Regulation should be able to choose whether or not to exchange such collateral in accordance with these standards. Two types of collaterals are provided in the form of margins to properly manage the risks to which those counterparties are exposed. The first type is variation margin, which protects counterparties against exposures related to the current market value of their OTC derivative contracts. The second type is initial margin, which protects counterparties against potential losses that could stem from movements in the market value of the derivative position occurring between the last exchange of variation margin before the default of a counterparty and the time that the OTC derivative contracts are replaced or the corresponding risk is hedged.

Delegated Regulation (EU) 2017/610 of 20 December 2016 amending Regulation (EU) No 648/2012 of the European Parliament and of the Council as regards the extension of the transitional periods related to pension scheme arrangements.

The Regulation extends the three-year transitional period referred to in Article 89, Paragraph 1 of Regulation (EU) No 648/2012 (as regards the clearing obligation set out in Article 4 of Regulation (EU) No 648/2012 for OTC derivative contracts that are objectively measurable as reducing investment risks directly relating to the financial solvency of pension scheme arrangements) until 16 August 2018.

Delegated regulations

In 2017, the regulatory activity of the two European bodies, ESMA and EIOPA, was focused mainly on the preparation of the technical standards provided 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 and are published in the Official Journal of the EU. 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.

During the year, ESMA and EIOPA focused their regulatory operations on the preparation of technical standards necessary for the implementation of the legislative framework for markets in financial instruments – MiFID II/MiFIR, EMIR, the Regulation of Central Depositories, etc. The main part of the delegated regulations on the implementation of the regulatory framework for markets in financial instruments MiFID II/ MiFIR were published.

EC proposals for regulations and directives

In 2017, the European Commission published the following proposals for regulatory acts subject to discussion by the Council and the European Parliament:

- Draft Regulation of the European Parliament and of the Council on the Pan-European Pension Product;
- Proposal for Regulation of the European Parliament and of the Council on information accompanying transfers of funds;
- Proposal for Regulation of the European Parliament and of the Council amending Regulation (EU) No 1095/2010 establishing a European Supervisory Authority (European Securities and Markets Authority) and amending Regulation (EU) No 648/2012 as regards the procedures and authorities involved for the authorisation of Central Counterparties (CCPs) and requirements for the recognition of third-country CCPs (2017/0136(COD));
- Proposal for Regulation of the European Parliament and of the Council amending Regulation (EU) No 648/2012 as regards the clearing obligation, the suspension of the clearing obligation, the reporting requirements, the risk-mitigation techniques for OTC derivatives contracts not cleared by a central counterparty, the registration and supervision of trade repositories and the requirements for trade repositories;
- Proposal for Directive of the European Parliament and of the Council amending Directive 2014/59/EU of the European Parliament and of the Council as regards the ranking of unsecured debt instruments in insolvency hierarchy;
- Proposal for Regulation of the European Parliament and of the Council of Regulation (EU) No 1093/2010 establishing a European Supervisory Authority (European Banking Authority); Regulation (EU) 1094/2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority); Regulation (EU) 1095/2010 establishing a European Supervisory Authority (European Securities and Markets Authority); Regulation (EU) No 345/2013 on European venture capital funds; Regulation (EU) No 346/2013 on European social entrepreneurship funds; Regulation (EU) No 600/2014 on markets in financial instruments; Regulation (EU) 2015/760 on European long-term investment funds; Regulation (EU) 2016/1011 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds; and Regulation (EU) 2017/1129 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market;
- Proposal for Regulation of the European Parliament and of the Council for amendment to Regulation (EU) No 1092/2010 on European Union macro-prudential oversight of the financial system and establishing a European Systemic Risk Board;
- Proposal for Directive of the European Parliament and of the Council amending Directive 2014/65/EU on markets in financial instruments and Directive 2009/138/EC (Solvency II).

2. Licensing activity, licensing regimes, notifications and certification

2.1. Licensing activity and licensing regimes

Investment firms, central securities depository and regulated markets

At the end of 2016, the total number of investment firms was 65, including 24 banks and 41 non-banking investment firms (IFs). In 2017, one licence was withdrawn for II Positiva AD, seven refusals to grant a licence for IF were enacted (Trading Hub EOOD, Ameco Capital Markets EOOD, Lidia F X OOD, Eurocorp OOD, Etica Global Markets EOOD, GOLC OOD and Plus500BG EAD), and one IF licensing procedure was terminated (Nova Finance AD). No new licences were issued, and no applications for restrictions on previously issued licences were submitted.

At the end of 2017, **the total number of investment firms** (banks and non-banking institutions) **with a full licence** (with right to carry out transactions and services in relation to financial instruments on own account) **was 43**, and the total number of investment firms **with a partial licence was 21** (19 of them have an option to hold client assets and two do not have this right).

Table 1. Licensing activity in respect of investment firms, regulated market and CSD

	Number as at 31 December 2016	Licences issued	Licences withdrawn	Number as at 31 December 2017
Investment firms including:	65	0	1	64
Banks	24	0	0	24*
Non-banking institutions**	41	0	1	40
Regulated market	1	0	0	1
Multilateral trading facility	1	0	0	1***
Central Securities Depository	1	0	0	1****

Notes: *The number of investment firm banks includes those that operate on the territory of the country through a branch. ** The IFs PIONEER ASSET MANAGEMENT A.S., ADMIRAL MARKETS AS and ACTIVE TRADES, which operate in Bulgaria through a branch under the conditions of freedom of establishment, are not included in the total number of non-banking investment firms. ***In 2017, an application was filed for organising a multilateral trading facility by BSE AD. The licence was issued at the beginning of 2018 г. **** The proceeding for issuing a licence to Central Depository AD as per Regulation (EU) No 909/2014 was initiated in 2017.

In 2017, **15 notifications for changes to the general terms and conditions** of investment firms, **50 applications for approval of members elected to a management or supervisory body** of an investment firm, six notifications for acquisition of qualifying holdings of capital or votes at the general meeting of an investment firm and ten notifications for transfer of qualifying holdings were reviewed.

Out of the total number of administrative procedures related to investment firms completed in 2017, **eight pertain to proceedings for the issue of a licence for operating as an investment firm**. In December, three applications were filed for a licence for IF, one of which was withdrawn in 2018, and the other two are under review.

In 2017, two assessments of the acquisition of a qualifying holding in an investment firm were concluded with a prohibition of the acquisition. Towards the end of the year, there are no open procedures for the assessment of requested acquisition. **There is a trend for the capital of investment firms to be transferred to multiple persons, none of whom have a qualifying holding or is subject to explicit**

assessment, whereby in 2017 there were four such capital fragmentations of investment firms. During the reporting year, there were no refusals for approval of a member of management or supervisory body of investment firms.

In connection with the activities of BSE AD, in 2017 there were three proceedings for approval of amendments to the Rules on the operations of the regulated market, one application for approval of the Board of Directors of BSE AD and one application for the issue of approval under Article 101, Paragraph 2 of the Markets in Financial Instruments Act (repealed) for the clearing and settlement of transactions on the regulated market through a settlement system in another Member State. The requested approvals were issued, and one of the proceedings concluded at the beginning of 2018.

At the end of 2017, BSE AD filed an application for the issue of a licence for a market operator to organise a multilateral trading facility. The proceedings were concluded at the beginning of 2018 with the issue of the requested licence.

In September 2017, **in accordance with the requirements of Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories, Central Depository AD filed an application for the issue of licence for a depository institution** under the Regulation. The confirmation phase for completeness of documents under the proceedings concluded at the beginning of 2018 and currently these are considered on the substance. In 2017, two applications for approval of amendments to the Rules of the Central Depository AD were considered.

Table 2. Administrative procedures in respect of investment firms, regulated market and CSD

	Not concluded as at 31 December 2016	New in 2017	Concluded in 2017	Not concluded as at 31 December 2017
Investment firms	4	64	63	5
Regulated market	0	5	3	2
Central Securities Depository	0	3	2	1
Other proceedings*	3	28	27	4

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

Collective investment schemes, management companies, alternative investment fund managers and sovereign wealth funds

In 2017, two applications for the issue of licence to operate as a management company were filed (Iris Capital AD and Asarel Asset Management AD). One of the applications was withdrawn, and the proceedings were terminated, whereas the other was refused. **There were no licences of management companies withdrawn in 2017.**

During the year, **14 authorisations for organising and managing a CF were issued** (of MC Raiffeisen Asset Management (Bulgaria) EAD – for common fund Raiffeisen (Bulgaria) Global Balanced Fund, of MC Compass Invest AD – for CF Compass Plus, of MC Deltastock Assets Management EAD – for CF Deltastock Global Focus, of MC Expat Asset Management EAD – for ten exchange traded funds, of MC Raiffeisen Asset Management (Bulgaria) EAD – for Raiffeisen (Bulgaria) Global Balanced Fund).

After the authorisation received in 2016 to organise and manage the first exchange-traded fund, in 2017, **MC Expat Asset Management EAD initiated another ten proceedings for the issue of authorisation for organisation and management of this type of funds**. All requested authorisations were issued, with the last six issued on 4 January 2018. Exchange-traded funds follow the performance of indices in Greece, Romania, Czech Republic, Poland, Slovenia, Slovakia, Hungary, Serbia, Macedonia and Croatia.

In 2017, MC Raiffeisen Asset Management (Bulgaria) EAD received authorisation to organise and manage a new feeder scheme – CF Raiffeisen (Bulgaria) Global Balanced Fund of the main scheme Raiffeisenfonds-Ertrag, organised and managed by Raiffeisen Kapitalanlage-Gesellschaft mbH – Austria. **The first authorisation for organising and managing a collective investment scheme was issued in 2017 to the newest management company on the Bulgarian capital market – MC Deltastock Assets Management EAD**. During the reporting period, the transformation procedure for the last open-end investment company into a common fund was completed.

In January 2017, an authorisation was issued for the transformation of IC Elana High Yield Fund AD through the change of its legal form into CF Elana High Yield Fund, which increased the number of common funds.

No applications were filed in 2017 for the issue of a licence or registration of an alternative investment fund manager or the issue of a licence, respectively an authorisation, for organising and managing a sovereign wealth fund.

Table 3. Licensing activity with regard to MC, CF, IC, SWF and AIFM

	Number as at 31 December 2016	Licences issued	Licences withdrawn	Number as at 31 December 2017
Management companies	31	0	0	31
Common funds	117	14	0	132*
Investment companies	1	0	0	0
National investment funds	3	0	0	3
Alternative Investment Fund Managers (AIFM)**	3	0	0	3**

Notes: *Six of the authorisations were issued on 4 January 2018 and include a new common fund in connection with the transformation of an investment company into a common fund. **Existing AIFMs in Bulgaria are not licenced since they are registered under the provisions of Article 214 et seq. of CISOUCIA.

In 2017, **42 administrative procedures were considered for approval of a new member of a management company's management body without issuing refusals of authorisation**. Five notifications for transfer of qualifying holdings in the management company were filed, as well as two notifications for acquisition of such holdings. The assessment of acquiring persons was not completed in 2017.

The administrative procedures for the common funds during the year were entirely related to approvals for changes to rules and contracts for depository services. In 2017, the procedures for issue of 115 approvals of common fund rules under Article 13, Paragraph 2 of CISOUCIA, **90 approvals for changes of portfolio valuation rules and determination of the net asset value, 93 approvals for changes of risk assessment and management rules and 135 approvals for changes in the contracts for depositary services** were concluded. The considerable number of approvals of changes to contracts with depositories is related to the entry into force on 13 October 2016 of Commission Regulation (EU) 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) in connection with which at the end of 2016 numerous proceedings of this type were initiated and concluded in 2017.

In 2017, eight proceedings for approval of changes under Article 13, Paragraph 2 of CISOUCIA, portfolio valuation rules and determination of the net asset value, risk assessment and management rules for a sovereign wealth fund and two proceedings for approval of changes in the contracts for depositary services of such a fund were considered. Proceedings related to AIFM were not considered.

In December 2017, two proceedings for issue of authorisation for organising and managing common funds were initiated but are currently suspended in view of the coercive administrative measure of the management company.

Table 4. Administrative procedures with regard to MC, CF, IC, SWF and AIFM

	Not concluded as at 31 December 2016	New in 2017	Concluded in 2017	Not concluded as at 31 December 2017
Management companies	1	48	47	2
Common funds	170	276	408	38
Investment companies	1	0	1	0
National investment funds	0	8	8	0
Alternative investment fund managers	0	0	0	0
Other proceedings*	4	20	22	2

Notes: *Replies to inquiries and requested opinions on the activities of management companies and collective investment schemes, sovereign wealth funds and AIFMs.

Public companies, Special Purpose Investment Companies and other issuers of securities

The activities of investment companies Special Purpose Investment Companies (SPICs), particularly those, whose business is related to securitisation of real estate have still not recovered from the global financial and economic crisis. The prolonged stagnation in the real estate market impacts the activities of the investment companies Special Purpose Investment Companies securitising 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 are confirmed both by the small number of licensing applications filed in recent years (one per year) and the inability of some licenced companies to perform their activities in accordance with the issued licences, which necessitates the withdrawal and termination of issued licences.

During the reporting year, only one new licence was issued – to Glenmoore Capital REIT, which will securitise real estate. At the end of 2017, a new proceeding was initiated for the issue of a licence for an investment company Special Purpose Investment Company for the securitisation of real estate, which was concluded at the beginning of 2018 with the issue of a licence to Bravo Property Fund SPIC.

In 2017, the licences of a total of five investment companies Special Purpose Investment Companies were withdrawn, initiating three proceedings – under voluntary requests for withdrawal of licences of Dit Property SPIC, Reserve Capital SPIC, Ulpina ADSIC, and two proceedings for forced withdrawal of the licence of Balkanika Imoti SPIC and Universal Properties SPIC (n), for which inspections by the FSC unequivocally found that the companies do not meet the requirements of the licences issued for the performance of activities as Special Purpose Investment Companies.

Licences for performing activities as a Special Purpose Investment Company have been given to a total of 69 companies, with 13 of these having their licence withdrawn as of 31 December 2017, meaning that **56 such companies licensed as SPICs are currently operating**.

Table 5. Licensing activity with respect to SPICs

	Number as at 31 December 2016	Licences issued in 2017	Licences withdrawn in 2017	Number as at 31 December 2017
SPICs including:	60	1	5	56
SPICs for securitisation of receivables	8	-	2	6
SPICs for securitisation of real estate, including:	52	1	3	50
SPICs (agricultural land)	7	-	-	7

Irrespective of the public status of Special Purpose Investment Companies, given the exceptional nature of their object of activity aiming to maintain their nature of a securitisation instrument, the Special Purpose Investment Companies are subject to stricter regulatory requirements requiring prior approval by the FSC for changes in the statutes and in the other statutory documents of the Special Purpose Investment Companies related to the replacement of the depository bank and the servicing company. In this sense, the main part of the administrative procedures related to SPIC, other than the proceedings for issue and withdrawal of licences, are related to requested approvals for amendments to the statutes and replacement of the depository bank and the servicing company of the Special Purpose Investment Company.

In relation to the activity of Special Purpose Investment Companies and the regulatory requirements for that activity, in 2017 the FSC reviewed and issued decisions on a total of 16 proceedings, considered as follows:

- **Thirteen applications for approval of amendments to the statutes of Special Purpose Investment Companies**, for which the FSC has issued twelve decisions of approval of the intended changes to the statutes and one refusal to issue approval for the statutes of a Special Purpose Investment Company;
- **Two applications for approval of the replacement of a servicing company**, under which the FSC has approved the planned replacement;
- **One application for approval of the replacement of a depository bank** of a Special Purpose Investment Company under which a positive decision was issued.

During the reporting year, there are no terminated proceedings for approval of replacement of a servicing company or replacement of a depository bank, nor are there any refusals under such applications.

The other public companies (excluding Special Purpose Investment Companies) and issuers of securities are not subject to licensing but to registration or deregistration, from the special register of public companies and other issuers of securities kept by the FSC. In 2017, the specified register included three public companies (excluding SPIC – Neo London Capital AD; Pharmhold AD, Capital Concept Limited

AD) and three issuers of securities (Greenhouse Properties AD, Enrgo-pro Varna JSC and Educational and Sports Complex Lozenets EAD), respectively during the period 51 companies in total deregistered from the register of public companies and other issuers of securities, kept by the FSC, of which 42 are public companies and nine issuers of securities. In 2017, two Special Purpose Investment Companies with withdrawn SPIC licences were deregistered from the registry kept by the FSC due to completed liquidation proceedings.

During the reporting year, there were no refusals of entry or deregistration of a public company or an issuer of securities from the register of public companies and other issuers of securities kept by the FSC.

The total number of public companies (excluding SPICs) and the other issuers of securities registered as at the end of 2017 was 290.

Table 6. Public companies and other issuers of securities

	Number as at 31 December 2016	Registered companies	Deregistered companies	Number as at 31 December 2017
Public companies and other issuers*	335	6	51	290**

Notes: *The number of public companies and other issuers does not include collective investment schemes. Public companies and other issuers are not licensed as such but are subject to registration and deregistration. **The number of public companies and other issuers does not include eleven Special Purpose Investment Companies with withdrawn licences for Special Purpose Investment Company (SPICs) but still have public company status.

With regard to the activity of public companies and issuers of securities in 2017, apart from the proceedings for registration (6) and deregistration (51) of public companies and issuers, a total of **34 proceedings for confirmation of prospectuses and supplements thereto were reviewed. During the reporting year, the trend for stable growth of applications filed for the issue of approvals of prospectuses noted during previous period continued**.

The applications for approval of prospectuses for initial public offering of securities, respectively for admission of securities to trading on a regulated market submitted in 2017 were 36, which is about 10% more than in 2016, when the applications were 32.

In 2017, a total of 27 prospectuses were approved, which represents nearly 17% growth compared to the previous year, when the approved prospectuses numbered 23. During the reporting period, one supplement to an approved prospectus for initial public offering of shares was also approved.

The structure of the prospectuses approved in 2017 is as follows:

- **Sixteen prospectuses for initial public offering distributed as follows: fifteen prospectuses for initial public offering of shares, of which two are new companies and one is prospect for initial public offering of bonds**;
- **Eleven prospectuses for admission to trading on a regulated market, of which nine prospects for admission for trading on a regulated market of an bond issue and two prospectuses for admission to trading on a regulated market for issue of shares**.

Furthermore, during the reporting year, FSC also issued a total of six refusals to approve prospectuses, of which three refusals for approval of prospectuses for initial public offering of shares and three refusals for approval of prospectuses for admission to trading on the regulated market of bonds.

At the end of 2017 there are two pending proceedings for approval of a prospectus for admission to trading bond issues and one for admission to trading on the regulated market for issue of shares.

Aside from 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, **in 2017 a total of 29 issues of securities were entered in the FSC register**, distributed as follows:

- **Twenty issues of shares were registered, three of which by new companies** admitted to trading on a regulated market for the first time, **and the other 17 issues as a result of a subsequent increase in the capital of public companies**;
- **Nine 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 initial private offering within the meaning of the Commerce Act**.

During the reporting year, a total of **51 issues of securities, of which 42 issues of shares and nine issues of bonds**, were deregistered from the register of public companies and other issuers of securities, kept by the FSC. In 2017, there were no refusals to deregister an issue of securities from the register kept by the FSC due to refusal to deregister the public company issuer of the securities.

In 2017 a total of 15 tender offers were registered, of which 13 were concluded in 2017, and two were concluded at the beginning of 2018. In addition, four proposals for purchasing of shares were registered, under which the FSC did not impose a final ban for publishing offers. In 2017, three proceedings for registrations of tender offers started in 2016 and pending at the end of that year were concluded, where two of these resulted in a final ban for publishing and one proceeding was terminated at the request of the offeror.

During the reporting year, two proceedings for approval of the documents for merger with the participation of public companies were initiated and concluded. Towards the end of 2017, there were no pending proceedings for merger with the participation of public companies. In 2017, there were no decisions to include an auditor in the list of independent auditors approved by the Deputy Chair of the FSC in charge of the Investment Activity Supervision Division, nor were there any terminated proceedings for approval of documents for transformation with the participation of public companies.

Table 7. Administrative procedures with respect to SPICs, PCs and other issuers

	Not concluded as at 31 December 2016	New in 2017	Concluded in 2017	Not concluded as at 31 December 2017
SPICs	-	2	1	1
PCs and issuers	6	95	90	11
Other proceedings*	-	71	67	4

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 2017.

Insurance and reinsurance

During the reporting period, the number of licensed insurance companies operating on the territory of the Republic of Bulgaria decreased and **at the end of 2017 they were 38**. **The insurers licensed to perform non-life insurance activities** decreased by three companies, and their number **at the end of the year was 26**. The number of insurers that received a licence for **life insurance activities** remains unchanged and at the end of the year was **twelve**. During the year, the licence of the only mutual insurance cooperative was withdrawn.

During this period, the number of insurance companies with headquarters in an EU Member State operating within the country through the right of establishment (of a branch) increased by 2 and at the end of the reporting period it was **13**.

In October 2017, the Commission issued **two additional licences** to expand the scope of the licence of insurers with insurance classes under Annex No 1 of the IC, as follows:

- licence to expand the scope of the licence of IJSC OZK Insurance AD, with insurance class under Item 15 "Guarantees" of Section II, letter "A" of Annex No 1, including the following risks: direct and indirect suretyship;
- licence to expand the scope of the licence of G P Reinsurance EAD with insurance class under Item 1 "Life Insurance" of Section I, letter "A" of Annex No 1 of the IC.

During the reporting period **the Commission withdrew the licences of two insurers** appointing conservators until the court appointment of a trustee in bankruptcy or the registration of a liquidator of the company, as follows:

- of ZK Nadejda AD – for operations in all insurance classes.
- of Trade Union Mutual Insurance Co-operative – TUMICO – for operations in all insurance classes.

In 2017, the Commission issued **authorisations for transformation of two insurance companies** as a result of which, these were terminated without liquidation and deregistered as entities supervised by the FSC, as follows:

- the transformation through acquisition was permitted for Insurance JSC Euroins Health Insurance EAD into Insurance Company EIG Re EAD and as a result of the transformation Insurance JSC Euroins Health Insurance EAD was terminated without liquidation and was deregistered from the Commercial Register as at 27 June 2017;
- the transformation through acquisition was permitted for Tokuda Health Insurance JSC into Insurance Company Saglasie AD and as a result of the transformation Tokuda Health Insurance JSC was terminated without liquidation and was deregistered from the Commercial Register as at 1 December 2017.

Table 8. Licensing activity in relation to insurance and reinsurance

s	Number as at 31 December 2016	Licences issued	Licences withdrawn	Number as at 31 December 2017
Insurers including:	42	-	-	38
Non-life insurance	29	-	1	26*
Life insurance	12	-	-	12
Mutual insurance cooperatives	1	-	1	0**
Branch of a foreign insurance company	11	-	-	13
General reinsurance companies	1	-	-	1
Life reinsurance companies	-	1	-	1***
Insurance brokers	394	20	29	385

Notes: *During the reporting period the FSC decided to withdraw the licence of Insurance company Nadejda AD, permitted the acquisition of Euroins Health Insurance EAD into Insurance company EIG Re EAD, as well as the acquisition of Tokuda Health Insurance JSC into Insurance company Saglasie AD. **During the reporting period, the licence of the Trade Union Mutual Insurance Co-operative – TUMICO was withdrawn by decision of the FSC. ***During the reporting period, a licence to expand the scope of G P Reinsurance EAD for life insurance was issued by decision of the FSC.

In 2017, by decisions of the Deputy Chairperson of the FSC, Head of the Insurance Supervision Division, pursuant to Article 30, Paragraph 1, Item 12 of the FSCA, **20 insurance brokers were registered** in the registry kept by the FSC.

During the same period the Deputy Chairperson of the FSC in charge of the Insurance Supervision Division issued decisions for **deletion of 29 insurance brokers** from the register. Of these **ten insurance brokers were deleted at their own request**, pursuant to Article 312, Paragraph 1, Item 11 of IC, as follows: ARKO ASSETS GROUP EOOD, ET BALKANOV – DONCHO BALKANOV, ET APOLON BROKERS – VALKO VALKOV, KNK BROKER EOOD, S AND CA CONSULTING OOD, LR BROKER OOD, I.S.S.99 EOOD, MEDLINK BROKER AD, FINANCE CORRECT 1 EOOD (formerly named PROBROKER OOD) and AFIN TRADE BULGARIA EOOD.

In 2017, at the initiative of the Deputy Chairperson of the FSC in charge of the Insurance Supervision Division, pursuant to Article 312, Paragraph 1, Item 4 and Item 8 of IC **19 insurance brokers were deleted** due to failure to comply with the conditions for operating as an insurance broker or to fulfil their obligation to pay their financial obligations in connection with their activity as insurance brokers.

As at 31 December 2017, in the register, kept by the FSC pursuant to Article 30, Paragraph 1, Item 12 of the FSCA, there were a **total of 385 insurance brokers.**

The downward trend for insurance agents continued during the reporting period. At the end of the year, **a total of 12,239 insurance agents** were included in the register of the FSC. The largest reduction was in the number of insurance agents – natural persons (-3,106), followed by that of insurance agents – legal entities (-2,953), and insurance agents – there were 951 fewer sole traders compared to the previous year.

Table 9. Registration in the register of insurance agents

	Number as at 31 December 2016	Number as at 31 December 2017
Insurance agents*, including:	19,249	12,239
Legal entities	7,447	4,494
Sole traders	1,812	861
Natural persons	9,990	6,884

Notes: *Insurance agents are not licensed but are subject only to registration in the register of insurance agents.

A **total of 182 decisions** were issued under licensing, authorisation, registration and approval regimes in 2017 in connection with the administrative procedures initiated under the IC and the regulations for its implementation:

- The FSC issued two decisions for additional licensing under which the Insurance Joint Stock Company OZK Insurance AD and G P Reinsurance EAD were issued licences to expand the scope of the insurance licence;
- The FSC issued two decisions for enforced withdrawal of the licence of Insurance Company Nadejda AD (for insurance under all classes of insurance) and Trade Union Mutual Insurance Co-operative – TUMICO (for insurance under all classes of insurance);
- One decision for conclusion of the voluntary liquidation of the insurance and reinsurance portfolio of Vzaimozastrahovatelna Kooperacia – Dobrudja-M-Zhivot;
- Two decisions for authorisation for transformation issued by the FSC, which permit the acquisition of JSC Euroins Health Insurance EAD into Insurance company EIG Re EAD and the acquisition of Tokuda Health Insurance JSC into Insurance Company Saglasie AD;
- Fifty-one decisions of approval of members of management and supervisory bodies, executive directors, procurators of insurers and reinsurers;
- Fourteen decisions of approval of compliance officers of an insurer or reinsurer;
- Seventeen decisions of approval of internal auditors of an insurer or the head of a unit performing such function;
- Five decisions for termination of administrative proceedings;
- Six decisions to refuse approval of insurer executives;

- One decision to recognise the professional qualification of an insurance broker, acquired in a Member State;
- Thirty-one decisions of approval of auditors under Article 101a of IC to perform inspections and certification of annual financial statements of insurance companies;
- One decision of the FSC for recognition of the capacity of a responsible actuary;
- Twenty decisions for registration of insurance brokers;
- Twenty-nine decisions for deletion of insurance brokers.

Table 10. Administrative procedures in respect of insurance and reinsurance

	Not concluded as at 31 December 2016	New in 2017	Concluded in 2017	Not concluded as at 31 December 2017
Insurance companies	18	122	132	8
Insurance brokers	1	52	49	4
Other proceedings	0	1	1	0
Total	19	175	182	12

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 the reporting year 2017 there were no applications for issue of licences and for transformation of pension insurance companies and/or supplementary pension funds, for voluntary winding-up of existing companies, and the FSC did not establish grounds to withdraw issued pension licences.

In view of the above, the number of licensed pension insurance companies **at the end of 2017 was nine, and the number of supplementary pension funds was 29, including nine universal, nine professional, nine voluntary and two voluntary pension funds with occupational schemes, and as at 31 December 2017 one of them was not active**.

Table 11. Licensing activity in relation to supplementary pension insurance

	Number as at 31 December 2016	Licences issued	Licences withdrawn	Number as at 31 December 2017
Pension insurance companies (PICs)	9	-	-	9
Supplementary pension funds (SPFs)	29	-	-	29

The preliminary supervision also includes performance of other activities, such as approval or endorsement 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 authorisation and approval regimes within the competence of the administrative authority are initiated at a request of the persons obliged to do so by the regulations, while other proceedings are carried out ex officio by the supervisory authority.

In this regard, during the reporting year, the Deputy Chairperson of the FSC in charge of the Social Insurance Supervision Division, issued **eleven decisions of approval of amendments to the rules of the respective company for assessment of the assets and liabilities and the pension funds it manages**. The approved amendments to the rules were mainly related to the list of primary dealers of government securities sanctioned by the Minister of Finance for the period 1 January – 31 December 2017 pursuant to Ordinance No 15 of 4 October 2007 on the control over transactions with government securities.

At the beginning of 2017, three proceedings initiated at the end of 2016 were concluded. They involved review of amendments and supplements to rules of organisation and operation of pension funds managed by pension insurance companies. Throughout the reporting year, the Deputy Chairperson of the FSC in charge of the Social Insurance Supervision Division issued another **three decisions of approval of requested amendments to the rules for organisation and operation of pension funds managed by a pension insurance company**. The amendments to these rules were made in connection with amendments to other internal company documents.

At the end of 2017, proceedings were initiated for the issue of authorisation to increase the shareholdings in the capital of a pension insurance company. The review of the submitted documents and information extended into the subsequent reporting period.

Considering the changes to the SIC (promulgated, State Gazette, issue 95 of 2016) in 2017, **a total of twelve proceedings were initiated for preliminary coordination of selection of auditors to perform audit and certification of the annual financial statements for 2017 of pension insurance companies and the pension funds they manage**. As a result, the FSC issued two orders for ceasing administrative proceedings, three decisions refusing coordination of the selection made by the respective pension insurance companies, and nine decisions to coordinate the selection of proposed auditors.

In view of the statutory mandate of the Deputy Chairperson of the FSC in charge of the Social Insurance Supervision Division, the following were issued in 2017:

- eight decisions to determine the minimum rate of return from the management of the assets of the supplementary mandatory pension funds;
- one decision approving changes in the template of the annual statements of the individual accounts of the insured persons in a professional pension fund;
- one decision of approval of the technical interest rate and the biometric mortality tables to be used for the calculation of the pension reserves as at 31 December 2017 by the pension insurance companies managing a universal pension fund and/or a supplementary voluntary pension fund.

Table 12. Administrative procedures regarding supplementary pension insurance

Object of the procedure	Not concluded as at 31 December 2016	New in 2017	Concluded in 2017	Not concluded as at 31 December 2017
Rules	3	3	6	-
Shareholding	-	1	-	1
Biometric tables and technical interest rate	-	-	-	-
Rules for assessment of the assets and liabilities of a pension insurance	-	11	11	-

company and the pension fund it manages				
Coordination of the selection of auditors	-	12	12	-
Proceedings initiated ex officio	-	10	10	-
Total for pension insurance companies	3	37	39	1

An ongoing review of other documents submitted by the companies and the custodian banks was carried out in 2017 as well, which, although not subject to approval, were checked in terms of their compliance with the law. In case discrepancies are found in terms of content their elimination is required.

2.2. Notifications

In **2017, 181 notifications were received from investment firms from EU Member States** having the intention to operate on the territory of the Republic of Bulgaria under the terms for **freedom to provide services** (Great Britain – 131, Cyprus – 36, Czech Republic – 1, France – 1, Germany – 3, Italy – 1, Luxembourg – 2, Malta – 2, the Netherlands – 3, Portugal – 1), **one notification** from an investment firm from a Member State (Cyprus) planning to **use a tied agent** on the territory of the Republic of Bulgaria, the proceedings for which are still under way. On the other hand **97 investment firms ceased their passportisation** for performance of investment activities and services within the territory of the Republic of Bulgaria and thus the total number of IFs from Member States having the intention to operate in the country **at the end of 2017 was 1797**.

During the reporting year, **15 notifications were received from management companies** from EU Member States regarding their intention **to offer shares in 44 classes of securities from 24 funds/sub-funds of seven collective investment schemes from Member States** on the territory of the Republic of Bulgaria. **Four notifications of termination of the offer of a total of eight classes of securities of four sub-funds of four 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 at the end of 2017 is **754 classes of securities of 238 funds/sub-funds of 26 collective investment schemes from Member States**.

One notification from management company from a Member State intending to operate on the territory of the Republic of Bulgaria under the terms of free provision of services was received in 2017 and thus the **total number of management companies** from Member States intending to operate in Bulgaria at the end of 2017, **was 17**.

Five notifications from AIFMs from EU Member States that intend to operate on the territory of the Republic of Bulgaria were received in 2017 and thus the **total number of AIFMs** from Member States intending to operate in Bulgaria at the end of 2017 **was 51**.

Twelve notifications related to the offer of 13 alternative investment funds (AIFs) were received in 2017 from EU Member States on the territory of the Republic of Bulgaria. At the same time, **16 alternative investment funds ceased their passportisation** and thus the **total number of Member State AIFs** offered in Bulgaria at the end of 2017 **was 85**.

In 2017, **one notification was received in connection with the offer of one European venture capital fund (EuVECA)** from an EU Member State on the territory of the Republic of Bulgaria, by which the **total number of EuVECA funds** from Member States offered in Bulgaria at the end of 2017 **was twelve**.

FSC received in 2017 **a total of 18 notifications** under Article 18 of the Prospectus Directive, **six of which** are notifications of **new prospectuses**, and **twelve notifications concerned supplements** to basic prospectuses.

In 2017 the Commission **received 41 notifications for insurers from EU Member States** about their intention to operate on the territory of the Republic of Bulgaria under the terms for freedom to provide services. Of these **ten insurers** have requested to cease their operations in Bulgaria.

At the end of the reporting period a **total of 595 insurers from EU Member States** operated on the territory of the Republic of Bulgaria.

During the reporting period, the Commission received **125 notifications** about the intention of insurance intermediaries from other EU Member States to operate as insurance intermediaries on the territory of the Republic of Bulgaria under the terms of the right of establishment and freedom to provide services. Of these **19 insurance intermediaries** have ceased their operations in Bulgaria.

At the end of the reporting period a **total of 2,323 insurance intermediaries** from other EU Member States operated in Bulgaria.

Table 13. Notifications of foreign companies intending to operate on the territory of the Republic of Bulgaria

	Number as at 31 December 2016	New in 2017	Terminated in 2017	Number as at 31 December 2017
Investment firms	1,711	183	97	1,797
Management companies	16	1	0	17
Collective investment schemes (classes)	718	44	8	754
Alternative investment scheme managers	46	5	0	51
Alternative investment funds	88	13	16	85
European Venture Capital Funds (EuVECA)	11	1	0	12
Prospectuses	107	18	0	125
Insurance companies	564	41	10	595
Insurance intermediaries	2,217	125	19	2,323
Institutions for occupational retirement provision	-	-	-	-

In 2017, **nine notifications were received from two investment firms about their intention to operate under the terms of freedom to provide services without opening a branch** within the territory of other Member States (Lithuania, Latvia, Estonia, Italy – 2, Germany, Great Britain, Hungary and France). Two of the open notification proceedings were stopped and the remaining ones were not concluded by the end of the reporting year. No notifications from Bulgarian investment firms to establish a branch in the territory of another Member State were received in 2017.

At the end of 2017, a notification was received from MC F Asset Management EAD about the intention of the company to operate within the territory of Malta and Great Britain, with the proceedings concluded in 2018.

During the reporting year, the proceedings were concluded under notifications received from MC Expat Asset Management EAD related to the intention of the company for public offering of shares of common fund EXPAT Bulgaria SOFIX UCITS ETF on the territory of Great Britain and Germany.

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 2017, **two 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 31 of 19 April 2017 to **notify the competent authority of the Republic of Romania of the intention of ZAD Energy AD to perform insurance activities under the terms of freedom to provide services.** The types of insurance that the insurer intends to provide are:

- Accident (including accidents at work and occupational diseases);
- Fire and natural disasters – any damage to or loss of property (other than the property included in classes 3, 4, 5, 6 and 7);
- Other damage to property – any damage to or loss of property (other than the property included in classes 3, 4, 5, 6 and 7) due to hail or frost, or any event such as theft, other than those specified in class 8;
- General liability – All liability for damages other than those, specified in Items 10, 11 and 12.

At its meeting, the FSC decided under Minutes No 41 of 7 June 2017 to **notify the competent authorities of the Kingdom of Belgium, Republic of Cyprus, United Kingdom of Great Britain and Northern Ireland, Federal Republic of Germany, Kingdom of Netherlands, Republic of Austria, Republic of Malta, Republic of France, Republic of Italy of the intention of Insurance JSC Asset Insurance AD to perform insurance activities under the terms of freedom to provide services.** The types of insurance that the insurer intends to provide are: Accident (including accidents at work and occupational diseases); Land vehicles (other than railway rolling stock); Railway rolling stock; Aircraft; Ships (sea, lake and river and canal vessels); Goods in transit (including goods, baggage, etc.); Fire and natural disasters; Other damage to property; Travel assistance (Assistance).

During the reporting period **one insurance company** based in the Republic of Bulgaria **ceased its activities within the territory of another EU Member State**.

Considering the withdrawal of the licence of Insurance Company Nadejda AD for operations in all insurance classes, the operation of the company in the Republic of Italy ceased.

During the reporting period, **two insurance companies based** in the Republic of Bulgaria **notified the Commission of their intention to expand their insurance activities** within the territory of another EU Member State.

During the reporting period **Insurance Company DallBogg: Life and Health Inc. notified the FSC of its intention to expand its insurance activities under conditions of freedom to provide services** within the territory of the following Member States: Republic of Cyprus, Republic of Poland, Republic of Slovakia, Hungary, Republic of Croatia, Czech Republic. In view of this, the Commission has duly notified those EU Member States.

During this period **Insurance Company Euro Ins AD stated its intention to expand its operations within the territory of the Republic of Greece** by opening a branch in it. In view of this, the FSC sent a notification to the competent authority of the Member State about the company’s intention. Types of insurance, which Insurance Company Euro Ins AD intends to conclude: Accident (including accidents at work and occupational diseases); Land vehicles (other than railway rolling stock); Fire and natural disasters; Other damage to property; Motor third party liability; Travel assistance (Assistance).

In 2017, the FSC sent a notification to the competent authority supervising the insurance companies in the Republic of Romania **concerning decision of the Insurance Joint Stock Company Allianz Bulgaria to**

terminate its insurance operations under the terms for freedom to provide services under any type of insurance in Romania.

At the end of 2017, a total of 15 insurance companies based in the Republic of Bulgaria operate within the territory of EU Member States.

With respect to **insurance brokers** based in the Republic of Bulgaria during the reporting year, the Commission sent **three notifications for insurance intermediation** within the territory of EU Member States. During the reporting period **four insurance brokers ceased their operations** within the territory of EU Member States.

At the end of 2017, a **total of 45** insurance companies based in the Republic of Bulgaria operate within the territory of EU Member States.

Table 14. Notifications of Bulgarian companies intending to operate on the territory of other Member States

	Number as at 31 December 2016	New in 2017	Terminated in 2017	Number as at 31 December 2017
Investment firms	173	9	0	182
Management companies	3	0	1	2
Collective investment schemes	0	2	0	2
Prospectuses	4	0	0	4
Insurance companies	14	2	1	15
Insurance brokers	46	3	4	45
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 2017.

2.3. Certification

In 2017, a total of two examination sessions were performed for the acquisition of the right to operate as a securities broker and an investment consultant.

The first session of examinations was held on 19 January 2017 and 20 January 2017 (the procedure was initiated at the end of 2016). A total of 33 persons were allowed, of which eleven candidates for the acquisition of the right to operate as a securities broker and 22 candidates for an investment consultant. The exams were passed by a total of nine persons (five for brokers where eight candidates actually attended the exam and four for investment consultants where 18 candidates actually attended the exam). The nine persons who passed the examination were issued certificates.

During the reporting year, another procedure for examination to acquire the right to operate as securities broker and an investment consultant, whereby the examinations were held during the second half for the year, namely on 25 November 2017 and 26 November 2017. A total of 43 candidates were allowed to the examinations within this session for acquisition of rights to operate as a securities broker, of which 35 persons attended the examination, and for investment consultants – 32 candidates, of which 28 persons attended the examination. **The exams were successfully passed by 26 persons – 17 for**

investment consultants and nine for securities brokers. The 26 persons who passed the examinations were issued certificates.

In addition, in 2017, ten certificates were issued as a result of a recognised capacity to operate as an investment consultant and one refusal was issued to recognise the acquired qualification to operate as an investment consultant.

The right of five persons to operate as a securities broker or an investment consultant was withdrawn due to voluntary refusal on their part.

During the reporting period **the Insurance Supervision Division** reviewed **one request for recognition of the capacity of a responsible actuary** who successfully passed an examination before a professional organisation of actuaries (Bulgarian Actuarial Society).

During the reporting year, one request to recognise the professional qualification of an insurance broker acquired in an EU Member State was reviewed.

During the reporting period **the Social Insurance Division reviewed one request for recognition of capacity of a responsible actuary** following a successfully passed examination before a professional organisation of actuaries (Bulgarian Actuarial Society). There were no requests filed for recognition of professional capacity of a responsible actuary acquired in a Member State.

Table 15. Certified persons

	2013	2014	2015	2016	2017
Investment consultants	28 (20)	6	19 (11)	14 (5)	31 (21)
Securities brokers	(13)	0	(7)	(6)	(14)
Insurance brokers	1	14 (6)	8 (13)	-	1
Actuaries	-	11 (5)	1	1	2

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 and the persons who obtained the relevant capacity 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 authorisations for the activity during the reporting period.

3. Supervisory activity

3.1. Off-site supervision

Investment firms, Central Securities Depository and regulated markets

The off-site supervision is an independent part of the supervisory activity, which involves analysis of information received by the FSC. This enables the constant monitoring and periodical evaluation the status of the supervised entities and their performance. The aim is to achieve regular monitoring for regulatory compliance by investment firms (IFs) and in particular the evaluation of each investment firm's financial status, as well as the legality of their activities. The received information allows the supervisory authority to respond in a timely manner to emerging problems and non-compliance with the regulatory requirements in order to achieve the statutory goals of the regulator – protection of the interests of investors and users of the provided services and ensuring transparency and awareness for participants on the market. The inspections of investment firms through off-site supervision fall into three main types, namely: **ongoing** – carried out regularly and provide current data and information for the supervised entities and **thematic** – aimed to provide for a complete inspection of one or more statutory provisions. **Inspections due to complaints**, inquiries and reports against supervised entities and/or companies without a licence to operate as investment firms are the third and last type of inspection included in the off-site supervision.

During the reporting period **9,877 ongoing inspections** were carried out, including 683 inspections on the financial status of the IFs, 736 inspections of clients assets held and 8,458 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 783 circumstances entered in respect of IFs, the regulated market, investment consultants and brokers for 2017.

During the reporting year, **415 inspections due to complaints,** reports and inquiries from natural persons, legal entities and government authorities were carried out. Documents and information from both investment firms 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 were concluded with the issue of an opinion on a submitted inquiry or a complaint, or a direct response to the entity.

Collective investment schemes and management companies

The scope of the off-site supervision performed by the FSC with regard to the collective investment schemes (CIS) and the management companies (MC) covers the annual financial statements of CIS and MC regularly submitted to the FSC, the six-month financial statements and the monthly balance sheets for CISs, quarterly reports for MCs. During the reporting period, **an inspection of the documents of 391** annual and six-month financial statements, quarterly reports of the MCs, **as well as 1,420 monthly balance sheets** of the management companies of CISs were performed. During the year, **423 inspections of documents** received by the FSC, including through the unified e-Register system, were carried out on the prospectuses of CISs and key investor information documents in compliance with the obligation for their submission to the regulatory authority and respectively their publishing.

In accordance with the statutory requirements, MCs regularly provide information on the issue value and the redemption price of the units of the CISs they manage in every instance of their determination (no less than twice a week). In addition to this information, the MC provides summary information on the announced issue values and redemption prices of units at least twice a month at regular time intervals. In order to comply with these obligations, **inspections and approvals were performed during the year on 24,364 forms for the disclosure of the issue value and redemption price of common funds (CFs),** submitted through the unified e-Register system. Furthermore, **2,844 summaries of aggregate information** were received by the FSC regarding the estimated issue values and the redemption prices of the shares of the CIS.

With regard to the **information submitted regularly (twice a year) by the MC**, during the year, **62 inspections** were carried out of the lists of persons with direct or indirect qualifying holdings (10% or more than 10% of the voting rights at the general meeting of the shareholders of the MC), as well as of the data about their votes in the general meeting of company shareholders.

Regarding the supervision of **the compliance with the investment restrictions by the MC in the CF managed by them**, **48 inspections** were carried out during the reporting period based on notifications received by the Commission for violations of investment restrictions due to reasons beyond the control of the MC and CIS.

As a result of the documentary inspections during the off-site supervision, **834 entries of circumstances** under an order of the Deputy Chairperson of the FSC in charge of the Investment Activity Supervision Division were made in the public register kept by the FSC regarding the MC and the CIS.

When performing off-site supervision in connection with public disclosure of financial statements of CIS, it was found that **one procedure for issue of an individual administrative measure for imposition of a coercive administrative measure with regard to failure of an MC to publish on its web page the six-month statements of the CFs it manages.** In view of the performance of the obligation, specified in the operative part, the initiated proceedings were terminated.

Within the course of the performed off-site supervision, **two inquiries** were reviewed by legal entities, whereby under one of these, the FSC issued instructions with regard to the interpretation and application of the provisions of CISOUCIA.

Within the framework of the performed off-site supervision with regard to foreign CIS originating from another EU Member State, whose shares are offered within the territory of the Republic of Bulgaria under the terms of freedom to provide services during the reporting period, the FSC published on its web page a total of **580 documents**, including mainly prospectuses, key investor information documents and financial statements.

During the reporting period, **nine circulars/circular letters** were sent **to all MCs** under which the companies requested the provision of information for specific aspects of their business subject to current monitoring within the scope of off-section supervision of the operations of MDs and the CIS they manage or which pertain to the application of particular regulatory requirements.

Other collective investment undertakings

The scope of off-site supervision performed by the FSC are also other collective investment undertakings, such as sovereign wealth funds (SWF) which are a type of alternative investment funds (AIF) as well as the alternative investment fund managers (AIFMs).

During the reporting period, **a documentary inspection was performed of 21** annual, six-month and quarterly statements of SWFs and AIFMs.

In connection with the convening and holding of **general meetings of the shareholders of the three closed-end** SWFs in 2017, eight inspections of documents were carried out with regard to the compliance with the obligation to announce to the FSC and the Commercial Register the invitations and the materials attached thereto as well as the minutes of the general meetings and their decisions.

With regard to the notifications and **disclosure of major holdings of the three closed-end** SWFs during the reporting year **one inspection** was performed on the notification presented by the obligated entity.

