

Translation from Bulgarian



FINANCIAL SUPERVISION COMMISSION

ADDRESS OF THE CHAIR OF THE FINANCIAL SUPERVISION COMMISSION REGARDING THE ANNUAL REPORT OF THE FINANCIAL SUPERVISION COMMISSION FOR 2020

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
BALIF – Bulgarian Association of Licensed Investment Firms
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
EU – European Union
IB – Insurance Broker
IAU – Internal Audit Unit
RRCIIFA – Recovery and Resolution of Credit Institutions and Investment Firms Act
IC – Insurance Company
CISOUCIA – Collective Investment Schemes and Other Undertakings for Collective Investments Act
SPICA – Special Purpose Investment Companies Act
CIA – Credit Institutions Act
FSCA – Financial Supervision Commission Act
LMML – Law on Measures against Money Laundering
LMFT – Law on Measures against the Financing of Terrorism
LMMAFI – Law on Measures against Market Abuse with Financial Instruments
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
SMEs - Small and Medium-Sized Enterprises
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
OPF – Occupational 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
CCPs – Central Counterparties
ESMA – European Securities and Markets Authority
EIOPA – European Insurance and Occupational Pensions Authority
EBA – European Banking Authority
ESFS – European System of Financial Supervisors
ESRB – European Systemic Risk Board
HHI – Herfindahl-Hirschman index

Useful links

Bulgarian Stock Exchange AD	www.bse-sofia.bg
Central Depository AD	www.cdad.bg
Bulgarian National Bank	www.bnb.bg
Ministry of Finance	www.minfin.bg
Council of Ministers	www.government.bg
Association of Bulgarian Insurers	www.abz.bg
National Social Security Institute	www.noi.bg
National Statistical Institute	www.nsi.bg
Privatization Agency	www.priv.government.bg
Investor Compensation Fund	www.sfund-bg.com
Guarantee Fund	www.guaranteefund.bg
Association of Bulgarian Investor Relation Directors	www.abird.info
Bulgarian Investor Relations Association	www.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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I. FSC'S ACTIVITY IN 2020

1. Regulatory activities

1.1. Amendments to the regulatory framework

In 2020, the following bills were adopted, according to which the Financial Supervision Commission exercises financial supervision:

Act to Amend and Supplement the Public Offering of Securities Act¹

The act introduces into the legislation the requirements of Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement, hereinafter "Directive (EU) 2017/828", as well as measures for the implementation of Commission Implementing Regulation (EU) 2018/1212 of 3 September 2018 laying down minimum requirements implementing the provisions of Directive 2007/36/EC of the European Parliament and of the Council as regards shareholder identification, the transmission of information and the facilitation of the exercise of shareholders rights, hereinafter "Implementing Regulation (EU) 2018/1212", with a view to achieving full compliance of the national legislation with the above.

Directive (EU) 2017/828 introduces requirements to facilitate the exercise of certain shareholder rights attached to voting shares in companies which have their registered office in a Member State and the shares of which are admitted to trading on a regulated market in the European Union (EU). These shareholder rights are linked to the right to information and to vote at a general meeting of companies which have their seat in a Member State and the shares of which are admitted to trading on a regulated market in the EU, to facilitate the receipt of dividends, and so on. At the same time, in order to promote the long-term commitment of shareholders, these companies introduce provisions facilitating communication opportunities between shareholders and companies, as well as transparency requirements for institutional investors, asset managers and authorized advisers, the remuneration of company directors and transactions between related parties.

Directive 2007/36/EC has been introduced into the national legislation through amendments to the Public Offering of Securities Act, which regulates the requirements for public companies, incl. for holding general meetings and other corporate events. In this regard, the act has been amended to take into account this systematic approach.

The amendments necessitated by the implementation of Directive (EU) 2017/828 are in several directions:

Amendments in the POSA – Public Offering of Securities Act

1. Identification of shareholders in public companies, facilitation of the exercise of their rights and protection of the information transmitted in connection with the exercise of their rights:

¹ Prom. SG, issue 26 of 22.03.2020.

In order to facilitate the exercise of the rights of shareholders in public companies, including their identification and protection of the transmitted information, the POSA has introduced provisions on the manner of requesting, providing and storing the necessary identification information for a shareholder, the persons to whom this information may be provided, as well as the persons from whom the relevant information may be requested.

In order to ensure publicity of the corporate event organized by public companies and provide the necessary information to all its shareholders, requirements have been introduced for Central Depository AD and investment intermediaries to accept and provide information about the respective corporate event. The adoption of the regulations improves the disclosure of information in the public space and creates guarantees for the information reaching shareholders and other stakeholders.

