



FINANCIAL SUPERVISION COMMISSION

**ANNUAL ACTIVITY
REPORT
2018**

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 – Contractual Fund
GS – Government Securities
EEA – European Economic Area
EC – European Commission
EC – European Community
EP – European Parliament
EU – European Union
IB – Insurance Broker
IAU – Internal Audit Unit
RRCIIFA – Recovery and Resolution of Credit Institutions and Investment Firms Act
IC – Insurance Company
CISOU CIA – Collective Investment Schemes and Other Undertakings for Collective Investments Act
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
IMMAFIA – Implementation of the Measures against Market Abuse with Financial Instruments Act
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 – Sovereign Wealth Fund
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
SVPF – Supplementary Voluntary Pension Fund
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
ESFS – European System of Financial Supervisors
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.birsg.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,

This is the 2018 Annual Activity Report of the Financial Supervision Commission (FSC).

The Commission went through dynamic periods in 2018 – turmoil in the insurance sector, changes in the management team, entry into force of a new legal framework for financial instrument markets. As part of the dynamics, we have also made steady progress in capital markets. We set ambitious and yet feasible goals for the future development of the Financial Supervision Commission both in Bulgaria and internationally.

An important focus area in the field of the capital market was the adoption of the new Markets in Financial Instruments Act in February 2018, the draft of which was mainly prepared by the FSC. It transposes the Markets in Financial Instruments Directive (MiFID II), building on the existing legal framework for the organization and operation of investment firms and regulated markets for securities. The goal of the new Markets in Financial Instruments Act 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.

In 2018, we witnessed a steady increase in the submitted and examined applications for confirmation of prospectuses for public offering of securities or for admission to trading on a regulated market. The observed tendency to increase the number of confirmed prospectuses is causally related to the measures adopted in the Capital Market Development Strategy (including postponing the collection of fees for the confirmation of a prospectus by FSC until 01.01.2021) and the adopted approach of dialogue with business representatives and FSC supervised entities.

Another step in the implementation of the Strategy is also the participation of the Commission in a project for building a single portal for submission of information by the public companies simultaneously to the Bulgarian Stock Exchange, the Central Depository, the FSC and the public. In 2019, we will continue our work in this direction.

During that period, we also managed to establish a serious control over the activity of companies providing investment services without the necessary license, mainly through websites. The Commission received and promptly responded to a significant number of complaints and alerts by persons whose interests were harmed by the activities of the companies in question. On this basis, the FSC requested the President of the Sofia Regional Court to suspend access to these websites. At the moment, following the injunctions issued, we continue to carry out inspections of the persons who do not have the necessary license, we and strengthen our control over their activities. FSC continues to work towards stopping the access to such websites, thus protecting the interests of financial services users in the Republic of Bulgaria. A step in this direction is also the maintenance of an up-to-date list of these persons on the FSC website, the cooperation with supervising bodies from other countries, and the fruitful interaction with the branch organizations. As a result, our activity has also evolved towards prevention, as we have prepared a brochure to be disseminated by both the investment firms and the Commission. The document aims to give clear and easy steps to future investors in order to protect their interests in distinguishing the activity of licensed from unlicensed investment firms.

The past year has focused our attention on issues related to insurance exposures within the EU and international compensation mechanisms for Motor Third-Party Liability insurance, in particular in the international Green Card system. The license of the Cypriot insurance company “Olympic”, which carried out a major part of its activity on the territory of the Republic of Bulgaria through a branch, was revoked by the Cypriot supervisory authority. The issue was discussed many times and in depth in the National

Assembly and in the public space. Almost a year later, we continue to expect information from the Cypriot court to appoint a liquidator for the insurer, so that we can then take action to liquidate damages and return some of the premiums. After this step, the responsibility to initiate the liquidation process and accordingly raise the claims is ours. It is clear even at this stage that for measures to be undertaken to prevent and minimize the consequences and the maximum protection of the main group of insured persons – the Bulgarian clients of Olympic Insurance Company – actions will be required from all interested Bulgarian institutions and organizations, and the FSC will conduct active coordination between them. Regarding the placement of the National Bureau of Bulgarian Motor Insurers (NBBMI) in a monitoring regime by the Green Card Bureau Council in December 2018, the FSC implemented a series of supervisory measures to eliminate some of the reasons that led to the monitoring. The Commission is conducting intensive dialogue with the NBBMI, the Association of Bulgarian Insurers (ABI), the Council of Bureaux and the European Insurance and Occupational Pensions Authority (EPAA) and is exploring the possibilities for identifying potential regulatory and normative changes to optimally manage and finance compensatory mechanisms in insurance, respectively the swift cancellation of the monitoring regime.

The public discussion of the bonus-malus system project has shown that it needs to be improved in order for it to be accepted by society and to be effectively implemented in order to achieve its objectives – the creation of an individual premium on Motor Third-Party Liability insurance depending on the damages caused and the driver behavior, and the introduction of a premium for drivers who have caused no damages and have committed no violations, without this raising the average cost of insurance in the sector. The most important objective of the system is to improve road safety and thus reduce the number of deaths and injuries. Bonus-malus' focus should be on fairness, focusing on the direct link between the risk of the insurer and the bonus-malus of the owner and driver of the car.

In cooperation with the other two institutions empowered to adopt the relevant Ordinance (the Ministry of the Interior and the Ministry of Transport, Information Technology and Communications), the Financial Supervision Commission is committed to coordinating the process of drafting new revisions of the Ordinance, which should respond to public expectations and achieve the strategic goals of this system.

Another important task we carry out that is of priority for the Commission in 2018 is the maintenance of an adequate level of reserves by Bulgarian insurers, fulfilling the solvency requirements set out in the Insurance Code (IC). In this regard, as well as in view of the accession of Bulgaria to the ERM II mechanism, new, even more stringent requirements for the assessment of insurers' assets were introduced. We have also introduced a risk-based supervision approach that aims at identifying, prioritizing and addressing the risks in the FSC-supervised companies in advance in order to protect the financial stability of the sector.

An important element of the protection of consumers of insurance services has become a reality with the latest amendments to the Insurance Code that transposed the European Directive on the distribution of insurance products. The new requirements for insurance intermediaries are already into force, which put in the center the insurance product consumer's awareness and protection.

In the field of supplementary pension insurance in 2018, in a spirit of dialogue and active communication with the business, through regular meetings in a discussion format, the Commission carried out a comprehensive review and alignment of the secondary legislation with the amendments and supplements to the Social Insurance Code adopted in November 2017, including the timely implementation of measures addressing the Council's specific recommendations on the prevention and correction of macroeconomic imbalances and on the implementation of the intentions of the Republic of Bulgaria to join the Exchange Rate Mechanism II (ERM II) and to the Banking Union. In the short term, the pension insurance companies and the supplementary pension insurance funds managed by them will be expected to comply with the new regulations within the statutory terms, and will be given the task of supervising the monitoring body to follow up their activities that is at least equally important. The

Commission has the will and does impose high standards in the performance of the persons exercising control on the fulfillment of the requirements of the regulatory framework, as well as those who carry out the activity of supplementary pension insurance.

Supplementary pension insurance is an activity of extremely high social importance. For this reason, the Commission focuses on the effective implementation of its regulatory and supervisory functions with the emphasis on ensuring stability, transparency and confidence in the supplementary pensions sector, enhancing the protection of the rights and interests of insured persons and pensioners, building a stable and adequate infrastructure through continuous synchronization of Bulgarian legislation and supervisory practices with European ones and through risk management rules and systems. We are working towards creating a sustainable environment for supplementary pension insurance. In this process, we apply strict control over market participants to comply with regulatory requirements, constantly following up and taking measures to improve existing regulation to address identified legal gaps and inconsistencies and developing it in line with the changes in the economic and legal system.

In 2018, in the context of the European Commission's Strategy for a Single Digital Market for Europe, the Financial Supervision Commission took active steps to monitor financial innovation. As a first step, a Financial Technology Monitoring Strategy (FinTech) was set up in the non-banking financial sector (2018-2020), giving a vision of the Commission's main objectives in this area. In order to gain a better understanding of the spread of financial innovations on the Bulgarian financial market, the FSC conducted consultations with the business, which also aimed to clarify the need to establish an appropriate mechanism for interaction between the regulator and FinTech companies, the resulting risks for the business, the market and the consumers, the impact on business models of supervised entities. At the end of the year the FSC effectively launched the Innovation hub, the mechanism chosen for interaction between the supervisor and the companies offering innovations in the financial markets. This mechanism aims to facilitate communication with the business in order to promote the provision and use of innovations in the non-banking financial sector. The mechanism provides the compliance with the regulatory framework for the use of innovative products through consultations and guidance.

In 2018, there was the same trend as in recent years as regards the development of the financial sector. It develops very dynamically, becomes more and more open, the supply of products and services is more and more remote, with the latest technology coming in. In this environment, the Financial Supervision Commission actively promotes its activity of monitoring the financial innovations and interaction with business in this direction in order to maintain confidence in the financial markets and protect the interests of consumers.

In the area of international cooperation, the Commission's contribution to the successful holding of the Bulgarian Presidency of the EU Council in January – June 2018 was extremely significant.

Within its competencies and commitments, the Financial Supervision Commission (FSC), in cooperation with its colleagues from ESMA and EIOPA, organized and hosted two important events from the calendar of the Bulgarian EU Council Presidency in the first half of 2018:

- A meeting of the Management Committee and the Boards of the European Securities and Markets Authority (ESMA), which took place from 22-23 March 2018 at the National Palace of Culture and was attended by some 80 presidents and senior representatives of the European supervisory authorities in the field of securities and markets;
- A day of the EIOPA Strategy, which took place on 29-30 May 2018 in Boyana Residence, and gathered nearly 40 presidents and senior representatives of the European supervisory authorities in the field of social security and pension insurance.

During the year, the Commission took an active part in various forums – conferences, seminars, workshops and educational initiatives aimed at protecting consumers and raising the financial literacy of

various social groups, partnering with both state institutions and non-governmental organizations that exercise their activity in the field of financial education.

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 comprehensive market analysis of the non-banking financial sector in Bulgaria under the conditions of the global and European economic environment in 2018. The information presented in the report reflects objectively and in detail the activities of the FSC in 2018.

In the context of my address, I focus on the most important and significant activities and measures undertaken by the FSC in 2018, and the report presents information that objectively and in detail reflects the activity of the institution during the year. In conclusion, I can summarize that all efforts and actions of the Commission are aimed at transparent and timely communication with the public and strict supervision of supervised entities in the three main areas regulated by the Commission – capital markets, insurance and pension funds.

Boyko Atanasov

I. FSC'S ACTIVITY IN 2018

1. Regulatory activities

1.1. Amendments to the regulatory framework

Amendments to the regulatory framework

In 2018, the following bills prepared by the Financial Supervision Commission were adopted:

Markets in Financial Instruments Act¹

A new Markets in Financial Instruments Act that was prepared and submitted for consideration to the National Assembly was adopted in 2018.

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 (OJ, L 173/84 of 2014) were adopted. In 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, as well as most of the delegated regulations for supplementing Directive 2014/65/EU were adopted.

The Markets in Financial Instruments Act (MFIA) introduces to the Bulgarian legislation the requirements of Directive 2014/65/EU, thus upgrading the existing statutory regime for the organisational activities of investment firms and regulated securities markets. The adoption of the MFIA led to an increase in 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 Markets in Financial Instruments Act regulates the powers of the FSC and the Deputy Chairperson of the FSC in charge of the Investment Activity Supervision Division with regard to markets in financial instruments. The significant regulatory and supervisory powers are exercised by the Commission as a collective body, and the Deputy Chairperson of the FSC in charge of the Investment Activity Supervision Division has mostly supervisory powers that are operational and current in nature. This is how the recommendations of the Financial Sector Assessment Program (FSAP) report are implemented.

The Markets in Financial Instruments Act 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 of the MFIA determines the subject and goals of the law, as well as the competent authorities to regulate and supervise legal compliance, and defines the financial instruments subject to the scope of the law and the cases where the law is not applicable.

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

Separate sections introduce the requirements for the management bodies of investment firms and the issuing and withdrawal of investment firm licenses.

¹ Prom., SG, issue 15 of 16.02.2018.

Investment firms have the opportunity to conclude contracts with tied agents, which is something new for the MFIA.

The terms and conditions for conducting operations in another Member State by an investment firm whose seat is in the Republic of Bulgaria, as well as for conducting activities within the territory of the country by investment firms whose seat is in another EU Member State, are set out.

The requirements regarding the management and internal organization of the investment firms are set out.

The Markets in Financial Instruments Act introduces requirements by which investment firms ensure that they conduct their business in accordance with the interests of their clients.

A requirement is introduced for the existence of an investment services and activities contract, for the creation of a file the investment firm's clients, as well as for the general terms and conditions in cases where investment firms apply general terms and conditions in their activities.

Requirements are introduced that should be observed when performing an algorithmic trading on behalf of the investment firm, as well as the possibility for the investment firm to organize an organized trading system besides the multilateral trading system.

The Act determines the multilateral trading system – 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” set out the issuance and revocation of a license 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. Provisions have been introduced to allow regulated market operators to organize a multilateral trading system and an organized trading system.

The Markets in Financial Instruments Act introduces requirements for defining steps for the tick size regime for shares, depository 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, depository receipts and exchange-traded funds.

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

Chapter XVI of the MFIA determines the activities of suppliers of data reporting services (operators of publishing facilities, consolidated data providers, operators of reporting facilities).

Part III “Supervision” of the Markets in Financial Instruments Act consists of the provisions for the application of coercive administrative measures to the entities supervised thereunder.

The additional provisions of the Act introduce the concepts used in Directive 2014/65/EU. In connection with the introduction of Directive 2014/65/EC into the Bulgarian legislation through the Markets in Financial Instruments Act, its Additional and Final Provisions provide for amendments to the Social Insurance Code, the Insurance Code, the Financial Supervision Commission Act, the Collective Investment Schemes and Other Undertakings for Collective Investments Act, the Supplementary Supervision of Financial Conglomerates Act, the Special Purpose Investment Companies Act, the Credit Institutions Act, the Public Offering of Securities Act, the Accounting Act, the Recovery and Resolution of Credit Institutions and Investment Firms Act, the Implementation of the Measures against Market Abuse with Financial Instruments Act, the Act Restricting Administrative Regulation and Administrative Control over Economic Activity, etc.

The Markets in Financial Instruments Act contributes to the transparency of capital markets, better information and investor protection and lowering of costs of transactions with financial instruments.

Act to Amend and Supplement the Social Insurance Code²

The amendments to the Social Insurance Code introduce the requirements of Directive 2014/50/EU of the European Parliament and of the Council of 16 April 2014 on minimum requirements for enhancing worker mobility between Member States by improving the acquisition and preservation of supplementary pension rights.

The Social Insurance Code offers a statutory maximum waiting period (up to 6 months), after which employers, as insurers, are obliged, if they insure their remaining employees, to begin paying contributions to a supplementary voluntary pension insurance fund or supplementary voluntary pension insurance scheme under occupational schemes for the new worker or employee or for the person with whom a contract for management and control has been concluded.

The Social Insurance Code introduces an obligation for pension insurance companies and for employers, as insurers, to provide clear written information within a reasonable time on the conditions for acquiring supplementary pension rights and the consequences of applying these conditions upon termination of the employment relationship, as well as for the amount of the funds in the supplementary pension insurance funds that are due to the heirs of a deceased insured person or a pensioner, etc.

Act to Amend and Supplement the Insurance Code³

The Act introduces the provisions of Directive 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution (Directive (EU) 2016/97). The Directive repeals Directive 2002/92/EC of the European Parliament and of the Council on insurance mediation by revising and expanding the arrangements for the distribution of insurance, both at the level of insurance intermediation and at the level of direct provision of insurance products by the insurers themselves. The guarantees for protection of the interests of the users of insurance services during the conclusion and execution of insurance contracts are increased. The amendments introduce changes in reinsurance activity in relation to the application of the requirements for the amendments to Directive 2009/138/EC introduced by Directive (EC) 2016/2341 on the activities and supervision of institutions for occupational retirement provision and Directive 2009/103/EC of the European Parliament and of the Council relating to insurance against civil liability in respect of the use of motor vehicles, and the enforcement of the obligation to insure against such liability.

Changes in the Code introduce requirements to raise the standard of knowledge and competence that insurers, insurance intermediaries and their employees directly involved in the distribution of insurance products should have. The knowledge and competence requirements are established in three groups depending on the nature of the insurance products offered: non-life insurance products, life insurance products and investment insurance products. For the intermediaries distributing investment insurance products, additional requirements are set for knowing the advantages and disadvantages of the various investment options offered, the financial risks to which the insured persons are exposed, the pension system and the benefits guaranteed by it.

The Code transposes the requirement for upgrading the qualification of any distributor of insurance services provided for in Directive (EC) 2016/97 that is equal to at least 15 hours of vocational training or development for each year.

² Prom. SG, issue 46 of 01.06.2018.

³ Prom. SG, issue 101 of 7.12.2018.

In line with the provisions of Directive (EC) 2016/97, requirements are introduced for insurers distributing insurance products through intermediaries to ensure that these intermediaries comply with the minimum standards for the provision of information to insurance service users, including the information document on the insurance product, as well as the observance of the basic principles of good faith in the distribution of insurance products and the assessment of the needs and requirements of the persons who have demonstrated their interest in concluding an insurance. In accordance with Directive (EC) 2016/97, prior to the registration of an insurance intermediary or an intermediary distributing insurance products as an ancillary activity, the applicant shall disclose the identity of the shareholders holding a share in the firm exceeding 10%, as well as the persons with whom the firm has close links, and shall confirm that these existing links do not prevent the effective exercise of supervision on the intermediary.

An opportunity to submit an application for registration as an insurance intermediary via the internet is introduced. This simplifies the application process for registration and contributes to the development of eGovernment.

In accordance with Directive (EC) 2016/97, a procedure was regulated for sending notifications between supervisors, and thus the supervision carried out in the interest of the users of insurance services in the case of carrying out business under the conditions of the right of establishment and the freedom to provide services in the host Member States becomes much quicker and more efficient.

Changes to the Code introduce an obligation for all distributors of insurance services to disclose the nature of the remuneration they or their employees receive in connection with the distribution of the products. This enhances the transparency of the remuneration mechanisms of the distributors of insurance services and the user can draw the necessary conclusions about the possible distributor biases.

In accordance with the rules of Directive (EC) 2016/97, the Code introduces an obligation to provide a standardized information document for the insurance product upon conclusion of non-life insurance contracts. The document should be a short separate document that is clear, comprehensible and readable and that provides a brief explanation of the main features of the insurance product, such as: type of the insurance, insurance coverage, insurance premium payments, major exceptions to the coverage, basic obligations upon conclusion both during the term of the contract and upon submission of an insurance claim, as well as the ways of termination of the contract. The introduction of the information document for the insurance product creates the conditions for the quicker and easier familiarization of the users of the insurance services with the main characteristics of the insurance products and allows easier comparison between different products.

Conditions are created for the wider use of digital means of communication in the distribution process of insurance products, ensuring that the users of insurance services are also given the opportunity to receive information in the traditional way, on paper, free of charge.

In accordance with Directive (EC) 2016/97, package sales regulations are developed, and an obligation for a distributor of insurance products offering insurance in a package with another commodity or service to offer the opportunity to purchase the good or service on its own is explicitly formulated. This creates additional guarantees for the free choice of insurance, which cannot be limited by commercial practices that use economic constraint for concluding insurances. A specific derogation from these requirements is provided when the insurance product is offered in addition to an investment service or activity.

The changes to the Insurance Code further develop the provisions in the area of insurance products management and supervision. It is ensured that even at the development stage of the insurance product, its creator will determine the target market (the persons to whom this product will apply) and will have to assess all the risks that are relevant to the target market, and that the strategy envisaged for distribution matches the selected target market. An obligation to periodically review the products already developed

and whether they remain in line with the needs of the target market is introduced. With the introduction of this regulation, additional safeguards are created against the creation and distribution of products that do not meet the needs of the users of the insurance services at which they are aimed.

The regulation of the provision of investment insurance products is further developed. The obligations to provide information to the user of insurance services are developed, limitations are imposed on the receipt by the distributor of insurance services of any fees, commissions or other benefits (commonly referred to as incentives) in connection with the distribution of investment products, which may create a conflict of interests and may lead to non-compliance with their obligations to act honestly, fairly and professionally in accordance with the interests of their users of insurance services. The purpose of these provisions is to limit the ability of issuers of financial instruments included in investment funds related to an investment fund to incentivize insurers or insurance intermediaries by means of cash payments or other benefits to recommend an investment in the respective fund, when an investment in another fund or another instrument would be more appropriate in view of the interests of the user of the insurance services.

In the field of investment insurance products, the arrangements for assessing the appropriateness of the insurance product concerned are further developed in the light of the purposes and interests of the user of the insurance services.

The possibility of collecting information for the purpose of monitoring the market of insurance products is regulated. The arrangements for disclosure of coercive measures and administrative penalties are further developed to strike a balance between the preventive effect of disclosure and the creation of safeguards against the discrepancy of the severity of the offense committed and the publication of personal data on a natural person and identification data for a legal entity to which a penalty has been imposed, the threats to the stability of the financial markets or the causing of excessive harm to the persons concerned.

For the purposes of the exchange of information between the supervisory authorities concerned, the provisions on the exchange of information on good repute, professional knowledge and skills, as well as on penalties or other coercive measures imposed on the distributors of insurance services, are further developed.

In order to increase the effectiveness of supervision over intermediaries, the scope of coercive administrative measures is extended.

In line with the requirements of Directive (EC) 2016/97, the Code further develops the administrative penalty provisions that ensure the implementation of the changes in the legal regime.

Amendments in the by-laws and regulations

In 2018, the FSC adopted the following regulations, which were promulgated in the State Gazette:

- Ordinance amending and supplementing Ordinance No. 3 of 2003 on the procedure and modalities for changing the participation and for transferring the accumulated funds of an insured person from one supplementary pension insurance fund to another relevant fund managed by another pension insurance company⁴;
- Ordinance amending and supplementing 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

⁴ Prom. SG, issue 94 of 13.11.2018.

one share, for calculation and comparison of the return on investment property and for the requirements for running individual accounts⁵;

- Ordinance amending and supplementing Ordinance No. 10 of 2003 on the requirements for the composition and the structure of the equity (the capital base) of the pension insurance company and for the minimum liquid assets of the company and the supplementary pension insurance funds managed by it⁶;

- Ordinance amending and supplementing Ordinance No. 12 of 2003 on the manner and procedure for determining the minimum return from the management of the assets of the supplementary mandatory pension insurance funds, for covering the difference to the minimum return and for forming and using the reserves to guarantee the minimum return⁷;

- Ordinance amending and supplementing Ordinance No. 17 of 2004 on the documents necessary for the issuance of a permit for the transformation of a pension insurance company and of a supplementary pension insurance fund and for the requirements to the plans under Art. 327, para. 1, item 3 and Art. 336, para. 1 of the Social Insurance Code⁸;

- Ordinance amending and supplementing Ordinance No. 19 of 8 December 2004 on the procedure for the creation of pension reserves by the pension insurance companies managing a universal pension fund and/or a supplementary voluntary pension fund⁹;

- Ordinance amending and supplementing Ordinance No. 29 of 12.07.2006 on the minimum level of banks' credit ratings and for determining the countries, the international financial organizations, the markets and the indices of these markets according to Art. 176, para. 2 of the Social Insurance Code¹⁰;

- Ordinance amending and supplementing Ordinance No. 31 of 02.08.2006 on the conditions and procedure for conducting an examination and for the recognition of the competence of a responsible actuary, for the recognition of legal capacity acquired outside the Republic of Bulgaria, for the form of actuarial certification, the form and the content of the actuarial report and the references under the Insurance Code that the responsible actuary certifies, as well as for the form and mandatory content of the annual actuarial report under the Social Insurance Code¹¹;

- Ordinance amending and supplementing Ordinance No. 33 of 2006 on individual applications for participation in a supplementary mandatory pension fund and for resumption of insurance in a universal pension fund¹²;

- Ordinance amending and supplementing Ordinance No. 34 of 2006 on the conditions for concluding transactions for reduction of the investment risk related to the assets of a supplementary pension insurance fund and the requirements and restrictions to such transactions¹³;

- Ordinance amending and supplementing Ordinance No. 36 of 15.11.2006 on the technical reserves to a supplementary voluntary pension fund under occupational schemes¹⁴;

- Ordinance amending and supplementing Ordinance No. 47 of 11 July 2012 on the requirements to the information systems of the pension insurance companies¹⁵;

⁵ Prom. SG, issue 94 of 13.11.2018.

⁶ Prom. SG, issue 50 of 15.06.2018.

⁷ Prom. SG, issue 50 of 15.06.2018.

⁸ Prom. SG, issue 18 of 27.02.2018.

⁹ Prom. SG, issue 18 of 27.02.2018.

¹⁰ Prom. SG, issue 94 of 13.11.2018.

¹¹ Prom. SG, issue 83 of 9.10.2018.

¹² Prom. SG, issue 94 of 13.11.2018.

¹³ Prom. SG, issue 21 of 9.03.2018.

¹⁴ Prom. SG, issue 18 of 27.02.2018.

¹⁵ Prom., SG, issue 94 of 13.11.2018.

- Ordinance amending and supplementing Ordinance No. 52 of 2016 on the procedure and manner of deducting the investment fee collected by the pension insurance companies for the management of the supplementary mandatory pension insurance funds¹⁶;
- Ordinance No. 56 of 4 January 2018 on the minimum content of the investment policies of the supplementary pension insurance funds¹⁷;
- Ordinance No. 57 of 16 January 2018 on the requirements to the annual report on the occupational scheme and on the procedure and method of providing data for the management of an occupational scheme of a foreign insurer enterprise¹⁸;
- Ordinance No. 58 of 28 February 2018 on the requirements for the protection of clients' financial instruments and cash, for the management of products and for granting or receiving remunerations, commissions, other cash or non-cash benefits¹⁹;
- Ordinance No. 59 of 4 April 2018 on the functions and duties of the units, departments and persons performing risk management, internal control and internal audit in the pension insurance companies²⁰;
- Ordinance No. 60 of 2 May 2018 on the requirements to the documents under Art. 122a, para. 1, items 6 and 11, under Art. 145, para. 1, items 3, 7, 8 and 10 and under Art. 218, para. 2, items 3, 7, 8 and 11 of the Social Insurance Code for the issuance of a pension license and of a pension fund management permit²¹;
- Ordinance No. 61 of 27 September 2018 on the requirements for advertising and written information materials and the web pages of the pension insurance companies²²;
- Ordinance No. 62 of 30 October 2018 on the procedure for storage, use and destruction by the pension insurance companies of the documents and data related to the activity of supplementary pension insurance²³;
- Ordinance No. 63 of 08 November 2018 on the requirements for the content, the periodicity of the preparation and the deadlines for submitting the reports for supervisory purposes of the pension insurance companies and the funds managed by them²⁴;
- Ordinance No. 64 of 29 November 2018 on the requirements to the persons under Art. 344, para. 2, item 2 of the Social Insurance Code and the procedure and manner of their appointment²⁵;
- Rules for amending and supplementing the Rules of Structure and Operations of the Investor Compensation Fund²⁶;
- Rules for amending and supplementing the Rules for the Structure and Activities of the Financial Supervision Commission and its Administration²⁷;

¹⁶ Prom. SG, issue 31 of 10.04.2018.

¹⁷ Prom. SG, issue 6 of 16.01.2018.

¹⁸ Prom. SG, issue 10 of 30.01.2018.

¹⁹ Prom. SG, issue 22 of 13.03.2018.

²⁰ Prom. SG, issue 34 of 20.04.2018.

²¹ Prom. SG, issue 39 of 11.05.2018.

²² Prom. SG, issue 84 of 12.10.2018.

²³ Prom. SG, issue 94 of 13.11.2018.

²⁴ Prom. SG, issue 95 of 16.11.2018.

²⁵ Prom. SG, issue 102 of 11.12.2018.

²⁶ Prom. SG, issue 17 of 23.02.2018.

²⁷ Prom. SG, issue 45 of 31.05.2018.

- Ordinance amending and supplementing Ordinance No. 53 of 23 December 2016 on the requirements to the reporting, valuation of assets and liabilities and the establishment of technical provisions of insurers, reinsurers and the Guarantee Fund²⁸;
- Ordinance amending and supplementing Ordinance No. 22 on the terms and procedure for entering and deletion of public companies, other issuers of securities and issues of securities in the Register of the FSC²⁹;
- Ordinance amending and supplementing Ordinance No. 15 of 2005 on keeping and storing registries by the Financial Supervision Commission and the circumstances subject to entry³⁰;

1.2. New aspects of EU policy

Directives and Regulations of the European Union

The following directives and regulations were published in the Official Journal of the EU during the year:

Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, and amending Directives 2009/138/EC and 2013/36/EU.

The main changes introduced by the new directive into Directive 2015/849 include:

- expanding access to information on actual owners, enhancing transparency on company ownership and trust ownership;
- strengthening the powers of EU financial intelligence units and creating registers of actual owners as well as access to centralized bank account registers;
- improving the control of transactions involving high-risk third countries;
- avoiding the risks associated with the use of virtual currencies to finance terrorism, and the use of prepaid cards will be limited;
- ensuring the availability in all Member States of centralized registers of bank and payment accounts and central data mining systems.

Directive (EU) 2018/411 of the European Parliament and of the Council of 14 March 2018 amending Directive (EU) 2016/97 as regards the date of application of Member States' transposition measures (IDD)

Pursuant to Article 42 (1) of Directive (EU) 2016/97, Member States should transpose the Directive by 23 February 2018. With regard to a proposal by the European Parliament to give more time to insurance undertakings and distributors of insurance products so can they better prepare for the correct and effective implementation of Directive (EU) 2016/97 and introduce the necessary technical and organizational changes to comply with delegated Regulations (EU) 2017/2358 and (EU) 2017/2359, it is necessary to extend the deadline for transposition and implementation of the Directive and the delegated regulations. The deadline for transposition is extended until 1 July 2018 and the deadline for its

²⁸ Prom. SG, issue 101 of 7.12.2018.

²⁹ Prom. SG, issue 2 of 4.01.2019.

³⁰ Prom. SG, issue 101 of 7.12.2018.

implementation – until 1 October 2018. Accordingly, Directive 2002/92/EC is repealed with effect from 1 October 2018. The Directive has been applicable with retroactive effect since 23.02.2018.

Commission Delegation Regulation (EU) 2018/1100 of 6 June 2018 amending the Annex to Council Regulation (EC) No 2271/96 on protection against the effects of extra-territorial application of legislation adopted by a third country, and actions based thereon or resulting therefrom

On 7 August 2018, the updated EU Blocking Statute came into force in response to the first series of sanctions re-imposed by the USA on Iran. The regulation aims to mitigate the impact of US sanctions on the interests of EU companies engaged in legal business in Iran. The updated Blocking Statute provides for European Union support for the continued, full and effective implementation of the Joint Comprehensive Action Plan (JCAP) – the nuclear deal with Iran, including by maintaining trade and economic relations between the EU and Iran that were normalized when, as a result of the JCAP, sanctions related to the nuclear program were abolished.

Delegated regulations

In 2018, the two European bodies, ESMA and EIOPA, were involved in their regulatory work to prepare the technical standards laid down in the regulatory framework for the implementation of the 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, they are published in the Official Journal of the EU, they are binding in their entirety and are directly implemented in all the Member States. The delegated regulations are issued on the implementation of the first-level legislative acts (directives and regulations) providing for such delegation.

A number of delegated regulations on the implementation of the Solvency legal framework 2, packaged retail investment products and investment-based insurance products, central depositories, measures against money laundering, market abuse, financial institution rehabilitation and restructuring, etc. have been published during the year. The main package of delegated regulations on the application of the Benchmarks Regulation was also published.

EC proposals for regulations and directives

In 2018, the European Commission published the final package of legislative proposals aimed at completing the grand plan for the creation of a Capital Markets Union³¹ that was initiated in 2015:

1. European covered bonds

In order to validate alternative sources of funding and remove obstacles to cross-border investment, the European Commission (EC) proposes common rules – a directive and a regulation – for covered bonds. According to EC data, the EU market is fragmented on a national scale and shows differences specific to each Member State. The proposed rules are based on high quality standards and best practices. Their purpose is to use covered bonds as a stable and cost-effective source of funding, especially where markets are less developed. For investors, they will provide a wider and safer choice of investment opportunities. The other aim of the proposal is to reduce borrowing costs for the economy as a whole. The EC estimates indicate that the potential total annual savings for borrowers in the EU would amount to between EUR 1.5 and 1.9 billion. The initiative includes two proposals:

³¹ Action Plan on Building a Capital Markets Union", Brussels, 30.9.2015; COM(2015) 468 final.

- Proposal for a Directive of the European Parliament and of the Council on the issuance and the supervision of covered bonds and amending Directive 2009/65/EC and Directive 2014/59/EU - 2018/0043 (COD);
- Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) No. 575/2013 as regards the exposures in the form of covered bonds - 2018/0042 (COD).

2. Cross-border offering of investment funds

The aim of the proposals is to reinforce the potential of investment funds as an important tool for channeling private savings in the economy and increasing funding opportunities for businesses. The proposal will remove barriers to all types of investment funds and make their cross-border offering simpler, quicker and cheaper. Enhanced competition will lead to more choices and more advantageous proposals, without compromising the high level of investor protection.

The initiative includes two proposals:

- Proposal for a Directive of the European Parliament and of the Council amending Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) and Directive of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers in relation to the cross-border offering of collective investment funds – 2018/0041 (COD);
- Proposal for a Regulation of the European Parliament and of the Council facilitating the cross-border dissemination of collective investment funds and amending Regulations (EU) No. 335/2013 and (EU) No. 346/2013 – 2018/0045 (COD).

3. European Parliament and of the Council on the law applicable to the transfer of debts to third parties – 2018/0044 (COD)

As part of the Capital Markets Union Action Plan and its interim review, the European Commission proposes targeted rules regarding the ownership of securities and the action applicable to the transfer of debts to third parties in order to reduce legal uncertainty in cross-border transactions in securities and receivables.

There are currently difficulties with the applicability of a specific national law when determining the ownership of the debt when it is the subject of a cross-border case or an administrative procedure. The general rule is introduced, however, that this should be the law of the State of the habitual residence of the transferors, regardless of which Member State's courts or authorities the case or procedure has been initiated before. The proposal will encourage cross-border investment and access to cheaper credit and will prevent systemic risks.

The Commission also adopted a Communication clarifying which country's law is applicable to determining who the security holder is in a cross-border transaction. Enhanced legal certainty will stimulate cross-border investment, access to cheaper credit and market integration.

4. Proposal for a Regulation of the European Parliament and of the Council on European collective investment service providers (ECISP) – 2018/0048 (COD)

The EC recognizes that collective funding in the European Union is much less developed than in other major world economies and the market is fragmented. Many such platforms currently face difficulties in expanding their operations to other EU countries. One of the biggest obstacles is the lack of common rules throughout the Union. This significantly increases operational and regulatory compliance costs and prevents collective financing platforms from starting cross-border activity.

This proposal will ensure that these platforms make it easier to offer their services across the EU. Following its adoption by the European Parliament and the Council, the proposed regulation will allow platforms to apply – in line with a single set of criteria – for an EU logo that will allow them to offer their services across the EU. Investors using collective funding platforms will be protected by clear rules on disclosure, administration and risk management and a consistent approach to supervision.

5. Legislative initiative to promote growth markets for small and medium-sized enterprises (SMEs)

The new rules will provide SMEs with better access to finance through public markets. As part of the EU's Capital Markets Union (CMU) plan, the initiative aims to allow EU businesses to finance their development more easily and at lower costs.

The EC has recognized that, despite the stock market flotation, SMEs are finding it hard to attract new issuers to the EU public markets. The goal is to reduce bureaucracy for small and medium-sized enterprises that seek to register for stock exchange trading and issue securities in the growth markets of SMEs – a new category of trading venues for small issuers – as well as to promote the liquidity of the shares of publicly traded SMEs. The new rules will introduce a more proportionate approach to supporting public marketing of SMEs, while ensuring investor protection and market integrity. The initiative includes two legislative proposals:

- Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) No. 596/2014 and (EU) No. 2017/1129 on promoting the use of the SME's growth markets – 2018/0165 (COD);
- Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) No. 2017/565 on the integration of environmental, social and management (ESM) factors and preferences in the provision of investment advice and portfolio management.

6. Sustainable investments

The initiative includes three legislative projects:

- Proposal for a Regulation of the European Parliament and of the Council establishing a framework for the promotion of investment in sustainable development – 2018/0178 (COD);
- Proposal for a Regulation of the European Parliament and of the Council on disclosures relating to sustainable investments and risks to sustainability and amending Council Directive (EU) 2016/2341 – 2018/0179 (COD);
- Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EC) No. 2016/1011 as regards the low carbon emission indicators and the positive impact on carbon balance indicators – 2018/0180 (COD).

The proposals reaffirm Europe's determination to be the world leader in the fight against climate change and to implement the Paris Agreement. Engaging in the financial sector will give a strong impetus to efforts to reduce the footprint on the environment while promoting the sustainability and competitiveness of the EU economy.

The rules are designed to strengthen the EU's potential for funding for sustainable development and to make the EU a global leader in this area. This will have a positive impact on economic growth and job creation, and will support the Capital Markets Union's objectives to link financing to the needs of the European economy as well as with the EU Sustainable Development Program.

7. Proposal for a Directive of the European Parliament and of the Council amending Directive 2009/103/EC of the European Parliament and of the Council of 16 September 2009 relating to insurance

against civil liability in respect of the use of motor vehicles, and the enforcement of the obligation to insure against such liability – 2018/0168 (COD)

The proposal will ensure that victims of road traffic accidents get their full compensation even when the insurer is insolvent. The renewed rules also ensure that persons submitting insurance claims in another EU Member State will be treated in the same way as local policy holders and will eventually benefit from better insurance conditions.

8. FinTech Action plan: For a more competitive and innovative European financial sector (Brussels, 8.3.2018, COM (2018) 109 final)

The Action Plan recognizes that financial technology is at the intersection of financial services and the Digital Single Market. The financial sector is the largest user of digital technologies and is an important driver for the digital transformation of the economy and society. Investments in technology and the pace of innovation development are increasing significantly. Financial-technology solutions that use digital identification, mobile applications, cloud computing, large data array analysis, artificial intelligence, blockchain and shared registry technologies are gaining strength. Financial technologies are also important for the capital markets union. They can contribute to deepening and expanding EU capital markets by integrating digitization to change business models through data-driven solutions such as asset management, investment intermediation and product distribution. The plan outlines the main activities that the EC sets out to adequately reflect the widespread introduction of technology in the financial sector, with concrete measures introduced in a separate annex to the plan.

9. Proposal for a Directive of the European Parliament and of the Council laying down rules to facilitate the use of financial and other information on the prevention, detection, investigation or prosecution of certain criminal offenses and repealing Council Decision 2000/642/JHA, 2018/0105 (COD)

The proposal provides for direct access by the competent authorities to national centralized bank account registers or to data mining systems. Competent authorities to which access is granted also include tax authorities and anti-corruption bodies when conducting criminal prosecution under national law. They also include asset recovery services which are responsible for tracking and identifying assets from criminal activity with a view to their possible freezing and confiscation. Europol will also be granted indirect access via the national units of the Member States. Measures are foreseen to facilitate the use of financial and other information to more effectively prevent and combat serious crime, including in a cross-border context. In particular, the timely access of competent authorities to the information contained in the centralized bank account or data retrieval systems as set out in this Directive against money laundering is improved. The proposal also contains rules on the protection of fundamental rights, in particular the right to the protection of personal data and the reduction of administrative burdens associated with the application procedure for both the competent authorities and the banking sector.

10. Proposal for a Directive of the European Parliament and of the Council on the protection of individuals reporting offenses against the European Union law – 2018/0106 (COD)

The European institutions take into account the fact that the protection of whistleblowers in the EU is currently fragmented. The lack of such protection in one Member State can not only adversely affect the functioning of EU policies in that country, but can also have a negative impact on other Member States. Protection for whistleblowers at EU level is foreseen only in specific sectors and to varying degrees. This fragmentation and omissions mean that in many situations, whistleblowers are not adequately protected against revenge. This, in turn, leads to inadequate alerts and hence to “missed opportunities” to prevent and detect violations of the European Union law that may seriously harm the public interest.

In line with this commitment, the proposal aims to make full use of the potential of protecting whistleblowers in order to improve law enforcement. It determines a balanced set of common minimum standards providing robust protection in cases of actions against whistleblowers.

2. Licensing activity, licensing regimes, notifications and certification

2.1. Licensing activity and licensing regimes

Investment firms, central securities depository and regulated markets

In 2018, one license for the activity of an IF was granted (Vaha Trade Ltd.) and three licenses for the activity of an IF were revoked (Progressiva Trading OOD, Beta Corp AD and Matador Prime OOD). During the accounting year, one refusal was given for the issuance of a license to carry out business as an IF and four procedures for the issuance of such a license were terminated at the request of the applicant. The latter was related to the entry into force on 03.01.2018 of the new regulatory framework introduced by MiFID II and the need for the documents of the companies requesting the issuance of a license to operate as an IF at the end of 2017 to be fully corrected in accordance with the new regulatory framework. In addition, in 2018 the license of IF Deltastock AD was extended and one IF ceased some of its investment activities and services, as a result of which its license was transformed from full to partial.

Considering the above, at the end of 2018, the total number of investment firms was 60, including 22 banks³² and 38 non-banking investment firms (IFs). The number of investment firms (banks and non-banking institutions) with a full license (with right to carry out transactions and services in relation to financial instruments on own account) was 40, and the total number of investment firms with a partial license was 20 (19 of them having an option to hold clients' assets and 1 not having this right). The only IF, which is not entitled to hold clients' assets, submitted an application to extend its license at the end of 2018.

In 2018, the number of banks performing investment activities and services decreased as a result of the transformation of "CIBANK" EAD by merger into "UNITED BULGARIAN BANK" AD registered on 05.02.2018 in the Commercial Register at the Registry Agency, and the completed absorption of TB "Victoria" EAD from "Investbank" AD.

For comparison – at the end of 2017 **the total number of investment firms** was 64 (banks and non-banking institutions), **43 IFs of them having a full license**, and **21 IFs having a partial license** (19 of them having the right to hold clients' assets and 2 not having this right).

³² The number of investment firm banks includes those that operate on the territory of the country through a branch.

Table 1. Licensing activity in relation to IFs, CSD and regulated markets

	Number as at 31 December 2017	Licenses issued	Licenses revoked	Number as at 31 December 2018
Investment firms, including:	64	1	3	60
Non-banking institutions*	40	1	3	38
Regulated market	1	0	0	1
Multilateral trading system	1	1	0	2
Central securities depository	1	1**	0	1

Notes: *IFs 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. ** The number of central securities depository does not change as to 31.12.2017, but Central Depository AD has been issued a license according to Regulation (EU) No. 909/2014.

In 2018, **5 notifications of changes in the general terms and conditions** of investment firms under the new MFIA, in force as of 16.02.2018, have been considered as stand-alone proceedings, no explicit proceedings are foreseen and the changes to the general conditions shall be considered within the current supervision exercised by the FSC. In 2018, **13 applications for approval of a member of management or supervisory body** of an investment firm were considered. By Decision No. 506-H of 11 May 2018, the FSC adopted the Guidelines for assessment of the suitability of members of the Managing Authority and the persons holding key positions issued jointly by the European Banking Authority and the European Securities and Markets Authority of 30 June 2018. They specify the requirements for the assessment of suitability, including the collective competence of the management and supervisory bodies of the IFs introduced by MiFID II, which significantly complicated the procedures for approving the election of a member of a management or supervisory body of an investment firm and for reducing the number of such types of proceedings.

In 2018, **two notifications for the acquisition of qualified holdings of the capital or the votes in the general assembly of an investment firm and 5 notifications for the transfer of qualifying holdings** were examined. At its meeting on 11 July 2017, the FSC agreed to comply with the Joint Guidelines on the prudential assessment of acquisitions and increases of qualifying holdings in the financial sector, applicable to both MCs and licensed LAIFs, with the application of the Joint Guidelines being developed in detail in 2018.

Out of the total number of administrative procedures related to investment firms completed in 2018, 11 pertain to proceedings for the issuance or revocation of a license for operating as an investment firm. In December 2018, an application for partial refusal of an IF license was filed, which has not been completed yet. In addition, two notifications for acquiring a qualifying holding in an investment firm have also been submitted, which have not been completed yet. During the year under review, 12 approvals and one refusal to approve the election of a member of a management or supervisory body of an investment firm were issued. At the end of 2018, two applications were submitted for exemption under Art. 5, para. 1, item 10 of the MFIA, which were not completed by the end of the year. In the course of 2018, three applications for entry of a tied agent in the register kept by the FSC were examined, one of which was terminated with a refusal.

In terms of the activities of BSE AD in 2018, the following are considered: 1 proceeding for approval of amendments to the Rules on the activity of the regulated market, 1 application for approval of a member of the BD of BSE AD, 1 application for issuance of a market operator license for organizing the multilateral trading system, 1 application for registration of the multilateral trading system as a market for growth of small and medium enterprises, and 1 application for issuance of a license for carrying out activity under Art. 205, para. 2 of the MFIA as a publishing mechanism operator (PMO). **As a result of the completed procedures, conditions are created for the development of the Bulgarian capital market both by**

facilitating small and medium enterprises in public raising of capital by registering a segment of the multilateral trading system organized by BSE AD as a market for growth, and with a view to ensuring that the MiFID II disclosure requirements can be met. The FSC's active position in the multilateral trading system registration process as a growth market led to the preparation of an idea of the conditions under which the competent authorities of the Member States are entitled to register as a growth market not a particular multilateral trading facility, but only its separate segment instead. In addition, the FSC initiated the necessary procedures through the European Securities and Markets Authority with a view to implementing the exemptions for equity and debt securities provided for in Regulation (EU) No. 600/2014 in respect of the regulated market and the multilateral trading facility, organized by the BSE AD.

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 (Regulation (EU) No. 909/2014), Central Depository AD filed an application for the issue of license to carry out activity as a central securities depository under the Regulation. The confirmation of application completeness phase was finalised in early 2018. Following the necessary coordination procedures with the Bulgarian National Bank as the relevant body under Regulation (EU) No. 909/2014 on 17.09.2018, **the FSC issued a license to Central Depository AD to perform its activity as central securities depository, as a result of which the Bulgarian central depository became the sixth institution licensed under the Regulation within the European Union.**

At the end of 2018, the nomination of a new member of the board of the Investor Compensation Fund was submitted, but the approval was granted to the person at the beginning of this year.

Table 2. Administrative procedures with respect to IFs, tied agents, trading venues, data reporting service providers, central depositories and the Investor Compensation Fund

	Not concluded as at 31 December 2017	New in 2018	Concluded in 2018	Not concluded as at 31 December 2018
Investment firms	5	33	33	5
Tied agents	0	3	3	0
Regulated market	2	3	5	0
Multilateral trading facilities	1	0	1	0
Organized trading facilities	0	0	0	0
Central securities depository	1	0	1	0
Data reporting service providers	0	1	1	0
Investor Compensation Fund	0	1	0	1
Other proceedings*	4	23	24	3

Note: *Replies to inquiries and requested opinions in relation to the activities of investment firms, tied agents, trading venues, data reporting service providers and the CD.

Collective investment undertakings

In 2018, no applications for the issuance of a license to operate as a management company, and no applications for a license or for the issuance of a permission to organize a national investment fund were considered, but at the end of the year there was a strong interest in the registration of persons, managing alternative investment funds under Art. 214 et seq. of CISOU CIA.

During the reporting year, four management companies licensed by the FSC submitted a total of 11 applications for issuing permits for organizing and managing a CF, no refusals being given on the applications considered, as a result of which the following permits were issued: to MC DSK Asset Management AD for CF DSK Dynamics, to MC Astra Asset Management JSC for CF Astra Balance and CF

Astra Global Equity, to MC Expat Asset Management JSC for Expat Croatia CROBEX UCITS ETF, Expat Slovenia SBI TOP UCITS ETF, Expat Serbia BELEX15 UCITS ETF, Expat Slovakia SAX UCITS ETF, Expat Macedonia MBI10 UCITS ETF and Expat Hungary BUX UCITS ETF, to MC Compass Invest JSC for CF Compass Funds Select – 21 and CF Compass Euroselect. As seen above, at the beginning of 2018 permissions were issued for the organizing and management of 6 more ETFs of Expat Asset Management JSC, which made **the total number of this type of collective investment schemes 11**. Up to now, no application for the organization of a ETF in the form of a national investment fund has been considered.

In 2018, no proceedings for main-feeder schemes were considered. Permits for transformation through merger of CF Astra Cash and CF Astra Plus managed by MC Astra Asset Management JSC and 3 permissions for transformation of MFs managed by MC Concord Asset Management JSC were granted: through a merger into CF Concord Fund 5 – Central and Eastern Europe of CF Standard Investment International Fund, through a merger into CF Concord Fund – 1 Shares and Bonds of CF Standard Investment Balanced Fund and through merger into CF Concord Fund 2 – Shares of CF Standard Investment High Yield Fund. As a result of the transformations described, the number of mutual funds decreased by 4 CFs.

In addition, in 2018, two permits for termination of CFs were issued – for CF Varchev Balanced Fund and CF Digital Transformation, but by the end of the year only the termination procedure was concluded and from the register maintained by the FSC only CF Varchev Balanced Fund was deleted.

At the end of the year under consideration, one decision was issued to register a company as an entity managing alternative investment schemes and several inquiries were made as to the conditions for initiating such proceedings.

Table 3. Licensing activity in respect of collective investment undertakings

	Number as at 31 December 2017	Licenses/ permits issued	Licenses/ permits revoked	Number as at 31 December 2018
Management companies	31	0	0	31
Contractual funds	132*	5	5**	132
Alternative investment funds (AIFs)	3	0	0	3
Alternative Investment Fund Managers (AIFM)	3	1	0	4***

Notes: *Six of the permits were issued on 04.01.2018 and are included in the above-mentioned 132 CFs as at 31.12.2017. **In 2018, no permits were revoked, the number indicated being related to the deletion of 4 CFs as a result of transformations of the CFs (1 merger and 3 acquisitions) and one termination of a CF. ***AIFMs existing in Bulgaria are not licensed but registered under the procedure of Art. 214 et seq. of the CISOU CIA.

In 2018 11 proceedings for approval of a new member of a management company’s management body were considered, with one refusal being issued. Three notifications for transfer of qualifying holdings in the management company were filed, as well as three notifications for acquisition of such holdings. At the end of December, another notification for the acquisition of a directly qualifying holding in a MC was submitted, the assessment of which has not yet been completed.

The main administrative procedures for the contractual funds during the year were entirely related to approvals for changes to the rules for collective investment schemes. In 2018, the procedures for issue of **129 approvals of contractual fund rules under Article 13, Paragraph 2 of the CISOU CIA, 71 approvals for changes of portfolio valuation rules and determination of the net asset value, 33 approvals for changes of risk assessment and management rules and 16 approvals for changes in the contracts for depository services and in the replacement of a depository bank were concluded.**

Proceedings related with national investment funds in 2018 refer to approval of changes in the articles of association of a national investment company, and proceedings associated with the AIFM refer to the above mentioned one for registration under Art. 214 et seq. of the CISOUCA.

Table 4. Administrative procedures in respect of collective investment undertakings

	Not concluded as at 31 December 2017	New in 2018	Concluded in 2018	Not concluded as at 31 December 2018
Management companies	2	18	18	2
Contractual funds	38	261	285	14
National investment funds	0	1	1	0
Alternative investment fund managers	0	1	1	0
Other proceedings*	2	10	8	4

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

Regarding the activity of the Special Purpose Investment Companies (SPICs), and in particular those whose activities are related to the securitization of real estate, the impact of the increase of real estate market was great over the last few years, with the expectation being that it will continue in the following years as well, albeit at a slower pace than the last few years when the pre-crisis price levels of 2007 to 2008 have been reached. With respect to the SPICs, securitizing receivables, the trend is that the number of these companies decreases. The main reason for this is that, as a result of the global financial crisis, lending in the country has been gradually declining, and therefore commercial banks and borrowers become more and more cautious. Nevertheless, there has been a slowdown in the debt sector over the last few years – after the commercial banks carried out stress tests, they lowered their risk exposures and get rid of bad/problematic credit portfolios. Another factor is the constantly high level of inter-company indebtedness in the real sector. These conditions, in turn, lead to improved business opportunities for SPICs for securitization of receivables.