As a result of the inspections of documents during the performance of off-site supervision, by order of the Deputy Chairperson of the FSC in charge of the Investment Supervision Division, **33 entries of circumstances** were made in the public registers of SWFs and AIFMs kept by the FSC.

With regard to the off-site supervision of the operations of CIS and other collective investment undertakings during the reporting year a total of **25 acts establishing administrative violations** were imposed.

Public companies, Special Purpose Investment Companies and other issuers of securities

The off-site supervision of public companies, Special Purpose Investment Companies (SPICs) and other issuers of securities include an examination of the annual reports and interim notifications of the financial position and 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. The off-site supervision also encompasses the obligation of issuers of bonds to present a report on the fulfilment of their obligations under the terms of the bond issue to the Financial Supervision Commission and the public, and the bondholders' trustees to submit a report for the respective period to the FSC and the regulated market where the bonds are traded.

In order to guarantee the compliance with the requirements of the Public Offering of Securities Act (POSA) with regard to the due information for the regulated market to which the financial instruments of the issuers are admitted for trading, during the reporting 2017, the exchange of information between the Financial Supervision Commission and BSE AD was strengthened in connection with the companies which have failed to fulfil their statutory obligations or have been late to do so.

A documentary examination of 5,574 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 2017, 1,065 documentary inspections** were carried out on 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.

Under order by the Deputy Chairperson of the FSC in charge of the Investment Activity Supervision Division, **846 entries of circumstances** were made in the public register kept by the FSC **regarding the public companies, SPICs and the other issuers of securities**.

Regarding **the disclosure of major holdings in to the equity of a public company or changes in such circumstance, 52 inspections were carried out in 2017** of the information received regularly by the Central Depository AD and the notifications submitted to the Commission. Based on the received information, 26 exceptional inspections were carried out in connection with changes in major holdings in the equity of PCs and 17 violations were found, for which NEAOs were issued.

In accordance with Regulation (EU) No 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) 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 regulatory compliance of the disclosure of information, part of which is also disclosed in the financial statements of public companies and other issuers of securities is determined during its formal verification, as well as whether it has been appropriately disclosed. T**he supervised entities made 1,837 disclosures** using electronic forms for disclosure of inside information in 2017 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 for large value transactions, market manipulations and misuse of inside information, etc.

There were **30 inspections** during the reporting period related to the imperative provisions of the POSA and the rules for its application **pertaining to the ongoing supervision exercised by the FSC**. The inspections relate mainly to a 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 SPICs were also checked regarding the compliance with the conditions under which they were issued a licence considering the circumstance that the non-compliance serves as grounds for revocation of the issued licence.

As a result of the off-site review of the annual and quarterly financial statements and notifications of the financial status (individual and consolidated) of the public companies, issuers of bonds and SPICs 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 the procedures for convening and conducting GMS, **127 proceedings were opened during the reporting period for enforcement of administrative measures.** Considering the non-performance of the statutory obligations, which have not been fulfilled and following the initiation of proceedings to implement coercive administrative measures, **99 decisions were issued** obliging the supervised entities to bring their activity in compliance with the legal requirements, whereby through individual administrative measures impose the respective prescriptions on the offenders. As a result of the performance of statutory obligations, following the initiation of the administrative proceedings, **23** of these were **terminated**.

With the amendments to POSA published in the State Gazette, issue 62 of 1 August 2017 introduced the changes in Article 119 of the Act related to the grounds for deregistration of public companies from the register kept by the FSC as per Article 30, Paragraph 1, Item 3 of the Financial Supervision Commission Act (FSCA). In accordance with the amended provision, the company under Article 110, Paragraph 1 of POSA ceases to be public as of the decision of the Commission to deregister it under Article 30, Paragraph 1, Item 3 of the FSCA, if it is declared insolvent, as well as if there is an coercive administrative measure imposed under Article 212, Paragraph 1, Item 10 of POSA. Article 59, Paragraph 1 of the transitional and final provisions of the Act to Amend and Supplement the POSA stipulates that within three months of the entry into force of this Act, the FSC at the proposal of the Deputy Chairperson, Head of the Investment Activity Supervision Division, makes the decision for deregistration under Article 30, Paragraph 1, Item 3 of the FSCA of public companies, which have not renewed their registration through entry into the Commercial Register by the time of its entry into force.

In connection with this, an inspection was carried out at FSC of the information and circumstances disclosed in the Commercial Register under the batch of public companies, which showed that **20 public companies have been declared insolvent** and for these the provisions of Article 119, Paragraph 1, Item 6 of POSA in connection with Article 59, Paragraph 2 of the Transitional and Final Provisions of POSA are applicable, **six companies have not renewed their registration in the Commercial Register**, necessitating the application of the stipulations of Article 59, Paragraph 1 of the Transitional and Final provision of POSA. In the course of the inspection, it was found that two companies with a withdrawn licence for SPICs were deleted from the Commercial Register, and seven companies, which had issued bonds, had been declared insolvent as a result of which, the obligations towards bondholders under the bond issues were transformed into obligations to creditors under insolvency proceedings, including bondholders, in view of which, the companies have been freed from obligations to disclose the due information in their capacity as issuers.

Considering this and in view of the provisions of the amended POSA, the inspection resulted in **measures taken to deregister a total of 35 companies ex officio from the register under Article 30, Paragraph 1, Item 3 of the FSCA**.

In connection with the establishment of fees due for general financial supervision in 2017, 133 administrative proceedings were initiated to issue individual administrative acts to establish public debts to the State, of which 26 were terminated in the course of the proceedings. In 2017, 99 Acts of Established Public Debts to the State (AEPDSs) were issued, prepared and sent for enforced collection to the National Revenue Agency, a total of 82 AEPDSs for fees and interest for general financial supervision due for previous years.

Following the amendments and supplements of POSA (promulgated State Gazette, issue 42 of 3 June 2016), pursuant to **Article 1e of the Supplementary Provisions** of the Act, the provisions of Chapter 6 “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 and the commercial companies with more than 50% state or municipal participation in the equity which do not meet the exceptions envisaged in Article 1e, namely – to meet at least two of the following criteria: the average number of employees for the year – up to ten people; carrying amount of the assets at 31 December and net sales revenue for the year – over the regulatory thresholds. The provisions of Article 1e are amended under the Act to Amend and Supplement the POSA, promulgated in State Gazette, issue 62 of 2017, alleviating the requirements for its addressees. Following the amendments, the obligations stipulate only the requirement to present the annual financial statement for business operations and a six-month financial statement. By establishing an independent module "E-REGISTER 1D" in the unified electronic system for receipt of information from the FSC developed and maintained by the Commission, the functionality for receipt and processing of correspondence related to the processes of acceptance and publishing of information by companies under Article 1E of the Supplementary Provisions of POSA as established in 2017 to standardise and facilitate the process of disclosure of required information by the obligated entities, its public disclosure and use by external users – third persons. Until the establishment of the module, the FSC received **4,044 reports** and/or **notices**. After allocating the received information in the module of "E-REGISTER 1D" in 2017, a total of **2,550 registration/deregistration applications and reports** were received and processed.

During the reporting 2017, the Commission received numerous complaints, notifications and inquiries were received from natural persons, legal entities and government authorities with regard to the operations of public companies, issuers of bonds and SPICs. Following a review of the presented factual circumstances, the respective inspections were performed, and where necessary, documents and information were collected from the relevant institutions and supervised entities or from third parties. An assessment was made of the compliance with the respective applicable legislation and a total of **148 responses were prepared to the persons or opinions under Article 28 of the Rules of the FSC in specific cases**.

Insurance

The off-site supervision in 2017 is based on annual and periodic reports by insurers and reinsurers, insurance groups, the Guarantee Fund and insurance brokers, as well as on the required additional information about certain areas of their activities. During the year, **833 off-site document inspections of insurers, reinsurers, insurance groups and Guarantee Fund** and **801 off-site document inspections of insurance brokers** were performed. The reviewed information includes annual and periodic reports and statements from insurers and insurance groups based in the Republic of Bulgaria, as well as insurance brokers, submitted to the FSC in accordance with the obligations to report to the supervisory body as required by Article 126 of the Insurance Code (IC) and Article 311, Paragraph 3 of the IC.

At the beginning of 2017, 42 insurers and one reinsurer based in the Republic of Bulgaria operate on the Bulgarian insurance market. Of these 37 apply the Solvency II regime and have a right of access to the European Union and the European Economic Area market. The other six insurers operate without right of access to the single market.

The **conformity with the legal provisions of the IC related to the minimum capital requirement and the capital requirement for solvency** was inspected within the current off-site supervision with regard to insurers and reinsurers in 2017. Also, a review and an inspection is performed on the solvency and financial condition reports presented for the first time and the regular supervisory reports. In 2017, the reports on the results of the assessment of the aggregate solvency needs presented by insurers and reinsurers were also reviewed.

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 2017 in relation to insurers 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. In 2017, the reports on the results of the assessment of the aggregate solvency needs presented by insurers and reinsurers were also reviewed.

The off-site supervision includes a verification of the sufficiency of the established technical provisions. **In connection with the determination of the amount of provisions for incurred but unfiled claims under Motor Third Party Liability,** information on the amount and number of the claims made and paid under the insurance and the value of the development factors is summarised and published on the web page of the FSC. By the end of each quarter of 2017, a verification was performed 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 Motor Third Party Liability. The periodic reports and data about paid insurance claims as per Item 10.1 of Section II, letter "A" of Appendix No 1 of IC submitted to the Financial Supervision Commission by the insurers were reviewed regularly in the electronic information system for risk assessment, management and control, supported by the Guarantee Fund.

In 2017, participation was ensured at all colleges of supervisors which concern the FSC. FSC employees participated in the meetings of supervisory bodies throughout the year and information was exchanged.

There was also involvement in various quantitative market surveys of European supervisory authorities – European Insurance and Occupational Pensions Authority and the European Systemic Risk Board.

Information was collected and summarised from the insurers and reinsurers which implement the Solvency II regime in connection with the performance of an impact assessment for the long-term measures for guarantees and the measures related to capital risk and revision of the standard formula for calculation of the capital requirements for solvency. Based on this information, quantitative and qualitative surveys by the European Insurance and Occupational Pensions Authority were completed and submitted.

3.1.1. FOCUS TOPIC: The FSC performed a review of insurers' balance sheets as at 31 December 2016

The FSC decided to have the balance sheets of the insurers and reinsurers, including at the insurance group level as at 31 December 2016, reviewed by independent experts using the results from the review completed as at 30 June 2016 as a base line. The objective was to trace and take into account the effect of the actions taken by insurers and reinsurers after 30 June 2016 and to consider the changes made following that date. It was determined for the balance sheet review to begin no later than 31 March 2017 and to be completed no later than 22 May 2017 with regard to the results for the individual basis, respectively no later than 3 July 2017 for the results on the group level. All 37 insurers and reinsurers with access to the single market and four insurance groups took part in the review of the balance sheets as at 31 December 2016. Eight independent external experts were appointed to perform the review of the balance sheets of the insurers and reinsurers, including at the insurance group level as at 31 December 2016.

The summary of the results from the review of the balance sheets of insurers and reinsurers as at 31 December 2016 shows higher coverage ratios for capital requirements compared to the review results as at 30 June 2016.

The coverage ratio for the Solvency Capital Requirement (SCR) for the market is 194% and respectively, the coverage ratio for the Minimum Capital Requirement (MCR) is 403%. The coverage ratio of SCR of non-life insurance insurers is 187% and the coverage ratio of MCR is 433%, while for life insurers the respective coverage ratios are 243% for SCR and 291% for MCR.

As a result of the balance sheet review of insurers and reinsurers as at 31 December 2016 carried out in 2017, the FSC has obliged six insurers to report the results and findings of the independent external experts in the Solvency II quantitative reporting templates by 31 December 2016 (under Commission Implementing Regulation (EU) 2015/2450 of 2 December 2015).

The balance sheet review of the insurers and reinsurers found that for five insurers the eligible own funds covering the solvency capital requirement and/or the minimum capital requirement as at 31 December 2016 were insufficient. Of the specified insurers with deficit found as at 31 December 2016, two insurers took the necessary measures to comply with the capital requirements by increasing their shareholder capital.

The FSC has imposed coercive administrative measures on the other three insurers to take the necessary actions to achieve the level of eligible own funds covering the Solvency Capital Requirement and/or to reduce the risk profile to ensure compliance with Capital Requirements. The term for implementation of the imposed measures was 31 December 2017.

During the implementation of coercive measure one insurer informed the FSC about the measures taken in order to achieve the necessary level of eligible own funds to cover the SCR, namely taking on additional term debt and at a subsequent phase – transformation of positions of basic own funds. The insurer implemented the measure by 31 December 2017.

With regard to the other two insurers, whose results from the balance sheet review as at 31 December 2016 indicated that they do not meet the minimum capital requirements, the FSC issued decisions to prepare and present short-term plans for recovery of the eligible own funds to levels ensuring coverage of MCR or limiting the risk profile to guarantee the MCR with the available eligible own funds. The presented short-term plans were not approved by the FSC because the measures therein were assessed as unrealistic and did not guarantee sufficient recovery of the eligible own funds to a level ensuring coverage of MCR.

As a consequence and in view of the circumstance that the insurers had not reached the necessary level of eligible own funds to cover the minimum capital requirements within the three-month term since the violation was found, the FSC appointed conservators whose main task was to establish the financial state of the two insurers. Following the presentation of the final reports by the conservators, the FSC decided to withdraw the licence of two insurers.

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 SPF. In 2017, **6,944 daily inspections** were carried out. 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 also monitors the correct deduction of the investment fee and the fee from each contribution to the supplementary mandatory pension funds, the change in the value of the net assets, the correct determination of the number of units corresponding to the amounts received and withdrawn and the correct calculation of the value of one unit.

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 SPF managed by them. **A total of 481 inspections were carried out in 2017**, including 117 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 SPF. The statutory and general financial indicators for the activity of the PIC and the SPF are calculated and analysed 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 SPF, 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 SMPF. The growth of assets and insured persons in the SPF, 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 SPF – 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 SPF portfolios, the receivables from investment properties as well as the capital adequacy and liquidity of some PICs.

In 2017, **nine individual administrative acts were issued by the FSC under which independent external experts were appointed for all licensed pension insurance companies to assess the assets** of the supplementary pension funds managed by the companies as at 31 December 2016.

In connection with the findings of the independent external experts about the corrections based on the examined assets of pension funds as at 31 December 2016, during the reporting period, four individual administrative acts were issued by the FSC instructing four pension insurance companies to implement the corrections proposed by the independent external experts into the financial statements of the managed pension funds.

In 2017, **151 instructions were issued to register circumstances in the public register of social insurance intermediaries, kept by the FSC**.

3.1.2. FOCUS TOPIC: Review of the assets of the pension funds as at 31 December 2016

The FSC made a decision based on Article 18, Paragraph 2 of the FSCA for independent external experts to inspect the assets of the pension funds as at 31 December 2016. The inspection was carried out in order to ensure a lasting effect of the review of pension fund assets performed as at 30 June 2016 and to monitor the results thereof, reporting the changes made following that date and taking into account all subsequent events.

The inspection of the assets of the pension funds as at 31 December 2016 was performed by independent external experts appointed by the FSC in accordance with the Methodology for inspection of pension fund assets in the Republic of Bulgaria, approved by the FSC based on the methodology adopted by the FSC for the purposes of the review as at 30 June 2016.

The inspection encompassed all 27 universal, professional and voluntary pension funds and was performed by four independent external experts selected in accordance with the criteria, specified in the invitation for their appointment.

The main objectives of the review of the assets of the pension funds were:

1. assessment of pension funds' asset portfolios in accordance with the provisions of Ordinance No 9 of the FSC of 19 November 2003 on the manner and procedure for evaluation of supplementary pension insurance companies and of the pension insurance company, of the fund's value of net assets, for calculation and disclosure of the value of a unit and for the requirements for running individual batches;

2. 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 Article 1, Paragraph 2, item 3 of the Supplementary Provisions of the Social Insurance Code;

3. review of the corporate management system of the pension insurance company, the processes and framework for internal control within the company, and the accounting policy of the pension funds with regard to the implementation by the pension insurance company of the recommendations given in connection with the assets' review as at 30 June 2016;

4. review of the risks in accordance with the applicable regulations.

The results of the inspection of the assets as at 31 December 2016 confirmed the stability of the supplementary pension insurance sector. In connection with the findings of the independent external experts, the pension insurance companies were required to provide updated programs for implementation of the recommendations resulting from the pension fund's assets review as at 30 June 2016, amended with the measures related to the inspection of the assets as at 31 December 2016. The performance of the measures was monitored within the current monitoring of pension insurance companies' operations.

3.2. On-site inspections

The on-site inspections are an essential part of the operations of the FSC which supervises the non-banking financial sector in accordance with its mandate as defined under the FSCA and the specialised legislation. Their purpose is to establish the lawfulness of the operations in cases, where this cannot be determined during the off-site supervision, ensuring an objective assessment of the supervised entity's financial stability, providing knowledge about the activities and management of a given supervised entity, and evaluation of their quality and efficiency, identifying problematic areas within their business, as well as the application of best market practices in order to protect investor's interests.

According to the manner of scheduling, the inspections are **scheduled** and **ad-hoc**. Scheduled on-site inspections are performed based on an approved annual plan prepared on the grounds of applicable approved criteria for classification of supervised entities according to their risk level. The ad-hoc inspection is performed outside the annual schedule and aims at clarifying facts and circumstances related to identified issues with exercising off-site supervision, significant changes (for example in the management structure or the ownership of the supervised entity, market behaviour, market environment, etc.), data collected through the analysis of the financial statements submitted to the FSC, as well as other notifications and statements related to complaints and alerts received by the FSC, in case of identified violations, as well as with regard to information received from other regulatory authorities or external sources. **Depending on the scope of the inspection, they are comprehensive (complex)**, which include all main aspects of the supervised entity's operations and **thematic**, which are more limited in scope and aimed at inspecting one or several specific aspects of the supervised entity's activities. **Depending on the officials who carry out the inspections,** they can be **independent**, **parallel** and **joint**. 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 supervised entities by employees in one or several divisions of the FSC. The joint inspections are carried out by the FSC employees together with other control bodies (SANS, BNB, NRA, etc.).

Investment firms, Central Securities Depository and regulated markets

In 2017, **five inspections of investment firms and two inspections of Bulgarian Stock Exchange AD have started. Two of the inspections of investment firms were scheduled** and dictated by the companies' total risk rating determined through a risk assessment of the investment firms, whereby one concluded with the issuing of nine acts for 22 administrative violations and a decision by the FSC to withdrawal the licence. During the inspection alerts were sent to State Agency for National Security and Sofia District Prosecutor's Office due to suspected fraud. **The other three inspections of investment firms and the two inspections of Bulgarian Stock Exchange AD were ad-hoc.** One of the ad-hoc inspections of an investment firm was dictated by its market behaviour and concluded with 13 acts for administrative violations and two recommendations. The other ad-hoc inspection of an investment firm was necessitated by a finding made during the off-site supervision of the company, namely a sharp increase of client assets held by the company, as well as the change of the company's representatives and the shareholder structure. During the latter a coercive administrative measure was taken to appoint conservators. During the third ad-hoc inspection an act was delivered for the administrative violation found during the off-site supervision and following the conclusion of the inspection six recommendations were made.

All inspections of investment firms were comprehensive and encompassed the entire operation of the companies with regard to their compliance with the Markets in Financial Instruments Act, Regulation 575/2013 and the regulations for their application. The inspections of Bulgarian Stock Exchange AD are thematic. These were dictated by information received during the rebalancing of the SOFIX index in March and September 2017 and were subject to assessment with regard to the compliance with the requirements of the Rules for calculation of indices on the Bulgarian Stock Exchange AD when determining the base of the SOFIX index. During the first inspection one recommendation was made to change the rules and the second was concluded with the issuing of one act for administrative violation and two recommendations.

Four of the inspections of investment firms and the inspections of the Bulgarian Stock Exchange AD were individual and carried out by employees of the Investment Activity Supervision Division, **and one was parallel**, i.e. part of the inspections of several supervised entities, performed by employees in the three divisions of the FSC.

Collective investment schemes and management companies

The objective of the inspections of management companies (MC) and the collective investment schemes (CIS) managed by them is to establish their compliance with the applicable regulations related to the organisation of activity of management companies according to the licence issued by the FSC as well as their activities related to the organisation and management of the CIS, including common funds (CFs). The scope of the inspections includes compliance with the requirements related to the capital adequacy and liquidity of the MC, the relations of the MC with the depository and the investment firms, the determination of the net asset value, the issue value and the redemption price of the units 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. In the cases where the MC provides additional services under Article 86, Paragraph 2 of CISOUCIA, the scope of the inspections includes the compliance with the requirements related to the management of portfolios and the provision of investment advice on financial instruments. During the inspections, special attention is given to the compliance with the requirements of the Law on Measures against Money Laundering (LMML) and the regulations for its application considering the circumstance that MCs are among the entities obligated to comply with these regulations. In this regard it is necessary to note that aside from the performed individual inspections of MCs, FSC employees also participate in joint thematic inspections together with employees of the State Agency for National Security.

During the reporting period **one ad-hoc thematic inspection of an MC and the ten CIS managed by it** was concluded, which was opened in 2016 **jointly with another specialised body of the executive authorities**. The subject of the inspection was the compliance of the MC with the applicable legislation in the field of measures against money laundering and terrorism financing, and therefore, internal rules, policies and procedures of the MC, the compliance with the requirements for identification and assessment of the risk profile of the clients, the origin of the funds, the transactions executed and their counterparties were examined for that purpose.

During the reporting year **one scheduled comprehensive inspection of the MC and the four CIS it manages** were opened and concluded for establishing compliance with applicable legislation requirements for their activities. The scope of the inspection includes compliance with the requirements for capital adequacy and liquidity of the MC; the determination of the net asset value, the issue value and the redemption price of the units of the CIS; the structure of the active and passive CIS; the sale and redemption of CIS units; portfolio management, as well as compliance with the applicable legislation for the measures against money laundering and terrorism financing. As a result of the on-site inspection of the MC, there were grounds/reasons for issuing **26 recommendations**, in view of achieving compliance with the applicable regulatory requirements.

In the course of the performed comprehensive scheduled inspection of the MC during the reporting period, a total of **four acts for administrative violations established** were issued.

Special Purpose Investment Companies

Special Purpose Investment Companies (SPICs) are a special type of joint stock company licensed under the Special Purpose Investment Companies Act (SPICA) to perform a particular type of activity, namely securitisation of real estate or securitisation of receivables. In this regard, the inspection encompasses on one hand the operations of the company as a SPIC and on the other, the fulfilment of the obligations in its capacity as a public company (PC). In this regard, the scope of the inspection includes compliance with SPICA and POSA, and the instruments for its application. The objective of the inspection of SPIC is to examine the relations with the servicing companies and their activities, the relations with the depository bank, the contracts concluded by the company, the investments made, the sources of financing of the activities of the SPIC, the profit distribution, the keeping and the investment of free funds, the total annual management costs, the disclosure of regulated information, the holding of general meetings of the shareholders as well as all internal documents.

During the reporting period, **two planned comprehensive inspections of SPICs and their servicing companies were opened and completed** examining the overall activity of the supervised entities in the last two years. With regard to the inspected SPICs, a total of **six procedures for issuing an individual administrative acts were opened, each of which ended with a decision for enforcement of a coercive**

administrative measure. The coercive administrative measures are related to established violations of regulatory requirements. The coercive measures were enforced.

During the on-site inspections of SPICs performed in 2017, inconsistencies were found in their operations, for which the companies were issued **25 recommendations**, in view of achieving compliance with the applicable regulatory requirements.

As a result of the inspections, a total of **20 acts for established administrative violations** were issued during the reporting period. Other than this, eleven acts for administrative violations were issued as the result of a comprehensive scheduled on-site inspection of a SPIC completed at the end of 2016.

Insurance

Eight inspections of insurance companies were completed in 2017. This does not include the reviews of the balance sheets of all insurance companies organised by the FSC and performed by independent external experts of high professional standing.

Insurance companies

The inspections of insurers in 2017 **included two thematic inspections of insurance companies** opened in previous years – one in 2015 and another in 2016.

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

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

- the registers under Article 8, Paragraph 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, Paragraph 1, Item 5 of the IC.

Six thematic inspections of insurance companies were opened and closed during the reporting period, of which three inspections were in connection with the incoming and outgoing cash flows between entities supervised by the FSC and three complaints and alerts. The complaints concern policies with altered chassis numbers and simultaneously concluded policies for compulsory Motor Third Party Liability for the same period, employment of the claimant with the insurance company and an alert concerning the status of an insurer’s information systems.

Insurance intermediaries

In 2017, **a total of 20 inspections of insurance intermediaries were carried out** – of documents and on-site. Of all inspections performed during the reporting period, 18 were thematic, of which 15 were under filed claims and alerts, and two general inspections.

The general inspections of the activity of insurance intermediaries include monitoring 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 scope of the thematic inspections includes monitoring the requirements to guarantee the activity and the deadlines for reporting the insurance premium collected by the intermediaries. The inspections of insurance intermediaries in 2017 include also examination of the compliance with the requirements of Article 301, Paragraph 2 in connection with contracts for assignment of insurance mediation and the requirements of Article 306, Paragraph 1 of the IC 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, as well as the support of the compulsory Third Party Liability insurance by insurance brokers.

As a result of the **inspections of insurers and insurance intermediaries performed throughout the year 77 acts were issued for 179 administrative violations**, **as well as 17 acts for violations by insurance brokers resulting** from delayed reporting or lack of reports.

Supplementary pension insurance

In 2017, **four on-site inspections were performed**, one of which was started in 2016. All inspections were completed during the reporting period with statements of findings served.

General planned inspections of the activity of the pension insurance companies (PIC) and the supplementary pension funds (SPF) managed by them were performed by two PICs. During the reporting year, there were no thematic inspections of PICs. Two inspections of the custodian banks of the SPF 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: inspection of the management and organisation of PIC's activities; financial status of PIC and financial reporting; organisation of asset and risk management; setting up and maintaining pension reserves in the company; contractual relations with the custodian bank, the investment firms and the investment consultant; activities of the insurance intermediaries; organisation and operation of the internal control service; changing the participation and transferring the funds of insured persons from one supplementary pension fund to another; as well as provision of information to insured persons.

With regard to the funds for supplementary pension insurance, the general inspections cover: structure of the investment portfolios of the SPF; transactions for investment of the assets of the SPF; receivables and payables related to investments of the SPF 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 SPF and the practical execution of this activity; subsequent assessment of the assets and liabilities of the SPF; contractual relations with insured persons and pensioners; obligations and payments to insured persons and pensioners.

A total of 28 recommendations were made in the findings reports as a result of the general inspections to the management bodies of the pension insurance companies to improve their activities and to protect the interests of the insured persons. The recommendations following the inspections are focused on the following activities:

- **investment activity:** to diversify the investment portfolios of SPF by reducing the concentration of issuers from certain groups, to develop and apply clear criteria for assessment of the economic benefits from investing SPF funds in real estate, to undertake timely actions to receive the payments due from the SPF for investments in financial instruments, as well as the interest for overdue payments, etc.;
- **risk management:** to establish the necessary organisation to further develop and provide the comprehensiveness of the active system for monitoring, measuring and managing investment credit risk, to which the portfolios of SPFs are exposed, to perform the necessary actions ensuring the organisational structure of the company has a sufficient number of suitably qualified specialists to

guarantee the investment activity, to report and analyse the assessment of the investment credit risk for each relevant piece of information necessary for the issuer risk assessment without relying solely and automatically on the awarded credit rating, etc.;

- **internal control**: to continuously monitor the efficient and timely performance of separate structural units with regard to the execution of recommendations made by the FSC to eliminate deficiencies, to further and strengthen the measures for lasting elimination and prevention of practices within the company related to disregard for the will of the person and violation of the principle of voluntary initial selection of a UPF, to diligently document the conclusions of follow-up control over the execution of the recommendations of the Internal control division, etc.

No violations of statutory acts on supplementary pension insurance were found during the inspections of the two custodian banks. A total of four recommendations were made in the prepared reports aimed at improving the custodian activity.

3.3. Law enforcement

In 2017, **with regard to the investment community, 350 acts for established administrative violations (AEAVs)** resulting in administrative and penal proceedings initiated for 381 administrative violations. The increased number of AEAVs compared to the previous year is due to the effective supervision and on-site and off-site inspections of the supervised entities. Most of the violations are related to the activities of the public companies (PC) and other issuers of securities, Special Purpose Investment Companies (SPICs) and investment firms (IIs), with an increase in the number of acts for established administrative violations by natural persons and legal entities, which are not supervised by the FSC, whose violations consist in failure to submit information to the FSC in connection with transactions with public company shares. In 2017, 21 AEAVs were issued in connection with default on an obligation under Article 19 of Regulation (EU) 596/2014 to notify the issuer or FSC for transactions by executives with managerial functions, as well as closely associated parties, for transactions at their own behalf with shares of this issuer.

Penalties amounting to BGN 1,378,700 were imposed under the PRs (264) issued in 2017 by the Deputy Chairperson of the FSC in charge of the Investment Supervision Division, of which 62 PRs imposing penalties with total amount of BGN 398,500 are under appeal. Of the penal resolutions issued in 2017, 181 have entered into force as at 30 March 2018, imposing penalties amounting to BGN 885,700**. The total amount of the penal resolutions for 2017undal, including PRs issued during previous years, is BGN 1,457,900.**

A total of **97 complaints were received against acts of the Deputy Chairperson of the FSC, Head of Investment Activity Supervision Division** in 2017. Ninety of them are against issued PRs and seven are against individual administrative acts.

The **coercive administrative measures** applied during the reporting period are mainly related to **violations of the regime for disclosure of financial reporting information – 52 measures** (for failure to provide financial reporting information to the FSC (22) and the public (22), and for incomplete information submitted to the FSC (4), and the public (4), for **violations of the regime for convening and conducting GMS – 46 decisions to apply CAM**, related to violations when electing or re-electing members of a management and supervisory body without providing the required materials for the candidates for the elected position or non-compliance with the requirements for the elected position; the election of members and status of the audit committee; the exemption from liability of a member of a management and supervisory body in the absence of financial statements certified for a previous period, for which exemption is requested; lack of a specific proposal for a decision included in the agenda by the Board of Directors; inaccurate and incomplete reasoned report to the authorised decisions or absence of materials under decisions included in the agenda), and some of the measures are also related to ensuring compliance with specific imperative statutory provisions of the relevant applicable legislation, found to be violated following an on-site inspection at the respective company, as a result of which the imposed prescriptions to take measures for electing independent members of management bodies of PCs, appointment of Investor Relation Directors or termination of contractual relations.

In 2017, **during the supervision of investment firms, nine coercive administrative measures were opened, of which eight were enforced**. Four of the cited coercive administrative measures are related to an investment firm with a withdrawn licence, namely appointing conservators in the company, imposing a prohibition on processing orders for transfer of financial and compensatory instruments, held by intermediary clients, as well as cessation of trade. The remaining enforced coercive administrative measures are related to appointing conservators for two investment firms.

In 2017, **843 acts were issued for established administrative violations (AEAVs) for entities supervised by the Insurance supervision division as well as five acts of other natural persons or legal entities**, which operate as an insurance intermediary without entry in the register under Article 30 of the Financial Supervision Commission Act. A total of 1,023 administrative violations were established with the issued acts, which were served in accordance with the provisions of Article 18 of the Administrative Offences and Penalties Act. The violations were established during inspections of operations of the entities supervised by the FSC, as well as under complaints by users of insurance services.

In the field of insurance supervision, in 2017, **the Deputy Chairperson of FSC, Head of the Insurance Supervision Division** imposed a **total of 697 penal resolutions were issued,** penalties amounting to a total of **BGN 1,695,200** for **violations under the IC** and the regulations for its implementation.

The total amount of **sanctions under PRs enforced in 2017 issued by the Deputy Chairperson of FSC, Head of Insurance Supervision Division,** including new penal resolutions issued during previous years, **is BGN 1,528,000.** The main part of the amount (BGN 1,465,500) is formed by enforced penalty resolutions resulting from the administrative and penal liability of non-life insurance companies.

During the reporting period, 137 coercive administrative measures were applied to insurers, reinsurers and insurance groups. Of these, 63 were applied under an FSC decision, of which 48 are related to the review of the balance sheets of insurers as at 30 June 2016. With these measures, each of the specified supervised entities was obligated to reflect the findings made by the independent external auditor during the company balance sheet review in their financial statements as at 30 June 2016. Coercive administrative measures were applied against the insurers, found to lack own funds sufficient to cover the minimum capital requirement or the solvency capital requirement, enforcing the preparation of a plan or taking of measures to ensure compliance with capital requirements. **The remaining 74 coercive measures were applied by resolution of the Deputy Chairperson of FSC, Head of the Insurance Supervision Division**, of which 41 are also related to the balance sheet review, whereby the insurers, reinsurers and insurance groups were obligated to implement the recommendations from the report of the independent external auditor related to the insurer management system by the end of 2017.

A total of **607 complaints were received against acts of the Deputy Chairperson of the FSC, Head of the Insurance Supervision Division** in 2017. Of them, 598 of were against issued PRs, and nine were against individual administrative acts issued by the **Deputy Chairperson of FSC, Head of the Insurance Supervision Division**.

During the year, **ten acts were issued for established administrative violations (AEAVs) of the provisions of the Social Insurance Code (SIC)** and the secondary regulations on supplementary pension insurance. **Three penalty warrants were issued** for violations of the Social Insurance Code and the secondary regulations on supplementary pension insurance**, imposing fines and pecuniary sanctions amounting to a total of BGN 20,500.** The comparatively small number of the compiled AEAVs and the issued PWs is due to the preventive effect of the penalties imposed during the previous reporting periods which have educational, warning and dissuasive effect on the persons.

Two of the PRs issued during the reporting year were appealed, and by the end of 2017, the FSC did not receive any information regarding their enforcement, the third PR was not appealed and entered into force. **In 2017, 15 penalty resolutions issued during previous years entered into force, and the pecuniary sanctions imposed under these amounted to BGN 160,400.**

Six 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 two – to bring their assets SPF assets in compliance with SIC and with one – to accrue expenses arising within the PIC. The coercive administrative measures were implemented by the pension insurance companies within the set deadlines, with the exception of one, for which the pension insurance company was issued an AEAV. During the year, one individual administrative act was issued by the Deputy Chairperson of FSC, Head of the Social Insurance Supervision Division, approving the recovery programme of one pension insurance company.

In 2017, **two complaints were received against PRs of the Deputy Chairperson of the FSC, Head of the Social Insurance Supervision Division**.

Table 16. Enforcement in 2017

	Executed AEAVs	Issued PRs*	Value of enforced PRs** (BGN)	Proceedings opened under CAM	Decisions for implementation of CAM***
Investment firms, Central Securities Depository, BSE and other investment consultants	49	23	176,500	9	8
CIS, MC, SPIC, PC and other issuers	223	185	1,224 200	134	105
Non-life insurance companies	766	671	1,523 000	120	99
Life insurance companies	11	5	5,000	37	36
Insurance brokers	30	22	45,500	1	1
Insurance agents and persons acting as insurance agents without being entered in the register of the FSC	40	10	11,000	1	1
Guarantee Fund, NBBMI	-	-	1,000	-	-
Pension insurance companies/their representatives	10	3	160,400	-	6
Other legal entities and natural persons	80	65	117,200	-	-

Notes: * The number of PRs issued in the reporting year includes both PRs issued on the basis of AEAV of the same year and PRs issued on the basis of AEAV during the previous year. This is due to the fact that the deadline for issuance of a PRs is six months after the date of issue of an AEAV according to Article 34, Paragraph 3 of the Administrative Offences and Penalties Act. **The amounts under the enforced PRs in 2017 also includes the PRs 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.

Throughout the year, 25 PRs were also issued by the Chairperson of FSC for violations under SPICA as well as for **obstruction of the Commission**, its bodies and duly authorised employees of its administration while exercising their supervisory powers (**violation of Article 32 of the FSCA**). **The total value of the penalties imposed under the 13 PRs issued by the Chairperson of FSC under SPICA is BGN 135,000**, of which BGN 120,000 is the amount for ten PRs related to SPICA and BGN 15,000 is the amount under three PRs of natural persons. Under **Article 32 of FSCA, a total of twelve PRs were issued, imposing penalties amounting to BGN 42,000,** including eleven PRs valued at BGN 40,000 for one non-life insurance company and one PR amounting to BGN 2,000 for an issuer of securities. The total amount under the 23 penal resolutions issued by the Chairperson of FSC and enforced in 2017, including PRs issued during previous years, is BGN 117,500.

Investment firms, Central Securities Depository and regulated markets

In 2017, the main violations related to the operations of investment firms were **found during on-site inspections and concerned disposal with clients' money for which no order has been given by the client to the intermediaries, whereby for this violation 9 AEAVs were issued and served** initiating proceedings for 22 administrative violations. A significant number of violations were also found with regard to submission of orders which do not comply with the provisions of Ordinance No 38. As in 2016, during the reporting period, acts establishing violations were issued and served with regard to mandatory notification of the FSC for changes in the circumstances related to the investment firm for which information should have been submitted within a stipulated term, such as changes in the persons under Article 39, Paragraph 1 and Paragraph 2 of Ordinance No 38.

Although these are not a significant part of the established violations, considering the nature of the violation itself, it is worth noting that in 2017 three acts establishing violations were issued and served as per Article 6, Paragraph 1 of MFIA (repealed), since in-depth inspections found that investment services were provided and investment activities were performed in a professional capacity without obtaining a licence for such operations from the FSC under the terms and conditions stipulated by law.

Table 17. The most frequent violations in the sphere of II, CSD and BSE in 2017

Type and basis of the violation	Executed AEAVs	Issued PRs*
Operations of IIs with client's funds without authorisation from the client (Article 13, Paragraph 1, Item 3 of Ordinance No 38)	9	9
When carrying out transactions with financial instruments, IIs did not specify the quantity of financial instruments for which an order of cancellation is submitted (Article 34, Paragraph 1 of Ordinance No 38)	12	11
The II did not notify the FSC of changes to circumstances (Article 85, Paragraph 1 of Ordinance No 38)	16	5

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

Collective investment schemes and management companies

In 2017, with regard to AIFM and MC, a total of 24 AEAVs were issued and served, with most violations concerning Article 72, Paragraph 4 of Ordinance 44 stipulating an administrative violation in case of failure by the managing company to disclose information about the structure of the portfolio of managed common funds on its web page.

Public companies, Special Purpose Investment Companies and other issuers of securities

During the reporting period, the trend continued to be towards a decrease in the number of violations committed by public companies and issuers of securities, while the type of violations remained unchanged. During the considered period, **the main violations by public companies and other issuers of securities were related to failure or delay of submission to FSC, BSE or the public the information as required by POSA**. Another important part of the violations relates to the non-implementation of the coercive administrative measures (CAM) under Article 212 of the POSA, as well as the failure to convene a regular annual general meeting of shareholders (GMS) within the statutory term.

Table 18. Most frequent violations in the sphere of PC, SPIC and other issuers of securities in 2017

Type and basis of the violation	Executed AEAVs	Issued PRs*
Failure or delay of submission of annual financial statements on the activities of the PC and the issuers (Article 100n, Paragraph 1 of POSA)	24	14
Non-compliance with an applied CAM under Article 212 of POSA (Article 221, Paragraph 6 of POSA)	28	33
Failure to convene a regular annual general meeting of shareholders by the end of the first six months of 2017, as well as failure to present the invitation and the materials thereto on the website of the company and to the FS or failure to submit present the minutes of the GMS (Article 115 and Article 117 of POSA)	22	18
Failed or delay of submission of consolidated annual financial statements on the activities of the PC, SPICs and issuers (Article 100n, Paragraph 2 of POSA)	15	10
Failure or delay of submission of a six-month financial statements on the activities of the PC and the issuers (Article 100o of POSA)	14	10

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

Insurance

In 2017, **the main violations committed by the insurance companies were absence of conclusions on the insurance claims for payment of insurance compensation within the deadlines set out in Article 108 and Article 496 of the Insurance Code, for which a total of 588 AEAVs were issued.** The findings include a large number of violations of Article 337, Paragraph 2 of the Insurance Code, which stipulates that the insurance intermediary who receives payment of insurance premiums or instalments shall be obligated to transfer it to the benefit of the insurer within one month after receipt of the payment; for compulsory insurance under Article 461, Items 1 and 2 – within five business days of receipt of the payment. For these violations, nine acts were issued, establishing 108 violations of Article 337, Paragraph 2 of the Insurance Code.

Table 19. Most frequent violations in the sphere of insurance and reinsurance in 2017

Type and basis of the violation	Executed AEAVs	Issued PRs*
Failure of the insurer to issue a conclusion on an insurance claim filed within the statutory period of 15 business days from the submission of all relevant evidence (Article 108, Paragraph 1 of IC)	512	408
Failure of the insurer to issue a conclusion on an insurance claim within the statutory period of three months as stipulated by the IC under a Third Party Liability insurance of motorists (Article 496, Paragraph 2 in connection with Paragraph 1 of IC)	76	118
Failure to provide a response to a claim by a beneficiary of insurance services (Article 290, Paragraph 2 of IC)	41	30
Incorrectly determined insurance compensation under a Third Party Liability insurance of motorists (Article 20, Paragraph 2 of Ordinance No 49 of 16 October 2014)	39	27
Failure to provide the thematic financial statements and reports by the insurers within the statutory deadlines (Article 126, Paragraph 1 of IC)	24	17
Failure of an insurance intermediary to transfer an insurance premium paid to the benefit of an insurer within the statutory deadline (Article 337, Paragraph 2 of IC)	9	5

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

Supplementary pension insurance

In 2017, three PRs were issued, imposing two pecuniary sanctions and one fine for two different violations of SIC, and one of secondary regulation pertaining to supplementary pension insurance. The issued penal resolutions were related to violations for exceeding the quantitative restrictions of 7% of the shares of a single issuer (of Article 177a, first sentence of SIC) for failure to implement an enforced coercive administrative measure within the deadline (Article 352, Paragraph 2 in connection with Paragraph 1 of SIC) and for non-termination of a procedure for change of participation of an insured person (Article 6, Paragraph 1, Item 2 of Ordinance No 3).

3.4. Market abuse

The regulatory framework stipulating market abuse encompasses both national legislation – the Law on the Application of Measures against Market Abuse with Financial Instruments and directly applicable European legislation – Regulation 596/2014 and the regulations for its implementation. The term market abuse includes manipulation of the markets in financial instruments, insider dealing and unlawful disclosure of inside information.

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 review of the data available to FSC and 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, as well as supervisory authorities of other countries. In 2017, an alert was forwarded as per competence to the Irish Central Bank with regards to a suspected violation of Regulation 596/2014 related to financial instruments admitted to trading on a regulated market in Ireland.

As a result of the inspections, a total of **30 acts of established administrative violations were issued in 2017:**

- Two establishing violations of Article 16 of the Market Abuse of Financial Instruments Act (repealed);
- Twenty-two establishing violations of Article 19 of Regulation 596/2014 related to failure to notify the FSC and/or issuer of the concluded transaction with financial instruments;
- Six establishing violations of Article 15 of Regulation 596/2014 on market abuse.

During the reporting period, a total of 13 PRs were issued with regard to violations performed, as follows:

- Five PRs for violations of Article 16 of the Market Abuse of Financial Instruments Act (repealed);
- Eight PRs for violations of Article 19 of Regulation 596/2014 related to failure to notify the FSC and/or issuer of the concluded transaction with financial instruments.

The issued penal resolutions for imposed sanctions amounting to a total of BGN 23,200 with all enforced in 2017.

Table 20. Most common violations related to unfair trading in securities, market abuse, inside information and insiders in 2017

Type and basis of the violation	Executed AEAVs	Issued PRs*
Infringement of the obligation of the persons performing management functions in an issuer and the persons closely related to them to notify the FSC or issuer 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 (repealed) and Article 19 § 1 of Regulation 596/2014)	24	13
Manipulation of the market fin or 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 15 of Regulation 596/2014	6	0

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

3.5. Activities of FSC for resolution of investment firms

The Financial Supervision Commission in its capacity as an authority for resolution of investment firms under Article 1, Paragraph 1, Item 2 – Item 7 of the Recovery and Resolution of Credit Institutions and Investment Firms Act (RRCIIFA) as proposed by the member of the FSC, defined a single structural unit that supported the FSC's functions related to its activities for resolution of investment firms on an individual and consolidated basis. On the grounds of Article 3, Paragraph 3 of RRCIIFA, the FSC adopted internal working rules within the unit, including with regard to keeping professional confidentiality and information exchange with other structural units of FSC and other authorities. RRCIIFA transposed into Bulgarian legislation the provisions of Directive 2014/59/EU of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms, governing the regime to ensure the FSC a credible set of resolution tools considering timely intervention of the resolution authority sufficiently early in an unsound or problematic investment firm so as to ensure the continuity of the institution's critical financial and economic functions while simultaneously minimising the impact of failure of the intermediary's obligations on the economy and financial system. The European legislative framework related to the resolution of the investment firms has had direct application, which included Delegated Regulation (EU) 2016/1075 of the European Commission of 23 March 2016, Delegated Regulation (EU) 2016/1400 of the European Commission of 10 May 2016, Delegated Regulation (EU) 2016/1401 of the European Commission of 23 May 2016, Delegated Regulation (EU) 2016/1450 of the European Commission of 23 May 2016, Implementing Regulation (EU) 2016/962 of the European Commission of 16 June 2016, Implementing Regulation (EU) 2016/1066 of the European Commission of 17 June 2016, Delegated Regulation (EU) 2016/1712 of the European Commission of 7 June 2016, Delegated Regulation (EU) 2015/63 of the European Commission of 21 October 2014, as well as the Guidelines of the European Banking Authority (EBA) for the application of the above regulations.

The effective process of resolution of institutions and group entities operating across borders requires cooperation among competent authorities in member states and in certain cases also in third countries. For this purpose resolution colleges are established under the guidance of a consolidating supervising authority such as the FSC functions, for example, with regard to an investment parent intermediary registered in the Republic of Bulgaria.

As an authority for resolution **of investment firms, the FSC prepares and adopts resolution plans for each investment firm on an individual base** and on a consolidated base in cases where the FSC is a consolidating authority as per Article 17 of RRCIIFA. These plans envisage resolution actions that the FSC can undertake in case the resolution requirements are fulfilled as per RRCIIFA. The resolution plan includes different variations under which one of the resolution tools may be required – sale of business tool, "bridge institution" tool, asset separation tool, bail-in tool. In case the FSC finds that the investment firm is failing or it is likely to fail, there is no real possibility for the non-compliance with the obligations to be overcome in reasonable time and the resolution is in the public's interest, the FSC, in its capacity as a resolution authority, makes the decision to take measures for resolution. The resolution regime includes the possibility for the FSC to appoint one or more persons as special managers, to appoint an independent expert to perform a fair, conservative and realistic valuation of the assets and liabilities of the investment firm, as well as to use single or multiple resolution tools in order to ensure the continuity of the critical functions performed by the investment firm and to support specific parts of the intermediary enterprise, which have market value.