Amendments and additions have been introduced to the provisions on the general meetings of public companies, and the moment when the documents for convening and holding the general meeting should be announced is unambiguously determined; it is ensured that when a shareholder votes electronically, their vote is confirmed and counted. A requirement has been introduced for the costs associated with the transmission of information along the chain to be non-discriminatory and proportionate to the services provided.

2. Remuneration policy for members of the governing bodies in public companies:

The provisions related to the voting right of the shareholder regarding the remuneration of the members of the management and control bodies of the public company are specified. At the same time, in order to avoid a conflict of interests, between the capacity of a shareholder in a public company and a member of the management and control bodies, new para. 4 and 5 were added in Art. 112. The new provisions require accordingly some amendments to Ordinance No. 48 of 2013 of the FSC on the requirements for remuneration in order to further develop the elements set in the remuneration policy, as well as to supplement the information to be provided in the annual report of the companies on the implementation of the remuneration policy.

3. Related party transactions:

The provisions for concluding high value transactions by public companies and their subsidiaries are amended and further developed.

4. Proxy advisers:

The figure of a “proxy adviser” has been introduced, who within the meaning of Directive (EU) 2017/828 is a legal person that analyses, on a professional and commercial basis, disclosed, regulated and other information of public companies with a view to providing research, advice or voting recommendations that relate to the exercise of voting rights of the investors. Obligations that the proxy advisor has towards investors have been introduced, namely publishing on their website and updating the information published by them in the course of carrying out their main activity. Requirements have been introduced for the application of a code of conduct by these persons, as well as other obligations to investors, and the supervision of compliance with these obligations is carried out by the FSC, under which these persons should be registered.

Amendments to other regulatory acts:

The Social Security Code, the Insurance Code, the Markets in Financial Instruments Act and the Collective Investment Schemes and Other Undertakings for Collective Investments Act were amended.

In particular, Directive (EU) 2017/828 requires asset managers and institutional investors to adopt and publish an engagement policy and to make public how they have implemented it or to provide a reasoned explanation as to why they have chosen not to adopt such a policy, as well as its inclusion in their investment strategy. In case of delegation of portfolio management by an institutional investor (in the territory of the Republic of Bulgaria this applies only to life insurers and reinsurers covering life insurance liabilities), the management companies, the alternative investment fund managers and the investment intermediaries should disclose to the institutional investor how their investment strategy and its implementation correspond to their agreements and how they contribute to the medium and long-term indicators of the assets of the institutional investor. Given the requirements of Directive (EU) 2017/828 an obligation is also introduced to adopt and disclose an engagement policy for any pension insurance company managing a supplementary voluntary pension fund under occupational schemes, in which the company should describe how it includes the fund's commitment to the supplementary pension scheme. voluntary pension insurance under occupational schemes, as a shareholder in the investment policy.

Act to Amend and Supplement the Public Offering of Securities Act²

With the amendments to the act, measures have been introduced in the national legislation for the implementation of Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14.06.2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market and repealing Directive 2003/71/EC (Regulation (EU) 2017/1129), as well as improving the national legal framework in relation to identified gaps and problems in its practical application.

Measures to facilitate the application of the requirements of Regulation (EU) 2017/1129

The main objective of Regulation (EU) 2017/1129 is to facilitate the access of companies, especially small and medium-sized enterprises, to various forms of financing through the capital market, while ensuring the necessary level of protection for investors in securities. This is achieved by improving the regulations in connection with the preparation, approval and distribution of the prospectus, which issuers, bidders and persons seeking admission to trading on a regulated market publish when offering securities to the public or to admit securities to trading on a regulated market.

A new section II "a" to Chapter Six of the POSA was created, entitled "Approval and publication of a prospectus".

Requirement to publish a prospectus under Regulation (EU) 2017/1129

The act requires the prospectus to be approved by the FSC.

Exceptions to the obligation to publish a prospectus under Art. 1, paragraphs 4 and 5 of Regulation (EU) 2017/1129

² Prom. SG, issue 64 of 18.07.2020

The cases in which the obligation to publish a prospectus in case of public offering of securities does not apply in accordance with the exceptions under Art. 1 (4) of Regulation (EU) 2017/1129 have been set out.

The act introduces a national exception to the obligation to publish a prospectus with regard to the public offering of securities for issues of securities with a total value calculated for a period of 12 months, less than the BGN equivalent of EUR 3,000,000 issued on the territory of the Republic of Bulgaria.