As a result of all these circumstances, there is a stable trend in the number of SPICs licensing applications in recent years (one per year), on the one hand, and in the fact that part of the licensed companies cannot carry out the activity under the licenses issued, which requires the revocation of licenses and their termination, on the other hand.

In 2018, two new licenses were issued to special purpose investment companies – to Bravo Property Fund SPIC, which will securitize real estate (the proceedings being set up at the end of 2017), and to the Bulgarian Receivables Fund SPEC, which will securitize receivables.

In 2018, the licenses of a special purpose investment company – Health and Wellness SPIC (in bankruptcy) was revoked, a company securitizing real estate, due to the circumstance that during an official inspection carried out by the FSC it was established in an indisputable way that the company did not meet the conditions of the issued license as a special purpose investment company. The company was insolvent and did not carry out the activity for which it had been granted a license for more than 6 months (according to the argument of Article 16, paragraph 1, item 1, second sentence of the Special Purpose Investment Companies Act).

A total of 71 companies received a license to operate as special investment purpose companies. Of them, as at 31.12.2018, 14 have their licenses revoked and, respectively, **at the end of 2018 – 57 companies have a license to operate as SPICs.**

Table 5. Licensing activity with respect to SPICs

	Number as at 31 December 2017	Licenses issued in 2018	Licenses revoked in 2018	Number as at 31 December 2018
SPICs including:	56	2	1	57
SPICs for securitization of receivables	6	1	0	7
SPICs for securitization of real estate, including:	50	1	1	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 securitization instrument, the companies of this kind are subject to stricter regulatory requirements requiring prior approval by the FSC for changes in the articles of association 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 licenses, are related to requested approvals for amendments to the articles of association, replacement of the depository bank and the servicing company.

In relation to the activity of Special Purpose Investment Companies and the regulatory requirements for that activity, in 2018 the FSC reviewed and issued decisions on a total of 18 proceedings, considered as follows:

- **14 applications for issuance of an approval of amendments to the Articles of Association of Special Purpose Investment Companies**, under which the FSC issued 14 decisions for approval of the envisaged amendments to the Articles of Association;
- **Two applications for approval of the replacement of a servicing company**, under which the FSC has approved the planned replacement; and
- **Two applications for approval of the replacement of a depository bank** of a Special Purpose Investment Company under which two approvals were issued respectively.

During the reporting year, no refusals were given to issue an approval of Articles of Association, to replace a servicing company or replace a depository bank of a special purpose investment company, and there was no termination of proceedings under such approvals.

The other public companies (excluding Special Purpose Investment Companies) and issuers of securities are not subject to licensing but to registration or deletion, from the special register of public companies and other issuers of securities kept by the FSC. In 2018, in the specified register were entered three public companies (excluding SPICs) – 235 Holdings AD; Gradus AD and Intercapital Group AD) and eight issuers of securities (M Sat Cable EAD, Adara AD, IT Soft RAD, Bulgarian Energy Holding EAD, Bulfinance Investment AD, Zagora Fininvest AD, Toplofikatsiya Pleven EAD and Motobul EAD), respectively the total number of companies deleted from the register of public companies and other issuers of securities maintained by the FSC during the period was 57 companies, 53 of which were public companies and four were issuers of securities.

It should be borne in mind that another two companies were deleted during the accounting year – a special purpose investment company was deleted as a public company and the license to pursue the activity as a special purpose investment company was withdrawn and the termination proceedings were completed and therefore the company was deleted as an entity from the Commercial Register at the Registry Agency, and as an issuer of shares in the process of issuance was deleted a company having a

confirmed prospectus for an initial public offering of shares, but because the public offering did not start and therefore the issue was not placed, the issuer and the issue of shares in the process of issuance were deleted from the register kept by the FSC.

During the reporting 2018, there were no refusals to enter or delete 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 2018 was 244.

Table 6. Public companies and other issuers of securities

	Number as at 31.12.2017	Registered companies	Deleted companies	Number as at 31.12.2018
Public companies and other issuers*	290	11	57**	244

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 entry and deletion. The number of public companies and other issuers does not include eleven Special Purpose Investment Companies with withdrawn licenses for Special Purpose Investment Company (SPICs) but still have public company status. ** The total number of 57 deregistered companies (public companies and bond issuers) does not include: one SPIC deleted as a public company after being deleted as an entity from the Commercial Register at the Registry Agency, and one company deleted as an issuer of an issue of shares underway due to the fact that these two companies were not included in the initial number of 290 as at 31.12.2017, and, respectively, the same are not reflected in the total number of 244 as at 31.12.2018.

With regard to the activity of public companies and issuers of securities in 2018, apart from the proceedings for registration (11) and deletion (57) of public companies and issuers, a total of **35 proceedings for confirmation of prospectuses and supplements thereto were started. 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 2018 were 41, which is an increase of about 17% compared to 2017, when the applications were 35.

In 2018, a total of 32 prospectuses were approved, which represents nearly 14% growth compared to the previous 2017 when the approved prospectuses were 28. During the reporting period, two supplement to approved prospectuses for initial public offering of shares were also approved.

The structure of the prospectuses approved in 2018 is as follows:

- **a total of 18 prospectuses for initial public offering distributed as follows: 16 prospectuses for initial public offering of shares, of which 2 prospectuses of new companies; 1 prospectus for initial public offering of bonds and 1 prospectus for initial public offering of warrants and**
- **a total of 14 prospectuses for admission to trading on a regulated market, of which thirteen prospects for admission for trading on a regulated market of bond issues and one prospectus for admission to trading on a regulated market for issue of shares.**

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

At the end of the year, there were six pending proceedings for approval of prospectuses – 1 proceeding for admission to trading bond issues and 5 proceedings for initial public offering of shares.

Aside from the approved prospectuses for initial public offering of securities (respectively after successful subscription and entry of the capital increase in the commercial register) or for admission to trading on a regulated market of securities, **in 2018 a total of 38 issues of securities were entered in the FSC register, distributed as follows:**

- **twenty issues of shares were entered, six of which by new companies** admitted to trading on a regulated market for the first time, and **the other 14 issues as a result of a subsequent increase in the capital of public companies;**
- **seventeen bond issues were entered 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 Commercial Act and**
- **1 issue of warrants was entered as a result of successfully completed initial public offering of warrants.**

During the reporting year, a **total of 63 issues of securities**, of which 42 issues of shares and nine bond issues were deleted from the register of public companies and other issuers of securities, kept by the FSC.

- **a total of 57 issues of shares were deleted, of which 54 issues of shares, 2 issues of preferential shares and 1 issue of shares in a process of issuing;**
- **5 bond issues were deleted, of which 4 bond issues and 1 convertible bond issue, and**
- **1 issue of warrants was deleted.**

In 2018 there were no refusals to delete an issue of securities from the register kept by the FSC due to refusal to delete the public company or issuer of the securities, and no such proceedings were terminated.

A total of nine proceedings on registered tender offers and offers for buyout of shares were examined and closed in 2018, of which 2 proceedings were under tender offers registered in 2017 and closed in the reporting year 2018. In respect of the tender offers and buyout offers examined in 2018, the following decisions were adopted:

- for 7 proposals, the FSC issued decisions on a temporary ban on the publication of proposals for which after the submission of the corrected documents it decided not to issue a final ban on their publication;
- 1 final ban was issued for the publication of a tender offer and
- 1 procedure was terminated due to the fact that after the temporary prohibition to publish the tender offer, the offeror decreased its shareholding in the public company and, accordingly, the legal basis for submitting a corrected tender offer no longer applied.

The total number of registered offers in 2018 was 7, of which 5 tender offers and 1 offer for share buyout. As at 31 December 2018, no proceedings were initiated for the examination of tender offers and the purchase of shares that were not finalized by the end of the year.

During the reporting year, 1 proceeding for approval of the documents for transformation with the participation of public companies was initiated and concluded. As of 31.12.2018, there were no pending proceedings for mergers, concerning public companies. In 2018, 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 refusals or terminated proceedings for approval of documents for mergers, concerning public companies.

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

	Not concluded as at 31 December 2017	New in 2018	Concluded in 2018	Not concluded as at 31 December 2018
SPICs	1	1	2	0
PCs and issuers	11	125	119	17
Other proceedings*	4	32	31	5

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 2018.

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 2018 they were 36. The insurers licensed to perform life insurance activities** decreased by one company, and their number **at the end of the year was 11**. The number of insurers licensed to carry out **non-life insurance activities** also declined by one company and at the end of the year their number was **25**.

Insurance companies with headquarters in a Member State carrying out non-life insurance activities on the territory of the Republic of Bulgaria with the right of establishment through a branch **were 9** companies, and those carrying out activities for life insurance through a branch in the country were **3**.

In view of the decision made by the Supervisory Authority on the insurance of the Republic of Cyprus dated 10.05.2018 for the revocation of the license of Insurance Company Olympic AD, FSC issued a decision on the same date, which prohibited the branch of the insurer in the Republic of Bulgaria to dispose with its assets in the country, as well as to conclude any new insurance or reinsurance contracts on all classes of insurance, to extend the duration of concluded contracts and to extend their coverage.

In 2018, the Commission issued **five additional licenses** to expand the scope of the license of insurers with insurance classes under Appendix No. 1 of the IC, as follows:

- **license to extend the scope of the license of the Insurance Company OZOK Ins AD** under the insurance class under item 3 Land vehicles (other than railway rolling stock) of Section II, letter "A" of Appendix No. 1 to the IC, including the following risks: Any damage or loss suffered by: land motor vehicles and land vehicles other than motor vehicles;

- **license to extend the scope of the license of the Insurance Company BUL INS AD** under the insurance class under item 4 Railway rolling stock of Section II, letter "A" of Appendix No. 1 to the IC, including the following risks: Any damage or loss suffered by railway rolling stock under the insurance class under item 15 Guarantees of Section II, letter "A" of Appendix No. 1 to the IC, including the following risks: direct and indirect suretyship;

- **license to extend the scope of the license of the Groupama Insurance EAD** under the insurance class under item 2 Sickness of Section II, letter "A" of Appendix No. 1 to the IC, including the following risks: fixed amounts; benefits; a combination of the two;

- **license to extend the scope of the license of Nova ins EAD** under the following insurance classes: under the insurance class under item 3 Land vehicles (other than railway rolling stock) of Section II, letter "A" of Appendix No. 1 to the IC, including the following risks: Any damage or loss suffered by: land motor vehicles and land vehicles other than motor vehicles; under insurance class under item 17 Legal Expenses of Section II, letter "A" of Appendix No. 1 of the IC, including the following risks: Legal costs and costs of litigation; under insurance class under item 18 Travel assistance (Assistance) of Section II, letter "A" of Appendix No. 1 of the IC, including the following risks: Assistance for persons who have difficulty while traveling when away from home or away from their usual place of residence;

- **license to expand the scope of the license of Fi Health Insurance AD** under insurance class under item 16 Miscellaneous financial loss of Section II, letter „A" of Appendix No. 1 of the IC.

In 2018, the Commission issued **authorisations for transformation of two insurance companies** as a result of which, these were terminated without liquidation and deleted as entities supervised by the FSC, as follows:

- transformation was permitted through the merger of UBB-Life Insurance EAD into DZI-Life Insurance EAD, and as a result of the transformation UBB-Life Insurance EAD was terminated without liquidation and deleted from the Commercial Register;

- the merger was permitted of Health Insurance Institute into Life Insurance Institute AD, and

as a result of the transformation Health Insurance Institute was terminated without liquidation and deleted from the Commercial Register.

Table 8. Licensing activity in relation to insurance and reinsurance

	Number as at 31 December 2017	Licenses issued	Licenses revoked	Number as at 31 December 2018
Insurers including:	38	-	-	36
Non-life insurance	26	-	-	25*
Life insurance	12	-	-	11**
Branch of a foreign insurance company	13	-	-	13
Non-life reinsurance companies	1	-	-	1***
Life reinsurance companies	1	-	-	1***
Insurance brokers	385	13	48	350

Notes: *Decision No. 210 – Ж3 of 28.02.2018 of the FSC permits the merger of Health Insurance Institute into Life Insurance Institute AD. **Decision No. 1163 – Ж3 of 13.12.2018 of the FSC permits the merger of UBB-Life Insurance AD into DZI-Life Insurance EAD. *** GP Reinsurance EAD.

In 2018, the FSC issued **five decisions in connection to the acquisition of qualifying holdings in an insurance company under Art. 68 of the IC**, as follows:

- Decision No. 64 – Ж3 of 16 January 2018 approved the direct acquisition of 100% of the capital of UBB Metlife Life Insurance Company AD by DZI-Life Insurance EAD. The approved acquisition did not lead to any change in the control exercised over UBB-MetLife Life Insurance Company AD, but was of the nature of an intragroup restructuring within the group of an existing indirect shareholder of the insurer that will continue to exercise control over it through DZI-Life Insurance EAD, which will be the sole owner of the capital of UBB-MetLife Life Insurance Company AD;
- Decision No. 187 – O3 of 20 February 2018 approved the increase of the direct qualifying holding of the Insurance Company Lev Ins AD in Life Insurance Institute AD, which can be realized upon the merger of the Insurance Company Health Insurance Institute AD into Life Insurance Institute AD. The approved increase in the qualifying holding of the existing shareholder in the insurer was a result of the transformation through the merger of the Insurance Company Health Insurance Institute AD into the Life Insurance Institute AD, and was of the nature of an intragroup acquisition that did not change the actual owner of the insurer after the transformation;
- Decision No. 276 – O3 of 20 March 2018 approved an indirect acquisition of a qualifying holding by KJK Fund II in an amount exceeding 10% of the capital of Insurance Company EUROINS AD, Insurance Company EUROINS LIFE EAD and Insurance Company EIG Re EAD. The approved acquisition concerned the increase of the direct shareholding of the applicant KJK FUND II in the capital of EUROHOLD BULGARIA AD, made through a series of transactions in 2017, as a result of which the Fund acquires an indirect qualifying holding of 10% in the capital of Insurance Company EUROINS AD, Insurance Company EUROINS LIFE EAD and Insurance Company EIG Re EAD;
- Decision No 1010 – O3 of 30.10.2018 approved an increase of the direct qualifying holding of VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe from 14, 20% to 100% of the capital of Insurance Company BULSTRAD VIENNA INSURANCE GROUP AD through the acquisition of 2,700,465 shares representing 85.80% of the equity of the insurer, in the liquidation proceedings of the current shareholder TBI BULGARIA EAD (in liquidation);
- Decision No. 1115 – Ж3 of 04.12.2018 approved the direct acquisition by DSK BANK EAD of a qualifying holding of 58.45% of the capital of Insurance Company SOGELIFE BULGARIA AD and an indirect

acquisition by DSK BANK EAD, UIC 121830616, of a qualifying holding in the amount of 41.55% of the capital of Insurance Company SOGELIFE BULGARIA AD through the direct acquisition of 99.7352% of the share capital of SOCIETE GENERALE EXPRESSBANK AD.

In 2018, by decision of the FSC pursuant to Article 30, para 1, item 12 of the FSCA, **13 insurance brokers were entered** into the registry kept by the FSC.

In the same period, 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 **48 insurance brokers were deleted** due to failure to comply with the conditions for operating as an insurance broker or to fulfill their obligation to pay their financial obligations in connection with their activity as insurance brokers.

As at 31 December 2018, in the register kept by the FSC pursuant to Article 30, para 1, item 12 of the FSCA, there were **a total of 350 insurance brokers**.

The downward trend for insurance agents continued during the reporting period. At the end of the year, **a total of 8,427 insurance agents** were included in the register of the FSC. There is a large decline in the number of insurance agents – sole traders (344), followed by the decline of insurance agents – legal entities (2782), and natural persons – insurance agents, declining. At the end of the year they were 5301.

Table 9. Registration in the register of insurance agents

	Number as at 31 December 2017	Number as at 31 December 2018
Insurance agents*, including:	12239	8427
Legal entities	4494	2782
Sole traders	861	344
Natural persons	6884	5301

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

A **total of 215 decisions** were issued under licensing, authorisation, registration and approval regimes in 2018 in connection with the administrative procedures initiated under the IC and the regulations for its implementation:

- 5 additional license decisions issued by the FSC, with which licenses were issued to the Insurance Company OZOK Ins AD, BUL INS JSC, Groupama Insurance EAD, "Nova Ins" EAD, "Fi Health Insurance" AD for increasing the scope of the insurance license;
- Two decisions for authorisation for transformation issued by the FSC, which permit the merger of UBB_Life Insurance EAD into DZI-Life Insurance EAD and the merger of Insurance Company Health Insurance Insutitute AD into Life Insurance Institute AD;
- Seventy-nine decisions for approval of members of management and supervisory bodies, executive directors, procurators of insurers and reinsurers and persons on key positions in an insurer or reinsurer;
 - 4 decisions to refuse the approval of persons holding managerial positions in an insurer or persons exercising key functions in an insurer or reinsurer;
 - 5 decisions for acquiring a qualifying holding in an insurance company;
 - Forty-seven decisions of approval of auditors under Article 101a of IC to perform inspections and certification of annual financial statements of insurance companies;
 - Two decisions for approval of auditors under Article 101a of IC who will perform inspections and certification of annual financial statements of insurance companies;
 - Thirteen decisions for entry of insurance brokers;
 - 1 decision for entry of an insurance agent with an insurer from another Member State;
 - Forty-eight decisions for deletion of insurance brokers;

- Nine decisions for deletion of insurance agents.

Table 10. Administrative procedures in respect of insurance and reinsurance

	Not concluded as at 31 December 2017	New in 2018	Concluded in 2018	Not concluded as at 31 December 2018
Insurance companies	8	150	144	14
Insurance intermediaries	4	75	70	9
Other proceedings	0	9	9	0
Total	12	234	223	23

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 2018 there were no applications for issue of licenses 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 licenses.

In view of the above, the **number of licensed pension insurance companies at the end of 2018 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 2018 one of them was not active.**

Table 11. Licensing activity in relation to supplementary pension insurance

	Number as at 31 December 2017	Licenses issued	Licenses revoked	Number as at 31 December 2018
Pension insurance companies (PICs)	9	-	-	9
Supplementary pension funds (SPFs)	29	-	-	29

The preliminary supervision covers performance of individual 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 **nine decisions for 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 06.02 – 31.12.2018 pursuant to Ordinance No. 15 of 4.10.2007 on the control over transactions with government securities.

In 2018, 23 proceedings were initiated for reviewing amendments and supplements to rules of organisation and operation of pension funds managed by pension insurance companies. As a result, **13 decisions of competent authorities were passed in the reporting year for the approval of the requested changes in rules of organization and operation of pension funds managed by pension insurance companies.** The review of the documents under the remaining 10 proceedings was extended into the

subsequent reporting period. The amendments to the rules were made in connection with amendments to the Social Insurance Code, the by-laws and other internal company documents.

In the reporting year, a total of eleven proceedings were initiated for preliminary coordination of selection of auditors to perform audit and certification of the annual financial statements for 2018 of pension insurance companies and the pension funds they manage. As a result, the competent authority issued one injunction to terminate administrative proceedings at the request of the applicant, a decision refusing to agree on the choice of auditors, and 9 decisions to agree on the choice of proposed auditors.

At the beginning of 2018, proceedings were completed which was initiated at the end of 2017 for the issuance of authorisation to increase the shareholding in the capital of a pension insurance company. An application was considered submitted by a custodian bank for its exclusion from the list under Art. 123b, para. 12 of the Social Insurance Code, and the Financial Supervision Commission issued a decision with which it agreed to exclude the bank from this list.

Pursuant to Art. 121e, para. 10 of the Social Insurance Code in relation with § 156, para. 1 of the Transitional and Final Provisions of the Act to Amend and Supplement the Social Insurance Code (SG, issue 92 of 2017), at the end of 2018, **thirteen administrative proceedings were initiated for the approval of members of management and supervisory bodies of three pension insurance companies. The ruling in these proceedings was made in the next reporting period.**

In view of the statutory mandate of the Deputy Chairperson of the FSC in charge of the Social Insurance Supervision Division, in 2018, a decision was issued for approval of new document specimens.

Table 12. Administrative procedures regarding supplementary pension insurance

Object of the procedure	Not concluded as at 31 December 2017	New in 2018	Concluded in 2018	Not concluded as at 31 December 2018
Rules	-	23	13	10
Shareholding	1	-	1	-
Rules for assessment of the assets and liabilities of a pension insurance company and the pension fund it manages	-	9	9	-
Coordination of the selection of auditors	-	11	11	-
Approval of members of management and supervisory bodies	-	13	-	13
Proceedings initiated ex officio	-	1	1	-
Total for pension insurance companies	1	57	35	23

According to the mandate of the Deputy Chairperson of the FSC in charge of the Social Insurance Supervision Division, the following were issued in 2018:

- eight decisions to determine the minimum rate of return in the management of the assets of the supplementary mandatory pension funds;

- 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 2018 by the pension insurance companies managing a universal pension fund and/or a supplementary voluntary pension fund.

An ongoing review of other documents submitted by the companies and the custodian banks was carried out in 2018 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 2018, **133 notifications were received from IFs from EU Member States** who intend to operate on the territory of Bulgaria under terms of **freedom to provide services**, including through a tied agent established in another Member State (United Kingdom – 70, Cyprus – 25, Denmark – 3, Ireland – 7, Liechtenstein – 2, Iceland – 1, the Netherlands – 4, France – 2, Malta – 7, Spain – 2, Slovakia – 1, Austria – 3, Luxembourg – 1, Norway – 1, Germany – 4). In view of the forthcoming UK exit from the European Union, there has been a decrease in the number of notifications from that Member State. On the other hand, **45 IFs have ceased their passports** for the provision of investment activities and services on the territory of Bulgaria under the terms of free provision of services.

In the year under review, **5 notifications** from IFs from a Member State (Cyprus) were received regarding an intention to operate on the territory of the Republic of Bulgaria **by establishing a branch or through a tied agent established on our territory**, and **1 notification** for termination of an IF branch from a Member State (Cyprus). Until the end of 2018, the proceedings for the establishment of a branch or tied agent on our territory were not completed, and in view of the problems encountered with a Cypriot insurer in bankruptcy and the special supervision and sanctions imposed on Cypriot investment firms, the FSC approached the nature of the activity that companies are aiming to carry out on our territory with particular attention and required further information in this regard. The latter has not been provided in its entirety to date.

In view of the above, the total number of IFs from Member States that can operate in our country **at the end of 2018 was 1884**.

During the reporting year, **27 notifications were received from management companies** from EU Member States regarding their intention to **offer units in 218 classes of units from 94 funds/sub-funds of 25 collective investment schemes from Member States** on the territory of the Republic of Bulgaria. **3 notifications of termination of the offer of a total of five classes of units of three sub-funds of two collective investment schemes from Member States** were received over the same period, and thus the **total number** of offered classes of units of collective investment schemes from Member States that operate in Bulgaria at the end of 2018 **was 967 classes of units of 267 funds/sub-funds of 44 collective investment schemes from Member States**.

3 notifications from management companies from a Member State intending to operate on the territory of the Republic of Bulgaria under the terms of free provision of services were received in 2018 and thus the **total number of management companies** from Member States intending to operate in Bulgaria at the end of 2018, **was 20**.

1 notification from a management company from a Member State to operate on the territory of the Republic of Bulgaria through the establishment of a branch was received in 2018.

10 notifications from AIFMs from EU Member States that intend to operate on the territory of the Republic of Bulgaria were received in 2018 and 4 terminated their passport, and thus the **total number of AIFMs** from Member States intending to operate in Bulgaria at the end of 2018 **was 57**.

17 notifications related to the offering of 21 alternative investment funds (AIFs) were received in 2018 from EU Member States on the territory of the Republic of Bulgaria. At the same **16 alternative**

investment funds ceased their passportisation and thus the total number of Member State AIFs offered in Bulgaria at the end of 2018 was 90.

In 2018, 2 notifications were received in connection with the offering 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 2018 was 14.

During the reporting year, FSC received a total of 33 notifications under Article 18 of the Prospectus Directive, 13 of which were notifications of new prospectuses, and 20 notifications concerned supplements to basic prospectuses.

In 2018 the Commission received notifications about 51 insurers from EU Member States about their intentions to operate on the territory of the Republic of Bulgaria under the terms for freedom to provide services.

During the reporting period, the FSC received notifications for 15 insurers from EU Member States which terminated their operation in the Republic of Bulgaria.

At the end of the reporting period, a total of 631 insurers from EU Member States had stated their intentions to operate on the territory of the Republic of Bulgaria.

During the reporting period, the Commission received notifications about 185 insurance intermediaries from EU Member States regarding their intention 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.

During the reporting period, the FSC received notifications for 28 insurance intermediaries from EU Member States which terminated their operation in the Republic of Bulgaria.

At the end of the reporting period, a total of 2480 insurance intermediaries from EU Member States had stated their intentions to operate on the territory of the Republic of Bulgaria.

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

	Number as at 31 December 2017	New and concluded in 2018	Terminated in 2018	Number as at 31 December 2018
Investment firms	1797	133	46	1884
Management companies	17	3	0	20
Collective investment schemes (classes)	754	218	5	967
Alternative investment scheme managers	51	10	4	57
Alternative investment funds	85	21	16	90
European Venture Capital Funds (EuVECA)	12	2	0	14
Prospectuses	125	33	0	158
Insurance companies	595	51	15	631
Insurance intermediaries	2323	185	28	2480
Institutions for occupational retirement provision	-	-	-	-

In 2018, 52 notifications from 6 IFs were received regarding their intention to operate under the terms of free provision of services, without opening a branch, on the territory of other Member States (Austria, Croatia – 2, Cyprus, Czech Republic – 2, Denmark, Estonia – 3, Finland, France – 3, Germany – 2,

Greece – 2, Hungary, Iceland, Ireland, Italy – 3, Latvia – 3, Liechtenstein, Lithuania – 3, Luxembourg, Malta, the Netherlands, Norway, Poland – 3, Portugal – 2, Romania – 3, Slovakia – 2, Slovenia, Spain – 3, Sweden and United Kingdom – 2). In addition, the notification procedures of 1 IF besides the ones above were terminated due to the revocation of its license, and by the end of 2018, another three notifications were submitted by 1 IF, which were not completed by the end of the year. In 2018, after the revocation of the license of 1 IF, 6 Member States were notified of the termination of the notification of this IF for the country concerned.

No notifications from Bulgarian investment firms to establish a branch in the territory of another Member State were received in 2018 and a branch of a Bulgarian IF in Romania was closed.

In 2018, notifications of 2 management companies were considered with regard to their intention to operate on the territory of another Member State – Malta, United Kingdom and Romania.

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 10 contractual funds – exchange traded funds, on the territory of Germany.

During the reporting period, the Financial Supervision Commission did not receive any applications for notification of prospectuses for securities issued in the Republic of Bulgaria for their admission to trading on foreign markets.

In 2018, **1 insurance company with its seat in the Republic of Bulgaria** notified the Commission of its intention to operate on the territory of another EU Member State – at its meeting the FSC made the decision under Protocol No. 104 of 11.12.2018 to send a notification to the competent authority in Romania regarding the intention of Life Insurance Institute AD to perform insurance activities under the terms of freedom to provide services on the territory of the specified country.

In 2018, **two insurance companies based in the Republic of Bulgaria** notified the Commission of their intention to expand their operation on the territory of other EU Member States:

- At its meeting, the FSC made a decision under Protocol No. 86 of 18.10.2018 to notify the competent authority of the United Kingdom of the intention of Insurance Company EUROINS AD to expand its operations to its territory.
- At its meeting, the FSC made a decision under Protocol No. 53 of 26.06.2018 to notify the competent authority of Denmark of the intention of Insurance Company DallBogg: Life and Health Inc. to expand its operations to the territory of the specified country.

In 2018, **two insurance companies based in the Republic of Bulgaria** notified the Commission of their intention to operate in the territory of other EU Member States.

During the reporting period, the FSC received notifications regarding **six insurance firms with their seat in the Republic of Bulgaria** which had ceased their activities on the territory of other EU Member States.

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

	Number as at 31 December 2017	New in 2018	Terminated in 2018	Number as at 31 December 2018
Investment firms	182	52	7	210
Management companies	2	2	1	3
Collective investment schemes	2	10	0	12
Prospectuses	4	0	0	4
Insurance companies	15	1	0	16
Insurance brokers	45	2	6	41

Institutions for occupational retirement provision	-	-	-	-
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No notifications by institutions for occupational retirement provision from European Union (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 2018.

2.3. Certification

In 2018, one session of exams to acquire the right to operate as a securities broker and an investment consultant was conducted - on 10.11.2018 for securities brokers and on 11.11.2018 for investment consultants. A total of 110 persons were allowed to take the exam, of which 74 candidates were taking the exam for the acquisition of the right to operate as a securities broker and 36 candidates were taking the exam for the acquisition of the right to operate as an investment consultant. **The exams were passed by a total of 50 persons (45 for brokers with 63 candidates actually attending the exam, and 5 for investment consultants with 23 candidates actually attending the exam).** The 50 persons who passed the exam were issued certificates.

In addition, in 2018, nine 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.

In 2018, there were no proceedings for revoking the right of persons to act as a securities broker or an investment consultant, neither after their voluntary refusal nor on the initiative of the supervisory authority.

During the reporting period, the Insurance Supervision Division did not receive any applications for the recognition of the competence of a responsible actuary and applications for the recognition of the professional qualification of an insurance broker acquired in a EU Member State.

During the reporting year, the Social Insurance Division did not receive any applications for the recognition of the competence of a responsible actuary.

Table 15. Dynamics of certified persons

	2014	2015	2016	2017	2018
Investment consultants	6	19 (11)	14 (5)	31 (21)	14 (9)
Securities brokers	0	(7)	(6)	(14)	(45)
Insurance brokers	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 exam 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. 9217 inspections were carried out in during the reporting period, including 157 inspections on the financial position of the investment brokers in accordance with forms approved on the basis of Art. 70, para. 2 of Ordinance No. 50 of 19.06.2015 on capital adequacy, the solvency of investment firms and the supervision of their compliance (Ordinance No. 50) and in accordance with Order No. 218/10.07.2015 of the Deputy Chair of the FSC in charge of the Investment Activity Supervision Division, 727 inspections of the held clients assets divided into subject and not subject to compensation from the Investor Compensation Fund, 7125 inspections of the transactions concluded with financial instruments admitted to trading on a regulated market, 672 inspections on capital adequacy and solvency of investment firms in accordance with the requirements of 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. At the same time, in the course of the off-site supervision, 61 reports on the results of the risk monitoring were received and verified according to the requirements of Art. 80a of Ordinance No. 38 on the requirements for the activity of investment intermediaries.

In the reporting period were also reviewed and analyzed 606 notifications received under Art. 19 of Regulation (EU) No. 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse.

During the reporting period, 478 inspections due to complaints, reports and inquiries from natural persons, legal entities and government authorities were carried out. Most of the cited complaints were filed by foreign entities and were directed against companies and/or websites/platforms for trading in financial instruments that did not have a license to conduct investment intermediation activities, which was subject to investigations by law enforcement agencies, so signals were prepared and sent to them.

During the period under review, orders were issued for entering 1359 circumstances regarding the activities of investment firms, investment consultants and brokers and BSE AD.

During the reporting period, a circular was sent to all investment firms to identify significant investment firms, as required by Art. 13 of Ordinance No. 50 on the capital adequacy and solvency of investment firms and on the identification of investment firms subject to consolidated supervision pursuant to Part Three, Section One “Supervision on a Consolidated Basis” of the Markets in Financial Instruments Act.

With regard to the new legal framework and for its clarification, a circular was sent to all investment firms regarding the requirements of the Commission Delegated Regulation (EU) 2017/575 regarding the regulatory technical standards for the data published by implementation points on the quality of implementation of transactions (Delegated Regulation (EU) No. 2017/575).

In connection with the construction of the system for submitting reports on transactions in pursuance of Art. 26 of Regulation (EU) No. 600/2014, circulars were sent to investment firms in connection with system registration, submitting of reports by them or by approved reporting mechanisms.

During the reporting period, circulars were sent to all investment firms asking for information regarding the trade they carried out with contracts for differences and binary options. The data obtained were aggregated and sent to the European Securities and Markets Authority in connection with the

extension of the deadline for measures under taken by the European Supervisory Authority to intervene in the markets for those financial instruments.

In connection with the forthcoming leaving of the European Union by Great Britain (Brexit), letters were sent to the UK investment brokerage branches established in the Republic of Bulgaria requesting certain information concerning their activities. Separately, a circular was sent to all investment firms from the UK, for which notices have been received by the FSC that they will provide investment services in Bulgaria under the freedom to provide services.

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, and quarterly reports for MCs. During the reporting period, an **inspection of the documents of 157** annual, **130** six-month and **124** quarterly financial reports of the Managing Companies, as well as **1581** monthly balance sheets of the management companies of CISs were performed. During the year, **559 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. Given the fact that in some of the submitted updated prospectuses and documents with key information regarding investors incompleteness and inconsistencies with the applicable provisions were found, **16 proposals for FSC meetings** were prepared, respectively, in compliance with the decisions made by the supervised entities, corrected prospectuses and documents with key information regarding investors were requested.

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). With the adoption of the new Markets in Financial Instruments Act (in force as of 16.02.2018), amendments were made to the Collective Investment Schemes and Other Undertakings for Collective Investments Act (CISOU CIA). One of these amendments removed the obligation of the MC to notify the FSC about the determined issue value and the redemption price of the shares of the CIS at each of their designations, leaving only the obligation to submit summary information twice a month (at regular intervals) for the specified emission and redemption prices of the shares of the CIS. In order to comply with these obligations, **inspections and approvals were performed during the year on 3734 forms for the disclosure of the issue value and redemption price of contractual funds**, submitted through the unified e-Register system. Furthermore, **3156 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**, **108 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, with **89 orders** of the Deputy Chairperson of the FSC in charge of the Investment Activity Supervision Division, a total of **1135 entries of circumstances** were made in the public register kept by the FSC regarding the MC and the CIS.

In connection with the off-site supervision on the activity of the MC and the organized and the CIS managed by them, during the reporting period, **a total of 21 proceedings for the issuance of an individual administrative act were initiated for the enforcement of a coercive administrative measure** in relation to any established inconsistencies in the content of the documents submitted to the FSC with key information regarding investors of the CIS, for failure to comply with the obligation to publish on the MC's website six-month and annual financial reports for 2017 for the CISs managed by them, for failure to present to FSC the due reports under Art. 77n of the Public Offering of Securities Act, as well as in connection with other established discrepancies in the activity of the supervised entities with normative requirements. In view of the fulfillment of the obligations laid down in the operative provisions before the administrative act was issued, the open proceedings were terminated.

In the course of the off-site supervision, **26 inquiries and requests for opinions** from legal entities were examined, incl. governmental authorities, supervised entities, including foreign ones, as well as natural persons, in connection with the interpretation and application of relevant legal provisions regarding any investment restrictions, ex-post valuation of financial instruments, fees payable to the FSC, expressing opinions on the coordination of drafts of normative acts, etc., which were answered within the reporting period. Circulars were prepared and sent for some of the received queries and requests in order to maximize the awareness of the supervised entities and to impose a unified practice and approach in the implementation of the supervision.

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, **265 applications** for the updating of the webpage of the FSC were prepared during the reporting period, based on which a total of **2017 documents** were published, which were mainly prospectuses, documents with key information regarding investors and financial statements.

19 circulars were sent during the reporting period to the MCs requesting the companies to provide information and data on certain aspects of their activities in connection with the FSC's supervisory functions or to address the need to comply with the requirements of the applicable national and European legislation, as well as taking into account their activities with Guidelines of the European authorities that the FSC has accepted to implement in its activity.

Regarding the monthly balances of the CIS and in relation to the established need for a clear distinction between their investments in liquid and illiquid assets, according to the admissible amount, a change in the forms for financial reporting of CIS was made. After the validation of the new form, the information about the investments of the CIS is presented in a differentiated way, which will contribute to the tracking and early identification of risks related to the CIS's investment policy, the availability of investments in illiquid assets and respective compliance with the requirements for risk diversification.

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) in accordance with their operation. In this regard, during the reporting period, a **documentary audit** was carried out of the **3-year, 3 six-month and 9 quarterly** financial reports of the SWF regularly presented in FSC, as well as **6 inspections** of the information disclosed by the AIFM on a six-month basis. The information provided by the AIFM to the FSC was reported to ESMA through the dedicated platform created for this purpose.

In connection with the convening and holding of **general meetings of the shareholders of the three closed-end SWFs** in 2018, **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 **12 inspections** were performed on the notification presented by the liable persons under Art. 145 of the POSA.

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, **27 entries of circumstances** were made in the public registers of SWFs and AIFMs kept by the FSC.

In relation to the off-site supervision carried out on the activity of the MCs and the CISs managed by them, as well as on the activity of the SWFs and the AIFMs, a total of **82 acts were established during the reporting year for establishing administrative violations** in the activity of MCs and the CISs managed by them, as well as that of other collective investment undertakings.

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 2018, the effective exchange of information between the Financial Supervision Commission and BSE AD continued in connection with the companies which have failed to fulfill their statutory obligations or have been late to do so.

A **documentary examination of 5098 annual and quarterly** (individual and consolidated) financial statements as well as reports on the fulfillment 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 2018, 1051 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, **815 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 2018** of the information received regularly by the Central Depository AD and the notifications submitted to the Commission. Based on the received information, 32 ad-hoc inspections were carried out in connection with changes in major holdings in the equity of PCs and 11 violations were found, for which AEAJs were issued.

Part of the regulated information that the liable persons disclose to the Commission and to the public is the insider information pursuant to Regulation (EU) No. 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse that has been in force as of 3 July 2016. 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. 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. The **supervised entities made 1,485 disclosures using electronic forms for disclosure of inside information in 2018 that were analyzed in the course of the off-site supervision.**

There were **41 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. In 2018, all SPICs were also checked regarding the compliance with the conditions under which they were issued a license considering the circumstance that the non-compliance serves as grounds for revocation of the issued license.

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 fulfillment 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, **177 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, **75 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, 94 of these were **terminated.**

Pursuant to Art. 119 of the POSA and Art. 212, para. 1, item 10 of the POSA, inspections of the information available at the FSC were made and supervisory actions were under taken, as a result of which **a total of 44 companies were deleted from the register under Art. 30, para. 1, item 3 of the FSCA.**

In connection with the establishment of fees due for general financial supervision in 2018, 83 administrative proceedings were initiated to issue individual administrative acts to establish public debts to the State, of which 29 were terminated in the course of the proceedings. In 2018, 52 Acts of Established Public Debts to the State (AEPDSs) were issued. As of October 2018, AEPDSs are sent electronically to the NRA through a single platform for exchange of information on collection of public debts through which a total of 15 AEPDSs were sent stating the fees and charges for general financial supervision.

Through an independent module "E-REGISTER 1D" in the unified electronic system for receipt of information from the FSC developed and maintained by the Commission servicing the processes of acceptance and publishing of information by companies under Article 1E of the Supplementary Provisions of POSA as established to standardize and facilitate the process of provision of the required information by the obligated entities, its public disclosure and use by external users third persons, a total of **2948 applications for registration / deletion, title forms and reports** were received and processed in 2018.

During the reporting 2018, 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 **118**

responses were prepared to the persons or opinions under Article 28 of the Rules of the FSC in specific cases.

Insurance and reinsurance

The supervision activity, which the Insurance Supervision Division exercises over the activities of the supervised entities, consists in controlling their activity in compliance with the requirements of the Insurance Code, the acts for its implementation, as well as the acts of the European Commission implementing 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 (Solvency II).

The off-site supervision in 2018 is based on annual and periodic statements, 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, **679 off-site document inspections of insurers, reinsurers, insurance groups and Guarantee Fund and 789 off-site document inspections of insurance brokers were performed.** The reviewed information includes annual and periodic reports and statements from insurers, insurance groups and insurance brokers based in the Republic of Bulgaria that have been 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.

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 2018. An examination and verification of the solvency and financial condition reports submitted, the regular supervisory reports and the reports on the results of the assessment of the aggregate solvency needs presented by insurers and reinsurers were also carried out. As a result of the inspections carried out on the documents of an insurer, revaluation and recalculation of the financial indicators were made and deviations from the regulatory requirements for covering the Solvency Capital Requirement with eligible own funds were established. In connection with this, a coercive administrative measure under Art. 587, para. 3, item 11 in connection with Art. 215, para. 3 in relation to para. 1 of the IC was imposed on the insurer. As a result of the applied supervision measure, plan for recovering eligible own funds and limiting the risk profile to ensure compliance with the Solvency Capital Requirement that has been approved has been presented. In addition, in 2018 an insurer informed the FSC of an identified shortage of own funds to cover the Solvency Capital Requirement. In this regard, in accordance with the requirements of Art. 215, para. 1 of the Insurance Code, the insurer submitted to the Financial Supervision Commission an Own Funds Recovery Plan which has been approved and executed.

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 2018 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 2018, the reports on the results of the assessment of the aggregate solvency needs presented by insurers and reinsurers were also reviewed.

In addition, in 2018, off-site inspections were carried out on:

- the availabilities in the current and deposit accounts of a part of the insurers;

- the existence of burdens on bank accounts held by insurers during the same period, including distraints (imposed, enforced and lifted ones);
- separate categories of assets from the Solvency II balance sheet;
- compliance with the principle of the reasonable investor under Art. 124 of the IC;
- lending policies.

In connection with the off-site inspections for account balances and the existence of burdens on them, and due to established large amounts of distraints imposed, as well as in order to ensure the fulfillment of the obligations of an insurer to pay indemnities, a coercive measure was imposed. The same ordered the company to fulfill all of its obligations arising from enforced judgments and to submit to the Financial Supervision Commission, for a period of six months, weekly reports on all obligations under enforced court decisions, including all debts for which executive cases had been initiated.

The off-site supervision of insurers also included 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 summarized and published on the web page of the FSC.

By the end of each quarter of 2018, 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 2018, an **analysis of the Motor Third-Party Liability Insurance market was carried out, which is a technical analysis of the development of the market for the compulsory Motor Third-Party Liability Insurance** in the Republic of Bulgaria and aims at identifying the main market challenges related to this insurance.

For the purposes of the analysis of the adequacy of the FSC reserves, calculations were made to make comparisons on a comparable reserve base pursuant to the official data from the insurers' statements and reports under Ordinance No. 53.

Also, in 2018, an **analysis of the sufficiency of Motor Third-Party Liability insurance premiums** was carried out by the FSC. The analysis examines the sufficiency of premiums for each year of an event – gross premiums written, gross premiums earned, risk premium (expected final loss for each year of an event, respectively) and actual acquisition and administrative costs. The sufficiency of the premiums is considered both as a whole – for all insured vehicles by years and for each of the four risk groups individually, and as defined in Art. 92 para. 2 of Ordinance No. 53.

The results of the analysis of the market of compulsory Motor Third-Party Liability Insurance in the Republic of Bulgaria were published on the FSC's website.

In 2018, FSC **analyzed the effects of Interpretative Decision No. 1 of 2016, Sofia city, 21 June 2018, of the Supreme Court of Cassation of the Republic of Bulgaria on the final loss of insurers in respect of non-pecuniary claims under the Motor Third-Party Liability.**

In addition, in 2018, **in-depth inspections of some insurers were carried out regarding the amounts of the reserves put aside and reported in the FSC for incurred but unpaid claims on Motor Third-Party Liability insurance.** A comparison was also made between the data provided by insurers with data about the claims of the GF, as well as with the information on Green Card claims.

Actions undertaken by the FSC in connection with the activity of the insurers related to the Green Card system

On 03.11.2017, the National Bureau of Bulgarian Motor Insurers (NBBMI) informed the FSC that **the Management Board of the Bureau had decided to initiate a monitoring procedure against an insurer member of the Bureau, given the increased number of requests for guarantees under Art. 6 of the Internal Rules of the Council of Bureaux made to the Bureau and related to claims on Third-Party Liability Insurance policies concluded by the insurer.**

After the necessary inspections had been carried out, and in connection with the established non-compliance by the insurer with the two-month period for repayment of amounts owed to a foreign correspondent or a national bureau stipulated in the Internal Rules, **a coercive administrative measure was imposed on the company** on 22.03.2018. The measure ordered the insurer to pay all its obligations to the participants in the Green Card system within the required deadlines. In addition, the measure also introduced an additional 6-month monitoring by the FSC to follow up on the fulfillment of the insurer's obligations under the Internal Rules of the Council of Bureaux, the reasons for non-compliance with the envisaged two-month repayment period, and the persons responsible.

Given that until mid-2018 the number of requests for guarantees lodged with the Bureau, which are based on insurer's policies on Motor Third-Party Liability insurance, continued to increase, **the FSC took additional supervisory measures by issuing a decision on 30.07.2018 imposing a new coercive administrative measure to the company by which the Commission appointed a financial and actuarial inspection, as well as an inspection of the established internal organization in the insurer, which was to be carried out by independent auditor enterprises.** According to the measure, the auditors were instructed to establish the exact amount of the insurer's liabilities as of 30.06.2018 for each claim against the insurer arising from events occurring outside the territory of the Republic of Bulgaria, as well as the sufficiency of the technical reserves under these claims set aside by the insurer.

The report prepared by the auditors was received by the Financial Supervision Commission on 08.11.2018. However, the auditors stated that in view of discrepancies and non-conformities in the data of the insurer, the independent experts were not able to give specific data and conclusions about the company's obligations to the participants in the Green Card system and, accordingly, to make an accurate assessment of the financial situation of the insurer.

It should be borne in mind that within 2018 the insurer repeatedly stated in letters to the FSC that its failure to comply with payment deadlines in the Green Card system was due to problems with some of its former correspondents under Art. 4 of the Internal Rules of the Council of Bureaux. In this regard, the FSC sent letters requesting assistance to the relevant supervisory authorities and national "Green Card" offices.

In this regard, **the FSC opened an on-site inspection of the insurer with accumulated unpaid liabilities in the Green Card system.** As a result of the inspection, the company was given instructions to improve the organization in the insurer and to increase the efficiency of the management system so that the company would be able to fulfill its obligations within the required deadlines.

In addition, as a result of the inspection, **a coercive administrative measure was imposed, which obliged the insurer to set aside, update and recalculate the amount of the reserve for raised but unpaid claims on Motor Third-Party Liability insurance, which had to meet the obligations of the company to correspondents or to relevant foreign Green Card bureaus formed by requests for reimbursement received by the respective correspondent / national Green Card bureau in another state.**

In addition, **a coercive administrative measure was imposed on the insurer to order the company to reimburse to the NBBMI all the amounts** paid by the bureau on behalf of the insurer, to pay the amounts of the claims for guarantees within one month of their receipt, as well as to draw up a plan containing specific deadlines and measures for repayment of the insurer's obligations regarding the requests for reimbursements made by correspondents and national Green Card bureaus.

In addition, in order to identify and eliminate the problems related to the Green Card system, the FSC conducted an on-site inspection of the NBBMI, the findings and the actions undertaken being detailed in item 3.2. On-site inspections.

In 2018, participation was ensured at colleges of supervisors in which the FSC took part. 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 summarized 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.

Introduction of risk based supervision

In 2018, the Insurance Supervision Division developed systems of criteria for the categorization of insurance companies without the right to access the single market and with the right to access the single market according to their degree of risk and systemic significance. In this regard, **a manual for the supervisory review process with regard to the activities of insurance and reinsurance undertakings was established.**

The supervisory review process affected all activities that FSC performed in order to fulfill its obligations arising from the provision of Art. 582 of the IC, including the evaluation of the strategies, processes and reporting procedures of the insurance and reinsurance undertakings established by them in order to comply with the IC, the acts for its implementation, as well as the acts of the European Commission implementing Directive 2009/138/EC.

The supervisory review process comprises:

- the assessment of the qualitative requirements with regard to the system of management of the insurer or reinsurer,
- the assessment of the risks which the person concerned has faced or might face, and
- the assessment of the ability of an insurer or reinsurer to assess the risks it faces, taking into account the circumstances in which it carries on its business.

The purpose is to determine the way in which a risk based, future-oriented and proportionate supervisory approach is achieved within the supervisory review process.

The manual describes the scope of the supervisory review process and the actions that are considered relevant. The manual provides for both an impact assessment and a risk assessment for each undertaking when receiving periodic statements, accounts and reports.

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 2018, **6972 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 2018**, 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 analyzed on the basis of the information in the financial statements and reports. The statutory indicators are used to monitor the lawful implementation of PIC activities on a monthly basis. The statutory indicators are capital adequacy of PIC, liquidity of PIC and 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 return for SMPF. The growth of assets and insured persons in the SPF, the investments and the rate of return of the pension funds are analyzed on a monthly basis. The general financial indicators are calculated and analyzed 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, rate of return 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, and, as of 19.11.2018, of Ordinance No. 61 of 27 September 2018 on the requirements for advertising and written information materials and the web pages of 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 (mainly secured corporate bonds) in SPF portfolios, the overdue receivables from bond issues and investment properties as well as the capital adequacy of some PICs.

A draft Manual for the implementation of risk-based supervision on pension insurance companies and supplementary pension insurance funds managed by them was developed in 2018. Over the course of the year, the draft Manual underwent a number of amendments and supplements, both as a result of further analyzes and on the basis of the preliminary implementation of some of the procedures in the Manual, in order to monitor their performance in practice. At the end of 2018, the Manual was approved, which marked the beginning of the actual implementation of the risk-based supervision of the PICs' activities and the SPFs managed by them.

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 specialized 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 inspections, 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 2018, three inspections of investment firms, two inspections of branches of foreign investment firms licensed to carry out investment intermediation activity in another EU Member State, as well as one inspection of an investment firm were opened to check for compliance with certain provisions of the Law on Measures against Money Laundering and Ordinance No. 38 on the requirements for the activities of investment intermediaries. **The three 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 30 administrative violations. Another of the cited scheduled inspections ended with the revocation of the investment firm's license. **The two inspections of branches of investment firms licensed by a national competent authority of another Member State were ad-hoc ones**. As a result of the two inspections mentioned, it was established that for one branch of a foreign investment firm there were no clients, the activity of the branch consisted in carrying out activities supporting the services offered by the investment firm. Regarding the inspection of the other branch of an investment firm, it was established that there was no entry of a foreign trade agent of the latter in the Commercial Register and the Register of NGOs with the Registry Agency, and in accordance with the findings of the two inspections, the respective national competent authorities were informed.

All comprehensive inspections of investment firms 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.

Collective investment schemes, management companies, and other collective investment undertakings

The purpose of the inspections of the management companies (MCs) and the collective investment schemes managed by them (CISs), as well as the national investment funds (NIFs) and the persons

managing these funds (AIFMs), is to establish the compliance of the applicable regulations regarding the organization of the activities of the management companies according to the license issued to them by the FSC and in relation to the CISs organized and managed by them, incl. contractual funds (CFs), as well as in terms of the activities of the SWFs and the AIFMs. 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. Regarding the SWFs and the AIFMs, the subject of the inspections was the compliance with the requirements related to the storage of the SWFs' financial assets in a depository institution and the relations with the investment firms, the structure of the assets and liabilities, the valuation of the assets in the portfolio and the determination of the net asset value, as well as the disclosure of the information required by the SWFs and the AIFMs. In the cases where the MC provides additional services under Art. 86, para. 2 of CISOUCA, 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 was 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 and AIFMs were among the entities obligated to comply with these regulations.

During the reporting period, **1 thematic inspection of the MC and the CF managed by it** was opened and completed. 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. As a result of the MC's inspection, **8 recommendations** were made in order to bring the activity in line with the applicable legal requirements in the field of anti-money laundering measures.

During the reporting period, **1 scheduled comprehensive inspection of a MC and the 4 CISs managed by it** was completed, which was opened in 2017. Separately, **2 scheduled comprehensive inspections of the MCs and of the total of 11 CISs and 1 SWF managed by them** were opened with a view to establishing compliance with the applicable legislation in respect of their activities. One of the inspections was completed within the reporting period. As a result of the on-site inspections of the MCs and the CISs managed by them, there were grounds/reasons for issuing **48 recommendations**, in view of achieving compliance with the applicable regulatory requirements.