The FSC cooperates with EBA in performance of its obligations under RRCIIFA in accordance with Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority.

The FSC assesses the possibility to resolve the individual and consolidated base of the investment firms by also identifying the presence of obstacles related to the actions under the plan for recovery of the investment firms, which may affect adversely the possibility for resolution of the intermediary. **In this regard, 18 recovery plans were assessed in 2017 in terms of evaluating the possibility of the** resolution and the possible obstacles in the resolution process, as well as level measures to overcome these.

During the reporting period, on the grounds of Article 138, Paragraph 2 of RRCIIFA, the FSC made the decision to define the target level of financials in the Investment Firm Resolution Fund (IFRF) for 2017, as well as the total amount and the individual annual contributions for 2017 to IIRF of the investment firms as per Article 1, Paragraph 1, Item 2 – Item 7 of RRCIIFA.

In accordance with the Methodology for determining Other Systemically Important Investment firms for the local capital market (OSIII) and after preparing a quantitative and qualitative analysis of the investment firms as per Article 1, Paragraph 1, Item 2 – Item 7 of RRCIIFA based on nine criteria with 3-6 indicators in each category, **out of a total of 19 fully licensed investment firms, six were classified as OSIIIs for the local capital market**. Considering the investment firms determined to be OSIIIs and on the grounds of the provisions of Article 25 of RRCIIFA, the FSC decided to apply simplified requirements for preparation of recovery plans, respectively resolution plans for ten investment firms for which an assessment model was applied in accordance with the Guidelines of EBA for simplified requirements, and EBA was notified of this.

4. Protection of the consumers of non-bank financial services

The very need to protect consumers comes from the imbalance of resources – information, power, etc. – between providers of goods and services and the consumers of these goods and services. 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. The modern market is a complex process of interaction between suppliers and consumers of goods and services, where the intervention by the state in this process is aimed at ensuring compliance with the laws and regulations intended to provide a safe and organised market and user protection. Through various authorities, the state facilitates fair trade, provision of information, creation of mechanisms for compensation and equal access to basic products and services. User's rights are related to the right to participate in the process of making social and economic decisions.

The protection of users of non-banking financial services (investors, insured and socially insured persons) is an irrevocable part of overall user protection. The Financial Supervision Commission is the institution whose statutory rights and obligations include the protection of the rights of users of non-banking financial services.

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 users of financial services and organisation of financial literacy initiatives.

The protection of users of financial services is provided in two main ways:

- Regulation and supervision
- Financial literacy

In other words, consumer protection imposes socially acceptable and desired restrictions on the financial industry's relationship with its consumers. On the other hand, the goal of education is to improve financial literacy (competence) of consumers and therefore stimulate the rational and responsible behaviours when making financial decisions.

The main aspects of user protection include provision of:

- *Right to information* – transparency when offering products and services. Provision of complete, clear, adequate and comparable information about prices, terms and conditions, inherent risks of financial products and services;

- *Right of choice* – the use of specific, non-coercive practices for the sale of financial products and services;
- *Right to be heard* – creating mechanisms for consumers to be heard and their problems to be reviewed fairly;
- *Right to compensation* – providing a mechanism for rapid resolution of disputes between consumers and financial institutions;
- *Right to financial training*, which will allow consumers to acquire financial knowledge and skills they need to plan rationally their own financial future, to protect their rights as consumers and to understand their own responsibilities.

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

The improvement of the consumers' level of knowledge is one of the core activities which the Financial Supervision Commission performs, protecting the rights of consumers and regulating the non-banking financial sector.

The Commission publishes on its Official Website and the other one for users "Your Finances" 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. The FSC communicates actively with the media, periodically sending messages and responding to all questions by journalists. Moreover, the newly created Information Centre solves specific cases of citizens and businesses which have questioned the Commission.

The activities related to providing access to financial information are performed through:

Information Centre

The new unit, which provides information and supports user protection is the **Information Centre**, created in 2017. It provides information related to specific inquiries from citizens and businesses on issues within its competence sent to the Commission by mail, e-mail, telephone and on-site. In August 2017, a one-week training course was provided to applicants for the Information Centre and it started operations in September. Its objective is to enhance communication with various social groups, to enable feedback, to define the issues important for the community with regard to the activities of the FSC.

From October to December, the inquiries received by the Information Centre number 1370, while in October there were 535 (424 for investment supervision, 103 for insurance supervision, 8 for social insurance supervision), in November there were 485 (388 for investment supervision, 86 for insurance supervision, 11 for social insurance supervision) and in December there were 350 (272 for investment supervision, 73 for insurance supervision, 5 for social insurance supervision). The largest number of inquiries were in the field of investment supervision, related to the former privatisation funds. For insurance supervision, most inquiries are alerts – complaints against insurers. In the field of social insurance supervision, the most frequent inquiry is related to requests for information about a person's universal pension fund or professional pension fund.

Official website of the FSC – **www.fsc.bg**.

Information related to the activities of supervised entities and the measures taken by the FSC in connection with its supervisory and regulatory operations is published daily. On the FSC's website, **166 news articles, 19 notices, 53 statistics, 1,093 resolutions, 28 approved prospectuses, twelve newsletters and tens of other materials in various sections were published in 2017.**

FSC updates the sections on its website on a regular basis in order to inform consumers, supervised entities and all stakeholders in the country and abroad. For the needs of the insurance market, 34 materials with statistical data were published and regular updates were made of the lists of insurers and insurance brokers, the lists of insurers and insurance intermediaries from the EU Member States that had notified the FSC 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 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 funds were summarised in 18 publications during the year. In the field of the financial market, a summary article is published about the average number of transactions with share issues allowed to trading on BSE.

Regulatory documents of the European legislation, directives, regulations and decisions of the European Parliament and the Council were published in 2017 in the European Affairs section of the FSC website. Sixty-five regulations, two responses to inquiries, three public consultations, one notification and one directive were published.

In section "For the Consumers", important information was provided for the general public to help for the more effective implementation of the consumer protection policy. Citizens make extensive use of the opportunity to submit complaints and signals directly to the e-mail address: **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 in the regulated fields 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.

The FSC's website "Your Finance" – **http://www.tvoitefinansi.bg**

In 2017, the updated website of the FSC "Your Finance" was launched with materials dedicated to consumers and education. The highlight of the consumers' website is the direct communication with the various target groups, getting feedback and taking the necessary measures to improve it. There were over 150 updated and new materials published in 2017 on the "Your Finance" website.

Participation of the Chairperson and the Member of the FSC at financial forums in Bulgaria

The Chairperson of the FSC, Karina Karaivanova took part in all significant forums in the field of finance, organised in 2017. She opened the International conference on cross-border compensation for road accidents on 11th May 2017, participated in the official opening of the Eighth edition of the economic forum "The Sound of Money" on 31st May 2017, took part in the official ceremony to award the "Oscars" of insurance and social insurance for 2016 on 19th May 2017, as well as in the discussion on the presentation of recommendations specific for Bulgaria within the European semester 2017, organised by the European Commission in Bulgaria. Karina Karaivanova opened the Sixth Annual Conference on investment and currency trade on 1st December 2017.

The Deputy Chairpersons also participated actively in the financial events throughout the year, such as the Deputy Chairperson of the FSC, Head of the Insurance Supervision Division – Ralitsa Agayn-Guri, who took part in the official ceremony to award the "Oscars" of insurance and social insurance for 2016 on 19th May 2017. The member of the FSC – Vladimir Savov gave a presentation at the conference "Ingenious Profit: New Horizons for Personal Savings" on 23rd February 2017 and also participated in all educational initiatives organised by the Commission and other institutions and foundations.

Media communications

In 2017, the FSC strengthened its regular contacts with the media in order to inform the wider public about the operations of businesses which operate in the non-banking financial sector and of the activities of the supervisory authority.

In 2017, four interviews were organised with the Chairperson of FSC with the major electronic and print media, publicising widely her statements during popular financial forums. More than 150 expert opinions, references and answers were provided to topical questions asked by consumers, journalists, analysts, students and others. Contact with representatives of the mass media was stepped up and their questions were answered expeditiously and exhaustively.

During the year, two major press conferences were held, which enjoyed significant media interest.

On 3 February 2017, the FSC's management together with representatives of the European Insurance and Occupational Pensions Authority (EIOPA) presented to the public the results of the review of the assets of the pension funds in Bulgaria and the review of insurers' and reinsurers' balance sheets, as well as the stress tests of insurers and reinsurers.

The second press conference was essentially a report before the public on the work completed during the year by the FSC and the significant future activities in the field of regulation and supervision. It was held on 27 November 2017 and presented the amendments to the Financial Supervision Commission Act, which came into force at the beginning of 2018. Both press conferences were widely covered by the media in multiple reports.

In 2017, the FSC prepared two issues – a monthly electronic edition of the FSC Bulletin (twelve regular issues) and the Annual Report of the Financial Supervision Commission for 2016 summarising the activities of the supervisory institution and reflecting the state of the non-banking sector in Bulgaria during the year.

Nineteen applications for access to public information were submitted to the FSC in 2017 under the Access to Public Information Act (APIA). Replies were sent to each of them within the statutory period.

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

The main priority policy of the European Union (EU) in recent years is establishing a solid basis for future development of financial system through reforms to improve the regulations, including measures for protection for consumers of financial products and services, offered on financial markets. The consumer policy is part of the strategic objective of the EU to improve the quality of life for all its citizens.

The Financial Supervision Commission participated actively in activities for protection of investors, insured and socially insured persons. The protection of investors, socially insured and insured persons (consumers of financial products and services) is one of the statutory objectives of the Financial Supervision Commission.

One of the functions of FSC's member under Article 3, Item 5 of the FSCA is to review claims filed against entities supervised by the Commission, as well as against persons who provide financial products and services without a licence. The performance of this function by the FSC requires the effective management of processes for such complaints.

Complaints registered in the FSC's information system, are one of the channels for receiving information by the regulator about compliance with the regulatory requirements for the activities on financial markets monitored by the FSC, as well as the behaviour of participants on financial markets. Every complaint, received by the FSC is reviewed individually and an inspection is carried out, taking actions and measures within the FSC's legal authority.

The analysis of complaints and the corrective measures taken by the authorities of the FSC are the basis for establishing and maintaining a high level of confidence of consumers in financial products and services offered on the financial markets. These actions assist in maintaining the stability of financial markets, and trust in these stimulates their efficiency and transparency.

The analysis of complaints is also a channel for market feedback about the satisfaction of users of financial services and products with regard to the results from the performed inspections and measures taken by the regulator. The analysis of complaints includes the main topics and issues specified therein, analysis of the main reasons for these, highlighting systematic problems, possible bad business practices. The analysis of complaints also plays part in management decisions in order to improve the regulatory framework, supervisory practices and to take the respective actions and measures to adequately protect the users of non-banking financial services.

In 2017, the FSC received 1,438 [13] complaints and inquiries concerning the activities of the entities supervised by the FSC. Their number increased in 2017 compared to 2016, when these were 1,274. There was no clear upward or downward trend in the number of complaints and inquiries received by 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. In 2013 there was a decrease, with the number dropping to 1,356. A slight increase by 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 by 32. The upward trend continued during 2017, with complaints and inquiries from users numbering 1,438.

In 2017, the FSC received 1,415 complaints regarding which the institution was competent to make a decision. With respect to these complaints for the period from 2012 to 2017 there was again no clear upward or downward trend in the number. In 2013, there were 1,125 such complaints reported compared to 1,429 in 2012, and in 2014 a slight increase was noted compared against 2013. The decrease noted in 2015 compared to 2014 was by 107 and in 2015 these complaints reached 1,026. Their number increased in 2016 reaching 1,089 and in 2017, there was an increase by 326 user complaints compared to 2016.

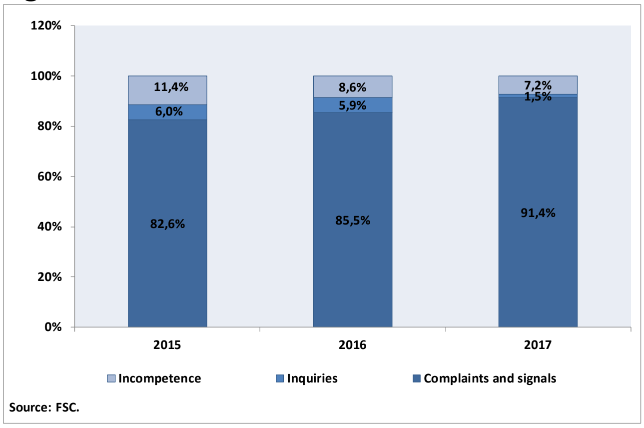
Besides complaints, the FSC also received inquiries, for which the institution was competent to issue a decision. From 2012 to 2015, there was a steady downward trend in the number of inquiries which reached the minimum of 23 in 2017.

The FSC also received complaints regarding which the institution was not competent. Their number in 2017 was 112. Since 2014 there had been a steady downward trend in the complaints which were not within the competence of the institution. In 2017, compared

[13] The number of the aforementioned 1,438 complaints is obtained by deducting complaints that are not against actions of entities supervised by the FSC from the 1,550 filed in total.

to 2016 a minimal increase by two complaints was noted. In 2016, the decrease compared to 2015 was by 32.

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



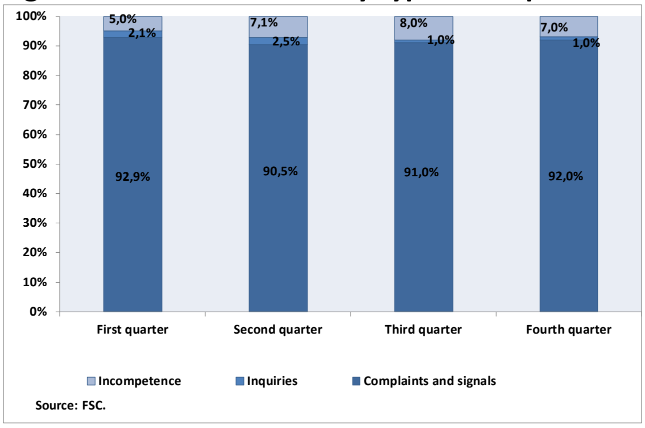
The complaints regarding which the institution was competent to rule represent 91.4% of the total number of complaints and inquiries received in 2017. For the period 2015–2017, this share was relatively constant, and for 2017 it was 91.4%, for 2016 – 85.6%, for 2015 – 82.6%. A decrease in the number of inquiries was noted during the last three years. The inquiries ranged from 1.5% to 6.0%, with a share of 6.0% in 2015, 5.9% in 2016 and 1.5% in 2017. The share of complaints which the institution was not competent to resolve also varied within narrow limits and decreases. In 2015, their share was 11.4%, in 2016 – 18.6% and in 2017 – 7.2%. This trend was indicative for the positive efforts made by the FSC to popularise its activities.

There was an upward trend in 2017 compared to 2016 in the number of complaints regarding which the institution was competent.

The overall picture of the ratio of complaints, inquiries and complaints regarding which the institution was not competent was preserved also on a quarterly basis in 2017. The complaints within the competence of the FSC account for 92.9% of all complaints received in the first quarter of 2017. Their share declined to 90.5% during the second quarter and reached 91% in the third quarter of the year. In the fourth quarter, there was an increase with 1 p.p. compared to the third quarter, where the share of complaints reached 92% of the total.

The dynamics in the number of complaints outside of the respective competence did not indicate a clear trend. In the first quarter of 2017, these were 5% of all complaints, increasing to 7.1% in the second quarter and reaching 8% in the third quarter. A slight decrease occurred in the fourth quarter of 2017, when their share fell to 7%.

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

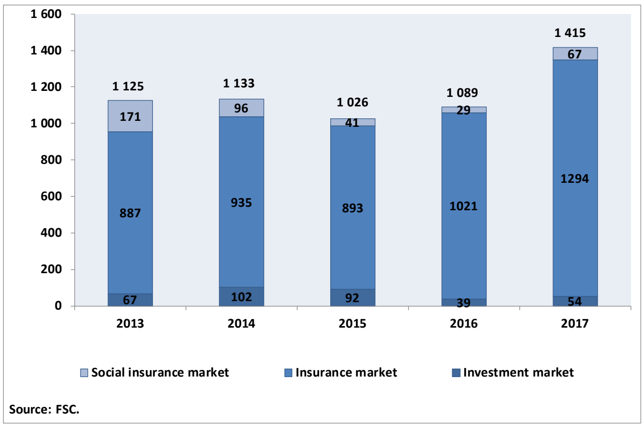


In 2017 there were 1,415 complaints regarding which the institution was competent to issue a ruling, with the highest number of complaints against actions of entities operating on the insurance market. Their number was 1,294. Significantly fewer were the complaints related to the services offered on the social insurance market – 67. The complaints against actions of entities operating on the investment market were 54. In 2017, compared to 2016, there was an increase by 273 complaints related to the insurance market. This was an increase of 21.09% compared to 2016. By comparison, there was an increase in the complaints for the insurance market by 14.3% in 2016 compared to 2015.

A downward trend in the complaints concerning the social insurance market had been observed since 2013 when their number was 171. In 2014 their number reached 96 and in 2015 it dropped to 41. An almost double decrease was reported in 2016 as compared to 2015 when the complaints related to the insurance market dropped to 29. In 2017, the complaints related to the insurance market increased by 56.7% compared to the previous year. In 2017, 67 complaints were received regarding the social insurance market.

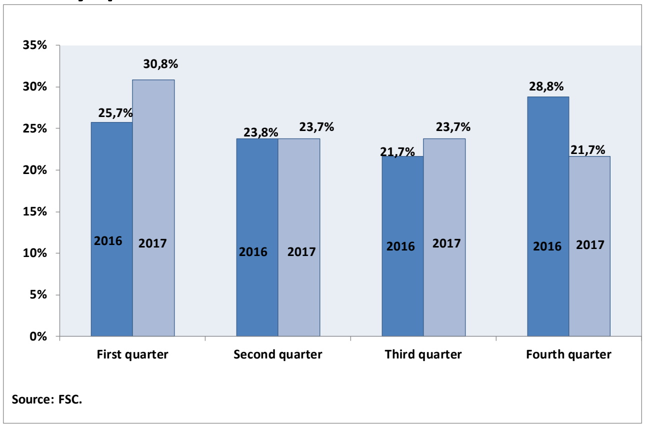
Since 2014, there had been a steady downward trend in the complaints concerning the investment market and for 2017 these increase slightly reaching 54. Their number was 102 in 2014 and 92 in 2015, in 2016 this number was 39. A significant decrease of 53 complaints in relation to the investment market 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 seasonality can be expressed with regard to complaints received within competence of the FSC by quarter. In the first quarter of 2017, 30.8% of complaints within the competence of the FSC for the year were received. This percentage was higher compared to 2016. In the second quarter of 2017, 23.7% of the complaints within the competence of the FSC were received, with no significant change compared to 2016. In the third quarter of 2017, 23.7% of the complaints were received, and in the third quarter of 2016 – 21.7%. This share was higher compared to the third quarter of 2016. In the fourth quarter of 2017, 21.7% of the complaints were received. By comparison, the share in the fourth quarter of 2016 was 28.8%.

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



The complaints related to the insurance market represented the largest share of the complaints within the competence of the FSC received in 2017 (91.4%). By comparison, their share in 2014 was 82.5%, in 2015 – 87.0% and in 2016 – 93.8%. The share of complaints related to the insurance market accounts for 4.7% of all received complaints within the competence of the FSC. Their share was constantly decreasing from 2013 to 2016, while for 2017 they increased. In 2013, the share was 15.2%, in 2014 was 8.5%, in 2015 – 4.0% and in 2016 – 2.7%. The complaints against entities operating on the investment market were 3.8% of all complaints received in 2016. Their share was 6.0% in 2013, 9% in 2014 and 2015, and 3.6% in 2016.

The distribution by sector was also preserved on a quarterly basis in 2017. In the first quarter of 2017, the share of complaints in relation to the insurance sector was 93.8% almost the same as their share in the fourth quarter of 2017 (92.7%). In the second quarter of 2017, their relative share was 90.1%. In the third quarter of 2017, the share of complaints related to the insurance market had the lowest relative share (88.7%) for the year. The complaints against the companies in the insurance market had the highest relative share in the third quarter of 2017 (6.5%) and the lowest in the first quarter of the year, namely 2.9%. The complaints in relation to the investment market had the highest relative share in the third quarter of 2017, and the lowest in the fourth quarter of the year.

Table 21. Dynamics of the structure of complaints by market segments

				2017				
	2014	2015	2016	Q1	Q2	Q3	Q4	2017
Insurance market	82,5%	87,0%	93,8%	93,8%	90,1%	88,7%	92,7%	91,4%
Investment market	9,0%	9,0%	3,6%	3,4%	3,9%	4,8%	3,3%	3,8%
Social insurance market	8,5%	4,0%	2,7%	2,9%	6,0%	6,5%	4,0%	4,7%

In 2017, the FSC also received complaints in relation to which the institution was not a competent body. The largest share of complaints falling outside the competence of the FSC were complaints related to credit products (38.4%) and part of these were provided by non-banking credit institutions. Second came the complaints related to money transfers (8%). The complaints relating to savings products and mobile services accounted for 3.6%, respectively.

Table 22. Structure of the complaints outside the competence of the FSC in 2017

	2016	2017
Credit products	41,8%	38,4%
Money transfers	13,6%	8,0%
Savings products	1,8%	3,6%
Mobile services	0,0%	3,6%
Taxes	0,0%	2,7%
Others	42,7%	43,8%
	100,0%	100,0%

In 2017, the FSC maintained its practice to redirect the complaints regarding which the FSC was not competent to the competent institutions.

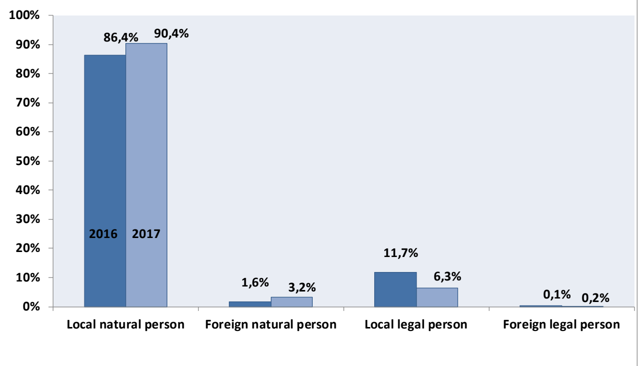
In 2017, the FSC received complaints outside its competence which were mainly within the competence of three institutions in the country. Most of the complaints (85.4%) were within the competence of the Bulgarian National Bank (BNB). The second institution was the Consumer Protection Commission (CPC) with a share of 12.2%. The competent authority for 2.4% of the complaints outside the competence of the FSC was the National Revenue Agency (NRA).

Table 23. Structure of complaints by competent institutions other than the FSC in 2017

	2016	2017
Bulgarian National Bank	95,2%	85,4%
National Revenue Agency	3,6%	2,4%
Communications Regulation Commissio	1,2%	12,2%
	100,0%	100,0%

Local natural persons filed the largest share of complaints and inquiries (90.4%) of all received complaints and inquiries. Local legal entities accounted for 6.3% in 2017. Foreign natural persons had a share of 3.2% and foreign legal entities – 0.1% throughout the year. An increase in the share in 2017 compared to 2016 was reported only for local natural persons, increasing from 86.4% to 90.4%. A decrease in the share of local legal entities was reported from 11.7% in 2016 to 6.3%. For foreign natural persons, an increase was noted from 1.6% to 3.2% in 2017, which was due to the globalisation of financial markets and the ability to provide non-banking financial services across borders. An insignificant decrease was observed in relation to foreign legal entities.

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

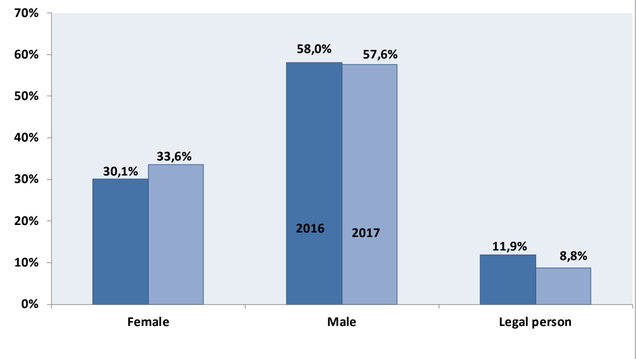


Source: FSC.

The analysis of complaints showed that male complainants were more active than female complainants. Their share in 2017 was 57.6% compared to 33.6% for women. The complainants – legal entities accounted for 8.8% of all complaints and inquiries. The overall situation compared to 2016 had not changed –

men accounted for 58.2% of complaints and women for 30.1%. There was a trend for a decrease in the number of complaints filed by legal entities.

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

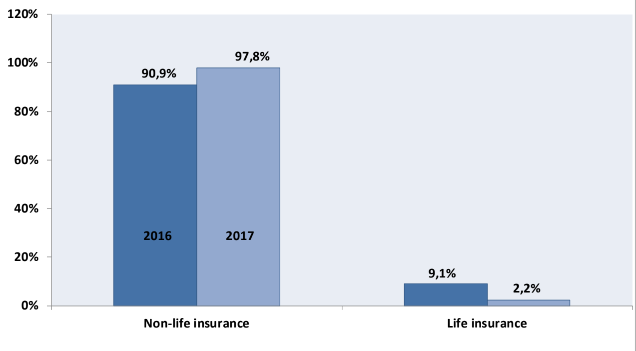


Source: FSC.

Insurance market

The trend for the complaints related to the insurance market to have the highest relative share persisted also in 2017. Complaints against services and products offered by non-life insurance companies continued to make up the majority of the complaints concerning the insurance segment with their share increased from 90.9% in 2016 to 97.8% in 2017. Respectively, the proportion of complaints related to products and services offered by life insurance companies fell from 9.1% in 2016 to 2.2% in 2017.

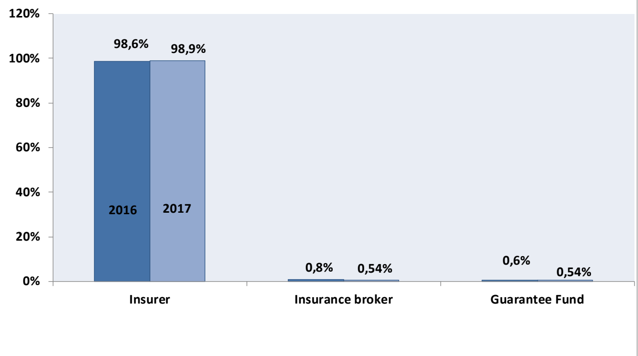
Figure 7. Dynamics of complaints related to non-life and life insurance



Source: FSC.

The analysis of complaints in the life insurance sector in terms of the entity against which they were filed showed that usually the complainants expressed grievance over the insurers' actions. In 98.9% of the received complaints against entities acting on the insurance market, the subject of the complaint concerned the activity of the insurers. The share of these complaints increased insignificantly compared to 2016 from 98.6% to 98.9%. During the year, the complainants also complained about the actions of insurance brokers and the Guarantee Fund, however their share was insignificant and decreasing.

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

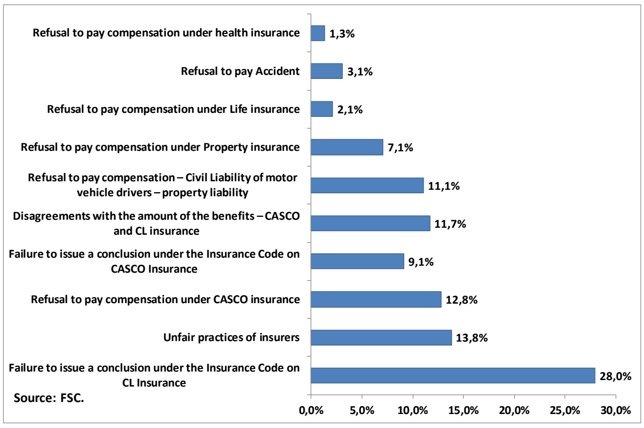


Source: FSC.

Most often the subject of complaints concerning the insurance sector was related to failure to issue a conclusion under insurance claims within the deadlines of the Insurance Code regarding Third Party Liability insurance of motorists (28%). The second most common complaint was about unfair practices on the part of insurers (13.8%). s Complaints objecting against refusals to pay out compensation under CASCO insurance, which were 12.8%, were at the third place. 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 compensation under CASCO insurance and Third Party Liability of motorists, as well as against refusals for payment of compensation under the Third Party Liability of motorists, under property insurance, life insurance, accident insurance and health insurance.

For comparison, in 2016, the most frequent complaints related to the insurance sector concerned the refusal for payment of compensation under Third Party Liability of motorists.

Figure 9. Distribution of complaints in the insurance market by subject of complaint in 2017.

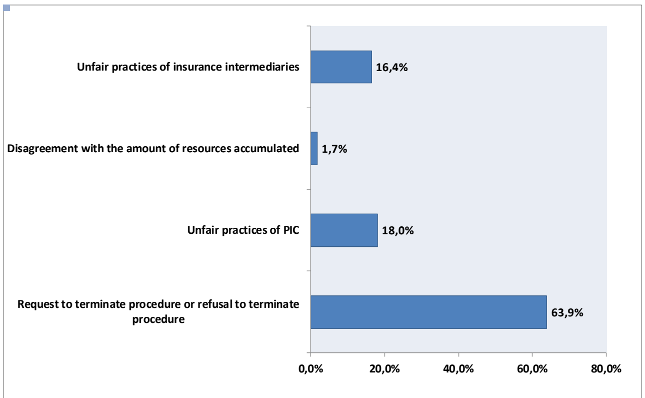


Source: FSC.

Social insurance market

Requests for termination of the procedure or refusals to terminate the procedure for transfer of holding was the most common subject of complaints relating to the social insurance market in 2017. Their share was 63.9% of all complaints filed in connection with the social insurance market. The second most common complaint was about unfair practices on the part of pension insurance companies (18%). The unfair practices of social insurance intermediaries (16.4%) and disagreement with the amount of the accumulated funds (1.7%) were the third and fourth places in terms of the most common complaints against actions of entities operating on the social insurance market.

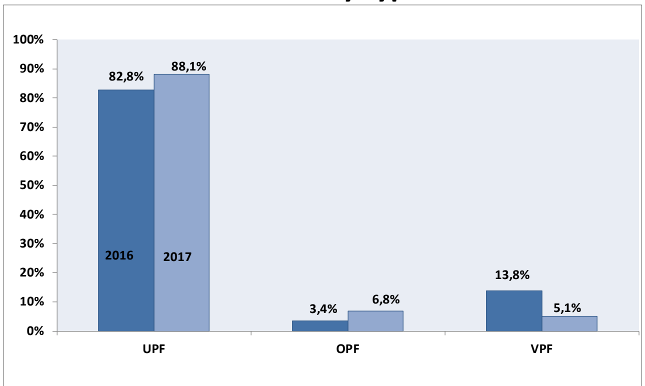
Figure 10. Distribution of complaints in the social insurance market by subject of complaint in 2017.



Source: FSC.

The trend of complaints related to the social insurance market and concerning mainly universal pension funds (UPF) remained unchanged in 2017. Their share was 88.1% of all complaints received in relation to the social insurance market. The complaints related to professional pension funds (PPF) accounted for 6.8%, and to supplementary pension funds (SPF) – 5.1%. The proportion of UPF-related complaints increased in 2017 compared to the previous year, from 82.8% to 88.1%. The same change was observed also for PPFs, with the share increasing from 3.4% in 2016 to 6.8% in 2017. Accordingly, the SPFs registered a decrease in the complaints rate from 13.8% in 2016 to 5.1% in 2017.

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



Source: FSC.

Investment market

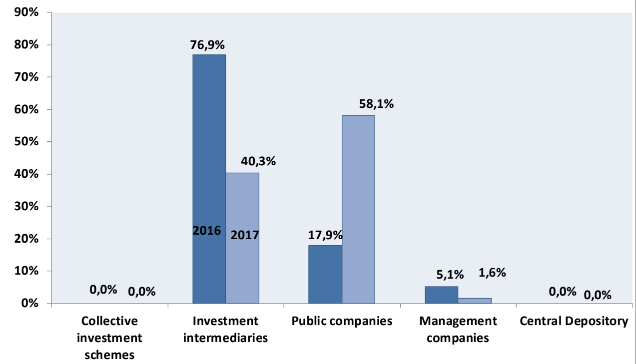
A significant number of the complaints concerning the investment market were related to the provision of investment services by companies without the relevant licence. In this regard, the FSC focused its efforts on taking actions to limit the supply of investment services by non-licensed companies and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

The analysis of the received complaints indicated that there was a growing activity in the offering of investment products over the phone or via electronic platforms.

In 2017, most complaints related to the investment market were against actions of public companies. Their share in 2017 was 58.1% which marked an increase compared to 2016. In 2017, the second place was held by complaints against investment firms or entities providing investment services and products (40.3%), and third place with 1.6% was held by complaints against actions of management companies.

Complaints against public companies increased from 17.9% to 58.1% compared to 2016. The main subject of these complaints was related to takeover bid, namely against the bid price. The opposite developments were reported for complaints related to the activities of management companies with their share falling to 1.6% in 2017, compared to 5.1% in 2016.

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



Source: FSC.

The FSC received electronically complaints from foreign consumers. Most complaints were against companies offering investment products and services within the territory of the Republic of Bulgaria without a licence for this activity.

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

The Financial Supervision Commission registered and reviewed every complaint, signal or inquiry received by the institution. Detailed examination of the relevant documents was performed in each particular case and additional documents and explanations were requested in connection with the complaint. The necessary measures and actions were taken during the examination in case a violation of the legal requirements by the supervised entity is found.

The analysis of the responses to the complainants revealed that in 28.8% of cases the consumers of insurance services were advised on the possibilities to protect their rights through dispute resolution bodies for extrajudicial dispute agreement or by the court in case the FSC or the respective Deputy Chairperson did not have the authority to take actions. In 25.7% of the cases, compensations were paid after complaints had been filed to the FSC, and 6.9% of the complainants were given specific information relevant to the details of the complaint.

Information was given to consumers of insurance services about the possibilities to protect their rights in 28.5% of the cases in 2017 compared to 50% in 2016. The provision of specific information relevant to the complaint came fifth in 2017 with a share of 6.9% compared to 10.8% in the previous year.

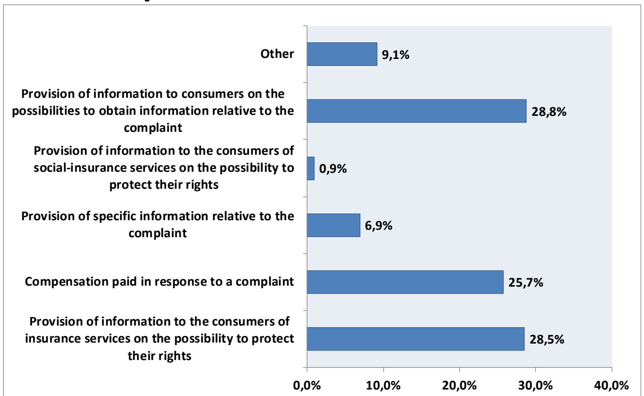
Very often, the consumer complaints filed with the FSC involve civil litigation between the complainant and the supervised entity which was beyond the competence of the FSC and which should be referred to conciliation committee for extrajudicial dispute agreement or the competent court for consideration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

In its replies to complaints against entities supervised by the FSC, the Financial Supervision Commission regularly informed the complainants that they had the possibility of extrajudicial settlement of disputes thus informing the consumers about the possibility for faster dispute settlement without any costs.

The number of cases where a compensation was paid after a complaint had been filed with the FSC remained relatively stable in 2017. The maintained good rate of payment of the occurred/filed insurance compensation after the FSC had taken legal measures in 2017 showed the 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 were found during a complaint examination, the FSC took action to hold the regulated entities responsible under the administrative regulations by drawing up acts for 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

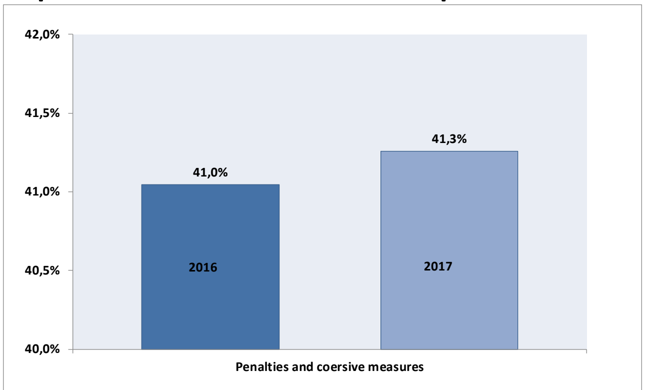


Source: FSC.

As the result of inspections performed under complaints filed in 2017 there was a slight increase in the number of cases where penalties were imposed and administrative coercive measures were applied to supervised entities and their percentage rose to 41.3% of all complaints within the competence of the FSC compared to 41% in 2016.[14]

The analysis of the responses to the complaints and inquiries as well as the actions taken in connection therewith showed the positive effect of these actions. In many cases, the requests of the complainants – natural persons and legal entities were satisfied.

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



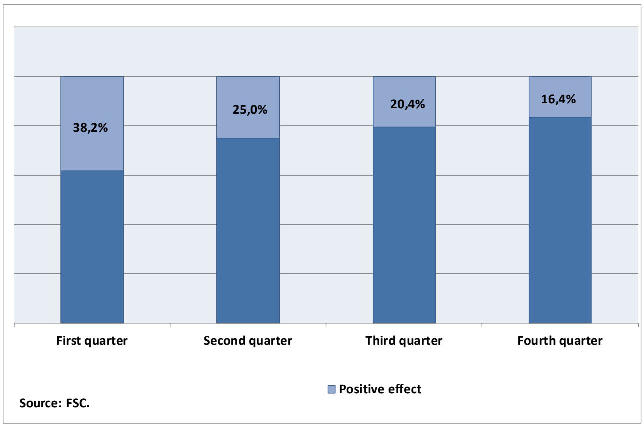
Source: FSC.

For 25.7% of the complaints and inquiries in 2017, a positive effect was shown due to the FSC's actions when reviewing the received complaints, which was part of the activities to protect the interests of consumers of non-banking financial services. Analysing the positive effect by quarters, it was obvious that this effect was the greatest during the first quarter (38.2%).

Figure 15. Effect of the FSC's activity on protecting the interests of the consumers of

[14] The proportion of the penalties imposed and the coercive administrative measures applied to supervised entities for 2016 was determined as at 31 December 2016 and for 2017 as at 31 December 2017.

non-bank financial services



4.3. Policy of financial literacy

The development and implementation of a policy to increase financial literacy and culture of consumers of products and services provided by the non-banking financial markets is one of the priority objectives of the FSC. The new Chairperson of the FSC – Karina Karaivanova, maintained and strengthened the tradition concerning consumers' protection and improving financial literacy.

During the reporting year the Commission actively participated in various forums – conferences, workshops, work meetings and educational initiatives aimed at the consumers' protection and increasing the financial literacy of various social groups. It organised numerous workshops for supervised entities in order to support their activities related to the application of European legislation, organising a series of trainings for pupils and students. Two seminars were held for participants on the capital market. **In June, on the topic "The New Legal Framework MiFID II" and in November "Legal Framework MIFID II and the Rules for its Application".** These attracted strong interest by the supervised entities.

On 12th September 2017, the Financial Supervision Commission held a workshop on the topic "The European Legal Framework for Application of Solvency II" for over 100 representatives of insurers and reinsurance companies and experts from the Insurance Supervision Division. The workshop was led by Prof. Karel Van Hulle, one of the specialists who participated in the development of the legislative package Solvency II.

The traditional training for economic and financial high schools across Bulgaria was held from 3rd to 7th July 2017. The XV issue edition of the educational program for students and teachers "The Non-banking Financial Sector in Bulgaria", organised by the FSC, the "Atanas Burov" foundation and the Ministry of Education and Science (MES) was attended by 23 participants, of whom three were accompanying teachers and 20 students. The varied and interesting presentations given by experts from the FSC and business acquainted the young people with the principles and mechanisms of capital, insurance and social insurance markets. Theoretical knowledge was supplemented with practical activities on-site at the Central Securities Depository and the Bulgarian Stock Exchange, at the financial group "Carol", the insurance company DZI and the pension insurance company "NN". The students visited the University of Finance, Business and Entrepreneurship (VUZF). They saw how online trading was done on the stock exchange, received an introduction to the activities of the various departments at an insurance company and the complex analyses and forecasts made in order to invest social insurance contributions under the second pillar of pension insurance.

In connection with the establishment of the Information Centre, a free one-week training was held from 28th August to 1st September 2017 for twelve participants, mostly students of economics, finance and law. The lecturers were experts from the FSC who introduced in detail the students to the three sectors of the non-banking finances – insurance, supplementary pension insurance and the capital market. The Insurance Code, the specifics of the most common insurances, the three-pillar model of the pension insurance system in Bulgaria and the basic characteristics of the capital market were introduced in detail. Young people learnt more on the topic which is still important to people – mass privatisation. Examples were given of questions and complaints frequently submitted by citizens, as well as the in-depth professional actions which FSC experts take with regard to these. Participants received certificates for completed training. At the end of the training, a competition was held and five employees were selected for the Information Centre.

Numerous one-day training sessions were held. On 30th March 2017, students from 11th grade of the Staroprestolna High School of Economics in Veliko Tarnovo, visited the Financial Supervision Commission and experienced first-hand the work done at the Commission.

In 2017, the Financial Supervision Commission took part in the initiative “Manager for a Day” of Junior Achievement Bulgaria on 12th October. Alexandra Cholakova, a student in 12th grade of the National High School in Finance and Business, Sofia, was “Chairperson of FSC for a day”, under the guidance of Karina Karaivanova.

The Commission held meetings with business throughout the year. The initiative provides direct contact between the regulator and the 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.

The traditional annual meeting of the financial journalists from leading media and PR experts from state institutions was also held in 2017, 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

Among the main priorities of the FSC concerning international cooperation is the Bulgarian non-banking sector’s association with the single European financial market. The FSC is part of the European System of Financial Supervision (ESFS) and 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

In 2017, the ESMA continued working to improve the protection of investors and to enhance the stability of financial markets.

Priority fields were outlined related to the convergence of supervisory practices. Extensive work is done to apply properly, efficiently and consistently key EU legislation in preparation for the implementation of its legal framework under MiFID II/MiFIR and MAR. Efforts are made to improve the quality of the data through focusing the efforts of national competent authorities for the preparation and adoption of the various reporting requirements as per EU legislation, such as MiFID II/MiFIR, EMIR, AIFMD. Emphasis is put on the work towards convergence in the field of supervision related to the consistent application of the Regulation on market abuse. The adequate protection of investors is highlighted in the context of cross-border provision of services and measures taken to ensure that retail investors receive the same level of protection. Actions are taken for the effective convergence of supervisory practices related to EU Central Counterparties (CCPs), which includes initiatives to strengthen the stability of CCPs and their supervision through annual stress tests and compulsory peer reviews.

In 2017, ESMA worked hard to draft second level legislation – technical standards pertaining to the following legislative acts: Regulation (EU) 2016/1011 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds; Regulation (EU) 2017/1131 on money market funds (MMF); Regulation (EU) 2015/2365 on transparency of securities financing transactions and of reuse; Regulation (EU) 2017/2402 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, etc.

During the reporting year ESMA continued to be strongly committed to its obligation to develop guidelines aimed at improving the protection of EU investors. The guidelines elaborate on basic standards of EU legislation in order to harmonise its application throughout the Member States.

In 2017 **FSC declared to ESMA conformity with the following guidelines:**

Guidelines related to the Regulation on market abuse (MAR) – Information on the markets of stock derivatives or related spot markets for the purpose of defining the concept of inside information with regard to commodity derivatives

The guidelines are issued for the application of Article 7, Paragraph 5 of Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (MAR). As per Item 4 of the Guidelines, their objective is to give indicative examples of information and Item 8 of the Guidelines specifies that in accordance with Article 7, Paragraph 5 of MAR, these Guidelines aim to establish a non-exhaustive indicative list of information reasonably expected or required to be disclosed in accordance with legal or regulatory provisions at Union or national level, market rules, contract, practice or custom, on the relevant commodity derivatives markets or spot markets.

Guidelines on “CSDs’ access to transaction feeds from a CCP or trading venues”

The Guidelines were issued in accordance with Article 16 of Regulation (EU) 1095/2010 and applied to the competent central counterparties (CCPs) and trading venues.

The objective of the guidelines is to determine the risks to be taken into account by the CCPs or the trading venue when performing an overall risk assessment following a request for access to transaction feeds from a CCP or a trading venue.

Guidelines “CSD participant default rules and procedures”

The aim of the guidelines is to ensure common, uniform and consistent application of the provisions of Article 41 of Regulation (EU) No 909/2014. CSDs define and implement clear and effective rules and procedures for settlement of default by any of their participants, including all types of participants and in those Member States which have chosen to treat indirect participants as participants as per Article 2, note “f” of Directive 98/26/EC, also such indirect participants. The guidelines provide instructions on the steps, which the CSD shall stipulate and observe in case of default as per Article 2, Paragraph 1, Item 26 of

Regulation (EU) No 909/2014 ("default", in relation to a participant, means a situation where insolvency proceedings, as defined in point (j) of Article 2 of Directive 98/26/EC, are opened against a participant).

Guidelines "Calibration of circuit breakers and publication of trading halts under MiFID II"

The guidelines clarify the provision of Article 48, Paragraph 5 of the Markets in Financial Instruments Directive – MiFID II, which introduces the requirements for each regulated market to be able to temporarily halt or constrain trading if there is a significant price movement in a financial instrument on that market or a related market during a short period and, in exceptional cases, to be able to cancel, vary or correct any transaction.

The guidelines stipulate that trading venues should calibrate their circuit breakers according to a pre-defined, statistically supported methodology, taking the non-exhaustive list of elements specified in the guidelines into account, where appropriate.

Guidelines on transaction reporting, order record keeping and clock synchronisation under MiFID II

These guidelines apply to investment firms, trading venues, approved reporting mechanisms (ARMs) and competent authorities as of 3 January 2018, as of when the requirements of the Markets in Financial Instruments Directive – MiFID II are applied.

The Guidelines' purpose is to provide a unified approach to reporting and order record keeping by investment firms, trading venues, ARMs and systematic internalisers in compliance with the provisions of Regulation (EU) No 600/2014 and Commission Delegated Regulation (EU) 2017/590 of 28 July 2016 supplementing Regulation (EU) No 600/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the reporting of transactions to competent authorities. The guidance is focused on the construction of transaction reports and of the order data records field by field for various scenarios that can occur. The guidelines are designed to ensure consistency in the application of the requirements stipulated in the regulations and include specific examples.