In case of public offering of an issue of securities with a total value less than the BGN equivalent of EUR 3,000,000, admission to trading of a multilateral trading facility, instead of a prospectus, the issuer or the offeror are required to prepare a document according to the rules of the multilateral trading facility, which shall be submitted to the Commission no later than 5 working days before the securities are admitted to trading.

When a public offering of securities above the threshold of the BGN equivalent of EUR 3,000,000 is admitted to trading on a multilateral trading facility, a prospectus should be prepared and approved for it. In case the issuer meets the requirements of Art. 15 of Regulation (EU) 2017/1129, it may prepare an EU growth prospectus with the content set out in Commission Delegated Regulation (EU) 2019/980 of 14.03.2019 supplementing Regulation (EU) 2017/1129.

When a public offering of an issue of securities with a total value of less than the BGN equivalent of EUR 3,000,000 is made, without requesting admission to trading on a regulated market or a multilateral trading facility, instead of a prospectus, respectively a document for admission to trade, the issuer prepares and publishes a document for public offering with simplified form and content.

For issues of securities for which admission to trading of a multilateral trading system without public offering of securities is requested, a document shall be prepared in accordance with the rules of the system, and this act and the regulation shall not apply to the admission to trading.

In order to ensure the protection of the interests of investors, it is envisaged that before publication, the public offering document will be submitted to the FSC. In order to alleviate the administrative burden for the issuers, the FSC has not provided for the deliberate approval of the public offering document, but at the same time mechanisms have been provided for the FSC to intervene if necessary to supplement the information. The FSC is empowered to ensure compliance with the requirements of the Public Offering of Securities Act and the acts on its implementation in connection with the public offering document, including administrative penalties.

In order to protect the investors their existing right in case of violations in the cases determined by the law to be able to request that the acquisition of the securities be declared invalid in preserved.

In the new Section II "a" to Chapter Six of the POSA, definitions are introduced in connection with the application of Regulation (EU) 2017/1129. With a view to the adoption of Regulation (EU) 2017/1129 and the repeal of Directive 2003/71 / EC, the definitions of "issuer" and "public company" have been clarified.

The texts on the responsibility for the preparation of a prospectus have been preserved, which will be applied accordingly in the preparation of a document for public offering of securities.

The current regulation model on the responsibility regarding the prospectus have been preserved, which apply accordingly in the preparation of a document for public offering of securities.

The issuer, the offeror or the person requesting admission of the securities to trading on a regulated market shall submit to the FSC an application for approval of a prospectus for public offering or admission to trading on a regulated market, enclosing the prospectus, the issuer's statute, the latest annual financial report the issuer audited by a registered auditor and other documents specified by an ordinance. The conditions and the order for inspection and for approval of the prospectus are according to Art. 20 of Regulation (EU) 2017/1129.

Additional changes or additional information shall be provided within the deadlines set under Regulation (EU) 2017/1129. The administrative burden is reduced by providing that some of the documents may not be provided when they are available in an official public register with free access.

The grounds for refusal to issue an approval of a prospectus are preserved. The Commission may refuse approval only if the applicant has not remedied the incompatibilities and has not submitted the required documents within the time limit set by it, which may not be less than one month.

The conditions and the procedure for publishing a notice for the public offering have been eased, as it is envisaged that the announcement will be published on the websites of the issuer, when the securities are offered by him, and of the investment intermediaries participating in the offering. Depending on the date of publication of the announcement for the public offering, the circle of persons holding rights to participate in the capital increase of a public company is determined, in the cases where the decision for capital increase is adopted by the management body of the company.

Improving the national regulation in connection with identified shortcomings and problems in the practical application of the POSA

First of all, Art. 100b, para. 4 of the POSA is supplemented, providing as inadmissible that the decision to make changes in the conditions under which the bonds are issued, including the specific parameters of the bond issue, which are subject to subsequent change, to have a reverse effect.

In order to avoid contradictory interpretation of the provisions of the act, it is explicitly stated that the provisions of Chapter Six "a" "Disclosure of Information" of the Public Offering of Securities Act apply from the moment the bonds are admitted to trading on a regulated market.

The act introduces clarity on the applicability of the requirements for disclosure of information by the issuer, as well as clarifies the scope of the exception for disclosure of public notice of financial position by issuers from a third country, if the FSC considers that the legislation of the respective country regulates requirements equivalent to the requirements of the POSA and the acts for its implementation.

Art. 100g, para.3 of the POSA has been amended and a restriction has been introduced for the acquisition of up to 20 per cent of the bond issue, when the bondholders' trustee is also a bondholder under the same bond issue.