In the course of the comprehensive scheduled inspection of the MC opened and completed in the year 2018, a total of **8 acts for the establishment of administrative violations were drawn up**.

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 securitization of real estate or securitization of receivables. In this regard, the inspection encompasses on one hand the operations of the company as a SPIC and on the other, the fulfillment 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, **1 scheduled comprehensive inspection of SPICs and its servicing company was opened and completed** examining their overall activities in the last two years. Due to the established inconsistencies with normative requirements of the audited SPIC, a total of **2 proceedings for issuing individual administrative acts were opened**. In view of the fulfillment of the obligation stipulated in the operative part of one of the measures before the issuing of the administrative act, **one** of the proceedings was terminated and the second one was concluded with the issuance of an individual administrative act. The enforcement measure was not implemented, and actions in this regard were undertaken in the following reporting period.

During the on-site inspection of SPICs performed in 2018, inconsistencies were found in their operations, for which the companies were issued **15 recommendations**, in view of achieving their compliance with the applicable regulatory requirements.

As a result of the inspection, a total of **8 acts for established administrative violations were issued during the reporting period**.

Insurance and reinsurance

In total, 5 on-site inspections were carried out in 2018 – 4 inspections of insurance companies and 1 inspection of the NBBMI.

The inspections of the insurance companies were carried out jointly with employees of the State Agency for National Security. The subject of the inspections was the compliance with the provisions of the IC, its implementing acts, as well as the European Commission's acts implementing Directive 2009/138/EC and the presence or absence of circumstances related with national security threats with regard to any danger to the economic and financial security of the state.

As a result of the inspections carried out, besides the measures described in item 3.1. Off-Site Supervision and related to the activities of the insurers under Green Card, supervisory measures were imposed related to the following:

- inspecting and correcting the information submitted to the GF on the submitted and paid claims on the Motor Third-Party Liability insurance, as well as establishing the necessary internal organization in the respective insurer in a manner which will ensure the compliance with the requirements of Ordinance No. 54;
- submitting corrected reports to the FSC;
- performing an inspection for impairment of reported receivables by regressions;
- a ban on the termination of compulsory third-party liability insurance policies on the grounds of an increased risk and unannounced circumstances, except in the cases permitted by law;
- strict observance of the terms for settlement of insurance claims;
- for some of the above measures a requirement was introduced for additional reporting by insurers so as to follow up the implementation of the measures and to put an end to the detected law violations.

The subject of the inspection of the NBBMI was the organization and operation of the Bureau and, in particular, their compliance with the provisions of the Insurance Code, the Internal Rules of the Council of Bureaux and the Statute of the NBBMI.

As a result of the inspection carried out, the Bureau received the following recommendations and instructions:

- on accounting policies and reporting;

- to introduce an appropriate unified information system for registering and processing of claims;
- to establish an effective operational control mechanism regarding compliance with the deadlines for the implementation of the individual stages of the processing of claims;
 - to examine the requests for guarantees that had been received for their compliance with the Internal Rules of the Council of Bureaux and the merits of reimbursement claims and guarantee calls received by the NBBMI from foreign national bureaux and their compliance with the terms of the Internal Rules of the Council of Bureaux;
 - to establish a reliable mechanism for timely communication between the NBBMI and its members with regard to the lodging, consideration, appeal and settlement of a guarantee call, in order to avoid mistakes and double payments;
 - to actively defend the interests of its members before the Council of Bureaux and its bodies and members by communicating the disputes and problems that arise with the affected Green Card participants in due time, providing the necessary assistance to resolve them.

Insurance intermediaries

In 2018, a **total of 64 inspections of insurance intermediaries were carried out** – of documents and on-site. Of all the inspections carried out during the reporting period, 38 inspections were carried out on site, 32 of them scheduled and 6 ad hoc, 26 documentary inquiries, of which 20 thematic and 6 due to complaints and alerts received.

The comprehensive inspections of the activity of insurance intermediaries include monitoring the compliance with the requirements of the Insurance Code (IC) and its implementing instruments and prevention of offenses, checking the distribution of insurance products and the persons offering and comparing such products. The scope of the inspections includes monitoring the requirements to guarantee the activity and the deadlines for reporting the insurance premium collected by the intermediaries, etc.

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, as well as the support of the compulsory professional liability insurance by insurance brokers.

To establish **the maintenance of compulsory professional liability insurance of insurance brokers** and to submit notifications on the newly concluded compulsory insurances, in connection with the requirements of Art. 311, para. 2 of the Insurance Code, inspections were carried out of **392 insurance brokers**. As a result, 8 AEAVs were drawn up for violation of Art. 311, para. 2 of the IC and 2 AEAVs for violation of Art. 305, para. 1 of the IC. As a result of a letter from an insurer submitted to the FSC, it was established that **11 insurance agents have two or more concluded contracts for an insurance agency for the same class of insurance**. 11 AEAVs were drawn up for violation of Art. 315, para. 1 of the IC.

During the reporting period, **6 inspections were carried out on received complaints and signals** related to possible violations of the IC provisions.

As a result of the **inspections of insurance intermediaries performed throughout the year 51 acts were issued for a total of 105 administrative violations, as well as 72 acts for violations by insurance brokers** resulting from delayed submission of reports and statements or lack thereof.

The most common violations were related to non-compliance with the following statutory requirements:

- the transfer in favor of the insurer of the premium received or an insurance installment within the statutory terms;
- the maintenance of compulsory professional liability insurance by insurance brokers;

- the settlement of the relationship between the insurance broker and the users of insurance services under a contract, when concluding insurance contracts on voluntary insurance;
- the issuance of a document from the intermediary (a receipt or a voucher of paid insurance premium) certifying the receipt of the payment by the user of the insurance services;
- the provision of pre-contractual information to the users of insurance services by insurance intermediaries prior to the conclusion of the insurance contract;
- the performance of an activity as an insurance broker or an insurance agent by persons not registered as insurance intermediaries;
- the provision of rights to persons who are not agents of the broker to engage in the sale of insurance products and the collection of insurance premiums or contributions, including by providing access to an information system of an insurer or providing a form for issuing a policy or collecting a premium or an installment.

Supplementary pension insurance

6 on-site inspections were opened in 2018, with 5 inspections being completed during the reporting period. Four of the five inspections carried out include protocols of findings issued in 2018. The sixth inspection opened in the reporting year was completed in 2019.

Thematic scheduled inspections on the activities of the PIC and the SPFs managed by them were **opened in 3 pension insurance companies**. In two of the inspections in the PIC, the subject of supervision was the observance of the provisions of the SIC and the secondary legislation on its application with regard to the company's revenue and expenditure, the capital base and the minimum liquid assets of the pension insurance company, and in the third one – the activity of the company and the SPFs managed by it in relation to compliance with the provisions of the SIC and the regulations for its implementation regarding the risk management, investments, receivables and liabilities of the managed pension funds. **Three inspections of the custodian banks of the SPF were carried out together with the Banking Supervision Department of the BNB.**

A total of 35 recommendations were made to the management bodies of the pension insurance companies in the prepared findings reports as a result of the thematic inspections opened in 2018 to improve their activities.

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

3.3. Law enforcement

In 2018, **with regard to the investment community, 432 acts for established administrative violations (AEAVs) were drawn up and served**. The tendency of the previous reporting period to increase the number of drawn up acts for the establishment of administrative violations was maintained. The increased number of AEA Vs compared to the previous year was due to the increase in the efficiency of the off-site and on-site inspections of the supervised entities. The majority of the infringements (271 AEA V) was related to the activities of public companies (PCs) and other issuers of securities, SPICs and investment firms (IFs).

The Deputy Chairperson of the Financial Supervision Commission in charge of the Investment Activity Supervision Division **issued 252 penal warrants (PWs) in 2018**. They imposed sanctions **amounting to BGN 1,740,500 for 321 violations committed**. Of the PWs issued in 2018, as of 30.03.2019, 105 were into force imposing sanctions amounting to BGN 574,000. 128 PWs for 185 committed violations which

imposed sanctions amounting to BGN 1,102,000 were undergoing a procedure of appeal. **The value of the PWs in force in 2018 that had been issued by the Deputy Chairperson of the FSC in charge of the Investment Activity Supervision Division amounted to BGN 6,536,400**, the majority of which were PWs issued in previous years.

In 2018, **144 complaints were received against acts PWs of the Deputy Chairperson of the FSC in charge of the Investment Activity Supervision Division.**

The **coercive administrative measures (CAMs)** imposed during the reporting period were mainly related to **regime for disclosure of financial reporting information – 22 measures** (or failure to provide financial reporting information to the FSC and to the public), and for **violations of the regime for convening and conducting GMS as well as for the final suspension of the sale of securities to public companies - 53 decisions for enforcement of CAMs** 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 were presented, 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, lack of a specific proposal for a decision included in the agenda by the Board of Directors; inaccurate and incomplete reasoned report to the authorized decisions or absence of materials under decisions included in the agenda, as well as the final suspension of the sale of securities with a view to the subsequent deletion of public companies from the register of the FSC.

In 2018, **in the course of the supervision of the investment firms, 5 CAMs were opened and imposed**, one of which was related to the revocation of the license of an investment firm and the appointment of a quaestor of the company. The remaining 4 CAMs were imposed to settle the relationship between an investment firm with a revoked license and its clients.

In 2018, 948 AEAJs were drawn up to persons supervised by the Insurance Supervision Division. **A total of 1,464 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 2018, **the Deputy Chairperson of FSC, Head of the Insurance Supervision Division** imposed a total of **895 penal warrants** were issued, imposing **penalties amounting to a total of BGN 2,607,500** for violations under the IC and the regulations for its implementation.

The total amount of **sanctions under PRs enforced in 2018 issued by the Deputy Chairperson of FSC, Head of Insurance Supervision Division**, including new penal resolutions issued during previous years, **was BGN 2,243,500**. The main part of the amount (BGN 2,162,500) is formed by enforced penalty resolutions resulting from the administrative and penal liability of non-life insurance companies.

During the reporting period, **112 coercive administrative measures** were instituted against (re-)insurers and insurance intermediaries, as a result of non-taking of the respective actions by the supervised entities, **48 coercive measures were implemented.**

A total of **397 complaints were received against acts of the Deputy Chairperson of the FSC, Head of the Insurance Supervision Division in 2018**. Of them, 394 of were against issued PRs, and three were against individual administrative acts issued by the Deputy Chairperson of FSC, Head of the Insurance Supervision Division.

In 2018, **15 acts were issued for established administrative violations (AEAJs)** of the provisions of the Social Insurance Code (SIC) and the secondary regulations on supplementary pension insurance, one of the AEAJs being issued to a legal entity which was not a PIC. **The penal warrants issued were 3**, with

pecuniary sanctions amounting to BGN 30,000. The comparatively small number of the compiled AEAVs and the issued PWs is due to the preventive effect of the fines and penalties imposed during the previous reporting periods which have educational, warning and dissuasive effect on the persons.

Two of the PWs issued during the reporting year were appealed, and by the end of 2018, the FSC did not receive any information regarding their enforcement, the third PW was not appealed and entered into force, which led to a pecuniary sanction **amounting to BGN 10,000**. In 2018, 4 penal warrants also **entered into force**, which were issued during previous years, and the fines and pecuniary sanctions imposed under them amounted to **a total of BGN 40,000**.

14 coercive administrative measures were implemented to pension insurance companies during the reporting period. With thirteen of the implemented coercive administrative measures, **the pension insurance companies were obliged to accept applications for change of participation of insured persons**, and with one – **to submit, on the grounds of Art. 100a, para. 2 of the Public Offering of Securities Act, a request for an issuer to buy back corporate bonds issued by them**. The coercive administrative measures were implemented by the pension insurance companies within the set deadlines.

In 2018, **two complaints were received against PRs of the Deputy Chairperson of the FSC, Head of the Social Insurance Supervision Division**.

Table 16. Enforcement in 2018

	Executed AEAVs	Issued PRs*	Value of enforced PWs** (BGN)	Proceedings opened under CAM	Decisions for implementation of CAM***
Investment firms, central securities depository and BSE	81	49	217,000	5	5
CIS, MC, SPIC, PC and other issuers	310	189	6,314,400	199	75
Non-life insurance companies	874	848	2,199,500	111	47
Life insurance companies	4	7	7,000	1	1
Insurance brokers	57	36	59,000	-	-
Insurance agents	9	9	10,000		
Guarantee Fund, NBBMI	1	-	-	-	-
Pension insurance companies / their representatives	14	3	50,000	-	14
Other legal entities and natural persons	45	31	70,000	1	1

Notes: * The number of PWs issued in the reporting year includes both PWs issued on the basis of AEAV of the same year and PWs issued on the basis of AEAV during the previous year. This is due to the fact that the deadline for issuance of a PWs 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 PWs in 2017 also includes the PWs 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, 22 PWs were also issued by the Chairperson of FSC for violations under SPICA as well as **for obstruction of the Commission**, its bodies and duly authorized employees of its administration while exercising their supervisory powers (**violation of Article 32 of the FSCA**). **The total value of the sanctions imposed by the 5 PWs issued by the Chairperson of the FSC under the Special**

Purpose Investments Act, was BGN 30,000, all of which were in respect of a special purpose investment company(-ies). Under **Art. 32 of FSCA, a total of seventeen PWs were issued, imposing penalties amounting to BGN 34,000**, including seven PWs valued at BGN 14,000 to an investment firm, 2 PWs amounting to BGN 4000 to an issuer of securities, and 8 PWs amounting to BGN 16,000 to a non-life insurance company. **The total amount under the 13 PWs issued by the Chairperson of FSC and enforced in 2018, including PWs issued during previous years, was BGN 97,000.** For the reporting year 2018, there were 2 PWs canceled by the court for a total amount of BGN 10,000, issued by the Chairperson of the FSC. The total value of the PWs issued by the Chairperson of the FSC, including the PWs issued in previous years, which at the end of 2018 were in the process of appeal, amounted to BGN 88,000.

Investment firms, central securities depository and regulated markets

In 2018, the highest number of violations was established in connection with the deposit of cash of clients contrary to the requirements provided in Art. 34, para. 3 of the MFIA /repealed/. **21 violations were reported for the period under review in connection with the deposit of client assets, for which penalties were imposed amounting to BGN 105,000.** There were also a large number of violations (228) in connection with transfers of funds in connection with the provision of investment services to a payment account where the client was not a holder (Art. 26a, para. 9 and Art. 26b, para. 3 of Ordinance 38).

Collective investment undertakings

In 2018, **with regard to the management companies, a total of 80 AEAJs** were drawn up and served for 80 administrative violations. The main part of the violations committed were related to incompleteness in the annual financial statements presented by the companies.

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

During the reporting period there was a significant increase in the number of AEAJs issued concerning infringements by public companies and issuers of securities. In view of the fact that for a large number of companies the established violations were committed for the first time, and taking into account the fact that, until the completion of the administrative penal proceedings, the companies had fulfilled their obligations, albeit late, 61 of the initiated proceedings were terminated on the grounds of Art. 28 of the Administrative Violations and Penalties Act. The offenders are warned that upon repeated administrative misconduct they would be subjected to administrative criminal liability.

The trend remained that **the main offenses committed by public companies and other issuers of securities were related to the failure to provide or with the delay of the provision to the FSC, the BSE or the public of the regulated information stipulated in the Public Offering of Securities Act**, a major part of such violations being related to established incompleteness in the presented annual financial statements. Another substantial part of the violations related to the non-fulfillment of the obligations to provide notifications on the financial condition of the companies, as well as the six-month financial statements of the same.

Table 17. Most frequent violations in the sphere of PC, SPIC and other issuers of securities in 2018

Type and basis of the violation	Executed AEAJs	Issued PRs*
Failure or delay of submission of annual financial statements on the activities of the PCs and the issuers, as well as with inaccurate content (Art.	109	33

100n, para. 1 of the POSA)		
Failure to provide regulated information on a quarterly or six-month basis (Art. 100o and Art. 100o ¹ of the POSA)	23	36
Failure to convene a regular annual general meeting of shareholders by the end of the first six months of 2018, as well as failure to present the invitation and the materials thereto on the website of the company and to the FSC or failure to submit present the minutes of the GMS (Article 115 and Article 117 of the POSA)	15	15

Note: * The number of PWs issued in the reporting year includes both PWs issued on the basis of AEAV of the same year and PWs issued on the basis of AEAV during the previous year. This is due to the fact that the deadline for issuance of a PWs 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 and reinsurance

In 2018, 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 Art. 108 and Art. 496 of the Insurance Code, for which a total of 649 AEAVs were issued.** A large number of **violations of Art. 311 of the IC for failure of insurance intermediaries to submit reports within the statutory terms.** For these violations, 38 acts were issued, establishing 41 violations of Art. 311 of the Insurance Code.

Table 18. Most frequent violations in the sphere of insurance and reinsurance in 2018

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 (Art. 108, para. 1 of the IC)	591	546
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 Motor Third-Party Liability insurance (Art. 496, para. 2 in connection with para. 1 of the IC)	58	62
Failure to provide a response to a claim by a beneficiary of insurance services (Art. 290, para. 2 of the IC)	40	43
Incorrectly determined insurance compensation under a Motor Third-Party Liability insurance (Art. 20, para. 2 of Ordinance No. 49 of 16 October 2014)	37	43
Failure to provide the thematic financial statements and reports by the insurers within the statutory deadlines (Art. 126, para. 1 of the IC)	28	35
Failure to provide statements within the statutory terms (Art. 311 of the IC)	38	22

Note: * The number of PWs issued in the reporting year includes both PWs issued on the basis of AEAV of the same year and PWs issued on the basis of AEAV during the previous year. This is due to the fact that the deadline for issuance of a PWs 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

The predominant number of AEAVs (11 out of 15) drawn up in 2018 was for violations of the provision of Art. 121, para. 6, item 2, proposal 2 of the Social Insurance Code, in relation to the relevant provisions in the regulations for the organization and operation of the supplementary pension insurance funds, listing the types of assets in which funds of the respective fund may be invested. The acts were

drawn up for established investments in assets authorized by CIS but missing in the relevant provisions of the regulations on the organization and operation of the supplementary pension insurance funds.

3.4. Market abuse

The regulatory framework stipulating market abuse encompasses both national legislation – the Implementation of the Measures against Market Abuse with Financial Instruments Act and directly applicable European legislation – Regulation 596/2014 on market abuse 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.

As a result of the inspections, **a total of 14 acts for established administrative violations (AEAVs) were issued in 2018, which established a total of 47 violations of Regulation 596/2014.** During the reporting period, **a total of 23 PWs were issued for market manipulations, imposing administrative penalties amounting to BGN 456,000** in respect of violations of Regulation 596/2014.

Table 19. Most common violations related to unfair trading in securities, market abuse, inside information and insiders in 2018

Type and basis of the violation	Executed AEAVs	Issued PRs*
Market abuse related to the manipulation of the financial instruments market (Art. 15 of Regulation 596/2014)	11	16
Market abuse related to the disclosure of insider information (Art. 17 of Regulation 596/2014)	1	1
Market abuse in connection with failure to notify the FSC and/or the issuer of a transaction in financial instruments (Art. 19 of Regulation 596/2014)	2	6

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

4. Activities of the FSC for resolution of investment firms

The Financial Supervision Commission in its capacity as an authority for the resolution of investment firms under Art. 1, para. 1, items 2 – 7 of the Recovery and Resolution of Credit Institutions and Investment Firms Act (RRCIIFA) as proposed by the member of the FSC, exercises its functions for resolution of investment firms on an individual and consolidated basis, supported by a single structural unit. The scope of the RRCIIFA covers investment firms that carry out transactions at their own expense with financial instruments and perform services related to underwriting of issues of financial instruments

and/or offering financial instruments for initial sale under the terms of an unconditional and irrevocable obligation to subscribe / acquire the financial instruments at their own expense, as well as those that store and administer financial instruments on behalf of clients, incl. perform custodian activity and related services.

In 2018, in accordance with the European Commission's Delegated Regulation (EU) 2015/63 of 21 October 2014³³, the FSC as a Resolution Authority determined the annual contribution to the Investment Firms Resolution Fund (IFRF) in accordance with Art. 102, para. 1 of Directive 2014/59/EU following the model set out in Art. 4 of that Regulation. 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 IFRF for 2017, the total amount and the individual annual contributions for 2017 to the IFRF of the investment firms as per Art. 1, para. 1, items 2 – 7 of the RRCIIFA in accordance with the methodology stipulated in Delegated Regulation (EU) 2015/63.

By decision of the FSC dated 29 March 2018, according to the requirements of Art. 138, para. 2 and Art. 139, para. 4 of the RRCIIFA, the target level was determined of the Investment Firms Resolution Fund – BGN 101,278 and the total amount of the annual installments for 2018 for investment intermediaries licensed in the Republic of Bulgaria and branches of third countries covered by the RRCIIFA at the amount of BGN 37,160.77. Pursuant to Art. 139, para. 2 of the RRCIIFA and on the basis of the requirements of Art. 10 of the Delegated Regulation (EC) 2015/63, the FSC decided on 16 April 2018 to determine individual annual installments for 2018 for each full-license investment firm amounting to EUR 1000 (equivalent to BGN 1955.83). According to Art. 7, para. 3 of the RRCIIFA, a review of adjusted recovery plans for investment firms covered by the RRCIIFA was carried out and recommendations were made to change the plans in order to identify any obstacles and actions that may adversely affect the possibility of restructuring them.

In 2018, pursuant to Art. 3, para. 3 of the RRCIIFA, the FSC reviewed, with a view to updating the unit's internal rules of operation in relation to the exchange of information with other structural units in the FSC and with other authorities, as well as the rules keeping professional confidentiality.

The FSC organized the review, analysis of the Guidelines on minimum criteria to be met with respect to the business reorganization plan (EBA/GL/2015/21) adopted by the European Banking Authority and agreed to follow these guidelines in its supervisory activities.

In connection with an adopted action plan including measures to implement the Republic of Bulgaria's intentions to join ERM II and the Banking Union, the FSC took part in the public discussion of the law amending and supplementing the RRCIIFA and proposed changes in order to regulate the powers of the FSC as a national authority for the restructuring of investment firms within the meaning of Regulation (EU) No. 806/2014 establishing uniform rules and a uniform procedure for the restructuring of credit institutions and certain investment firms within the single mechanism for resolution and the Single resolution fund in the RRCIIFA. With regard to the establishment of close cooperation with the European Central Bank and an assessment of the need to transfer the funds accumulated in the Investment Firms Resolution Fund, a communication with the Single Resolution Board was launched.

5. Protection of the consumers of non-bank 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. The Financial Supervision Commission is the institution whose statutory

³³ Commission Delegated Regulation (EU) 2015/63 of 21 October 2014 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to ex ante contributions to resolution financing arrangements

obligations and powers include the protection of the rights of users of non-banking financial services (investors, insured persons and secured persons).

Therefore, the Financial Supervision Commission is also the only state institution that, since its establishment in 2003, has set a policy of financial literacy for the public as one of its main priorities in this respect. For its fifteen years of existence, the FSC has established a tradition in the realization of this priority.

The protection of users of financial services is provided in two main ways: through regulatory and supervisory activities, as well as through financial literacy of the society. In 2018, the FSC carried out 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 good business practices with the purpose of ensuring equal treatment of consumers and provision of access to sufficient, clear and unbiased information. In view of the financial literacy, during the year, the FSC implemented a series of educational initiatives aimed at enhancing the financial culture and creating prerequisites for an informed choice in the selection of financial services by the consumers.

5.1. Access to financial information

The provision of information on the activities of the Commission and the non-banking financial sector by the FSC was carried out through various communication channels – through publications on the two websites of the Commission, organizing media campaigns, participation in the media and providing information to citizens and supervised entities through the Information Center. These activities were complemented by the participation of the FSC management, as well as experts, in various forums, round tables and meetings, enabling the sharing of financial information and the familiarization with good practices and examples.

The Financial Supervision Commission is presented through its institutional website www.fsc.bg, as well as through the financial literacy internet platform Your Finances – www.tvoitefinansii.bg.

Institutional page of the FSC – www.fsc.bg.

The website provides updated information on the regulatory and supervisory activities of the FSC, on the measures undertaken by the Commission for the financial stability of the non-banking financial sector. Information is also published for the supervised persons – statistics, reports, capital amount and other essential information about the activity of all supervised entities.

In 2018, on the FSC's website, a total of 1072 materials were published, of which 211 news articles, 13 notices, 75 statistics, 769 resolutions, 31 approved prospectuses, 12 newsletters and tens of other materials in various sections.

As a transparent institution working towards financial literacy and consumer protection, new menu items were created in the sections For Users, Useful Information, Financial Innovation. New sections were also added – Out-of-Court Dispute Resolution and FAQ in the For Users section. They provide useful information to users on how to resolve disputes out of court. New subcategories were created – Questions and Answers related to the Insurance Company Olympic, and Warnings for Users.

In connection with the Financial Technology Monitoring Strategy (FinTech) in the non-banking financial sector (2018 – 2020) adopted by the Financial Supervision Commission, an section dedicate to FinTech was developed and presented in the online space. As part of this direction towards innovation, the Innovation hub, accompanied by a published application form, was launched on 17 December 2018. The idea of the Innovation hub was to provide a single point of interaction between the supervisory authority and the respective applicant company in order to promote innovation in the non-banking financial sector and to protect the interests of users.

In the field of insurance, periodic updated were carried out of the lists of Bulgarian and foreign insurers and insurance brokers, the insurers and insurance intermediaries from the EU Member States that had informed the FSC they wish to carry out 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. 44 insurance statistics were published as well.

For the supplementary pension insurance, regular quarterly statements, statements of the rate of return 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, materials for the funds accumulated in the supplementary pension funds were summarized in 17 publications during the year. In the field of the financial market, a 5 summary materials were published about the average number of transactions with share issues allowed to trading on the Bulgarian Stock Exchange.

Regulatory documents from the European legislation, directives of the European Parliament and Council of the European Union, regulations and decisions of the Council and of the European Parliament were published in the European Affairs section.

Through the e-portals, which are located on the FSC's website, participants in the non-banking financial sector submitted the information required by the Commission – statements, reports, etc., signed with an electronic signature. The information submitted through the e-modules was presented to the public through the public register which is accessible on the website under the “Electronic Register and chart (ERiK) and News from e-Register subsections.

FSC updates all of its sections on its website on a regular basis in order to inform consumers, supervised entities and all stakeholders in the country and abroad.

The FSC's website Your Finance – <http://www.tvoitefinansi.bg>

The website Your Finances was designed to better serve financial services users and familiarize them with the main definitions in the three supervisory sectors implemented by the FSC. The materials to be published are educationally oriented, and polls are developed that take into account the level of financial literacy as well as materials for changes in regulatory requirements in an accessible language. In 2018, all the information on the site was updated and current materials were published to inform and protect consumers of financial services. An online portal will be created where users will be able to ask questions. Direct online communication with the different target groups will be carried out, as well as receiving feedback and taking appropriate action.

Information Center

In 2018, activities to promote the Information Center for the Citizens and the Business launched in 2017 were carried out. An awareness campaign was conducted focusing on the essence and benefits of the existence of the Information Center, namely the realization of a personal communication with users of financial services and with the business, with a view to the quick provision of timely and up-to-date information. Every day, the Information Center received inquiries, both written and on-site in the Commission's building, covering all three areas of the non-banking financial sphere, which were processed in a qualitative and timely manner. Every month, a quantitative and qualitative analysis of inquiries was made – by market and by topic. The total number of phone and email inquiries received in 2018 were 5223, and on-site visits were more than 160. Phone inquiries by month were 400 in January, 232 in February, 251 in March, 404 in April, 397 in May, 405 in June, 783 in July, 677 in August, 342 in September, 500 in October, 483 in November, and 349 in December. Most often interested parties sought information and assistance in relation to unpaid benefits from insurance companies, the possibility of obtaining dividends from former privatization funds, opportunities for acquiring legal capacity as an investment consultant and broker of financial instruments. The most common questions of the business were related to reporting in

e-portals, as well as to the requirements and procedure for setting up an insurance broker. The Information Center continues to develop towards better communication with external audiences and to enhance the Commission's image as an institution responsible to financial services users.

Another initiative aimed at financial services users was the updating of the FSC's Program for the Protection of Consumers of Non-banking Financial Services and the Improvement of Financial Literacy (2018-2020), which was published on the institution's page on 29.06.2018.

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

The Chairperson and Deputy Chairpersons of the FSC took part in all significant forums in the field of finance, organized in 2018.

In 2018, FSC's Chairperson Karina Karaivanova opened the largest forum of the investment community in Bulgaria and the region – Investor Finance Forum, on 30 November 2018. It focused on rising investments in FinTech companies and the transformation of financial technologies into strategically important ones for the capital markets, indicating that the FSC built the so-called Innovation hub to better meet the requirements of the investment community.

In order to improve the image of FSC and its positioning in the public space as a serious and effective institution, several initiatives were organized, one of which was the celebration of the 15th anniversary of the Commission. On 1 March 2018, the FSC's Chairperson celebrated the anniversary by bringing together all the previous chairpersons who managed the Financial Supervision Commission in its short but dynamic history – Apostol Apostolov /2003-2009/, Petar Chobanov /2009-2010/ and Stoyan Mavrodiev /2010-2016/. For the first time in the history of the FSC, all the chairpersons gathered together and each of them shared their experience as head of the regulator.

Other image initiatives were the organization of a cultural program for the participants in the ESMA's Board of Supervisors' meeting on 23 March 2018 and the organization of a cultural program for participants in the EIOPA Strategy Day on 29 May 2018.

In 2018, a procedure for creating a logo of the Commission was also organized, which began on 19 March 2018 with the launch of a logo competition.

Vladimir Savov, a member of the FSC, but also the FSC's deputy chairperson in charge of the Insurance Supervision Division from 21.08.2018, participated in numerous financial forums and round tables throughout the year. He also opened the 20th Annual Financial Forum Digitalization – a catalyst for the modernization of the financial sector on 12 April 2018 at the Sofia Event Center.

Media communications

More active communication with the media began, using a variety of channels to inform financial services users and to increase public confidence in the Commission's activities. More than 150 expert opinions, references and answers were provided to the media for topical questions asked by consumers, journalists, analysts, students, etc.

Several information campaigns were carried out in 2018, in connection with which a number of concrete actions were undertaken. In relation with the case with the Insurance Company Olympic and the decision of the FSC to enforce a coercive administrative measure against Insurance Company Olympic – Bulgaria Branch, which imposed a ban on the conclusion of new insurance or reinsurance contracts on all classes of insurance, a series of information messages were published, interviews were organized, and a press conference was held on 17 August 2018.

The other case that caused great public interest was the bonus-malus system. A number of interviews were organized and a wide public discussion was held at the National Palace of Culture on 3 December 2018.

In 2018 an active media campaign was carried out in connection with the "fake" investment firms who were not allowed to offer investment services in Bulgaria. There were numerous performances in the electronic media and publications on the page. A media campaign was also carried out in connection with the ban on binary options by ESMA. Both of the FSC's campaigns found a broad public response.

In 2018, the FSC prepared two issues – a FSC Bulletin (twelve regular issues) and the Annual Report of the Financial Supervision Commission for 2017 summarizing the activities of the supervisory institution and reflecting the state of the non-banking sector in Bulgaria in 2017.

The FSC's monthly bulletin summarized the information on the activities of the Commission in relation to the legislative activity, the decisions of the FSC, the decisions of the deputy chairpersons and all the entries during the month. The bulletin is issued in electronic form in the middle of each month, summarizing information for the previous month, and is published on the Commission's official website.

In 2018, 14 applications were received at the FSC under the Access to Public Information Act (APIA), 3 of them being submitted by citizens of the Republic of Bulgaria, 2 by companies and 4 by non-governmental organizations. All of them were dealt with in time, 8 of which were provided with information, 3 were forwarded to other institutions, and 3 received a refusal to provide information.

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

Consumer protection policy is an element of the EU's single internal market and is an important area of the European Commission's work. The European Consumer Policy for 2014-2020 with set benchmarks was formulated in Regulation (EU) Regulation (EU) No. 254/2014 of the European Parliament and of the Council of 26 February 2014 on a multiannual consumer programme for the years 2014-2020. This program is a continuation of the previous one adopted by Decision No. 1926/2006/EC, in particular as regards the continuation of multi-annual measures and the evaluation of the results of the previous program as well as the areas requiring more attention.

The current program is focused on improving the quality of life for users. The European policy is aimed at protecting the economic interests of market users through monitoring, including of the financial sector, and aims to provide users with tools to manage their finances.

Four main objectives have been identified in the policy:

- enhancing confidence by improving user security;
- expanding knowledge;
- more effective law enforcement;
- ensuring the possibility of submitting out-of-court claims.

Actions should ensure the achievement of four specific objectives – security, information and education, rights and settlement of claims, law enforcement. The implementation of the multiannual program provides for the involvement of the consumers themselves in the process of protection, and they must know their rights and be well protected.

In recent years, with the spread of the Internet, the situation with regard to access to information has sharply changed and consumers can receive a lot of and sufficient information about their rights and the possibilities for protection.

In line with this program, in the European normative documents regulating the activities of the entities supervised by the FSC, special attention was paid to the protection of consumers, including the consumers from vulnerable groups. The handling of complaints from consumers by service providers was settled, even some of them contain guidance on the content of the responses to complaints.

The protection of investors, secured and insured persons (consumers of financial products and services) was one of the statutory objectives of the Financial Supervision Commission, with one of the functions of the FSC member under Art. 3, item 5 of the FSCA being the examination of complaints filed

against persons under the supervision of the Commission, as well as against persons who provide financial products and services without the appropriate authorization.

Out-of-court dispute resolution was an alternative to resolving disputes between users and persons supervised by the Commission. With a view to informing consumers of this possibility, in its replies to the complainants the FSC informed individuals that if they were not satisfied with the ruling of the supervised entities, they may refer the dispute to the Sectoral Conciliation Commission.

In order to analyze the consumer complaints received by the Commission, a specific procedure for complaint handling management was established. Any complaint would be subject to an inspection, where violations were established, acts for the detection of administrative violations would be issued, and actions and measures would be undertaken within the legal powers of the FSC's bodies.

User complaints 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.

The undertaken corrective actions by the FSC's bodies as a result of the analysis was the basis for establishing and maintaining a high level of confidence of consumers in financial products and services offered on the financial markets. The corrective actions assist in maintaining the stability of financial markets, the trust in these markets, and stimulate the efficiency and transparency of financial markets.

Complaints were also a channel for market feedback about the satisfaction of users of financial services and products from the actions of the regulator resulting from the inspections performed and measures undertaken as a consequence of their complaints.

The analysis of complaints and inquiries, covering the main complaints and issues raised in them, having led to the emergence of the problems, highlighting systemic problem areas and possible bad commercial practices, was also an excellent tool for making management decisions with a view to improving the regulatory framework, supervisory practices and appropriate corrective actions and measures.

In 2018, the FSC received 1943³⁴ complaints and inquiries concerning the activities of the entities supervised by the FSC. Their number significantly increased in 2018 compared to 2017, when these were 1438. The increase was not triggered by a particular event, but rather was due to the activity of users seeking their rights.

Analyzing the period 2013 –2018, it can be said that there was no clear upward or downward trend in the number of complaints and inquiries received by the FSC in the period from 2013 to 2017. In 2013, their number was 1356. 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 1242. The decreasing trend in the number of complaints in 2015 as compared to 2014 changed in 2016 and the number of complaints increased a little by 32. The upward trend continued during 2017, with complaints and inquiries from users being 1438.

In 2018, the analysis of complaints was based on 1656³⁵ complaints and inquiries regarding which the institution was competent to make a decision. With respect to the complaints by jurisdiction for the period from 2013 to 2017, there was no clear upward or downward trend in their number.

In 2013, there were 1125 such complaints reported, in 2014 a slight increase was noted

³⁴ The aforementioned 1943 complaints were received by excluding the complaints and inquiries which were not against the actions of entities supervised by the FSC out of the 2050 (all received) files. The number 1943 represents complaints and inquiries according to jurisdiction in 2018, with 287 complaints of them were processed by the specialized departments, with letters sent by the FSC registry to the respective complainants.

³⁵ Directed to and processed by the unit that analyzes complaints at the FSC.

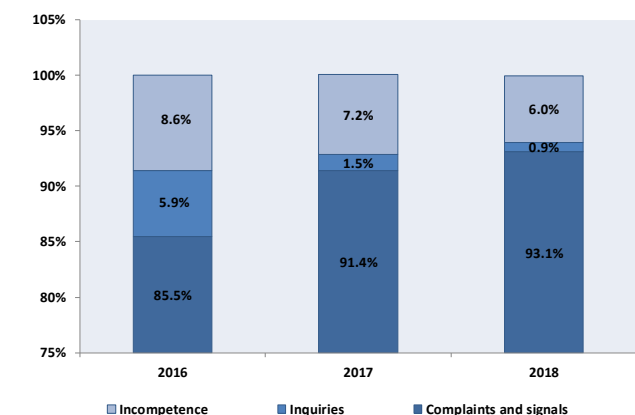
compared against 2013. A decrease by 107 was noted in 2015 compared to 2014, and in 2015 these complaints reached 1026. Their number increased in 2016 reaching 1089, and in 2017 there was an increase by 326 user complaints compared to 2016 resulting in 1415 complaint.

In 2018, there was also a noticeable increase in the number of appeals and inquiries by jurisdiction – by 241 compared to 2017, the same being 1656.

In addition to appeals, the FSC also received inquiries on which the institution was competent to rule, with only 15 such inquiries registered in 2018.

The FSC also received complaints regarding which the institution was not competent. Their number was approximately at the same level since 2014. In 2018, they were 106, with a slight increase of 6 in comparison with 2017.

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



Source: FSC.

Complaints on which the institution was competent to rule represented 93.1% of the total complaints and inquiries in 2018. In 2018, there was a slight increase in the proportion of complaints for which the institution was competent, from 91.4% in 2017.

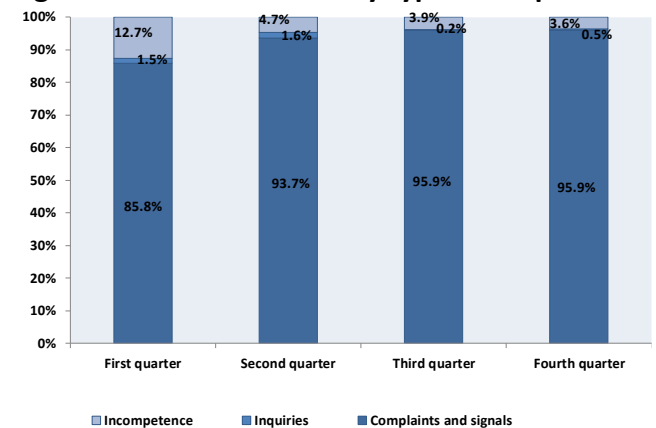
For the period 2015 – 2018, this share was relatively constant with an increasing trend. In 2018 –93.1%, in 2017 it was 91.4%, in 2016 – 85.6%, and in 2015 it was 82.6%. There is a decrease in the share of inquiries, which was 5.9% in 2016, 1.5% in 2017 and decreased to 0.9% in 2018.

The share of complaints for which the institution was not competent also dropped from 18.6% in 2016, 7.2% in 2017 to 6.0% in 2018. This trend was indicative of FSC's efforts to clarify its competencies and promote its activities.

In 2018, 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. The complaints within the competence of the FSC account for 85.8% of all complaints received in the first quarter of 2018. Their share increased to 93.7% in the second quarter, and in the third quarter of the year it reached 95.9%, which continued in the fourth quarter.

The dynamics in the number of complaints outside of the respective competence did not indicate a clear trend. In the first quarter of 2018, they accounted for 12.9% of all complaints, declined to 4.7% in the second quarter, to 3.9% in the third quarter, and to 3.6% in the fourth quarter.

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



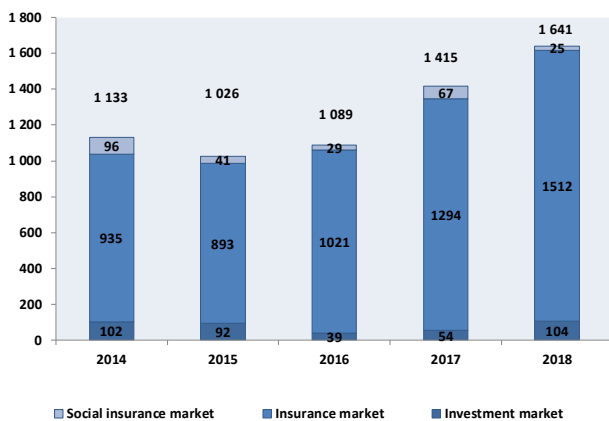
Source: FSC.

Of the analyzed 1656 complaints and inquiries received in 2018 for which the institution was competent, the largest was the number of complaints against actions of persons operating on the insurance market. Their number was 1,512. The number of the complaints related to the services offered on the social insurance market – 25, was insignificant. The complaints against actions of entities operating on the

investment market were 104. In 2018 there was an increase in complaints related to the insurance market by 218. This increase was 14.4% compared to 2017. For comparison of 2017 to 2016, there was an increase in the complaints for the insurance market by 21.1%.

A downward trend in the complaints concerning the social insurance market had been observed since 2014 when their number was 96, and in 2015 it came down 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 social insurance market increased by 56.7% compared to the previous year. In 2017, 67 complaints were received regarding the social insurance market. In 2018, complaints concerning the social insurance market dropped to 25.

Graph 3. Dynamics of complaints at the FSC by markets

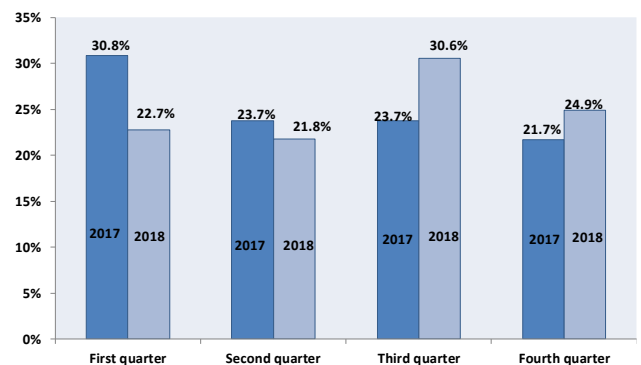


Source: FSC.

From 2014, a clear trend of the complaints received regarding the services and products offered on the investment market cannot be established. There is a fluctuation in the number of complaints, and in 2018 the same marked a rise, reaching 104 against 54 in 2017. There were significant variations in the number of complaints received between 2014 and 2018. Their number was 39 in 2016, 92 in 2015, and 102 in 2014. The significant variations in the numbers over the years did not result from any extraordinary events.

In 2018, by quarters, there was no pronounced tendency towards an increase or a decrease in the number of complaints received by jurisdiction – they had a fairly even distribution. In the first quarter of 2018, 22.7% of complaints by jurisdiction for the year were received. This percentage was lower compared to 2017. In the second quarter of 2018, 21.8% of the total number of complaints within the jurisdiction of the FSC were received, with no significant change compared to the same period in 2017. In the third quarter of 2018, 30.6% of the complaints were received, and in the third quarter of 2017 they were 23.7%. Compared to the third quarter of 2017, this share was higher, due to complaints submitted in connection with the services provided by Insurance Company Olympic – Branch Bulgaria. In the fourth quarter of 2018, 24.9% of complaints were received, which was relatively close to their share of 21.7% in the fourth quarter of 2017.

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



Source: FSC.

The complaints related to the insurance market represented the largest share of the complaints within the competence of the FSC received in 2018 (92.1%). For the period 2014 – 2018, this situation remained. The proportion of this kind of complaints in 2014 was 82.5%, in 2015 – 87.0%, in 2016 – 93.8%, and in 2017 – 91.4%.

The share of complaints concerning the social insurance market represents 1.5% of all complaints by jurisdiction submitted in 2018, declining as compared to 2017. The proportion of

complaints concerning the social insurance market in recent years was comparatively small. In 2017, they were 4.7% of all complaints, in 2016 – 2.7%, in 2015 – 4.0%, and in 2014 – 8.5%. In 2013, the share was 15.2%, when an increase in complaints regarding the transfer of accumulated funds to the insured persons accounts was reported.

Complaints against persons operating on the investment market were 6.3% of all complaints received in 2018 and were up as compared to 2017, when their share was 3.8%. For the period 2013 – 2018 no clear trend emerged: their share in 2016 was 3.6%, 9% in 2015 and 2014, 6.0% in 2013. The FSC also received complaints related to the provision of investment services by persons not licensed to provide such services. Services were usually provided by remote electronic platforms and the complainants had not investigated the persons with whom they enter into contractual relations. Complaints were filed with the FSC due to the connection of the trading platforms with Bulgaria, usually the developer of the platform or the person operating the platform being located in Bulgaria.

The distribution of complaints by sectors was also maintained for the quarters of 2018. The proportion of complaints relating to the insurance sector in the first half of the year was lower than its size in the second half. In the first quarter of 2018, the share of complaints in relation to the insurance sector was 89.5%, almost the same as their share in the second quarter of 2018. In the third quarter, their relative share was 94.4%, as was in the fourth quarter. The complaints against the pension insurance companies had the highest relative share in the first quarter of 2018 (4.4%) and the lowest one in the fourth quarter of the year, namely 0.7%. The complaints in relation to the investment market had the highest relative share in the second quarter of 2018, and the lowest one in the third quarter of the year.

Table 20. Dynamics of the structure of complaints by market segments

	2015	2016	2017	2018				2018
				Q1	Q2	Q3	Q4	
Insurance market	87.0%	93.8%	91.4%	89.5%	89.1%	94.4%	94.1%	92.1%
Investment market	9.0%	3.6%	3.8%	6.1%	10.1%	4.8%	5.2%	6.3%
Social insurance market	4.0%	2.7%	4.7%	4.4%	0.8%	0.8%	0.7%	1.5%

In 2018, 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 (34.9%) and part of these were provided by non-banking credit institutions. Second came the complaints related to money transfers (20.8%). Complaints relating to savings products and mobile services each account for a share of 0.9% and others for 42% of the total incompetence complaints.

Table 21. Structure of the complaints outside the competence of the FSC

	2017	2018
Credit products	38.4%	34.9%
Money transfers	8.0%	20.8%
Savings products	3.6%	0.0%
Mobile services	3.6%	0.9%
Taxes	2.7%	0.9%
Others	43.8%	42.5%
	100.0%	100.0%

In 2018, the FSC maintained its practice to redirect the complaints not within the competence of the FSC to the competent institutions.

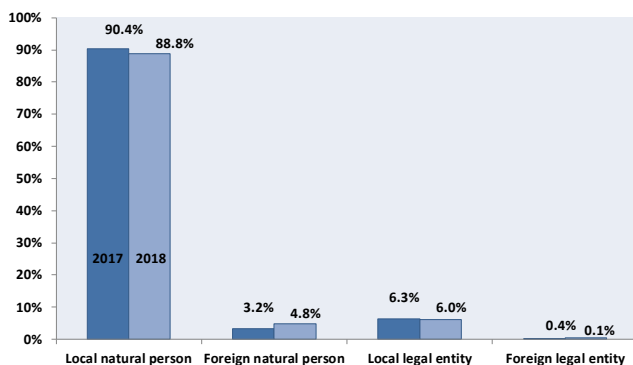
In 2018, the FSC received complaints outside its competence which were mainly within the competence of two institutions in the country. Most of the complaints (57.6%) were within the competence of the Bulgarian National Bank (BNB). Second came the National Revenue Agency (NRA) with a share of 5.6%. For 36.8% of the incompetence complaints, the competent authority was the Commission for Consumer Protection (CCP), Communications Regulatory Commission (CRC), the Court, the Prosecutor's Office, the SANS or another institution.

Table 22. Structure of complaints by competent institutions other than the FSC

	2017	2018
Bulgarian National Bank	85.4%	57.6%
National Revenue Agency	2.4%	5.6%
CRC, CPC, Court, Prosecutor's Office, incompetence	12.2%	36.8%
	100.0%	100.0%

When we analyze the complaints of users by legal entities, we can say that local natural persons filed the largest share of complaints and inquiries (90.4%) of all. Local legal entities had a share of 6% in 2018. Foreign natural persons had a share of 4.8% and foreign legal entities had 0.4% in 2018. Decline in 2018 compared to 2017 was only reported for local individuals, decreasing from 90.4% to 88.8%. The share of local legal entities was relatively stable from 6.3% in 2017 to 6.0% in 2018. In foreign individuals there was a growth from 3.2% in 2017 to 4.8% in 2018 due to cross-border supply of financial services, incl. remotely via electronic platforms. In 2018 there was an increase in appeals to FSC filed by foreign parties through lawyers. Less than 0.5% retained the relative share of complaints filed by foreign legal entities.

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

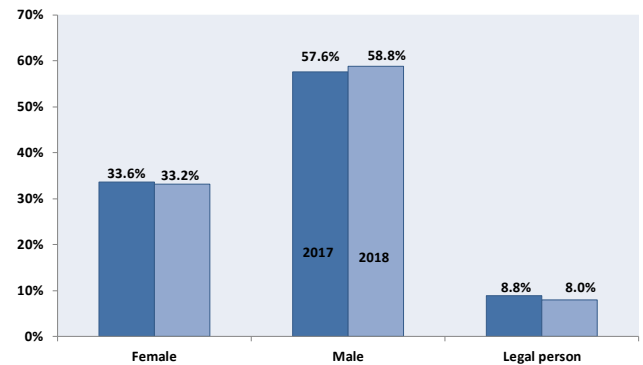


Source: FSC.

The analysis of complaints showed that male complainants were more active than female complainants. Their share in 2018 was 58.8% compared to 33.2% for women. The complainants – legal entities accounted for 8.0% of all complaints and inquiries. The overall

situation compared to 2017 had not changed significantly – men were more active (57.5%) of complaints and women for 30.1%. There was an insignificant trend for a decrease in the number of complaints filed by legal entities

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

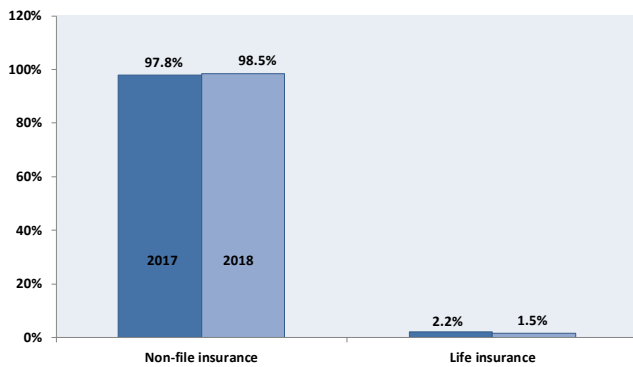


Source: FSC.

Insurance market

The trend for the complaints relating to the insurance market to have the highest relative share remained in 2018. Complaints against services and products offered by the non-life insurance companies permanently occupy a major part of the complaints concerning the insurance segment, with their share increasing to 98.5% in 2018 compared to 97.8% in 2017. The higher share of complaints against non-life insurance companies was due to the higher number of non-life insurance contracts. The proportion of complaints relating to products and services offered by life insurance companies decreased from 9.1% in 2017 to 2.2% in 2018.

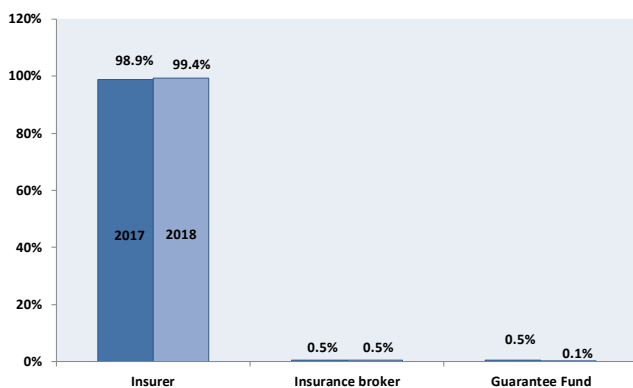
Graph 7. Dynamics of complaints related to non-life and life insurance



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 99.4% 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 in 2018 increased insignificantly compared to 2017 from 98.9% to 99.4%. During the year, the complainants also complained about the actions of insurance brokers and the Guarantee Fund, however their share was insignificant and decreasing.