During the year, ESMA performed two peer reviews of the national competent authorities through the Supervisory Convergence Standing Committee which periodically organises and conducts peer reviews in order to increase the continuity of supervisory activity outcomes:

- **Peer review of "Guidelines on exchange-traded funds and other undertakings for collective investment in transferable securities issues" (ESMA/2014/937)**. This peer review was focused only on a particular part of the guidelines related to the assessment of the level of compliance with NCA methods for supervision of the effective portfolio management (EPM) and whether these comply with the requirements of the guidelines. The latter requirements are applied with regard to undertakings for collective investment in transferable securities issues (UCITSs), risk management processes and management of collateral, as well as that investors understand the EPM strategy. It is expected that ESMA's final report will be finalised during the first half of 2018.
- **Peer review of the supervision of EU central counterparties (EU CCP).** On grounds of Article 21 of Regulation 648/2012 – EMIR, ESMA conducts annual review to fulfil its role as coordinator between Member States with regard to CCP colleges. This will build a common supervisory culture and consistent supervisory practices for licensing and supervision of CCPs. The review is entirely focused on the functioning of CCP colleges and analysis of the supervisory practices in Member States for application of the requirements of the EMIR regulation, identifying controversial or diverging supervisory practices and

convergence recommendations are issued. The report was published on ESMA's website and is publicly accessible.

The final report on the peer review of the Guidelines on enforcement of financial information was published in 2017. The report notes that the guidelines are based on principles and not specific instructions, which makes it difficult to derive a unified application practice. Furthermore, many of the Member States have retained discretionary rights in relation to the manner of their application.

In November 2017, the meeting of the Board of Supervisor**s** of ESMA adopted the final report on the peer review conducted in 2016-2017 on the requirements for functional compliance as per Directive 2014/39/EC (MiFID I). As a result of the report, the working group of ESMA concluded that there is a high degree of compliance in the practices of national competent authorities in the application of the respective ESMA guidelines. With regard to the practices of the FSC, there was full compliance with the supervisory practices outlined in the guidelines. As follow-up, ESMA identified best practices which it sent to the national authorities for adoption in their supervisory practices, therefore establishing a unified level of supervision within the EU. The report was published on ESMA's website and is publicly accessible.

At the end of the year ESMA started a review of the measures taken by the national competent authorities as a result of the recommendations arising from the peer review on the compliance with the requirements of the Markets in Financial Instruments Directive 2004/39/EC which was conducted in 2015. The final report on the monitoring by ESMA is expected to be published in 2018.

Key aspects of EIOPA's work

In 2017, one of EIOPA's main strategic goals was to ensure transparency, simplicity, accessibility and fair conditions for consumers on the internal market. In connection with the priorities of the European supervisory authority for development and strengthening the regulatory framework, ensuring protection of the rights of users by the EIOPA, work started on Regulatory Technical Standards (RTS) for professional indemnity insurance which will continue into 2018. The technical advice of the European Commission were also finalised with regard to the delegated acts under the European Insurance Distribution Directive (IDD). Guidelines were developed as per Article 30, Paragraph 7 of IDD, which support risk assessment for such products. In addition, a report was prepared on the degree of reporting data on complaints in accordance with the Guidelines on complaints handling.

Another main objective of EIOPA for 2017 was the development of a risk-based and prevention framework to serve as the basis of the respective supervisory activities. Here, EIOPA identified risk indicators, described in the annual consumer trends report.

With regard to the establishment of an European regulatory framework, EIOPA's work in 2017 was focused on the development of a pan-European Personal Pension Product (PEPP).

Some of the main work streams were continued from previous years into 2017. EIOPA maintains and develops common reporting tools and procedures that ensure the effectiveness of the process and the quality of the submitted data, and thus the European Supervisory Authority supports the national competent authorities and enterprises in meeting the reporting requirements under Solvency II. In connection with this, in 2017, EIOPA continued its work on the social insurance and pension Taxonomy.

During the past year, EIOPA played a key part with regard to the convergence of the supervisory policy within Europe, especially in identifying, monitoring and assessing the risks to the financial stability of the European market, as well as reporting and limiting such risks.

As an EU-level Supervisory Authority EIOPA further developed and supported the implementation of basic standards of EU legislation during that year in order to harmonize the regulatory framework in all Member States.

In 2017**, FSC declared to EIOPA conformity with the following guidelines**:

EIOPA Guidelines for support of the effective dialogue between competent authorities supervising insurance enterprises and registered auditor(s) and auditor company(ies) that perform the compulsory audit of such enterprises

In order to strengthen the supervision of insurance and reinsurance enterprises and protection of policy holders, Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance and in particular Article 68 and Article 72 define legal requirements according to which statutory auditors are mandated to report promptly to the supervisory authorities any facts which are likely to have a serious effect on the financial situation or the administrative organisation of an insurance or a reinsurance undertaking. In addition, in performance of their obligations, supervisory authorities may conduct effective dialogue with the statutory auditors and auditor companies. Although regular contact is maintained with auditors, there is no set of formal rules or regulations on the procedure and method of handling dialogue.

In this regard, EIOPA has prepared the aforementioned principle guidelines to support supervisory authorities in developing a systematic, targeted and coordinate approach to supervision.

Another core activity of EIOPA is to periodically organise and conduct **peer reviews** of competent authorities in order to increase the continuity of supervisory activity outcomes.

In 2017, EIOPA conducted a **peer review on the "Supervisory practice for applying the proportionality principle of requirements for management of key functions".** The objective of the peer review is to find out how national competent authorities apply the proportionality principle when supervising key functions of enterprises taking into account the performance of key functions introduced by the new Solvency II regime. The result of the peer review may be used for possible future review of EIOPA Guidelines on systems of governance and the established best practices may be included in the Manual for Supervisory Review Process (SRP).

Furthermore, in 2017, EIOPA conducted a peer review on the **"Supervisory practice for applying the requirements for management of the suitability of members of AMSB and qualified shareholders".** The objective of the peer review was to identify the best practices for assessment of the suitability by national competent authorities, as well as to provide guidelines for future development in the respective guidelines.

Joint guidelines of European supervisory authorities

ESMA and EIOPA during this reporting year continue to cooperate in the harmonisation of the regulatory framework in all Member States, with the FSC declaring **in 2017 that it shall observe the Joint Guidelines:**

Joint Guidelines 2016/72 of European supervisory authorities (ESO) – EBA, EIOPA and ESMA on the characteristics of a risk-based approach to anti-money laundering and terrorist financing supervision, and the steps to be taken when conducting supervision on a risk-sensitive basis (AML/CFT supervision)

The Guidelines are addressed to competent authorities which ensure compliance with Directive 2015/849. The Guidelines stipulate an obligation for competent authorities to conduct risk-based supervision to prevent the financial system for the purposes of money laundering or terrorist financing. With the Guidelines, European supervisory authorities define a framework for the performance of obligations by competent authorities when conducting specialised AML/CFT risk-based supervision arising from the provisions of Directive 2015/849.

Joint Guidelines for prudential assessment of acquisitions and increases of qualifying holdings in the financial sector by the European supervisory authorities

The Joint Guidelines for prudential assessment of acquisitions and increases of qualifying holdings in the financial sector further develop to a large extent the 2008 Guidelines currently applied and provide practical and non-exhaustive examples related to:

- identifying the entities which operate in coordination by considering certain factors;
- identifying the significant influence through a non-exhaustive list of factors based on which a conclusion shall be reached to enable exercising significant influence over the management of the acquired enterprise;
- identifying indirect acquisition of qualifying holding through a natural person or a legal entity, which acquires or increases direct or indirect participation in an existing share in a qualifying holding; or a natural person or legal entity having direct or indirect share in an entity which acquires or increases direct holdings in the enterprise subject to acquisition.
- identifying whether a decision to acquire has been made;
- conducting a prudential assessment in accordance with the principle of proportionality.

Key aspects of ESRB's work

The main focus of the work of ESRB's authorities and structures in 2017 continued to be dedicated to assessment of the risks to EU financial stability related to weaknesses in the balance sheets of banks, insurers and pension funds under drastic and significant repricing of the risk premia in global financial markets, low market volatility, improved profitability of banks resulting from cyclic factors despite other structural challenges, strong political fragmentation, as well as the state of the real estate sector.

In 2017, the ESRB continued the process of evaluating the implementation of its recommendations. A follow-up report by the team assessing money market funds and a follow-up report on the financing of credit institutions, and a summary compliance report were prepared. ESRB also reviewed the new data base of financial crises in European countries and in connection with this, periodical 13 was published on the ESRB's website: "New database of financial crises in European countries".

In implementation of **ESRB's recommendation of 18 June 2014 on guidance for setting countercyclical buffer rates (ESRB/2014/1)** on the grounds of Article 13, Paragraph 1, Item 25 of FSCA, in relation to Article 111 of Ordinance No 50 of 19 June 2015 on capital adequacy, the solvency of investment firms and the supervision of their compliance, the Financial Supervision Commission, at its meetings, made decisions to recognise the countercyclical buffer rate as defined by BNB in the amount of 0% in 2017, applied to credit risk exposures in the Republic of Bulgaria.

During the second quarter of 2017, the FSC in cooperation with BNB sent a completed survey in connection with the update to **Recommendation ESRB/2011/3 on the macro-prudential mandate of national authorities**.

During the reporting year a review was also completed with regard to the implementation of **Recommendation ESRB/2015/2 on the assessment of cross-border effects and of voluntary reciprocity** and a joint report with BNB was sent to the ESRB. The ESRB was notified in accordance with **Recommendation ESRB/2015/1 on recognising and setting countercyclical buffer rates for exposures to**

third countries, which aims to standardise EU countries' policies concerning the recognition and identification of the countercyclical buffer for exposures to third countries.

In 2017, ESRB published a **Review of macroprudential policy in the EU in 2016,** which considers the macroprudential measures adopted in the EU during that year.

In connection with the ESRB's work on the **macroprudential policy beyond banking,** two reports were drafted and published with regard to insurance. Both reports contribute significantly to the continuing discussions about building a macroprudential framework for insurers. The report on the regulatory yield curve properties and macroprudential consequences suggests changes in the derivation of the risk-free yield curve, which are used to determine the value of insurers' liabilities under Solvency II. The report on the recovery and resolution for the insurance sector recommends a harmonised EU-wide framework in this regard. In 2017 ESRB published a report on the macroprudential use of margins and haircuts. A draft recommendation was also discussed to address liquidity mismatches and leverage in investment funds. The second issue of EU Shadow Banking Monitor presenting an assessment of structural changes and risks arising from the shadow banking system was also published in 2017.

The real estate sector remained one of the most important areas for macroprudential policymaking and is evaluated as one of the sources of systemic risk in the medium term in some EU Member States. A toolkit for risk analysis of commercial real estate was also developed and finalised at the end of the year. A report was also published related to non-performing loans (NPL), which proposes short-term, medium-term and long-term actions to tackle the NPL problems in the EU.

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

In relation to the FSC's commitments during the forthcoming Presidency of Bulgaria of the Council of the EU during the first half of 2018, the team at FSC committed to the preparation and conduct of the Presidency was expanded. Experts at the Commission were included in the teams of the Ministry of Finance (MF) under individual negotiation files. Multiple meetings were held with representatives of the Ministry of the Bulgarian Presidency of the EU Council 2018 and the Ministry of Finance. In cooperation with our colleagues from ESMA and EIOPA, steps were taken to initiate and organise two events during the Presidency – an off-site meeting of the Board of Supervisor of ESMA (22–23 March 2018) and EIOPA Strategy Day (29–30 May 2018).

Representatives of FSC attended a dedicated working session for young state employees in the context of the upcoming Bulgarian Presidency of the EU Council, in training for working with the Event Management System, accreditation and registration of delegates, as well as in a course on the topic of "Legislative Process in the EU and practice in the Trialogue following the Treaty of Lisbon. Strategies and lobbying tactics".

Dedicated teams of FSC experts were established to prepare documents and expert opinions within the Financial Services working group at the EU Council on issues related to proposal for implementation of a new prudential regime for investment firms and conducting discussions about legislative proposals for alleviating the clearing and reporting obligations under the Regulation on Central Counterparties, the development of a framework for recovery and restructuring of central counterparties and the review of their supervision, as well as the requirements for central counterparties from third countries.

In 2017, the process was initiated to review the prudential requirements for credit institutions and investment firms, as well as the applicable framework for their restructuring, in connection with which as part of the banking sector reforms package and part of the legislative package of the European Commission that also includes amendments to Regulation (EU) No 575/2013 (Capital Requirements Directive or CRR) to Directive 2013/36/EU (Capital Requirements Directive), amendments are proposed to Directive 2014/59/EU (Directive for recovery and resolution of credit institutions and investment firms).

5.2. International cooperation, projects and initiatives

FSC's cooperation with international organizations and financial institutions is a significant aspect of the regulator's activity which becomes even more important in the context of globalised financial markets. The Commission is 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,** 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, licence and other procedures, during the past year FSC continued to provide active support. A total of 57 requests for cooperation received from foreign supervisory authorities were complied with pursuant to IOSCO, IAIS and ESMA's memoranda of understanding. In turn, FSC has filed a total of 59 requests for cooperation with its foreign partners.

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. In this respect on 7–8 September 2017, FSC, which is a leading group supervisory authority of Euroins Insurance Group AD hosted a working meeting of the supervisory college with representatives of the Romanian financial supervisory authority and the Macedonian insurance supervision. Representatives of EIOPA also participated in the event.

Within the cooperation between FSC and the World Bank, a dedicated review of the pricing of Third Party Liability insurance was conducted in 2017. Also, in June 2017 the World Bank published its conclusions from the completed Financial Sector Assessment Program – FSAP conducted jointly with the International Monetary Fund. Part of the report includes an Action plan indicating specific steps to implement the recommendations. The report recommends several measures to improve the administrative and supervisory capacity of the FSC with recommendations reflected in the new Financial Supervision Commission Act, as well as the Rules of Organisation and Procedure of the Financial Supervision Commission and its Administration.

In connection with the entry into force of MiFID II as of January 2018, the FSC organised two workshops to prepare business for the new legal framework and the regulations for its implementation – on 28 June 2017 and 27–28 November 2017.

For the experts at FSC and the insurance industry, a workshop was organised and held with the participation of Prof. Karel Van Hulle. The event on the topic of “The European legal framework for application of Solvency II” was held on 12 September 2017.

With the goal of improving the expert capacity of FSC employees, on 20–21 November 2017, a training course was organised and held by EIOPA specialists with regard to the Solvency II regime and the practical aspects of its implementation.

5.3. Cooperation with institutions in Bulgaria

In order to improve the efficiency of control and regulation of the non-banking financial sector in Bulgaria, the FSC maintains and deepens its cooperation with state structures, industry associations of the entities it supervises and other stakeholders in view of the changes to legislation in the works, as well as with other authorities and institutions involved in the protection of consumers of non-banking financial services.

The Commission cooperates actively with industry associations – Bulgarian Association of Asset Management Companies (BAAMC), Bulgarian Association of Licensed Investment firms (BALII), Bulgarian Association of Supplementary Pension Security Companies (BASPSC), as well as numerous institutions – National Revenue Agency (NRA), State Agency for National Security (SANS), Bulgarian National Bank (BNB), Ministry of Finance (MF), Registry Agency (RA).

In 2017, an agreement was concluded between the Financial Supervision Commission and the "General Labour Inspectorate" Executive Agency based on Article 2 of the Final Provisions of the Ordinance on the procedures for exchange of information and cooperation between state authorities involved in the protection of employed persons who have filed notifications for violations related to market abuse of financial instruments.

During the reporting year, an agreement was concluded between the Financial Supervision Commission and the Registry Agency for cooperation and relations pertaining to the electronic data exchange between the two institutions.

In November of the reporting year, a representative of the Insurance Supervision Division took part in a working group formed under Resolution by the Minister of Healthcare. The group's task was to draft an Ordinance on the general conditions, minimum insurance amount, the rules and terms for insurance under Article 201, Paragraph 3 of the Health Act. The Ordinance pertains to the responsibility of the manager of a medical scientific study and the responsibility of the members of the study team for material and non-material damages to participants in the medical scientific study. The main aspects of work were identified at the meeting. The working group continued its work in 2018.

Within the reporting year, representatives of the Insurance Supervision Division participated in a series of meetings of a working group which includes representatives of the Ministry of Interior, the Guarantee Fund and the Association of Bulgarian Insurers in connection with the development of the bonus-malus system. The meetings were dedicated to: coordinating the selection of a consultant to develop the system for correction of insurance premiums based on motorists' behaviour, coordinating the information needed for technical analysis, as well as discussion of the preliminary versions of the reports provided by the consultant as work progresses.

In connection with the preparation of the Republic of Bulgaria for the Presidency of the European Union Council, representatives of the Insurance Supervision Division took part in preparatory meetings with representatives of the Ministry of Finance with regard to the tasks and priorities for the Presidency in the field of insurance and financial markets supervision.

During the reporting year, FSC's representatives, and in particular representatives of the 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, Working Group 2 "Free Movement of People" and Working Group 13 "Social Policy and Employment" under the Ministry of Labour and Social Policy.

A representative of the Social Insurance Supervision Division regularly participates in the procedure for ex officio distribution of those persons who have not chosen a supplementary mandatory pension fund, which is performed pursuant to Instruction No 1 of 21 February 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.

6. Institutional development of FSC

6.1. New points in FSC's management and structure

In 2017, FSC took steps to improve the efficiency and to optimise its institutional organisation and structure by complying with the recommendations made following an assessment by the International Monetary Fund and the World Bank under the Financial Sector Assessment Program (FSAP) and guaranteed itself full budget independence. This enables the institution to perform effective supervision in view of the increasing volume of regulatory and supervisory activities it is assigned.

FSC has secured its complete budget independence through amendments to the FSCA, which stipulate that the Commission shall finance its operations entirely by fees, collected in performance of its statutory powers. This ensures the availability of the resources and conditions necessary for the normal functioning of the institution as a regulatory and supervisory body of the non-banking financial sector. A similar approach to financial independence of the competent supervisory authority through self-financing has been adopted in numerous other Member States of the European Union, such as Belgium, Finland, Estonia, France, Greece, Latvia, Luxembourg, Poland, Portugal. By ensuring budget independence, FSC provides the necessary conditions for proper and effective performance of institutional functions as a regulatory and supervisory authority of the non-banking financial sector and fulfilment of the commitments of the Republic of Bulgaria as an EU Member State to provide appropriate financing of the competent authority in accordance with its national legislation. The strengthening the administrative capacity and the finding highly qualified specialists needed to perform the functions assigned to the institution are ensured through amendments to the FSCA, which regulate the transformation of the employment status of FSC’s staff from civil servants to employees, which enables greater recruitment flexibility.

In connection with identifying FSC as an authority for resolution of the investment firms, the Recovery and Resolution of Credit Institutions and Investment Firms Act introduced additional powers for the member of the Commission under Article 3, Item 5 of the Financial Supervision Commission Act, supporting the Commission in developing and implementing rules and systems for risk management of financial markets and protection of the interests of investors, insured and socially insured persons, who is also tasked with assisting the Commission in the performance of its powers as a resolution authority. In view of this, administrative structures as well as sections of administrative structures are merged into a unit to support of the member of FSC in exercising their statutory powers.

With the goal of improving the coordination of the institution's operations, achieving aunified approach to decision-making under the core proceedings for issuing authorisations and approvals, as well as ensuring the stability of these decisions through legislative amendments in the specialised laws, which define the powers of the FSC and its bodies to issue such authorisations and approvals, the powers of the Commission are expanded as a collective body and the powers of the responsible Deputy Chairpersons are limited.

The election by the National Assembly of a Deputy Chairperson of FSC, Head of the Social Insurance Supervision Division and a Deputy Chairperson of FSC, Head of the Investment Supervision Division in October 2017 completed the managerial staff of the institution, which ensured its proper and effective management and functioning.

6.2. Human resources management

Financial Supervision Commission’s structure and functions are defined by the FSCA, the Rules of Structure and Activity of the Financial Supervision Commission and its Administration (RSAFSCA), the special acts and regulations that govern the investment, insurance and social insurance activity. The total number of employees working at FSC as at the end of 2017 was 255 (five members and 250 persons working in administration). The administration is divided into general, specialised, and units and positions directly subordinated to the Chairperson: Internal Audit Unit, Legal Directorate, International Cooperation

Directorate and Regulation and Supervision Coordination and Policy Directorate, Chief Secretary, State Inspector, Finance Controller.

The general administration assists the Chairperson of the Commission in exercising their powers as head of the administration, ensures the technical provisioning for the activities of the Commission and of the specialised administration, and performs activities related to administrative services for citizens and legal entities. At the end of 2017, the following directorates comprised the general administration:

- Legal Directorate – 19 permanent posts;
- International Cooperation Directorate – ten permanent posts;
- Coordination and Policy of Regulatory and Supervisory Activity – three permanent posts;
- Records and Administrative Services Directorate – ten permanent posts;
- Financial and Economic Activities Directorate – 22 permanent posts;
- Information Technologies Directorate – eight permanent posts;
- Public Relations and Protocol Directorate – six permanent posts;

The specialised 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;
- Supervision of Investment Activity Directorate – 59 permanent posts;
- Regulatory Regimes of Insurance Supervision Directorate – 15 permanent posts;
- Insurance Supervision Directorate – 32 permanent posts;
- Regulatory Regimes of Social Insurance Supervision Directorate – eleven permanent posts;
- Social Insurance Supervision Directorate – 15 permanent posts;
- Analyses, Complaints and Resolution Directorate – eleven permanent posts.

To achieve the strategic objectives, the Commission has as its priority the improvement of conditions and provision of favourable working and social environment to attract suitable recruits, as well as to keep qualified employees and further their professional development. A review was conducted and measures were identified to develop the policy and systems for assessment of employee performance and remuneration according to fulfilment of professional assignments, achieved results and regulatory requirements.

At the end of 2017, FSC staff numbered 198 while in 2016, they were 186, and 67 employees were recruited during the year. FSC continued to attract applicants with suitable education, which corresponds to the policy for hiring highly qualified specialists who meet the institution's high requirements. In 2017, following competitions held pursuant to the Ordinance on competitions for civil servants, there were 43 competitive procedures for 50 permanent posts with 504 candidates as a result of which 49 new employees were hired (compared to eight in 2016), five of whom were hired using the option to appoint a candidate that ranked second or third.

Ten of the procedures ended without appointments due to the lack of suitable candidates. The main problem in attracting staff through competition was once again that the remuneration offered did not match the high requirements for the candidates.

FSC utilised the possibility stipulated in the Civil Servants Act and through the mobility mechanism within government administration to attract five employees – including one at a managerial position and four experts.

There were 53 resignations in 2017 (compared to 62 in 2016). Also, during the reporting year, the employment of three staff members was terminated due to their entitlement to pension benefits for contributory service and retirement age.

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 accounting for 13% of employed administrative staff at FSC. The largest part of employees falls into the 30 to 59 years age group (83%). There are seven FSC employees over the age of 59.

Figure 16. Distribution of employees by age and type of labour contract as at the end of 2017

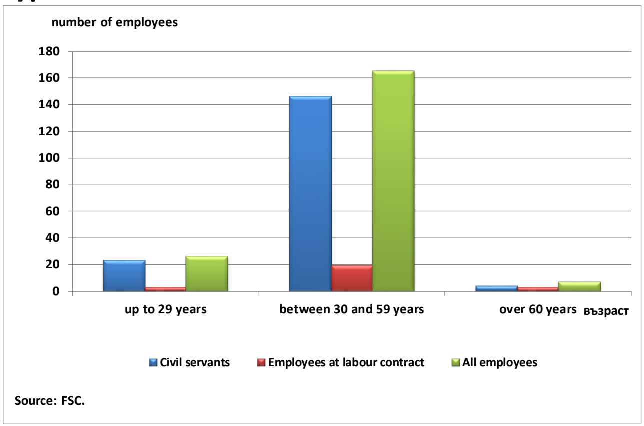
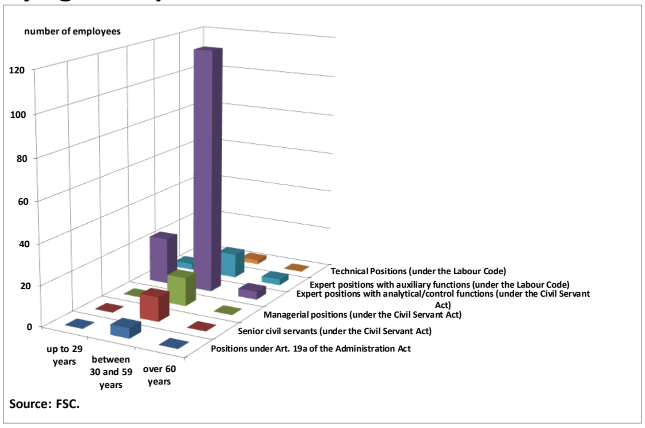


Figure 17. Distribution of appointed employees by age and position as at the end of 2017



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 or 90% of the employees in 2017, including those having a PhD (3%), a Master's degree (84%) and a Bachelor's degree (4%). The share of employees with secondary education is the lowest (10%). The distribution of FSC employees by areas of higher education is as follows: the highest percentage (49%) are employees with higher education in the field of economic sciences, 37% – in the field of legal sciences, 3% – in the field of social sciences, 4% – technical sciences and informatics, 2% – natural sciences and mathematics, and 1% have education in other fields.

Figure 18. Distribution of staff by educational degree in 2017

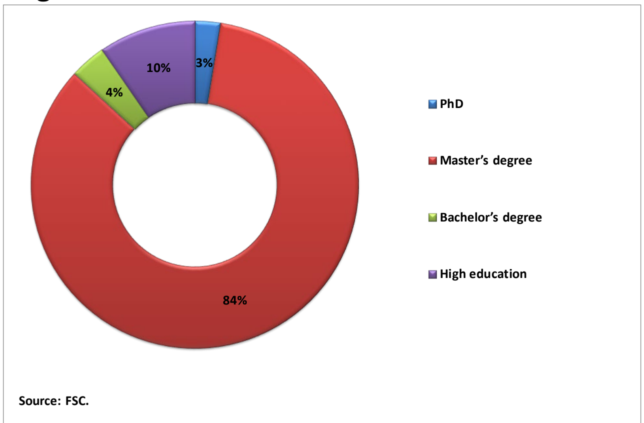
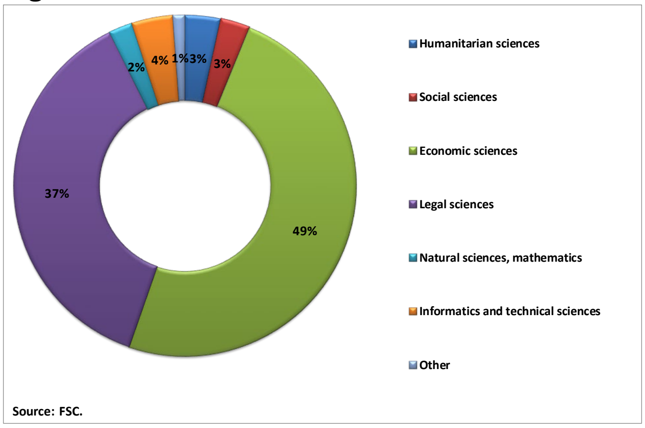


Figure 19. Distribution of employees by areas of higher education in 2017



FSC's effective regulatory and supervisory activity, maintaining the basic skills and improving the competences of staff are ensured through their participation in current and specialised trainings. In order to facilitate the increase of qualifications and the acquisition new skills by employees, FSC's employees underwent training at the Institute of Public Administration (IPA).

Table 24. Trainings held at the Institute of Public Administration of FSC's employees in 2017

Topic of training	Number of trainings held	Number of staff trained*
2017 – Н-7А – Implementation of Administrative Procedure Code (for non-jurists)	1	1
2017 – Н-3 – Organisation of the document turnover in the state administration	1	3
2017 – П-1 – Political analysis	1	1
2017 – П-2 – Impact assessment	2	4
2017 – Н-8 – Practical issues of administrative offences and penalties (for jurists)	2	5
2017 – Н-9 – Practical issues of administrative offences and penalties (for non-jurists)	2	16
2017 – П-17 – Internal control	1	2
2017 – П-14 – Demographic policy in Bulgaria – from challenges to opportunities.	1	1
2017 – П-18 – Performance audit of administration activities	1	1
2017 – П-10 – Development, implementation, monitoring and assessment of public policies	1	1
2017 – П-3 – Public consultations and working with stakeholders	1	3
2017 – УМ-12 – Training of mentors in state administration	1	1
2017 – П-11 – Improved regulation for improved business environment	1	5
2017 – Е-2 – Interoperability and information security	1	3
2017 – УМ-5 – Personal efficiency. Emotional intelligence	3	7
2017 – РХ-2-ФГ-6 – Legislative processes in EU (ФГ-6)	1	1
Total:	**21**	**55**

Note: *The number of trained employees exceeds the actual number of employed persons, because some have participated in more than one training course.

In 2017, training courses at other training institutions in the country were held in order to enhance the professional knowledge of employees from the general and specialised administration of FSC so as to successfully execute its strategic functions, to improve the employees' key skills in view of optimising work processes, and enhancing the personal motivation of employees.

Table 25. Training courses held at the Public Finances School in 2017

Topic of training	Number of trainings held	Number of staff trained*
Drafting an audit report – main requirements, practical guidelines	1	1
Internal auditor and IT audit in state administration – information system audit.	1	1
Public procurement management. Applicable legal requirements and practices in the application of the Public Procurement Act.	1	3
International standards on professional ethics for internal audit.	1	3
Audit committees in the public sector	1	2
The role of internal audit in fraud prevention	1	1
Risk management in public sector organisations	1	1
Preliminary legality supervision before the taking up of obligations and before incurring costs, and a double signature system in public sector organisations.	1	1
Total:	**8**	**13**

Note: *The number of trained employees exceeds the actual number of employed persons, because some have participated in more than one training course.

Table 26. Training courses held at other training institutions in Bulgaria of FSC's employees in 2017

Training institution	Topic of training	Number of trainings held	Number of staff trained*
TechnoLogica EAD	HeRMeS V – training for administrators	1	2
NKC „Reshenie“ OOD	Administrative Procedure Law	1	3
	Civil Procedure Law	1	2
Institute of Internal Auditors in Bulgaria	Presenting the results of a completed audit.	1	1
	Risk assessment when planning an audit	1	1
State Commission on Information Security	Training on classified information security	1	2
Dware LTD	Training course for Dos E-Register 1D	1	8
Bulgarian Actuarial Society	“Insurance obligations – part II. Solvency II”	1	10
	“Insurance obligations – transfer of reserves, establishing a reserve for future payments”	1	11
	Probabilities and statistics	1	3
	Enterprise Risk Management	1	5
	Methods for establishing reserves for future payments	1	1

Business Education Club	Specialised practical training for financially liable persons – documents, stocktaking, business operations under resolutions.	1	1
	Annual accounting balance closing at budgetary organisation for 2017. Deficiencies and errors in current reporting of business operations.	1	2
	Accrual of depreciation of non-financial non-current assets of budgetary organisations. Deficiencies and errors in reporting of business operations in the public sector.	1	2
Ernst & Young Bulgaria OOD	Analysis of historical and forecast information – training in the field of financial reporting and analysis	1	63
	Methods for evaluation of businesses, shares, bonds, investment enterprises	1	77
Total number of staff trained		**17**	**194**

Note: *The number of trained employees exceeds the actual number of employed persons, because some have participated in more than one training course.

FSC continued maintaining its useful partnership relations with a number of international institutions – Joint Vienna Institute, International Monetary Fund, EIOPA, ESMA, etc. During the reporting period 107 employees participated in trainings organized by institutions abroad, compared to 39 for 2016.

Table 27. Trainings held for FSC employees at other training institutions abroad in 2017

Training institution	**Topic of training**	**Number of trainings held**	**Number of staff trained***
ESMA	Participation in "Day of financial innovation".	1	1
	Workshop on the topic of "Officially Appointed Mechanisms (OAMs) in connection with the European single electronic format"	1	1
	Workshop on the tests for acceptance of users into MiFIR systems	1	2
	Application of the new regulations on the Markets in Financial Instruments Directive (MiFID II).	1	1
	Workshop on the process of licensing central depositories	1	1
	MIFIDII – A focus on best execution requirements	1	1
	Workshop on the topic of UCITS/AIFMD	1	1

	Court proceedings in EU	1	1
	Workshop – Supervisory approach of ESMA, credit risk agencies and transaction registries, EMIR vs SFTR	1	25
EIOPA	Workshop on IORP Stress Test 2017	1	1
	Participation in a workshop related to the supervision of qualitative requirements of EIOPA	1	2
	Participation in a workshop for the supervision of quantitative requirements of EIOPA	1	1
	Third translation workshop Directive EU 2016/97 on insurance distribution	1	2
	Workshop on the requirements for a Key Information Document for Packaged Retail and Insurance Based Investment Products	1	2
	Workshop on Product Oversight and Governance Requirements under the Insurance Distribution Directive (IDD)	1	1
	Seminar on the Solvency II regime	1	22
European Commission	Round table to encourage retail investment in capital markets	1	1
	Second workshop on the translation of the Directive on insurance distribution	1	2
European Parliament	Dedicated working session for young state employees in the context of the upcoming Bulgarian Presidency of the European Union Council in 2018.	1	1
KNF	TIFS workshop	1	1
	TIFS workshop “Capital adequacy and regulatory compliance of insurance companies”	1	1
IMF/JVI	Training “Financial sector supervision”	1	1
IMF	Online training “Financial markets analysis”	1	4
	Online training “Macroeconomic forecasting”	1	1
KU Leuven and Goethe University Frankfurt (Prof. Karel Van Hulle)	Workshop “European legal framework for application of Solvency II”	1	30
Total		**25**	**107**

Note: *The number of trained employees exceeds the actual number of employed persons, because some have participated in more than one training course.

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 2017, 14 employees of the Commission were promoted (compared to 68 in 2016).

Table 28. Final annual evaluations of professional performance at FSC in 2017

Evaluations	Civil servants	Staff under employment contracts	Total by type of evaluation
Exceptional performance	9	-	9
Performance exceeds requirements	81	11	50
Performance fully meets requirements	49	8	57
Performance does not fully meet requirements	1	-	1
Unacceptable performance	-	-	-
Total by type of contract	140	19	159

The motivation to achieve better performance and high results from employees' activities is related to career growth, opportunities for training and financial stimulation, in accordance with the high results achieved within the legislation regulating civil service. In 2017, twelve competitive selection procedures were held which resulted in promotions (compared to 25 in 2016).

The Financial Supervision Commission continued employing interns – students in the Students Internships Programme in the state administration and persons who have obtained higher education, in accordance with 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 13 young persons the opportunity to have their internship at FSC.

6.3. Development of information technologies for the needs of supervision

In 2017, under strict compliance with legal procedures and financial restrictions at the Commission's disposal, the development of the existing IT infrastructure continued, with contracts concluded for the start of the process of implementing data loss prevention (DLP) systems, rights management system (RMS), etc. In the field of electronic signing of documents, after the available hardware used by FSC was adapted to solutions which utilise electronic signatures, a contract was signed to provide qualified electronic signatures for all employees and systems.

The trend for developing information systems sustainably and in accordance with current trends was continued along with the virtualisation of various server resources. The objective was 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 procedure was also initiated to implement an automated information system for activities under Article 26 of MIFIR.

The maintenance of the current state of information in FSC's registers continued. The information in e-Register was 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 entities. All the other circumstances are duly updated in the e-Register and the index on the basis of the information submitted by divisions in the orders.

The Commission continued to participate actively in the working groups of ESMA and EIOPA looking for IT solutions and their implementation for supervisory purposes.

In 2017, work also started on a description of business processes within individual directorates in order to prepare the terms of reference for building a unified information system and register based on current technical solutions to replace those currently in use, which are obsolete, ensuring the seamless integration and data exchange necessary for individual business processes within and outside the Commission.

6.4. FSC's budgetary implementation report for 2017

The Financial Supervision Commission is a legal entity supported by the state budget pursuant to Article 2, Paragraph 3 of the FSCA. The Commission's Chairperson is a budgetary authorising officer, whereby the FSC's budget is prepared, implemented and accounted for pursuant to the Public Finances Act.

The statement on cash amounts in FSC's budget for 2017 reports **total income in the amount of BGN 6,763,717.** This includes revenue collected by the National Revenue Agency (NRA) in the amount of BGN 316,601, specified in the income statement with the minus symbol, pursuant to the instructions of the Ministry of Finance. The execution of the revenue by the FSC compared to the annual plan amounts to 104.05%.

The structure of revenues for 2017 is as follows:

- revenue from state taxes – BGN 4,196,086 of which BGN 4,191,262 were received in FSC's account, and BGN 4,824 were reported as incoming statements for amounts collected by NRA. The largest relative share (84.56%) of reported fees was the annual fee for overall financial supervision – BGN 3,548,405. Fees received for the issuance of licences for investment and insurance activities, for confirmation of prospectuses for public offering of securities and other fees for a total of BGN 647,681.
- income from fines, pecuniary sanctions and interest – BGN 2,882,591, of which BGN 2,811,832 represent fines and pecuniary sanctions under enforced penal resolutions, including the BGN 70,759 and those collected by NRA are interest on annual fees for overall financial supervision and penal resolutions overdue beyond the statutory deadlines.
- other non-tax revenue (BGN -314,960) reflecting other non-tax income amounting to BGN 1,728, negative exchange rate differences (BGN -87), as well as public debt of FSC (BGN -316,601).

As at 31 December 2017, **the reported expenditure of FSC amount to BGN 11,006,082**, allocated as follows:

- staff costs – BGN 7,190,553, including reported payroll costs and remuneration of employees and civil servants, remuneration paid to employees on non-permanent posts, those employed under Resolution No 66 of the Council of Ministers for staffing of certain positions in budgetary organisations, amounts paid for non-employment contracts, for social, household and cultural services for persons under employment contracts, for representative work clothing under the Civil Servants Act, for compensation of employees and remuneration under Article 40, Paragraph 5 of SIC, as well as costs for mandatory social insurance contributions due by the employer. Reported payroll and remuneration costs for 2017 amount to BGN 5,442,761. The average monthly salary in 2017 for the FSC as a whole amounted to BGN 2,302. In accordance with the requirements of the Financial Supervision Commission Act applicable in 2017, the average basic monthly salary of the Chairperson of FSC for 2017 amounted to BGN 4,403 and the other members of FSC – BGN 3,962.

- current operating costs – BGN 1,647,728. The amount spent on rent, security and cleaning the administrative building of FSC, electric power, telecommunication and postal services, software products support, insurance, office materials, consumables and other supplies and services. This also includes expenditure for specialised training of FSC employees and business trips abroad – participation in the Management Boards of ESMA and EIOPA, ESRB, working groups and training, annual conferences of international organisations. The largest relative share of operational costs are the expenditure for renting the administrative building of FSC.
- costs for taxes and fees – BGN 4,283.
- costs for membership contributions and participation in non-commercial organisations and activities – BGN 1,801,182. The costs were for annual contributions of FSC for membership in European supervisory authorities: EIOPA and ESMA, as well as annual membership contributions for international organisations: IOSCO, IAIS and IOPS.
- capital expenditure – BGN 355,624.
- expenditure under the "Career start" programme of the Ministry of Labour and Social Policy – BGN 6,712.

Funding those costs has the following ratio:

- budget revenues received in cash – BGN 6,763,717 or a relative share of 61.45%;
- transfer from the central budget and transfers for assumed social insurance contributions and taxes – BGN 4,233,676, or a relative share of 38.47%;
- transfer from the Ministry of Labour and Social Policy under the "Career Start" programme amounting to – BGN 6,712, or a relative share of 0.06%;
- transfer from the previous period – BGN 1,977, or a relative share of 0.02%.

6.5. Activity Report on the Internal Audit at FSC for 2017

In connection with the amendments and supplements of the Public Sector Internal Audit Act (PSIAA, State Gazette, issue 51/5 July 2016), modifications were made, which affect the audit activities within FSC and stipulated in RSAFSCA (State Gazette, issue 53/4 July 2017). These are related to stipulating the functions of the audit committee as powers of the collective managing authority.

The operations of IAU in 2017 were executed in accordance with the requirements of PSIAA, international standards for professional practice of internal auditing, the Code of Ethics of Internal Auditors, the methodology issued by the Minister of Finance as well as the IAU Status, Strategic Plan for 2017–2019 and Annual Schedule of Audits for 2017, approved by the Chairperson and coordinated with the Commission.

The following audits were performed during the reporting period:

- audit of management operations of the Investment Activity Supervision Division for the period 1 June 2015 – 30 November 2016 assessing the plans for recovery of investment firms as per the Recovery and Resolution of Credit Institutions and Investment Firms Act;
- audit of activities in performance of public procurement for the period 1 May 2016 – 30 November 2016;
- audit to evaluate the necessity to introduce POS payments at FSC as per the Limitation of Cash Payments Act for the period 2012–2017.
- official audit advisory commitment to provide methodological and technical support in the drafting of FSC's Risk Register for 2017 and a Report on the Risk Register for 2016.

Audit commitments in the process of implementation during the reporting year and transitional for the following year:

- audit of FSC's readiness to apply Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data and repealing Directive 95/46/EC;
- audit of compliance of operations for review of complaints and notifications filed against entities supervised by FSC with the applicable legislation.

IAU performed unofficial audit advisory commitments, the more significant of which was support for the execution of the annual self-assessment of the state of financial management and control systems (FMCS) at FSC for 2016.

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 (electronic registry) 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 was maintained, and in 2017 they were implemented at 80%. This showed that the communication during the audit commitments was effective, as well as improvement in the ability to formulate suitable proposals for improvement of FSC's control and operations.

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

As a result of the internal audit activity, the following main conclusions on the functioning of FMCS at FSC can be summarised:

- The Commission has established a steady process of goal setting with regard to the availability of outlined short-term strategic objectives and priorities, and determining of annual activities to achieve those. The budgetary independence secured for the next reporting period and establishing the sustainably of the budget shall ensure the successful development of the institution.
- Risk management is an integral part of the activities of FSC and the general management process at the Commission. Its subsequent development shall be directed towards the systematic upgrade of knowledge and experience in the field, improving the quality of risk-registers of the administrative units and their integration into operations (use as a practical tool for preliminary consideration and identification of possible difficulties).
- Risks are generally taken into account in the rules and procedures regulating the audited activities. In the analysis of control mechanisms it is important to deepen the interrelation with the risks identified and evaluated for the purposes of identifying procedures where the costs for resources (time or human) do not match the benefits of their application and of simplifying unnecessarily sophisticated procedures.
- Control mechanisms are integrated in FSC's activity and are generally applied effectively thus ensuring the compliance with applicable legislation and internal acts.
- The Commission takes consistent actions to establish reliable communication and information management systems.
- At the FSC, generally activity is monitored effectively, thus allowing for changes or corrective actions, where necessary.

In accordance with the requirements of PSIAA and in order to enhance internal audit activities, an external assessment was performed of the quality of audit activities at FSC. The assessment was performed by an external team of the Ministry of Finance (MF), Methodology of Control and Internal Audit

Directorate. The independent opinion was expressed that IAU *operated in compliance*, which was the highest rating according to the four level grading system and indicated that activities were vcompliant with the applicable requirements.

6.6. Report of the Inspectorate

The activities of the State Inspector during the reporting period were entirely in line with the objectives and activities stipulated in the Rules of Structure and Activity of the Financial Supervision Commission and its Administration, the Rules for the work of the State Inspector within FSC, as well as the regulations governing inspectorates' activities.

In exercising their powers, the State Inspector has the following objectives:

- Prevention of disruptions in the functions of the administration and limiting negative occurrences in the administrations' activities;
- Improvement of the operation of the administration;
- Prevention and limiting of corruption;
- Strengthening the trust of investors, insured and socially insured persons in the institution;
- Enhancement of personal professional knowledge and skills;
- Expanding the cooperation and communication with state structures of the legislative, executive and judicial authorities and non-governmental organisations.

In order to achieve the objectives, the activities of the State Inspector in 2017 were focused on:

- Performance of inspections on the compliance with regulations during implementation of functions within the structural units subject to evaluation in order to limit the negative occurrences and to improve operations of FSC's administration;
- Performance of inspections based on signals and proposals against illegal or improper actions or inactions by officials of FSC's administration.
- Performance of compliance inspections pertaining to laws, regulations and internal acts on the organisation of FSC's administrative operations.
- Collecting and analysing information and performance of inspections at their own initiative to ascertain violations, potential corruption and non-effective operation of the administration.
- Initiating proposals for amendments to the regulations due to deficiencies, weaknesses and errors in FSC's administration found during the inspection.
- Reporting the findings of the inspection and making proposals on elimination of any ascertained deficiencies or violations.
- Monitoring of implementation of recommendations and proposals made following the inspections.
- Survey and assessment of training needs in the field of administrative control so as to achieve higher quality and professionalism of control functions.

When implementing its control functions during the reporting year, the State Inspector performed a total of five (scheduled and extraordinary) inspections:

- Four inspection for compliance with applicable laws, regulations and internal acts on the organisation of the activities of administration officials;
- One inspection for illegal or improper actions or inactions of administration officials;

As a result of the inspections performed in 2017, it was found that FSC's administration performs its statutory tasks in accordance with the law and has not allowed any administrative violations subject to penalties. Nonetheless, specific proposals were made to improve the operation of some administrative units, initiating amendments to regulatory or internal acts.

II. MARKET ANALYSIS OF NON-BANKING FINANCIAL SECTOR

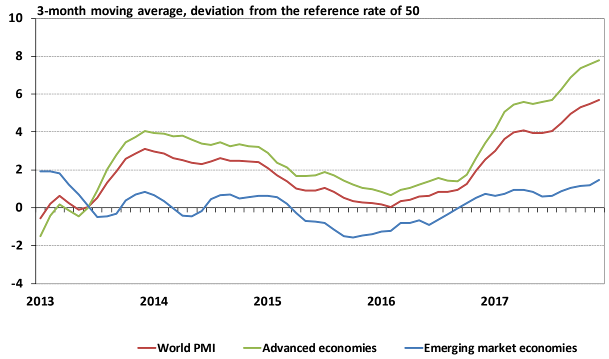
1. External environment and economic activity

1.1. External environment

In 2017, the global economy grew by 3.6%, compared to 3.1% in the previous year. The main contributor to the positive growth was the revival of global trade, the recovery of investments, the growth in developing Asian countries and the economic growth in developing European countries. The ECB's decision to extend its buy-back programme for sovereign bonds supported the upward trend of financial markets in the Euro zone. Changes in the US tax policy improved business trust and broadened the intended investments by American companies.

In 2017, the global PMI that reports business' attitudes (quarterly), continued its upward dynamic, closing in December the best period for the industry over the past seven years. The renewed investment expenditure in developed economies and the end of the investment decline in some developing export markets supported the PMI in its positive trend. The increase of PMI was noted both in developed and in developing countries.

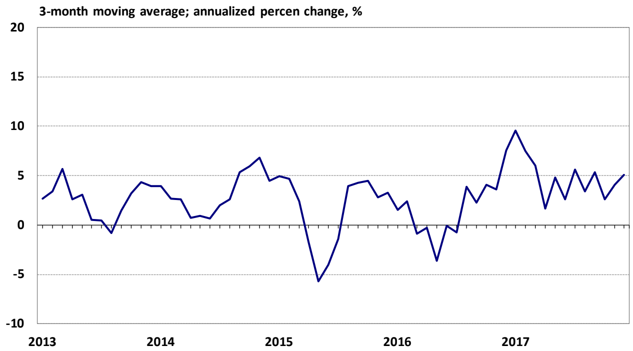
Figure 20. Manufacturing PMI



Source: IMF.