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



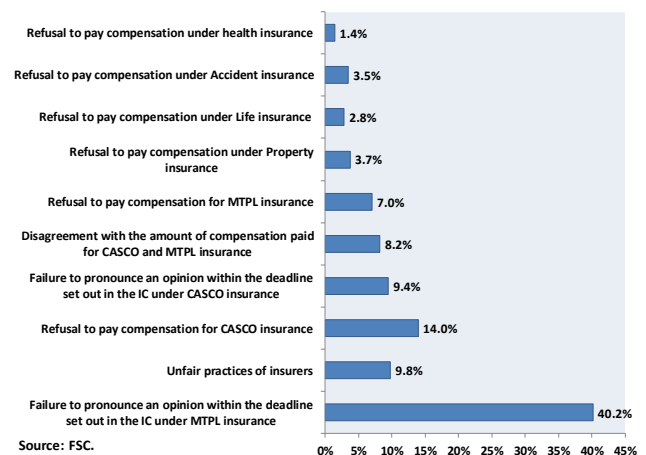
Source: FSC.

Most often (40.2%) 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 (IC) regarding Motor Third-Party Liability insurance. Secondly, the applicants complained against the refusal to be paid compensations under Casco insurances (14.0%). In the third place were complaints in which applicants objected against unfair practices of the insurers, which accounted for 9.8%. The applicants also objected to the failure to rule on a submitted insurance claim under Casco insurance within the time limits of the IC, the disagreement with the amount of Casco and Motor Third Party Liability insurance indemnity, as well as with the refusal to pay compensation under Motor Third-Party Liability insurance, Property insurance, Life insurance, Accident insurance and health insurance.

For comparison, in 2017, the most frequent subject of the complaints related to the insurance sector was against the failure to rule on insurance claims under Motor Third-Party Liability within the periods of time stipulated in the IC.

Graph 9. Distribution of complaints in the insurance market by subject of complaint in 2018



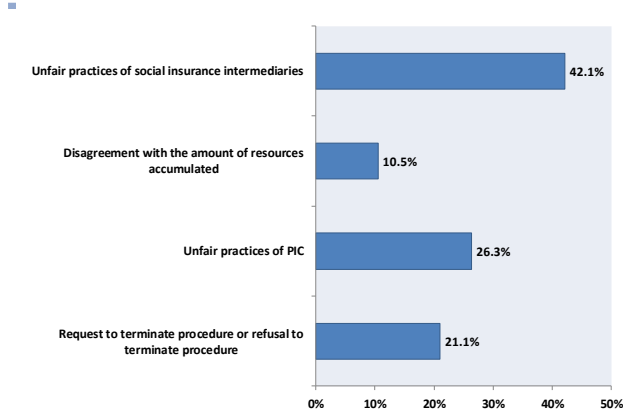
Source: FSC.

Social insurance market

Unfair practices of the social insurance brokers was the most common subject of complaints relating to the social insurance market in 2018. Their share was 42.1% 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 (26.3%). The requests to terminate the procedure or a refusal to terminate the procedure for transfer of holding (21.1%) and disagreement with the amount of the accumulated funds (10.5%) took the third and fourth places in terms of the most common complaints against actions of entities operating on the social insurance market.

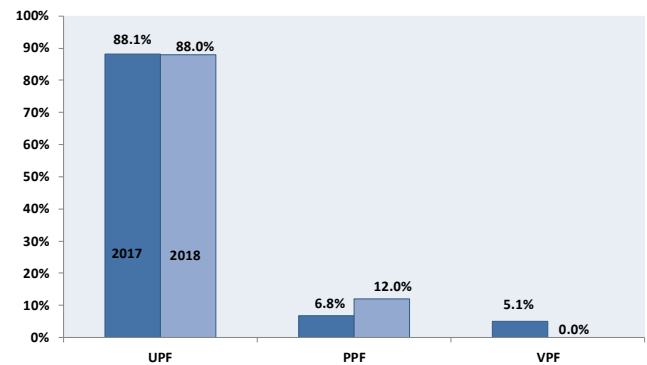
Graph 10. Distribution of complaints in the social insurance market by subject of the complaint in 2018



Source: FSC.

The trend of complaints related to the social insurance market and concerning mainly universal pension funds (UPFs) remained unchanged in 2018. Their share was 88.0% of all complaints received in relation to the social insurance market. This predominant share was explicable because all workers born after 31.12.1959 were secured in UPFs. The applicants' complaints were also related to professional pension funds (PPFs) at 12%, and there were no complaints registered in 2018 in relation with voluntary pension funds (VFRs). The proportion of UPF-related complaints remained the same in 2018 compared to the previous year, only changed from 88.0% to 88.1%. The PPFs account for a growth, with their share increasing to 12.0% in 2018 from 6.8% in 2017. Accordingly, in the case of VPFs, the proportion of complaints decreased to 0% in 2018 compared to 5.1% in 2017.

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



Source: FSC.

Investment market

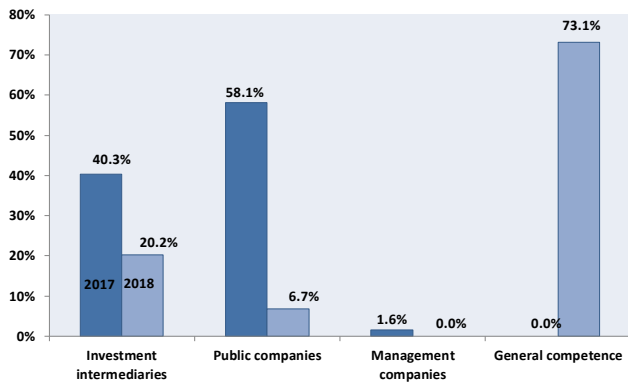
A significant number of the complaints concerning the investment market were related to the provision of investment services by companies which had not received the relevant license. In this regard, the FSC focused its efforts on taking actions to limit the supply of investment services by non-licensed companies and to create a competitive environment with adequate investor protection for the development of the investment business. The official website of the Commission publishes the persons who were found to carry out an investment activity without a license, and the relevant law enforcement authorities had been notified.

From the analysis of the complaints received it was established that there was a tendency for increased activity in the remote sale of investment products – on the telephone or via electronic platforms, as well as of complex financial instruments that were difficult for the general user to understand and for which, according to the legal requirements, an assessment of the pertinence and appropriateness of the financial service.

In 2018, the most complaints related to the investment market were against actions of public companies without a license (general competence). Their share in 2018 was 73.1%. In 2018, the second place was held by complaints against investment firms or entities providing investment services and products with a share of

20.2%, and third place with 6.7% was held by complaints against public companies.

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



Source: FSC.

In 2018, compared to 2017, there was a significant decrease in the share of complaints against public companies from 58.1% to 6.7%. 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 0% in 2018, compared to 1.6% in 2017.

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 was carried out in the consideration of each specific case, entities against which the complaint was performed were required to provide explanations and the relevant documents in each particular case, including any additional documents and explanations. 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 12.3% of cases the consumers of insurance services were advised on the possibilities to protect their rights through dispute resolution bodies for extrajudicial dispute

resolution or by the court in case the FSC or the respective Deputy Chairperson did not have the authority to undertake any actions. In 33.1% of the cases, insurance compensations were paid after a complaint had been filed to the FSC, and in 28.5% of the complaints, the complainants were given specific information relevant to the details of the complaint that was helpful to the complainants.

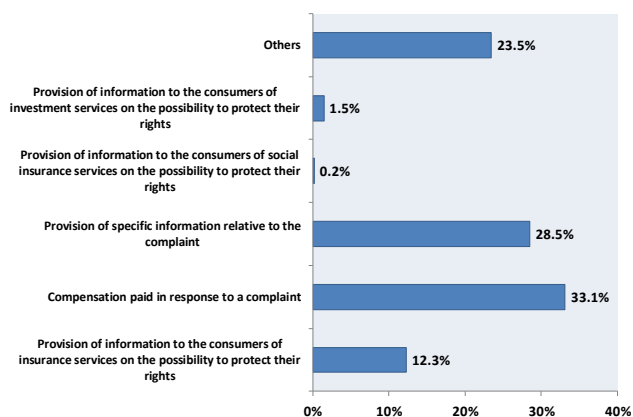
Very often, the consumer complaints filed with the FSC involved civil litigation between the complainant and the supervised entity which was beyond the competence of the FSC and which should be referred to conciliation committee for extrajudicial dispute agreement or the competent court for consideration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

The Financial Supervision Commission 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.

In 2018, there was a relative retention of the share of cases when compensation was paid after filing a complaint to FSC. The good rate of the share of actions leading to payment of the specific insurance compensation after the FSC had taken legal measures that was maintained in 2018 showed the efficiency of the institution in relation to its function to protect the consumers of investment, insurance and social insurance services.

Graph 13. Structure of the actions undertaken in response to complaints, inquiries and signals

received by the FSC in 2018



Source: FSC.

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. The Financial Supervision Commission also approached the law enforcement authorities as necessary.

As a result of inspections performed under complaints filed in 2018, there was a slight increase in the number of cases where penalties and coercive administrative measures were imposed to supervised entities, their percentage increasing to 43.7% of all complaints by jurisdiction received by the FSC as compared to 41.3% in 2017.

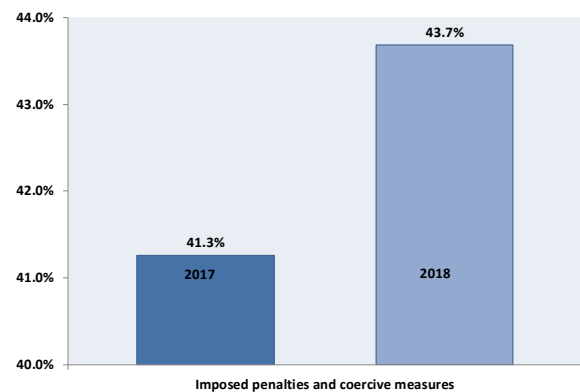
The analysis of the responses to the complaints and inquiries, as well as the actions undertaken in relation to the complaints, showed that there was a positive effect of the regulator's actions. In many cases, the requests of the complainants – natural persons and legal entities, were satisfied.

5.3. Policy of financial literacy

A priority objective since the establishment of the FSC was the development, introduction and active implementation of a policy for enhancing financial literacy.

In 2018, the Financial Supervision Commission took an active part in various forums – conferences, seminars, workshops and educational initiatives aimed at protecting consumers and raising the financial

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

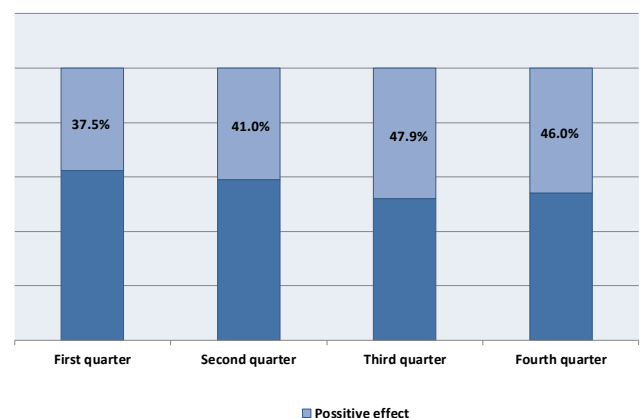


Source: FSC.

For 47.9% of the complaints and inquiries in 2018, 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.

In 2018, the highest proportion of the positive effect was recorded in the third quarter of the year and the lowest one – 37.5%, in the first quarter of the year.

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



Source: FSC.

literacy of various social groups, partnering with both state institutions and non-governmental organizations that exercise their activity in the field of financial education.

The XVI-th Edition of the Educational Program for Students and Teachers, The Non-Banking Financial Sector in Bulgaria, was held from 2 to 6 June 2018, organized by FSC, Atanas Burov Foundation and the Ministry of Education and Science (MES). 20 students and 4 lecturers were trained during the program. Lecturers were Commission and business experts who introduced young people to the specificities of the capital, insurance and social insurance market. The theoretical part was combined with a practical one by organizing visits to the central securities depository, the Bulgarian Stock Exchange, an investment firm, an insurance company and a pension insurance company, where the students saw in person how the entire non-banking financial sector works.

On 6 February 2018, a one-day training was carried out of students from the Vocational High School of Economics (VHSE) Prof. Dr. Dimitar Tabakov, the students were introduced to the activities of the Commission, they were shown the supervision processes and met the experts working in it.

On 30 October 2018, the Financial Supervision Commission traditionally took part in the Junior Achievement Bulgaria's One Day Manager initiative. In this edition, the position of the Chairperson was entrusted for one day to **a student in Finance at the University of National and World Economy**.

During the year, the FSC was in partnership with the Financial Literacy Initiative Foundation in writing two teaching aids – “About Money and Other Important Things: First Steps” and “About Money and Other Important Things: Teen”, which were approved by the Ministry of Education and Science. Experts from the FSC took part in the trainings for qualification and re-qualification of pedagogical specialists. Together with the Financial Literacy Initiative Foundation, the FSC also realized several trainings for students.

Contacts with the business continued, with regular meetings with branch associations or with individual companies. There was active communication with the Bulgarian Association of Supplementary Pension Security Companies (BASPSC) in relation with the discussion of ordinances in the field of supplementary pension insurance, as well as with the Association of Bulgarian Insurers (ABI), the Guarantee Fund (GF) and non-governmental organizations in connection with the bonus-malus system.

The traditional annual meeting of financial journalists and PR specialists took place in 2018 as well, where valuable information was exchanged and experience shared.

All FSC initiatives in the field of consumer protection of financial services and the increase of the financial literacy of Bulgarian citizens were mainly aimed at increasing consumer confidence in the non-banking markets and strengthening the important role played by FSC for the stability of these markets.

6. Financial Technology Monitoring Strategy

In the context of the development of financial innovations in the non-banking financial sector and taking into account the trend of progress and competitiveness of the social insurance, investment and insurance market participants, in order to protect the interests of the consumers and support the business environment, in 2018 the Financial Supervision Commission initiated an initiative for building a policy for financial innovation monitoring in cooperation with FinTech companies and entities supervised by the FSC.

As a result, a Financial Technology Monitoring Strategy (FinTech) in the non-banking financial sector (2018 – 2020) was adopted at a FSC meeting in June 2018. The strategy outlined the main approaches to the impact of the regulator on the developing industry by monitoring and assessing possible risks and potential actions and measures. The purpose was to limit the risks to consumers and the market by maximizing benefits in view of the growing interest in financially innovative products and/or technologies at the service of the consumer in compliance with the regulatory requirements. During the year past, an

action plan was also adopted for 2018 to implement FinTech's monitoring strategy with targeted measures for its enforcement.

Financial innovation monitoring policy focused on:

- ensuring and facilitating the provision of electronic services to users of non-banking financial services;
- reducing operating costs and increasing business efficiency;
- enhancing the competitiveness of the companies which FSC supervised by reducing the barriers to entry into the single market;
- balancing the identified need for security and data protection and the possibility of data sharing and transparency.

In order to ensure publicity and implementation of the measures envisaged in the plan for cooperation with the FinTech Industry, an individual section Financial Innovations at the FSC's official financial website was set up. The section, on the one hand, provided an information access and communication channel with the regulator via e-mail: fintech@fsc.bg and innovationhub@fsc.bg. On the other hand, it had an impact on the financial literacy of the public in the context of financial innovation through publications of materials on basic concepts relevant to the initial public offering of coins (ICOs) and the risks arising from investments in ICOs.

During the year the FSC held consultations with the business and branch organizations in the non-banking financial sector by publishing questionnaires and advisory documents on the basis of which an analysis of the market environment and the necessity of introducing an appropriate mechanism for interaction with the business and the need to create an innovative center (Innovation Hub) was carried out.

The Innovation hub mechanism was set up by the regulators to provide a single point of interaction between the supervisor and the applicant company concerned for easier communication and consultation. The idea was to facilitate the communication with a view to promoting innovations in the non-banking financial sector, while ensuring the protection of consumer interests.

Through the Innovation Hub, the Financial Supervision Commission can provide clarifications and non-mandatory guidance in relation to the application of the regulatory framework applicable to the applicant company's business model and to advise it in case of any need for authorization for the company's activity.

In December 2018, the process of active dialogue between FinTech companies, the entities supervised by the FSC, and the regulatory body was launched through the creation of a single communication mechanism through the Innovation Hub – through a publicly accessible application form allowing applicants to establish informal dialogue with the regulator fostering innovations in the non-banking financial sector while ensuring consumer interests.

The application form secured the interaction mechanism through which the FSC could provide clarifications and optional guidelines on the legal framework applicable to the applicant company's business model, as well as to assist it in the possible need for applying for authorization for the activity performed by the company. In order to ensure the transparency of the interaction process, the FSC published information on eligibility criteria for consideration of documents and projects submitted by entities applying through the Innovation Hub.

A working group was established within the FSC for monitoring the financial innovation market in the non-banking financial sector, that was engaged with the timely and relevant response to inquiries from FinTech companies and entities supervised by the FSC offering innovative products and/or services.

At the end of the year, **the FSC effectively launched the functioning of the Innovation Hub.** An application form was published to allow applicants to establish an informal dialogue with the regulator. A

set of criteria to be met by applicants and their projects so that they could move to the next stage of consideration and assistance through consultation were published on the FSC's website.

In 2019, FSC joined a pilot project of the European Commission to create a single register of public companies in Europe based on the block technology – European Financial Transparency Gateway (EFTG project).

7. International activity and cooperation

7.1. European dimension

The Financial Supervision Commission, as a participant in the European System of Financial Supervision (ESFS), was actively involved in the activities of the European regulatory authorities (ESMA and EIOPA) in order to associate the Bulgarian non-banking sector with the single European financial market. The FSC is part of the management authorities and attends the 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, as well as through its participation in the working committees and groups established by them at an expert level. 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).

7.1.1. FOCUS TOPIC: Contribution of FSC to the successful holding of the Bulgarian Presidency of the Council of the EU – January-June 2018

Within its competencies and commitments, the Financial Supervision Commission, in cooperation with its colleagues from ESMA and EIOPA, organized and hosted two important events from the Calendar of the Bulgarian EU Council Presidency in the first half of 2018:

- **A meeting of the Management Committee and the Boards of the European Securities and Markets Authority (ESMA)**, which took place on 22 – 23 March 2018 at the National Palace of Culture and was attended by some 80 presidents and senior representatives of the European supervisory authorities in the field of securities and markets;
- **A day of the EIOPA Strategy**, which took place on 29 – 30 May 2018 in Boyana Residence, and gathered nearly 40 presidents and senior representatives of the European supervisory authorities in the field of social security and pension insurance.

The organization of both events was highly appreciated by the FSC's European partners.

On the **Covered Bond** package – Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) No. 575/2013 as regards the exposures in the form of covered bonds and Proposal for a Directive of the European Parliament and of the Council on the issuance and the supervision of covered bonds and amending Directive 2009/65/EC and Directive 2014/59/EU, a text by compromise of the Bulgarian Presidency was presented on the Regulation and texts by compromise on the Directive were presented. The subsequent Austrian Presidency continued its work at the level of a working group.

Bulgaria also achieved a significant success in the discussions on the proposal to amend the **European Market Infrastructure Regulation, with the aim of strengthening the Central Counterparty (CCPs) Supervisory System**. The Presidency drafted three texts by compromise on the regime for CCPs from third countries, with the aim of closing the text in that part for discussions, and the next Presidency continued the work on the regime for European CCPs. The presented partial texts by compromise received

wide support from the Member States. The Austrian Presidency continued with discussions on the regime for CCPs within the EU. The Bulgarian Presidency also worked hard to prepare for the first triilogue meeting on the European Market Infrastructure Regulation (review of the REFIT under the Regulation) after the Estonian Presidency reached a common approach in the Council at the end of its Presidency.

The main objective of the Bulgarian Presidency in relation to the **legislative proposal for the creation of pan-European personal pension product (PEPP)** was to achieve maximum progress on the dossier. The serious work and intensive negotiations led to preparing and proposing a good balanced compromise on politically sensitive topics and technical issues. Thanks to the discussions under way during the Estonian Presidency, much greater progress than expected was made due to the complexity of the proposal and the strongly polarized positions of the Member States on a number of key issues, which allowed the reaching of an agreement on a mandate for negotiations of the Council, with the subsequent Austrian Presidency, on its part, starting with tripartite meetings with the EP and the EC.

In connection with **the review of the European System of Financial Supervision (ESFS)**, during the Bulgarian Presidency, the elements of the entire EC legislative proposal were examined. The package is significant in its volume and has high political sensitivity for all Member States. The Bulgarian Presidency proposed alternative options to the provisions initially proposed by the EC on three out of the four main topics. The documents thus presented received broad support as they reflected in a balanced way the positions of the Member States in the Council.

On the EC's proposal to **improve the proportionality of prudential requirements to the investment firms (IFs)**, the Presidency launched a discussion on the package of a directive and a regulation, with all key issues and problem areas being discussed in depth, all Member States supporting the proposed introduction of proportionate capital requirements for non-systemically important investment firms. During the Bulgarian Presidency, a new dossier was opened and serious progress was made on the **C proposal for a Regulation and Directive on Facilitating Cross-Border Distribution of Funds (CBDF)**. A first proposal by compromise was prepared by the Bulgarian Presidency, which included a complete amendment to the proposals for a directive and a regulation. The Presidency made extraordinary progress and proposed a second proposal by compromise.

Key aspects of ESMA's work

In 2018, the European Securities and Markets Authority – ESMA, published its priorities for the year to highlight the body's activities that will ensure a high, coherent and effective level of supervision in the European Union. The following were among the priorities of the body:

- Ensuring that legislation under MiFID II / MiFIR was implemented in a credible, effective and consistent manner throughout the EU;
- Improving data quality to ensure effective reporting under EU law;
- Ensuring convergence of supervisory practices in the context of the UK's decision to withdraw from the EU;
- Ensuring the free movement of services in the EU by adequately protecting investors in the context of cross-border provision of services; and
- Monitoring the development of financial innovations, in particular by analyzing emerging and existing tools, platforms and technologies.

During the year, ESMA, along with its regulatory role in supervisory practices convergence in the EU, strengthened its functions as a supervisor through the direct supervisory powers conferred on it by European legislation. The authority had direct supervisory powers with regard to credit rating agencies (CRAs) and trade repositories (TRs). In addition, ESMA was charged with monitoring and recognition activities of third-country central counterparties (CCPs) and central securities depositories (CSDs).

Under ESMA's direct supervision, there were eight registered Trade Repositories, 27 registered CRAs and 4 certified CRAs. The supervisory activity of the body aimed at improving the quality of data, monitoring regulatory requirements and issuing guidelines on the activities. During the year, investigations into CRA's credit rating processes and methodology were conducted; ongoing supervision of the contingency plans of supervised entities in view of the forthcoming exit of the United Kingdom of Great Britain and Northern Ireland (UK); a thematic inspection of the CRA and TR fees was completed, which concluded with a published report of the body with specific proposals. ESMA also carried out monitoring of the activities provided by recognized CCPs from third countries (outside the EU). The body carried out all necessary preparatory work on the timely recognition of CCPs by the UK in case the UK left the EU without a deal. At the end of the year, ESMA conducted a supervisory risk assessment of CRAs and TRs in order to highlight their future supervisory priorities for 2019.

In 2018, ESMA took significant steps in the preparation of the sector for the UK's exit from the European Union in the absence of a negotiated transaction and, thus, lack of a transitional period. To this end, ESMA conducted a series of industry and national level surveys to assess what recommendations to give and how to improve business and regulators readiness. During the year, a series of cautionary announcements were made regarding Brexit, aimed at investment firms, central counterparties, central depositories, credit rating agencies, trade repositories, and to remind companies licensed in the UK to timely submit licensing applications in the EU. ESMA also undertook serious work in drafting cooperation agreements with the UK regulatory authorities. Memorandum drafts were designed to ensure the necessary cooperation in the capital markets sector when the UK exited the EU if no agreement was reached between the two parties.

ESMA Guidelines

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 harmonize its application throughout the Member States.

In 2018 FSC declared **to ESMA conformity with the following Guidelines:**

Guidelines on the procedure for calculating the indicators for determining the essential importance of the CSD (central securities depository) for the host Member State

The guidelines were issued on the basis of Art. 24 of Regulation (EU) No. 909/2014 (CSD Regulation) governing cooperation arrangements between the competent authorities of the home and host Member States in the case of cross-border provision of services by a given CSD. The guidelines were addressed to the national competent authorities as explicitly set out in the above mentioned Regulation.

The Guidelines applied to the procedure for collecting, processing and summarizing the data and information needed to calculate the indicators for determining the essential importance of CSDs for the functioning of the securities markets and the protection of investors in the host Member State pursuant to Art. 24, para. 4 of the CSD Regulation.

The purpose of the Guidelines was to ensure the common, uniform and consistent application of Art. 24, para. 4 of the CSD Regulation, in particular as regards the procedure for collecting, processing and aggregating the data and information needed to calculate the indicators for determining the essential role of CSDs in the functioning of the securities markets and for the protection of investors in the host Member State.

Guidelines on the procedure for calculating the indicators for determining the currencies most often settled

The Guidelines were issued in accordance with Art. 12, para. 1 of Regulation (EC) No. 909/144 (CSD Regulation) designating bodies which, in specified cases, were involved in CSD licensing and supervision. Those authorities were the following: the authority responsible for overseeing the CSD-managed securities settlement system of the Member State whose law applied to that system; the central banks in the EU issuing the currencies most often settled; the EU Central Bank in whose accounts the CSD-managed securities settlement system was settled in case of applicability. The listed authorities were the addressees of the guidelines and were required to integrate them in their supervisory practices.

The Guidelines dealt with the procedure for collecting, processing and aggregating the data necessary for calculating the indicators for determining the currencies most often settled, according to Art. 12, par. 1, letter b) of the CSD Regulation, with the aim of providing sufficient guarantees for the common, uniform and consistent application of the above provision.

Guidelines on assessing the suitability of members of the management body and of persons holding key positions

The guidelines were adopted jointly by the ESMA and the EBA (European Banking Authority) on the basis of Art. 16, para. 3 of Regulation (EU) No. 1093/2010 and Art. 16, para. 3 of Regulation (EU) No. 1095/2010. Their addressees were the national competent authorities and the financial institutions referred to in Art. 4, para. 1, item 26 of Directive 2014/65/EU and Art. 4, para. 1, item 40 of Regulation (EU) No. 575/2013, which were obliged to include them in their supervisory practices in an appropriate manner.

The Guidelines addressed the requirements for the suitability of members of the governing bodies of credit institutions, investment firms, financial holding companies and mixed financial holding companies, namely the allocation of sufficient time, honesty, integrity and independence to the members of the governing body, the presence of sufficient human and financial resources for the introduction into the work and training of such members, as well as the diversity in their selection.

The addressees of the Guidelines were required to comply with them on an individual, sub-consolidated and consolidated basis, including in respect of their subsidiaries remaining outside the scope of Directive 2013/36/EU and in accordance with Art. 109 of the same.

The purpose of the Guidelines was to cover all existing corporate governance systems without making any recommendations on the introduction of any of them.

Guidelines on cooperation between authorities under Articles 17 and 23 of Regulation (EU) No. 909/2014

The Guidelines were adopted on the basis of Art. 11, para. 1 of Regulation (EU) No. 909/2014 determining which authorities were competent for the purpose of their implementation.

The scope of the Guidelines covered the requirements for cooperation between the competent authorities in the course of the licensing procedure of an applicant CSD, the regulation of which was contained in Art. 17 of Regulation (EU) No. 909/2014, as well as in the course of the procedure for the provision of services in another Member State, provided for in Art. 23 of that same Regulation.

The purpose of the Guidelines was to ensure a common uniform and consistent implementation of certain requirements for cooperation with authorities and in accordance with Art. 14, para. 1, para. 2 of Regulation (EU) No. 909/2014.

The Guidelines covered several aspects of cooperation, namely: a list of competent authorities in the procedure for issuing a license under Art. 17 of Regulation (EU) No. 909/1414, the determination of a working language, the provision of contact details, the provision of information and the request for an opinion on the procedure for issuing a license in the cross-border provision of services as well as during the procedure by confirming the receipt of the relevant information.

Guidelines on rules and procedures in the event of non-compliance by CSD participants

The scope of the Guidelines was related to the rules and procedures established by CSDs aimed at settling a non-compliance by a participant under Art. 41 of Regulation (EU) No. 909/2014. These were intended to ensure the common, uniform and consistent implementation of the provisions of Art. 41 of Regulation (EU) No. 909/2014, namely the definition and implementation by the CSD of clear and effective rules and procedures for settling the non-compliance of any of their participants, including those that were CSDs or other types of market infrastructures in Member States in the territory of which the indirect participants were treated as participants under Art. 2, letter f) of Directive 98/26/EC.

The Guidelines were addressed to competent authorities and financial market participants, who were required to make every effort to comply with them. Compliance should be carried out by including them in the supervisory practices of the authorities, as well as by monitoring compliance with them by the CSDs.

Guidance on certain aspects of MiFID requirements for fitness

These Guidelines were addressed to the competent authorities and intermediaries and their compliance with the process of provision of investment advice and portfolio management in accordance with Annex I, Section A of Directive 2014/65/EU (MiFID II).

Compliance with the Guidelines was provided in cases where services were offered to non-professional clients, in view of the need for increased protection of their interests. In addition, the Guidelines also applied to the provision of services to professional clients insofar as the latter were relevant to them and subject to the provisions of Art. 54, para. 3 of the EC Delegated Regulation (EU) 2017/565 (Delegated Regulation to supplement MiFID II) and Annex II to MiFID II.

The purpose of these Guidelines was to clarify the implementation of certain aspects of the MiFID II requirements for fitness with a view to ensuring the common, uniform and consistent implementation of Article 25, para. 2 of MiFID II and Art. 54 and Art. 55 of the Delegated Regulation to supplement MiFID II.

Guidelines for scenarios used in stress tests under Article 28 of the Regulation on money market funds

The purpose of the Guidelines was to ensure a common, uniform and consistent implementation of the provisions in Art. 28, para. 1 of the Regulation on money market funds – Regulation (EU) 2017/1131 (MMF). In particular, and as stated in Art. 28, para. 7 of the MMF Regulation, they set common benchmarks for the scenarios used in the stress tests, which would be included in them, taking into account the following factors as set out in Art. 28, para. 1 of the Regulation:

- (a) possible changes in the level of liquidity of assets in the MMF portfolio;
- (b) possible changes in the level of credit risk of assets in the MMF portfolio, including credit events and events that affect the rating;
- (c) possible changes in interest rates and exchange rates;
- (d) possible buy-back amounts;
- (e) possible expansion or contraction of the exchange differences between the indices to which the interest rates on the securities in the portfolio are linked;
- (f) possible macroeconomic system shocks affecting the economy as a whole.

The guidelines detailed the criteria/factors to be included in the stress test scenarios. Specific risk factors were provided on the basis of which the MMF managing persons should develop common reference scenarios for stress tests, the results of which would be included in the form referred to in Art. 37, para. 4 of the MMF Regulation for the for reporting the results of the specified stress tests.

ESMA Guidelines on the managing authority of market operators and data reporting service providers

The purpose of the Guidelines was to develop common standards to be taken into account by market operators and data reporting service providers (RDSPs) when appointing new and evaluating existing members of the managing authority, and to provide guidance on how the market operators or the RDSPs should document the information so that it could be provided to the competent authorities for the purposes of their supervisory duties.

Joint Guidelines on Article 17 and Article 18, paragraph 4 of Directive (EU) 2015/849 on simplified and expanded complex inspection of the customer and on the factors that credit and financial institutions should take into account when assessing the risk of money laundering and financing terrorism associated with individual business relationships and occasional transactions

These Guidelines set out the factors that companies should take into account when assessing the risk of money laundering and financing terrorism (ML/FT) related to business relationships or occasional transactions. They also set out how companies should adjust the level of their customer due diligence measures in a way that was proportionate to the identified risk of ML/FT.

The subject of the Guideline was the risk assessments of individual business relationships and occasional transactions, but companies might use them *mutatis mutandis* to assess the risk associated with the ML/FT in their activities in accordance with Art. 8 of Directive (EU) 2015/849. The factors and measures described in the Guidelines were not exhaustive and companies should take other factors and measures into account as appropriate.

These Guidelines were addressed to credit and financial institutions as defined in Art. 3, para. 1 and Art. 3, para. 2 of Directive (EU) 2015/849 and the competent authorities responsible for overseeing compliance by these companies with their obligations in relation to measures against money laundering and terrorist financing (ML/FT). Competent authorities should use these guidelines when assessing the adequacy of company risk assessment and ML/FT prevention policies and procedures.

Peer reviews

During the period, one inspection was carried out on the supervisory activities aimed at improving the quality of data reported under the EMIR³⁶

The inspection mandate focused on a set of different standards for assessment of the national competent authorities (NCAs) and ESMA. The two standards intersected with each other, bearing in mind that NCAs and ESMA had different roles and tasks in terms of data quality. The scope proposed a focus on the provisions of the main regulation EMIR and its relevant delegated regulations to ensure that the quality of the data was complete, accurate, consistent and not duplicated. This peer review was only targeted at pre-determined NCAs selected on the basis of a set of criteria according to the mandate of the inspection, the FSC not being included.

Key aspects of EIOPA's work

In 2018, one of EIOPA's main strategic goals continued to be to ensure transparency, simplicity, accessibility and fair conditions for consumers on the internal market.

The topic "InsurTech" was actively involved. Digitization brings both benefits and risks to consumers and businesses. In this regard, EIOPA played an important role in creating a supervisory approach that

³⁶ 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.

supported the benefits, including facilitating financial innovation in the interest of society, while at the same time mitigating potential risks, especially those for consumers. That was why in 2018 EIOPA included the intersectoral topic "InsurTech" in its annual work program, highlighting its growing importance for supervisors, businesses and consumers.

In February 2018, EIOPA also prepared a publication that was a warning to consumers about the risks that virtual currencies posed. The main purpose of the document was to inform that virtual currencies were high-risk, not regulated by EU law, and therefore were subject to no legal protection for consumers. The warning also included recommendations on how users could protect themselves and what measures they could undertake when purchasing and/or owning virtual currencies. The Financial Supervision Commission published on its website the news and a translation of the warning in Bulgarian.

Another important activity of EIOPA in 2018 was its participation in the preparation of the final report of European regulators on Big Data. The document analyzed the impact on consumers and financial firms. The main conclusion was that Big Data created some potential risks, but that it also brought benefits. At this stage, any legislative intervention would be premature, given that existing legislation should mitigate many of the identified risks. The European Supervisory Authorities will continue to monitor the developments in this area in the coming years and will encourage financial firms to develop and implement good practices for using Big Data.

In 2018, EIOPA continued to actively work to strengthen consumer protection, focusing in the first place on the development of the regulatory framework. Regulatory technical standards were prepared in relation to professional liability insurance and the financial capacity of insurance intermediaries under the Insurance Products Distribution Directive (IDD). In addition, in July 2018, the first Questions and Answers (Q&As) under the IDD were published. A month earlier, EIOPA also published an opinion on contracts for differences (CFDs) and binary options.

EIOPA continued its work on creating a stable and credible framework by publishing a report on the development of the pension market in 2017 at the beginning of 2018. In addition, the European Authority is preparing a second Advice to the European Commission on specific topics in the delegated regulations under Solvency II. In May 2018, EIOPA also submitted an opinion on the solvency of insurers, given the possible exit of the UK from the European Union.

EIOPA continued to work on setting up and maintaining a common supervisory reporting and data framework, publishing its decision on the provision of information on pension funds. In addition, a number of actions were being undertaken with regard to data analysis and solutions were being sought for the establishment of measures on the efficiency and security of information, with the main aim of achieving cooperation and coordination of processes at a European level.

With regard to group supervision, work was being done to strengthen the participation of representatives of EIOPA in supervisory colleges, with 21 meetings being held only in early 2018, which were attended by officials of the European Authority.

In relation to strengthening the financial stability in the insurance and pension insurance sectors, EIOPA published a report on the subject, and also carried out the fourth European-level insurance stress tests.

As an EU-level Supervisory Authority, EIOPA further developed and supported the implementation of basic standards of EU legislation in the past year as well in order to harmonize the regulatory framework in all Member States. In 2018, the FSC declared **the compliance with the EIOPA Guidelines in the framework of the Directive on the distribution of insurance products as regards to insurance-based investment products including a structure that made it difficult for the client to understand the risks involved:**

The introduction to the guidelines stated that, in accordance with Art. 30, para. 1 and 2 of the IDD, the insurance intermediary or the insurance enterprise was usually required to assess the extent to which

the insurance-based investment products were appropriate or relevant to the client, this being part of the sale of the insurable investment product.

Art. 30, para. of the IDD allowed Member States to deviate from these obligations and not to require that the suitability or appropriateness of the distribution of an insurable investment product be verified if the relevant conditions were met.

The Guidelines were addressed to national competent authorities within Member States that had opted to implement the derogation from the first sub-paragraph of Art. 30, para. 3 of the IDD.

FSC issued a Decision No. 254-H of 12 March 2018 that it intended to follow these guidelines. Compliance with the guidelines would be carried out by drawing up an ordinance delegation. The end date of compliance was the transposition date of the IDD.

Peer reviews

A peer review of supervisory practices regarding the implementation of the principle of the reasonable investor by institutions for occupational retirement provision was carried out in 2018:

The institutions for occupational retirement provision (IORPs) should invest their funds in the best interests of insured persons and pensioners. In accordance with this, Directive 2003/41/EC of the European Parliament and of the Council of 3 June 2003 on the activities and supervision of institutions for occupational retirement provision required IORPs to respect the principle of the reasonable investor and specific investment rules.

In this regard, EIOPA conducted a peer review in order to investigate supervisory practices and promote overall supervisory culture and supervisory convergence by identifying potential best practices and issuing recommendations, where necessary, on supervisory practices related to the implementation of the principle of the reasonable investor by the IORPs. The studied period was 2014-2016. As a result of the peer review, EIOPA addressed 27 recommendations to 19 bodies from 16 countries, with no recommendations being addressed at the FSC's supervision activities.

Since the new Directive (EC) 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 did not foresee any significant changes in the requirements for the investment activities of the IORPs, the analysis as a result of the peer review remained valid after the introduction of this Directive.

Key aspects of ESRB's work

The main focus of the work of ESRB's authorities and structures in 2018 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 as a result of the prevailing (geo)political uncertainty and the policy at a global level and in Europe (Brexit). Among the main risks was the slowdown in growth rates, which posed a challenge to public and private debt sustainability for highly indebted economies, as well as vulnerabilities in the non-banking financial intermediation sector, which could reinforce the re-evaluation of financial markets, given their interconnectedness.

In the past year, the ESRB **assessed the compliance of the measures and activities under Recommendation ESRB/2012/1 on money market funds** (addressed to the EC).

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 recognizing the countercyclical buffer rate as defined by BNB in the amount of 0% in 2018, applicable to credit risk exposures in the Republic of Bulgaria. On 26 September 2018, the BNB set a countercyclical buffer level of 0.5% in effect as of 1 October 2019, with the 0% level having been applied before then. In a decision whereby the FSC recognized the level of the countercyclical buffer set by the BNB at 0% for the fourth quarter of 2018 and for each subsequent quarter until the fourth quarter of 2019, and 0.5% for the fourth quarter of 2019, the Commission reminded that investment firms might be exempted by the FSC from maintaining a safeguard capital buffer and/or specific countercyclical capital buffer when implementing the provisions of Art. 80, respectively Art. 83 of Ordinance No. 50. In 2018, the ESRB commenced an assessment of the compliance of the measures adopted by the national competent authorities with the recommendation.

In line with **Recommendation ESRB/2015/1 on recognising and setting countercyclical buffer rates to third-countries**, ESRB member countries made an annual analysis and identification of third countries to which domestically licensed institutions had substantial exposures, notifying ESRB about this. According to Decision ESRB/2015/3, the ESRB also drew up a list of key third countries for the banking system of the entire European Union that in 2018 included Brazil, China, Hong Kong, Russia, Singapore, Switzerland, Turkey and the United States.

In connection with **Recommendation ESRB/2015/2 on the assessment of cross-border effects and voluntary reciprocity of macro-prudential policy measures** over the past year, the ESRB recommended the application of reciprocity of national measures in Belgium, France and Sweden and the application of a materiality threshold for the systemic risk buffer in Estonia.

Due to the lack of a common statistical methodology at a European level on definitions and available statistics on commercial real estate, the ESRB extended the deadlines for drafting of preliminary reports by national competent authorities to the end of 2019 under **Recommendation ESRB/2016/14 on closing real estate data gaps**. Two years after issuing warnings of medium-term risks and threats to residential real estate markets in 8 European countries, the ESRB initiated a subsequent assessment of the housing real estate market for all EU Member States. The final report on the assessment of risks and threats to the real estate market in the EU will be prepared in 2019.

The ESRB issued **Recommendation ESRB/2017/6 on liquidity and leverage risks in investment funds** (addressed to the EC and ESMA).

In connection with the work of the ESRB on **macro-prudential policy beyond banking**, a Report on macro-prudential instruments in insurance was prepared and published, a third edition of the Shadow Banking Monitor in the EU, was drawn up and published together with a publication containing indicators to monitor potential systemic risks through central counterparties.

7.2. 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 globalized 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 Organization of Securities Commissions – IOSCO**, the **International Association of Insurance Supervisors – IAIS** and the **International Organization of Pension Supervisors – IOPS**.

With regard to FSC's activity in exchanging information with foreign regulatory and supervisory authorities related to the investigations of natural persons and companies, license and other procedures, during the past year FSC continued to provide active support. 58 requests for cooperation received from foreign supervisory authorities were satisfied pursuant to IOSCO, IAIS and ESMA's memoranda of understanding. In turn, FSC has filed 24 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. On 7 – 8 November 2018, FSC as a leading group supervisory authority of EUROINS INSURANCE GROUP hosted a work meeting of the supervisory college with representatives of the Greek and Romanian financial supervisory authority and the Macedonian insurance supervision. Representatives of EIOPA also participated in the event.

In view of the intention of the Republic of Bulgaria to join the Exchange Rate Mechanism (ERM II) and the commitments arising for the FSC from the Council of Ministers Decision No. 611 of 27.08.2018 approving an Action Plan including measures for the implementation of the Republic of Bulgaria's intentions for joining ERM II and the Banking Union, in the past year the FSC applied with a project to receive support under the Structural Reform Support Program (SRSP). It was aimed at national authorities for measures related to reforming and strengthening institutions, governance, public administration, and the economic and social sectors. The project aimed to increase the administrative capacity of employees in terms of valuation of assets and liabilities in the non-banking financial sector and the development and implementation of a risk-based supervisory system under Solvency II. The project proposed by the FSC was included in a list of prioritized applications for 2018 for receiving support under the SRSP, and subsequently the FSC's request was included as part of a more comprehensive project on "Technical assistance for participation in the Exchange rate mechanism II and the euro area", which was still the subject of discussions between the EC services and a formal decision was pending.

FSC, in its capacity as the institution responsible for Bulgaria as an Officially Appointed Mechanism (OAM) by virtue of Art. 21 of the Transparency Directive 2004/109/EU, was included in a pilot project of the European Commission (EC) to set up the European Financial Transparency Gateway (EFTG). In order to facilitate the integration of EU capital markets, registers of officially defined mechanisms of individual Member States should be interlinked, this being also one of the main objectives of the Capital Markets Union. The FSC actively participated in the implementation of the project at the base level, which provided the opportunity to install and operate one or several virtual machine devices as part of the blockchain platform. FSC would be provided with technical assistance from the EC to install and operate the device/devices and the FSC would be able to host one or more bases.

Another project in which the FSC was involved was in the field of financial education and was implemented by the International Network on Financial Education of the Organization for Economic Cooperation and Development and the Ministry of Finance of the Netherlands. That was a 5-year project (2018-2022) and it aimed to provide support for the development and implementation of country-specific initiatives in the field of financial education adapted to the specific needs of the countries, incl. developing and implementing a Strategy for financial education. A total of seven countries took part in the project – Bulgaria, Romania, Croatia, Macedonia, Montenegro, Moldova and Georgia. The project had high priority, including in connection with the Republic of Bulgaria's application for membership in the Organization for Economic Cooperation and Development. An inter-departmental working group was set up to implement the project, with both governmental and non-governmental organizations involved. Project Coordinator was the Ministry of Finance.

In the context of the Bulgarian Presidency of the Council of the EU, the FSC Chairperson presented the European Regulatory Framework and the Commission's priorities during the financial conference at the International High-Tech Exhibition in China's Capital, Beijing, 13-19 May 2018.

7.3. 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 maintained and deepened its cooperation with state structures, industry associations of the entities it supervised and other stakeholders in view of the changes to legislation in the works and with the practical issues arising during its implementation, as well as with other authorities and institutions involved in the protection of consumers of non-banking financial services.

The Commission was actively cooperating with branch associations – the Bulgarian Association of Asset Management Companies (BAAMC), Bulgarian Association of Licensed Investment Firms (BALIF), Bulgarian Association of Supplementary Pension Security Companies (BASPSC), the Association of Bulgarian Insurers (ABI), the Bulgarian Association of Insurance Brokers (BAIB), as well as numerous institutions – National Revenue Agency (NRA), State Agency for National Security (SANS), Bulgarian National Bank (BNB), Ministry of Finance (MF), Ministry of Interior (Moi), Ministry of Health (MH), Ministry of Transport, Information Technology and Communications (MTITC), Registry Agency (RA), Automobile Administration Executive Agency (AAEA).

No new cooperation agreements were concluded in 2018.

In the course of the year, in a written procedure, the FSC participated in the coordination and adoption of the Joint Protocol on the basis of Art. 5, para. 1, Art. 23 para. 2, Art. 24 para 3 and Art. 25 para. 4 of Ordinance No. 54 of 30.12.2016 on the registers of the Guarantee Fund for the exchange and protection of information and for the issuance and reporting of the compulsory insurances under Art. 461, items 1 and 2 of the Insurance Code (Ordinance No. 54). The protocol was provided in accordance with the requirements of Ordinance No. 54 and further developed its provisions at the technical level in order to ensure the process of data exchange between the information systems of the Ministry of Interior and the Guarantee Fund for the purposes of the compulsory Motor Third-Party Liability insurance.

In connection with the commitments of the Republic of Bulgaria during the Presidency of the Council of the European Union, representatives of the Insurance Supervision Division took part in preparatory meetings with representatives of the Ministry of Finance in order to develop a draft regulation of the European Union regarding an European-wide product for personal pension insurance.

In the reporting year, the participation of a representative of the Insurance Supervision Division in the meeting of a work group formed by an Order by the Minister of Healthcare continued. The group's task was to draft an Ordinance on the general conditions, minimum insurance amount, the rules and terms for insurance under Art. 201, para. 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. A draft ordinance was considered at the meeting.

In 2018, representatives of the Insurance Supervision Division participated in a working meeting at the Ministry of Transport, Information Technology and Communications dedicated to the issues of insurance of motor vehicles transporting dangerous goods. The meeting was followed by the participation of representatives of the Insurance Supervision Department in a meeting of the Monitoring Committee on the Revenue Agencies and Combating the Parallel Economy and Smuggling of the National Assembly. The meeting discussed possible amendments to the Insurance Code for the insurance of motor vehicles carrying dangerous goods by road.

In the course of the work on a draft of the Instructions on the certification under Art. 126, para. 3 of the Insurance Code of the annual statements under Art. 3, para. 1, items 1 and 2 of Ordinance No. 53 of 23.12.2016 and on the samples with annual quantitative data under art. 304, para. 1, letter d) of Regulation (EU) 2015/35, a work meeting was held with representatives of the Institute of Certified Public Accountants (ICPA). Subsequently, on 20 February 2018, the ICPA Management Board approved Guidelines for the

preparation of a report of factual findings (Report) by a registered auditor in relation to the requirements of Art. 126, para. 3 of the Insurance Code, which became annexed to the above mentioned instructions.

Within the reporting year, during the work on the project for an ordinance on the bonus-malus system, 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. Meetings, including teleconferencing, were held with the participation of the selected consultant with international experience in the field of risk management and actuarial work in relation to the ongoing work on the system development report. Following the presentation of the consultant's report, representatives of the Insurance Supervision Division were included in a working group together with representatives of the Ministry of Interior and the Ministry of Transport, Information Technologies and Communications, which developed a draft Ordinance on uniform requirements for the adjustment of the insurance premium depending on the behavior of the driver of the vehicle covered by an insurance contract for compulsory Motor Third-Party Liability insurance pursuant to Art. 490, para. 5 of the Insurance Code. Following the publication of the draft Ordinance, a series of meetings with various stakeholders and organizations were held to discuss the draft, and on 03.12.2018 in the National Palace of Culture in Sofia city, a public discussion of the project was held.

As part of the work on a draft Law on the amendment and supplement of the Insurance Code, representatives of the Insurance Supervision Department participated in working meetings with representatives of insurers and insurance firms, in working groups with the administration of the National Assembly for drafting the final texts, and at the sessions of the National Assembly committees on the adoption of the draft amendments and supplements to the Insurance Code. In connection with the situation arising from Interpretative Decision No. 1/2016 of 21.06.2018 of the Supreme Court of Cassation GACCTC, as a result of which the circle of persons entitled to compensation for non-pecuniary damages as a result of the death of an individual was widened and on the occasion of the proposals of the Association of Bulgarian Insurers for statutory limitation of the amount of compensations due to the authorized persons, representatives of the Insurance Supervision Division took part in a public discussion held on 08.11.2018 at the building of the National Assembly. The discussion presented the views on the proposed changes of all stakeholder groups.

In connection with the situation resulting from the revocation of the license of Insurance Company Olympic AD (Cyprus), in August and September of the reporting year representatives of the Insurance Supervision Division took part in meetings organized by the Minister of Finance to coordinate the actions of state institutions and non-governmental organizations to reduce the negative impact on the interests of the users of insurance services.

In connection with the concept of changes in the health insurance model developed by the Ministry of Health, on 14 September 2018 representatives of the Insurance Supervision Division participated in a meeting with the Minister of Health for the initial presentation of the model, and the experts were asked to express their prepared expert opinion at the meeting. Subsequently, a representative of the Insurance Supervision Division took part in a round table on the proposed changes in the model of financing the healthcare system, which took place on 26.09.2018 in the National Palace of Culture. Within the framework of the same initiative, representatives of the Insurance Supervision Division were included in the working group "Financing of the Healthcare System" created as a result of an order of the Minister of Health for preparation of proposals for changing the health insurance model in the Republic of Bulgaria. The working group held a series of meetings between October and December 2018 and prepared a report on changes in the health insurance model.

In connection with the problems raised by the Ministry of Defense on the insurance of vehicles with foreign registration of US military personnel permanently residing in the Republic of Bulgaria, a meeting

was held in December 2018 with representatives of the Ministry of Defense, the Embassy the United States in Bulgaria and the US Armed Forces. Proposals for changes in the legal framework were discussed at the meeting to allow for the long-term insurance of third-party liability insurance of the personal cars of such military employees and their related persons residing with them in our country, avoiding the time limits for insurance of motor vehicles registered in a third country. As a result of the meeting, proposals for amendments to the Insurance Code were developed.

In the course of the current work, representatives of the Insurance Supervision Division took part in:

- a working meeting with representatives of insurers, the Ministry of the Interior and the Guarantee Fund, on which practical issues were discussed in relation to special-regime motor insurance;
- a meeting at the Ministry of Finance on motor vehicle taxation, discussing the criteria on the basis of which it would be most appropriate for the taxation to be carried out;
- a working meeting with representatives of the economic police on matters relating to the conclusion of insurance contracts;
- Public discussion of a draft Road Traffic Act, a draft of the Road Vehicles Act and a draft of the Motor Vehicle Drivers Act.
- A working meeting with representatives of the Ministry of Tourism on questions posed by them regarding the compulsory insurance under the Tourism Act.
- Conference on the issues of road safety.