Following two years of decline, global trade registered a recovery in 2017 as a result of increased investment activities around the globe. The recovery of investment activity in developing exporter countries in 2017 served as the basis of their growth after they were impacted by the drop in commodity prices in the period 2015–2016 (especially countries such as Brazil and Russia).

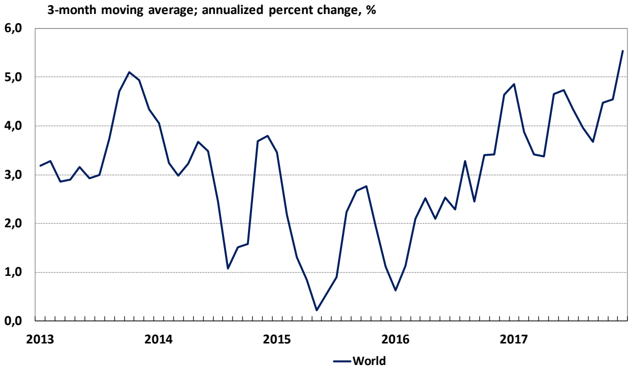
Figure 21. Global trade



Source: IMF.

Growing core capital investments and the accelerated stock accumulation contributed to increased financial resources available to companies and increased demand for goods – especially during the second half of 2017. In the USA, industrial output increased by 1.8%, achieving the highest growth since 2014.

Figure 22. Industrial Production Index



Source: IMF.

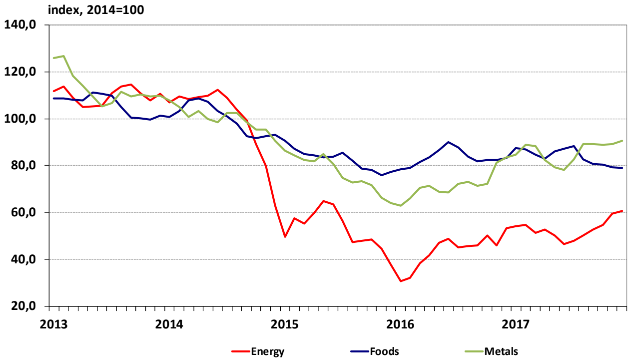
The increase of prices of basic raw materials in 2017 was mainly due to the rising oil and natural gas prices, with prices of metals and agricultural goods also went up. The price of oil increased to over USD 65 per barrel in January 2017 due to accident interruptions of production in the Gulf of Mexico, Libya, the North Sea and Venezuela. The other reason for the increased oil prices was the decision taken in November 2017 to extend the agreement for limiting oil production by OPEC until the end of 2018.

The natural gas price index also went up at the beginning of 2017. The increased demand for liquefied natural gas (LNG) in China was due to government restrictions on the use of coal in order to reduce air pollution, which led to the greatest increase in the price of this commodity for the last three years.

The price of metals increased in tandem with global demand and reduced supply (especially of aluminium) – due to cuts in China's production capacity. In 2017, the global price index of metals grew by 7%.

The price index of agricultural products traded on international markets grew in the middle of 2017 as the result of unfavourable meteorological conditions, which reduced the yields of cereals and oil-bearing crops. Despite this, the overall food price index fell by -9.8% in 2017 due to a significant drop in the prices of other groups of food products (such as vegetable oil).

Figure 23. Prices of food, raw energy products and metals



Source: IMF.

European capital markets continued their upward dynamic, fully supported by favourable economic development. In October 2017, the ECB announced a gradual reduction of monetary incentives – from EUR 60 billion per month to EUR 30 billion, while extending the term for buy-out of sovereign bonds until September 2018.

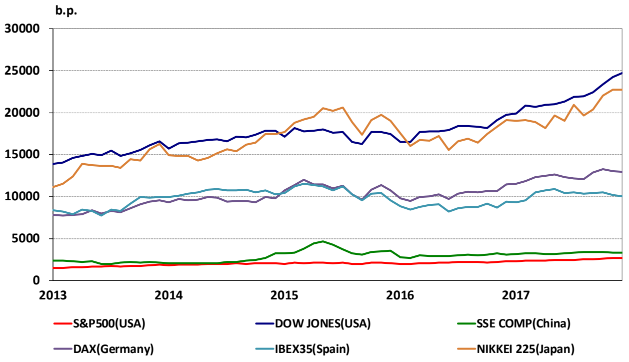
The USA equity market was supported by the final tax reduction package of President Trump and the costs promised for infrastructure development. Congress approved a bill which included a tax rate reduction for business from 35% to 21%. The USA Federal Reserve increased short-term interest rates to 1.5% at the end of 2017.

Within the Euro zone, the German DAX rose by 12%, while the Spanish IBEX35 increased by 7.8%.

The American indices S&P500 and DOWJONES increased by 17.3% and 24.4%, respectively, in 2017.

Asian stock exchanges also showed an upward trend in 2017, with the Chinese SE COMP growing by 4.7%, and the Japanese NIKKEI225 by 19.6%.

Figure 24. Capital markets



Source: Investing.com.

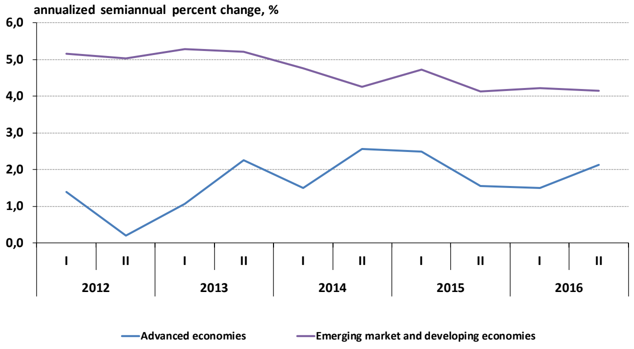
Global economic growth in 2017 was 0.5 p.p. higher than the previous year and the highest in seven years. Developed economies reported accelerated growth from 1.7% in 2016 to 2.6% in 2017. The American economy grew by 2.3% in 2017, compared to 2% in the previous year due to increased consumer and business trust.

The recovery in the Euro zone continued as a result of improved global trade and the growth of retail sales due to higher incomes. GDP growth in the United Kingdom slowed to 1.8% in 2017 from 1.9 in 2016 caused by weaker retail sales and the barriers to trade and cross-border financial operations in connection with Brexit.

In 2017, economic growth was due to increased private spending both on developing markets and developed economies. Growth in China and India was supported by growing export and strong retail demand, while investment growth slowed down.

In 2017, China's real GDP grew to 6.9% from 6.7% for the previous year. China's economy grew significantly in the first nine months of the year, but government measures to reduce risks in the financial sector lead to higher loan costs, which caused concerns about GDP growth.

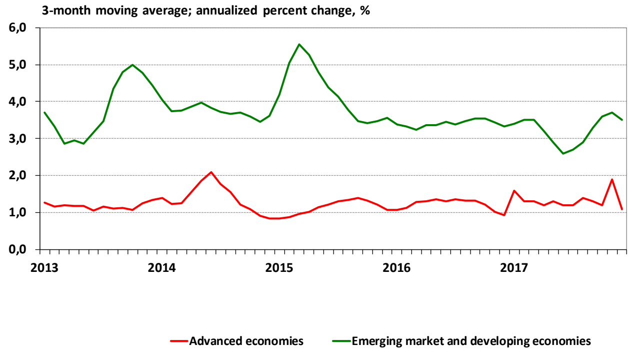
Figure 25. Real GDP growth



Source: IMF.

In 2017, global inflation changed insignificantly. In most developed economies it did not reach the targets set by central banks even with increased consumer spending and low unemployment. Inflation in developed countries increased minimally to 1.3% and in developing countries it fell slightly to 3.2%. In the United Kingdom, where the pound lost its value and higher consumer prices increased, inflation was 2.7% and remained above the 2% target value set by Bank of England.

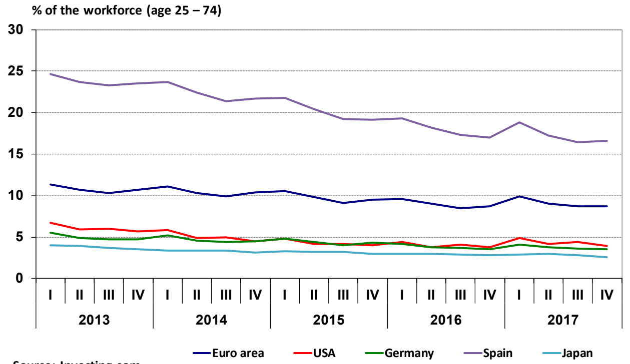
Figure 26. Inflation



Source: IMF.

The unemployment rate in the Euro zone in 2017 fell to 9.1% compared to 10% in 2016. The highest unemployment rate was in Greece (21.5%) and Spain (17.2%). The unemployment rate in Germany remained the lowest (3.8%). The labour market in the USA improved with the unemployment rate falling to 4.4% in 2017 from 4.9% during the previous year.

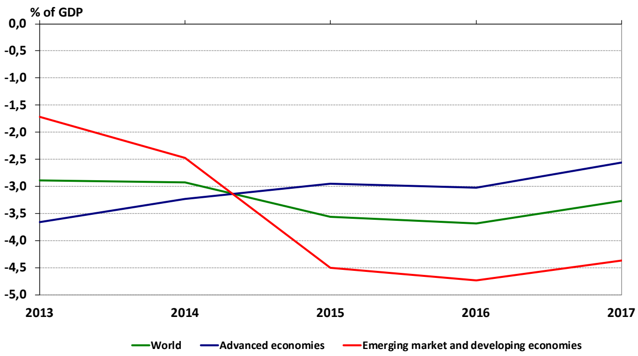
Figure 27. Unemployment dynamics on a global scale



Source: Investing.com.

In 2017 there was decrease of budget spending on a global scale. The budget deficit fell to -3.3% of GDP compared to -3.7% in 2016, reflecting a reduction of fiscal policies to stimulate economic growth in developed economies with their deficit falling to -2.6% of GDP from -3% the previous year. In developing economies the negative budget deficit was -4.4 of GDP for 2017, compared to -4.7% for 2016.

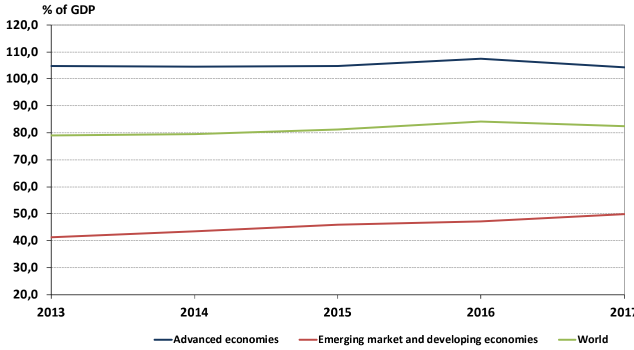
Figure 28. Balance of public finances



Source: IMF.

Public debt on a global scale continued to decrease, reaching a level of 82.4% of GDP in 2017, compared to 84.1% during the previous year. In developed countries, public debt fell to 104.4% in 2017 from 107.5% of GDP in 2016. Public debt in developing economies grew to 49.8% in 2017 from 47% in the previous year.

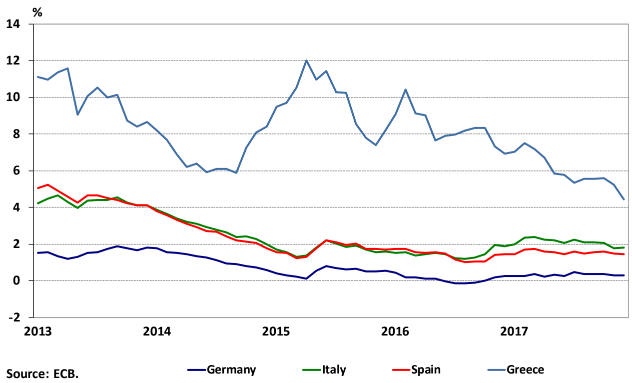
Figure 29. Public debt on a global scale



Source: IMF.

Ten-year sovereign bond yields remained low in 2017. The average annual yield of these sovereign bonds in Germany and Spain was respectively 0.32% and 1.56%. Greek ten-year sovereign bonds had an average annual yield of 5.98%.

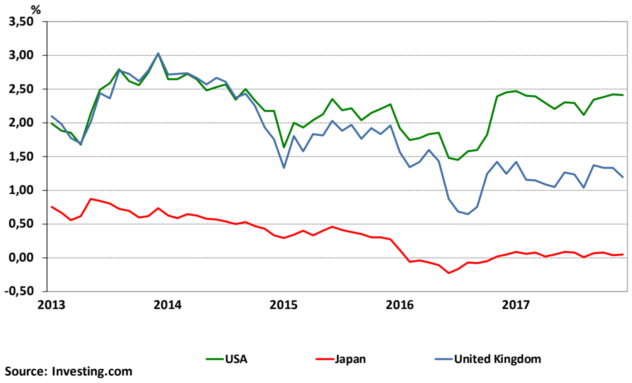
Figure 30. 10-year sovereign bond yields of Germany, Italy, Spain and Greece



Source: ECB.

In 2017, the 10-year sovereign bonds of USA and Japan had an average annual yield of respectively 2.33% and 0.06%, and the sovereign bonds of Great Britain had an average yield of 1.22% under the influence of the unclear outcome of negotiations with the EU over Brexit.

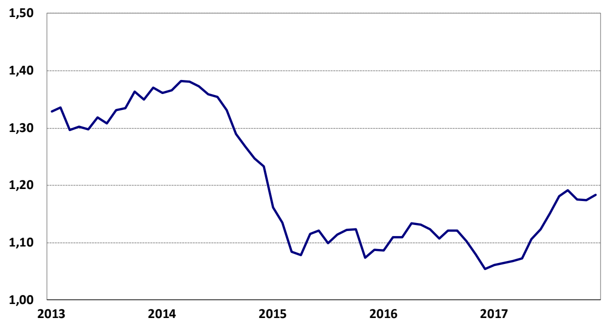
Figure 31. 10-year sovereign bond yields of USA, Japan and Great Britain



Source: Investing.com

In 2017, the value of the single European currency increased. Despite the increase of interest rates by the Federal Reserve of the USA, strong economic data from the Euro zone and increased geopolitical tensions between the USA and North Korea devalued the US dollar in 2017, with the Euro increasing in value by 11.5% against the American currency, while it fell by -0.03% in 2016.

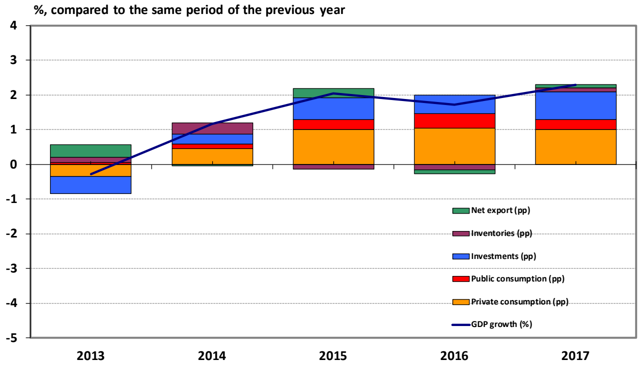
Figure 32. USD/EUR Exchange Rate



Source: ECB.

In 2017, Euro zone GDP grew to 2.3% compared to 1.7% in 2016. During the analysis by components, the main contributor to the growth in the Euro zone was retail spending (1 p.p.), as a result of higher household income. Investments also grew, contributing 0.8 p.p. to the GDP growth. Government spending in the Euro zone fell slightly, which limited growth by 0.3 p.p. The net export and reserves increased minimally.

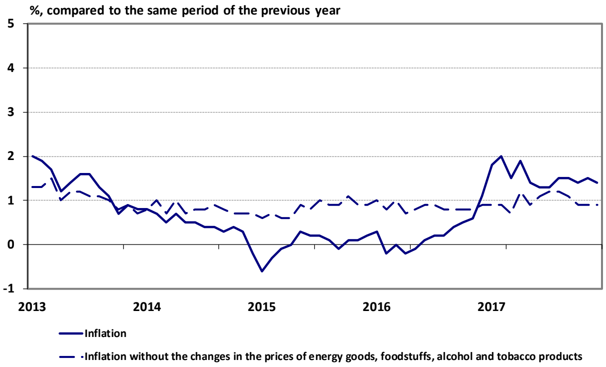
Figure 33. GDP growth in the Euro zone



Source: Eurostat.

In 2017, inflation in the Euro zone increased to 1.7% but remained under the target value of 2% set by the ECB. Inflation measured excluding the prices of energy goods, foods, alcohol and tobacco products, grew slightly, reaching 1%.

Figure 34. Inflation in the euro area



Source: Eurostat.

In 2017, the GDP of Central and Eastern European (CEE) countries continued its growth. The highest GDP growth rate was that of Turkey by 7% in 2017 from 1.5% during the previous year as a result of infrastructure investments and the government's decision to provide wide-scale credit to small and medium-sized enterprises. Romania's economy grew by 7% in 2017 from 4.8% in 2016. The factors which supported economic growth in 2017 were the utilisation of EU funds and increased exports to the Euro zone. Retail spending in CEE increased as a result of the positive developments on the labour market and higher wages.

Table 29. Real GDP growth in CEE

	2016	2017
Czech Republic	2,4	4,3
Hungary	2	4
Poland	2,8	4,6
Romania	4,8	7
Turkey	1,5	7
Note: Annual growth rate (%).		
Source: IMF, National Statistical Institutes.		

In 2017, inflation in CEE countries increased, with Romania staying below the target level of the central bank. The highest inflation rate growth was in Romania and Turkey, respectively from -1.5% and 8.4% for 2016 to 1.3% and 11.1% in 2017. The increase of inflation in both countries was due to higher international prices of some basic commodities and government measures to stimulate the economy.

Table 30. Inflation in CEE

	2016	2017
Czech Republic	0,6	2,4
Hungary	0,4	2,4
Poland	-0,6	2
Romania	-1,5	1,3
Turkey	8,4	11,1
Note: Average annual inflation rate (%).		
Source: IMF, National Statistical Institutes.		

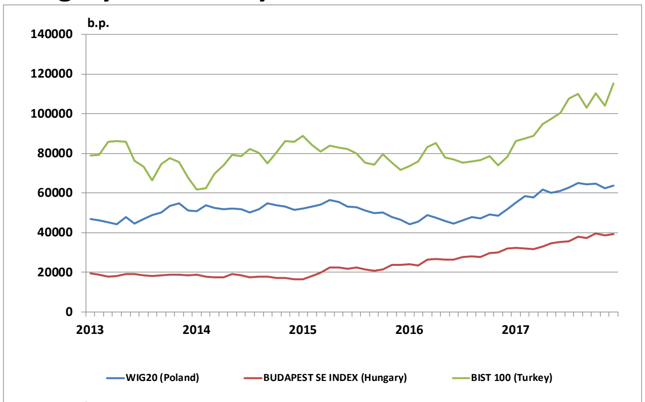
Unemployment levels in CEE countries fell in 2017 due to the increased labour demand. In Poland and Hungary unemployment dropped to 4.9% and 4% respectively for 2017 from 6.3% and 5.2% for the previous year. Turkey recorded a small increase in unemployment to 11.1%.

Table 31. CEE unemployment rate

	2016	2017
Czech Republic	4	3
Hungary	5,2	4
Poland	6,3	4,9
Romania	6	5
Turkey	10,5	11
Note: Share (%) of the workforce.		
Source: IMF, National Statistical Institutes.		

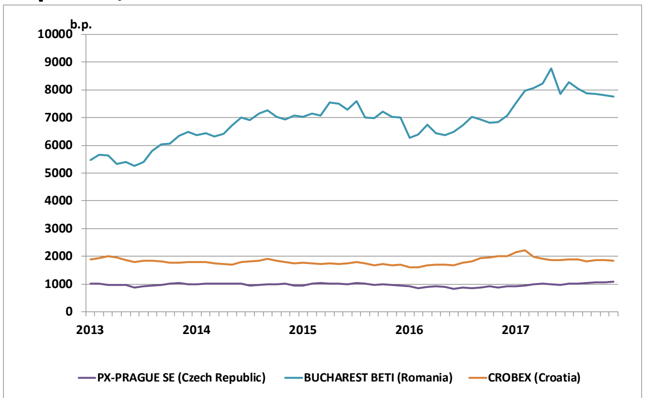
In 2017, the main stock exchange indices in CEE countries grew with the exception of that in Croatia, where CROBEX fell by -14% as a result of the ongoing crises related to Agrokor corporate debt. Positive economic data had a positive influence on capital markets in CEE. During the year, the Czech PX-PRAGUE SE grew by 15.6%, the Hungarian BUDAPEST SE INDEX increased by 21.2%, the Polish WIG20 and the Turkish BIST30 went up by 15.4% and 33.7% respectively, and the Romanian BUCHAREST BETI reported a minimal increase of 3.1%.

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



Source: Investing.com.

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



Source: Investing.com.

1.2. Overview of economic activity in Bulgaria in 2017

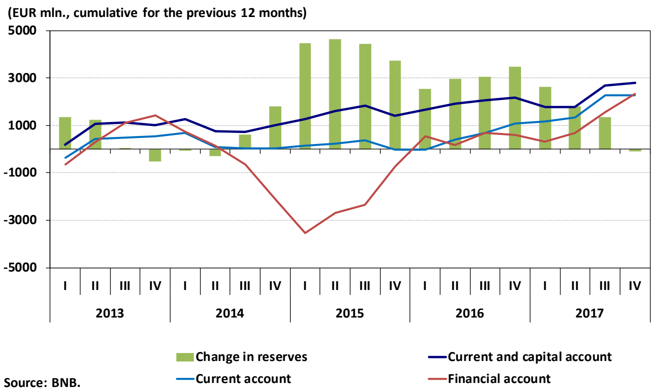
In 2017 real GDP growth in Bulgaria, according to preliminary data, amounted to 3.6% on an annual basis, which was mostly due to domestic demand*. The current account surplus expanded, reaching EUR 2,268.8 million during the year or 4.5% of GDP. The volume of foreign investments in Bulgaria amounted to EUR 950.1 million, compared to EUR 1,079.7 million for the previous year. The country's gross foreign debt dropped by 2.7% and at the end of the year amounted to EUR 33.3 billion. Credit activity during the year recovered with household lending growing at a faster rate. In 2017, the budget balance had a surplus amounting to BGN 845.6 million, which was 0.9% of GDP. The harmonised consumer price index ceased its deflation and at the end of 2017 reported inflation of 1.8% on an annual basis. The housing price index accelerated its positive trend on an annual basis of an average of 7.0% for 2016 to 8.7% in 2017.

As a result of the stable economic development, in December, the credit rating agency Standard and Poor's upgraded Bulgaria's long-term and short-term credit rating in foreign and local currency from BB+/B to BBB-/A-3 with a stable outlook.

For the fifth consecutive year, the balance on the current and capital account continued to be positive, growing to EUR 2,794.7 million in 2017. For the period between January and December 2017, the surplus on the current account of the balance of payments was in the amount of EUR 2,268.8 million, which represented 4.5% of GDP[15]. The capital account surplus decreased by EUR -544.1 million compared to the previous year to EUR 525.8 million in 2017, as a result of limited inflows under the new EU operational programmes.

The balance of the financial account for the year was positive (EUR 2,320.4 million), which was EUR 1,723.1 million more than the positive balance reported in 2016. According to data from the balance of payments, the international foreign reserves of the country fell by EUR 98.8 million. After taking into account exchange rate differences and pricing revaluation, foreign currency reserves on BNB's balance sheets decreased by EUR 236.4 million (BGN -0.5 billion) as the assets of the "Issuance Department" reached BGN 46.3 billion at the end of 2017.

Figure 37. Main accounts of the balance of payment



Source: BNB.

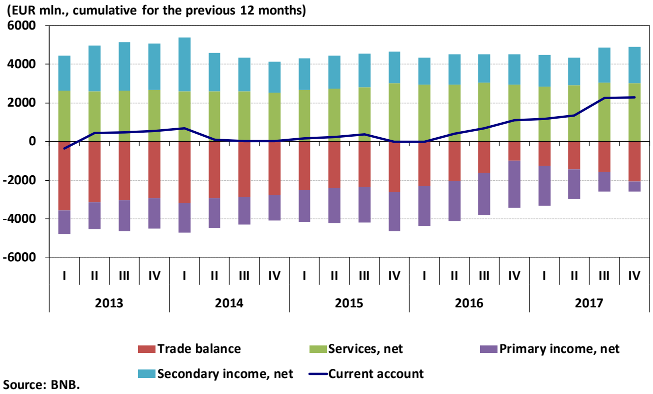
The significant expansion of the current account surplus by EUR 1,177.7 million in 2017 compared to the previous year was mainly due to the reduction of the negative balance under the "primary income, net" item by EUR 1,911.8 million resulting from smaller outgoing flow of income from direct investment in the form of reinvested profits. A positive contribution to the surplus of the current account in 2017 was also attributed to the expansion of the positive balance of services (by EUR 79.0 million) and under the "secondary income, net" item (by EUR 276.7 million) which reflected the redistribution of income. Only the deficit under the trade balance, which expanded by EUR 1,089.7 million compared to 2016 and in

*The summary was prepared using public data available as at 18 April 2018.

[15] According to preliminary data of the National Statistical Institute, the GDP in 2017 was BGN 98,631.1 million.

2017 amounts to EUR -2,074.2 million, limited the surplus on the current account during the reporting year.

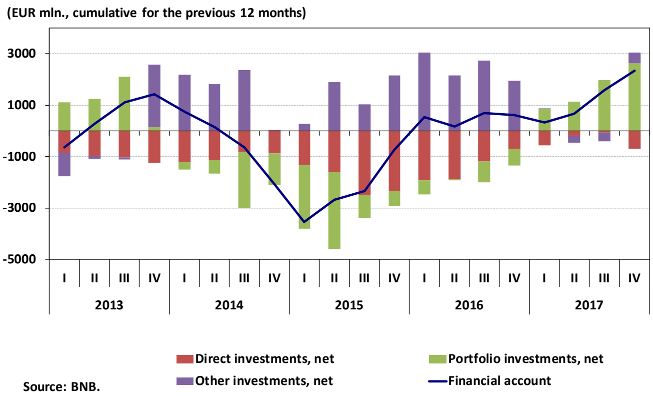
Figure 38. Current account and its components



Source: BNB.

For the period between January and December 2017, the balance on the financial account amounted to EUR 2,320.4 million mainly due to the stronger growth of foreign assets of Bulgarian residents compared to that of foreign liabilities. The main contributor to the dynamics in the financial account during the year was the increase of portfolio investments of Bulgarian residents in foreign shares and equity by investment funds, while foreign liabilities in the form of debt instruments decreased significantly as a result of the payments on Eurobonds with maturity in July and due to buy-out by residents of Bulgarian sovereign bonds issued on international capital markets.

Figure 39. Financial account and its components



Source: BNB.

For the period between January and December 2017, the flow of foreign direct investment (FDI) in Bulgaria amounted to EUR 950.1 million, which was EUR -129.6 million less than the previous year. For the most part, FDI in Bulgaria during the year were in the form of debt instruments (EUR 537.1 million) and reinvested profit (EUR 225.8 million), which decreased from EUR 1,113.4 million in 2016. The flow of FDI in the form of share capital amounts to EUR 187.2 million, which also decreased compared to the previous year.

Table 32. FDI dynamics in Bulgaria by type of investment

	2014	2015	2016	2017
Total	1161	2476	1080	950
Equity	314	1668	284	187
Reinvested earnings	421	940	1113	226
Debt instruments	427	-133	-318	537

Note: The data are about DFI volume in Bulgaria (in EUR mln.).
Source: BNB.

The distribution of FDI in Bulgaria by sectors in 2017 did not change significantly from the previous year. The "Processing industry" sector had attracted the largest volume of FDI in the amount of EUR 313.4 million, followed by the "Trade; repair of motor vehicles and motorcycles" sector (EUR 304.2 million) and the "Financial and insurance activities" sector (EUR 245.7 million).

Table 33. FDI in Bulgaria by economic sectors

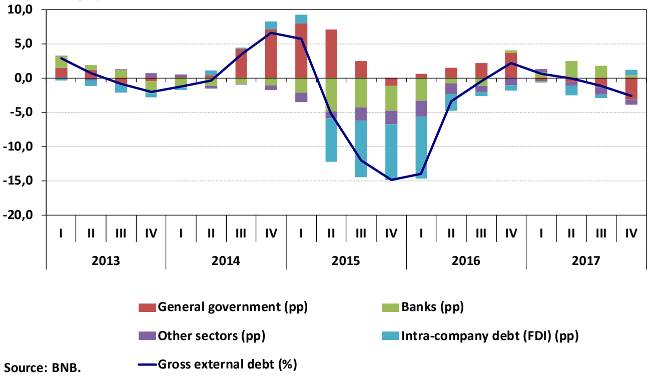
	2014	2015	2016	2017
Mining and quarrying	21,9	72,6	-22,6	-25,8
Manufacturing	-174,6	531,2	229,6	313,4
Electricity, gas, steam and air conditioning supply	403,5	75,0	14,9	-33,3
Construction	306,6	183,9	23,2	70,7
Wholesale and retail trade; repair of motor vehicles and motorcycles	229,9	343,1	523,9	304,2
Transportation and storage	43,1	41,5	-5,7	-12,6
Accommodation and food service activities	-25,4	5,6	25,2	-13,6
Information and communication	120,6	83,6	12,7	-33,4
Financial and insurance activities	319,9	467,5	181,3	245,7
Professional, scientific and technical activities	105,1	158,5	-64,5	-224,3

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

In 2017, Bulgaria's gross foreign debt decreased by 2.7% on an annual basis, reaching EUR 33.3 billion at the end of the year, which represented 66.1% of GDP. The largest contribution to the debt's reduction was that of the Government sector (-3.1 p.p.) as a result of the payment on matured Eurobonds. The category "Other sectors" also reduced its foreign debt and contributed to the overall drop in the foreign debt by -0.8 p.p. An increase of their foreign debt was reported by banks and intra-company credit, which limited the annual temp of debt reduction respectively by 0.4 p.p. and 0.8 p.p.

Figure 40. Gross external debt by institutional sectors

(%/percentage points, annual basis)

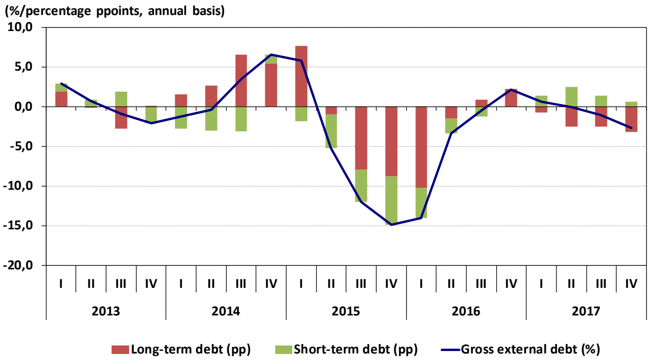


Source: BNB.

In line with the dynamics of the gross foreign debt in 2017, the long-term component decreased by -4.2% on an annual basis and accounted for 76.7% of the total foreign debt at the end of the year. Short-term debt grew by 2.6% and represented 23.3% of the country's foreign debt at the end of 2017.

Figure 41. Gross external debt by maturity structure

(%/percentage ppoints, annual basis)

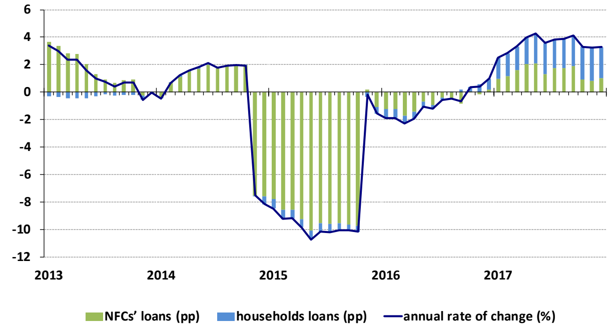


Source: BNB.

Since the end of 2016, the loan activities of banks has been positive, with loans for non-financial companies and households in Bulgaria reporting an average annual growth of 3.5% in 2017. Household loans grew more rapidly (5.5%), contributing 2.1 p.p. to the total growth of private non-financial sector lending. Loans by non-financial companies reported a slightly smaller average growth of 2.3% for the year, contributing 1.4 p.p. to the total dynamics. The main factor that would continue to determine the development of loan activity in Bulgaria is companies' and households' demand for loans in accordance with their creditworthiness and ability to generate profits and income.

Figure 42. Loans to non-financial enterprises and households

(percentage ppoints, annual basis/%)



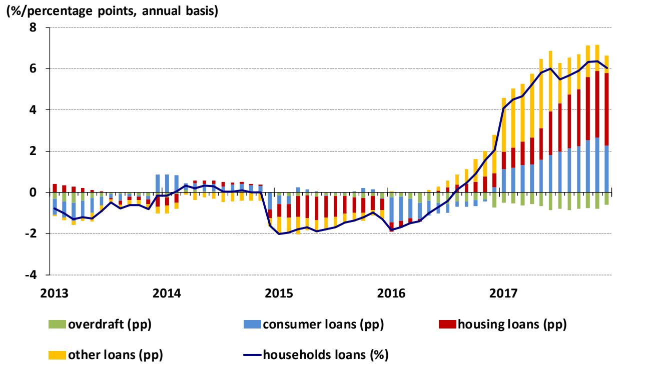
.Source: BNB

The average annual growth of household loans in 2017 was mainly due to the significant growth of 52.7% of loans, other than consumer, housing and overdraft loans, which contributed by 2.2 p.p. to the total growth of household loans. Housing and consumer loans also rose and 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 with their negative contribution of -0.7 p.p.

In 2017, the trend continued for improvement of the quality of banks' credit portfolio, and at the end of the year, the gross amount of non-performing loans and advance payments in the banking system amounted to BGN 8,292 million, and their share of the total gross loans and advance payments fell to 10.2%. The net value of non-performing loans and advance payments (less the depreciation, inherent to this classification category) also decreased at the end of 2017 and amounted to BGN 4,208 million or 5.5% of the total net value of the loans and advance payments.

Figure 43. Household loans

(%/percentage points, annual basis)

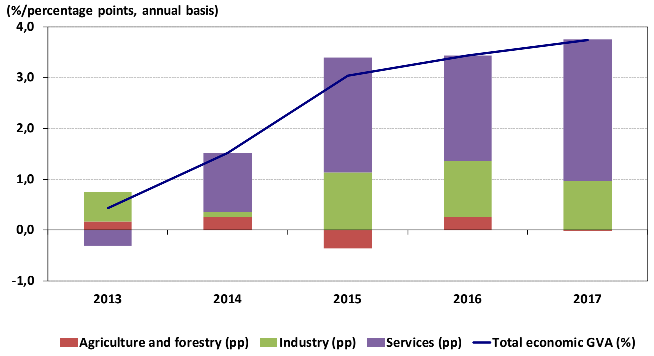


Source: BNB.

The total added value in the economy grew in real terms by 3.7% in 2017, with the biggest contribution of the services sector (2.8 p.p.), followed by industry (1.0 p.p.), while agriculture and horticulture limited actual growth of added value in the economy by an insignificant negative contribution of -0.006 p.p.

Figure 44. Growth of added value and contribution by sectors

(%/percentage points, annual basis)



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 2017 was the sector "Real estate operations" (0.9 p.p.), followed by the sectors of "Government management; education, healthcare and social works" (0.7 p.p.) and "Trade, repair of motor vehicles and motorcycles; transport, storage and postal services; hospitality and restaurant services" (0.7 p.p.). The sector "Manufacturing, mining and quarrying; production and allocation of electricity, heating and gas fuels; water supply; sewage services, waste management and recovery" also contributed by 0.7 p.p. to the total growth of the gross added value during the year.

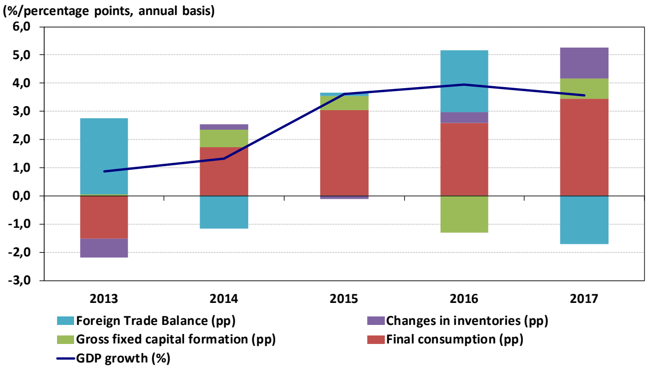
Table 34. Added value by sectors

	2014	2015	2016	2017
Total for the economy (%)	1,5	3,0	3,4	3,7
Contribution (pp), incl:				
Agriculture, forestry and fisheries	0,3	-0,4	0,3	0,0
Manufacturing; Mining and quarrying ; Electricity, gas and water supply	0,2	1,0	1,4	0,7
Construction	-0,2	0,1	-0,3	0,2
Wholesale and retail trade, repair of motor vehicles and motorcycles; transportation and storage, accommodation and food service	0,2	1,3	0,5	0,7
Creation and distribution of information and creative products; telecommunications	0,0	0,1	0,9	-0,1
Financial and insurance activities	0,0	-0,1	0,5	0,4
Operations with real estate	0,1	0,4	0,6	0,9
Professional activities and research; Administrative and auxiliary activities	0,1	0,4	0,1	0,2
Public administration, defence, education, human health and social work activities	0,7	0,1	-0,4	0,7
Culture, sports and entertainment; Other activities	0,1	0,1	0,0	0,1

Note: The data for 2017 is preliminary.
Source: NSI.

According to preliminary data, the real GDP growth in 2017 amounted to 3.6% on an annual basis. The main factor for economic growth was domestic demand, which contributed 5.3 p.p. Among the components of domestic demand, the best performance was that of end consumption (3.4 p.p.), followed by investments (1.8 p.p.), where the contributions to the reserves and the generation of core capital were respectively 1.1 p.p. and 0.7 p.p. The net export registered a decline, which limited GDP growth with its negative contribution of -1.7 p.p.

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



Source: NSI.

The export of Bulgarian goods and services in 2017 amounted to EUR 26,713 million, increasing by 10.7% compared to the previous year. All core groups of goods register growth with the largest contribution to the total growth came from the export of raw materials and materials (4.8 p.p.), followed by the export of investment goods (4.7 p.p.), consumer goods (1.0 p.p.) and energy resources (0.1 p.p.).

Table 35. Contribution of main groups of goods to the exports' dynamics

	2016	2017
Exports (%, on an annual basis)	**5,0**	**10,7**
Contribution (pp)		
Consumer goods	1,6	1,0
Raw materials and supplies	-0,1	4,8
Investment goods	3,8	4,7
Energy resources	-0,4	0,1
Source: BNB.		

The import of goods and services in 2017 grew with greater nominal rates (15.5%), amounting to EUR 30,244 million. The main contribution to that development was that of import of raw materials and materials (6.5 p.p.) and energy resources (4.1 p.p.) Investment (2.7 p.p.) and consumer goods (2.2 p.p.) also made a positive contribution.

Table 36. Contribution of main groups of goods to import dynamics

	2016	2017
Exports (%, on an annual basis)	**-5,7**	**15,5**
Contribution (pp)		
Consumer goods	1,2	2,2
Raw materials and supplies	-2,7	6,5
Investment goods	0,6	2,7
Energy resources	-4,8	4,1
Source: BNB.		

In 2017, real growth of final consumption accelerated to 4.5% from 3.3% in 2016. The main engine for the reported development was individual consumption of households (3.8 p.p.) and individual consumption of the government contributed 0.3 p.p. Collective consumption, which measures the final costs of the government for collective services provided to society as a whole also increased, contributing 0.4 p.p. to the real growth of final consumption.

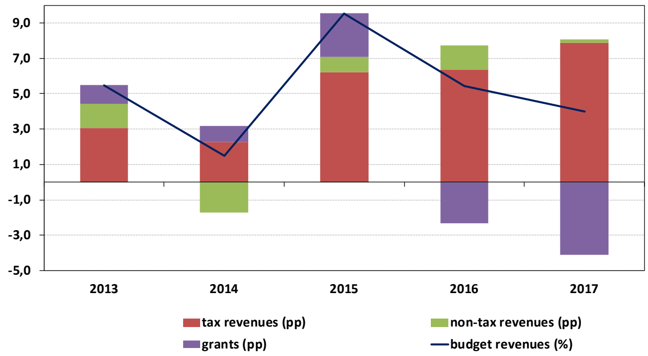
Table 37. Growth of final consumption expenditure and contributions of its components

	2015	2016	2017
Final consumption (%)	**3,8**	**3,3**	**4,5**
individual consumption (pp)	***3,5***	***3,0***	***4,1***
consumption of households (pp)	*3,4*	*2,8*	*3,8*
individual consumption of general government (pp)	*0,0*	*0,2*	*0,3*
collective consumption (pp)	***0,3***	***0,3***	***0,4***
Note: The data for 2017 is preliminary.			
Source: NSI.			

The budget balance of the Consolidated Fiscal Programme (CFP) in 2017 was positive in the amount of BGN 845.6 million, representing a surplus of 0.9% of GDP. Revenues registered growth of 4.0%, which was entirely due to tax revenue (7.9 p.p.) while grants limited growth with a relative contribution of -4.1 p.p. Among tax revenues, the greatest share was that of social and healthcare insurance contributions (3.1 p.p.), of insurance premiums tax (3.0 p.p.) and VAT (2.3 p.p.). Non-tax proceeds also had a positive contribution of 0.2 p.p.

Figure 46. Contribution of components in the development of budget revenues

(%/percentage points, annual basis)

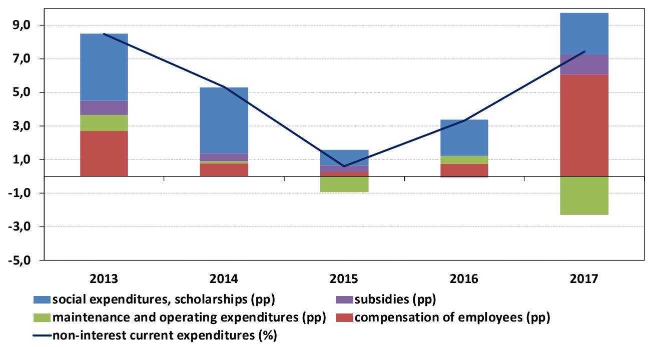


Source: MF.

The total of budget expenditure also increased by 6.1% in 2017 compared to the previous year, for which the largest contribution was that of current expenditure (6.4 p.p.), while the negative contribution of capital records fell to -0.4 p.p. due to acceleration of investments under EU programmes, which compensate a growing part of the reduction of national investment expenditure. Current non-interest expenditure increased by 7.4% on an annual basis, with the greatest contribution made by costs for salaries and social insurance contributions (6.1 p.p.) for social insurance benefits, support and care (2.5 p.p.) and subsidies (1.2 p.p.). Only operational costs decreased and limited the overall growth of current non-interest expenditure by -2.3 p.p.

Figure 47. Contribution of components in the development of non-interest current expenditure

(%/percentage points, annual basis)



Source: MF.

In 2017 employment in Bulgaria increased by 4.4% on an annual basis, with the number of employed persons aged 15 or over numbering 3,150 thousand persons. This development was mainly due to an increase in male employment (2.5 p.p.) and the biggest contribution by age group was reported between 55 and 64 years of age. The number of persons employed under contract dropped by -2.1% on an annual basis to 2,230 thousand persons. This development was influenced by the drop in persons employed both in the private sector (-1.8 p.p.) and in the public sector (-0.3 p.p.). By economic activities, there was a decrease in the number of employed persons mainly in processing industry (-0.5 p.p.), construction (-0.45 p.p.), and in the “Transport, storage and postal services” sector (-0.4 p.p.). The number of employed persons grew in the sectors of “Trade, repair of motor vehicles and motorcycles” and “Professional activities and scientific research” (0.3 p.p.).

The income of employees measured by remuneration, representing gross income that also included changes in social insurance contributions, increased by 7.9% in 2017 compared to 7.7% in the previous year. The unemployment rate continued to decrease reaching 6.2% of the workforce in 2017.

Table 38. Employment and income

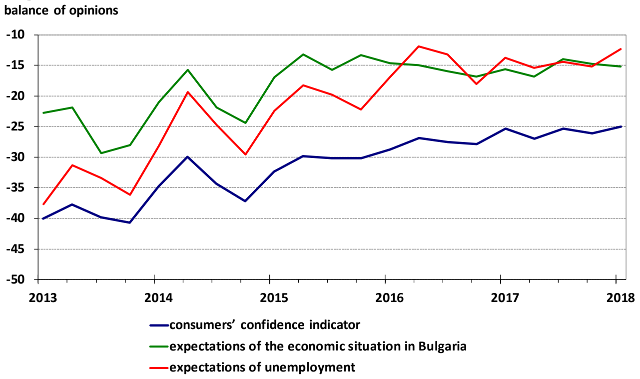
	2013	2014	2015	2016	2017
Employed persons	0,0	1,6	1,7	-0,5	4,4
Employees	0,3	0,6	1,0	-2,1	0,0
Compensation of employees	7,6	5,4	6,7	7,7	7,9
Unemployment*	12,9	11,4	9,1	7,6	6,2

Note: The data about dynamics show a change compared to previous years (%), the data about 2017 are preliminary; *unemployment coefficient on average for the period (% of the workforce).

Source: NSI.

The indicator of consumers’ confidence continued its upward trend in 2017. The expectations about their financial state, about inflation and unemployment were more optimistic than the previous year, and the expectations about the country’s economic state over the next twelve months stabilised at the high level maintained during the last three years.

Figure 48. Consumers' confidence indicator



.Source: NSI

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

Households income grew in 2017 by 6.0% on an annual basis, with the greatest contribution by salaries (3.3 p.p.), self-employment income (0.9 p.p.) and pensions (0.3 p.p.). A constraint to the growth of household income during the year was imposed by income other than salaries (-0.4 p.p.). For the second consecutive year, savings withdrawn by households and loans and credit they received increased by double pace, respectively, 15.3% and 11.1% in 2017.

Table 39. Dynamics of household income

	2013	2014	2015	2016	2017
Total	11,5	2,2	1,9	1,9	6,0
Salary and wages	12,4	4,3	3,4	0,6	6,1
Withdrawn savings	0,0	-4,1	0,9	18,7	15,3
Loans and credits	111,3	-51,0	-23,1	19,5	11,1

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

Households expenditure grew faster in 2017 (7.6%) compared to their income. Consumer expenditure increased by 6.9%, which was mainly due to the contribution of food, housing, water, electricity and fuel expenditure. Household expenditure for taxes (15.0%) and social insurance (13.1%) also increased, contributing respectively 0.9 p.p. and 0.8 p.p. to total expenditure. Households maintain high propensity for savings as their expenditure on deposits grew by 41.8% and expenditure on debt payment or granting loans decreased by -3.0%.