In 2018 representatives of the Social Insurance Supervision Division took part in:

- working meetings with representatives of the National Revenue Agency (NRA) in connection with the preparation of an Agreement for cooperation and exchange of information between the FSC and the NRA and presentation of access to electronic services ensuring the process of data exchange between the NRA and the Bulgarian Association of Supplementary Pension Security Companies (BASPSC);
- meetings of a working group with the leading institution being the Ministry of Labor and Social Policy with the purpose to develop a draft Law on the amendment and supplement of the Social Security Code in order to regulate the payment phase of supplementary mandatory pension insurance;
- working meetings with representatives of the Ministry of Finance and the BASPSC on a draft Law on the amendment and supplement to the Social Security Code introducing the requirements of Directive (EU) 2016/2341 on the activities and supervision of institutions for occupational retirement provision, etc.

In 2018, the participation in the permanent working groups of the Council on European Affairs continued, in particular in Working Group 26 “Financial Services” with the leading institution being the Ministry of Finance, Working Group 2 “Free Movement of People” and Working Group 13 “Social Policy and Employment” at the Ministry of Labor and Social Policy, as well as the participation in a working group with the leading institution being the Ministry of Finance in relation to the implementation and reporting of the measures under the Action Plan for the implementation of the Republic of Bulgaria’s intentions to join the Exchange Rate Mechanism II and the Banking Union (ERM II).

A representative of the Social Insurance Supervision Department took part in the procedure for the official distribution of the persons who had not selected a fund for supplementary compulsory pension insurance that was carried out in accordance with Instruction No. 1/21.02.2006. The official distribution was carried out four times a year by a Commission created with the National Revenue Agency which included one authorized representative of each NRA, FSC and the Bulgarian Association of Supplementary Pension Security Companies .

8. Institutional development of FSC

8.1. New points in FSC's management and structure

In 2018, the FSC made changes in its organization and structure. The changes were in line with the amendments made to the Financial Supervision Commission Act in 2018. In order to make the institution more efficient, the processes of coordination between the Commission's bodies and the organization of its meetings were optimized.

During the year, amendments were made to the Rules for the structure and activities of the Financial Supervision Commission and its administration (RSAFSCIA) with the purpose of determining the procedure for handling complaints against refusals under Art. 33, Art. 49, Art. 52 of Regulation (EU) No. 909/2014 of the European Parliament and of the Council of 23 July 2014 on the improvement of the settlement of securities in the European Union and on central securities depositories, as well as amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No. 236/2012 (Regulation (EU) No. 909/2014) (OJ L 257 of 28.8.2014) issued by a central securities depository, as well as complaints against refusals under Art. 53 of Regulation (EC) No. 909/2014, which had been issued by a central securities depository, respectively a trading location or a central counterparty.

In connection with the provision of Art. 15 of the Implementation of the Measures against Market Abuse with Financial Instruments Act (IMMAFIA), a procedure was set out in the RSAFSCIA regulating the reporting of violations of the IMMAFIA and of Regulation (EU) No. 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (Market Abuse Regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council, and Directives 2003/124/EC, 2003/125/EC and 2004/72/EU of the Commission (Regulation (EU) No. 596/2014) (OJ L 173, 12.6.2014) and its implementing acts. In connection with the provision of Art. 15, para. 4 of the IMMAFIA, an effective organization was established under which the FSC provided on its website information on the confidentiality regime of the information that was applicable to the notification of violations, including a detailed description of the circumstances in which the confidential data of an individual who had submitted a report, can be disclosed in accordance with Art. 27, 28 and 29 of Regulation (EU) No. 596/2014.

With regard to the entry into force of Regulation (EC) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of individuals with regard to the processing of personal data and on the free movement of such data and repealing Directive 95/46/EC (General Data Protection Regulation) (OJ L 119/1 of 4 May 2016), the RSAFSCIA set out the functions of the data protection officer, which were generally the following:

- they would monitor the compliance with the General Data Protection Regulation, other European and national data protection provisions and FSC policies in the field, including for awareness-raising and training for FSC staff;
- they would inform and advise the FSC, its bodies and employees handling personal data about their obligations arising from the General Data Protection Regulation and other relevant provisions;
- they would advise the Commission and its bodies on the preparation of the assessment of impact on data protection;
- they would act as a contact person for the supervisory body (the Personal Data Protection Commission) on matters concerning the processing of personal data in the FSC, including on prior consultation and expedience;
- they would also perform other activities under the Protection of Personal Data Act, which had been assigned to them by the FSC Chairperson.

In connection with the requirements of Art. 28 of the Ordinance on the General Requirements for Network and Information Security (Prom., SG, issue 5 of 2017), the RSAFSCIA set out the functions of the

employee in charge of the network and information security, who was directly subordinated to the Chairperson of the FSC. The employee performs the functions, which were generally the following:

- they were in charge of the activities related to the FSC achieving network and information security, in accordance with the legal framework and policies and the objectives for network and information security of the institution in relation with the information security and internal audit units;
- they would monitor the implementation of the standards, policies and rules for network and information security and risk management at the FSC;
- they would periodically draw up reports on the state of network and information security;
- they would investigate and analyze network and information security incidents and would propose sanctions for FSC employees in cases of violation of security rules;
- they would carry out other functions described in Appendix No. 2 of the Ordinance on the General Requirements for Network and Information Security.

The amendments to the RSAFSCIA provide for the FSC to have an inspectorate consisting of a head and two inspectors, specifying its activity in accordance with the legal requirements.

8.2. 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 approved number of employees working at FSC as at the end of 2018 was 255 (five members and 250 persons working in administration). According to the distribution of functions, the Commission's administration consisted of general and specialized administration and units and positions directly subordinate to the chairperson: Chairperson's Office, Internal Audit Unit, Inspectorate, Chief Secretary, Financial Controller, Information Security Officer, Data Protection Officer, and Network and Information Security Officer.

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 specialized administration, and performs activities related to administrative services for citizens and legal entities. At the end of 2018, the following directorates comprised the general administration:

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

According to the RSAFSCIA, the Legal, International Cooperation and Coordination and Regulatory and Regulatory Affairs Directorates were part of the general administration but in the exercise of their functions they were directly subordinate to the Chairperson of the Commission.

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

- Regulatory Regimes of Investment Activity Directorate – 25 permanent posts;
- Supervision of Investment Activity Directorate – 56 permanent posts;
- Regulatory Regimes of Insurance Supervision Directorate – 14 permanent posts;
- Insurance Supervision Directorate – 33 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 had as its priority the improvement of conditions and provision of favorable 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 fulfillment of professional assignments, achieved results and regulatory requirements.

As a result of the actions undertaken to attract experts with the required professional qualifications, the number of permanent posts occupied in the Commission increased by 11% from 198 at the end of 2017 to 220 at the end of 2018, reaching an employment rate of 86.7 % of the total number.

In order to provide the resources for the Commission's activities and attract highly qualified experts from the beginning of 2018, new positions have been created with a change in the FSC's staff agenda, new job descriptions with increased requirements and competencies were established, a new scale of the basic salaries was approved.

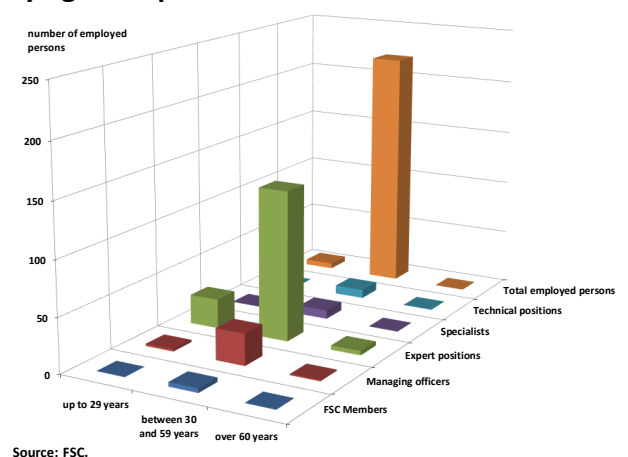
The new procedure for selection of applicants for working at the FSC adopted in 2018 ensured full transparency of the selection process and was based on the competition principle based on the professional and business qualities of the candidates. The procedure regulated the appointment of experts with the necessary qualifications and experience in the non-banking sector, with strict observance of the legal framework in the field of labor relations. The circle of publicity when recruiting candidates with a special interest in economy and possessing the knowledge and competencies sought by the FSC was expanded.

In 2018, 50 new employees were recruited, strictly following the established Candidate Selection Procedure, including 9 employees on the positions of financial and system analysts and actuaries holding the high level of expertise required by the FSC.

There were 30 resignations in 2018 (compared to 53 in 2017). Also, during the reporting year, the employment of 4 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 (85%). There are 5 FSC employees over the age of 59.

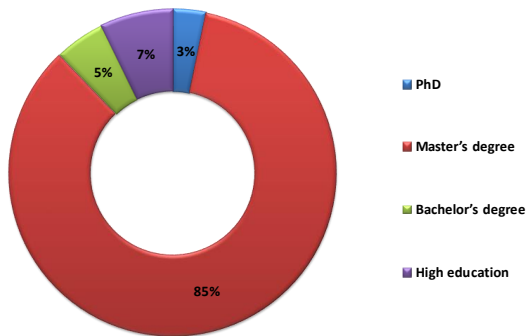
Graph 16. Distribution of appointed employees by age and position as at the end of 2018



The educational and professional qualification structure of the persons employed at FSC meets the real needs required to implement the tasks and goals of the Commission. Employees with higher education are predominant, accounting for 93% of the employees in 2018, including those having a PhD (3%), a Master's degree (85%) and a Bachelor's degree (5%). The share of employees with secondary education is

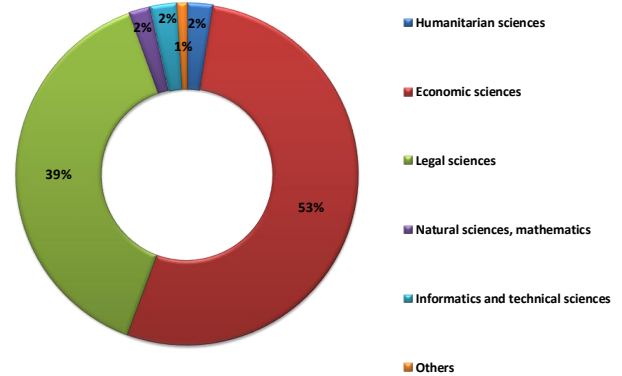
the lowest (7%). The distribution of FSC employees by areas of higher education was as follows: the highest percentage (53%) were employees with higher education in the field of economic sciences, 39% – in the field of legal sciences, 2% – in the field of social sciences, 2% – technical sciences and informatics, 2% – natural sciences and mathematics, and 2% had education in other fields.

Graph 17. Distribution of employees by educational degree in 2018



Source: FSC.

Graph 18. Distribution of employees by areas of higher education in 2018



Source: FSC.

The 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 specialized trainings.

For the enhancement of the administrative capacity of the FSC, 30 specialized trainings were conducted, involving 38 employees. The seminars were organized by European and international institutions – the European Securities and Markets Authority (ESMA), the European Insurance and Occupational Pensions Authority (EIOPA), the Joint Vienna Institute and the International Monetary Fund (JVI & IMF), the European Systemic Risk Board (ESRB).

In connection with an agreement concluded with the CFA Institute, 3 employees were approved and included in the CFA – Level I training program.

In order to absorb the specifics and innovations in the field of financial reporting and analysis and maintain a high level of professional competence of the employees, in 2018, 63 training sessions were carried out involving 143 employees. The training was mainly in the field of financial management and control, public sector risk management, impact assessment and personal data protection, using the eLearning opportunities without leaving the workflow.

To meet the needs of specialized professional training of actuaries in life insurance and non-life insurance, pension and health insurance, finance and investment management, 2 employees of the Insurance Supervision Division were included in the education program for actuaries of the Bulgarian Actuarial Society (BAS) and successfully passed part of the exams.

The motivation for better performance of the job and the achieved results of the employees' activity provided an opportunity for career development. Promotion to a higher position in the Commission was given after an objective and fair assessment of the candidates' development potential, in line with the principle of equality, with 38 employees being promoted in 2018, 15 of them to managerial positions.

In 2018, the Financial Supervision Commission continued its participation in the Program for Student Internships in the State Administration and provided the opportunity for full practical internships for Bulgarian students educating themselves in the country and abroad.

8.3. Development of information technologies for the needs of supervision

In 2018, the information and communication systems in the Financial Supervision Commission provided an opportunity to all officials to fulfill their duties by ensuring the traceability of actions and processes, as well as implementing effective control over the information provided. During the reporting period, a sustainable and planned trend was maintained for the development of the FSC's current IT infrastructure, as well as for the individual registers and information systems. 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. All the other circumstances were being duly updated in the e-Register and the ERiK index on the basis of the information submitted in the orders by specialized divisions of the FSC. The electronic portals available through the FSC website continued to allow the regulated entities to receive, control, process and disclose regulated information in an fully automated way.

The timely introduction of specific orders and instructions on the duties of the personnel, the performance of the assigned tasks, as well as all supervisory and regulatory actions resulting from the activities of the FSC as a supervisory body of the non-banking financial sector, were implemented through an automated information management system for document and work process management AIS-Document Flow. The system was introduced in the middle of 2018, with functionality that maintained and complied with all modern and normative requirements for modern electronic document exchange, including through electronic signing of files and electronic working papers, when necessary. The system maintained a functionality for automatic inter-departmental exchange of electronic documents - IC.

During the reporting period, the FSC continued to actively participate in the working groups of ESMA and EIOPA looking to introduce IT solutions and implement them for supervisory purposes at a local level. At the end of 2018, following an invitation from the European Commission, the FSC actively participated in a project for a single European Financial Transparency Portal based on blockchain technologies – EFTG.

In compliance with the plan set out and the modern requirements imposed on information technologies in the FSC, in 2018, an automated information system was introduced to ensure the implementation of Art. 26 of Regulation (EU) No. 600-2014, with which all liable persons were given the opportunity to report the concluded transactions pursuant to the provision in Art. 26 of 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. The system successfully accepted, validated and processed the incoming daily information on realized investment transactions of all investment firms operating on the territory of the Republic of Bulgaria.

During the reporting period, a project on the establishment of a single information system (SIS) was launched with a main focus and priority. The objective of the project was to unite and consolidate all available electronic registers and portals in the FSC in a common platform and information system, thereby significantly improving the supervision activity of the FSC, providing a comprehensive analysis of all received data, as well as application of subsequent risk-based supervision, control and regulation. On the other hand, the construction and deployment of the SIS would also ease the administrative burden on supervised entities by providing a single access point for registration, review and submission of information. Within the scope of the SIS, more than 200 electronic administrative services (EAS) were available, accessible to the public and to supervised entities. The project started with internal business analysis and elaboration of a detailed technical specification, including all the business processes carried out in the different specialized divisions and directorates. As a result, the prepared technical assignment contained high and modern technological solutions and approaches with full integration and exchange of

data and information both with local government administrations and with organizations and committees with which the FSC had direct relations in terms of its specific activity.

The main objectives and expected outcomes of the project for the construction of a SIS can be summarized as follows:

- Presence of a single information system in the Financial Supervision Commission;
- Implementation of reliable and up-to-date secure channels for applicants when submitting applications, notifications, periodicals, and other documents;
- Automation of the process of processing, control and analysis of the data and documents submitted by the FSC employees;
- Reduction of the deadline for processing the received information;
- Reduction of the deadline for feedback on EAS provided or information submitted to the applicant;
- Automation and control of the process, as well as shortening the deadline for publication of information contained in the submitted applications and data, as well as in the decisions of the FSC;
- Automatic data analysis and compliance with Regulation (EU) 2016/679 upon their disclosure in the relevant Public Electronic Register;
- Creation of an effective mechanism for implementing risk-based control;
- Automation and unification of business processes carried out by FSC;
- Migration of the administrative services performed by the FSC from level 1 to levels 3 and 4, according to the general legal framework;

During the reporting period, projects were launched for the renovation of the personnel workstations, replacement of the active network equipment and optimization of the local computer network. New support servers were put into operation. A communication and information transmission environment was built within the framework of the launched project to build a backup data center as a preventive measure for the protection of information and the possibility of a rapid recovery of IT services and data in the event of critical and accidental occurrences. An overall redesign and renewal of network security tools was carried out and new generation firewalls were deployed and put into service. In order to achieve the objectives and to increase the level of network security and protection against malicious and unauthorized access, a solution was implemented to control access to all IT resources and separate nodes in the infrastructure of the FSC.

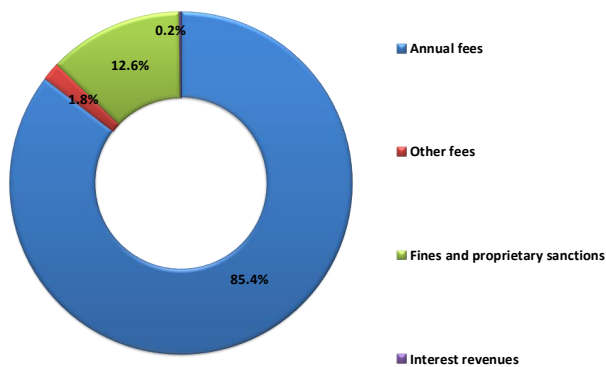
Virtualization of supporting and key information systems building the internal and external IT infrastructure of the FSC continued, as well as the maintenance of the already established systems for extractive printing and IP telephony.

8.4. FSC's budgetary implementation report for 2018

The Financial Supervision Commission is a legal entity supported by the state budget pursuant to Article 2, Paragraph 3 of the FSCA. The Chairperson of the Commission is a first-level budget authorizing officer. The Commission's budget is drawn up, implemented and accounted for in accordance with the Public Finance Act.

The statement on cash amounts in FSC's budget for 2018 reported a total income in the amount of BGN 21,153,586.

Graph 19. Structure of FSC revenues in 2018



Source: FSC.

The structure of revenues for 2018 was as follows:

- income from state fees – BGN 18,451,608. Fees received were reported in accordance with the Tariff as set out in the Annex to the FSCA (effective as of 01.01.2018). Of the total amount, BGN 18,441,981 were received on the account and at a cash desk at the FSC, and BGN 9,627 were reported under the paragraph on the basis of orders received for amounts collected by the National Revenue Agency (NRA). The largest relative share (97.90%) of reported

fees was the annual fee for overall financial supervision – BGN 18,063,644. The fees for the issuance of licenses and permits for carrying out activities and other permits and approvals amounted to BGN 378,337;

- proceeds from fines, pecuniary sanctions and interests – BGN 3,234,453, of which BGN 3,187,419 being fines and property sanctions under punitive decrees that had entered into force, and BGN 47,034 – interest on arrears of annual fees for general financial supervision and penal decrees not paid within the statutory term. Of the total amount of these incomes, BGN 2,705,378 were received in the FSC's account, and BGN 529,075 were reported as received statements and orders for amounts collected by the NRA;

- other non-tax revenues (-) BGN 532,475 – other non-tax revenues amounting to BGN 6,400, negative exchange differences (-) BGN 173, as well as the public receivables of the FSC collected by the NRA (-) BGN 538,702 were reported, which according to the instructions given by the Ministry of Finance were also reflected with a minus sign in the cash report.

As at 31.12.2018, the reported **expenditure** of FSC amounted to BGN **17,845,042**, allocated as follows:

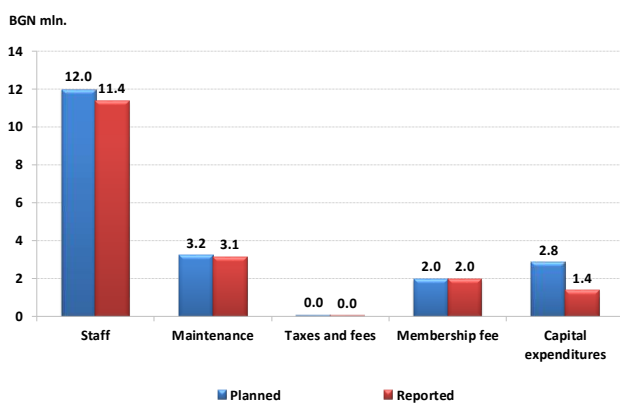
- staff costs – BGN 11,370,684, including reported payroll costs and remuneration of employees, remuneration paid to employees on non-permanent posts, those employed under Resolution No. 66 of the Council of Ministers for staffing of certain positions in budgetary organizations of 1999, amounts paid for non-employment contracts, for social, household and cultural services for persons under employment contracts, for compensations to employees and remunerations under Art. 40, para. 5 of the SIC, as well as costs for mandatory social insurance contributions due by the employer. Reported payroll and remuneration costs for 2018 amount to BGN 9,708,605;

- current operating costs – BGN 3,111,346. The amount spent on rent, security, cleaning and maintenance of the administrative building of the FSC, electricity, telecommunication and postal services, software products support, insurance, office materials, consumables and other supplies and services. Funds were also reported for expenditure for specialized training of FSC employees and business trips in the country and abroad. The Financial Supervision Commission represents Bulgaria in the European Supervisory Authorities and is also a member of three international organizations. Expenditures planned for missions abroad were related to participation in the meetings of the governing bodies of European structures, working groups and trainings, annual conferences of international organizations. The largest relative share of operational costs are the expenditure for renting the administrative building of FSC.

- costs for taxes and fees – BGN 41,332.

- costs for membership contributions and participation in non-commercial organizations and activities – BGN 1,965,108. The cost is for FSC's annual membership fees to the European bodies: EIOPA – European Insurance and Occupational Pensions Authority, ESMA – European Securities Authority, as well as annual membership fees in international organizations: IOSCO – International Organization of Securities Commissions, IAIS – International Association of Insurance Supervisors and IOPS – International Organization of Pension Supervisors.
- capital expenses – BGN 1,356,572, BGN 846,138 of which were for acquisition of tangible fixed assets, and BGN 510,434 were for acquisition of licenses and software products.

Graph 20. Structure of FSC expenditures in 2018 – planned and reported



Source: FSC.

Expenditure on budget items was within the approved budget for the year, aligned with fee revenues and represented 89.09% of the annual plan. The realization of the expenses was carried out under a strict financial control regime and was consistent with the FSC's objectives and priorities.

For 2018, **transfers to the central budget** were reported amounting to minus (–) BGN 3,310,191.

The reported **deficit** amounting to (–) BGN 1647 was compensated by an equivalent amount of **funding** with the opposite sign made from available foreign funds at BGN 1860 and the final balance on a foreign currency account, which in BGN equivalence was BGN 213.

Following a financial audit of the Annual Financial Statements of the FSC for 2018, the Court of Auditors expressed their opinion that the statement provided a true and fair view of the financial position of FSC as at 31 December 2018, its financial performance and its cash flows for the year, in accordance with the applicable general financial reporting framework in the public sector. The audit report concluded that the financial statements were free from material misstatement and therefore an “unmodified audit opinion” was expressed.

8.5. Activity Report on the Internal Audit at FSC for 2018

The activity of the Internal Audit Unit (IAU) in 2018 was carried out in accordance with the requirements of the Public Sector Internal Audit Act, the International Standards for Professional Practice in Internal Auditing, the Code of Ethics of Internal Auditors and the Methodology issued by the Minister of Finance.

During the period, the Strategic Plan for the Internal Audit Activity for 2017-2019 and the Annual Plan for the Audit Annual Schedule of Audits for 2018 were implemented, and the Unit achieved its objectives and activities.

The IAU performed a total of nine audit assurance audits and formal audits, the major ones being related to:

- audit for the assessment of the FSC's readiness to implement 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 (General Data Protection Regulation);
- audit of the supervisory activities (preliminary and on-going supervision) of the Insurance Supervision Division in order to assess the compliance with the legislation and internal acts, the adequacy of the activity and of the management and control systems;
- audit of supervisory practices and procedures of Investment Activity Supervision Division on the implementation of Regulation (EU) 596/2014 of the European Parliament and of the Council of 16.04.2014 on market abuse and Regulation (EU) 909/2014 of the European Parliament and of the Council of 23 July 2014 on the improvement of the settlement of securities in the EU and central securities depositories (CSDs), and of their implementing acts;
- participation in the working group on the drafting of the Risk Management Strategy for 2019-2021 and the FSC's Development Strategy for 2019-2021;
- an audit to establish consistency between the planned and actual actions undertaken in 2017-2018, on the implementation of the recommendations of the IAU.

The internal audit performed informal audit commitments for consultation mainly related to the review, analysis, and suggestions for changes, or addressing bylaws and internal rules.

As a result of internal audits, a total of 51 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 performance rate was maintained, with a full performance on 73% of the recommendations was reported in 2018. This showed effective communication during the audit commitments, as well as development of the ability to formulate suitable proposals for the improvement of the 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 need and possibilities for legislative changes.

As a result of the internal audit activity, the following main conclusions on the functioning of the financial management and control systems at the FSC could be drawn:

- The Commission established a steady process of goal setting with regard to the availability of outlined short-term strategic objectives, and determining of annual activities to achieve those. The budgetary independence secured and the establishment of budget sustainability would ensure the successful development of the institution;
- Risk management is an integral part of the activities of the Commission and of the general management process. Improvements were achieved in 2018 in connection with the adoption of a new FSC Development Strategy and Risk Management Strategy and the establishment of a practice that the risk register be developed in parallel with the organization's annual action plan. 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 of the Commission and integrating them into the operations (use of the document as a practical tool for preliminary consideration and identification of possible difficulties);
- Risks were generally taken into account in the rules and procedures regulating the audited activities in the Commission. In the analysis of control mechanisms it was 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) did not match the benefits of their application. The good financial

management required effective detection of unnecessarily complicated procedures and adequate measures to simplify them;

- Control mechanisms were integrated in the FSC's activity and were generally applied effectively, thus ensuring the compliance with applicable legislation and internal acts;
- The Commission undertook consistent actions to establish reliable communication and information and communication management systems. Efforts should be made in terms of the effective monitoring of the information systems in order to undertake timely action;
- At the FSC, activity was monitored effectively, thus allowing for changes and corrective actions, where necessary.

8.6. Report of the Inspectorate

The Inspectorate's activities during the reporting period assisted the Chairperson of the FSC in exercising their control functions with regard to the Commission administration's activity. The activity was entirely subject to the objectives set out in the Regulations on the Structure and Activities of the Financial Supervision Commission and its Administration, the Internal Rules for the Activities of the Inspectorate within the Financial Supervision Commission, the Administration Act, the Law Against Corruption and the Forfeiture of Unlawfully Acquired Property, the Ordinance on the structure and the minimum number of inspectorates, the order and procedure of their activity and their interaction with the specialized control bodies, as well as the other regulations detailing the activities of the inspectorates.

In exercising their powers, in 2018, the Inspector had the following objectives:

- Preventing and remedying violations in the administration's functioning;
- Improvement of the operation of the administration;
- Prevention and establishment of conflicts of interest;
- Prevention and limiting of corruption;
- Establishment of the completeness and authenticity of the data in the declarations under the Law Against Corruption and the Forfeiture of Unlawfully Acquired Property;
- Strengthening of the administrative capacity and improvement of the professional qualifications of inspectors;
- Improvement of interaction with other control bodies, organizations and units.

In order to achieve the objectives, the activities of the FSC's Inspectorate in 2018 were focused on:

- Performing general, specialized, thematic, planned, unscheduled and ex-post inspections on structures, activities and processes in the Commission's administrative work;
- Performing an assessment of the corruption risk in accordance with the methodologies under Art. 32, para. 1, item 6 of the Law Against Corruption and the Forfeiture of Unlawfully Acquired Property (LACFUAP) and proposing measures for limiting established vulnerabilities;
- Collecting and analyzing information and performance of inspections at their own initiative to ascertain violations, potential corruption and non-effective operation of the Commission's administration;
- Performing inspections based on signals and proposals against illegal or improper actions or inactions by officials of Commission;
- Inspecting the compliance with applicable laws, regulations and internal acts on the organization of the activities of Commission's administration officials;
- Collecting and storing the declarations of the FSC employees under § 2, para. 1 of the Supplementary Provisions of the LACFUAP;

- Controlling and verifying declarations under the procedure established by the ordinance under § 2, para. 6 of the Supplementary Provisions of the LACFUAP;
- Participating in the development of projects and proposals for new or amending interdepartmental acts regulating the organization of work and the activities of the Commission's administration;
- Performing inspections on the provision of administrative services for illegal or improper actions or omissions by officials of the Commission's administration;
- Implementing other activities related to administrative control, arising from regulatory acts or being commissioned by the Chairperson of the Commission;
- 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 Inspector performed a total of fifteen (scheduled and ad hoc) inspections:

- Three inspection for compliance with applicable laws, regulations and internal acts on the organization of the activities of administration officials;
- 4 inspections for submitting and checking of declarations under the LACFUAP;
- Two inspections for illegal or improper actions or omissions of administration officials;
- 3 inspections on corruption and ineffective work;
- 3 inspections at the initiative of the authority;

The FSC's Inspectorate initiated 3 (three) changes in normative and interdepartmental acts.

As a result of the inspections performed in 2018, 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. No illegal or improper actions or omissions of the FSC's administration officials were allowed; No conflicts of interest and non-observance of the deadlines for submitting declarations under the LACFUAP were established. Nevertheless, concrete proposals were made to improve the activities of the respective administrative units in the FSC.

II. MARKET ANALYSIS OF NON-BANKING FINANCIAL SECTOR

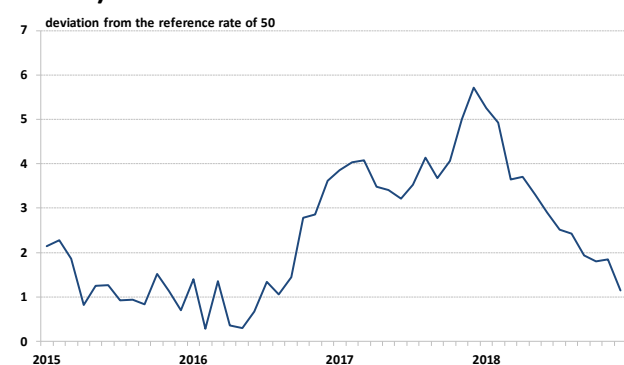
1. External environment and economic activity

1.1. External environment

The growth of the world economy in 2018 slowed down to 3.6%, compared to 3.8% in the previous year. Among the factors influencing this dynamics of global economic activity were tensions in international trade relations, particularly between the US and China, as well as the slowdown in the Chinese economy as a result of limited trade and due to tightening the measures of the country's credit policy. Growth in the euro area economy slowed down considerably in the second half of 2018 in a deteriorated business climate and consumer confidence with expected normalization of monetary policy, as well as a lack of clarity on the UK's exit from the EU.

In 2018, the leading index PMI for new orders in industry declined, reaching in December its lowest level in the last twenty-eight months. The slowdown in the global economy and the continuing trade disputes between the US and China were reflected in the downward trend of the index, which at the end of 2018 reached 51.14 basic points, slightly above the benchmark of 50, which was defined as the limit between economic expansion and the decrease of the economy.

Graph 21. PMI index for manufacturing (new orders)



Source: IMF.

Despite its recovery in 2017 and stabilization in early 2018, the world trade slowed down in the second half of 2018, with the global trade volume index at the end of the year reporting its lowest growth rate 1.4% for the last 31 months. While the slowdown in countries where economic activity was above potential was expected, declining market expectations linked to global

trade tensions after the US repeatedly increased customs tariffs on imports of goods from China further adversely affected the development of world trade.

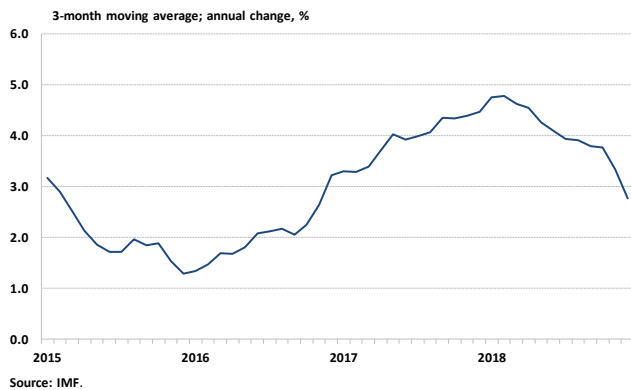
Graph 22. World trade



Source: IMF.

Reduced costs of investment in fixed assets and a slowdown in global activity contributed to weaker demand for industrial goods. Reduction of liquidity and other concessions by central banks also affected industrial production, whose growth in December 2018 slowed down to 2.8%.

Graph 23. Industrial Production Index

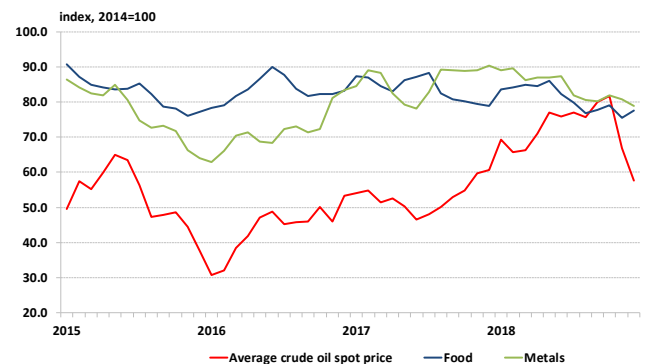


Reduction of the prices of basic raw materials in 2018 was largely due to the drop in the oil prices. The average spot price of oil dropped to \$ 57.6 a barrel in 2018, which was a reduction of -16.8% on an annual basis. Both the temporary lifting of US sanctions on Iranian oil exports to some countries and the high crude oil production in the United States had an impact on this dynamics. In December 2018, the Organization of the Petroleum Exporting Countries (OPEC) and other producers (including Russia) agreed to cut crude oil production to support prices.

Prices of metals also dropped in line with weaker global demand. In 2018, the global price index of metals declined by -11.4%. The average monthly price of aluminum in December 2018 dropped by -13.5% compared to January of the same year following the lifting of the US sanctions against the Russian aluminum producer Rusal and the expectations for the Brazilian federal government to lift the embargo on production on Alurone (the world's largest aluminum refinery).

The price index for agricultural products traded on international markets declined in the end of 2018 due to overproduction of some grain markets, trade tensions and weaker currencies in emerging markets. Despite the rise in prices for sugar and corn, the overall food price index recorded a decrease of -7.2% in 2018.

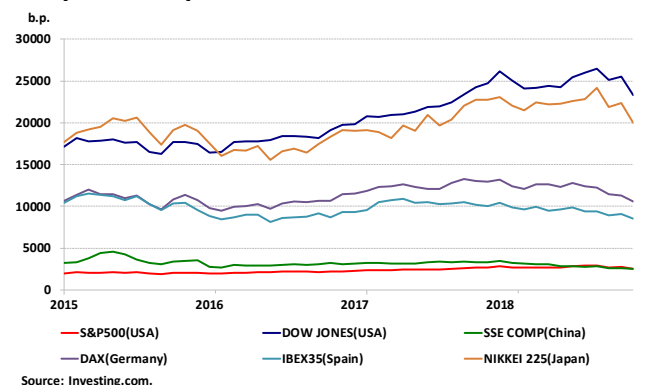
Graph 24. Dynamics of prices of food, energy resources and metals



Capital markets globally reported a downward trend in the second half of 2018. European capital markets declined mainly due to the revised expectations of weaker economic growth in the context of the curtailment of the ECB's asset purchase programme. Within the euro area, the German DAX decreased by -19.9%, while the Spanish IBEX35 decreased by -18.3%.

The US indices S&P500 and DOWJONES decreased from -11.2% and -10.8%, respectively for in 2018. Asia's stock markets in 2018 also went down, with Chinese SSE COMP decreased by -28.4% and Japanese NIKKEI225 decreased by -13.4%.

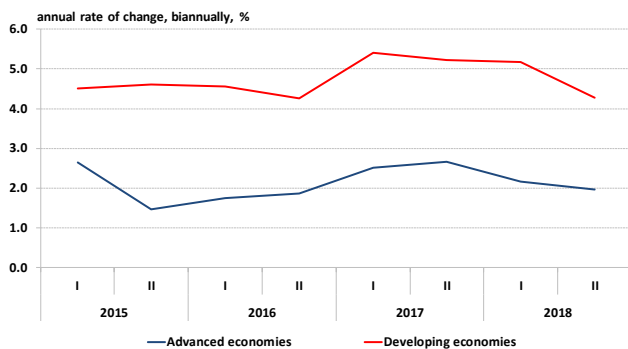
Graph 25. Capital markets



Global economic growth slowed down to 3.6% in 2018. Developed economies increased by 2.2% in 2018, down from 2.4% in 2017. Among them was the US economy, which grew by 2.9% in 2018 compared to 2.2% in the previous year due to low unemployment and high consumer and business confidence.

In 2018, the economic slowdown for both developed economies and emerging markets was due to increased trade tensions between the US and China. Growth in China slowed down from 6.8% in 2017 to 6.6% in 2018 due to weak external demand, strengthening domestic regulatory debt mitigation measures and declining investments in the country, particularly in infrastructure.

Graph 26. Real GDP growth



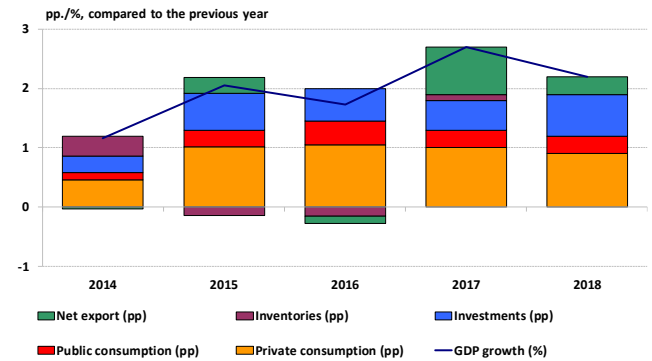
Source: IMF.

In 2018, real GDP growth in the euro area slowed down to 1.8% compared to 2.4% in 2017. The main driver of growth was household consumption (0.9 percentage points) and investments contributing 0.7 percentage points to GDP growth. Foreign trade was the main limitation of growth due to the slowdown in the global economy and complicated international trade relations, with net exports decreasing from 0.8 percentage points in 2017 to 0.3 percentage points in 2018.

Automotive production in Germany (one of the EU's leading industries) reported a significant decline in the year following the introduction of new emission standards.

GDP growth in the United Kingdom slowed to 1.4% in 2018 from 1.8% in 2017 due to decrease in the retail consumption and the barriers to trade and cross-border financial operations in connection with Brexit.

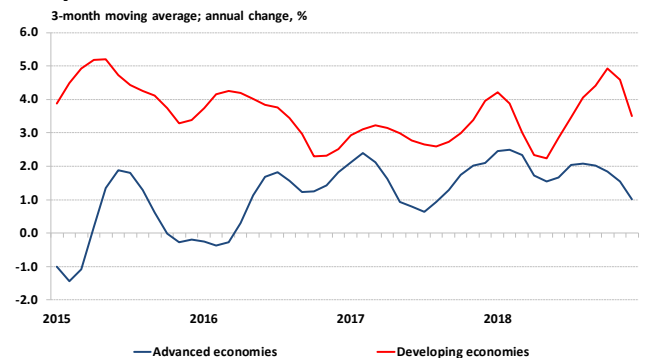
Graph 27. GDP growth in the euro area



Source: Eurostat.

In 2018, global inflation was rising, and in most developed economies it failed to reach the target values of central bank monetary policy despite low unemployment. Inflation in developed countries rose to 2% compared to 1.7% in the previous year, and in emerging markets and emerging economies it rose to 4.8% compared to 4.3% in 2017.

Graph 28. Inflation

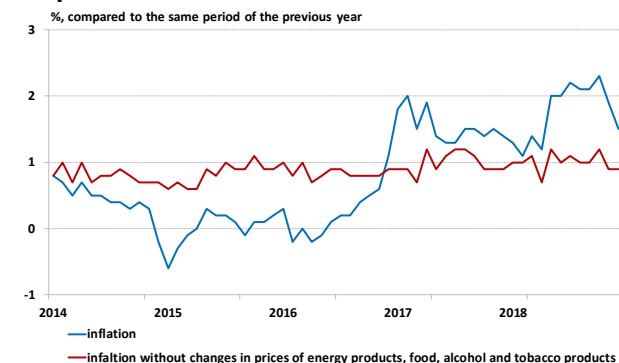


Source: IMF.

In 2018 the inflation in the euro area increased to 1.8% 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 remained unchanged at 1%.

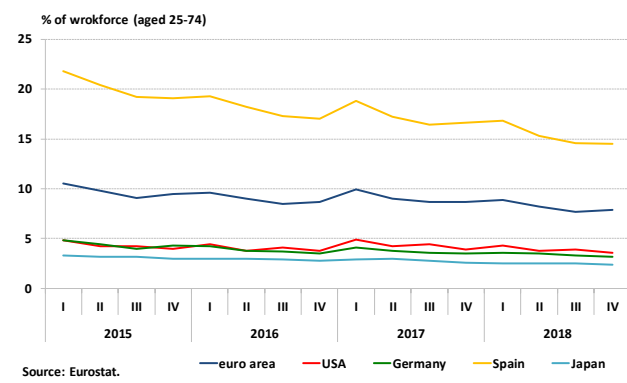
Graph 29. Inflation in the euro area



Source: Eurostat.

The labor market in the USA improved, with unemployment rate decreasing to 3.9% in 2018 compared to 4.9% during the previous year. Euro area unemployment rate in 2018 decreased to 8.3% compared to 9.1% in 2017. Unemployment in Greece (19.3%) and Spain (15.3%) was highest. The lowest remained unemployment rate in Germany (3.4%).

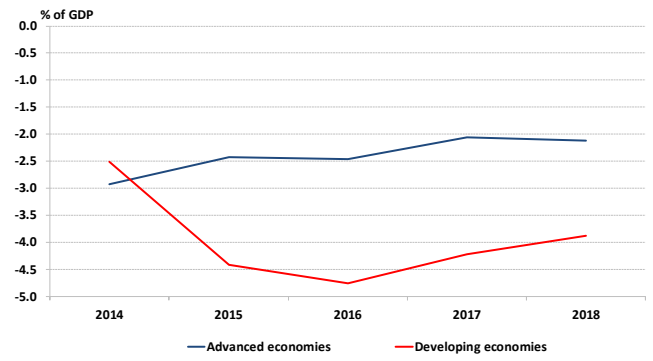
Graph 30. Unemployment dynamics on a global scale



Source: Eurostat.

In 2018, there was a decrease of budget spending on a global scale. The budget deficit in developed economies in 2018 remained unchanged at -2.1% of the GDP, while in developing economies, the negative budget balance shrank from -4.2% in 2017 to -3.9% of the GDP in 2018.

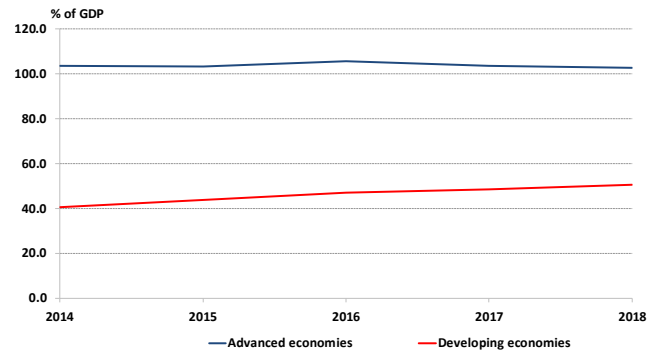
Graph 31. Balance of public finances



Source: IMF.

The size of public debt worldwide was mixed for different groups of countries in 2018. In developed countries, public debt declined to 102.6% in 2018 compared to 103.6% of the GDP in 2017. Public debt in emerging economies increased to 50.6% in 2018 compared to 48.5% in the previous year.

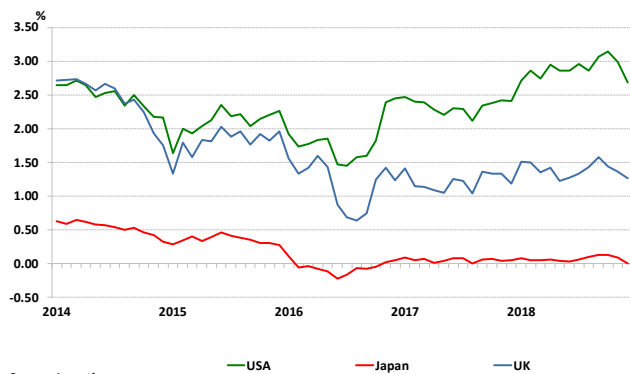
Graph 32. Public debt on a global scale



Source: IMF.

In 2018, 10-year government securities of the United States and Japan had an average annual return of 2.9% and 0.07%, respectively. The rise in US government securities was due to higher inflation expectations. UK government securities raised their average return to 1.4% due to the uncertain outcome of EU Brexit negotiations.

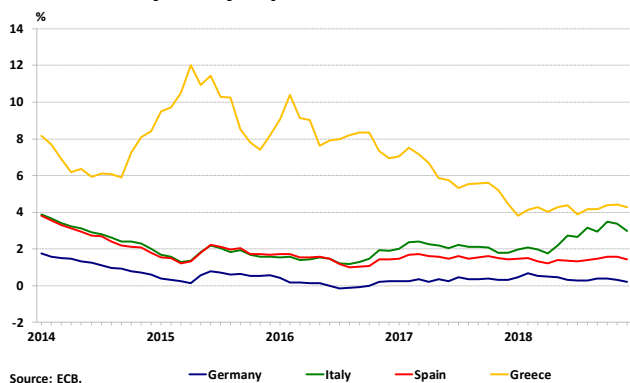
Graph 33. Yield of 10-year government securities of the US, Japan and UK



Source: Investing.com

The return on 10-year government securities in 2018 remained low, with Italy reporting the highest increase due to concerns about the state budget's adoption and deviation from the EU's budget deficit norms. The average annual return of these government securities in Germany, Spain and Italy was respectively 0.4%, 1.42% and 2.61%. Greek ten-year government securities decreased their average annual return to 4.2%.

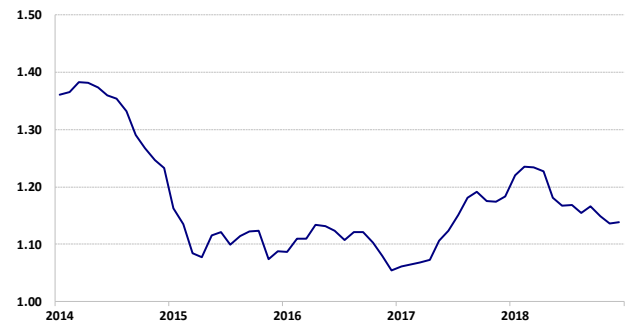
Graph 34. Yield of 10-year government securities of Germany, Italy, Spain and Greece



Source: ECB.

In the first months of 2018, the euro significantly increased against the dollar as a result of the increased trade tensions between the US and China, reaching a rate of USD 1.23 per euro, and in the second half of the year, the single European currency completely lost its position as a result of the revised downward economic growth in the euro area amid strong growth in the US, ending the year at \$ 1.14 per euro.

Graph 34. USD/EUR Exchange Rate



Source: ECB.

In 2018, most CEE countries also reported a slowdown in real GDP growth. Among those, the highest economic growth was reported in Hungary, which significantly accelerated its growth from 4% in 2017 to 4.9% in 2018 as a result of strong performance in the services and retail sector. The Polish economy also grew from 4.8% in 2017 to 5.1% in 2018, supported by investment in fixed assets and household consumption.

Table 23. Real GDP growth in CEE

	2017	2018
Czech Republic	4.4	3
Hungary	4	4.9
Poland	4.8	5.1
Romania	7	4.1
Turkey	7.4	2.6

Note: Annual rate of change (%).
Source: IMF, National Statistical Institutes.

In 2018, inflation in the CEE countries had mixed dynamics. The highest growth rate of inflation was in Romania and Turkey, which grew to 4.6% and 16.3% in 2018, respectively, from 1.3% and 11.1% in 2017. The rise in inflation in Romania was a result of rising energy prices (after an increase in excise duty in the autumn of 2018) and food as a secondary effect of the increased energy price. In Turkey, the reasons were the instability of the Turkish lira, the increased costs of US dollar-denominated producers and the closure of productions.

Table 24. Inflation in CEE

	2017	2018
Czech Republic	2.5	2.2
Hungary	2.4	2.8
Poland	2	1.6
Romania	1.3	4.6
Turkey	11.1	16.3

Note: Annual rate of change (%).
Source: IMF, National Statistical Institutes.

In the CEE countries, unemployment rates continued to decline in 2018. In Poland and Turkey, unemployment dropped to 3.3% and 10.1% in 2018, respectively, from 4.9% and 10.1% in the previous year.

Table 25. Unemployment rate in CEE

	2017	2018
Czech Republic	2.9	2.4
Hungary	4.2	3.6
Poland	4.9	3.3
Romania	4.9	4.3
Turkey	10.9	10.1

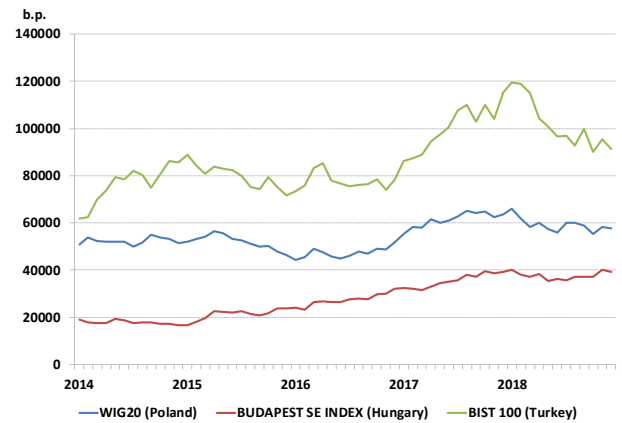
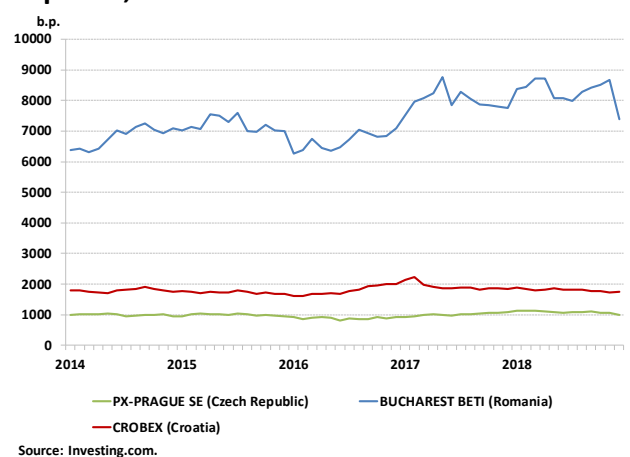
Note: Share (%) of the workforce.
Source: IMF, National Statistical Institutes.

In 2018, the values of the major stock indices in the CEE countries decreased due to the slowdown in the world economy and complicated international trade relations. During the year, the Czech PX-PRAGUE SE decreased by -8.5%, the Hungarian BUDAPEST SE INDEX decreased by -0.6%, the Polish WIG20 and the Romanian BUCHAREST BETI decreased by -9.5% and -4.8%,

1.2. Overview of economic activity in Bulgaria

In 2018 real growth of the Bulgarian economy slowed down, amounting to 3.1% according to preliminary data, which was mostly due to domestic demand. The current account surplus expanded, reaching EUR 2587.1 million during the year, which was 4.7% of the GDP. The volume of direct foreign investments in Bulgaria amounted to EUR 1744.2 million, which was -570 million less compared to the previous year. The country's gross foreign debt decreased by -1.5% and at the end of the year amounted to EUR 33.3 billion. Credit activity during the year increased, with loans to households growing at a faster rate. In 2018, the budget balance had a surplus amounting to BGN 135.4 million, which was 0.1% of the GDP. Consumer price inflation accelerated in 2018, reporting 2.3% annually at the end of the year. The housing price index slowed down its positive trend on an annual basis from an average of 8.7% for 2017 to 6.6% in 2018.

respectively, and the Turkish BIST30 reported a decrease of -21%.

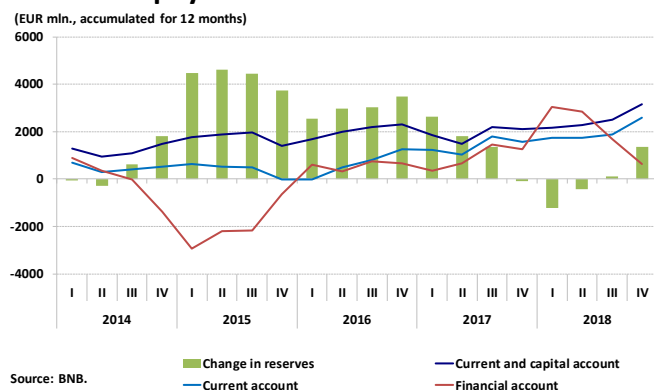
Graph 35. Capital markets dynamics in Poland, Hungary and Turkey**Graph 36. Capital markets dynamics in the Czech Republic, Romania and Croatia**

As a result of good prospects for growth of the Bulgarian economy, stable fiscal position and declining non-performing loans, in June the international rating agency S&P Global Ratings raised the outlook for Bulgaria's credit rating from stable to positive.

For the sixth consecutive year, the balance on the current and capital account continued to be positive, growing to EUR 3167.3 million in 2018. For the period between January and December 2018, the surplus on the current account of the balance of payments was in the amount of EUR 2587.1 million, which represented 4.7% of the GDP³⁷. As a result of the limited proceeds under the new EU Operational Programmes, the surplus on the capital account reported a relatively small amount for the second consecutive year, amounting to EUR 580.2 million in 2018.

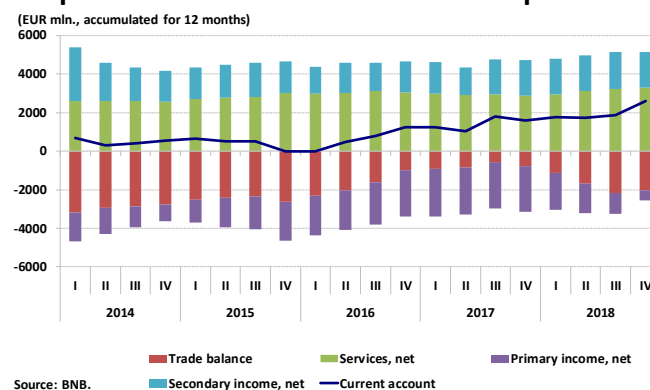
The financial account balance for the year is positive (EUR 627.4 million), which was EUR -624.4 million less than the reported positive balance in 2017. According to data on the balance of payments, the international foreign exchange reserves of the country increased by EUR 1361.6 million. After reporting exchange rate differences and pricing revaluation, foreign currency reserves on BNB's balance sheets increased by EUR 1410.1 million (BGN 2.8 billion) as the assets of the Issue Department reached BGN 49.0 billion at the end of 2018.

Graph 37. Dynamics of main accounts of the balance of payment



The significant expansion of the current account surplus by EUR 1008.9 million in 2018 compared to the previous year was mainly due to the reduction of the negative balance under the “primary income, net” item by EUR 1848.6 million resulting from smaller outgoing flows of income of non-residents from direct investments in the country. A positive contribution to the larger current account surplus in 2018 had also the expansion of the positive balance on services (by EUR 439.2 million), while the increase in the trade deficit by EUR 1255.8 million, which amounted to EUR -2021.6 million, restricts the surplus on the current account during the accounting year to the largest extent.

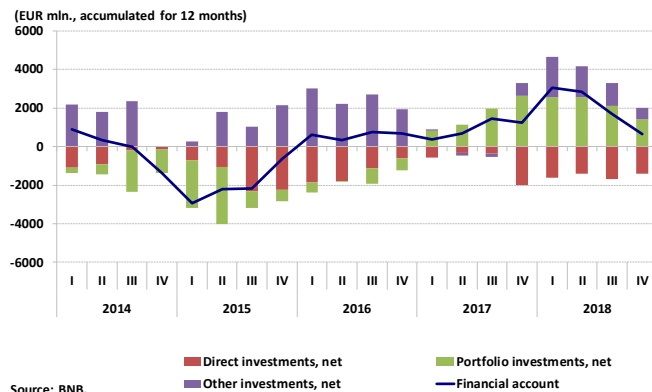
Graph 38. Current account and its components



For the period January-December 2018, the financial account balance amounted to EUR 627.4 million, which was EUR -624.6 million less than the balance in 2017. The main contribution to the observed financial account dynamics during the year was the significantly smaller increase in foreign assets in the form of portfolio investments, in particular debt securities, in 2018 compared to 2017.

³⁷ According to preliminary data of the National Statistical Institute, the GDP in 2018 was BGN 107,925.3 million.

Graph 39. Financial account and its components



For the period January-December 2018, the foreign direct investments (FDI) flow in the country amounted to EUR 1744.2 million, which was EUR -569.9 million less than the previous year. The majority of FDIs in Bulgaria during the year was in the form of equity capital (EUR 859.7 million), which increased by EUR 977.4 million compared to 2017, and debt instruments (EUR 527.4 million), which amounted to EUR 923.6 million less than in the previous year. The flow of FDI in the form of reinvested earnings amounted to EUR 357.1 million, which also decreased by EUR -623.7 million compared to the previous year.

Table 26. FDI dynamics in Bulgaria by type of investment

	2014	2015	2016	2017	2018
Total	347.4	2399.1	1003.3	2314.1	1744.2
Equity and investment fund shares/unit:	1034.7	1585.5	246.1	-117.7	859.7
Reinvestment of earnings	-1036.0	935.6	1065.1	980.8	357.1
Debt instruments	348.8	-122.0	-307.9	1451.0	527.4

Note: Data refer to the volume of FDI in the country (in EUR mln.).
Source: BNB.

The distribution of FDI in Bulgaria by sectors in 2018 did not change significantly from the previous year. The Manufacturing sector attracted the largest volume of FDIs in the amount of EUR 1281.8 million, followed by the Financial and Insurance Activities sector (EUR 583.5 million), and the Trade; Repair of Motor Vehicles and Motorcycles sector (EUR 135.6 million).

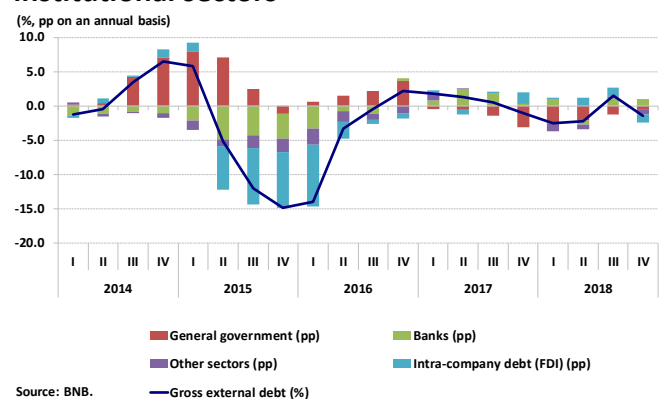
Table 27. FDI structure in Bulgaria by economic activity

	2014	2015	2016	2017	2018
Mining and quarrying	-70.7	-67.4	-22.6	-21.4	11.2
Manufacturing	-274.7	551.9	236.9	1099.5	1281.8
Electricity, gas, steam and air	161.6	74.8	15.0	-206.9	-109.9
Construction	170.7	178.9	23.2	175.9	-96.3
Wholesale and retail trade; repair of motor vehicles and motorcycles	181.9	435.3	477.5	339.6	135.6
Transportation and storage	77.6	53.8	8.0	5.5	10.4
Accommodation and food service	-47.9	12.1	24.9	-18.3	-14.1
Information and communication	214.2	84.6	19.4	-243.1	45.5
Financial and insurance activities	303.5	460.3	179.2	294.6	583.5
Real estate activities	236.1	-41.6	-41.9	345.7	-148.9

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

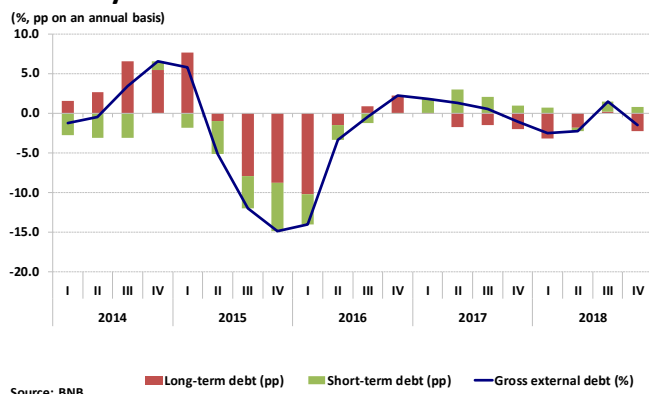
In 2018, Bulgaria's gross foreign debt decreased by -1.5% on an annual basis, reaching EUR 33.3 billion at the end of the year, which represented 60.4% of the GDP. The decline in intercompany lending (-1.2 percentage points) was the largest contributor to the debt reduction, followed by the decline in foreign liabilities of non-government sectors, the banking sector and the FDI, with a contribution of -0.8 percentage points, and the decrease in government debt (-0.5 percentage points). An increase of foreign debt was only reported by banks, which limited the annual temp of debt reduction with a contribution of 1.0 percentage points.

Graph 40. Dynamics of gross external debt by institutional sectors



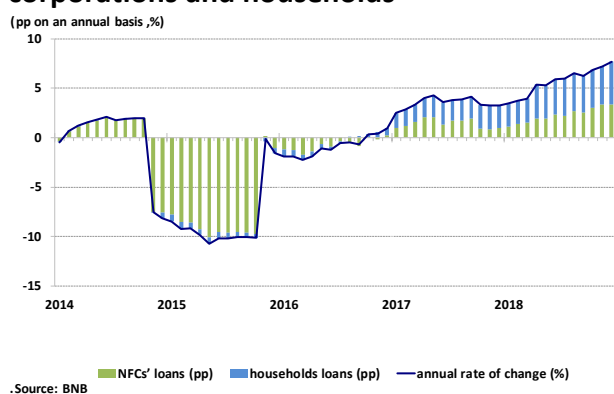
In line with the dynamics of the gross foreign debt in 2018, its long-term component decreased by -3.0% on an annual basis and accounted for 75.5% of the total foreign debt by the end of the year. Short-term debt grew by 3.3% and reached a share of 24.5% of the country's foreign debt at the end of 2018.

Graph 41. Dynamics of gross external debt by maturity structure



The trend of increase of the credits of banks for the private non-financial sector continued, with credits for non-financial companies and households in Bulgaria reporting an average annual growth of 7.7% in 2018. Household credits grew more rapidly (11.2%), contributing 4.3 percentage points to the total growth of private non-financial sector lending. Credits to non-financial companies reported a slightly smaller average growth of 5.4% for the year, contributing 3.3 percentage points to the total dynamics. The main factors that would continue to determine the development of crediting activity in Bulgaria were companies' and households' demand for credits and low interest.

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



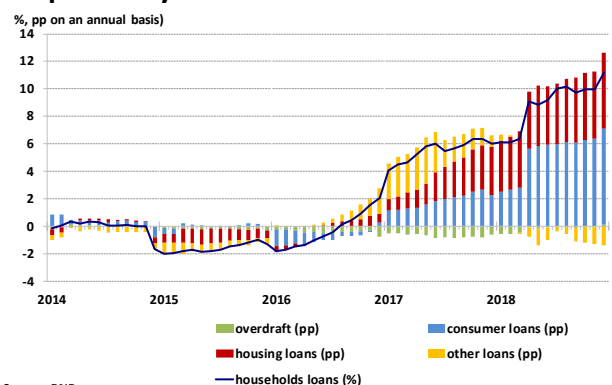
The average annual growth rate of household loans in 2018 was mainly due to the significant increase of 17.7% in consumer credits³⁸, which accounted for 7.0 percentage points to the overall

³⁸ The significant increase in consumer credits was significantly influenced by the inclusion of BNP Paribas Personal Finance SA

growth of household credits. Housing credits also increased (11.4% on an annual basis) and contributed by 5 percentage points. It was only the credits other than consumer ones, residential ones and overdraft ones that limited the total growth with their negative contribution of -1.4 percentage points.

In 2018, 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 6795 million, and their share of the total gross loans and advance payments fell to 7.6%. The net value of non-performing loans and advance payments (less the depreciation, inherent to this classification category) also decreased at the end of 2018 and amounted to BGN 3299 million or 3.9% of the total net value of the loans and advance payments.

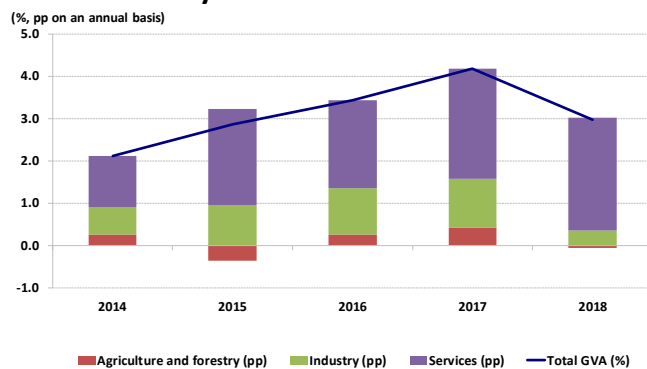
Graph 43. Dynamics of loans to households



Total value added in the economy grew in real terms by 3.0% in 2018, to which the service sector (2.7 percentage points) contributed the most, followed by industry (0.4 percentage points), while agriculture and forestry limited the real growth of value added in the economy with a negative contribution of -0.1 percentage points.

– Bulgaria Branch as a reporting unit withing the scope of the monetary statistics of April 2018.

Graph 44. Dynamics of Value Added and contribution by sectors



Source: NSI.

A detailed breakdown of added value in the economy by sectors shows that among services with the highest contribution to the growth of gross added value in 2018 was the Real Estate Operations sector (0.9 percentage points), followed by the sectors of Government Management; Education, Healthcare and Social Works (0.5 percentage points), and Financial and Insurance Activities (0.4 percentage points). The sector Trade, Repair of Motor Vehicles and Motorcycles; Transport, Storage and Postal Services; Accommodation also contributed with 0.4 percentage points to the total increase of the gross value added throughout the year.

Table 28. Dynamics of Value Added by sectors

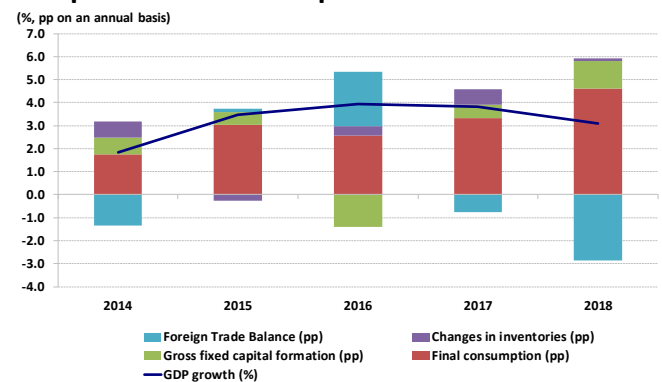
	2014	2015	2016	2017	2018
Total for the economy (%)	2.1	2.9	3.4	4.2	3.0
<i>Contribution (pp), incl:</i>					
Agriculture, forestry and fisheries	0.3	-0.4	0.3	0.4	-0.1
Manufacturing; Mining and quarrying; Electricity, gas and water supply	0.8	0.8	1.4	1.0	0.2
Construction	-0.2	0.1	-0.3	0.2	0.2
Wholesale and retail trade, repair of motor vehicles and motorcycles; transportation and storage, accommodation and food	0.2	1.3	0.5	0.6	0.4
Creation and distribution of information and creative products; telecommunications	0.0	0.1	0.9	0.4	0.2
Financial and insurance activities	0.0	-0.1	0.5	0.1	0.4
Operations with real estate	0.3	0.2	0.6	0.7	0.9
Professional activities and research; Administrative and auxiliary activities	0.1	0.4	0.1	0.1	0.2
Public administration, defence, education, human health and social work activities	0.6	0.2	-0.4	0.7	0.5
Culture, sports and entertainment; Others	0.0	0.1	0.0	0.1	0.0

Note: Data for 2018 are preliminary.
Source: NSI.

According to preliminary data, the real GDP growth in 2018 amounted to 3.1% on an annual basis. The main factor for economic growth was domestic demand, which contributed 5.9 percentage points. Among the components of

domestic demand, the best performance was that of final consumption (4.6 percentage points), followed by investments (1.3 percentage points), where the contributions of changes in inventories and gross fixed capital formation were respectively 0.1 and 1.2 percentage points. The net export registered a real decline, which limited GDP growth with its negative contribution of -2.8 percentage points.

Graph 45. GDP growth and contribution of components of final expenditures



Source: NSI.

The export of Bulgarian goods and services in 2018 amounted to EUR 28,247 million, increasing by 1.2% compared to the previous year. The largest contribution to the total growth had the exports of raw materials (1.1 percentage points), followed by exports of consumer goods (0.5 percentage points) and investment goods (0.3 percentage points). A drop was reported in the export of energy resources, which limited the total growth of exports with a negative contribution of -0.8 percentage points.

Table 29. Contribution of main groups of goods to the exports' dynamics

	2017	2018
Exports (% on an annual basis)	15.7	1.2
<i>Contribution (pp)</i>		
Consumer goods	1.6	0.5
Raw materials and supplies	6.2	1.1
Investment goods	5.2	0.3
Energy resources	2.7	-0.8

Source: BNB.

The import of goods and services in 2018 grew with greater nominal rates (6.2%) than the export,

amounting to EUR 32,168 million. The main contribution to this dynamics had the import of investment goods (2.4 percentage points) and of raw materials (2.2 percentage points). Imports of consumer goods (1.4 percentage points) and of energy resources (0.2 percentage points) also had a positive impact.

Table 30. Contribution of main groups of goods to the import's dynamics

	2017	2018
Imports (% , on an annual basis)	15.7	6.2
<i>Contribution (pp)</i>		
Consumer goods	2.2	1.4
Raw materials and supplies	6.6	2.2
Investment goods	2.7	2.4
Energy resources	4.1	0.2

Source: BNB.

In 2018, real final consumption growth accelerated to 6.0% from 4.3% in 2017. The main driver of the dynamics reported was the individual consumption of households (5.1 percentage points), and the individual consumption of the government retained the amount of its contribution from the previous year (0.3 percentage points). Collective consumption, which measured the final costs of the government for collective services provided to society as a whole, also increased, contributing 0.7 percentage points to the real growth of final consumption.

Table 31. Growth of final consumption expenditure and contributions of its components

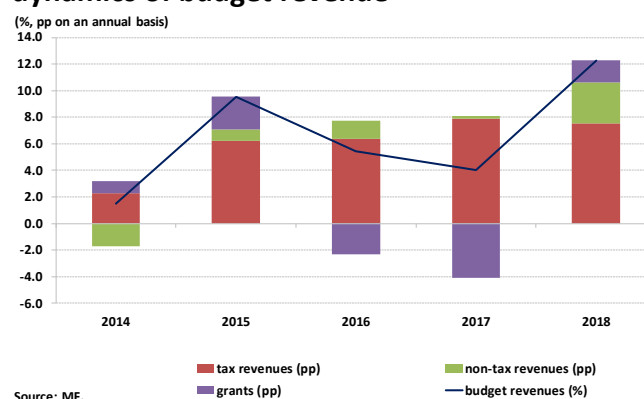
	2014	2015	2016	2017	2018
Final consumption (%)	2.2	3.8	3.3	4.3	6.0
<i>individual consumption (pp)</i>	<i>2.3</i>	<i>3.5</i>	<i>3.0</i>	<i>3.9</i>	<i>5.4</i>
<i>consumption of households (pp)</i>	<i>2.2</i>	<i>3.5</i>	<i>2.8</i>	<i>3.6</i>	<i>5.1</i>
<i>individual consumption of general government</i>	<i>0.1</i>	<i>0.0</i>	<i>0.2</i>	<i>0.3</i>	<i>0.3</i>
<i>collective consumption (pp)</i>	<i>-0.1</i>	<i>0.3</i>	<i>0.3</i>	<i>0.4</i>	<i>0.7</i>

Note: Data for 2018 are preliminary.
Source: NSI.

The budget balance of the Consolidated Fiscal Programme (CFP) in 2018 was positive in the amount of BGN 135.4 million³⁹, representing a surplus of 0.1% of the GDP. Revenues reported a growth of 12.3%, mainly due to tax revenues (7.5 percentage points), while non-tax revenues and

benefits contributed by 3.1 percentage points and 1.7 percentage points, respectively. Among the tax revenues, social and health insurance contributions (3.1 percentage points) contributed most, and indirect and direct tax income contributed to the overall growth of budget revenues with 2.8 percentage points and 1.4 percentage points, respectively.

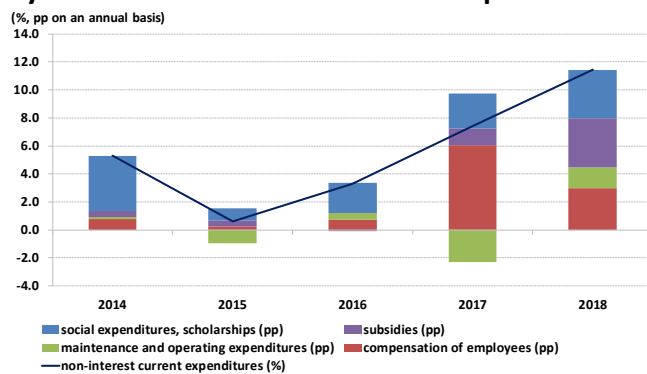
Graph 46. Contribution of components to the dynamics of budget revenue



Budgetary expenditure increased by 14.6% in 2018 compared to the previous year, with the largest contribution being of current expenditure (9.4 percentage points) and capital expenditures having a positive contribution of 4.1 percentage points. Current non-interest expenditure increased by 11.5% on an annual basis, with the largest contribution being made by the subsidies (3.5 percentage points), while social security, benefits and care expenses, wage and social security contributions and subsistence costs contributed 3.4 percentage points, 3.0 percentage points and 1.5 percentage points, respectively.

³⁹ According to national methodology.

Graph 47. Contribution of components to the dynamics of non-interest current expenditure



Source: MF.

In 2018, employment in Bulgaria slowed down its growth rate to 0.1% on an annual basis, with the number of employed persons aged 15 and older being 3.152 million people. This dynamics was entirely due to employment growth for men (0.1 percentage points), while employment of women decreased and limited the overall growth by -0.01 percentage points. By age groups, employment increased among working people aged 45 and older, which fully compensated for the drop in employments between the ages of 15 and 44.

The number of persons employed under contract dropped by -3.0% on an annual basis to 2.238 million people. This development was influenced by the drop in persons employed both in the private sector (-2.8 percentage points) and in the public sector (-0.2 percentage points). By economic activities, there was a decrease in the number of employed persons mainly in manufacturing (-0.8 percentage points), accommodation and restaurant services (-0.4 percentage points), and in the Transport, Storage and Postal Services sector (-0.4 percentage points).

The income of employees measured by compensation of employees, representing gross income that also included changes in social insurance contributions, increased by 6.5% in 2018 compared to an increase of 10.9% in the previous year. The unemployment rate continued to decrease reaching the historical minimum of 5.2% of the workforce in 2018.

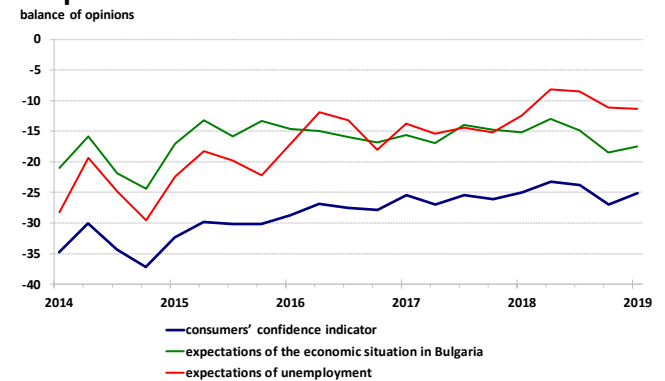
Table 32. Employment and income

	2014	2015	2016	2017	2018
Employed persons	1.6	1.7	-0.5	4.4	0.1
Employees	0.6	0.6	1.0	1.4	-3.0
Compensation of employees	5.4	6.7	7.7	10.9	6.5
Unemployment*	11.4	9.1	7.6	6.2	5.2

Note: Data show a change compared to the previous year, as data for 2018 are preliminary; *unemployment coefficient is period average (% of the workforce).
Source: NSI.

In the second half of the year, the consumer confidence indicator decelerated its positive trend, with consumers' expectations of their financial situation, inflation, unemployment and the country's economic position over the next 12 months being somewhat more pessimistic than a year earlier.

Graph 48. Consumers' confidence indicator



Source: NSI

Note: Expectations about unemployment were taken with the opposite sign. An increase in the indicator showed that consumers had optimistic expectations, and vice versa.

Households income in 2018 decreased their growth to 4.8% on an annual basis, with the greatest contribution by salaries (3.7 percentage points) and pensions (2.2 percentage points). A limitation of the growth of household income during the year was imposed by the receipts of other benefits and aid (-1.3 percentage points) and incomes other than the ones from wages (-1.1 percentage points). Savings withdrawn by households slowed down to 11.6%, while loans and credits received by them accelerated their annual rate of change to 62.0% in 2018.

Table 33. Dynamics of household incomes

	2014	2015	2016	2017	2018
Total	2.2	1.9	1.9	6.0	4.8
Salary and wages	4.3	3.4	0.6	6.1	6.9
Withdrawn savings	-4.1	0.9	18.7	15.3	11.6
Loans and credits	-51.0	-23.1	19.5	11.1	62.0

Note: Data are on an annual basis (%).
Source: NSI.

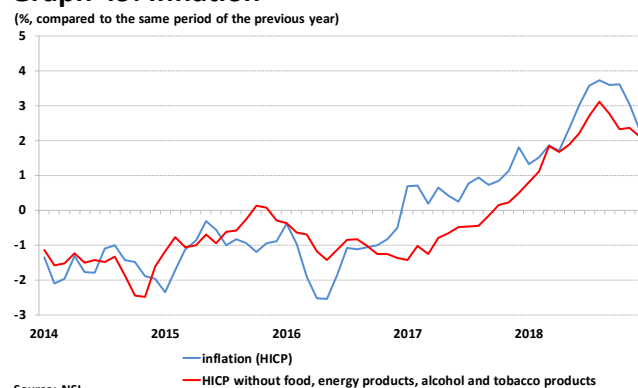
Household expenditures in 2018 were growing at a higher rate (7.7%) than their incomes. Consumer spending grew by 6.7%, with the largest contribution being made by food expenditure growth (1.8 percentage points) and transport (1.1 percentage points). Household taxes and social security expenditure grew by 6.9% and 14.2%, respectively, contributing 0.4 percentage points, and 1.0 percentage points, respectively, to the total costs. In 2018, households' propensity for savings slowed down, with their spending on deposits reporting the lowest growth of 5.2% over the past five years, and the money spent on debt repayment or lending money decreased by -15.3%.

Table 34. Dynamics of households' expenditures

	2014	2015	2016	2017	2018
Total	3.2	2.4	-0.4	7.6	7.7
Total consumer expenditures	3.2	2.3	-1.3	6.9	6.7
Taxes	2.3	4.5	4.3	15.0	6.9
Deposit	54.8	15.0	45.1	41.8	5.2
Paid debt and granted loan	-9.5	-8.6	-9.2	-3.0	-15.3

Note: Data are on an annual basis (%).
Source: NSI.

For the second consecutive year, inflation was positive, accelerating its growth until August 2018 (3.7%), and slowing to 2.3% on an annual basis at the end of the year. Excluding the volatile prices of foods, energy products, alcohol and tobacco products, core inflation moved close to the overall inflation, achieving an annual growth of 2.1% in December 2018.

Graph 49. Inflation

The largest contribution to the inflation accumulated during the year had services (1.8 percentage points) and food products (1.2 percentage points). Among services, the greatest contribution to overall inflation had catering services (0.4 percentage points) and transport services (0.4 percentage points). Energy prices and home heating also contributed by 0.8 percentage points to the growth of consumer price inflation.

Table 35. Contribution of main groups of goods to inflation

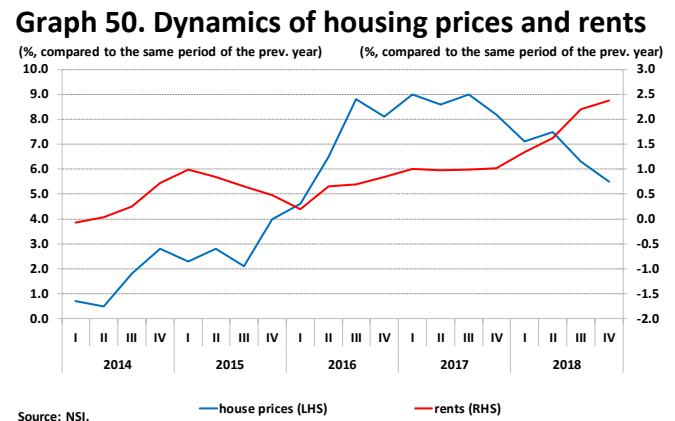
	2016	2017	2018
Inflation (% compared to Dec. pre)	-0.5	1.8	2.3
	<i>Contribution (pp)</i>		
Food stuffs	0.2	0.6	1.2
Unprocessed foods	0.1	0.2	0.2
Processed foods	0.1	0.4	1.0
Services (all except goods)	-0.4	0.4	1.8
Public food services	0.1	0.2	0.4
Transport services	-0.3	0.1	0.4
Telecommunications	-0.3	-0.1	0.1
Energy and home heating	-0.1	0.3	0.8
Liquid and transport fuels	0.0	0.4	0.4
Industrial goods	-0.5	0.6	0.7
Tobacco products	0.2	0.1	0.3

Source: NSI.

In 2018, the rise in housing prices in Bulgaria slowed down, recording an increase of 6.6% on an annual average basis, compared to 8.7% in 2017⁴⁰. The decelerating housing price growth was determined by household demand in the context of a slowdown of economic growth and uncertain prospects for future earnings, as well as the high

⁴⁰ As of 2014, the housing price index also included the prices of new homes purchased by households.

rate of free/unoccupied housing stock. Although at a significantly lower pace, rents continued to rise, reaching 2.4% on an annual basis in the last quarter of 2018.



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

In 2018 assets of participants in the non-banking financial sector grew by 19.5% and by the end of the year reached BGN 47 billion, with the assets of all types of non-banking financial companies and segments reporting a positive change on an annual base. The highest contribution of 15.2 percentage points had the assets of non-bank investment firms, the main part of which were client assets, followed by the growth of pension fund assets (1.8 percentage points), insurance and reinsurance companies (1.6 percentage points), the growth of assets of companies with special investment purpose (0.3 percentage points), changes in the assets of collective investment schemes and alternative investment funds (0.3 percentage points), and the corresponding growth in assets managed by management companies and alternative investment fund managers (0.3 percentage points). As a result of that upward momentum, the role of the companies in the non-banking financial sector in the structure of financial intermediation grew, with the assets of participants in the sector supervised by the FSC reaching 31.2% of the assets of the financial sector in Bulgaria.

As a share of the GDP, the assets of participants in the non-banking financial sector increased in 2018 and amounted to 44.3%. The depth of non-banking sector's financial intermediation measured through market capitalization on the stock exchange increased to 24.8% of the GDP.

The assets of non-banking investment firms (IFs) grew by 41.0% in 2018, reaching BGN 20.9 billion by the end of the year. The reason for the significant increase in the value of assets was the increase in the client assets of a non-bank investment firm, whose contribution to this dynamics was 43.4 percentage points⁴¹. Excluding this single factor, the assets of other non-bank IFs decreased by -5.4% and restricted the growth of the assets of non-bank IFs by -2.4 percentage points.

The assets of the management companies and the alternative investment fund managers increased by an absolute amount of BGN 12.8 million, an increase of 6.5% on an annual basis, amounting to BGN 1.9 billion at the end of the year. Of these, BGN 1.5 billion were managed assets of by collective investment schemes, and BGN 0.5 billion were assets of clients under in trust management portfolio.

⁴¹ Intercapital Markets AD.

Table 36. Relative structure of the assets of non-bank financial sector participants (% of the assets of the banking and non-banking financial sector in Bulgaria)

Indicators	2014	2015	2016	2017	2018
Non-banking investment firms	4.8	4.4	4.5	10.8	13.6
Management companies and AIFMs	1.1	1.0	1.3	1.4	1.3
CIS and AIF*	0.8	0.8	1.0	1.0	1.0
SPICs	1.4	1.4	1.3	1.1	1.1
(Re)insurance companies	5.1	5.4	5.2	5.5	5.3
SPFs	7.6	8.4	9.1	9.2	8.8
Participants in the non-banking financial sector	20.7	21.4	22.4	29.0	31.2

Notes: * By 2017, closed-end investment companies were also included.

Source: BNB, FSC.

The assets of collective investment schemes (CISs) and the alternative investment funds (AIFs) grew by a total of 7.7% compared to the previous year. The reported development was mainly due to an increase in the number and assets of contractual funds, which were 132 as of the end of the year, and their assets reached BGN 1484.3 million. The alternative investment funds were three with assets amounting to BGN 17.5 million. Due to the relatively small absolute value of assets, collective investment schemes had a 1.0% share in the financial intermediation structure.

In 2018, the assets of Special Purpose Investment Companies (SPIC) grew by 7.6% on an annual basis, and their amount at the end of the year was BGN 1702.4 million. The largest contribution to this growth was made by assets of SPICs investing in real estates and agricultural land (6.3 percentage points). SPICs securitizing receivables contributed positively by 1.3 percentage points to the annual growth of assets in the sector. In relative terms, the share of Special Purpose Investment Companies' assets in the structure of financial intermediation at the end of 2018 remained at 1.2%.

Assets of (re)insurers increased by a total of 8.4% in 2018, and their share in the structure of financial intermediation decreased from 5.5% in

2017 to 5.3% in 2018. The highest contribution of 6.7 percentage points to the growth of assets on the (re)insurance market had the increase in the assets of non-life insurance companies by 15.3%. The assets of life insurance companies, which increased by 5.1%, also had a positive contribution of 1.1 percentage points to the changes in the assets on the market, while the assets of the single reinsurance company in Bulgaria increased by 1.8% on an annual basis and contributed with 0.26 percentage points to the overall increase of the assets in this sector.

The growth of balance sheet assets of pension funds slowed down from 17.7% in 2017 to 5.7% in 2018. The increase in their assets was entirely due to revenue from social security contributions, while the result from the investment of the accumulated funds in individual accounts was negative for the year. 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 balance sheet assets at the end of the year amounting to BGN 13.4 billion. Their relative share in the financial intermediation structure at the end of the year was 8.8%.

Table 37. Market capitalization of the stock exchange and assets of non-banking financial sector participants (% of the GDP)

	2014	2015	2016	2017	2018
Market capitalization of the stock exchange market	11.6	9.7	10.3	23.4	24.8
Non-banking investment firms	6.1	5.5	5.7	14.7	19.4
Management companies and AIFMs	1.4	1.3	1.6	1.9	1.8
CIS and AIF*	1.0	1.0	1.2	1.4	1.4
SPICs	1.7	1.7	1.6	1.6	1.6
(Re)insurance companies	6.5	6.8	6.6	7.5	7.6
SPFs	9.8	10.6	11.5	12.6	12.5
Participants in the non-banking financial sector	26.6	26.9	28.2	39.6	44.3

Notes: * By 2017, closed-end investment companies were also included.

Source: BSE, FSC, NSI.

The depth of financial intermediation in the non-banking financial sector measured through market capitalization on the Bulgarian Stock Exchange as a share of the GDP increased from 23.4% at the end of 2017 to 24.8% at the end of 2018.⁴²

Market capitalization of the BSE grew by 13.3% on an annual basis and reached BGN 26.8 billion at the end of the year. This growth was due entirely to the positive contribution (14.7 percentage points) of the segment of shares on the alternative market due to the transfer of an issue of a public company with a significant market capitalization⁴³ (60.1% of the total market capitalization on the BSE) for trading from a Standard share segment to a share segment at the alternative market. The market capitalization of the Premium share segment decreased from BGN 2.2 billion in 2017 to BGN 1.9 billion at the end of 2018 and had a negative contribution of -1.5 percentage points, while the SPICs share segment on the main and alternative market had a non-significant positive contribution of 0.1 percentage points to the growth of the capitalization of the BSE.

In 2018, the development of the non-banking financial sector maintained the level of market competition in individual segments. The markets for services offered by special purpose investment companies, collective investment enterprises, management companies and non-life insurance companies

All stock market indices, excluding BGREIT, ended 2018 with a decrease. As of 31.12.2018, the SOFIX main index decreased by -12.3% compared to its level at the end of 2017 to 594.46 points. The broad index BGBX40 declined from -12.2% on an annual basis to 115.91 points, while BGTR30 decreased with -10.8% during the year to 496.14 points. The sector index BGREIT, which was generally an exception to the general trend due to the type of companies included in the index, reported a growth of 4.3% on an annual basis to 121.07 points.

Expressed as share of the GDP, the assets of participants in the non-banking sector amounted to 44.3%, the largest among which was the share of assets of non-banking IFs (19.4%), followed by assets of supplementary pension funds – 12.9%, and the share of the assets of the (re)insurance segment, which were 7.6% of the GDP. Assets managed by MCs and AIFMs amounted to 1.8% of the GDP, and those of the SPICs, CISs and AIFs – to 1.6% and 1.4% of the GDP, respectively.

⁴² The market capitalization of Capital Concept Limited AD as at 31.12.2018 amounted to 15.0% of the GDP.

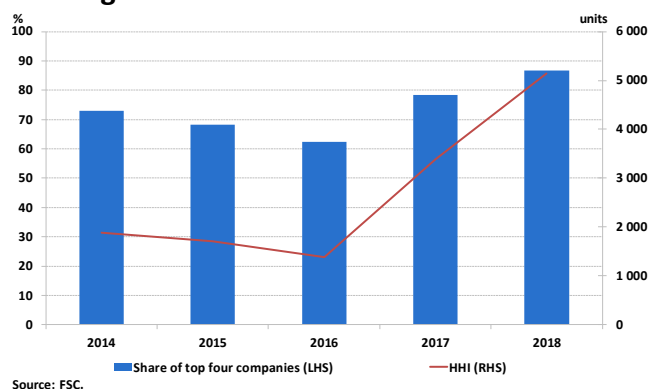
⁴³ The market capitalization of Capital Concept Limited AD as at 31.12.2018 was BGN 16.1 billion.

were characterized by strong competition, a moderate competitive environment could be observed with pension insurance companies over the last four years, and the life insurance market and services segment provided by non-banking investment firms were characterized by high market concentration from the end of the previous year. The overall dynamics during the year was in the direction of increasing the competition, while non-banking IFs' market concentration continued to increase.

For non-banking investment firms, the concentration measured on client assets base continued to increase. By the end of 2018, the largest four investment firms held 86.7% of the total amount of all client assets⁴⁴, the share of the first investment firm being 70.9%. For the other investment firms, the average share of the client assets held was 0.4%.

The Herfindahl-Hirschman Index (HHI)⁴⁵ on the non-banking investment firms market, calculated by client assets increased significantly in 2018, and its value at the end of the year was 5137 units, which was 1749 units more than the previous year. As a result of this development, the market in services provided by non-banking investment firms was characterized as highly concentrated.

Graph 51. Concentration on the market of non-banking IFs



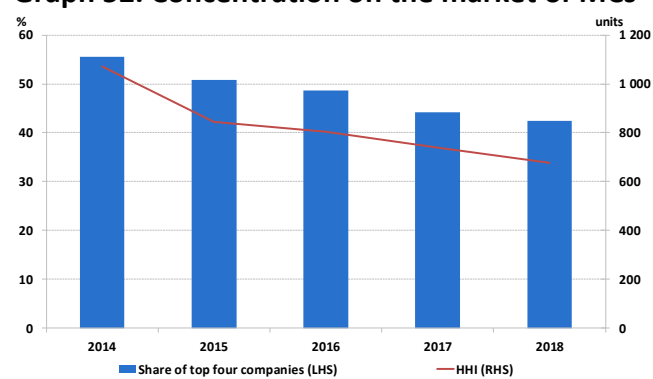
The concentration on the market of services provided by managing companies continued in

⁴⁴These were Intercapital Markets AD, Elana Trading AD, First Financial Brokerage House Ltd. and Eurofinance AD.

⁴⁵The 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. For a value of less than 1000 units, the market is defined as highly competitive, between 1000 and 1800 units – as moderately competitive environment, and more than 1800 units – the market is characterized by strong concentration.

2018 to go down for the sixth consecutive year. The four management companies having the largest share in managed assets held 42.4% of the total amount⁴⁶. The value of the Herfindahl-Hirschman (HHI) index of the market of management companies calculated by assets managed for 2018 dropped by 62 units to the level of 676 units. This decrease continued the trend to improve the competitive performance of the market, which continued to be highly competitive.

Graph 52. Concentration on the market of MCs

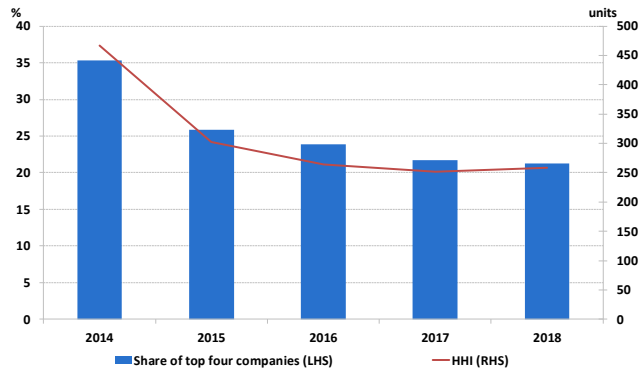


The market for collective investment schemes and alternative investment funds was determined as highly competitive. The tendency for a gradual decrease in the concentration in the segment remained the same in 2018, indicating a continuing improvement in the competitive environment over the last six years. This development was supported by the change in the Herfindahl-Hirschman (HHI) index whose value

⁴⁶These were Management Company DV Asset Management EAD, Management Company DSK Asset Management AD, Management Company UBB Asset Management AD and Management Company Raiffeisen Asset Management EAD.

slightly increased from 252 units in 2017 to 258 units in 2018, while the share of the top four funds respectively decreased from 21.7% to 21.3%.⁴⁷

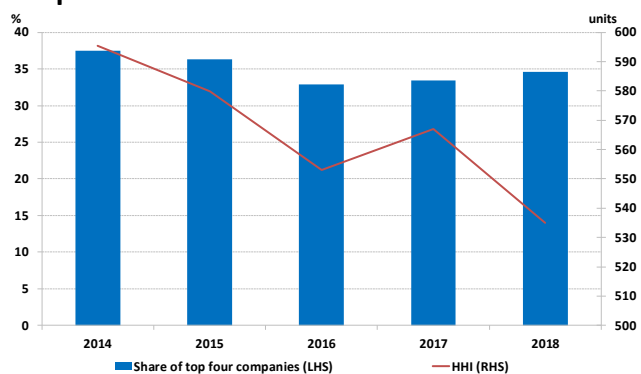
Graph 53. Concentration on the market of CISs and AIFs



Source: FSC.

The segment of special purpose investment companies remained highly competitive at a Herfindal-Hirschman index (HHI) of 535 units, which was 32 below the value of the 2017 indicator. Although the opposite dynamics was observed in the change in the share of the first four companies, which increased insignificantly from 33.5% in the previous year to 34.6% in 2018⁴⁸, the value of the indicator remained within a strong competitive environment.

Graph 54. Concentration on the market of SPICs



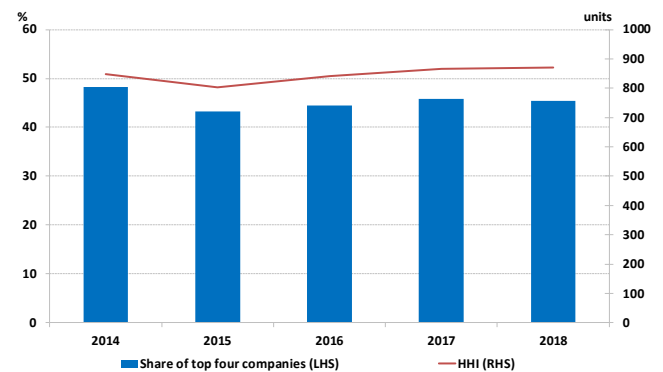
Source: FSC.

⁴⁷Contractual Fund Raiffeisen Conservative Fund (Bulgaria), UBB Platinum Bond Fund, Contractual Fund DSK Standard, and Contractual Fund DSK Alternative 1.

⁴⁸These were SPIC Advance Terrafund, SPIC Capital Management, SPIC Real Estate Bulgaria Fund, and SPIC Balkan and Sea Properties.

The market of non-life insurance was determined as highly competitive, with the HHI index value rising by 5 units compared to the previous year and by the end of December 2018 reaching 871 units, which was its highest value since mid-2016. The market share of top four non-life insurance companies, measured in terms of assets⁴⁹, insignificantly declined from 45.8% at the end of 2017 to 45.4% at the end of 2018.

Graph 55. Concentration on the non-life insurance market



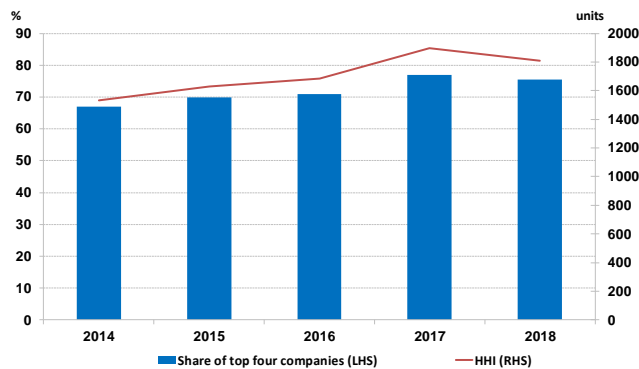
Source: FSC.

For the second consecutive year, the life insurance services market was characterized by a highly concentrated competitive environment. At the end of 2018, the Herfindal-Hirschmann (HHI) index curve marked 1811 units, decreasing from 1895 units in 2017. After reaching its maximum value of 76.9% at the end of 2017, the aggregate market share of the four life insurance companies with the largest amount of assets⁵⁰ was decreasing during the entire 2018 and at the end of the year it reached 75.5%.

⁴⁹These were Armeec AD, Insurance Company Lev Ins AD, Bulstrad Vienna Insurance Group AD Insurance Company, and DZI - Non-life Insurance EAD.

⁵⁰These were Insurance Joint-Stock Company Allianz Bulgaria-Life AD, DZI-Life Insurance EAD, Grave Bulgaria Life Insurance EAD and Insurance Joint-Stock Company Bulstrad Vienna Insurance Group AD.

Graph 56. Concentration on the life insurance market

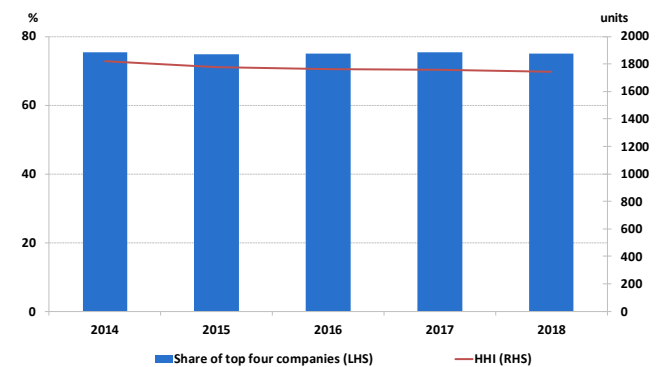


Source: FSC.

At the end of 2018, the share of the first four companies⁵¹ on the pension insurance services market according to their balance sheet assets (75.0%) registered a slight decrease of -0.4 percentage points compared to the previous

year. The HHI index continued its downward trend and decreased to 1738 units, thus maintaining the level of moderate concentration from the last four years.

Graph 57. Concentration of the social insurance market



Source: FSC.

2.1. Review of risks and main market trends

Economic uncertainty worldwide increased in 2018 as a result of increased tensions in international trade relations, and in relation to Brexit, which has an adverse impact on the prospects for economic development. The greater-than-forecasted slowdown in China's economy and the prevailing vulnerability in many emerging and developing markets to a **sudden change in risk tolerance** remained major risks to the development of the global economy. Increasing and wider enforcement of protectionist policies would increase geopolitical tensions that would negatively impact global economic growth.

In Europe, the decrease in automotive production (one of the leading industries in the EU) and the rise in social tension had a negative impact on the deteriorating business climate and consumer confidence in the EU. **The lack of clarity about Britain's exit from the EU**, as well as the reemergence of fears about falling into financial difficulties of governments and financial institutions in some member states, exerted additional pressure on the prospects for economic growth. The faster-than-expected slowdown of the growth in European economies postponed the expectations for increasing the interest rates, which path of development continued to be in the direction of prolonging the period of the current low levels. In this environment of limited prospects for increasing rate of return in the financial sector, it is of utmost importance to build buffers to help the financial system effectively deal with a subsequent economic downturn without negative consequences for the real economy.

The real growth of the Bulgarian economy also slowed down from 3.8% in 2017 to 3.1% in 2018, all due to the significant negative contribution of net export due to weaker external demand. The current account surplus expanded, reaching EUR 2587.1 million during the year, which was 4.7% of the GDP. The volume of direct foreign investments in Bulgaria amounted to EUR 1744.2 million, which was -570 million less compared to the previous year. The country's gross foreign debt decreased by -1.5% and at the end of the year amounting to EUR 33.3 billion. Credit activity during the year increased, with household crediting growing at a faster rate. In 2018, the budget balance for the consolidated fiscal program (according to the

⁵¹PIC Doverie AD, PIC Allianz Bulgaria AD, PIC DSK – Rodina AD and PIC Saglasie AD.

national methodology) had a surplus amounting to BGN 135.4 million, which was 0.1% of the GDP. Consumer price inflation accelerated in 2018, reporting 2.3% annually at the end of the year. The housing price index slowed down its positive trend on an annual basis from an average of 8.7% for 2017 to 6.6% in 2018.

As a result of good prospects for growth of the Bulgarian economy, stable fiscal position and declining non-performing loans, in June the international rating agency S&P Global Ratings raised the outlook for Bulgaria's credit rating from stable to positive.

In their search for yield, **institutional investors kept interest in alternative investments**, with the number and amount of collective investment funds increasing by 7.7% on an annual basis and reaching BGN 1.5 billion towards the end of 2018. The downward dynamics of the market indices of the Bulgarian Stock Exchange that had started in the second half of 2017, continued throughout 2018. At the end of December, all indices except the sectoral BGREIT, which marked an annual growth of 4.3%, ended with a decline of -12.3% for SOFIX, -12.2% for BGBX40 and -10.8% for the equally-weighted BGTR30. This dynamics of the indices was due to the **weakened investor interest** in all segments of the stock exchange market, which led to a decline in turnover of -22.1%, or BGN 155.8 million in absolute value. In the sectoral structure of the trade, the Financial and Insurance Activities sector, which traditionally forms the bulk of BSE turnover, occupied a 56.0% share. Market capitalization increased by 13.3% on an annual basis, which was entirely due to an increase in the capitalization of one company, with the market capitalization of all other companies traded on the BSE declining by -0.8% on an annual basis. The number of transactions concluded on the capital market during the year decreased significantly in line with the downward movement of the indices and market capitalization was indicative of the decrease of investment interest towards the Bulgarian capital market. Taking advantage of the still-low interest rates in Bulgaria, the newly issued private debt on the Bulgarian Stock Exchange increased significantly during the year and in the second half of the year the issue of bonds of the Bulgarian Energy Holding EAD admitted to trading amounting to 1.4 billion BGN represented 79.6% of the corporate debt issued in 2018.