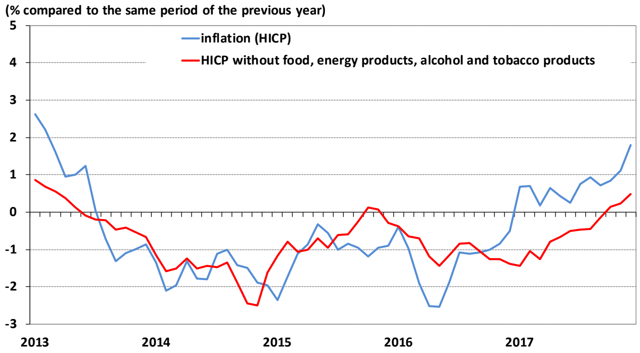
Table 40. Dynamics of household expenditures

	2013	2014	2015	2016	2017
Total	10,3	3,2	2,4	-0,4	7,6
Total consumer expenditures	10,0	3,2	2,3	-1,3	6,9
Taxes	9,5	2,3	4,5	4,3	15,0
Deposit	14,9	54,8	15,0	45,1	41,8
Paid debt and granted loan	20,3	-9,5	-8,6	-9,2	-3,0

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

In 2017, inflation returned to positive values, registering growth of 1.8% at the end of 2017 on annual basis. Excluding the volatile prices of foods, energy, alcohol and tobacco products, basis inflation showed growth during the last quarter of the year, achieving annual growth of 0.5% in December 2017.

Figure 49. Inflation



Source: NSI.

The largest contribution to the inflation accumulated during the year had food products (0.6 p.p) and industrial goods (0.6 p.p.). Prices of services also increased with the greatest contribution to overall inflation having food services outside the home (0.2 p.p.) and transport services (0.1 p.p.). Telecommunication services partly limited inflation with their negative contribution of -0.1 p.p.

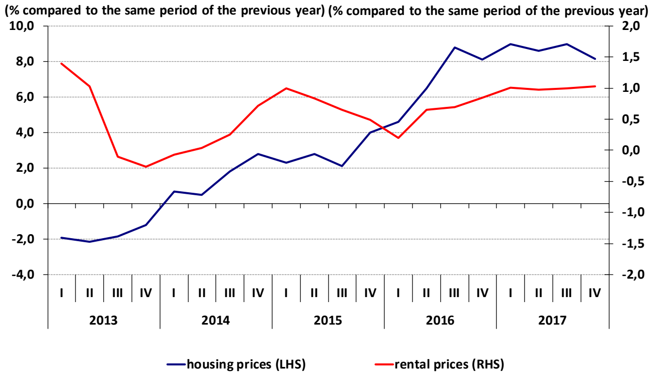
Table 41. Contribution to inflation of main groups of goods and services

	2015	2016	2017
Inflation (% compared to Dec. prev. year)	**-0,9**	**-0,5**	**1,8**
		Contribution (pp)	
Foodstuffs	0,1	0,2	0,6
Unprocessed foods	0,0	0,1	0,2
Processed foods	0,1	0,1	0,4
Services (all except goods)	0,2	-0,4	0,4
Public food services	0,1	0,1	0,2
Transport services	-0,1	-0,3	0,1
Telecommunications	-0,1	-0,3	-0,1
Energy and home heating	-0,1	-0,1	0,3
Liquid and transport fuels	-0,8	0,0	0,4
Industrial goods	-1,3	-0,5	0,6
Tobacco products	0,0	0,2	0,1

Source: NSI.

For a second consecutive year, housing prices grew significantly on average annual basis from 7.0% in 2016 to 8.7% in 2017[16]. The accelerating growth of housing prices was the result of increased demand by households in the conditions of stable economic growth and positive outlook on future income, which also affected the growth of housing loans. Rental prices also continued to increase, albeit at a slower rate reaching 1.0% in the last quarter of 2017, compared to the same period of the previous year.

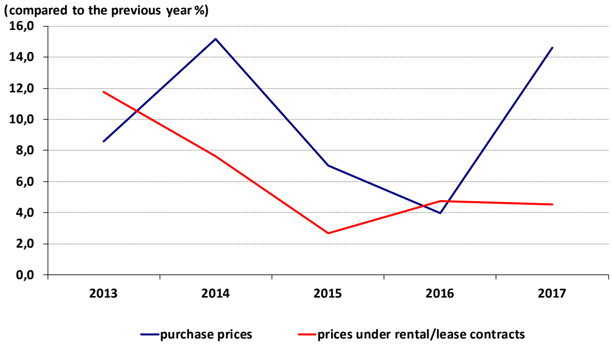
Figure 50. Housing and rental prices



Source: NSI.

The tendency for agricultural land to grow more expensive continued, with growth accelerating in 2017. The average purchase price of agricultural land in Bulgaria in 2017 was BGN 872/decar, increasing by 14.6% compared to the previous year. The average price of agricultural land for rent or lease, according to the contracts concluded, was BGN 46/decar, increasing by 4.5%, slowing its growth from the previous year.

Figure 51. Agricultural land prices



Source: NSI.

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

In 2017 assets in the non-banking financial sector grew by 47.2%[17] and by the end of the year reached BGN 38 billion, with the assets of all types of non-banking financial companies and segments reporting a positive change on an annual base. The largest contribution of 36.6 p.p was that of non-banking investment firms (including client assets)[18], followed by the growth of assets of pension funds (7.4 p.p.), of insurance

[16] In 2014, there was a change in the methodology of the National Statistical Institute with the new index of housing prices including the prices of new homes purchased by households.

[17] The amendment to Ordinance 53 made at the beginning of 2017 was taken into account when calculating the growth and contribution of the assets of re(insurers).

[18] The main reason for the growth of assets of non-banking IIs was the significant increase in client assets of

and reinsurance companies (2.0 p.p.), the change in assets of collective investment schemes and sovereign wealth funds (1.0 p.p.) and the growth of assets of Special Purpose Investment Companies (0.2 p.p.). As a result of that upward momentum, the role of the non-banking financial sector in the structure of financial intermediation grew, with the assets of that segment's participants reaching 28.0% of the assets of the whole financial sector in Bulgaria.

The share of GDP of the assets of participants in the non-banking financial sector increased in 2017 and amounted to 38.6%. The depth of non-banking financial intermediation measured through market capitalisation on the stock exchange as a share of GDP increased to 23.9%[19].

The assets of non-banking investment firms (IFs) grew by 176.4% in 2017, reaching BGN 14.8 billion by the end of the year, which changes the structure of financial intermediation[20]. The reason for the significant increase in the value of the assets was the growth of client assets of one non-banking investment firm in the form of securities in one public company on the Bulgarian stock market, whose contribution was 151.8 p.p. Excluding this single factor, the assets of the other non-banking IFs increased by 25.1% and contributed with 24.6 p.p. to the growth of the assets of all non-banking IFs.

Table 42. Structure of financial intermediation by institutional investors (%)

Indicators	2013	2014	2015	2016	2017
Assets of IF	4.5	4.8	4.5	4.6	10.9
Assets of CIS and SWF*	0.7	0.8	0.8	1.0	1.0
Assets of SPIC	1.4	1.4	1.4	1.3	1.2
Assets of (re)insurance companies	4.8	5.1	5.2	5.3	5.5
Assets of pension funds	6.5	7.7	8.5	9.2	9.4
Non-banking financial sector	**18.0**	**19.9**	**20.4**	**21.4**	**28.0**

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. *Until 2017 these include closed-end investment companies.
Source: BNB, FSC.

The assets of collective investment schemes (CISs) and the sovereign wealth funds (SWFs) grew by 22.9% compared to the previous year. The reported development was mainly due to an increase in the number and assets of common funds, which were 129 as of the end of the year, and their assets reached BGN 1,394.2 million. Due to the relatively small absolute value of assets, collective investment schemes had a 1.0% share in the financial intermediation structure.

In 2017, the assets of Special Purpose Investment Companies (SPIC) grew by 3.5% on an annual basis, and their amount at the end of the year was BGN 1,582.1 million. The largest contribution to this growth was made by assets of SPICs, real estate and agricultural land (3.3 p.p.). In relative terms, the share of Special Purpose Investment Companies’ assets in the structure of financial intermediation at the end of 2017 decreased insignificantly to 1.2%.

The assets of (re)insurers grew by a total of 7.4% in 2017 compared to 2016, and their share in the structure of financial intermediation amounted to 5.5%. The largest contribution of 4.5 p.p to the growth of the (re)insurance market assets was the increase of the assets of the only reinsurance company in Bulgaria by 13.5%. The assets of non-life insurance companies, which

Intercapital Markets AD, representing the main part of the shares issued by Capital Concept Limited AD whose contribution amounted to 32.8 p.p.

[19] The market capitalisation of Capital Concept Limited AD as at 31 December 2017 as a share of GDP was 13.1%.

[20] The value of clients’ assets in Intercapital Markets AD at the end of 2017 amounted to BGN 8.2 billion.

grew by 7.3% also had a positive contribution of 3.2 p.p. to the changes in the assets on the market, while the assets of life insurance companies decreased by 1.1% on an annual basis and had a negative contribution of -0.2 p.p. on the overall increase of the assets in this segment.

The growth of balance sheet assets of pension funds accelerated from 15.2% in 2016 to 17.7% in 2017. The increase in their assets was due both to revenue from social insurance contributions, and the positive result from investing the funds accumulated in individual accounts. As a result of the significant growth of assets of non-banking IFs in 2017, pension funds ranked second among institutional investors in the non-banking financial sector, with the amount of their net assets at the end of the year amounting to BGN 12.7 billion. Their relative share in the financial intermediation structure at the end of the year was 9.4%.

Table 43. Assets of participants in the non-banking financial sector and market capitalisation (% of GDP)

	2013	2014	2015	2016	2017
Market capitalisation of the stock exchange market	**12.1**	**11.7**	**9.7**	**10.3**	**23.9***
Assets of IF	4.6	4.9	4.5	4.7	15.0
Assets of CIS and SWF**	0.9	1.0	1.0	1.2	1.4
Assets of SPIC	1.8	1.7	1.7	1.6	1.6
Assets of (re)insurance companies	6.1	6.5	6.5	6.6	7.6
Assets of pension funds	8.3	9.8	10.6	11.5	12.9
Participants in the non-banking financial sector	**23.0**	**25.2**	**25.3**	**26.7**	**38.6**

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 capitalisation of the stock-exchange market. * The market capitalisation of Capital Concept Limited AD as at 31 December 2017 as a share of GDP was 13.1%. ** Until 2017, these include closed-end investment companies.

Source: BSE, FSC, NSI.

The depth of financial intermediation in the non-banking financial sector measured through market capitalisation on the stock exchange as a share of GDP increased to 10.3% at the end of 2016 to 23.9% at the end of 2017.

Market capitalisation grew by 144.0% on an annual basis and reached BGN 23.6 billion at the end of the year. The main contribution to the increase of capitalisation on the BSE was the standard share segment on the main market, which to a large extent was due to admission to trading on the regulated market of a new public company with significant market capitalisation[21]. Despite the more limited contribution of the shares segment on an alternative market, their capitalisation also increased from BGN 1.7 billion to BGN 2.3 billion. The growth of products traded on the stock exchange continued, while at the end of 2017, in this segment twelve issues were traded for an annual turnover of BGN 3.2 million. For comparison, in 2016, when the first fund traded on the stock exchange started, within one quarter the turnover exceeded BGN 2.5 million.

All stock exchange market indices increased significantly until the beginning of August and after that their growth slowed down. As at 31 December 2017, the main index SOFIX grew by 15.5% compared to its level at the end of 2016. The wide index BGBX40 achieved growth of nearly 18.6% on an annual basis and BGTR30 increased by 21.08% for 2017. The sector index BGREIT fluctuated in the same manner as the other indices and rose by 7.4% on an annual basis at the end of 2017.

Expressed as share of GDP, the assets of participants in the non-banking sector amounted

[21] The market capitalisation of Capital Concept Limited AD as at 31 December 2017 amounted to BGN 12.9 billion.

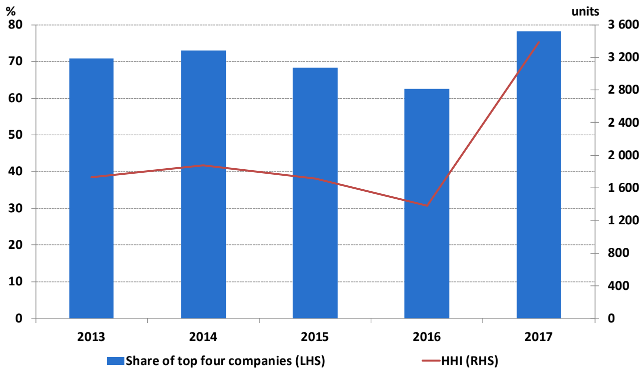
to 38.6%, among which the largest share was that of assets of non-banking IFs (15%), followed by assets of supplementary pension funds – 12.9%, and the share of the assets of the (re)insurance segment represented 7.6% of GDP. The assets of SPICs amount to 1.6% of GDP and those of CIS and SWF represent 1.4% of GDP.

In 2017, almost all segments of the non-banking financial sector were characterised by strong competition (management companies, collective investment schemes, Special Purpose Investment Companies and non-life insurance companies) or moderately competitive environment (life insurance and pension insurance companies). The total dynamics during the year indicated growing competition, and only the SPICs and life insurance segments demonstrated slight increase of market concentration, partly due to participants dropping out of the market. The biggest change towards the significant increase of market concentration was observed on the market for services offered by non-banking investment firms, which as a result of a single factor turned from a moderately competitive market in 2016 into a sector characterised by the highest market concentration at the end of 2017.

Among the non-banking investment firms the concentration, measured on the basis of client assets, sharply ceased its downward trend since 2014. At the end of 2017, the four largest investment firms held 78.3% of the total amount of all client assets.[22] Although a large part of the total amount of client assets was held by the top four investment firms, much lower concentration was observed among the rest of the companies, where the average share of client assets held was 0.6%.

The Herfindahl-Hirschman Index (HHI)[23] on the non-banking investment firms market, calculated by client assets increased significantly in 2017, and its value at the end of the year was 3,388 units, which was 2,007 units more than the previous year. As a result of this development, the market in services provided by non-banking investment firms entered into highly concentrated territory.

Figure 52. Concentration on the market of non-banking IFs



Source: FSC.

The concentration on the market of services provided by managing companies continued in 2017 to go down for the sixth consecutive year. The four management companies having the largest share in managed assets held 44.2% of the total amount[24]. The value of the Herfindahl-Hirschman (HHI) index of the market of management companies calculated by assets managed for 2017 dropped by 67 units to the level of 738 units. This reduction continued the trend of improvement of the competitive

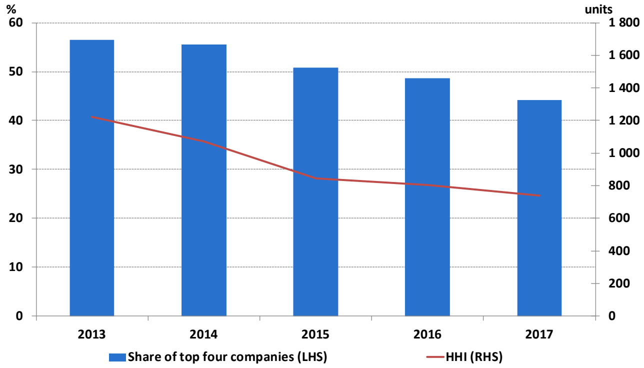
[22]These were Intercapital Markets AD, First Financial Brokerage House OOD, Elana Trading AD and Euro Finance AD.

[23]The Herfindahl-Hirschman 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 1,000 units, the market is defined as strongly competitive, between 1,000 and 1,800 units – a moderate competitive environment, and with over 1,800 units – the market is characterised by strong concentration.

[24]These are MC DSK Asset Management AD, MC DV Asset Management EAD, MC Raiffeisen Asset Management EAD and MC OBB Asset Management AD.

characteristics of the market which continued to be strongly competitive.

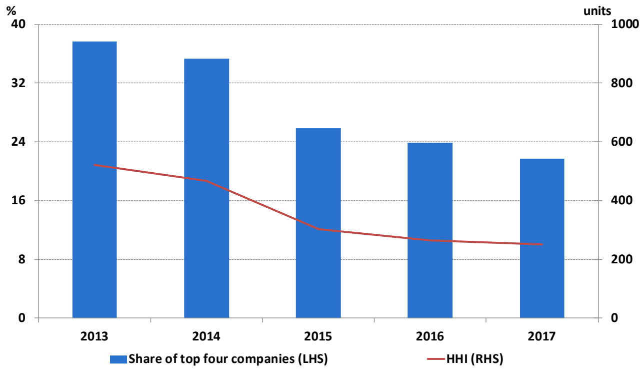
Figure 53. Concentration on the market of MC



Source: FSC.

The market of CIS and SWF was defined as strongly competitive. In 2017 the trend for gradual reduction of market concentration that had begun in 2012, continued. This development was supported both by the change in the Herfindahl-Hirschman (HHI) index whose value dropped from 264 units in 2016 to 252 units in 2017, and by the share of the top four funds which went down respectively from 24.0% to 22.0%.[25]

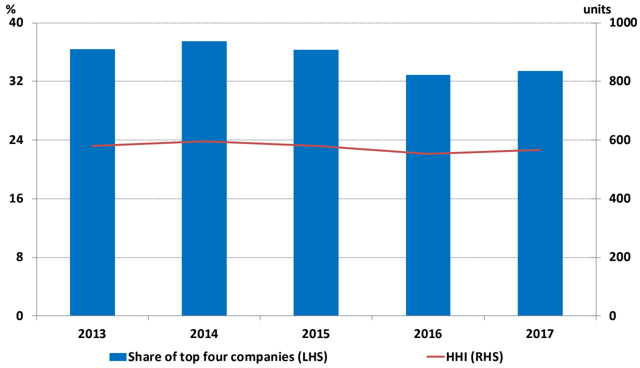
Figure 54. Concentration on the market of CIS and SWF



Source: FSC.

The segment of Special Purpose Investment Companies remained highly competitive despite the increase of the Herfindahl-Hirschman (HHI) index, which reached a level of 567 units, which was 14 units higher compared to 2016. The same dynamics were also observed in the change of the share of the top four companies, which grew insignificantly from 32.8% during the previous year to 33.4% in 2017.[26]

Figure 55. Concentration on the market of SPIC



Source: FSC.

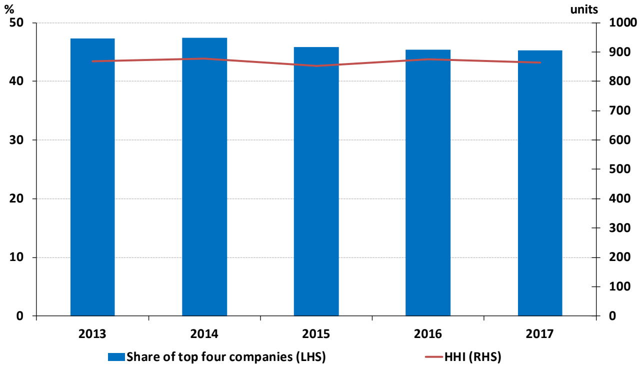
The non-life insurance services market was defined as strongly competitive, with the value of the Herfindahl-Hirschman (HHI) index in 2017 decreasing by nine units compared to the previous year, reaching 865 units at the end of 2017. The market share of the four non-life insurance companies, whose premium income[27] was the highest continued to drop, reaching 45.3% at the end of 2017.

[25]CF Raiffeisen Conservative Funds (Bulgaria), CF OOB Platinum Bonds, CF DSK Standard and CF Raiffeisen active protection in Euro.

[26]Those are Advance Terrafund SPIC, Capital Management SPIC, Bulgarian Real Estate Fund SPIC and Sopharma Imoti SPIC.

[27]These are ZAD Bulstrad Vienna Insurance Group AD, IC Lev Ins AD, Armeec Insurance Joint Stock Company, DZI-General Insurance EAD.

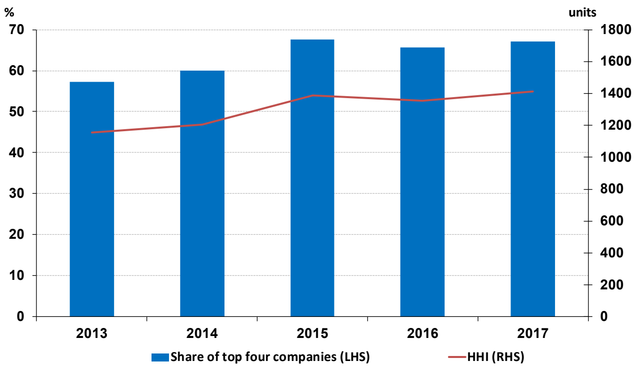
Figure 56. Concentration on the non-life insurance market



Source: FSC.

In 2017, the life insurance services market was marked by a moderate competitive environment. At the end of 2017, the curve of the Herfindahl-Hirschman (HHI) index increased to 1,410 units compared to 1,355 units in 2016 indicating increasing concentration in the sector. The top four life insurance companies[28], with the highest premium income in 2017 owned a combined market share of 67.2% of the gross written premium in the segment, registering an increase of 2.3 p.p on an annual basis.

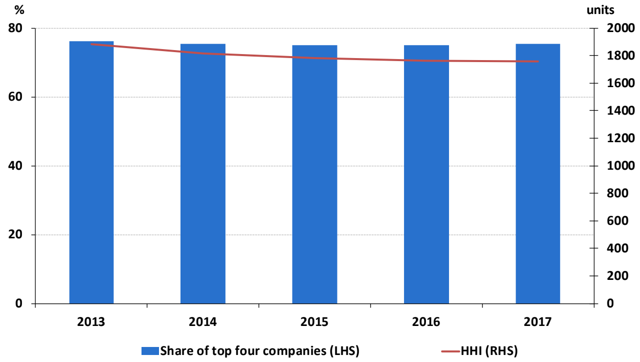
Figure 57. Concentration on the life insurance market



Source: FSC.

At the end of 2017, the share of top four companies[29] on the pension insurance services market according to their balance sheet assets (75.4%) reported an increase by 0.3 p.p. compared to the previous year, which meant the concentration remained unchanged during the last four years. The other indicator measuring market concentration – the Herfindahl-Hirschman (HHI) index – continued its downward trend and fell to 1,756, which defined the market as moderately competitive.

Figure 58. Concentration on the pension insurance market



Source: FSC.

2.1. Review of risks and main market trends

The global economy continued its growth, going up by 3.6% in 2017. The main contributor was the revival of global trade, the recovery of investment activity, the growth in developing Asian countries and the stabilised macroeconomic environment in Europe. Despite the favourable macroeconomic data and greater business trust, ***macroeconomic risks*** were related to ensuring continued economic development. In an

[28] These are ZAD Bulstrad Life Vienna Insurance Group AD, IC Unica Life AD, Insurance JSC Allianz Bulgaria Life AD and OBB – Life Insurance EAD.

[29] Pension Insurance Company (PIC) Doverie AD, PIC Allianz Bulgaria AD, PIC DSK-Rodina AD and PIC Saglasie AD.

environment with less demanding financial conditions and low inflation, potential financial weaknesses could grow in case of a rapid constraint on global financial conditions, a sharp shift in the risk premia on debt securities and worsening trust of investors in developing markets. Other risks were related to the implementation of protectionist policies, which would restrict international trade and drive geopolitical tensions. The macroeconomic development achieved in 2017 favoured actions to protect mid-term growth, establishment of buffers to support the financial system in dealing effectively with the next economic downturn and improvement of financial sustainably so as to mitigate any risks for financial markets.

The macroeconomic environment in Bulgaria was stable and according to preliminary data, the real growth of GDP was 3.6% in 2017. The main growth factor was the domestic demand, with the final consumption contributing 3.4 p.p to overall economic growth. The current account continued to be at a surplus, which in 2017 expanded and reached EUR 2,268.8 million or 4.5% of GDP. The gross foreign debt of the country decreased, reaching EUR 33.3 billion at the end of 2017. For a second consecutive year, the budget balance sheet was at a surplus, which in 2017 amounted to BGN 845.6 million or 0.9% of GDP. The harmonised consumer prices index stopped its deflationary trend and the unemployment rate fell to 6.2% in 2017. Credit activity recovered, with household loans growing more rapidly. The housing price index accelerated its positive trend on an annual basis of an average of 7.0% for 2016 to 8.7% in 2017 with expectations being that real estate prices would continue to go up.

As a result of the stable economic development, in December, the credit rating agency Standard and Poor's upgraded Bulgaria's long-term and short-term credit rating in foreign and local currency from BB+/B to BBB-/A-3 with a stable outlook.

In 2017, in an environment of still low interest rates, the trend continued for ***stronger interest on behalf of institutional investors in alternative investments offering better profitability***. In response to the investment interest during the year, the Bulgarian Stock Exchange listed ten more exchange traded funds that invested in shares included in indices of countries in Central and Eastern Europe. The double digit growth of all market indices on the Bulgarian stock exchange continued but slowed down during the second half of the year. That development was partially due to the recovery of the market following the global and financial crisis but might also pose potential risks for possible overvaluation of some public companies. The market capitalisation increased by 144.0% on an annual basis, which to a large extend was due to a one-time effect resulting from the admission to trading on the regulated market of a public company with a relatively high market capitalisation according to the scale of the Bulgarian capital market. The number of transactions made through the capital market during the year increased significantly, which together with the increase of indices and market capitalisation were indicative of the recovery of investment interest towards the Bulgarian capital market. The favourable economic activity in Europe and Bulgaria was a prerequisite for sustainable development of the capital market in Bulgaria.

In their search for higher yields, small and non-professional investors were exposed to a risk of investments in high-risk instruments, which were unfamiliar to them, as well as in virtual currency. That led the three European supervisory authorities – the European Securities and Markets Authority (ESMA), the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) to publish a ***warning to users*** and especially to small, non-professional investors about the risks of virtual currencies.

Under the conditions of low interest rates, investments of insurers decreased by -0.9% in 2017. They kept their investment interest in debt securities, increasing their share in the total value of non-life insurance companies' investments to 61% and for life insurers – to 62%. With the increase in real estate prices, investments in land and buildings also increased their value and reached a share of 13% of the investment portfolio of general insurers and 3% of investments of life insurers. In search of higher profitability, life insurers demonstrated strong interest towards investments in shares and other variable yield securities and shares in investment funds, whose share of their investment portfolio increased to 9.2% at the end of 2017.

There was a general trend in the last five years for a decrease in the exposure to bank deposits, which reached a share of 7.9% of the investments of non-life insurance companies and 4.2% for life insurers. As a result of the adopted investment policy, the increase of the gross loss ratio and the reduction of the net financial performance in the sector, the return on the assets for the whole insurance sector fell, but remained positive.

The insurance business had been adapting to the conditions of long-term low interest rates, whereby the life insurance segment was the most vulnerable when offering insurance products with guaranteed profitability significantly higher than the achieved investment revenue in the long run. Investments under Unit-linked life insurance increased on an annual basis and at the end of 2017 reached 12.7% of the value of all life insurers' assets, compared to 9.0% at the end of 2016, with investment risks for this type of insurance are covered by the insured persons.

Faced with the challenge to achieve good profitability through seeking financial instruments with acceptable yields and risk, the supplementary pension funds are exposed mainly to ***financial market risks.*** In their capacity as long-term investors, pension funds traditionally invested in debt securities with relative shares of investments in sovereign securities and bonds during the year growing respectively to 51.0% and 14.0% of all investments. ***In search of investment profit*** and upward development of capital markets, investments of pension funds in shares, rights and stakes also increased to 32.3% of their investment portfolio. In an environment with low interest rates, investments in bank deposits decreased significantly to 0.7% of all investments at the end of the year. Due to the high reported yield and greater diversity of financial instruments on external markets, the share of investments of pension funds abroad increased to 58.1% at the end of 2017, which was the highest value for the last five years. The operations of pension insurance companies in response to regulatory changes in SIC and in particular the restrictions on investments in a single segment to support diversification might also have contributed to this development.

2.2. Analysis of the participants on the capital market

Market capitalisation of the Bulgarian Stock-Exchange AD increased significantly in 2017 and amounted to BGN 23.6 billion at the end of the year, which represented 23.9% of GDP (from 10.5% in 2016). The sector "Financial and insurance activities" maintained first place by turnover during the year. The assets of non-banking investment firms registered in the Republic of Bulgaria reported growth of 174.6% on an annual basis and at the end of 2017 amount to BGN 14.8 billion. In 2017, the assets of Special Purpose Investment Companies grew by 3.5% on an annual basis reaching BGN 1,582.1 million. The assets of collective investment schemes and sovereign wealth funds increased by 22.04% and at the end of 2017 they amount to BGN 1,394.2 million. The assets management companies grew by 26.0% and reached BGN 1,869.7 million.

2.2.1. *Investment firms*[30]

In 2017 the number of investment firms (IFs) was 67, 24 being banks (including three banking investment firms, operating on the territory of the country through a branch). The number of non-banking financial institutions whose seat was in the Republic of Bulgaria was 40[31], and the number of non-banking investment firms operating within the territory of the country through a branch was six at the end of 2017.

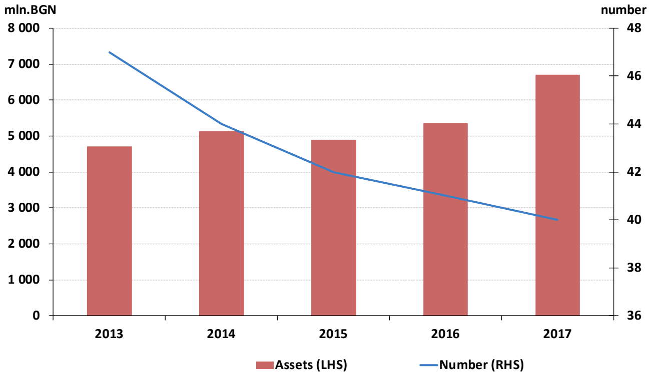
Depending on the authorisations they have, non-banking IFs are divided into three groups: (1)

[30] The analysis includes non-banking investment firms whose seat is in the Republic of Bulgaria unless explicitly specified otherwise.

[31] The number of non-banking investment firms does not include those companies who had their licence revoked as at 31 December 2017.

IFs with a full licence[32], for which the required capital is BGN 1,500,000, (2) IFs with a partial licence[33], for which the required capital is BGN 250,000, and (3) IFs with a small licence[34], for which the required capital is BGN 100,000. At the end of 2017, FSC's register included 19 IFs with a full licence, 19 companies with a partial licence, and two companies with a small licence. In 2017, the licence of one investment firm was revoked.

Figure 59. Number and assets of non-banking IFs



Source: FSC.

The amount of assets[35] of non-banking investment firms at the end of 2017 was BGN 14.8 billion, which represented 176.4% growth compared to the end of 2016. Of these, client assets amount to BGN 14.7 billion. The positive contribution to the annual rate of change in the total assets of 156.7 p.p was due to non-banking investment firms with partial licences, and those with full licences had a positive contribution of 19.4 p.p. The reason for this development was the admission to trading on the regulated market of an issue of shares of Capital Concept Limited AD, whose assets were managed by an IF with a partial licence – Intercapital Markets AD.

In 2017 the number of non-banking investment firms with direct foreign ownership from the EU increased by one and at the end of 2017 they were four companies, compared to three at the end of the previous year. There were no foreign-owned investment firms from the EU. In terms of indirect ownership from third parties, the number of IFs remained unchanged – one IF with indirect foreign third party ownership.

Table 44. Number of IFs with foreign ownership

	2016		2017	
	Пряко	Непряко	Пряко	Непряко
EU ownership	3	1	4	0
Third countries' ownership	0	1	0	1

Source: FSC.

The amount of assets of non-banking investment firms with a small licence increased by 1.5% in 2017, going up from BGN 0.2 million at the end of 2016 to BGN 0.3 million at the end of 2017. The amount of assets of non-banking investment firms with a partial licence increased nominally from BGN 915.0 million in 2016 to BGN 9.3 billion at the end of 2017. The main reason for this growth was the increase of client assets of the above-mentioned investment firm. The amount of assets of non-banking investment firms with a full licence increased by 23.4% from BGN 4,452.7 million to BGN 5,493.6 million at the end of 2017. The main reason was the increase in the value of client portfolios, and in particular the investments in shares due to the improvement of business indicators in the context of low interest rates.

[32] They can perform all investment services and activities stipulated under Article 5, Paragraph 2 of the Markets in Financial Instruments Act (MFIA).

[33] They may not carry out transactions at their own account or underwrite financial instrument issues and/or place initial offers of financial instruments on a firm commitment basis to subscribe/acquire financial instruments at their own account.

[34] They can perform services and activities under Article 5, Paragraph 2, Item 1 and/or 5 of 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.

[35] The amount of total assets also includes the amount of conditional assets.

Table 45. Assets, capital stock and equity of non-banking IFs

	2013	2014	2015	2016	2017
			IIs with a small licence		
assets	0,4	0,4	0,3	0,2	0,3
capital stock	0,5	0,5	0,5	0,5	0,5
equity	0,3	0,3	0,3	0,2	0,2
			IIs with a partial licence		
assets	659,2	726,1	782,3	915,0	9 341,2
capital stock	9,7	9,8	9,7	9,6	9,3
equity	20,8	15,2	14,7	16,5	17,7
			IIs with a full licence		
assets	4 057,6	4 413,7	4 111,1	4 452,7	5 493,6
capital stock	62,8	56,3	55,0	59,2	65,8
equity	81,1	89,7	93,0	105,2	111,2
			Total IIs		
assets	4 717,2	5 140,3	4 893,8	5 367,9	14 835,0
capital stock	73,0	66,5	65,2	69,3	75,5
equity	102,1	105,1	108,0	121,9	129,1

Note: The data are in million BGN unless indicated otherwise.

Source: FSC.

The capital stock of the non-banking investment firms grew by 8.9% on an annual basis to BGN 75.5 million at the end of 2017. The investment firms' equity grew by 5.9% on an annual basis to BGN 129.1 million at the end of 2017. The main contribution to the annual rate of change of equity was the positive financial result achieved amounting to BGN 24.6 million achieved by investment firms during the year.

The market value of the trading and investment portfolio of non-banking investment firms at the end of 2017 was BGN 42.2 million. Fourteen non-banking investment firms formed trading portfolios with a market value of BGN 22.8 million at the end of the year. Non-banking investment firms that formed investment portfolios were 28 at the end of 2017 with a market value of BGN 19.4 million.

At the end of 2017, 21 non-banking investment firms provided trust management. The market value of securities held under trust management was BGN 93.7 million and the cash funds at the end of the period amounted to BGN 11.9 million.

The number of transactions concluded by investment firms in 2017 increased by 36.3% on an annual basis to 79.6 thousand, and the lots traded increased by 116.0% on an annual basis to 401.0 million. Trade activity by stock exchange members on the BSE regulated market, measured through the turnover, increased by 69.0% on an annual basis up to BGN 706.0 million in 2017. The first four investment firms had a share of 44.7% of the total turnover for the year.

Table 46. Number of transactions, turnover and volume (lots) of IFs (banking and non-banking) on BSE's regulated market

	2013	2014	2015	2016	2017
Number of transactions	87 069	118 074	60 047	58 442	79 629
Turnover (BGN mln.)	1 522	775	411	416	706
Volume (mln. lots)	706	677	218	186	401

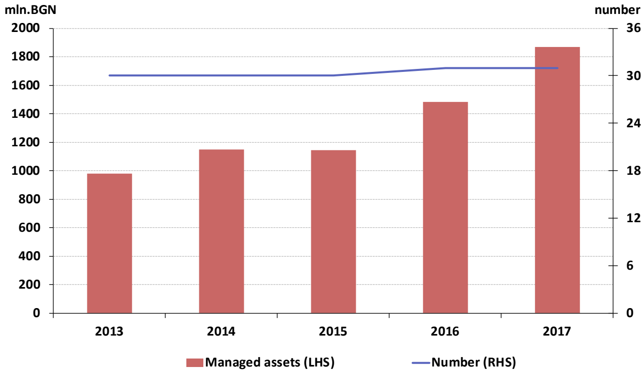
Source: BSE, FSC.

2.2.2. *Collective investment schemes and other collective investment undertakings*

At the end of 2017, the number of management companies remained unchanged compared to the previous year – 31. Eight new common funds (CFs) received authorisations in 2017 and their number at the end of the year reached 126.

The amount of managed assets grew in nominal terms by BGN 385.8 million and reached BGN 1,869.7 million at the end of the year, which was 26.0% growth.

Figure 60. Number of management companies and the assets they manage



Source: FSC.

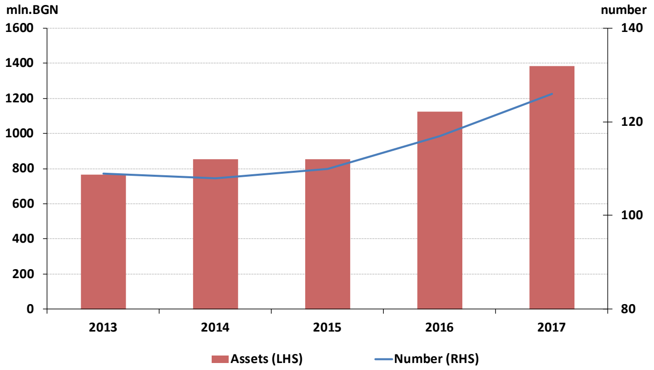
At the end of 2017, there were three SWFs whose assets amounted to BGN 11.7 million compared to BGN 16.8 million for the previous year.

The number of CFs as well as their accumulated assets increased in 2017. As at December 2017, there were 126 CFs whose total balance sheet asset reached BGN 1,382.5 million.

(of which the net assets were BGN 1,355.7 million) or the increase of balance sheet assets was 23.2% compared to the previous year.

Out of the total amount of CF assets, 5.9% were collected from money market funds or BGN 81.0 million in total. At the end of 2017, these funds were five – CF DSK Money Market Fund, CF DSK Money Market Fund in EUR, CF Concord Fund – 6 Money, CF Texim Money Markets and CF Trend Fund Money Market.

Figure 61. Number and assets of common funds



Source: FSC.

At the end of 2017, the number of mutual funds of foreign collective investment schemes dropped by one and at the end of 2017 they were 26.

Table 47. Number of foreign CISc

	2013	2014	2015	2016	2017
Mutual funds - foreign CIS	30	30	30	27	26

Source: FSC.

The total assets accumulated by CISs and SWFs in 2017 grew by 22.4% growth compared to the previous year, reaching BGN 1,394.2 million at the end of the year.

In 2017, the "Financial Assets and Instruments" item slowed its growth from 38.0% in 2016 to 31.3% in 2017. This development led to a significant increase of the relative share of financial instruments in the total of assets to 71.6% and to a positive contribution of 20.8 p.p. to the annual rate of change in the assets.

The items with the greatest positive contribution to the annual rate of change were "Shares" (14.1 p.p.), followed by "Debt Securities" (4.9 p.p.) and "Shares of CIS" (2.0 p.p.). The items "Other financial instruments" and "Rights" limited the growth of the financial assets with a negative contribution of -1.2 p.p.

"Cash" also made a positive contribution to the annual rate of change in assets by 0.8 p.p.

Table 48. CIS and SWF assets

	2013	2014	2015	2016	2017
Cash	**438,2**	**383,6**	**286,1**	**366,7**	**376,2**
Term deposits	390,6	280,6	172,3	159,7	167,6
Financial assets and instruments, incl.:	**319,1**	**446,8**	**551,3**	**760,7**	**998,8**
Shares	193,4	215,8	257,3	375,2	536,6
Rights	0,0	0,0	0,0	7,9	0,0
Debt securities	96,2	191,4	207,0	251,9	307,7
Shares of CIS	25,3	31,0	76,7	110,4	132,8
Money Market Instruments	0,4	0,4	1,1	0,9	3,5
Derivatives	0,5	0,0	0,0	0,9	1,0
Other financial instruments	3,3	8,2	9,3	13,5	8,2
Non-financial assets (receivables)	**15,1**	**20,6**	**16,7**	**13,8**	**12,7**
Other	**1,1**	**13,8**	**9,8**	**1,3**	**6,5**
TOTAL	**773,5**	**864,7**	**863,9**	**1 142,5**	**1 394,2**

Note: Data are in million BGN unless indicated otherwise.

Source: FSC.

In 2017, although the item "Cash" increased in absolute terms by BGN 9.5 million, its relative share in the total structure of assets fell to 27.0%. An increase was seen in financial assets and instruments, with their relative share of assets grew from 66.6% in 2016 to 71.6% at the end of 2017. The item "Shares" also increased their contribution to the total structure (by 5.7 p.p.). Although investments in "Fixed-term deposits" increased and made a positive contribution of 0.7 p.p. to the growth of assets, their relative share in the structure of the assets went down to 12%.

The "Non-financial assets" item, most of which are receivables, decreased both in nominal terms and as a relative share. The item "Other", which mainly represented expenditure for future periods had a positive contribution of 0.5 p.p. to the annual rate of change of CIS and SWF assets and 0.4 p.p. increase in the relative structure of assets.

Table 49. Relative structure of CIS and SWF assets

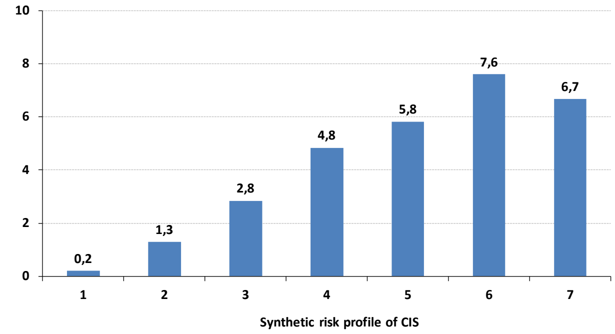
	2013	2014	2015	2016	2017
Cash	**56,6**	**44,4**	**33,1**	**32,1**	**27,0**
Term deposits	50,5	32,5	19,9	14,0	12,0
Financial assets and instruments, incl.:	**41,3**	**51,7**	**63,8**	**66,6**	**71,6**
Shares	25,0	25,0	29,8	32,8	38,5
Rights	0,0	0,0	0,0	0,7	0,0
Debt securities	12,4	22,1	24,0	22,0	22,1
Shares of CIS	3,3	3,6	8,9	9,7	9,5
Money Market Instruments	0,1	0,0	0,1	0,1	0,2
Derivatives	0,1	0,0	0,0	0,1	0,1
Other financial instruments	0,4	0,9	1,1	1,2	0,6
Non-financial assets (receivables)	**2,0**	**2,4**	**1,9**	**1,2**	**0,9**
Other	**0,1**	**1,6**	**1,1**	**0,1**	**0,5**
TOTAL	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**

Note: Data are in % unless indicated otherwise.

Source: FSC.

In 2017, the collective investment schemes achieved positive yields, which in the face of continued low interest rates made them the preferred alternative for investment revenue. At the end of the year, the lowest average weighted rate of return (0.2%) for the previous twelve months was that of money market funds, while high-risk CIS, which invested in shares and other instruments or followed a certain stock exchange index reported the highest profitability.

Figure 62. Average weighted rate of return of CIS as at 31 December 2017



.Source: FSC

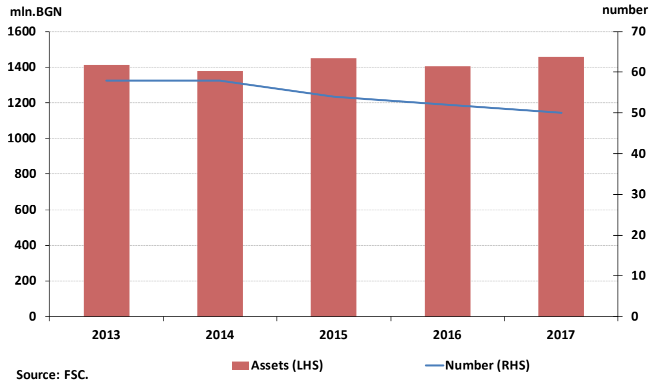
Note: In accordance with Regulation 583/2010/EU, the scale (from 1 to 7) represents a synthetic code for the risk profile of CIS, with the degree of risk increasing as it ascends. The yield is weighted against the value of net assets of individual CIS with the same risk profile.

2.2.3. *Special Purpose Investment Companies*

At the end of 2017, the total number of licensed Special Purpose Investment Companies (SPICs) was 56[36], of which 50 performed securitisation of real estate, including agricultural land, and the remaining six securitised receivables. The total value of the assets of all Special Purpose Investment Companies grew by 3.5% compared to the previous 2016. The assets of these companies at the end of 2017 amounted to BGN 1,582.1 million or 1.6% of GDP.

The amount of SPICs' assets that perform securitisation of real estate and agricultural land grew by 3.6% in 2017 and at the end of the year reached BGN 1,456.7 million.

Figure 63. The dynamics in the number and assets of SPICs, performing securitisation of real estate and agricultural land

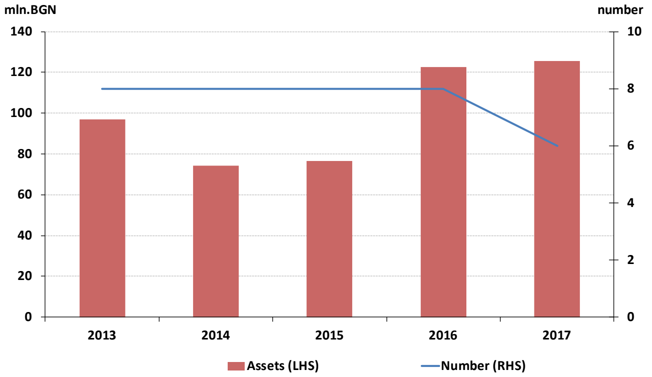


Source: FSC.

The amount of accumulated assets of SPICs, securitising receivables, grew in 2017 by 2.3% compared to 2016 and at the end of 2017, the assets amounted to BGN 125.4 million. The contribution of SPICs to the total increase of the assets was positive and for the securitisation of real estate, it was 3.29 p.p., while that of SPIC which securitise receivables, it was 0.18 p.p.

[36] The presented number of SIPCs does not include companies which had their licence revoked as at 31 December 2017. In order to compare the data, the report includes the last three years.

Figure 64. Number and assets of SPICs, performing securitisation of receivables



Source: FSC.

In the structure of the assets of SPICs which securitise real estate and agricultural land, the main item was "Investment property" with a relative share of 75.5% at the end of the year. The absolute amount under this item continued to increase during the last three years and reached BGN 1,099.6 million at the end of 2017. The total increase of assets in this item, together with the "Financial Assets" item had a positive contribution of 5.8 p.p, while "Cash", "Receivables" and "Other" had a negative contribution of -2.2 p.p.

Table 50. Assets of SPICs, performing securitisation of real estate and agricultural land

	2013	2014	2015	2016	2017
Investment properties	869,5	812,8	936,1	1 021,1	1099,6
Financial assets	0,2	1,7	0,1	0,2	2,5
Cash	131,7	76,8	41,2	53,5	51,6
Receivables	127,7	200,2	183,4	182,6	155,4
Other	283,5	287,8	289,2	149,0	147,6
TOTAL	**1 412,6**	**1 379,4**	**1 450,0**	**1 406,4**	**1456,7**

Note: Data are in million BGN unless indicated otherwise.