Under the conditions of low interest rates, investments of insurers increased by 2.6% in 2018. They kept their investment interest in debt securities, increasing their share to the total amount of investments in non-life insurance companies to 61.9% and in life insurers – to 69.7%. With the increase in real estate prices investments in land and buildings also increased their value and reached a share of 13.1% of the investment portfolio of non-life insurers and 3.5% of investments of life insurers. In search of higher rate of return, non-life insurance companies and life insurers demonstrated strong interest towards investments in shares and other variable return, their share in the investment portfolio increased to 14.5% for non-life insurance and respectively to 11.3% for life insurers at the end of 2018. There was a common trend in the last five years for a decrease in the exposure to bank deposits, which reached a share of 4.5% of the investments of non-life insurance companies and 1.8% for life insurers.

The insurance business is adapting to the conditions of low-for-long interest rates, where life insurance segment is most vulnerable when offering insurance products with guaranteed rate of return 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 2018 reached 13.3% of the value of all life insurers' assets, compared to 11.2% at the end of 2017, with investment risks for this type of insurance being covered by the insured persons.

As a result of a **significant increase in the gross loss ratio under "Third-Party Liability insurance related to the possession and use of motor vehicles"**, the rate of return of the largest share in the non-life insurance business decreased and at the end of the year it entered a negative territory. As a result of the implemented investment policy, the net financial result in the non-life insurance sector as well as the return on assets increased. For life insurers, as a result of a decrease in the net financial result at the end of the year, the return on their assets declined, remaining positive.

The main objective of pension fund asset management is to increase the long-term value of their assets by achieving return on their investment. The supplementary pension funds are mainly exposed to **the risks of the financial markets** in which their assets are invested, where decreases occurred during the year. As long-term investors, pension funds invested mainly in debt securities, among which dominated the investments in government securities, the relative share of which during the year grew to 51.7%. In the context of a sharp increase in the credit spreads on European corporate debt markets at the end of 2018, the share of investments in bonds other than government securities decreased from 14.0% to 11%. In the search for higher returns, pension fund investments in shares, rights and stakes increased to 34.1% of the total value of their investments. In an environment with continuous low interest rates, investments in bank deposits held a historically low share of 1.0% of all investments at the end of the year. Due to the lower return achieved in foreign markets, the share of pension fund investments in financial instruments issued by issuers outside the Republic of Bulgaria declined from 60% at the end of 2017 to 55.7% at the end of 2018. After a four-year period of high returns, in 2018 the SPFs reported a negative weighted average return.

2.2. Analysis of the participants on the capital market

Market capitalization of Bulgarian Stock-Exchange AD increased by 13.3% in 2018 and amounted to BGN 26.8 billion at the end of the year, which represented 24.8% of the GDP (from 23.4% in 2017). The Financial and Insurance Activities sector maintained first place by turnover during the year with BGN 202.0 million. The assets of non-banking investment firms registered in the Republic of Bulgaria reported a growth of 41.0% on an annual basis and at the end of 2018 amounted to BGN 20.9 billion. In 2018, the assets of Special Purpose Investment Companies grew by 7.6% on an annual basis reaching BGN 1702.4 million. The assets of collective investment schemes and alternative investment funds increased by 7.7% compared to the previous year and at the end of 2018 they amounted to BGN 1501.8 million. The total assets managed by the management companies and the alternative investment fund managers grew by 6.5% and reached BGN 1991.4 million.

2.2.1. Investment firms⁵²

In 2018 the number of investment firms (IFs) was 65, 22 being banks (including three banking investment firms operating on the territory of the country through a branch). The number of non-banking financial institutions with a seat in the Republic of Bulgaria was 38⁵³, and the number of non-banking investment firms operating within

the territory of the country through a branch was 5 at the end of 2018.

Depending on the authorizations issued, non-banking IFs were divided into three groups: (1) (1) IFs with a full license⁵⁴, for which the required capital was BGN 1,500,000, (2) IFs with a partial license⁵⁵, for which the required capital was BGN 250,000, and (3) IFs with a small license⁵⁶, for which the required capital was BGN 100,000. By

⁵² The analysis covers non-banking investment firms based in the Republic of Bulgaria, unless explicitly stated otherwise.

⁵³ The number of non-bank investment firms did not include companies whose license had been revoked as at 31.12.2018.

⁵⁴ They may carry out all the investment services and activities listed in Art. 6, para. 2 of the Markets in Financial Instruments Act (MFIA).

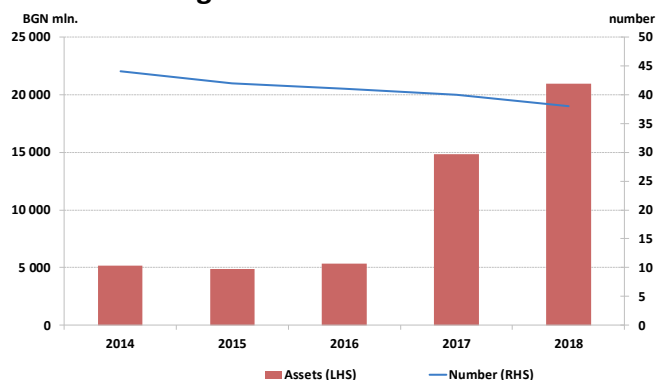
⁵⁵ They may not carry out transactions at their own expense with financial instruments and underwriting financial instruments and/or offering for initial sale of financial

instruments under an unconditional and irrevocable obligation to subscribe/acquire financial instruments at their own expense.

⁵⁶ They may carry out services and activities under Art. 6, para. 2, item 1 and / or item 5 of the MFIA, namely: acceptance and forwarding of orders in relation to one or more financial instruments including brokerage for the conclusion of transactions in financial instruments as well as providing investment advice to a client.

the end of 2018, 17 IFs with a full license, 20 companies with a partial license and 1 company with a small license were entered in the FSC's register. In 2018, the licenses of three investment firms were revoked.

Graph 58. Dynamics in the number and assets of non-banking IFs



Source: FSC.

The amount of the assets⁵⁷ of non-banking investment firms at the end of 2018 was BGN 20.9 billion, which represented a 41.0% growth compared to the end of 2017. Of these, client assets amounted to BGN 20.7 billion. The positive contribution to the annual rate of change in the total assets of 43.4 percentage points was due to non-banking investment firms with partial licenses, and those with full licenses had a positive contribution of -2.4 percentage points. The reason for this dynamics was the increase by BGN 6.4 billion of the client assets of the IFs with a partial license⁵⁸. In 2018, the number of non-banking investment firms with direct foreign participation from the EU remained 4 without changing compared to the end of 2017. There was no indirect foreign investment of EU investment firms. In terms of indirect participation from third countries, the number of IFs remained unchanged – one IF.

Table 38. Number of IFs with foreign ownership

	2017		2018	
	Direct	Indirect	Direct	Indirect
EU ownership	4	0	4	0
Third countries' ownership	0	1	0	1

Source: FSC.

⁵⁷ The amount of the total assets included the amount of the contingent assets.

The amount of the assets of the only non-banking investment firm with a small license increased from BGN 123.3 thousand at the end of 2017 to BGN 267.5 thousand at the end of 2018. The total assets of non-banking investment firms with a partial license increased from BGN 9.3 billion at the end of 2017 to BGN 16.2 billion. 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 license decreased by -13.5% from BGN 5493.6 million to BGN 4750.4 million at the end of 2018.

Table 39. Assets, capital stock and equity of non-banking IFs

	2014	2015	2016	2017	2018
IFs with a small licence					
assets	0.4	0.3	0.2	0.3	0.3
capital stock	0.5	0.5	0.5	0.5	0.3
equity	0.3	0.3	0.2	0.2	0.3
IFs with a partial licence					
assets	726.1	782.3	915.0	9 341.2	16 169.2
capital stock	9.8	9.7	9.6	9.3	14.8
equity	15.2	14.7	16.5	17.7	23.6
IFs with a full licence					
assets	4 413.7	4 111.1	4 452.7	5 493.6	4 750.4
capital stock	56.3	55.0	59.2	65.8	62.4
equity	89.7	93.0	105.2	111.2	144.7
Total IFs					
assets	5 140.3	4 893.8	5 367.9	14 835.0	20 919.8
capital stock	66.5	65.2	69.3	75.5	77.4
equity	105.1	108.0	121.9	129.1	168.5

Note: Data are in million BGN, unless stated otherwise.

Source: FSC.

The capital stock of non-banking investment firms increased by 2.5% on an annual basis to BGN 77.4 million by the end of 2018. The equity of the investment firms increased by 30.5% on an annual basis to BGN 168.5 million as at the end of 2018. The positive financial result achieved by the investment firms during the year amounting to BGN 49.6 million was the main factor contributing to the annual rate of change in equity.

The market value of the trading and investment portfolio of non-banking investment firms at the end of 2018 was BGN 41.4 million. Trading portfolio was formed by 12 non-banking investment firms with a market value of BGN 17.5 million at the end of the year. Non-banking

⁵⁸ Intercapital Markets AD

investment firms that formed an investment portfolio were 27 at the end of 2018 with a market value of BGN 23.9 million.

17 non-banking investment firms carried out activities on a trust basis at the end of 2018. The market value of the securities provided for management on a trust basis was BGN 66.1 million, and the cash at the end of the period was BGN 3.4 million.

The number of transactions concluded by investment firms in 2018 decreased by -31.8% on an annual basis to 54.3 thousand transactions, and the traded lots decreased by -29.7% on an annual basis to 282.0 million lots. The trade activity of the stock exchange members on the BSE regulated market, measured by turnover, decreased by -22.1% on an annual basis to BGN 550.0 million in 2018. The first four investment firms has a share of 46.0% of the total turnover realized during the year.

Table 40. Number of transactions, turnover and volume (lots) of IFs (banking and non-banking) on BSE's regulated market

	2014	2015	2016	2017	2018
Number of transactions	118 074	60 047	58 442	79 629	54 341
Turnover (BGN mln.)	775	411	416	706	550
Volume (mln. lots)	677	218	186	401	282

Source: BSE, FSC.

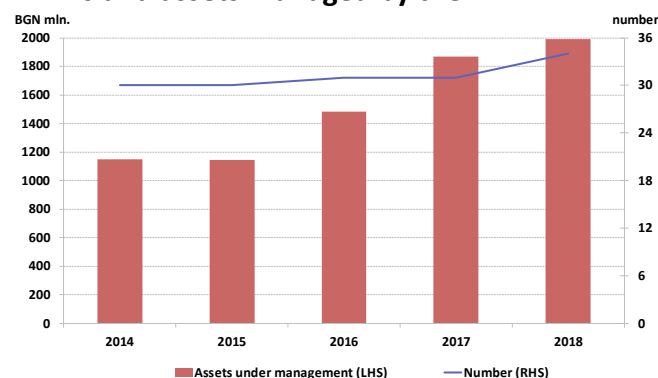
2.2.2. Collective investment undertakings

At the end of 2018, the number of management companies (MCs) was 32⁵⁹, and the alternative investment fund managers (AIFMs) were 2. In 2018, five new contractual funds (CFs) and 6 exchange traded funds were issued a license to carry out business activity and their total number at the end of the year reached 135.

The amount of assets managed by the MCs and the AIFMs increased in absolute terms by BGN 121.8 million and by the end of the year it reached BGN 1991.4 million, which was a 6.5% growth.

⁵⁹ The number included one branch of a Management Company – KBC Asset Management NV, and 2 MCs which were also AIFMs.

Graph 59. Dynamics in the number of MCs and AIFMs and assets managed by them



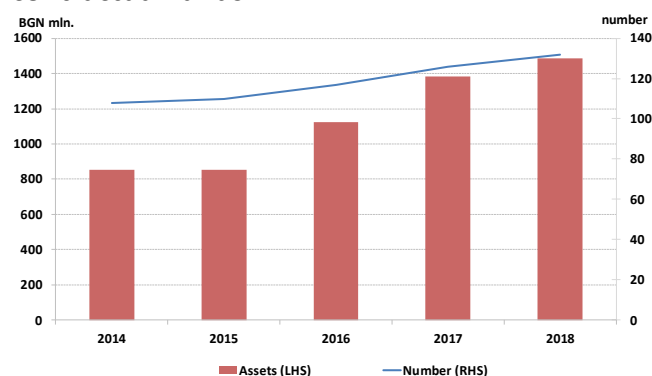
Source: FSC.

At the end of 2018, there were three alternative investment funds (AIFs), including 1 national contractual fund, 1 national investment fund managed by an AIFM, and 1 national investment fund, a self-managing AIF whose assets amounted to BGN 17.5 million compared to BGN 11.7 million for the previous year.

The number of collective investment schemes (CISs) as well as the assets accumulated by them increased in 2018. As of December 2018, there were 132 contractual funds, whose total balance sheet assets reached BGN 1484.2 million (of which the net assets were BGN 1479.6 million) or the increase of balance sheet assets was 7.4% compared to the previous year.

At the end of 2018, there was 1 money market fund⁶⁰ that managed assets for BGN 0.5 million.

Graph 60. Dynamics in the number and assets of contractual funds



Source: FSC.

⁶⁰ Trend Fund Conservative.

In 2018, the number of contractual funds of foreign collective investment schemes increased by 18 and at the end of 2018 they were 44.

Table 41. Dynamics of the number of foreign CISs

	2014	2015	2016	2017	2018
Mutual funds - foreign CISs	30	30	27	26	44

Source: FSC.

The total assets accumulated by CISs and AIFs in 2018 grew by 7.7% compared to the previous year, reaching BGN 1501.8 million at the end of the year.

In 2018, the balance sheet item Financial Assets and Instruments slowed its growth from 31.3% in 2017 to 13.8% in 2018, with a positive contribution of 9.9 percentage points to the annual rate of change in assets.

Among the financial assets and instruments, items with the greatest positive contribution to the annual rate of change were Shares (5.3 percentage points), followed by Debt Securities (4.5 percentage points) and Units of CIS (0.9 percentage points). The other items of financial assets and instruments had a growth-limiting contribution of -0.2 percentage points.

The item Cash had a negative contribution to the annual rate of change of assets of -2.0 percentage points.

Table 42. Dynamics of the CISs' and AIFs' assets

	2014	2015	2016	2017	2018
Cash	383.6	286.1	366.7	376.2	348.3
Term deposits	280.6	172.3	159.7	167.6	151.2
Financial assets and instruments, incl.	446.8	551.3	760.7	998.8	1137.1
Shares	215.8	257.3	375.2	536.6	611.2
Rights	0.0	0.0	7.9	0.0	0.0
Debt securities	191.4	207.0	251.9	307.7	371.0
Shares of CIS	31.0	76.7	110.4	132.8	145.3
Money Market Instruments	0.4	1.1	0.9	3.5	0.0
Derivatives	0.0	0.0	0.9	1.0	0.3
Other financial instruments	8.2	9.3	13.5	8.2	9.2
Non-financial assets (receivables)	20.6	16.7	13.8	12.7	7.4
Other	13.8	9.8	1.3	6.5	9.0
TOTAL	864.7	863.9	1 142.5	1 394.2	1 501.8

Note: Data are in million BGN, unless stated otherwise.
Source: FSC.

In 2018, the balance sheet item Cash decreased by BGN 27.9 million and its relative share in the total asset structure continued to decline to 23.2% at the end of the year. A growth of BGN 138.2 million was observed in financial assets and instruments, with their relative share of total assets rising from 71.6% to 75.7%. The major contribution to this dynamics was the investment

in equities and debt securities whose shares reached 40.7% and 24.7%, respectively.

The Non-Financial Assets item, most of which were receivables, decreased both in absolute terms (BGN -5.3 million), and as a relative share from 0.9% to 0.5% at the end of the year. The item Other, which mainly accounted for deferred expenses, had a 0.6% share of the total CIS asset structure.

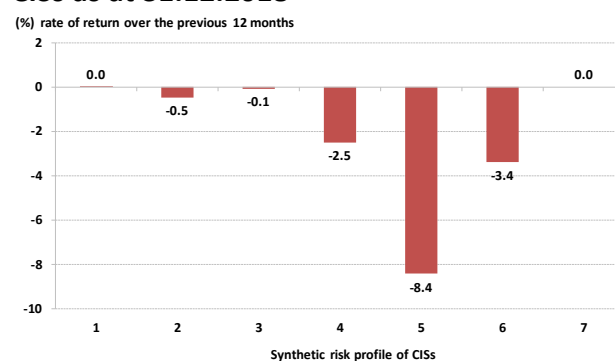
Table 43. Relative structure of CISs' and AIFs' assets

	2014	2015	2016	2017	2018
Cash	44.4	33.1	32.1	27.0	23.2
Term deposits	32.5	19.9	14.0	12.0	10.1
Financial assets and instruments, incl.	51.7	63.8	66.6	71.6	75.7
Shares	25.0	29.8	32.8	38.5	40.7
Rights	0.0	0.0	0.7	0.0	0.0
Debt securities	22.1	24.0	22.0	22.1	24.7
Shares of CIS	3.6	8.9	9.7	9.5	9.7
Money Market Instruments	0.0	0.1	0.1	0.2	0.0
Derivatives	0.0	0.0	0.1	0.1	0.0
Other financial instruments	0.9	1.1	1.2	0.6	0.6
Non-financial assets (receivables)	2.4	1.9	1.2	0.9	0.5
Other	1.6	1.1	0.1	0.5	0.6
TOTAL	100.0	100.0	100.0	100.0	100.0

Note: Data are in percentages (%), unless stated otherwise.
Source: FSC.

In 2018, collective investment schemes, which continued to be a preferred alternative for investment income in the conditions of low interest rates, generated negative returns over the last 12 months. At the end of the year, the lowest weighted average yield (-8.43%) for the previous 12 months was realized by funds with a high risk profile classified in category 5 (scale 1 to 7), and -3.4% for risk category 6 funds. A positive return of 0.02% was realized only by CISs with risk profile 1, whose investments were mainly in deposits.

Graph 61. Weighted average rate of return of CISs as at 31.12.2018



Note: In accordance with Regulation 583/2010/EU, the scale (from 1 to 7) represents a synthetic code for the risk profile

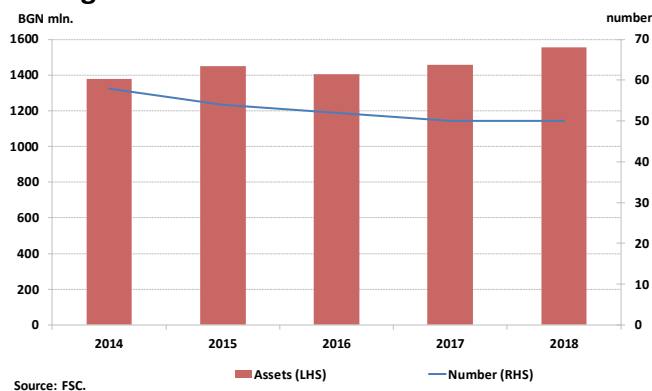
of CIS, with the degree of risk increasing as it ascends. The return is weighted against the value of net assets of individual CIS with the same risk profile.

2.2.3. Special Purpose Investment Companies

At the end of 2018, the total number of licensed Special Purpose Investment Companies (SPICs) was 57⁶¹, out of which 50 which carried out securitization of real estates and agricultural land, and the remaining 7 securitized receivables. The total value of the assets of all SPICs increased by 7.6% compared to the previous year 2017. The sum of the assets of these companies at the end of 2018 amounted to BGN 1702.4 million, or 1.6% of the GDP.

The sum of the assets of SPICs performing securitization of real estates and agricultural land increased by 6.9% in 2018 and by the end of the year it reached BGN 1556.8 million.

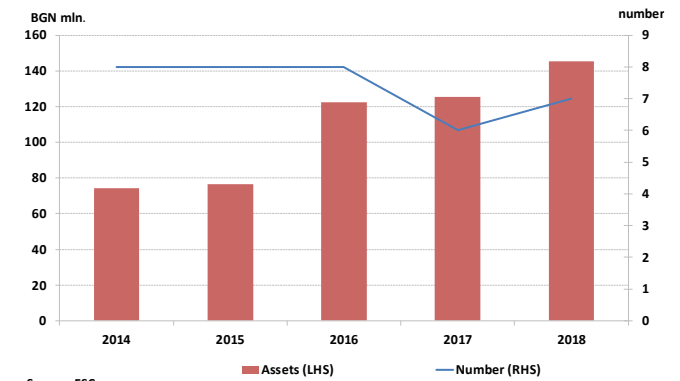
Graph 62. Dynamics in the number and assets of SPICs, performing securitization of real estate and agricultural land



For SPICs securitizing receivables, the amount of assets accumulated in 2018 increased by 16.0% compared to 2017 and at the end of 2018 the assets amounted to BGN 145.5 million. The contribution of the two categories of SPICs to the overall increase in assets was positive, being 6.3 percentage points for SPICs securitizing real estates, and the increase for SPICs securitizing claims it was 1.3 percentage points.

⁶¹ The number of SPICs presented did not include companies the license of which had been revoked as at 31.12.2018.

Graph 63. Dynamics in the number and assets of SPICs, performing securitization of receivables



Source: FSC.

In the structure of the assets of SPICs performing securitization of real estates and agricultural land, the main item Investment Properties increased by 1.7% on an annual basis and had a positive contribution of 1.3 percentage points to the annual growth of assets of this type of companies. The highest growth was recorded in the Receivables item, which grew by BGN 95.6 million and contributed 6.6 percentage points to the growth of assets. A positive contribution of 2.0 percentage points had from the item Cash, which increased by BGN 29.0 million in 2018, while the item Others decreased by BGN 42.7 million and had a negative growth-limiting contribution of -2.9 percentage points.

Table 44. Assets of SPICs performing securitization of real estates and agricultural land

	2014	2015	2016	2017	2018
Investment properties	812.8	936.1	1 021.1	1 099.6	1117.9
Financial assets	1.7	0.1	0.2	2.5	2.4
Cash	76.8	41.2	53.5	51.6	80.6
Receivables	200.2	183.4	182.6	155.4	251.0
Other	287.8	289.2	149.0	147.6	104.9
TOTAL	1 379.4	1 450.0	1 406.4	1 456.7	1556.8

Note: Data are in million BGN, unless stated otherwise.
Source: FSC.

In 2018, the relative structure of the assets of the SPICs performing securitization of real estates and agricultural land did not change significantly. Although the absolute value of investment properties continued to increase over the last five years to reach BGN 1117.9 million, its relative share declined from 75.5% in 2017 to 71.8% by the

end of 2018. The opposite trend was observed in the share of cash and receivables, which increased by BGN 124.6 million during the year and contributed positively to the growth of 8.6 percentage points in the assets of SPICs securitizing real estates and agricultural land.

Table 45. Relative structure of the assets of SPICs, performing securitization of real estates and agricultural land

	2014	2015	2016	2017	2018
Investment properties	58.9	64.5	72.6	75.5	71.8
Financial assets	0.1	0.0	0.0	0.2	0.2
Cash	5.6	2.8	3.8	3.5	5.2
Receivables	14.5	12.7	13.0	10.7	16.1
Other	20.9	19.9	10.6	10.1	6.7
TOTAL	100.0	100.0	100.0	100.0	100.0

Note: Data are in percentages (%), unless stated otherwise.
Source: FSC.

In the assets of SPICs performing securitization of receivables, the item Receivables (Over 1 Year) increased by BGN 23.0 million in 2018 and by the end of 2018 it reached BGN 31.9 million compared to 8.9 million at the end of the previous year. The remaining items in the asset structure decreased, with the item Receivables (Up To 1 Year) decreasing by BGN -2.7 million or -2.4% on an annual basis compared to 2017.

The increase in absolute terms of receivables of more than 1 year also defined the growth of total assets, with their positive contribution towards the change in the total value of the assets in 2018 was 18.4 percentage points.

Table 46. Assets of SPICs performing securitization of receivables

	2014	2015	2016	2017	2018
Financial assets	3.9	6.3	6.2	6.2	6.2
Cash	1.5	1.7	4.2	1.4	1.1
Receivables (up to 1 year)	22.4	5.1	77.5	108.9	106.2
Receivables (above 1 year)	46.2	46.8	34.6	8.9	31.9
Other	0.2	16.7	0.1	0.0	0.0
TOTAL	74.3	76.7	122.6	125.4	145.5

Note: Data are in million BGN, unless stated otherwise.
Source: FSC.

In relative terms in the structure of the assets of SPICs for receivables, with the highest relative share of 73.0%, remained the item Receivables (Under 1 Year), with an increase of 14.9 percentage points of the relative share of receivables over 1 up to 21.9% compared to 7.1% in 2017. The increase in the relative share of

receivables over 1 year was also due to a decrease in the share of financial assets (-0.7 percentage points) and Cash (-0.3 percentage points).

Table 47. Relative structure of the assets of SPICs performing securitization of receivables

	2014	2015	2016	2017	2018
Financial assets	5.3	8.2	5.0	5.0	4.3
Cash	2.0	2.2	3.4	1.1	0.8
Receivables (up to 1 year)	30.2	6.7	63.2	86.8	73.0
Receivables (above 1 year)	62.2	61.1	28.3	7.1	21.9
Other	0.2	21.8	0.1	0.0	0.0
TOTAL	100.0	100.0	100.0	100.0	100.0

Note: Data are in percentages (%), unless stated otherwise.
Source: FSC.

SPICs' capital stock decreased by 0.7% on an annual basis to BGN 485.1 million at the end of 2018. The defining SPICs for the overall dynamics were those securitizing real estates and agricultural land which dominated the segment. The capital stock recorded for them had decrease of -1.1% on an annual basis and contributed with -1.0 percentage points to the total reduction. In the case of SPICs securitizing receivables, although the capital stock increased by 21.9%, their positive contribution was limited to 0.4 percentage points. The equity of SPICs increased by 13.9% compared to the previous year and reached BGN 1082.6 million at the end of 2018. Positive contribution of 11.4 percentage points had SPICs performing securitization of real estates and agricultural land, while SPICs securitizing receivables had a contribution of 2.5 percentage points to the growth of equity.

Table 48. SPICs' registered capital and equity

	Registered capital		Equity	
	2017	2018	2017	2018
SIPC securitizing real estate, incl. agricultural land	479.6	474.5	918.3	1 026.8
SIPC securitizing receivables	8.7	10.6	31.8	55.7
TOTAL for SPICs	488.3	485.1	950.1	1 082.6
<i>change (%)</i>	<i>1.2</i>	<i>-0.7</i>	<i>6.8</i>	<i>13.9</i>

Note: Data are in million BGN, unless stated otherwise.
Source: FSC.

In 2018, the shareholder structure of SPICs remained stable compared to the previous year.

On the part of the Bulgarian residents, the relative share of the Shareholding and Holding Companies sector (2.9 percentage points) continued to increase, remaining the biggest investor in SPICs by the end of 2018 with a share of 53.21%.

Table 49. SPIC shareholders' structure

	2017	2018
Households	19.98	19.72
Banks	1.98	1.71
Public sector	0.13	0.14
Insurance companies (IC)	1.10	0.84
Pension funds (PF)	10.07	9.20
Financial intermediaries except for IC and PF	7.84	6.95
Shareholding and holding companies	50.28	53.21
Bulgaria	91.37	91.77
Households from the EU	0.41	0.43
Legal entities from the EU	2.00	1.54
EU	2.41	1.97
Households from third countries	0.78	0.75
Legal entities from third countries	2.37	2.32
Third countries	3.15	3.07
Households from the USA	0.08	0.08
Legal entities from the USA	2.99	3.12
USA	3.06	3.20
TOTAL	100.0	100.0

Note: Data are in percentages (%), unless stated otherwise. The relative share of the shareholder groups is calculated on the basis of the nominal value of the shares.
Source: CD, FSC.

The share of other sectors in the shareholding structure decreased, while in the sector Financial Intermediaries Except Insurance Companies (ICs) and Pension Funds (PFs) the decrease was -0.89 percentage points, followed by pension funds (-0.87 percentage points) and insurance companies, households and banks, the decrease for which was -0.26 percentage points each. EU legal entities and individuals holding shares in SPICs reduced their relative shares and by the end of 2018 held a total of 1.97% of SPICs compared to 2.41% in 2017. The shares of SPICs owned by natural persons and legal entities from third countries declined from 3.15% in 2017 to 3.07% by the end of 2018. A slight increase of 0.14 percentage points was observed in the share of US investors in Bulgarian special-purpose investment companies.

2.2.4. Public companies and bond issuers

The number of public companies and bond issuers at the end of 2018 was 244, with a net decrease of 46 companies compared to the end of the previous year, of which 4 were only issuers.

The prospectuses for initial public offering reviewed in 2018 were 19, five of which were of SPICs, 12 of public companies other than SPICs, 1 of issue of warrants and 1 of bond issue. The total value of the approved issues was BGN 358.4 million (of which the actual amount collected was BGN 266.2 million), which represented an increase

of 1.6% on an annual basis. The prospectuses confirmed in 2018 allowing trade on a regulated market were 14, of which 13 were bond issues and 1 public company share issue, with issue value of the confirmed issues of BGN 150.5 million. The value of confirmed share issues was BGN 3.9 million and the value of confirmed bond issues was BGN 146.6 million.

The tender offers reviewed followed by a decision not to issue the final ban on their publication in 2018 increased by 10 compared to the previous year. There was continuing decrease in their turnover of -10.5%. In 2018, a total of 7 tender offers were reviewed without a final ban totaling BGN 17.3 million (of which the shares acquired as a result of the tender offers made amounted to BGN 8.9 million).

Table 50. Reviewed prospectuses and tender offers

	2014	2015	2016	2017	2018
Prospectuses for initial public offering (number)	18	12	17	19	19
Amount of issue*	138.0	124.4	190.6	352.7	358.4
Decisions for non-issuance of final prohibition for publishing of tender offers (number)	11	10	6	17	7
Turnover**	117.1	28.8	25.4	19.3	17.3

Note: Data are in million BGN, unless stated otherwise. * The amount of the issue is the value of the approved issues according to the reviewed prospectuses for the respective year. ** The turnover includes the proposed number of shares under tender offer for which no final prohibition has been given or which have not been terminated.
Source: FSC.

The market capitalization of the top ten companies in the Main Market decreased by BGN 12.9 billion, which was entirely due to the relocation of the bond issues of Capital Concept Limited AD on the Alternative Market. The first position in market capitalization was held by Tchaikapharma High Quality Medicines AD, which increased its market capitalization by 28.0% compared to the previous year, and the company had a 2.4% share of the total market capitalization at the stock exchange. The next two positions with a share of 1.8% were Chimimport AD and Sopharma AD. The market capitalization of Chimimport AD increased by 11.5%, or BGN 49.4 million. In 2018, in the ranking of the leading companies on the BSE, in fourth place with BGN 415.4 million in market capitalization was Gradus AD, whose shares were listed in the third quarter of the year. Although other companies retained their top positions, their market capitalization was declining. A share of 1.4% of the total capitalization of the stock exchange was held by

CEZ Distribution Bulgaria AD and CB First Investment Bank AD, which decreased their capitalization by -26.2% and -40.4%, respectively. CB First Investment Bank AD, which in 2017 held second place in the ranking, reduced its market capitalization by BGN 251.5 million in 2018 and moved up to the sixth place. Seventh and eighth positions were held by the companies Eurohold Bulgaria AD and Monbat AD, which had shares of 1.2% of the total market capitalization. Eurohold Bulgaria AD increased its capitalization by BGN 26.9 million and moved two places up. The last company included in the top ten had a market capitalization of BGN 262.1 million or BGN 9.2 million more than in 2017.

Table 51. Top 10 public companies by market capitalization on the main market

	2017		2018
Capital Concept Limited AD-Sofia	12 908.8	Tchaikapharma High Quality Medicines AD-Sofia	649.8
CB First Investment Bank AD-Sofia	622.2	Chimimport AD-Sofia	478.1
Sopharma AD-Sofia	577.5	Sopharma AD-Sofia	474.5
CEZ Distribution Bulgaria AD-Sofia	522.5	Gradus AD	415.4
Tchaikapharma High Quality Medicines AD-Sofia	507.3	CEZ Distribution Bulgaria AD-Sofia	385.6
Chimimport AD-Sofia	428.7	CB First Investment Bank AD-Sofia	370.7
Monbat AD-Sofia	396.8	Eurohold Bulgaria AD-Sofia	318.0
M+S Hydraulic AD-Kazanlak	315.5	Monbat AD-Sofia	308.1
Eurohold Bulgaria AD-Sofia	291.2	M+S Hydraulic AD-Kazanlak	301.8
Albena AD-Albena	271.3	Velgraph Asset Management AD	262.1
TOTAL	16 841.8		3 964.0

Note: Data are in million BGN, unless stated otherwise.
Source: BSE.

In the structure of trade of the first 10 leading branches of Bulgarian Stock Exchange AD for 2018, the branch Financial and Insurance Activities occupied the first place with a turnover of BGN 202.0 million and a relative share in the total turnover of 56.0%, followed by Real Estate Transactions with a turnover of BGN 78.7 million (a share of 21.8%) and Manufacturing with a turnover of BGN 50.0 million and a share of 13.9%.

Table 52. Trade structure by Top 10 sectors on BSE in 2018

Sector	Transactions	Volume (mln.)	Turnover (BGN)
Financial and insurance activities	27.8	107.7	202.0
Operations with real estate	1.8	19.4	78.7
Manufacturing industry	11.2	11.5	50.0
Creation and distribution of information and creative products; telecommunications	0.1	0.8	7.7
Professional activities and research	2.9	5.4	6.6
Construction	1.2	4.4	4.3
Wholesale and retail trade, repair of motor vehicles and motorcycles	2.0	2.9	3.4
Production and distribution of electricity and heat, and of gaseous fuels	0.7	0.0	3.3
Accommodation and food service activities	0.9	0.1	1.7
Mining and quarrying industry	0.3	0.2	1.6
Transportation, storage and postal services	0.5	0.9	1.3

Source: BSE.

At the end of 2018, Bulgarian residents held 54.5% of the ownership in public companies, calculated on the basis of the equity instruments issued by nominal value. The share of households and legal entities from third countries decreased from 43.23% in 2017 to 42.55% in 2018, followed by EU households and legal entities (2.58%) and US persons and legal entities (0.35%). Households, banks, insurance companies, pension funds and financial intermediaries who were Bulgarian residents increased their relative share in public companies and contributed a total of 8.0 percentage points to the 3.5% growth at the expense of the limiting contribution of -4.5 percentage points of the shares held by joint stock and holding companies. The internal structure of the share held by Bulgarian residents remained relatively unchanged. The main Bulgarian shareholder, despite the continuous drop in the relative share, remained the companies from the Shareholding and Holding Companies sector with 29.5% and the Pension Funds sector with a share of 5.0%. The main contribution to this trend for the internal restructuring was the reduction of the share of stakes in public companies held by shareholding and holding companies at the expense of an increase in shares held by households, pension funds and financial intermediaries.

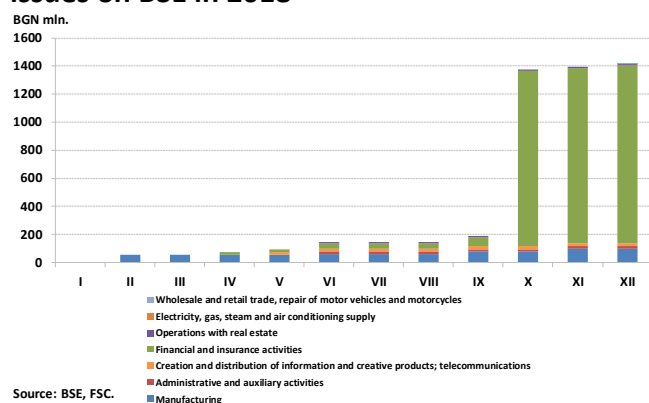
Table 53. Shareholders structure of PCs

	2017	2018
Households	11.83	14.88
Banks	1.28	1.44
Public sector	0.12	0.11
Insurance companies (IC)	0.51	0.55
Pension funds (PF)	4.17	4.98
Financial intermediaries except for IC and PF	2.89	3.05
Shareholding and holding companies	31.88	29.51
Bulgaria	52.67	54.52
Households from the EU	0.52	0.22
Legal entities from the EU	3.23	3.26
EU	3.75	2.58
Households from third countries	0.10	0.15
Legal entities from third countries	43.13	42.40
Third countries	43.23	42.55
Households from the USA	0.00	0.00
Legal entities from the USA	0.35	0.35
USA	0.35	0.35
TOTAL	100.0	100.0

Note: Data are in percentages (%), unless stated otherwise. The relative share of the shareholder groups is calculated on the basis of the nominal value of the shares.
Source: CD, FSC.

The newly issued bond debt on the regulated market increased by 323.1% on an annual basis, reaching BGN 1.4 billion at the end of 2018. For comparison, in 2017, the debt issued on the BSE amounted to BGN 336.9 million. A bond issue of Bulgarian Energy Holding EAD issued in October represented 82.3% of the total amount of debt securities issued in 2018. Thus, the Financial and Insurance Activities sector held a share of 89.02% of the total issued debt, followed by the sectors Manufacturing (7.03%), Creation and Distribution of Information and Creative Products, Telecommunications (1.4%) and Administrative and Auxiliary Activities (1.05%).

Graph 64. Amount of cumulative bond debt issues on BSE in 2018



2.2.5. Trading venues

The total market capitalization on the main and alternative market of the Bulgarian Stock Exchange AD (BSE) increased by 13.3% on an annual basis and at the end of 2018 amounted to BGN 26.8 billion. The capitalization at the main market was down by BGN 13.7 billion, or -61.1% on an annual basis. The largest decrease amounting to BGN 13.2 million had a Standard share segment, which due to a move of an issue of shares with a market capitalization of BGN 12.9 billion from main to an alternative market, contributed negatively -55.9 percentage points to the growth of capitalization at the BSE. Accordingly, the equities segment at an alternative market contributed positively with 71.2 percentage points. The Premium equities segment decreased by BGN 364.6 million and

reached BGN 1.9 million, which was a decline of -15.8%. The market capitalization of SPICs in the main market decreased by -12.7%, or BGN 88.9 million, and reached BGN 611.2 million. In the other segments of the main and alternative market, there was a decrease of the market capitalization on an annual basis, except for the segment for special purpose investment companies in an alternative market, whose capitalization increased by BGN 115.0 million and reached BGN 486.7 million at the end of 2018.

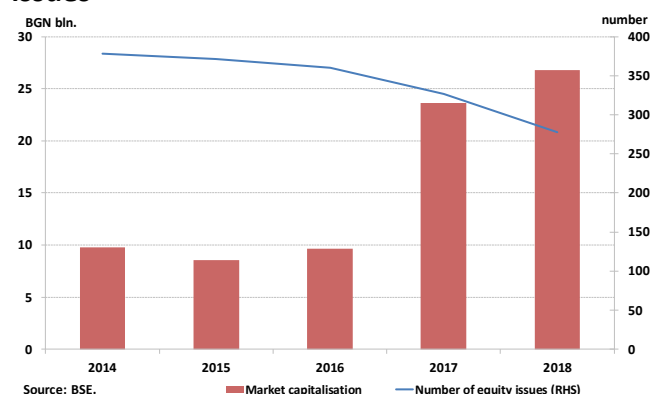
Table 54. Market capitalization

Market or segment	2014	2015	2016	2017	2018
Premium Equities Segment (main market)	1 682.9	1 240.1	1 720.3	2 303.3	1 938.7
Standard Equities Segment (main market)	5 405.7	5 543.6	5 766.6	19 350.2	6 138.3
SIPC segment (main market)	564.9	537.9	579.3	700.0	611.2
Equities Segment (alternative market)	1 085.7	929.0	1 255.7	895.7	17 590.4
SIPC segment (alternative market)	1 017.1	336.7	360.7	371.7	486.7
TOTAL	9 756.2	8 587.4	9 682.5	23 621.0	26 765.3

Note: Market capitalisation is at the end of the year.
Source: BSE.

The number of financial instruments admitted to trading on the markets organized by BSE in 2018, registered a net drop of 28 issues and their number was 381 at the end of the year. The number of share issuances dropped (net) by 49. The decrease was due to both relocation and deletion of companies from the BSE.

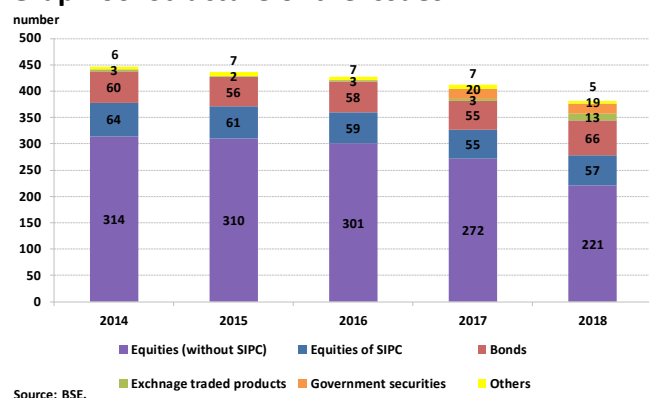
Graph 65. Market capitalization and number of issues



On the equity market (excluding SPICs), the issues decreased from 272 in 2017 to 221 in 2018. On the SPICs equity market, the number of issues increased by 2 compared to the end of 2017 and by the end of 2018 the number of issues was 57. Bonds issues listed on the stock exchange in 2018 increased by 11 and by the end of the year their

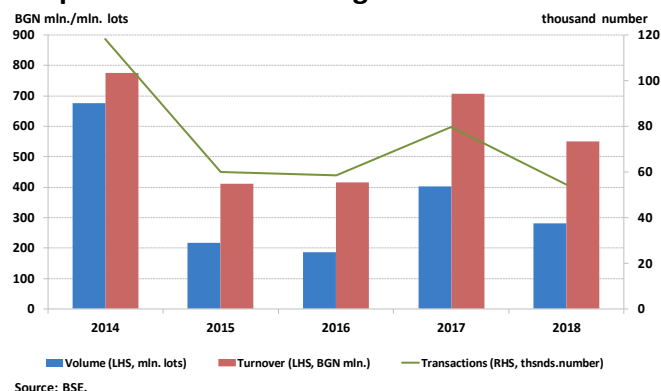
number was 66. Nineteen issues of government securities were traded per segment for trading of government securities on a main market, with one mature issue during the year. In the segment of exchange traded products at the stock exchange in 2018, 10 new exchange traded funds were listed. Thus the number of funds in this segment was 13. Issues of other financial instruments that included issues admitted to trading in the Compensatory Instruments and Initial Public Offering Segment were five in total, three of which were compensatory instruments and two were initial public offerings.

Graph 66. Structure of the issues



The number of transactions decreased by -31.8% on an annual basis from 79,629 transactions in 2017 to 54,341 transactions by the end of 2018. The total number of lots transferred in 2018 was 282 million lots, which was a decrease by -29.7% compared to the previous year or 119.4 million lots. Trading on the BSE's markets measured by the turnover ended the year with a decrease of 22.1%, from BGN 705.9 million in 2017 to BGN 550.0 million in 2018, with the drop being observed for all groups of financial instruments. The daily average turnover on a regulated market in 2018 was BGN 2.2 million, decreasing by 21.4% compared to the previous year. The main negative contribution of -23.6 percentage points was provided by equity's segments (excluding SPICs).

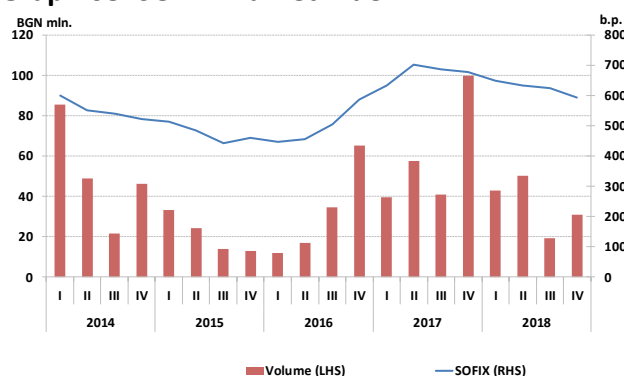
Graph 67. Trade on the regulated market



All BSE indices except BGREIT declined in 2018. In the first half of the year there was a downward movement of the indices, followed by a third quarter growth and a reversal of the fourth quarter, which continued until the end of the year. The movement of the indices was similar 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 the companies included in the indices in 2018 also declined significantly for all market indices except for BGREIT.

In 2018, the main stock exchange index SOFIX reported a decrease of 12.3% on an annual basis, reaching 594.45 points at the end of the year. The market capitalization of the companies included in the index was BGN 3.4 billion, accounting for 12.6% of the total capitalization of the BSE.

Graph 68. SOFIX market index

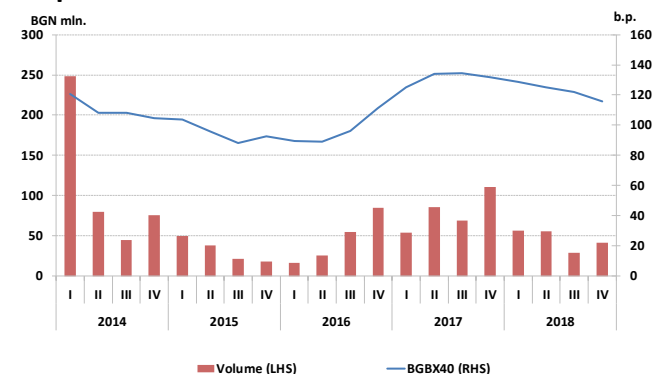


Note: The value of indices is the last value for the respective period.

In 2018 the stock exchange index BGBX40 reported a decrease of 12.2%, ending the year at 115.91 percentage points. The market capitalization of companies included in the index

(BGN 6.2 billion) had a share of 23.2% of the total market capitalization at the end of 2018.

Graph 69. BGBX40 market index

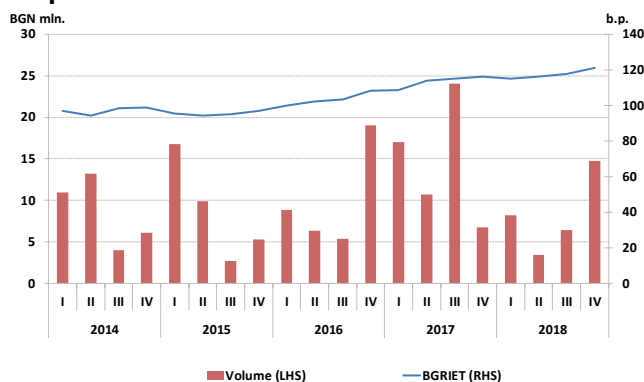


Source: BSE.

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 2018, it reported an increase of 4.3% on an annual basis, ending the year at 121.1 percentage points. Its sectoral profiling and the scale of the represented sector lead to a limited share of total market capitalization by the end of 2018, and therefore its dynamics was not fully indicative of the overall trends and dynamics of the SPICs segment. The market capitalization of the SPICs included in the index represented 1.8% of the represented SPICs sector from the total capitalization of the BSE as at 31.12.2018.

Graph 70. BGREIT market index

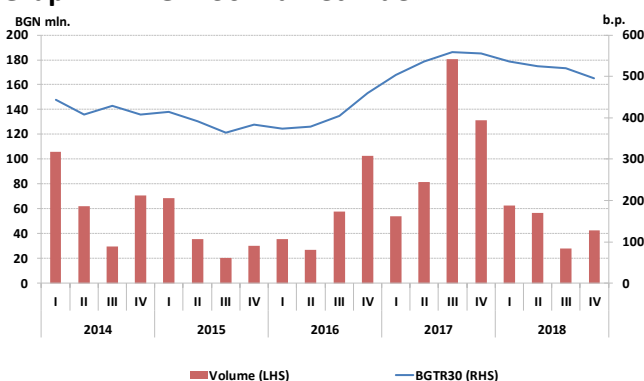


Source: BSE.

Note: The value of indices is the last value for the respective period.

The equally-weighted index BGTR30 decreased by -10.8% on an annual basis and at the end of 2018 its value reached 496.14 percentage points. The market capitalization of companies included in the index was 18.5% of the total market capitalization at the BSE at the end of 2018.

Graph 71. BGTR30 market index



Source: BSE.

Note: The value of indices is the last value for the respective period.

2.2.6. Central Depository

The total value of Central Depository AD's assets amounted to BGN 6.2 million at the end of 2018.

For 2018, the total number of concluded transactions decreased by -32.6% (a total of 55,936 transfers for 2018, 97.1% of which were executed at the stock exchange). A main contribution of -30.5 percentage points to the decline in the annual rate of change was for stock exchange transactions, which decreased from 79,627 in 2017 to 54,328 in 2018. The transferred securities decreased by -29.4% on an annual basis (from 383.8 million to 271.1 million), while transactions with compensatory instruments decreased by -19.3% on an annual basis (from 2116 in 2017 to 1708 transactions in 2018). Registered payments with compensatory instruments to state institutions increased by 84.7% on an annual basis to 218 transactions. Inheritance transfers decreased by -8.3% on an annual basis to 1080 transfers in 2018. Issued duplicates of depository receipts decreased from 1828 in 2017 to 1629 in 2018. During the year, the number of rights transactions grew by 170.5% on an annual basis to 614 in 2018, while the rights transferred decreased from 156.9 million in 2017 to 67.9 million rights.

In 2018, through the system of Central Depository AD dividends were paid to 64 companies and 242 payments of interest and principals of bond issues were made to a total amount of BGN 137 million. During the reporting period 87 companies registered new issues of book-entry financial instruments (68 companies for 2017), 17 of which were issues of shares, 45 issues of bonds, 16 issues of rights and nine issues of shares of contractual funds. In 2018, 15 new issues of tradable certificates were issued. Applications for changes in the register were submitted by 66 companies. 66 companies submitted applications for a change in capital by issuing new shares, 16 companies of which increased their capital through the issuance of rights. Changes in the capital through the change of the nominal were registered by 6 companies. One procedure for initial public offering of shares for increasing the capital was conducted in 2018.⁶² The number of applications for the receipt of transcripts from the shareholders' books increased from 2630 in 2017 to 2652 in 2018. In 2018, 1160 entries were recorded in the pledges register (compared to 1219 for 2017). Of these, 80 entries of registered pledges, 473 – distraints and 438 entries of other circumstances. In 2018, there were 5 entries in the registry of financial collateral arrangements.

2.2.7. Investor Compensation Fund

In 2018, the Fund's activity was mainly focused on the fulfillment of its obligations in connection with the license of IF Positiva AD revoked by the FSC on 23.06.2017, and the activation of the procedure for the payment of compensation from the Fund to the intermediary's clients. A compensation of BGN 40,000 per client of the intermediary was paid. The one-year deadline for submission of claims for payment of compensations by clients of IF Positiva AD expired on 03.07.2018. In 2018, the Fund received four claims for payment of compensation, one of which after the statutory one-year term. Three of the claims were considered unfounded. Regarding the fourth request submitted after the one-year statutory term, the MC decided to admit it to reviewing on the grounds of Art. 77u, para. 2 of the POSA.

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 analyzing 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.

In the past year, a new mediator with a partial license joined the scheme. On the other hand, the Financial Supervision Commission withdrew the license of IF Beta Corp AD (with a full license) and IF Matador Prime OOD (with a partial license) to operate as investment firms. At IF Beta Corp AD, the appointed quaestor managed to settle the firm's relations with the clients and to re-establish their client assets, thus no compensation had to be paid by the Fund. Unlike IF Beta Corp AD, the revocation of the license of IF Matador Prime OOD to operate as an investment firm led to the activation of the scheme (Decision of the FSC No. 102-EA of 24.01.2019).

Two bank merger cases were finalized during the year. On 5 February 2018, CIBANK EAD was merged into United Bulgarian Bank AD, and on 21.11.2018 the transformation of TB Victoria EAD by merger into Investbank AD was entered into the Commercial Register. So, as at 31 December 2018, the total number of participants in the Fund was 87, 37 of which were investment firms (IFs), 19 were banks – investment firms (B-IFs) and 31 were managing companies (MCs). Only 4 of the MCs held client assets protected by the Fund, respectively the active participants in the ICF as of 31.12.2018 were a total of 60.

The total amount of protected client assets declared by the participants as at 31 December 2018 was BGN 2.42 billion, of which the cash funds were BGN 65.2 million, and the financial instruments (FIs) – BGN 2.35 billion. Compared to 31 December 2017, client assets subject to compensation were 23% more, or

⁶² IPO of Gradus AD.

BGN 452 million in absolute value. The amount of unprotected assets as at 31.12.2018 was BGN 38.55 billion, which was 14% compared to the previous year. The share of protected client assets in the total amount of all assets (BGN 40.96 billion) managed by participants was 6%. In 2018, B-IFs managed protected client assets amounting to BGN 1.3 billion, which was 54% of all protected client assets. Investment firms held 43% of the protected client assets, and MCs – 3%.

The average monthly value of protected client assets for 2018 was the basis for determining the annual contribution for 2019. The average monthly amount of protected FIs for all investment firms in 2018 increased to BGN 2.08 billion, with BGN 1.81 billion in 2017. Unlike the amount of FIs, the average monthly value of protected monetary funds in 2018 decreased to BGN 71.86 million, with BGN 95.6 million in 2017.

As of 31.12.2018 the number of clients to be compensated for all participants was 57,964, i.e. 18,767 clients less compared to 31.12.2017. The exposure of the Fund, calculated for these clients as at 31.12.2018 amounted to BGN 273.06 million with BGN 269.13 million as at 31.12.2017.

The resources of the Fund were formed by annual and introductory contributions of IFs, B-IFs and MCs, as well as investment revenues. As at 31.12.2018, the funds collected in the Fund amounted to BGN 16.2 million, which were only invested in government securities. Income from annual and introductory contributions of the participants in the Fund in 2018 amounted to BGN 1.0 million.

In 2018, the Management Board of the Fund decided to keep the amount of the annual contribution for 2019 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 2018.

For the Investment Firms Resolution Fund (IFRF), which was part of the ICF administration, in April 2018 the FSC in its capacity as a restructuring body determined the annual contributions for 2018 of the investment firms falling within the scope of the RRCIIFA. As at the date of determining the individual annual contributions, the participants in the IFRF were 19, and the total amount of the contribution determined for them was BGN 37,161 /the same as it was in 2017/. As at 31.12.2018 the funds collected in the IFRF amounted to BGN 74,123 invested in securities. In the second half of the year, two investment firms dropped out of the IFRF, and as at 31.12.2018 the total number of participants was 17.

In the beginning of the year, the Fund submitted a Proposal amending the Rules of structure and operation of the Investor Compensation Fund and they were accepted. The proposed changes affected the procedure and manner of determining the remuneration of the Managing Board and synchronized the Regulations with the amendments made to the POSA in 2017, in force as of the beginning of 2018.

During the year, the MB also adopted some changes in the internal regulations for the Fund's activities, as well as new ones.

2.3. Insurance market

At the end of 2018, the total number of licensed (re)insurers with headquarters in the Republic of Bulgaria was 37. Of these, 25 were non-life insurance companies, 11 were life insurance companies and 1 was a reinsurer whose license entitled the company to carry on non-life insurance business and life insurance business. Of these, 32 companies implemented the Solvency II regime and had the right to access the European Union and the European Economic Area market (the Single Market), while the remaining 5 insurers operated without the right to access the single market. At the end of 2018 the procedure for the merger of UBB Life Insurance EAD with DZI-Life Insurance EAD was completed, and on 31.12.2018 the merger was entered in the Commercial Register.

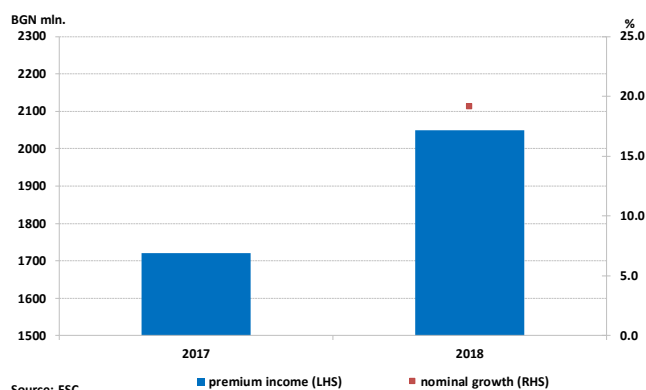
On the basis of the information from the quarterly reports according to Ordinance No. 53 at the end of the fourth quarter of 2018, which included the data for all insurers with headquarters in the Republic of Bulgaria:

- the gross premium income as at 31 December 2018 amounted to BGN 2470 million, recording an increase of 14% on an annual basis;
- the Bulgarian insurance market (life and non-life insurance) was allocated in a 84% to 16% ratio for the benefit of the registered non-life insurance premiums;
- insurance penetration calculated on the basis of gross written premium as a percentage of GDP in 2018 was calculated at 2.29% with a value of 2.19% at the end of the previous year. The insurance penetration indicator for non-life insurance was calculated to be 1.9% at the end of the reporting period compared to 1.8% a year earlier. Insurance penetration in life insurance at the end of 2018 was estimated at 0.36% at 0.40% a year earlier;
- the insurance density, calculated as gross premium income per capita⁶³, increased to BGN 353 at the end of 2018, compared to BGN 306 at the end of 2017. The insurance coverage for non-life insurance amounted to BGN 298 per capita compared to the value of BGN 250 calculated for 2017. The insurance density for life insurance amounted to BGN 55 per capita compared to BGN 56 a year earlier.

2.3.1. Non-life insurance

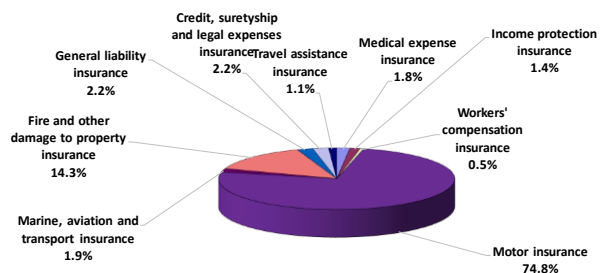
The gross premium income realized at the end of 2018 by the non-life insurers with headquarters in the Republic of Bulgaria with the right of access to the single market⁶⁴ amounted to BGN 2050 million, including BGN 2026 million on direct insurance and BGN 23 million on active reinsurance. An increase in gross premium income of 19% was reported on an annual basis. The increase in premium income generally for the market was mainly due to the increase in premiums on the compulsory Motor Third-Party Liability insurance.

Graph 72. Gross premium income in non-life insurance



In 2018, in the structure of the portfolio of non-life insurance companies, the major share of 75% was held by motor insurances, with motor third-party liability insurance accounting for 45%, and the share of AutoCasco⁶⁵ insurances was 30%, respectively.

Graph 73. Structure of gross premium income by classes of insurance for 2018



Source: FSC.

The realized premium income on MTPL in the past year increased by 42% on an annual basis (BGN 272 million in absolute terms) and amounted to BGN 917 million.

In the early 2018, the FSC prepared and published an analysis of the sufficiency of premiums and reserves under this policy. The analysis showed a premium deficiency,

⁶³ According to NSI data, the population in 2018 amounted to 7,000,039 people.

⁶⁴ The analysis for the insurance market was based on the quarterly reports for the fourth quarter of 2018 received by the Financial Supervision Commission (FSC) in accordance with Regulation 2015/2450 (Solvency II) and included data on insurers with headquarters in the Republic of Bulgaria which have the right to access the single market.

⁶⁵ Other Insurance in Relation with Motor Vehicles, according to the classification under Delegated regulation 2015/35.

particularly for the most massive vehicles – cars, trucks and buses, and the premiums collected for 2017 were not enough to cover the insurers' costs.

With interpretative decision No. 1/2016, Sofia city of 21 June 2018 of the Supreme Court of Cassation of the Republic of Bulgaria, the circle of persons who were entitled to compensation in case of a death of an insured person under a Motor Third-Party Liability insurance was extended. FSC sent letters to the insurers informing them of the interpretative decision and the results of the analysis of the sufficiency of the insurance premium.

With regard to the need to increase Motor Third-Party Liability insurance premiums to adequately determine and cover with sufficient premiums the risk assumed and in connection with the effect of the interpretative decision, as well as the findings made on the sufficiency of insurance premiums in the analysis prepared by the FSC, most insurers undertook action in 2018 to increase their insurance rates.

The increase in the premium income on an annual basis in this class of insurance influence was also due to the fact that the contracts concluded with IC Olympic-Bulgaria Branch were terminated and concluded with insurers with their seat in the Republic of Bulgaria.

For the period January – December 2018, the premium income written on AutoCasco insurance amounted to BGN 615 million, with an increase of 8% on an annual basis.

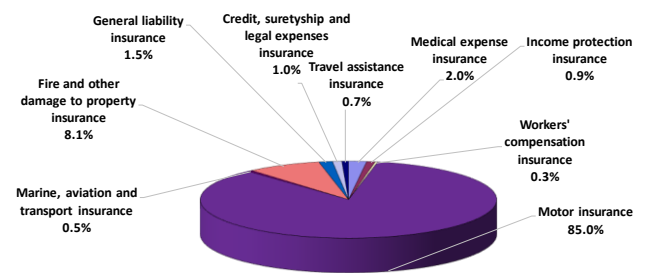
At the end of 2018, property insurances against fire and other disasters in Bulgaria accounted for a share of 14% of the gross premium income compared to 17% at the end of 2017. The realized premium income for these insurances amounted to BGN 293 million, a growth of 1% on an annual basis being reported.

Insurance in respect of medical expenses, income protection and compensation of workers occupied a 4% share in the structure of gross premium income realized by non-life insurers at the end of 2018. Premium income on these insurances in 2018 amounted to BGN 75.3 million compared to BGN 68.0 million in 2017.

The premiums ceded to reinsurers for 2018 were in the amount of BGN 653 million, representing 32% of the gross written premium generated in the sector. Self-hold coefficient was calculated at 0.68.

The claims arising for non-life insurance at the end of 2018 amounted to BGN 1147 million, with an increase of 23% on an annual basis.

Graph 74. Structure of claims arising by classes of insurance for 2018



Source: FSC.

Similarly to the structure of gross premium income, in the structure of claims arising by classes of insurance, the largest relative share of 85% was held by car insurances, followed by real estate insurance holding a share of 8%.

The largest increase in the amount of claims arising on an annual basis at the end of 2018 was reported in relation to Motor Third-Party Liability insurance (with BGN 234 million). This increase was due both to the average claim amount on an annual basis, and to an increase in the number of claims filed. In 2018 there was a tendency for faster filing of claims over time.

The gross loss ratio at the end of 2018 in general for the market increased to 0.61 compared to 0.57 a year earlier.

Table 55. Gross loss ratio

	2017	2018*
Medical expense insurance	0.59	0.63
Income protection insurance	0.34	0.39
Workers' compensation insurance	0.29	0.35
Motor vehicle liability insurance	0.73	0.85
Other motor insurance	0.52	0.50
Marine, aviation and transport insurance	0.26	0.16
Fire and other damage to property insurance	0.49	0.32
General liability insurance	0.32	0.40
Credit and suretyship insurance	0.74	0.48
Legal expenses insurance	0.91	0.00
Assistance	0.28	0.37
Miscellaneous financial loss	0.00	0.00
TOTAL	0.57	0.61

Note: * Data for 2018 are preliminary.
Source: FSC.

The expenses incurred by the non-life insurance companies (all technical expenses incurred by the companies during the reporting period) increased by 5% on an annual basis and at the end of 2018 amounted to BGN 563 million. They were 27% of the gross premium income generated by the sector.

The gross cost ratio at the end of the reporting period was calculated at 0.30 compared to 0.33 at the end of 2017.

Table 56. Gross expense ratio

	2017	2018*
Medical expense insurance	0.35	0.29
Income protection insurance	0.44	0.44
Workers' compensation insurance	0.39	0.39
Motor vehicle liability insurance	0.24	0.20
Other motor insurance	0.41	0.38
Marine, aviation and transport insurance	0.30	0.27
Fire and other damage to property insurance	0.32	0.31
General liability insurance	0.40	0.31
Credit and suretyship insurance	0.53	0.27
Legal expenses insurance	0.69	0.72
Assistance	0.58	0.53
Miscellaneous financial loss	0.72	0.78
TOTAL	0.33	0.30

Note: * Data for 2018 are preliminary.
Source: FSC.

At the end of 2018, the highest gross combined coefficient, above 1, was calculated for Motor Third-Party Liability Insurance.

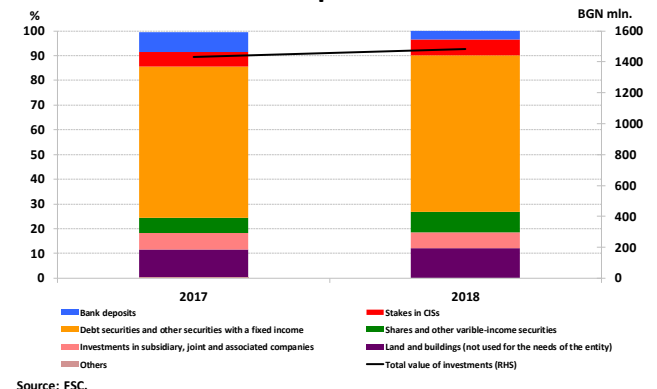
Table 57. Gross combined ratio

	2017	2018*
Medical expense insurance	0.94	0.92
Income protection insurance	0.78	0.83
Workers' compensation insurance	0.68	0.74
Motor vehicle liability insurance	0.97	1.05
Other motor insurance	0.93	0.88
Marine, aviation and transport insurance	0.56	0.43
Fire and other damage to property insurance	0.81	0.63
General liability insurance	0.72	0.71
Credit and suretyship insurance	1.27	0.75
Legal expenses insurance	1.60	0.72
Assistance	0.86	0.90
Miscellaneous financial loss	0.72	0.78
TOTAL	0.90	0.91

Note: * Data for 2018 are preliminary.
Source: FSC.

At the end of the reporting period, the total assets of the non-life insurance companies amounted to BGN 3119 million, increasing by 15% on an annual basis. The value of these companies' investments increased by 4% at the end of 2018 and amounted to BGN 1484 million, accounting for 48% of the total assets. In the structure of the aggregate investment portfolio of non-life insurance companies, government bonds (54%) were holding the main share, followed by real estate investments (12%).

Graph 75. Structure of investment portfolio of non-life insurance companies



The share of real estate investments (other than investment in real estate for own use) in the total investment portfolio of non-life insurance companies in 2017 and 2018 remained at 12%. Over the past year, the share of investments in shareholdings in affiliated enterprises declined insignificantly and the share of the remaining equity investments increased by 2 percentage points. At the end of 2018, the share of

investments in securities increased by 2 percentage points over one year, reaching 63%. This type of investments during the last several years increased at the expense of the share of investments in bank deposits with their share falling significantly in the last years, reaching 4% at the end of 2018.

By the end of 2018, the total amount of the liabilities of the non-life insurers amounted to BGN 2229 million and increased by 22% on an annual basis. Gross technical reserves set aside by non-life insurance companies accounted for 87% of the liabilities of non-life insurers.

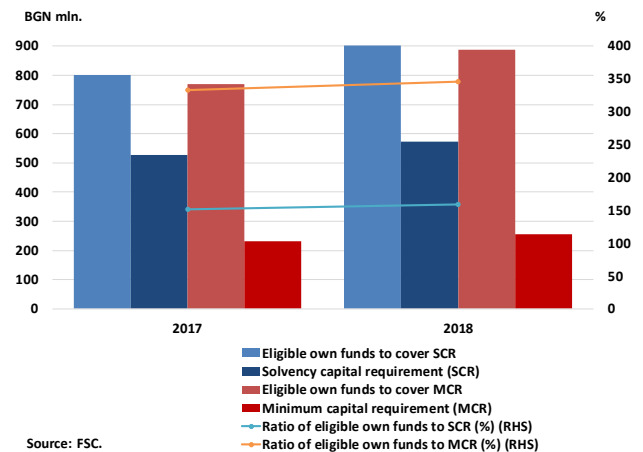
At the end of 2018 the gross technical reserves set by non-life insurance companies for payment of future benefits increased by 24% reaching BGN 1944 million. Interpretative decision No. 1/2016 of the Supreme Court of Cassation of the Republic of Bulgaria, under which the circle of the beneficiaries of the obligatory Motor Third-Party Liability insurance was extended, also had its impact on the increased amount of reserves.

The excess of the assets over the liabilities (obligations) of the non-life insurers at the end of 2018 was estimated at BGN 890 million compared to an excess of BGN 836 million at the end of 2017

The eligible own funds to cover the solvency capital requirement of the non-life insurers as at 31.12.2018 amounted to BGN 914 million, and the solvency capital requirement (SCR) amounted to BGN 573 million. Tier 1 own funds – unlimited, accounted for 94% of the total eligible own funds. The coverage of the minimum SCR for eligible own funds at the end of 2018 was estimated at 159%.

The eligible own funds to cover the minimum capital requirement for solvency of non-life insurers as at 31 December 2018 amounted to BGN 887 million, and the minimum capital requirement (MCR) amounted to BGN 257 million. Respectively, the coverage of the MCR with eligible own funds at the end of 2018 was estimated at 346%.

Graph 76. Capital requirements of non-life insurance companies



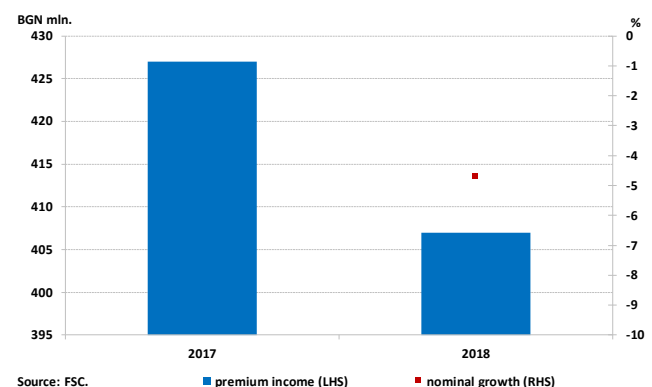
Source: FSC.

At the end of 2018, the companies in the non-life insurance sector reported a higher net financial result (BGN 91⁶⁶ million) compared to the previous year (BGN 74 million).

2.3.2. Life insurance

The gross premium income recorded by life insurers at the end of 2018 reported a decrease of -5% on an annual basis and at the end of 2018 amounted to BGN 407 million, including BGN 404 million for direct insurance and BGN 3 million on active reinsurance.

Graph 77. Gross premium income of life insurance



Source: FSC.

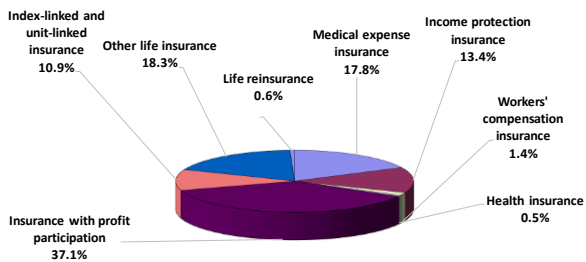
With regard to the structure of the portfolio of life insurers by classes of insurance at the end of 2018, there was no significant change compared to previous years and a major share of

⁶⁶ The information was based on all non-life insurers.

the portfolio accounted for profit-sharing insurance (37%), insurance for medical expenses (18%) and other life insurances (18%).

There was an increase in the share of insurance for medical expenses (from 13% at the end of 2017 to 18% at the end of 2018) and income protection insurance (from 7% at the end of 2017 to 13% at the end of 2018).

Graph 78. Portfolio structure of life insurance companies in 2018



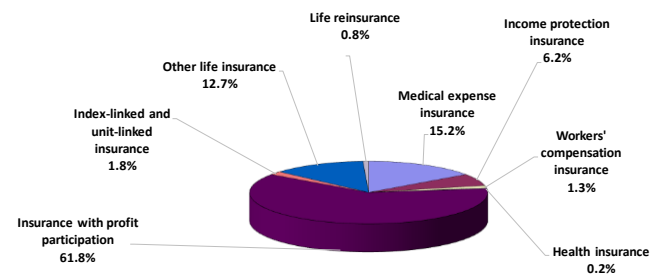
Source: FSC.

Growth of premiums on an annual basis was reported for the insurance for medical expenses, income protection insurance, and employee compensation insurance. In all other life insurance classes there was a drop in premiums on an annual basis.

Gross claims arising in life insurance in 2018 amounted to BGN 152 million. There was a drop of -11% on an annual basis in the amount of claims arising during the year.

In the overall structure of the arising claims, the largest share was the share of profit-sharing insurance (62%), followed by insurance for medical expenses (15%) and other life insurances (13%).

Graph 79. Structure of claims arising by classes of insurance for 2018



.Source: FSC

The expenses incurred by life insurers in connection with their operation increased by 5% annually and at the end of 2018 amounted to a total of BGN 115 million, representing 28% of the gross premium income realized for the period.

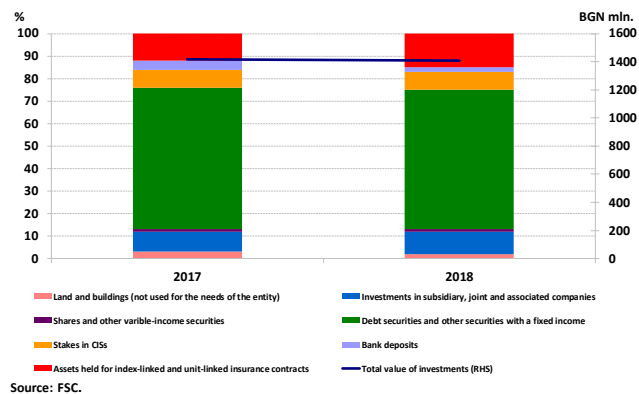
The total amount of the assets in the life insurance sector increased by 3% on an annual basis and at the end of 2018 amounted to BGN 1541 million.

The value of the investments of the life insurers (including the value of the contractual investments linked to an index and with investment fund shares) was BGN 1406 million at the end of 2018, representing 91% of the total assets in the sector. The change in the value of investments was calculated at -1% on an annual basis.

The value of investments, excluding the assets held for index-linked and unit-linked contracts, amounted to BGN 1197 million. Of this, a major part at the end of 2018 was occupied by the value of the bonds (62%), followed by the value of the shareholding in affiliated enterprises (10%) and of collective investment schemes (8%). The largest increase on an annual basis was observed in the value of shareholdings in affiliated enterprises (BGN 10.6 million in absolute value) and corporate bonds (BGN 8.3 million in absolute value). In 2018, the value of deposits other than cash equivalents continued to report a decline (by BGN 40 million on an annual basis) and by the end of the year they reached BGN 23 million, which was explained by the continuing environment of low interest rates.

The value of the assets held for index-linked and unit-linked contracts increased by 25% on an annual basis reaching BGN 210 million at the end of 2018, these investments accounting for 15% of the total amount of the investments in the life insurance sector.

Graph 80. Structure of the investment portfolio of life insurers



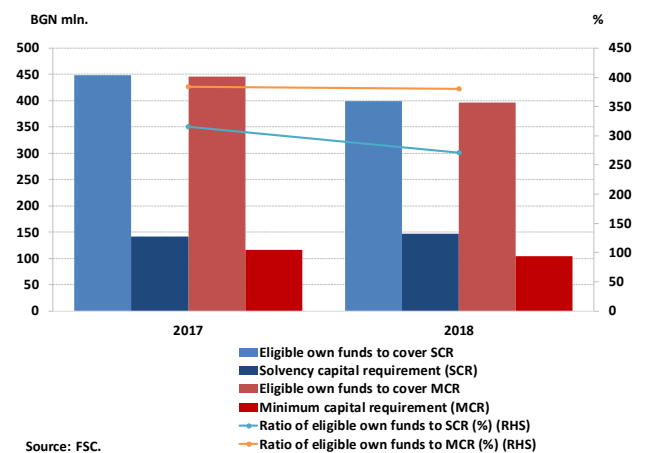
The gross technical reserves allocated by the life insurers (excluding technical reserves under index-linked and unit-linked shares) in 2018 increased by 10% and at the end of the year amounted to BGN 865 million.

Technical reserves under index-linked and unit-linked contracts set aside at the end of 2018 increased by 27% on an annual basis and amounted to BGN 203 million at the end of the year.

The excess of the assets over the liabilities (obligations) of the life insurers at the end of 2018 was estimated at BGN 413 million compared to an excess of BGN 464 million at the end of 2017.

The eligible own funds to cover the solvency capital requirement of the life insurers as at 31.12.2018 amounted to BGN 399 million, and the solvency capital requirement (SCR) amounted to BGN 147 million. Tier 1 own funds – unlimited, accounted for a part representing 97% of the total eligible own funds. The coverage of the minimum SCR for eligible own funds at the end of 2018 was estimated at 271%.

Graph 81. Capital requirements for life insurance companies



The eligible own funds to cover the minimum capital requirement for solvency of life insurers as at 31 December 2018 amounted to BGN 396 million, and the minimum capital requirement (MCR) amounted to BGN 104 million. Respectively, the coverage of the MCR with eligible own funds at the end of 2018 was estimated at 380%.

Compared to 2017, the eligible own funds to cover the solvency capital requirement, as well as the exceeding of the assets against the liabilities decreased mainly due to the merger of UBB-Life Insurance EAD into DZI-Life Insurance EAD.

2.3.3. Re-insurance

In the year 2018, seven non-life insurance companies, two life insurance companies and one re-insurer operated in the field of reinsurance.

Their premium income realized by them during the year amounted to BGN 1755 million compared to BGN 1546 million a year earlier. The main share in the operations in active reinsurance during the reporting year was covered by “Third-Party Liability insurance related to the possession and use of motor vehicles” and real estate insurance against fire and other disasters.

The indemnities paid to cedants amounted to BGN 927 million. In the structure of the paid the indemnities, the largest share was occupied by the insurance against fire and other disasters.

2.3.4. Guarantee and compensation fund

The Guarantee Fund (GF / the Fund) is a legal entity 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.

In 2018 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 38.7⁶⁷ million, compared to BGN 39.4 million at the end of the same period of the previous year.

The costs for compensation increased by 24% compared to the previous year and amounted to BGN 35.6 million.

As at 31 December 2018, the financial performance of the Fund for uninsured motor vehicles was BGN 1.6 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. At the end of 2018, the funds available in the Fund for uninsured motor vehicles, according to Art. 556, para. 1 of the IC, amounted to BGN 74.2 million. Their amount corresponds to the requirement under Art. 556, para. 2 of the IC, according to which the minimum amount was set at BGN 10 million.

The revenues of the Compensation Fund for 2018 amounted to BGN 6 million and grew by 3% on an annual basis.

In 2018, the Compensation Fund paid out guaranteed insurance receivables to users of insurance services amounting to a total of BNG 68 thousand. As at 31 December 2018, the funds of the Compensation Fund amounted to BGN 59 million.

2.4. Social insurance market

The net assets of the supplementary pension funds (SPFs) increased in 2018, reaching BGN 13,363.4 million by the end of the year. The increase in the net assets of pension funds during the year was the result of contributions for the insured persons, who were 4,669,768 people at the end of 2018. 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 2018, nine licensed PICs operated, with the total number of the pension funds managed by them being 29, including 9

universal (UPFs), 9 professional ones (PPFs), 9 voluntary ones (VPF) and two voluntary pension funds with occupational schemes (VPFOS)⁶⁸.

Four of the companies active on the pension insurance market were part of international

⁶⁷ Annual data for 2018.

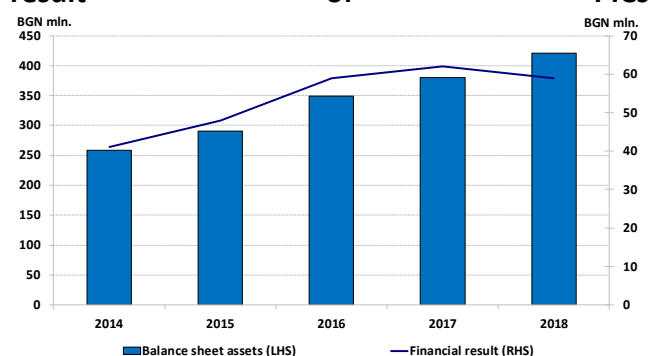
⁶⁸ There were no insured persons yet in one of the VPFOS.

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 capital⁶⁹.

The growth trend of the PICs' balance sheet assets continued, reaching BGN 421.0 million at the end of the year (an increase of 10.8% compared to 2017). The opposite dynamics were observed in the total net financial result of PICs, which amounted to BGN 59.1 million for 2018 and was BGN 2.9 million or 4.7% less compared to the total net financial result for 2017.

Graph 82. Balance sheet assets and net financial result of PICs



Source: FSC.

The average value of the capital adequacy indicator for 2018, of all nine licensed pension insurance companies, was 512.5% which significantly exceeded the statutory minimal amount of 50% below the minimum capital.

In 2018, the largest part of the PICs maintained a high level of capital adequacy. The average value of the indicator in 2018 increased by 29.9 percentage points as a result of the increase of the capital adequacy of most of the companies. The indicator varied widely between 55.4% and 873.1% for different companies. One company was an exception with a capital adequacy reaching 1196.7%. At the end of the year, due to

⁶⁹ATBIH GmbH directly held 92.58% of the shares of PIC Doverie AD, DSK BANK EAD directly held 99.75% of PIC DSK – Rodina AD, NN Continental Europe Holdings BV,

an improvement in the value of the capital adequacy indicator of the company on which intensive monitoring was carried out, it was discontinued.

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.

The reserves guaranteeing minimum rate of return of UPFs and PPFs set aside with resources of PICs, amounted as at 31 December 2018 to BGN 143.4 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 58. Capital adequacy and liquidity of PICs and SPFs

	2017	2018
Capital adequacy of PIC (%)	482.6	512.5
Liquidity of PIC (coef.)	7.6	8.1
Liquidity of UPF (coef.)	38.6	19.4
Liquidity of PPF (coef.)	47.0	24.9
Liquidity of VPF (coef.)	62.2	134.4
Liquidity of VPFOS (coef.)	31.2	63.7

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 48.5% and 656.2% with the exception of one company whose indicator's value reached 1122.2% and The average non-weighted value of the indicator for 2018 was 361.5% compared to 308.2% for 2017. The registered increase of 53.3 percentage points of the indicator was a result of the increase in the value of the indicator compared to the previous year for seven of the pension insurance companies. For six of them this was due to an increase in equity while maintaining the share capital, and for one PIC it was a result of the higher rate of decrease in registered capital

Amsterdam, the Netherlands, directly held 100% of NN PIC EAD and Medianet Industries SA directly held 90.20% of the shares of PIC Future AD.

compared to the decrease in equity. The registered capital of this company was reduced as a result of a reduction of the nominal value per share from BGN 8 to BGN 6.

In 2018, the reported profitability of the equity was 18.3% on average for the sector, with a decrease of 5.6 percentage points compared to 2017. The profitability of capital indicator in 2018 declined in eight of the nine PICs, for four of them this being due to an increase in equity and a decrease in operating profit, for two this being due to a rise in equity at a faster rate than the increase in operating profit, for one company this being due to a decrease in equity at a slower pace than the decrease in operating profit, and, in the last PIC – to a reduction in equity and an increase in operating loss. In only one company the profitability increased, this being due to profit growth and decrease in equity. The equity profitability for each PIC ranged widely, with the lowest level being (-14.7%), and the highest being 49.9%.

Table 59. Analysis of PICs equity

	2017	2018
Level of coverage of registered capital	308.2	361.5
Profitability of equity	23.9	18.3
Note: Data are in %, unless stated otherwise. The indicators are calculated as an arithmetic mean of the values of individual PIC.		
Source: FSC.		

The coverage level of assets of the managed SPFs was between 2.0% and 4.5%. The average non-weighted value of the indicator for 2018 fell to 3.2% compared to 3.3% in 2017. The value of the indicator for five 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 the remaining three companies it was due to a decrease of PIC assets compared to an increase in SPF assets. For four companies the value of the indicator increased due to the growth of PIC assets at a faster rate than the increase of SPF assets.

Due to the reported positive current financial operating result in 2018, all companies had a positive asset profitability, except for one PIC.

The average unweighted value of the indicator at the end of 2018 was 10.8% compared to 13.6% in 2017, a decrease of 2.8 percentage points. For seven companies, the asset profitability indicator declined, with four of them this being due to an increase in PIC assets and a decrease in operating profits, with one company a reduction in profits overtaking the decrease in assets, with one company the assets increased while in the profit decreased, and in the last one, assets decreased and the loss increased. For two companies, the profitability increased, for one of which this being due to the increase of profits at a faster pace than the increase in assets, while for the other one assets decreased compared to the growth in the profit. The profitability of assets for each PIC ranged widely, with its lowest value being (-8.5%), and the highest one being 26.3%.

Table 60. Analysis of PIC assets

	2017	2018
Level of coverage of SPFs' assets	3.3	3.2
Profitability of PIC assets	13.6	10.8
Growth of PIC assets	10.9	5.1
Note: Data are in %, unless stated otherwise. The indicators are calculated as an arithmetic mean of the values of individual PIC/SPF.		
Source: FSC.		

For the year, six companies had a positive value of the indicator for growth in their assets, and for three PICs it was negative. The average non-weighted value of the indicator decreased from 10.9% for 2017 to 5.1% for 2018, i.e. during the year there was a slower pace of growth of PICs' assets, compared to 2017. The value of the indicator for six PICs increased and decreased for only three. For individual companies, the indicator for growth of their assets varied between (-15.3%) and 18.4%.

Table 61. Analysis of PIC income and expenses

	2017	2018
Efficiency of PIC activities	143.3	141.4
Note: Data are in %, unless stated otherwise. The indicators are calculated as an arithmetic mean of the values of individual PIC.		
Source: FSC.		

The average non-weighted value of the performance indicator of PIC activity in 2018 was 141.4%, with a decrease of 1.9 percentage points compared to 2017. In six PICs, the value of the indicator decreased, in three of them that was due to expenditure growth at a faster pace than revenue growth, while in two it was due to a decrease in revenue at a faster pace than the decrease in costs, and in one this was due to a decrease in revenue and an increase in costs. In three of the companies, the value of the indicator increased, in two of them this being due to revenue growth and cost reductions, while in the third PIC, expenditure decreased at a faster pace than the decrease in revenues. The value of the indicator varied between 86.2% and 201.3%.

Compared to 2017, the revenue of PICs from fees and deductions for one participant in pension funds decreased insignificantly. The average non-weighted value of the indicator for 2018 amounted to BGN 31.38, compared to 31.62 for the previous year, i.e. a reduction of BGN 0.24. The value of the indicator in five PICs increased, in three of them being due to the fastest growth rate of income from fees and deductions compared to the increase in the number of participants and for two PICs income from fees and deductions increased while participants decreased in number. In four PICs, the value of the indicator decreased, in three of them this being due to a decrease of the income from fees and deductions and an increase in the number of participants, while in one this being due to the faster rate of increase in the number of participants compared to the increase of income from fees and deductions. The value of the indicator for individual companies was between BGN 20.68 and BGN 40.60.

The costs for PIC's operations per participant in the managed pension funds increased by BGN

0.61 in the reporting 2018, and at the end of the year they amounted to BGN 27.66 compared to BGN 27.05 in 2017. For four PICs, the value of the indicator increased, and for three 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 decreased in five of the companies, in four of them resulting from cost reductions and growth in the number of participants, and in one PIC it was due to a faster rate of decrease in costs compared to the reduction in the number of the participants. The value of the indicator for individual companies was between BGN 18.43 and BGN 46.85.

Table 62. Fees, deductions and operating expenses per participant in SPFs

	2017	2018
Fees and deductions per participant in SPFs	31.6	31.4
Operating expenses per participant in SPFs	27.0	27.7
Note: Data are in BGN, unless stated otherwise. The indicators are calculated as an arithmetic mean of the values of individual SPF.		
Source: FSC.		

The revenues from fees and deductions per BGN 100 of assets of the funds as at the end of 2018 were between BGN 1.12 and BGN 1.48, with the average non-weighted value of the indicator amounting to BGN 1.23 compared to BGN 1.29 in 2017, or a reduction of BGN 0.06. The value of the indicator in all PICs decreased, in six of them this being due to the faster growth of balance sheet assets compared to the increase in income from fees and deductions, while in the other three – to the decrease in the income from fees and deductions and an increase in the balance sheet assets of the SPFs.

The operating costs per BGN 100 of assets of SPFs for 2018 varied between BGN 0.61 and BGN 1.60. The average non-weighted value of the indicator reported a drop by BGN 0.02, amounting to BGN 1.11 at the end of 2018 compared to BGN 1.13 at the end of 2017. The value of the indicator for five companies went down compared to the previous year 2017, which was due to the increase in the assets of SPFs and to the decrease in the costs. In four PICs, the

indicator increased because the rate of increase in costs outpaced the rate of increase of the managed SPF's balance sheet assets.

Table 63. Fees, deductions and operating costs per BGN 100 of SPFs assets

	2017	2018
Fees and deductions per BGN 100 of SPFs assets	1.3	1.2
Operating expenses per BGN 100 of SPFs assets	1.1	1.1

Note: Data are in BGN, unless stated otherwise. The indicators are calculated as an arithmetic mean of the values of individual SPF.
Source: FSC.

In the supervision of PICs' operations with regard to the management of pension funds in 2018, no deviations from the statutory requirements were identified in terms of the amount of the mandatory fees and deductions paid to PICs.

In 2018, almost all PICs maintained the maximum amount of fees and deductions permitted by the SIC that were collected by SPFs: 4.0% deduction of each insurance contribution and investment fee of 0.8% per annum, calculated on the value of the Fund's net assets depending on the period during which they were managed.

One PIC determined a deduction from each insurance contribution for the SPF managed by it that was below the maximum amount specified in the SIC.

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 deduction from each contribution to the VPF in 2018 was 2.8%, compared to 2.9% in 2017, and for the VPFOS it was 4.0% compared to 3.9% in 2017. The statutory maximum amount of the deduction from each contribution to the SVPF was 7.0%.

Table 64. Investment fee and social insurance contributions' fee to SVPFs

	2017	2018
Deducted investment fee of VPF	8.7	10.0
Deducted investment fee of VPFOS	10.0	0.0
Average amount of social insurance contributions' fee in VPF	2.9	2.8
Average amount of social insurance contributions' fee in VPFOS	3.9	4.0

Note: Data are in %, unless stated otherwise. The indicators are calculated as an arithmetic mean of the values of individual VPF and VPFOS.
Source: FSC.

The VPF investment fee in 2018 amounted to 10.0%, compared to 8.7% in 2017, with a statutory fee of up to 10%. As of 31 December 2018, only one VPF reported a positive investment income, as a result of which an investment fee was deducted for the company managing it. As of 31.12.2018, due to a negative result reported by the VPFOS, no investment fee was deducted for the management company.

2.4.2. Supplementary pension funds

In the reporting year, the amount of the SPF's balance sheet assets grew at a slower pace than in the previous year 2017. In 2018, the SPF's balance sheet assets increased by 5.7% on an annual basis, while in 2017 the balance sheet assets of the SPFs increased by 17.7%.

The rate of asset change varied between funds, with the largest increase (6.4%) reported in the UPF, followed by the only active VPFOS, with a growth of 2.5%. Growth in the assets of PPFs and VPFs was reported too, respectively by 2.1% and 2.0%. In 2018, the assets of all funds increased at a slower rate compared to their growth of 2017.

Table 65. Increase of SPFs' assets

	2017	2018
UPF	18.4	6.4
PPF	13.0	2.1
VPF	15.8	2.0
VPFOS	19.5	2.5

Note: Data are in %, unless stated otherwise. Indicators are calculated as a ratio between the change for the year and their condition in the beginning of the year.
Source: FSC.

Market shares of individual companies based on the size of the managed balance sheet assets

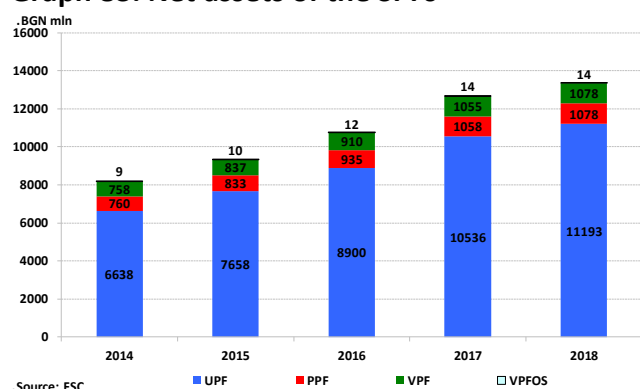
of pension funds did not change significantly during the past year. The pension insurance company with the largest market share held 25.2% of the managed balance sheet assets, and the one with the smallest market share took 1.2%.

The structure of balance sheet assets by types of funds was strongly dominated by UPFs. At the end of 2018, the relative share of that type of funds was 83.8%. 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 percentage points compared to 2017 at the expense of the shares of VPFs and PPFs. At the end of 2018, the balance sheet assets of PPFs, VPFs and VPFOS had shares respectively of 8.1%, 8.0% and 0.1%.

The trends observed in balance sheet assets were also reported for net assets. In 2018, the net assets of the SPFs increased by 5.5% on an annual basis, which was significantly less than their growth in 2017 (17.7%).

At the end of 2018, the net assets of the SPFs amounted to BGN 13,363.4 million. They showed the total value of the liabilities to the insured persons and were a key indicator of the state of the supplementary pension insurance system. The net assets accumulated as at the end of 2018, were 12.4% of the ⁷⁰Bulgarian GDP.

Graph 83. Net assets of the SPFs



The growth rate of net assets differed by type of funds, the most significant being for UPFs (6.2%), followed by VPFOSs (2.5%), VPFs (2.1%)

⁷⁰ GDP for 2018 was BGN 107,925 million, according to preliminary NSI data.

and PPFs (2.0%). The structure of net assets by types of pension funds as at the end of 2018 did not differ significantly from that of the balance sheet assets.

The average non-weighted amount of managed assets per participant in 2018 in UPFs was BGN 2714.72 compared to BGN 2581.77 in 2017, in PPFs – BGN 3225.69 for 2018 compared to BGN 3192.73 in 2017, in VPFs – BGN 1697.21 for 2018 compared to BGN 1696.28 in 2017, and in VPFOS – BGN 1743.12 for 2018 compared to BGN 1817.31 for the previous year. For all types of funds, with the exception of the VPFOS, 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 1401.03 and 3636.63, in PPFs – between 1544.83 and BGN 4219.85, and in VPFs – between BGN 674.44 and BGN 3516.01. The average values of the indicator for individual PICs were between BGN 1206.77 and BGN 3479.31.

Table 66. Assets managed per participant in a SPF

	2014	2015	2016	2017	2018
UPF	1726.1	1961.9	2239.3	2581.8	2714.7
PPF	2496.5	2682.3	2918.2	3192.7	3225.7
VPF	1280.1	1409.8	1480.9	1696.3	1697.2
VPFOS	1385.2	1481.2	1631.9	1817.3	1743.1

Note: Data are in BGN, unless stated otherwise. The indicators are calculated as an arithmetic mean of the values of individual SPF.
Source: FSC.

The gross revenues from insurance contributions to the SPFs in 2018 increased by 9.7% compared to the revenues in 2017, the absolute increase being most significant for the UPF (BGN 123.6 million) and the PPF (BGN 7.6 million), or 10.6% and 7.4%, respectively. That growth was mainly due to the inclusion of new socially insured persons on the labor market. The revenues from social insurance contributions in 2018 registered their highest value in the last five years.

In VPFs, growth was reported in gross revenues from social insurance contributions in 2018, with the growth being 4.1% compared to 2017.

Table 67. Gross proceeds from social insurance contributions in SPFs

	2014	2015	2016	2017	2018
UPF	871.3	1019.2	1083.9	1161.4	1285.0
PPF	86.0	93.9	100.4	102.6	110.2
VPF	87.4	122.6	99.2	139.0	144.7
VPFOS	1.4	1.5	1.5	1.6	1.6
Total	1046.1	1237.2	1285.0	1404.6	1541.5

Note: Data are in BGN million, unless stated otherwise.
Source: FSC.

The amounts accrued and paid in 2018 increased compared to the previous year by 4.8% 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 74.5% on average for the last five years. In 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 0.02 on average for the period 2014 – 2018, while this ratio was 0.49 for VPFs.

Table 68. Accrued and paid amounts

	2014	2015	2016	2017	2018
UPF	7.8	10.7	13.8	17.4	20.4
PPF	4.5	5.2	5.9	6.4	6.3
VPF	46.1	54.1	66.8	57.7	66.8
VPFOS	0.2	0.3	0.2	0.3	0.4
Total	58.6	70.3	86.7	81.8	93.9

Note: Data are in BGN million, unless stated otherwise.
Source: FSC.

The average value of the indicator of return on assets managed in 2018 for PPFs and VPFs was (-0.03) and for UPFs it was (-0.02), while for the only operational VPFOS the indicator was (-0.06). In 2017, the average value of the indicator for PPFs and VPFs was 0.07, for UPFs it was 0.06, and for the VPFOS it was 0.10. Compared to the previous year, the indicator decreased for PPFs and VPFs by 0.10, for UPFs by 0.08, and for VPFOS by 0.16. The values of the indicator for individual PICs for 2018 ranged between (-0.07) and 0.01,

conditioned by the results for the profit from investing resources in all SPFs.

Table 69. Return on managed assets

	2014	2015	2016	2017	2018
UPF	0.06	0.03	0.05	0.06	-0.02
PPF	0.06	0.03	0.05	0.07	-0.03
VPF	0.06	0.03	0.05	0.07	-0.03
VPFOS	0.07	0.01	0.06	0.10	-0.06

Note: Data are in coefficients. The indicators are calculated as an arithmetic mean of the values of individual SPF.
Source: FSC.

In 2018, participants in SPFs continued to increase compared to the previous year. In 2018, the total increase was 1.8% and in 2017 it was 2.6%. The increase in the number of participants in 2018 by funds was as follows: for universal funds – growth 1.7% (growth of 2.6% in 2017), for professional funds the growth was 1.6% in 2018 (3.3% in 2017), for voluntary funds the growth was 2.2% compared to 2.3% in 2017, and the only active VPFOS reported growth in the number of participants of 6.9% in 2018 compared to 7.3% in 2017. The PIC with the largest market share in terms of the number of participants in the SPFs managed by them kept its position at 26.0%, and the company with smallest market share held 1.9% of the market. The tendency for gradual reduction of the market share of the largest companies was maintained.

Table 70. Growth in the number of participants

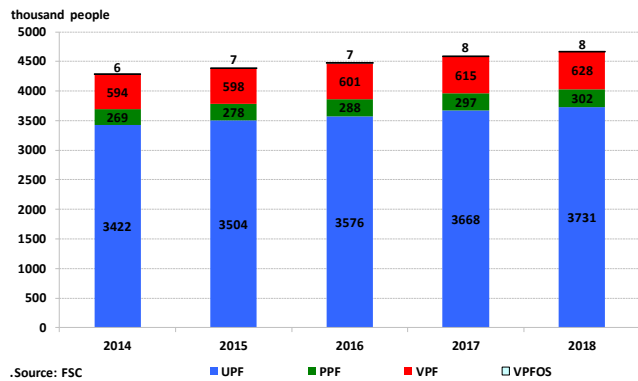
	2017	2018
UPF	2.6	1.7
PPF	3.3	1.6
VPF	2.3	2.2
VPFOS	7.3	6.9

Note: Data are in %, unless stated otherwise. Indicators are calculated as a ratio between the change for the year and their condition in 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 2018, 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%).

Graph 84. Number of social insured persons



Funds transferred from the individual accounts of persons who changed their participation in supplementary pension funds in 2018 increased by a total of 5.2% compared to 2017 and amounted to BGN 536.9 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 21.5 million or 4.7% more than the previous year. In PPFs and VPFs, an increase in the transferred funds was also recorded, 9.6% and 13.5%, respectively, compared to the previous year. However, the amounts of funds transferred in these two types of funds were smaller and in 2018 they increased in absolute terms by BGN 4.8 million in and BGN 0.5 million, respectively.

Table 71. Amounts transferred from individual accounts

	2014	2015	2016	2017	2018
UPF	336.8	349.7	405.7	456.6	478.1
PPF	46.2	42.2	47.9	49.8	54.6
VPF	8.2	4.5	5.0	3.7	4.2
Total	391.2	396.4	458.6	510.1	536.9

Note: Data are in BGN million, unless stated otherwise.
Source: FSC.

The absolute value of invested resources of SPFs at the end of 2018 was BGN 12.2 billion,

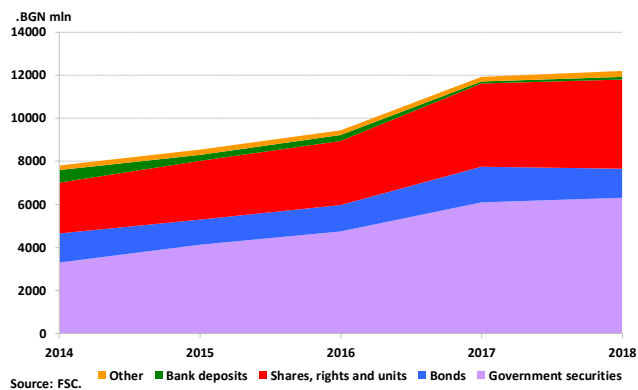
representing 90.6% of their balance sheet assets. The SPF's investments in 2018 continued to grow, but the reported 2.2% growth was lower than the one in previous years. The structural breakdown of funds invested by type of funds did not change significantly compared to 2017, with the highest share again being UPFs (83.6%), followed by VPF (8.1%), PPF (8.0%) and VPFOS (0.1%).

Between 2014 and 2018, the SPFs' investment portfolios were developing, following the dynamics of asset accumulation in the sector, the accumulated investment experience and the development of capital markets.

Over a five-year period, there was a significant increase in the relative shares of funds invested in government securities and ones with variable income, with their relative shares in the portfolios of the SPFs at the end of 2018 reaching 51.7% and 34.1%, representing an increase of 9.4 percentage points and 3.8 percentage points, respectively.

For the other categories of investment instruments – bonds (corporate and municipal ones) and bank deposits – there was a decline in their relative shares in the portfolios of the SPFs. The resources invested in bonds shrank from 17.1% in 2014 to 11.0% in 2018, and bank deposits, which in 2014 formed 7.6% of SPFs' investments, as at the end of 2018 represented only 1.0% 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.

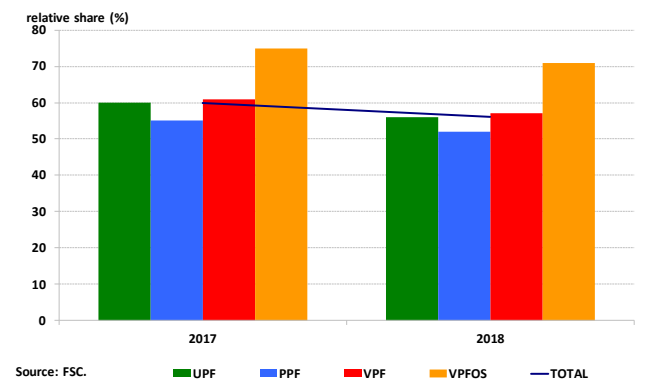
Graph 85. Structure of the aggregate investment portfolio



The relative share of the SPF's investments in financial instruments issued by issuers outside the Republic of Bulgaria at the end of 2018 reached 55.7% of their balance sheet assets. Compared to the end of the previous year, there was a reduction in the relative share of these investments by 4.3 percentage points.

At the end of 2018, the structure of investments in financial instruments issued by issuers outside the country was dominated by government securities with a share of 56.2%. Variable income securities accounted for 34.0% of investments in financial instruments issued by issuers outside the country, and the remaining 9.8% were invested in corporate and municipal debt securities.

Graph 86. Investments abroad as a percentage of SPFs' balance sheet assets



The main objective of pension fund asset management was to increase the long-term value of their assets by achieving return on their investment. The rate of return of the SPFs' asset management was influenced by the capital market trends in which the assets were invested, which was why temporary declines in the indicator values were possible. After a four-year high return, in 2018, the SPCs reported a negative weighted average rate of return.

Table 72. Weighted average rate of return

	2014	2015	2016	2017	2018
UPF	6.1	1.5	4.1	6.3	-4.2
PPF	5.9	1.8	4.5	6.5	-3.6
VPF	6.6	1.7	5.2	7.5	-4.6
VPFOS	7.3	0.8	4.8	9.3	-5.9

Note: Data are in %, unless stated otherwise. Wighted by the value of the net assets of individual funds.
Source: FSC.

III. Organisational structure of FSC