Source: FSC.

In 2017, the relative structure of assets of SPICs, performing securitisation of real estate and agricultural land remained stable. There was an increase of 0.3 p.p. in the share of investment property and financial assets at the account of the share of cash and receivables.

Table 51. Relative structure of the assets of SPICs, securitising real estate and agricultural land

	2013	2014	2015	2016	2017
Investment properties	61,6	58,9	64,5	72,6	75,5
Financial assets	0,0	0,1	0,0	0,0	0,2
Cash	9,3	5,6	2,8	3,8	3,5
Receivables	9,0	14,5	12,7	13,0	10,7
Other	20,1	20,9	19,9	10,6	10,1
TOTAL	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**

Note: Data are in % unless indicated otherwise.

Source: FSC.

Among the assets of SPICs, performing securitisation of receivables, the main growth of 40.5% was that of "Receivables (up to one year)", which increased nominally by BGN 31.4 million in 2017 and by the end of 2017 reached BGN 108.9 million compared to BGN 77.5 million at the end of the previous year. The remaining items in the structure of the assets decreased. Mainly, the item "Receivables (over one year)" decreased by BGN -25.7 million or -74.3% on an annual basis compared to 2016.

The increase in absolute terms of short-term receivables also defined the growth of total assets, with their positive contribution towards the change in the total value of the assets in 2017 was 2.05 p.p.

Table 52. Assets of SPICs performing securitisation of receivables

	2013	2014	2015	2016	2017
Financial assets	2,2	3,9	6,3	6,2	6,2
Cash	4,0	1,5	1,7	4,2	1,4
Receivables (up to 1 year)	32,4	22,4	5,1	77,5	108,9
Receivables (above 1 year)	58,1	46,2	46,8	34,6	8,9
Other	0,4	0,2	16,7	0,1	0,0
TOTAL	**97,1**	**74,3**	**76,7**	**122,6**	**125,4**

Note: Data are in million BGN unless indicated otherwise.

Source: FSC.

In relative terms, in the structure of assets of SPICs for receivables, there was an increase by 23.6 p.p. of the relative share of short-term receivables at the expense of a reduction of the relative share under the item "Receivables (over one year)" to 23.6% compared to 56.5% for 2016. The increase of the relative share of the short-term receivables was also due to a reduction of the share of receivables with a term over one year (-21.2 p.p.), of the share of financial assets (-0.1 p.p.), "Cash" (-2.3 p.p.) and "Others" (-0.1 p.p.).

Table 53. Relative structure of the assets of SPICs, performing securitisation of receivables

	2013	2014	2015	2016	2017
Financial assets	2,3	5,3	8,2	5,0	5,0
Cash	4,2	2,0	2,2	3,4	1,1
Receivables (up to 1 year)	33,3	30,2	6,7	63,2	86,8
Receivables (above 1 year)	59,9	62,2	61,1	28,3	7,1
Other	0,4	0,2	21,8	0,1	0,0
TOTAL	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**

Note: Data are in % unless indicated otherwise.

Source: FSC.

SPICs' share capital increased by 1.2% and the amount of their equity grew by 6.8% on an annual base at the end of 2017. The defining SPICs for the overall dynamics were those securitising real estate and agricultural land. For these, the share capital registered an increase by 1.5% on an annual basis, and equity grew by 7.3%. With SPICs which securitise receivables, their share capital decreased by -13.0% and at the end of the year amounted to BGN 8.7 million and the equity decreased by -5.6% and at the end of the year was BGN 31.8 million.

Table 54. SPICs' share capital and equity

	Registered capital		Equity	
	2016	**2017**	**2016**	**2017**
SIPC performing securitization of real estate, incl. agricultural land	472,5	479,6	855,6	918,3
SIPC performing securitization of receivables	10,0	8,7	33,7	31,8
TOTAL for SIPC	**482,5**	**488,3**	**889,2**	**950,1**
change (%)	*-9,0*	*1,2*	*-1,0*	*6,8*

Note: Data are in million BGN unless indicated otherwise.

In 2017, the shareholder structure of SPICs remained unchanged from the previous year.

For Bulgarian residents, the increase of the relative share was seen in the "Financial intermediaries except ICs and PFs" sector (7.1 p.p.), followed by the "Households" sector (2.6 p.p.) and the "Commercial banks" sector (0.17 p.p.). The sectors "Insurance companies and pension funds", "Financial auxiliaries" and "Private financial enterprises" made a negative contribution respectively with -5.5 p.p., -3.8 p.p. and -0.6 p.p. to the annual rate of change in the nominal value of the shares held by SPICs. The sector "Private non-financial enterprises" remained the largest investor in SPICs with a share of 50.28% at the end of 2017.

Legal entities and natural persons from the EU at the end of 2017 decreased their relative shares and respectively held a total of 2.41% of SPICs. The shares owned by natural persons and legal entities from non-EU countries and USA stakes in SPICs remain low, respectively 3.15% and 3.06%.

Table 55. SPIC shareholders' structure

	2016	2017
Households	17,41	19,98
Other monetary financial institutions (TB)	1,81	1,98
Insurance companies and pension funds	16,65	11,17
Financial intermediaries except for IC and PF	0,72	7,84
financial services	3,94	0,13
Private non-financial companies	50,87	50,28
Bulgaria	**91,40**	**91,37**
Households from the EU	0,43	0,41
Legal entities from the EU	2,24	2,00
EU	**2,66**	**2,41**
Households from third countries	0,04	0,78
Legal entities from third countries	2,74	2,37
Third countries	**2,79**	**3,15**
Households from the USA	0,08	0,08
Legal entities from the USA	3,07	2,99
USA	**3,15**	**3,06**
TOTAL	**100,0**	**100,0**

The relative share of the shareholder groups is

Source: CD, FSC.

2.2.4. *Public companies and bond issuers*

The number of public companies and bond issuers at the end of 2017 was 290 as public companies decreased (net) by 39 and issuers by six during the year.

The prospectuses for initial public offering reviewed in 2017 were 19, four of which were of SPIC, 14 of public companies other than SPICs, one bond issue. The total value of approved issues was BGN 352.7 million (of which the actual amount collected was BGN 281.0 million), which represented an increase of 85.0% on an annual base. The prospectuses confirmed in 2017 allowing trade on a regulated market were 13. Two of them were share issues and eleven were bond issues, with issue value of the confirmed issues of BGN 2,490.4 million. The value of confirmed share issues was BGN 2,153.5 million and the value of confirmed bond issues was BGN 336.9 million.

The tender offers reviewed followed by a decision not to issue the final ban on their publication in 2017 increased by eleven compared to the previous year. However, their turnover continued to decrease by -24.0%. In 2017, a total of 17 tender offers were reviewed without a final ban with a total value of BGN 19.3 million (of which the shares acquired as a result of the tender offers made amounted to BGN 12.6 million).

Table 56. Reviewed prospectuses and tender offers

	2013	2014	2015	2016	2017
Prospectuses for initial public offering (number)	17***	18	12	17	19
Amount of issue*	292,3	138,0	124,4	190,6	352,7
Final prohibition on publishing tender offers (number)	11	11	10	6	17
Turnover**	95,0	117,1	28,8	25,4	19,3

Note: Data are 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.

Market capitalisation of the top ten companies increased nominally by BGN 13.5 million, which was 402.3% in 2017 and reached 71.3% of the total capitalisation. The number one position in terms of market capitalisation was Capital Concept Limited AD with BGN 12.9 billion, which was listed on a regulated market during the fourth quarter of 2017 and the reason for the significant growth in the capitalisation of BSE as at 31 December 2017 with the company having a share of 54.6% in the total market capitalisation of the stock exchange. The next two positions were held by the commercial bank First Investment Bank AD and Sopharma AD – Sofia, which had shares respectively of 2.6% and 2.4% of the total market capitalisation. Bulgartabac Holding AD and Alcomet AD – Shumen dropped out of the top ten for 2017, and Capital Concept Limited AD and Eurohold Bulgaria AD replaced them. The last company included in the top ten had a market capitalisation of BGN 271.3 million or BGN 11.7 million more than in 2016.

Table 57. Top 10 public companies by market capitalisation

	2016		2017
Sopharma AD – Sofia	401,7	Capital Concept Limited AD-Sofia	12 908,8
Chimimport AD – Sofia	400,2	CB First Investment Bank AD-Sofia	622,2
Tchaikapharma High Quality Medicines AD	394,5	Sopharma AD-Sofia	577,5
Monbat AD – Sofia	376,7	CEZ Distribution Bulgaria AD-Sofia	522,5
TB First Investment Bank AD - Sofia	368,5	Tchaikapharma High Quality Medicines AD-Sc	507,3
CEZ Distribution Bulgaria AD - Sofia	334,1	Chimimport AD-Sofia	428,7
Bulgartabac Holding AD – Sofia	294,0	Monbat AD-Sofia	396,8
Albena AD – resort Albena	262,6	M+S Hydraulic AD-Kazanlak	315,5
Alcomet AD - Shumen	261,1	Eurohold Bulgaria AD-Sofia	291,2
M+S Hydraulic AD - Kazanlak	259,6	Albena AD-Albena	271,3
TOTAL	**3 353,0**	**TOTAL**	**16 841,8**

Note: Data are in million BGN unless indicated otherwise.
Source: BSE.

The "Financial and insurance activities" sector again took the first place in the trade structure among the ten leading industries on the Bulgarian Stock Exchange AD for 2017 with a turnover of BGN 268.8 million and a relative share in the total turnover of 43.6%, followed by the "Processing industry" sector with a turnover of BGN 161.6 million (share of 26.2%) and "Real estate operations" with a turnover of BGN 122.8 million (share of 19.9%).

Table 58. Trade structure by Top 10 sectors on BSE in 2017

Sector	Transactions (thsnds.)	Volume (mln. lots)	Turnover (BGN mln.)
Financial and insurance activities	41,6	121,6	268,8
Manufacturing industry	20,0	32,6	161,6
Operations with real estate	1,4	50,1	122,8
Professional activities and research	1,4	0,1	14,5
Construction	3,4	8,4	11,6
Creation and distribution of information and creative products; telecommunications	0,1	0,9	10,3
Accommodation and food service activities	3,5	4,2	9,2
Wholesale and retail trade, repair of motor vehicles and motorcycles	1,5	0,2	8,9
Production and distribution of electricity and head, and of gaseous fuels	0,5	0,2	7,1
Transportation and storage	1,8	0,9	2,4

Source: BSE.

As a result of the inclusion of investors from third countries, in 2017, there were changes in the shareholder structure of public companies. Bulgarian resident households and legal entities, as well as households and legal entities from the EU reduced their relative share in the public companies at the expense of shares held by legal entities from third countries, whose stake increased to 43.23% at the end of 2017 compared to 0.88% at the end of 2016. The significant increase of the share of stakeholders from third countries in 2017 was due to the admission for trading of shares issued by the Chinese company "Capital Concept Limited" AD, whose equity exceeded BGN 2.2 billion.

At the end of 2017, Bulgarian residents held 52.7% of the ownership in public companies, calculated on the basis of the equity instruments issued by nominal value. The internal structure of the share held by Bulgarian residents remained relatively unchanged. The main Bulgarian shareholder, despite the drop in the relative share, remained the companies from the "Private non-financial enterprises" sector with 31.9% and the "Households" sector with 11.8%, followed by "Insurance companies and pension funds" with a share of 4.7%. The main trend for the internal restructuring was the reduction of the share of stakes in public companies held by insurers and pension funds, banks and households at the expense of an increase in shares held by private non-finance enterprises and financial intermediaries.

Table 59. Shareholders structure of PCs

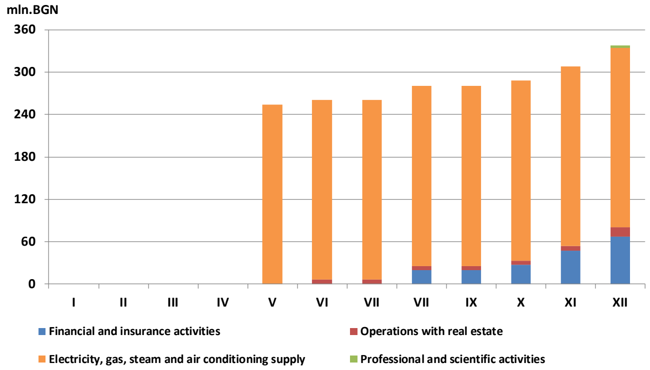
	2016	2017
Households	19,70	11,83
Other monetary financial institutions (TB)	3,83	1,28
State non-financial companies	0,14	0,11
Insurance companies and pension funds	11,41	4,66
Local government	0,00	0,00
Financial intermediaries except for IC and PF	0,35	2,89
Financial companies engaged in auxiliary	0,91	0,00
Central government	0,20	0,01
Private non-financial companies	43,70	31,88
Bulgaria	**80,24**	**52,66**
Households from the EU	1,48	0,52
Legal entities from the EU	17,04	3,23
EU	**18,52**	**3,75**
Households from third countries	0,10	0,10
Legal entities from third countries	0,78	43,13
Third countries	**0,88**	**43,23**
Households from the USA	0,03	0,00
Legal entities from the USA	0,33	0,35
USA	**0,36**	**0,35**
TOTAL	**100,0**	**100,0**

Note: Data are in % unless indicated otherwise.

Source: CD, FSC.

The newly issued bond debt on the regulated market increased by 245.7% on an annual base, reaching BGN 334.5 million at the end of 2017. For comparison, in 2016, the debt issued on the BSE amounted to BGN 96.8 million. The issue of bonds by Enrgo-PRO Varna JSC represented 76.0% of the total amount of financial debt instruments issued in 2017 followed by issues from the "Financial and insurance activities" (20.0%), "Real estate operations" (4.0%) and "Professional activities and scientific research" (0.7%) sectors.

Figure 65. Cumulative volume of bond debt issues on BSE in 2017



Source: BSE, FSC.

2.2.5. *Trading venues*

The capitalisation of the Bulgarian Stock Exchange AD (BSE) grew by 144.0% on an annual basis and amounted to BGN 23,621 million at the end of 2017. Growth was seen in all market segments except shares on the alternative market. The most significant growth by BGN 13,584 million was reported in the capitalisation of the Standard segment. The Premium segment increased by BGN 583 million or 34.0% of the total capitalisation. Market capitalisation of companies on the Alternative market had a negative trend, decreasing by BGN 360 million or -28.7%. 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, with the Special Purpose Investment Companies segment growing by 20.9% on the main market and 3.1% on the alternative market.

Table 60. Market capitalisation

Market or segment	2013	2014	2015	2016	2017
Premium Equities Segment (main market)	1 542,5	1 682,9	1 240,1	1 720,3	2 303,3
Standard Equities Segment (main market)	5 698,9	5 405,7	5 543,6	5 766,6	19 350,2
SIPC segment (main market)	516,3	564,9	537,9	579,3	700,0
Equities Segment (alternative market)	1 059,5	1 085,7	929,0	1 255,7	895,7
SIPC segment (alternative market)	1 143,5	1 017,1	336,7	360,7	371,7
TOTAL	**9 960,8**	**9 756,2**	**8 587,4**	**9 682,5**	**23 621,0**

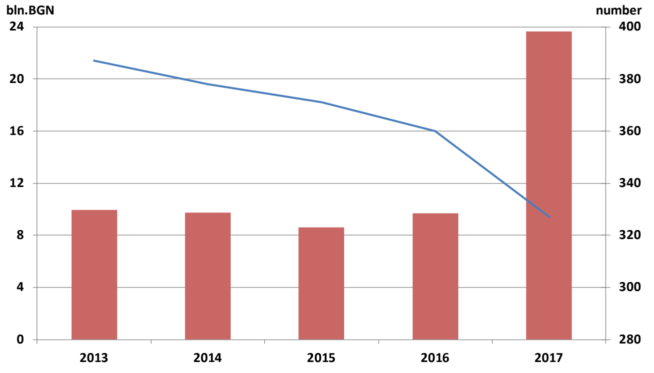
Note: Market capitalisation is at the end of the year.

Source: BSE.

The number of financial instruments admitted to trading on the markets organised by BSE in 2017, registered a net drop of 16 issues and their number was 409 at the end of the year. The number of share issuances dropped (net) by 33.

The reduction was mainly due to the number of shares delisted from the BSE.

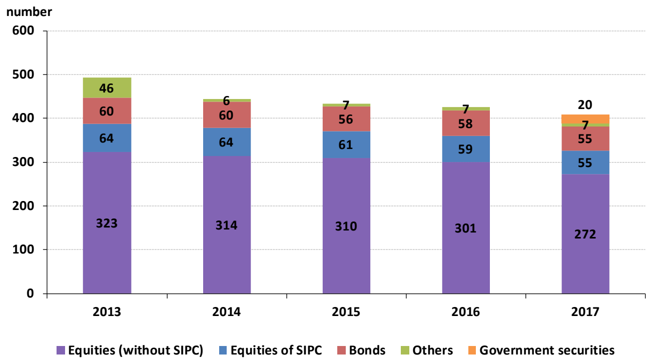
Figure 66. Market capitalisation and number of issues



Source: FSC.

On the shares market excluding SPICs, the number of issues dropped from 301 in 2016 to 272 in 2017. On the market for Special Purpose Investment Companies, at the end of 2017, the number of issues was 55, decreased by four compared to the end of 2016. Issues of bonds registered on the stock exchange in 2017 went down by three and their number was 55 at the end of the year. The issues of other financial instruments that included issues admitted to trading of the Compensatory instruments segment and the Exchange trade products segment did not change and remained seven in 2017. At the end of 2017, a new segment for sovereign bonds on the main market was launched, onto which 20 issues were admitted.

Figure 67. Structure of issues

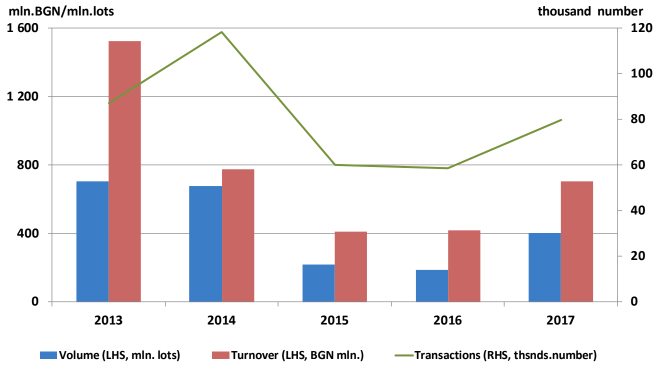


Source: BSE.

The number of transactions increased by 36.3% on an annual basis, from 58,442 transactions in 2016 to 79,629 at the end of 2017. The total number of lots transferred in 2017 was 401.5 million, representing an increase of 116.0% compared to the previous year. Trading on BSE markets, measured through the turnover, ended with a 69.7% increase up to BGN 705.9 million in 2017. The reason for this was the increase in the turnover of the shares market (excluding SPICs) with a contribution of 61.0 p.p. and the market segments for SPICs (4.5 p.p.) and the bonds segment (7.0 p.p.).

The average daily turnover on the regulated market in 2017 increased by 68.3% and amounted to BGN 2.8 million with the main contribution of 59.9 p.p. also due to the shares segments (excluding SPICs).

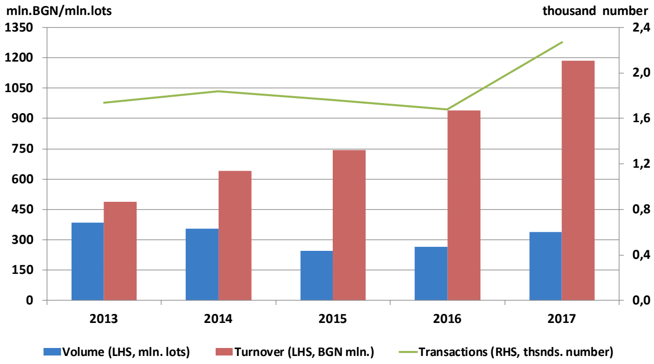
Figure 68. Trading on the regulated market



Source: BSE.

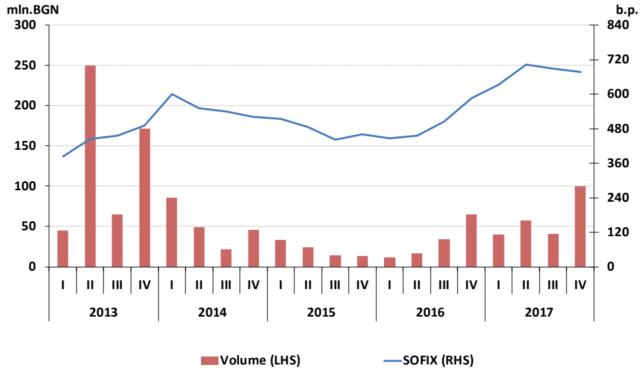
The annual growth rate of the total turnover outside the regulated market followed an upward trend in 2017, increasing to 26.0% in December and the total volume reached BGN 1,186.0 million compared to BGN 941.1 million for the previous year.

Figure 69. Trading outside the regulated market



Source: BSE.

Figure 70. Market index SOFIX



Source: BSE.

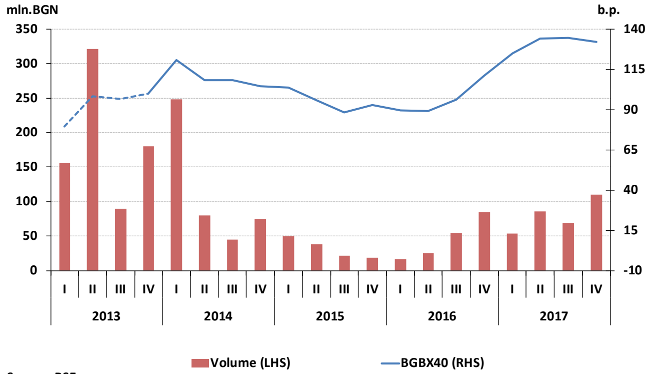
Note: The value of indices is the last value for the respective period.

All BSE indices without exception registered an increase in 2017. The indices went up during the first half of the year and during the second, their growth started to slow down, which continued until the end of the year. The indices moved in a similar manner during the year, including BGREIT, which was usually an exception to the general trend due to the nature of companies included in the index. The turnover of companies included in the indices increased significantly in 2017 for all market indicators.

In 2017, the main exchange index SOFIX reported a 15.5% increase on an annual basis, reaching 677.45 points at the end of the year. This increase continued to mid August followed by a trend towards slower growth until the end of the year. The market capitalisation of companies included in the index had a share of 17.06% of the total BSE capitalisation at the end of 2017.

In 2017 the stock exchange index BGBX40[37] reported growth of 18.6%, ending the year at 132.0 points. The market capitalisation of companies included in the index had a share of 28.65% of the total market capitalisation at the end of 2017.

Figure 71. Market index BGBX40 (BG40)



Source: BSE.

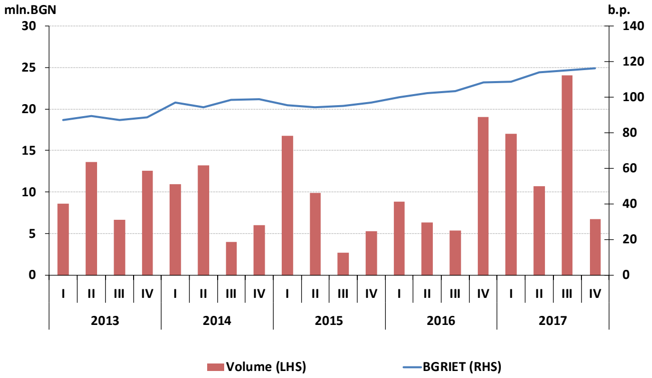
Note: The value of indices is the last value for the respective period.

The sector index BGREIT slowed its growth rate from the previous year. In 2017 it reported a 7.4% increase on an annual basis, ending the year at 116.1 points. Its sectoral profiling and the scope of the represented sector resulted in its limited share of the total market capitalisation at the end of 2017 due to which its dynamics were not entirely indicative for the general trends and dynamics of the SPICs segment. The market capitalisation of Special Purpose Investment

[37] BGBX40 started on 1 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 transactions and the highest median value of the daily turnover over the last six months. When considering various aspects of BGBX40 dynamics, data about the previous broad index BG40, whose successor is BGBX40 is considered for the previous periods.

Companies included in the index amounted to 2.01% of the total capitalisation of the represented SPICs sector as at 31 December 2017.

Figure 72. Market index BGREIT

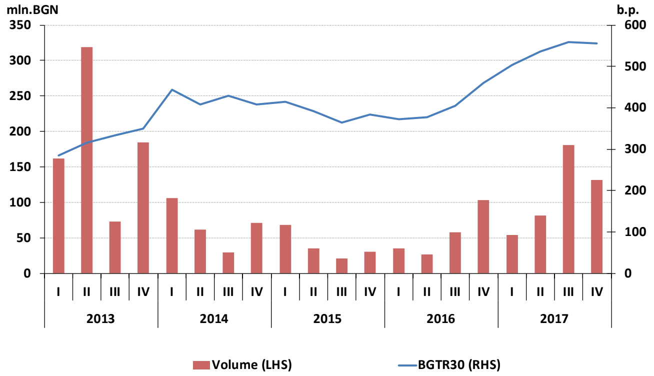


Source: BSE.

Note: The value of indices is the last value for the respective period.

The equally weighted index BGTR30 increased by 21.1% on an annual basis and as at the end of 2017 its value reached 555.98 points. The market capitalisation of companies included in the index amounted to 26.03% of the total capitalisation at the end of 2017.

Figure 73. Market index BGTR30



Source: BSE.

Note: The value of indices is the last value for the respective period.

2.2.6. *Central Securities Depository*

The total value of Central Depository AD's assets dropped by -7.8% on an annual basis and amounted to BGN 6.1 million at the end of 2017.

For 2017, the total number of concluded transactions increased by 35.1% (a total of 83,047 transfers for 2017, 95.9% of which were executed at the stock exchange). The contribution of stock exchange transactions to the annual rate of change was positive – 34.3 p.p. The transferred financial instruments increased more than two-fold on an annual basis to 383.8 million, and transactions with compensatory instruments fell by -10.2% on an annual basis to 2,116 transactions. Registered payments with compensatory instruments to state institutions decreased by -50.6% on an annual basis to 118 transactions. Transfers from inheritances increased by 7.3% on an annual basis to 1,178 transfers in 2017. The duplicates of issued depositary receipts increased from 1,338 in 2016 to 1,841 in 2017. During the year, the number of transactions of rights decreased by -23.6% on an annual basis to 227 in 2017, and the rights transfers increased from 35.4 million in 2016 to 156.9 million.

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 2017, through the system of Central Depository AD dividends were paid to 54 companies and 271 payments of interest and principals of bond issues were made to a total amount of BGN 114 million. During the reporting period 68 companies registered new issues of book-entry financial instruments (63 companies for 2016), 21 of which were issues of shares, 28 issues of bonds, 14 issues of rights and five issues of shares of common funds. Applications for changes in the register were submitted by 93 companies. Applications for changes in the capital through the issuing of new shares were submitted by 86 companies, while changes in the nominal capital were registered by seven companies. The number of requests for transcripts from the shareholders' books decreased to 2,630 in 2017, unlike their number in 2016 (3,769).

In 2017, 1,219 entries were made to the register of pledges (907 for 2016). Of these, 79 entries of registered pledges, 462 – distraints and 425 entries of other circumstances. In 2017, there were eleven entries in the registry of financial collateral arrangements.

2.2.7. *Investor Compensation Fund*

The main activity of the Fund is to protect the clients of an investment, in case that intermediary becomes insolvent and is unable to recover their assets. In 2017, proceedings were initiated for the payment of compensation by the Fund to clients of IF Positiva AD. The initiation of the procedure was necessitated after on 23 June 2017 the Financial Supervision Commission withdrew the investment firm licence of the company due to continued bad financial status, capital inadequacy and regulatory violations. In performance of the legal requirements, the Managing Board of the Fund chose a servicing bank to pay out the compensation by the Fund to the intermediary's clients. The requests for payment of compensation were filed in writing to the Fund within one year of 3 July 2017. The compensation provided by the Fund to each client of the IF amounted to 90% of the due amount but no more than BGN 40,000.

By the end of 2017, the Fund had received three requests for compensation. The first request was deemed unfounded by the Managing Board of the Fund and the second was subsequently withdrawn by the person, since the due amount was paid out by the intermediary's conservators. With regard to the third request, the Managing Board of the Fund is yet to make a decision.

Along with the implementation of the proceedings for payment of compensation to clients of IF Positiva AD, the activity of the Fund mainly aimed at collecting the contributions due 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.

As at 31 December 2017, the total number of participants in the Fund was 90, 38 of which were investment firms (IFs), 21 were bank-investment firms (B-IFs) and 31 were managing companies (only four MCs held client assets protected by the Fund).

As at 31 December 2017, the participants in the Fund managed client assets subject to compensation valued at BGN 1.96 billion, of which cash amounted to BGN 85.2 million and financial instruments (FIs) – BGN 1.88 billion. When compared to 31 December 2016, protected client assets were 15% more or BGN 259 million in absolute value. Unprotected client assets also increased significantly, reaching BGN 33.7 billion as at 31 December 2017 or 38.5% more than the previous year. The share of protected client assets in the total amount of all assets (BGN 35.7 billion) managed by participants was 5.5%. In 2017 as well, B-IFs manage the largest amount of client assets (BGN 1.2 billion), which was about 61.5% of all protected client assets. Investment firms held 34% of the protected client assets, and MC – 4.4%.

The average monthly value of protected FI increased from BGN 1.46 billion in 2016 to BGN 1.81 billion in 2017. The average monthly value of protected cash funds also grew reaching BGN 95.6 million in 2017, compared to BGN 75 million in 2016. The instalment due by participants in the Fund for 2018 was determined based on these data.

As at 31 December 2017, the number of protected clients of all investment firms was 76,731, which was 7,490 clients more than as at 31 December 2016 and the total calculated exposure of the Fund to all the intermediaries' groups amounted to BGN 269.13 million, compared to BGN 225.99 million as at 31 December 2016.

The resources collected by the Fund as at 31 December 2017 amounted to BGN 15.228 million and were invested only in sovereign bonds. The resources of the Fund are formed by introductory contributions and annual contributions of IFs, B-IFs and MCs as well as investment revenues. Income from annual contributions of the participants in the Fund in 2017 amounted to BGN 946 thousand. The net revenues from investments were BGN 443 thousand compared to BGN 474 thousand in 2016, 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.

In 2017, the Management Board of the Fund decided to keep the amount of the annual contribution for 2018 at the level of 0.05% for protected financial instruments (with a maximum of 0.1%) and 0.25% for cash funds (with a maximum of 0.5%) determined at an average monthly basis for 2017.

In 2017 the Management Board of the Fund started to also manage the Investment Firms Resolution Fund (IFRF) established under the Recovery and Resolution of Credit Institutions and Investment Firms Act (RRCIFFA). IFRF is part of the administration of ICF and the costs related to its management are part of the total administrative costs of ICF. Participants in IFRF are investment firms holding a full licence for the provision of investment services and their number as at 31 December 2017 was 19. Individual annual contributions by participants in IFRF are determined every year by FSC in its capacity as a resolution authority. The annual contributions of the participants in IFRF for 2017 amounted to BGN 37,160.

In 2017 the Fund submitted a Proposal amending the Rules of structure and operation of the Investor Compensation Fund. The amendments are in compliance with the requirements of RRCIFFA and synchronise the Rules with the current regulations.

The Act amending and supplementing the Public Offering of Securities Act was adopted with some of the changes affecting the Fund’s operations. A new minimum level of the annual contribution for investment firms into the Fund was introduced; a new regulation was adopted regarding the payment of compensation by the Fund without the licence of the intermediary being withdrawn; the procedure for electing members of the Management Board was changed.

2.3. Insurance market

As at the end of 2017, the number of licensed insurers with their legal seat in the Republic of Bulgaria was respectively for non-life insurance – 26, for life insurance – twelve and one reinsurer. The reinsurer’s licence allows the company to operate as a reinsurer of general and life insurance.

In 2017, the licences were withdrawn due to non-compliance with the minimum capital requirement at 31 December 2016 of Trade Union Mutual Insurance Cooperative – TUMICO and IC Nadejda AD.

On the Bulgarian insurance market 34 insurers apply the European regulations on insurance Solvency II (as of 1 January 2016) and have the right of access to the European Union and the European Economic Area market (single market). Five insurers operate without the right of access to the single market and report under Solvency I.

As at the end of 2017, 385 insurance brokers and 11,225 insurance agents had the right to carry out insurance intermediation activities.

In 2017, the gross written premium achieved in Bulgaria by all insurers with their legal seat in the Republic of Bulgaria amounted to BGN 2,159[38] million, representing growth of 8% on an annual basis. The gross written premium achieved by G P Reinsurance EAD in 2017 was BGN 1,519 million, reporting an increase of premiums by 7.2% on an annual basis.

In 2017, the Bulgarian insurance market (life and non-life insurance) was allocated in a 82% to 18% ratio for the benefit of the premiums registered by general insurers.

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[38] The analysis was made on the basis of preliminary annual data pursuant to reports under Ordinance No 53 of 23 December 2016 on requirements for bookkeeping, format and contents of financial statements, references, reports and annexes of insurers and reinsurers and health insurance companies for the fourth quarter of 2017.

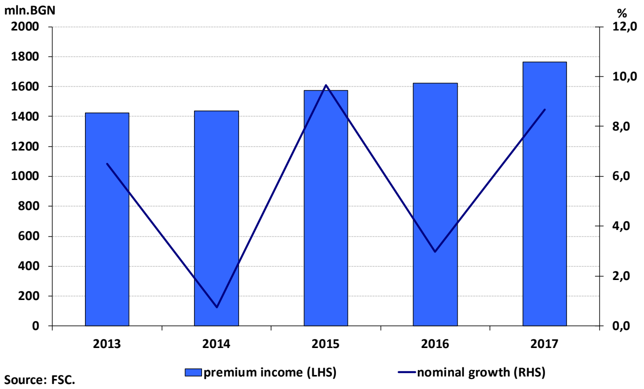
Insurance penetration calculated on the basis of gross written premium as a percentage of GDP in 2017 was calculated at 2.19% from 2.12% at the end of the previous year. Insurance density calculated as a gross written premium per capita[39], increased by BGN 306 at the end of 2017, having been BGN 281 the previous year.

2.3.1. *Non-life insurance*

Gross written premium achieved by general insurers at the end of 2017, amounted to BGN 1,763[40] million, including BGN 1,720 million from direct insurance and BGN 42 million from active re-insurance. Compared to the previous year, there was growth of 8.7%. The respective values at the end of 2016 were BGN 1,590 million for direct insurance (increase of 7.97%) and BGN 32 million for active reinsurance (increase of 31.3%).

The insurance penetration indicator for non-life insurance was calculated to be 1.8% at the end of the reporting period having the same value as the indicator in the previous year. Insurance density amounted to BGN 250 per capita, its amount having been calculated at BGN 228 in 2016.

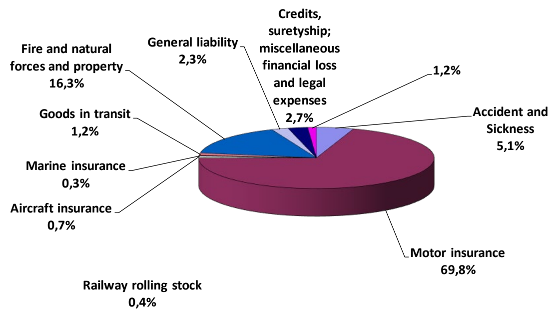
Figure 74. Gross written premium of non-life insurance



Source: FSC.

The main share in the activities of insurers under non-life insurance was that of motor vehicle insurance (Third Party Liability related to possession and use of a motor vehicle and Land vehicles, excluding railway rolling stock, the so called "Casco" insurance). In 2017, motor vehicle insurance had a share of 69.8% in the aggregate portfolio of general insurers with a share of 70.0% in the previous year.

Figure 75. Structure of the gross written premium by classes of insurance for 2017



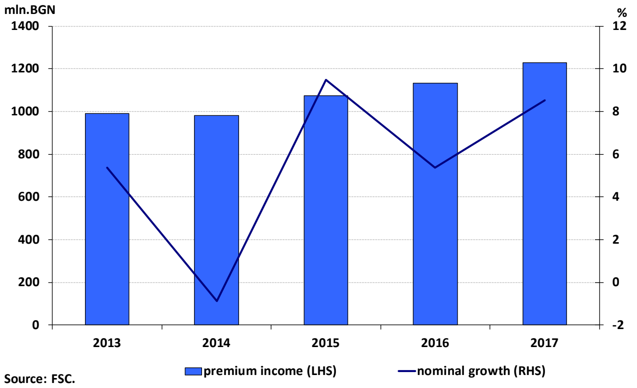
Source: FSC.

The premium income achieved under Third Party Liability insurance related to possession and use of a motor vehicle during the reporting year amounted to BGN 662 million and reported an increase of 6.6% on an annual basis. The share of the top four insurers with the highest premium income under this insurance was 56.4% with a share of 58.1% in the previous year. There was a reduction of the share of the top four insurers with the highest premium income under Third Party Liability insurance related to possession and use of a motor vehicle in 2017, which was indicative of the reduced concentration on the insurance market.

[39] According to NSI data, the population in 2017 was 7,050 million.

[40] The gross written premium from non-life insurance for 2017 includes the premium income of IC Nadejda AD whose licence was withdrawn on 17 August 2017.

Figure 76. Premium income under motor vehicle insurance in Bulgaria

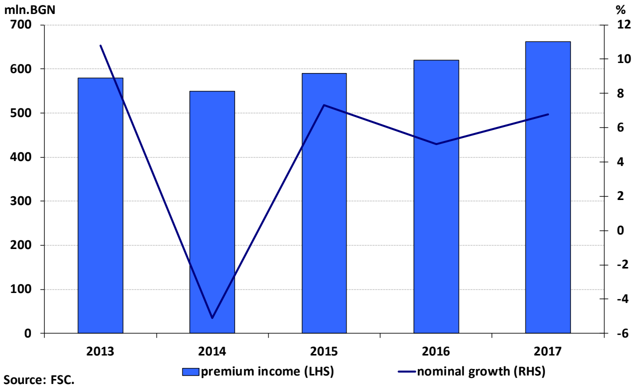


Source: FSC.

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

In 2017, the higher premium income under the "Third Party Liability" insurance, related to the possession and use of a motor vehicle was supported by the increase by 10% on an annual basis of the number of motor vehicles with an insurance contract and the increase by 5% of the average premium under the Third Party Liability of motorists insurance as at the end of 2017 compared to the previous year.

Figure 77. Premium income from "Motor Third Party Liability" in Bulgaria



Source: FSC.

During the period January – December 2017 the premium income achieved from "Land vehicles, excluding railway rolling stock" insurance amounted to BGN 566 million, reporting a growth of 10.6% on an annual basis.

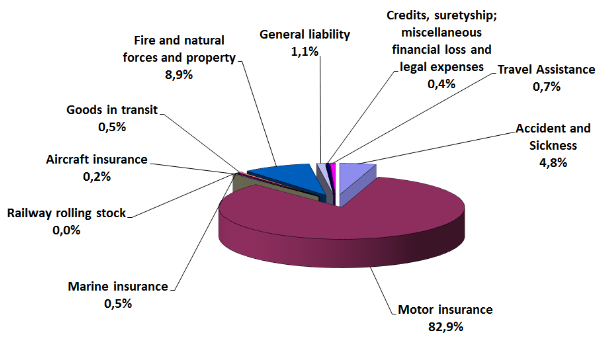
At the end of 2017, property insurances (Fire and natural disasters and Other damage to property) in Bulgaria had a 16.3% share of the gross written premium with that share having been 17% at the end of 2016. The premium income generated from Fire and natural disasters and Other damage to property insurances amounted to BGN 286 million, reporting 4.8% growth on an annual basis, after a reported drop of 7.6% growth at the end of 2016.

Accident and Sickness Insurance had a 5.1% share in the structure of the gross written premium as of the end of 2017, generated by general insurers. The premium income under the two insurance classes in 2017 amounted to BGN 90.2 million, while in 2016 they were BGN 79 million.

The premiums ceded to reinsurers for 2017 were in the amount of BGN 512 million, representing 29% of the gross written premium generated in the sector. The retention rate fell and was estimated at 0.71, having been 0.74 the previous year. In the structure of ceded premiums to re-insurers by insurance classes, the largest relative share was that of "Motor Third Party Liability" insurance (50%), "Fire and natural disasters" insurance (24%) and "Land vehicles, excluding railway rolling stock" insurance (14%).

The amount of claims paid in the non-life insurance sector in 2017 increased by 4.6%, reaching BGN 858 million. The amounts reimbursed under re-insurance contracts were BGN 271 million, which represented 32% of the non-life insurance compensation paid in 2017.

Figure 78. Structure of claims paid by classes of insurance in 2017



Source: FSC.

Similarly to the structure of gross written premium , in the structure of compensation paid by insurance classes, the largest relative share of

83% was that of motor vehicle insurances ("Motor Third Party Liability" and "Land vehicles other than railway rolling stock"), followed by property insurance ("Fire and natural disasters" and "Other damage to property") taking a share of 9%, and "Accident" and "Sickness" Insurance – with a combined share of 5%.

The largest increase in the amount of claims paid on an annual basis in 2017 was reported in relation to "Motor Third Party Liability" insurance (with BGN 38 million). Respectively, the largest reduction in the amount of claims paid on an annual basis was reported in relation to "Land vehicles, excluding railway rolling stock" insurance (with BGN 3.5 million).

The gross loss ratio at the end of 2017 in general for the market increased to 0.58 from 0.45 in the previous year.

Table 61. Gross loss ratio

	2016	2017*
Accident	0,22	0,32
Sickness	0,69	0,70
Land vehicles (other than railway rolling stock)	0,56	0,54
Railway rolling stock	0,26	0,01
Aircraft	0,34	0,66
Ships	0,79	0,01
Goods in transit	0,24	0,27
Fire and natural forces	0,25	0,54
Other damage to property	0,02	0,11
Motor vehicle liability	0,51	0,72
Aircraft liability	0,06	0,14
Liability for ships	0,10	-0,05
General liability	0,09	0,33
Credit	-0,13	0,11
Suretyship	-0,35	0,97
Miscellaneous financial loss	0,21	0,10
Legal expenses	0,00	0,95
Travel assistance	0,37	0,29
TOTAL	**0,45**	**0,58**

Note: *Data for 2017 are preliminary.
Source: FSC.

The actual costs made by non-life insurance companies in relation to their operational activities grew by 3.9% on an annual basis and at the end of 2017 amounted to BGN 656 million. The actual expenditure made included acquisition costs, administrative costs, settlement costs and expenditure on taxes, frees, deductions to funds, etc. Their total amount represented 37% of the gross written premium generated by the sector.

Acquisition costs amounted to BGN 402 million and represented 61% of the actual costs incurred, and 23% of the gross written premium generated for 2017.

The administrative costs amounted to BGN 188 million, or 29% of the total costs incurred, and 11% of the gross registered premium income.

In 2017, the administrative costs, the costs for acquisition of commission, advertising and other expenditure in connection with "Motor Third Party Liability" amounted to BGN 191 million, having been BGN 199 million in the previous year. Their share in the premium income amounted to 29%.

During the reporting year, the total administrative costs, costs for acquisition of commission, advertising and other expenditure for "Land vehicles, excluding railway rolling stock" insurance amounted to BGN 220 million and this represented 39% of the gross written premium under the insurance. These costs increased by 11% on an annual basis.

The gross expense ratio for the non-life insurance market at the end of the reporting period did not change significantly compared to 2016 and was estimated at 0.35 from 0.36 in the previous year.

Table 62. Gross expense ratio

	2016	2017*
Accident	0,49	0,43
Sickness	0,35	0,28
Land vehicles (other than railway rolling stock)	0,39	0,39
Railway rolling stock	0,27	0,42
Aircraft	0,27	0,32
Ships	0,28	0,35
Goods in transit	0,46	0,47
Fire and natural forces	0,38	0,36
Other damage to property	0,49	0,44
Motor vehicle liability	0,32	0,29
Aircraft liability	0,19	0,18
Liability for ships	0,21	0,24
General liability	0,38	0,38
Credit	0,33	0,37
Suretyship	0,34	0,37
Miscellaneous financial loss	0,72	0,45
Legal expenses	0,88	0,84
Travel assistance	0,58	0,56
TOTAL	**0,36**	**0,35**

Note: *Data for 2017 are preliminary.
Source: FSC.

In 2017, the highest gross technical result on the basis of actual and incurred costs was calculated for the insurances “Land vehicles, excluding railway rolling stock” (BGN 57 million) and “Fire and natural disasters” (BGN 47 million).

Table 63.Gross technical result

	2016	2017*
Accident	10,5	8,4
Sickness	-1,8	0,7
Land vehicles (other than railway rolling stock)	22,6	57,3
Railway rolling stock	2,4	4,9
Aircraft	3,1	0,6
Ships	-0,2	-0,3
Goods in transit	5,1	7,2
Fire and natural forces	89,2	47,3
Other damage to property	26,1	10,6
Motor vehicle liability	128,9	10,0
Aircraft liability	5,8	3,9
Liability for ships	0,7	1,3
General liability	20,4	13,5
Credit	5,4	2,9
Suretyship	9,8	5,6
Miscellaneous financial loss	1,2	-5,5
Legal expenses	0,0	0,0
Travel assistance	0,7	4,3
TOTAL	**329,9**	**172,7**

Note: Data are 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 2017 are preliminary.
Source: FSC.

In 2017, insurance companies were required (Ordinance No 53 of 23 December 2016) to submit information for the altered form of balance sheet report, namely to include the “Share of reinsurers in the technical provisions” asset in the balance sheet. By the end of 2016, the share of reinsurers in the technical provisions was included in the liabilities balance with a negative sign. This alteration lead to a significant change in the total value of assets/liabilities of the supervised companies. At the end of the reporting period, the amount of non-life insurance assets was BGN 3,256 million, increasing by 7% on an annual basis[41].

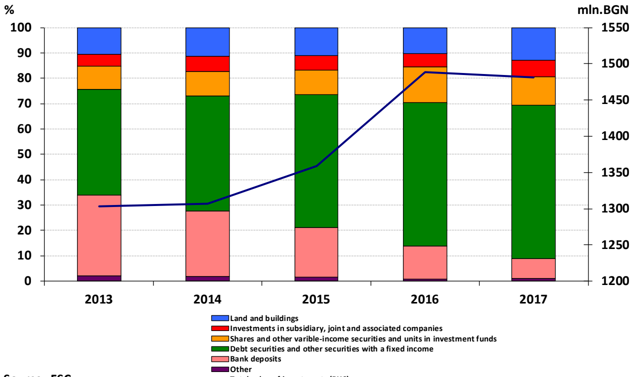
Comparing the amount of investments by insurers under non-life insurance in 2017 to the previous year, there was a drop of 1%. The amount of the investments in non-life insurance at the end of the year amounted to BGN 1,481

[41] The total amount of assets in non-life insurance did not include the assets of IC Nadejda AD whose licence was withdrawn in August 2017.

million and accounted for 45% of the total amount of assets.

The main share in the structure of the aggregated investment portfolio of non-life insurance companies was that of sovereign bonds (61%), followed by investments in land and buildings (13%) and investments in shares and other variable-income securities and stakes in investment funds (11%).

Figure 79. Investment portfolio structure of non-life insurance companies



Source: FSC.

The share of investments in land and buildings in the total investment portfolio of non-life insurance companies during the reporting year increased to 13% from about 11% during the previous five years. During the last four years the share of investments in subsidiaries, joint and associated undertakings in which the insurer had a stake, remained almost unchanged, amounting to about 6%. At the end of 2017, the share of investments in debt securities and other fixed-income securities increased by 5 p.p. over one year, reaching 61%. This type of investments during the last five years increased at the expense of the share of investments in bank deposits with their share falling significantly in the last five years, reaching 8% at the end of 2017. Investments in shares and other variable-income securities and stakes in investment funds by non-life insurance companies decreased to 11% compared to the previous year, when they were 14%.

In 2017, there was an increase by 9% in the amount of gross technical provisions established by non-life insurance companies for the payment of future obligations under concluded insurance contracts and at the end of the year the provisions amounted to BGN 2,107 thousand.

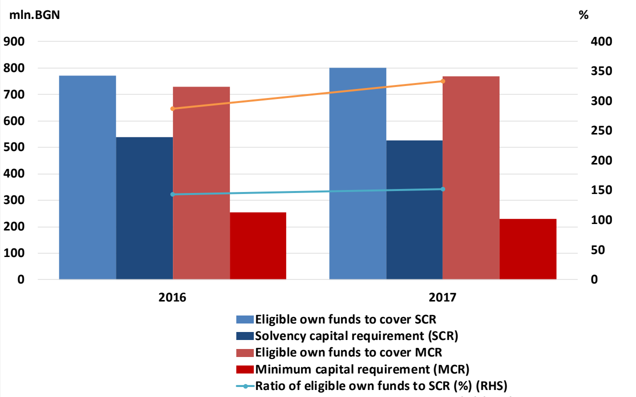
At the end of 2017, the largest share in the technical provisions established by general insurers was that of the outstanding claims provisions with a share of 64% of all established provisions. On an annual basis, these provisions established by insurers to cover obligations pursuant to insurance contracts under reported but not settled claims and those that have occurred but were not filed, increased by 7.9% and at the end of the year amounted to BGN 1,355 million.

An increase by 4% was also reported for the provisions for outstanding payments under “Motor Third Party Liability”, with its amount reaching BGN 956 million at the end of 2017.

The eligible own funds to cover the capital requirement for solvency of general insurers with right of access to the single market as at 31 December 2017, amounted to BGN 801 million, the Solvency Capital Requirement (SCR) amounting to BGN 527 million. For the reporting period, the capital surplus (eligible own funds for SCR less SCR) for all insurers reporting under Solvency II was positive and the cover of SCR with eligible own funds as at the end of 2017 was estimated to be 152%.

The eligible own funds to cover the minimum capital requirement for solvency of general insurers with right of access to the single market as at 31 December 2017, amounted to BGN 770 million, and the Minimum Capital Requirement (MCR) amounted to BGN 231 million. Respectively, the coverage of the minimum capital requirement for eligible own funds at the end of 2017 was estimated at 334%.

Figure 80. Capital requirements for non-life insurance



Source: FSC.

The solvency margin for four general insurers without right of access to the single market at the end of 2017, reached BGN 4 million, and the capital guarantee amounted to BGN 18 million. The capital surplus (own funds less intangible assets minus the larger value of the solvency margin and the capital guarantee) was positive for each of these.

The amount of Tier 1 – unrestricted capital for the eligible own funds had a share of 94%, respectively of Tier 1 – restricted was 1%, Tier 2 – 5%, Tier 3 was 0.2%.

At the end of 2017, the non-life insurance market reported a higher positive net technical result for the operations of all companies to the amount of BGN 87 million with a net technical result amounting to BGN 76 million reported at the end of the previous year.

The net financial operating result of general insurers fell by 4% at the end of 2017, compared to the previous year, mainly due to the higher reported "other costs, including re-estimation of value" and amounts to BGN 74 million with a reported net profit of BGN 77 million in the previous year.

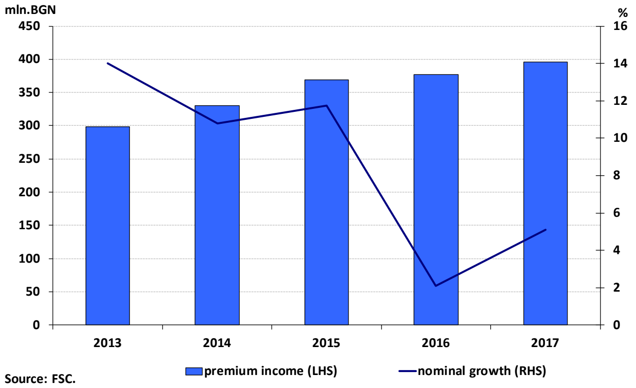
As a result of the positive financial result reported, the return on assets calculated as the ratio between profit (loss) for the financial period and the total amount of assets, decreased from 3.3% in 2016 to 2.3% during the reporting year.

2.3.2. *Life insurance*

The gross written premium achieved by insurers operating in the life insurance sector as at 31 December 2017 was BGN 396[42] million, including from direct insurance BGN 382 million and from direct insurance and BGN 14 million. Compared to the previous year, growth of 5% was reported with registered premiums as at 31 December 2016 of BGN 367 million for direct insurance (growth of 4.08%) and BGN 10 million for active reinsurance (growth 40%).

The insurance density of life insurance in 2017 amounts to BGN 56 per capita, compared to BGN 53 during the previous year, while the insurance penetration in the reporting year was 0.40% of GDP, maintaining its share from the previous year.

Figure 81. Gross written premium of life insurance

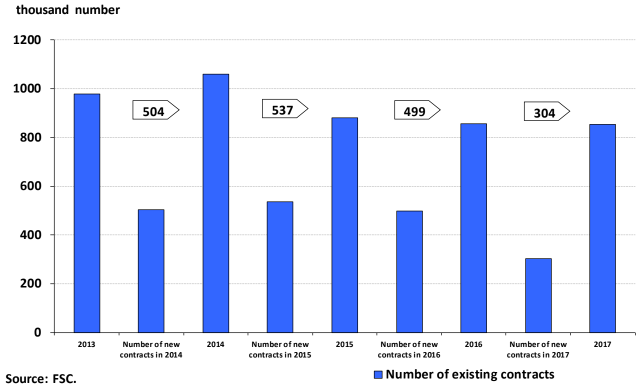


Source: FSC.

As at the end of 2017, the number of contracts in effect was 855 thousand, falling by 0.1% on an annual basis. Newly concluded contracts went down by 39%. A reduction on an annual basis of 5% was also reported for premiums registered under newly-concluded contracts.

[42] The gross written premium from life insurance includes the premium income of Trade Union Mutual Insurance Co-operative – TUMICO for 2017.

Figure 82. Number of newly-concluded and existing contracts

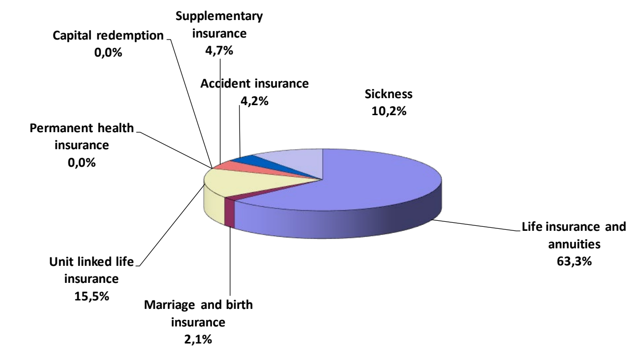


Source: FSC.

The structure of the insurers, operating in the field of life insurance and mixed insurance activities as at 31 December 2017 (insurers offering mixed insurance operate in the field of life insurance and insurance under classes “Accident” and “Sickness”) did not report significant changes by the end of 2017. The main share in it was that of the traditional Life insurance and annuities (63%), Unit-linked life insurance (16%) and Sickness insurance (10%). Permanent health insurance has not been concluded since the beginning of 2017.

The main part of gross premiums under Life insurance and annuities were formed by the sale of endowment assurance (51%) and of term assurance (20%).

Figure 83. Portfolio structure of life insurance companies in 2017



Source: FSC.

The trend for an increase in the share of Unit-linked life insurance continued during 2017 (from 14% at the end of 2016 to 16% at the end of 2017) and the Sickness insurance (from 9% at the end of 2016 to 10% at the end of 2017).

Growth was also reported on an annual basis for amounts from premiums under Unit-linked life insurance, Supplementary insurance, Accident and Sickness. Under all other life insurance classes, there was a drop in premiums on an annual basis.

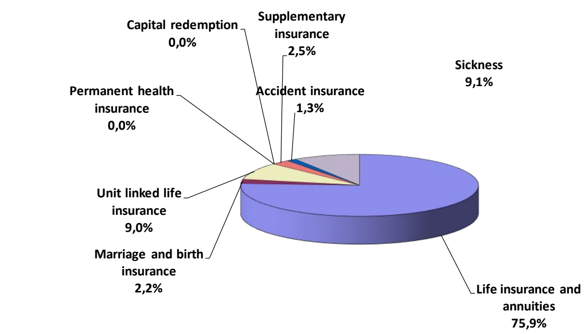
The premiums ceded by life insurance companies to re-insurers in Bulgaria amount to BGN 25 million at the end of 2017, representing 6.4% of the gross written premium in the sector. The share of re-insurance among life insurance companies remained relatively low, with the retention ratio remaining at the level of the end of 2015 – 0.94.

The amounts and compensation paid in 2017 by life insurers amounted to BGN 174 million. On an annual basis, there was growth both in the amount of amounts and compensation paid during the year (9%), and in the number of claims (20%).

Of the total number of claims paid out, 26% were under expired or matured contracts, 13% were under refusal (partially or fully) insurance contracts, 3% were the amounts and compensation paid in cases of death, and 58% were under claims, other than the above.

In the general structure of claims paid, the largest share was that of Life insurance and annuities (76%), whereby 67% of payments were for endowment assurance, followed by Unit-linked life insurance (9%), and Sickness Insurance (9%).

Figure 84. Structure of claims paid by classes of insurance in 2017



.Source: FSC

At the end of 2017, an increase was reported in the number of refusals under all insurance classes, except Unit-linked life insurance, with their total number going up by 7%. Surrender amounts were BGN 37 million in total at the end of 2017, while at the end of 2016 they were BGN 41 million.

The amounts and compensation reimbursed under reinsurance contracts were BGN 6 million, representing 4% of the life insurance claims paid during the period.

The costs incurred by life insurers in connection with their operations grew by 8% on an annual basis, and at the end of 2017 amounted to BGN 115 million. These expenditure include acquisition costs, administrative costs, settlement costs and expenditure on taxes, frees, deductions to funds, etc., which represented 26% of the gross written premium generated over the period.

The acquisition costs incurred in 2017 grew by 9% on an annual basis and amounted to BGN 69 million in total. Acquisition costs (commissions, advertising costs, etc.) represent 60% of the total costs incurred during the period and 15% of the premium income generated by the sector.

Administrative costs grew by 7% on an annual basis and amounted to BGN 42 million at the end of the year. They represent respectively 37% of the total costs incurred by life insurers and 9% of the premium income generated by the sector.

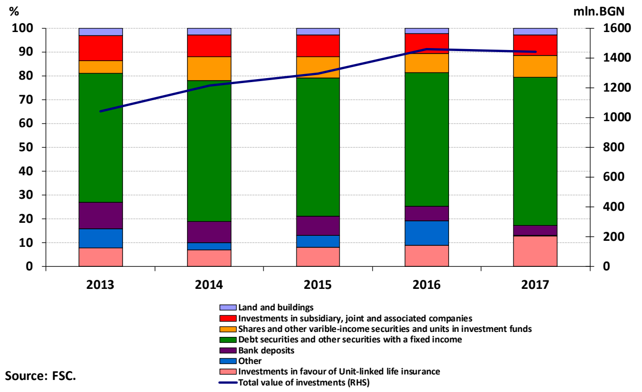
The total amount of assets in the life insurance sector decreased by 1.1% in 2017, with their value at the end of the year amounting to BGN 1,596[43] million.

The value of life insurers' investments was BGN 1,442 million at the end of 2017, and represent 90% of the total amount of assets in the sector. The change in the value of investments was estimated at -1.2% on an annual basis. The main share in life insurers' total investment portfolio at the end of 2017 was that of securities issued and guaranteed by the state (52%), investments in shares and other variable yield securities and shares in investment funds (9%), and investments in shares and stakes of subsidiary, joint and associated undertakings (9%).

The largest increase on an annual basis was reported in the value of investments in debt securities (9%). In 2017, bank deposits of life insurers continued to decrease (31% on an annual basis) and at the end of the year these reached BGN 61 million due to continued low interest rate environment.

The value of the investments under Unit-linked life insurance where the risk is carried by the insured persons increased by 40% on an annual basis tracing the growth of premium income. At the end of 2017, these investments reached BGN 183 million and comprise 13% of the total amount of investments in the life insurance sector.

Figure 85. Investment portfolio structure of life insurance companies



Source: FSC.

The gross technical provisions established by life insurers (excluding the provisions under Unit-linked life insurance) decreased by 11% in 2017 and at the end of the year amounted to BGN 861 million. A significant decrease was reported in the provisions for the capitalised value of the pensions, which went down from BGN 208 million at the end of 2016 to BGN 84 million at the end of 2017. The reason for the reported drop was the withdrawal of the licence of TUMICO in December 2017 and the non-inclusion of the

[43] The total amount of assets in the life insurance sector did not include the assets of Trade Union Mutual Insurance Co-operative – TUMICO, whose licence was withdrawn in December 2017.

reserves of the insurer in the general amount for the market at the end of 2017.

The main share of the gross amount of life insurers' technical provisions (excluding Unit-linked life insurance provisions) was that of the mathematical provision (75%). On an annual basis, the amount of these provisions grew by BGN 7 million.

The Unit-linked life insurance provision established at the end of 2017 grew by 41% on an annual basis (BGN 53 million). These provisions had a 18% share in the total amount of provisions.

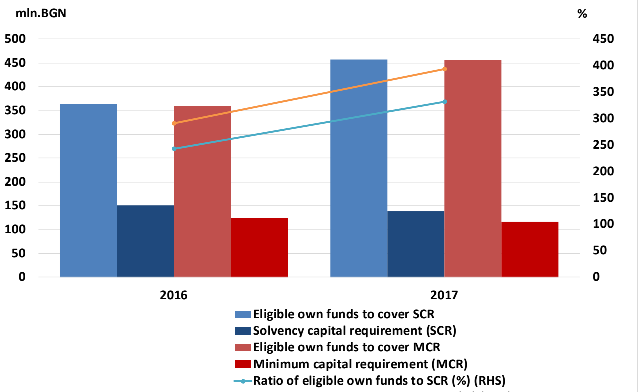
The equity committed to the life insurance sector grew by 10% on an annual basis, amounting to BGN 460 million at the end of 2017. During the reporting year, two life insurers increased their shareholder capital.

The eligible own funds to cover the capital requirement for solvency of life insurers with right of access to the single market as at 31 December 2017, amounted to BGN 457 million, the Solvency Capital Requirement (SCR) amounting to BGN 138 million. Respectively, the coverage of the SCR with eligible own funds at the end of 2017 was estimated at 331%.

The eligible own funds to cover the minimum capital requirement for solvency of life insurers with right of access to the single market as at 31 December 2017, amounted to BGN 456 million, and the Minimum Capital Requirement (MCR) amounted to BGN 116 million. Respectively, the coverage of the MCR for eligible own funds at the end of 2017 was estimated at 392%.

The amount of Tier 1 – unrestricted capital for the eligible own funds had a share of 99%.

Figure 86. Capital requirements for life insurance



Source: FSC.

At the end of 2017, life insurers reported a net technical result of BGN 20 million, reporting no change compared to the previous year.

The reported positive net technical result contributed to the positive net financial result in the amount of BGN 28 million, compared to BGN 30 million in the previous year.

The return on assets calculated as a ratio between profit (loss) for the respective period, and the total amount of assets, retained its value from 2016, and was 2%.

The return on equity calculated as a ratio between profit (loss) for the reporting period, and the equity decreased compared to the end of 2016 and at the end of 2017 amounted to 6%.

2.3.3. *Re-insurance*

In 2017, active re-insurance activity was performed by eight general insurers, three life insurers and one reinsurer.

The amount of the premiums received under active reinsurance as at 31 December 2017 amounted to BGN 42.4 million, registered by general insurers (for the same period of 2016, this amount was BGN 31.7 million, i.e. growth of 33.7% on an annual basis) and BGN 14.3 million by life insurers (for the same period of 2016, this amount was BGN 11 million, i.e. growth of 30%).

G P Reinsurance EAD registered a gross written premium at the end of 2017 amounting to BGN 1,519 million, which represents an increase by 7.2% compared to the previous period of 2016.

The total premium income generated through active reinsurance during the year amounted to BGN 1,575 million. (compared to BGN 1,459 million in 2016).

The main share of the active reinsurance during the reporting year was that of “Fire and natural disasters” insurance (31%), followed by “Motor Third Party Liability” (27%).

The compensation paid to cedents amounted to BGN 679 million of which BGN 9 million under non-life insurance, BGN 2 million under life insurance and BGN 669 million from G P Reinsurance EAD. In the structure of compensation paid, the largest share was that of “Motor Third Party Liability” insurance (34%), “Land vehicles, excluding railway rolling stock” insurance (24%) and “Fire and natural disasters” insurance (23%).

2.3.4. *Guarantee and compensation fund*

The Guarantee Fund (GF/the Fund) is a legal entities with its seat in the city of Sofia, which pays out compensation to injured persons with regard to mandatory “Motor Third Party Liability” and “Accident” insurances to the passengers in public transport vehicles, reimburses amounts paid by an EU Member State compensation body, guarantees insurance receivables in cases of insurer insolvency.

GF established and manages the following separate accounts:

- Fund guaranteeing the claims of injured persons from uninsured and unidentified motor vehicles – Fund for uninsured motor vehicles;
- Fund guaranteeing the claims in case of an insurer's insolvency under Article 519, Items 2 and 3 of IC – Compensation Fund.

At the end of 2017, the available funds in the Fund for uninsured motor vehicles in accordance with Article 556, Paragraph 1 of IC amounted to BGN 69 million, increasing by 7.4% compared to 2016. Their amount corresponds to the requirements of Article 556, Paragraph 2 of IC according to which, their minimum amount shall be BGN 10 million. The Fund’s money are managed in compliance with the requirements for diversification and suitable distribution stipulated in IC. The money is invested under decision by the Management Board in accordance with the rules for investment of technical provisions of insurers and the General investment principles adopted by the Fund’s Board. The Fund’s reserves for uninsured motor vehicles as at 31 December 2017 amounted to BGN 90 million compared to BGN 83 million for the previous year or a growth of 9.3%.

In 2017 the revenues of the Fund for uninsured motor vehicles accrued from contributions under mandatory Third Party Liability of motorists insurance and “Accident” insurances for the passengers in public transport vehicles amounted to BGN 39 million, compared to BGN 28 million at the end of the same period of the previous year. The costs for compensation reported by the Fund for uninsured motor vehicles fell by 24% compared to the previous year and mounted to BGN 29 million.

As at 31 December 2017, the financial performance of the Fund for uninsured motor vehicles was BGN 4,025 thousand.

As at 31 December 2017, the funds of the Compensation Fund amounted to BGN 53 million. In 2017, the Compensation Fund paid out guaranteed insurance receivables to users of insurance services amounting to a total of BNG 4 thousand.

The revenues of the Compensation Fund for 2017 amounted to BGN 6 million and grew by 4% on an annual basis.

2.4. Social insurance market

The net assets of supplementary pension funds (SPF) grew in 2017, reaching BGN 12,663.2 million at the end of the year. The increase in the net assets of pension funds during the year was a result of the revenues from contributions by insured persons, who at the end of 2017, were 4,587,723 persons, and of the positive result from investing resources under individual accounts of pension insurance companies (PICs). The upward trend of the net assets was maintained despite the right to switch the type of pension insurance from supplementary mandatory pension funds (SMPF) to the State social security (SSS).

2.4.1. *Pension insurance companies*

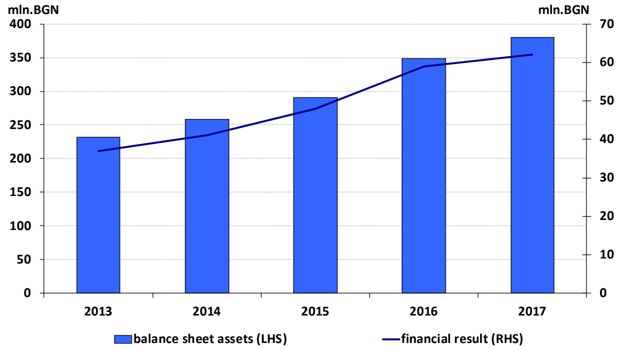
As at 31 December 2017, nine licensed PICs were operating, with the total number of the pension funds managed by them being 29, including nine universal (UPF), nine professional (PPF), nine voluntary (VPF) and two voluntary pension funds with occupational schemes (VPFOS)[44].

Four of the companies active on the pension insurance market were 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 Wiener Versicherung Gruppe and PIC DSK – Rodina AD – OTP BANK NYRT.

In four of the licensed companies there were shareholders directly holding more than 90% of the capital[45].

The growth trend of the PICs' financial assets continued, reaching BGN 380.0 million at the end of the year (an increase of 8.8% compared to 2016). There were similar dynamics in the total net financial result of the PICs, which amounted to BGN 61.5 million for 2017 – BGN 3.0 million or 5.0% more compared to the total net financial result for 2016.

Figure 87. Balance sheet assets and net financial result of PICs



Source: FSC.

The average value of the capital adequacy indicator for 2017, of all nine licensed pension insurance companies, was 482.6% which significantly exceeded the statutory minimal amount of 50% below the minimum capital.

In 2017, the largest part of the PICs maintained a high level of capital adequacy. The average value of the indicator in 2017 increased by 55.5 p.p. as a result of the increase of the capital adequacy of all companies. The indicator varied widely between 54.3% and 857.7% for different companies. One company was an exception with a capital adequacy reaching 1006.8%. Because one PIC came close to the critical minimum for capital adequacy, its activities continued to be subject to intensive monitoring during the reporting year.

The liquid resources of PIC and SPF were higher than the statutory minimal amount, i.e. all companies and the funds they managed were able to cover their current liabilities.

[44]There were no insured persons registered in one of the VPFOS.

[45]TBIH FINANCIAL SERVICES GROUP N.V. AMSTERDAM, HOLLAND holds directly 92.58% of the shares of PIC Doverie AD, BANK DSK EAD holds directly 99.75% of PIC DSK – Rodina AD, NN Continental Europe Holdings B.V., Amsterdam, Holland holds directly 100% of NN PIC EAD and MEDIANET INDUSTRIES S.A. holds directly 90.20% of the shares of PAC Future AD.

The reserves guaranteeing minimum profitability of UPFs and PPFs set aside with resources of PICs, amounted as at 31 December 2017 to BGN 139.7 million, and their amount was in compliance with the statutory requirements. The investments of resources from the reserves, as well as the valuation of the assets subject to such investments are in compliance with the regulatory requirements.

Table 64. Capital adequacy and liquidity of PICs and SPFs

	2016	2017
Capital adequacy of PIC (%)	427,1	482,6
Liquidity of PIC (coef.)	7,1	7,6
Liquidity of UPF (coef.)	41,3	38,6
Liquidity of PPF (coef.)	46,5	47,0
Liquidity of VPF (coef.)	48,0	62,2
Liquidity of VPFOS (coef.)	12,5	31,2

Note: The indicators are calculated as an arithmetic mean of the values of individual PIC/SPF.

Source: FSC.

The level of coverage of the share capital varies widely, between 60.7% and 357.4% with the exception of two companies whose indicator’s value reached 551.3% and 918.4%. The average non-weighted value of the indicator for 2017 was 308.2% compared to 273.2% for 2016. The registered increase of 35.0 p.p. of the indicator was a result of the increase in the value of the indicator compared to the previous year for all pension insurance companies. For seven of them this was due to an increase in equity while maintaining the share capital, and for the other two PICs it was a result of the higher rate of growth in equity compared to the share capital.

In 2017, the reported profitability of the equity was 23.9% on average for the sector without any change from 2016. For six companies, the profitability of the capital in 2017 fell for four of them, which was due to an increase in the equity and the decrease of profits, while for the other two it was a result of the faster increase in equity compared to the growth of profits. For three companies the profitability increased, as for two of them that was due to growth of profits outpacing the increase of equity and the last was due to a decrease of loss at a faster rate than the increase of equity. The equity profitability for each PIC ranged widely, with the lowest level being (-2.8%), and the highest – 63.5%.

Table 65. Analysis of PICs equity

	2016	2017
Level of coverage of registered capital	273,2	308,2
Profitability of equity	23,9	23,9

Note: Data are in % unless indicated otherwise. The indicators are calculated as an arithmetic mean of the values of individual PIC.

Source: FSC.

The coverage level of managed SPF assets was between 1.9% and 4.5%. The average non-weighted value of the indicator for 2017 fell to 3.3% from 3.5% in 2016. The value of the indicator for seven PICs went down, whereby for six of them, this was due to an increase of SPF assets at a faster rate than the growth of PIC assets, and with one company, due to a decrease of PIC assets compared to an increase in SPF assets. For one PIC the value remained the same as during the previous year and for another the value of the indicator increased due to the growth of PIC assets at a faster rate than the increase of SPF assets.

In 2017 and 2016, the reported profitability of assets in the sector was on average 13.6%. For eight companies the indicator’s value for profitability of assets went down, which for four of them was due to an increase of PIC assets and a decrease in profits, and for three PICs the growth of assets outpaced the growth of profits, while for the eight company the reduction of profits was greater than the reduction of assets. For one PIC the profitability increased due to the growth of profits at a faster rate than the increase of assets. The profitability of assets for each PIC ranged widely, with its lowest value being (-1.8%), and the highest – 31.4%.

Table 66. Analysis of PIC assets

	2016	2017
Level of coverage of SPF assets	3,5	3,3
Profitability of PIC assets	13,6	13,6
Growth of PIC assets	18,9	10,9

Note: Data are in % unless indicated otherwise. The indicators are calculated as an arithmetic mean of the values of individual PIC/SPF.
Source: FSC.

For the year, eight companies had a positive value of the indicator for growth in their assets and for one PIC it was negative. The average non-weighted value of the indicator fell from 18.9% for 2016 to 10.9% for 2017, i.e. during the year there was a slower growth of PICs' assets, compared to 2016 due to the significant decrease in the indicator during the reporting year for two companies. For individual companies, the indicator for growth of their assets varied between (-10.8%) and 23.6%.

Table 67. Analysis of PIC income and expenses

	2016	2017
Efficiency of PIC activities	143,0	143,3

Note: Data are in % unless indicated otherwise. The indicators are calculated as an arithmetic mean of the values of individual PIC.
Source: FSC.

The average non-weighted value of the effectiveness indicator for PICs' activities in 2017 was 143.3%, increasing by 0.3 p.p. compared to 2016. The value of the indicator grew for four companies, and for two of them this was due to an increase in income and a decrease in costs, for one PIC costs dropped at a faster rate than the drop in income, and for the fourth company incomes grew, and costs dropped. For five PICs, the value of the indicator decreased due to the growth of costs at a faster rate than the increase of revenue. The value of the indicator varies between 96.9% and 189.8%.

Compared to 2016, the revenue of PICs from fees and deductions for one participant in pension funds increased. The average non-weighted value of the indicator for 2017 amounted to BGN 31.62, compared to 29.61 for the previous year. The increase in the indicator's value by BGN 2.01 was due to the fact that the indicator increased for all companies. For eight PICs the increased value of the indicator was due to the faster rate of growth of income from fees and deductions compared to the increase of participants and for one PIC income from fees and deductions increased while participants decreased in number. The value of the indicator for individual companies was between BGN 20.14 and BGN 42.27.

The costs for PIC's operations per participant in the managed pension funds dropped by BGN 1.18 in the reporting 2017, and in the end of the year they amounted to BGN 27.05 compared to BGN 28.23 in 2016. The value of the indicator went down for three of the companies due to the decrease of costs and the increase in the number of participants. For six PICs, the value of the indicator increased, and for four companies this was due to faster growth of costs than the increase in the number of participants, and for one company costs increased, and the number of participants decreased. The value of the indicator for individual companies varied between BGN 17.59 and BGN 40.81.

Table 68. Fees, deductions and operating expenses per participant in SPFs

	2016	2017
Fees and deductions per participant in SPFs	29,6	31,6
Operating expenses per participant in SPFs	28,2	27,0

Note: Data are in BGN unless indicated otherwise. The indicators are calculated as an arithmetic mean of the values of individual SPIF.
Source: FSC.

The revenues from fees and deductions per BGN 100 of assets of the funds as at the end of 2017 were between BGN 1.18 and BGN 1.56 with the average non-weighted value of the indicator amounting to BGN 1.29 compared to BGN 1.38 in 2016 or a reduction of BGN 0.09. The value of the indicator for all PICs dropped as a result of the faster rate of increase in balance sheet assets, compared to the increase of revenues from fees and deductions.

The operating costs per BGN 100 of assets of SPFs for 2017 varied between BGN 0.66 and

BGN 1.54. The average non-weighted value of the indicator reported a drop by BGN 0.19, amounting to BGN 1.13 at the end of 2017 compared to BGN 1.32 at the end of 2016. The value of the indicator for eight companies went down in comparison to the previous 2016, which for five of them was due to the faster rate of increase in assets of SPFs than the growth of costs, and for three PICs the costs decreased and the assets of SPFs went up. The indicator grew only for one PIC because the rate of increase in costs outpaced the rate of increase of the SPF's balance sheet assets it manages.

Table 69. Fees, deductions and operating costs per BGN 100 of SPFs assets

	2016	2017
Fees and deductions per BGN 100 of SPFs assets	1,4	1,3
Operating expenses per BGN 100 of SPFs assets	1,3	1,1

Note: Data are in BGN unless indicated otherwise. The indicators are calculated as an arithmetic mean of the values of individual SPF.

Source: FSC.

The supervision of PICs' operations with regard to the management of pension funds in 2017 did not identify any deviations from the statutory requirements related to the amount of the mandatory fees and deductions paid to PICs.

In 2017, almost all PICs maintained the maximum permitted amounts of fees and deductions pursuant to the SIC, collected by SMPFs: 4.25% of each insurance contribution and investment fee in the amount of 0.85% 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 SMPFs below the maximum amount stipulated under the SIC, and for one of the PICs the deduction was only applied to the universal pension fund it managed.

The amounts of fees and deductions for the management of the supplementary voluntary pension funds (SVPF) collected by PICs were smaller than the statutory ones. The average amount of the deduction from each social insurance contribution to a VPF in 2016 and 2017 was 2.9%, and for VPFOS – 3.9%. The legal maximum amount of the deduction from each social insurance contribution to SVPF was 7.0%.

Table 70. Investment fee and social insurance contributions' fee to SVPFs

	2016	2017
Deducted investment fee of VPF	8,6	8,7
Deducted investment fee of VPFOS	10,0	10,0
Average amount of social insurance contributions' fee in VPF	2,9	2,9
Average amount of social insurance contributions' fee in VPFOS	3,9	3,9

Note: Data are in % unless indicated otherwise. The indicators are calculated as an arithmetic mean of the values of individual VPF and VPFOS.

Source: FSC.

The investment charge in VPF in 2017 amounted to 8.7% compared to 8.6% in 2016 with the statutory fee 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 organisation and activity. The investment fee in VPFOS amounted to 10.0% in compliance with the legal provisions.

2.4.2. *Supplementary pension funds*

During the reporting year, the amounts of assets in the balance sheet of SPFs increased at a faster rate compared to the previous 2016. In 2017, the balance sheet assets of SPFs grew by 17.7% on an annual basis, while in 2016 the balance sheet assets of SPFs increased by 15.2%.

The rate of asset change varies between funds, with the largest increase (19.5%) reported in the only active VPFOS followed by UPFs with a growth of 18.4%. Growth in the assets of VPFs and PPFs was reported too, respectively by 15.8% and 13.0%. In 2017, the assets of all funds increased at a faster rate compared to the growth of 2016. The fastest increase was that of VPF's assets (7.1 p.p.), followed by UPFs (2.2 p.p.), VPFOS (1.9 p.p.) and PPFs (0.6 p.p.)

Table 71. Growth of SPFs assets

	2016	2017
UPF	16,2	18,4
PPF	12,4	13,0
VPF	8,7	15,8
VPFOS	17,6	19,5

Note: Data are in % unless indicated otherwise. The indicators are calculated as the ratio of the annual change and their values at the beginning of the year.

Source: FSC.

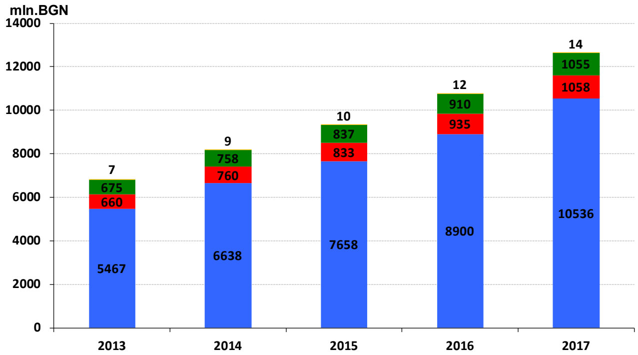
The market shares of individual companies on the basis of the amount of managed pension balance sheet assets of pension funds did not change significantly during the past year. The pension insurance company with the largest market share held 25.4% of the managed balance sheet assets, and the one with the smallest market share took 1.2%.

The structure of balance sheet assets by types of funds was strongly dominated by UPFs. At the end of 2017, the relative share of that type of funds was 83.3%. As a result of the higher rates of increase in UPF's balance sheet assets, their relative share in the total balance sheet assets of SPFs expanded by 0.5 p.p. compared to 2016 at the expense of the shares of VPFs and PPFs. At the end of 2017, the balance sheet assets of PPFs, VPFs and VPFOS had shares respectively of 8.3%, 8.3% and 0.1%.

The trends observed in balance sheet assets were also reported for net assets. In 2017, the net assets of SPFs increased by 17.7% on an annual basis, which was 2.5 p.p. higher compared to their growth in 2016.

At the end of 2017, the net assets of SPFs were in the amount of BGN 12,663.2 million. They show the total amount of liabilities to socially insured persons and represent a key indicator of the state of the supplementary pension insurance system. The net assets accumulated as at the end of 2017, were 12.8% of the Bulgarian GDP.

Figure 88. Net assets of SPFs



.Source: FSC

The rate of growth in net assets differed by types of funds, being most significant for VPFOS (19.8%) followed by UPFs (18.4%), VPFs (15.9%) and PPFs (13.0%). The structure of net assets by types of pension funds as at the end of 2017 did not differ significantly from that of the balance sheet assets.

The average non-weighted amount of managed assets per participant in 2017 in UPFs was BGN 2,581.77 compared to BGN 2,239.27 in 2016, in PPFs – BGN 3,192.73 for 2017 compared to BGN 2,918.20 in 2016, in VPFs – BGN 1,696.28 for 2017 compared to BGN 1,480.88 in 2016 and in VPFOS – BGN 1,817.31 for 2017 compared to BGN 1,631.85 during the previous year. In all types of funds there was an increase in the managed assets per participant.

In terms of companies, there were different deviations from the average levels – in UPFs the managed assets per participant were between BGN 1,303.84 and 3,483.92, in PPFs – between 1,307.63 and BGN 4,181.71, and in VPFs – between BGN 649.84 and BGN 3,524.19. The average values of the indicator for individual PICs were between BGN 1087.10 and BGN 3,390.61.

Table 72. Managed assets per participant in SPFs

	2013	2014	2015	2016	2017
UPF	1440,6	1726,1	1961,9	2239,3	2581,8
PPF	2183,6	2496,5	2682,3	2918,2	3192,7
VPF	1121,9	1280,1	1409,8	1480,9	1696,3
VPFOS	1153,5	1385,2	1481,2	1631,9	1817,3

Note: Data are in BGN unless indicated otherwise. The indicators are calculated as an arithmetic mean of the values of individual SPF.
Source: FSC.

Gross revenues from social insurance contributions in SPFs in 2017 increased by 9.3% compared to the revenues in 2016, and in absolute terms the increase was most prominent for UPFs (BGN 77.5 million) and for VPFs (BGN 39.8 million) or respectively 7.2% and 40.1%. That growth was mainly due to the inclusion of new socially insured persons on the labour market. The revenues from social insurance contributions in 2017 registered their highest value in the last five years.

Both VPFOS and PPFs reported growth in gross revenues from social insurance contributions in 2017 with the growth being respectively 5.0% and 2.2% compared to 2016.

Table 73. Gross proceeds from social insurance contributions in SPFs

	2013	2014	2015	2016	2017
UPF	794,2	871,3	1019,2	1083,9	1161,4
PPF	78,2	86,0	93,9	100,4	102,6
VPF	59,1	87,4	122,6	99,2	139,0
VPFOS	1,5	1,4	1,5	1,5	1,6
Total	933,0	1046,1	1237,2	1285,0	1404,6

Note: Data are in BGN unless indicated otherwise.
Source: FSC.

The amounts accrued and paid in 2017 decreased compared to the previous year by 5.7% in total for all SPFs. The main contribution to the dynamics of amounts accrued and paid was that of the amounts paid from VPFs whose share in the total amount was 76.6% on average for the last five years. Under the conditions of a developing market of supplementary mandatory pension insurance in Bulgaria which was in the accrual stage, the ratio "amounts paid/funds received" amounted to 0.01 on average for the period 2013 – 2017, while this ratio was 0.53 for VPFs.

Table 74. Accrued and paid amounts by SPFs

	2013	2014	2015	2016	2017
UPF	5,6	7,8	10,7	13,8	17,4
PPF	3,1	4,5	5,2	5,9	6,4
VPF	42,3	46,1	54,1	66,8	57,7
VPFOS	0,1	0,2	0,3	0,2	0,3
Total	51,1	58,6	70,3	86,7	81,8

Note: Data are in BGN unless indicated otherwise.
Source: FSC.

The average value of the indicator of return on assets managed in 2017 for PPFs and VPFs was 0.07 and for UPFs – 0.06, while for the only operational VPFOS the indicator was 0.10. In 2016, the average value of the indicator for all funds was 0.05, except for the VPFOS for which the indicator was 0.06. Compared to the previous year, the indicator increased for PPFs and VPFs by 0.02, for UPFs by 0.01 and for VPFOS by 0.04. The values of the indicator for individual PICs for 2017 ranged between 0.04 and 0.10, conditioned by the results for the profit from investing resources in all SPFs.

Table 75. Return on managed assets

	2013	2014	2015	2016	2017
UPF	0,05	0,06	0,03	0,05	0,06
PPF	0,06	0,06	0,03	0,05	0,07
VPF	0,07	0,06	0,03	0,05	0,07
VPFOS	0,07	0,07	0,01	0,06	0,10

Note: Data are in coefficients. The indicators are calculated as an arithmetic mean of the values of individual SPF.
Source: FSC.

In 2017, participants in SPFs continued to increase compared to the previous year. In 2017, the total increase was by 2.6% and in 2016 – 2.0%. The growth of participants in 2017 by funds was as follows: for universal funds – growth of 2.6% (growth of 2.1% in 2016), for professional funds the growth was 3.3% in 2017 (3.5% in 2016), for voluntary funds the growth was 2.3% compared to 0.6% in 2016 and the only active VPFOS reported growth of participants of 7.3% in 2017, compared to 6.7% in 2016. The PIC with the largest market share in terms of participants in the SPF it manages maintained its position with 26.4% and the company with the smaller share held 1.9% of the market. The tendency for gradual reduction of the market share of the largest companies was maintained.

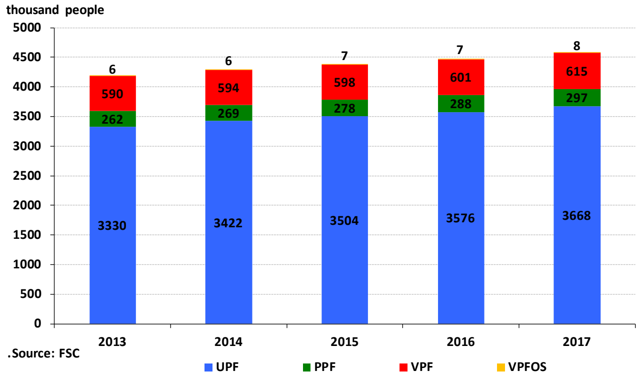
Table 76. Growth in the number of participants

	2016	2017
UPF	2,1	2,6
PPF	3,5	3,3
VPF	0,6	2,3
VPFOS	6,7	7,3

Note: Data are in % unless indicated otherwise. The indicators are calculated as the ratio of the annual change and their values at the beginning of the year.
Source: FSC.

With regard to the structure of allocation of insured persons between SPF there were no significant changes compared to the previous year. At the end of 2017, the largest share of insured persons was concentrated in the universal pension funds (79.9%). The persons insured in voluntary and professional pension funds respectively held a share of 13.4% and 6.5% in the structure of allocation of socially insured persons. The smallest share was still that of persons insured in VPFOS (only 0.2%).

Figure 89. Number of insured persons



.Source: FSC

The resources transferred from the individual accounts of persons who changed their participation in supplementary pension funds in 2017 increased in total by 11.2% compared to 2016, and are in the amount of BGN 510.1 million.

The dynamics of resources transferred depends both on the number of persons that took action to change their participation in SPFs during the year, and on the amount of resources in their individual accounts.

The increase was mainly due to the resources transferred within UPFs to the amount of BGN 50.9 million or 12.5% more than the previous year. For PPFs an increase in the amount of transferred funds of 4.0% was also reported. Only for VPFs, the transferred amounts were BGN 1.3 million or 26.0% less than the previous year.

Table 77. Amounts transferred from individual accounts

	2013	2014	2015	2016	2017
UPF	350,7	336,8	349,7	405,7	456,6
PPF	54,1	46,2	42,2	47,9	49,8
VPF	10,5	8,2	4,5	5,0	3,7
Total	415,3	391,2	396,4	458,6	510,1

Note: Data are in BGN unless indicated otherwise.
Source: FSC.

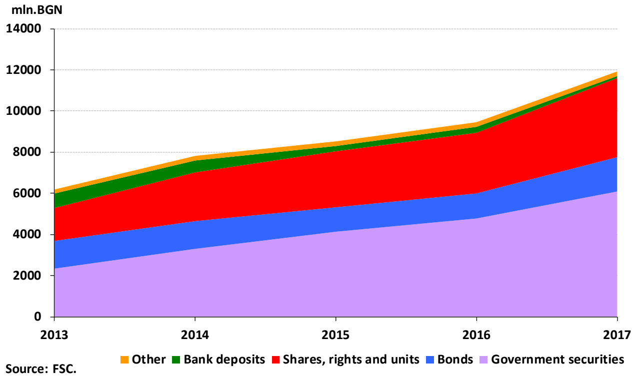
The absolute value of invested resources of SPFs at the end of 2017 was BGN 11.9 billion, representing 93.6% of their balance sheet assets. SPFs resources invested in 2017 kept their tendency to increase, reporting growth of 26.3% growth compared to the previous year. The structural distribution of invested resources by types of funds was also maintained, with UPFs having the highest relative share (83.2%), followed by PPFs (8.4%), VPFs (8.3%) and VPFOS (0.1%).

In 2013 – 2017, SPFs' investment portfolio developed following the dynamics of accumulation of assets in the sector, the investment experience gained and the development of capital markets.

Over a period of five years, there has been a significant increase in the relative shares of the resources invested in government securities, and such with a variable income. Their amount had increased by the end of 2017 respectively by 13.1 p.p. and 6.7 p.p., and their relative shares in SPFs' portfolio reached levels of 51.0% and 32.3%.

The rest of the investment instruments categories – bonds (corporate and municipal) and bank deposits reported a drop in their relative shares in SPFs' portfolios. The resources invested in bonds shrank from 21.8% in 2013 to 14.0% in 2017, and bank deposits which in 2013 formed 11.7% of SPFs' investments as at the end of 2017 represented only 0.7% of the investment portfolio of the pension funds. The reduction in the share of bank deposits can be explained by the significant reduction of interest rates on deposits in recent years.

Figure 90. Aggregate investment portfolio structure

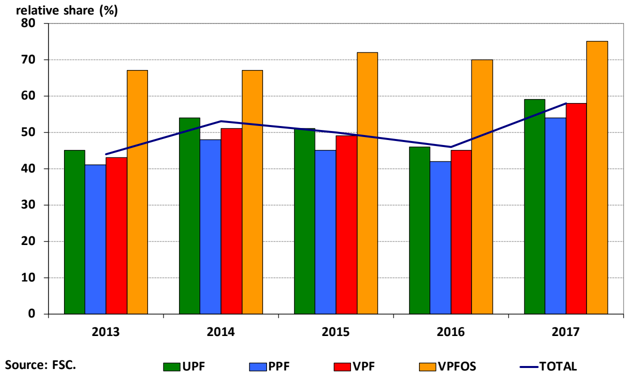


Source: FSC.

The relative share of SPICs' investments abroad in 2017 reached 58% of their balance sheet assets, which was the highest level of invested resources of insured persons outside the country over the past five years. The general increase of investments in instruments registered on foreign markets was influenced by the lack of sufficiently diverse and high-quality instruments on the local capital market.

SPFs' resources abroad were invested in securities registered for trading on regulated markets. At the end of 2017, the structure of investments abroad were predominantly government securities with a share of 55.7%. Securities with a variable yield formed 27.3% of investments abroad, and the other 17.0% were invested in corporate debt securities.

Figure 91. Investments abroad as a percentage of balance sheet assets of SPFs



Source: FSC.

The main purpose of managing pension funds' assets is to increase the long-term prospects of their value by achieving profitability from their investment. In 2017, the average weighted profitability of SPFs reported the highest values compared to the previous four years.

Table 78. Average weighted rate of return*

	2013	2014	2015	2016	2017
UPF	4,7	6,1	1,5	4,1	6,3
PPF	5,3	5,9	1,8	4,5	6,5
VPF	6,4	6,6	1,7	5,2	7,5
VPFOS	6,5	7,3	0,8	4,8	9,3

Note: Data are in % unless indicated otherwise. * Weighted by the value of the net assets of individual funds.

Source: FSC.

III. Organisational structure of FSC