The incompleteness found in the POSA has been addressed, namely in connection with the termination of the obligation for disclosure of information, and Art. 100p, para. 3 of the POSA states that the obligations of the issuer for disclosure of information are terminated by the decision of the FSC for its deregistration from the register under Art. 30, para. 1, item 3 of the Financial Supervision Commission Act, respectively with the entry into force of the decision for declaring the issuer bankrupt.

The act has made a complete restatement of Art. 110 due to a change in the definition of issuer, while clarifying that a company becomes public in the cumulative condition that the issue of shares is entered for the purpose of trading on a regulated market in the register under Art. 30, para. 1, item 3 of the Financial Supervision Commission Act and is admitted to trading on a regulated market.

The act improves the requirements for the members of the management and supervisory public company, harmonizing the criteria for a clean criminal record with other acts.

The provision of Art. 116c, para. 2 of the POSA is supplemented in a way that ensures that upon acquiring the status of a public company, the appointed members of the management or supervisory body of the public company will provide a guarantee for their management and thus unifies the treatment of newly elected members with the appointed ones, upon acquisition of the status of a public company.

In order to increase the protection of the interests of investors, the members of the management and supervisory body of the public company, for whom the general meeting has determined the amount of remuneration but has not determined the amount of the management guarantee, the amount of the management guarantee shall be considered equal of the 3-month gross remuneration of said persons.

In connection with the regulation of relations regarding issuers established in third countries, in Regulation (EU) 2017/1129, the act repeals Art. 141-144 of the Public Offering of Securities Act, which defines the conditions and the procedure for public offering in the Republic of Bulgaria of securities issued by foreign persons and the public offering abroad of securities issued by local persons.

Amendments to the Markets in Financial Instruments Act

According to Art. 25 of 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 (EU) 2014/65), Member States shall require investment firms to ensure and demonstrate, upon request by the competent authorities, that individuals who provide clients with investment advice or information on financial instruments, investment services or ancillary services on behalf of an investment firm have the necessary knowledge and competencies to perform the obligations related to the provision of information and evaluation of an appropriate and appropriate service. Member States shall publish the criteria to be used to assess this knowledge and competence.

In this regard, Art. 77 of the Markets in Financial Instruments Act (MFIA), which transposes Art. 25 of Directive (EU) 2014/65, has acquired a new wording that allows for appropriate practical application. Three categories of persons have been created, to which different

requirements for knowledge and competence are applied - a person offering financial instruments, an investment advisor and a broker of financial instruments. The person offering financial instruments must have secondary education, meet the requirements of Art. 13, para. 4, items 1-4, 6 and 7 of the MFIA and to have performed tasks in connection with the provision of information on investment or additional services for at least 6 months, on a full-time basis. A broker of financial instruments, respectively an investment advisor, may be a person who has secondary or higher education - for a broker of financial instruments, respectively has a higher education - for an investment consultant, meets the requirements of Art. 13, para. 4, items 1-4, 6 and 7 of the MFIA, has acquired the right to perform activity as a broker of financial instruments - for a broker of financial instruments, respectively as an investment advisor - for an investment advisor, or has recognized acquired qualification for exercising the relevant activity and has performed obligations related to the provision of information, investment advice to clients or investment or ancillary services for at least 6 months, on a full-time basis.

Directive (EU) 2019/2034 of the European Parliament and of the Council of 27 November 2019 on the prudential supervision of investment firms and amending Directives 2002/87/EC, 2009/65/EC, 2011/61/EU, 2013/36/EU, 2014/59/EU and 2014/65/EU amends Directive 2014/65 / EU and the amendments to Art. 49, paragraph 1 of Directive 2014/65/EU should be applied as of March 26, 2020. In this regard, an addition has been made in Art. 178, para. 1 of the MFIA, which specifies that The application of tick sizes shall not prevent regulated markets from matching orders large in scale at mid-point within the current bid and offer prices.

The FSC has decided that it intends to comply in its supervisory practice with the Guidelines on Non-Significant Benchmarks under the Benchmark Regulation (Guidelines) issued by the European Securities and Markets Authority. In order to ensure the application of the Guidelines and in relation to the provisions of Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 (Regulation (EU) 2016/1011), a new Art. 227c was introduced in the MFIA, which provides for a delegation for an ordinance, which will regulate the additional requirements that must be met by the administrators of benchmarks of minor importance, in relation to the requirements in connection with the monitoring function under Art. 5 of Regulation (EU) 2016/1011, the input data under Art. 11 of Regulation (EU) 2016/1011, the transparency of the methodology under Art. 13 of Regulation (EU) 2016/1011 and the requirements for management and control for the supervised contributors of input data under Art. 16 of Regulation (EU) 2016/1011.

Amendments to the Financial Supervision Commission Act

Amendments have been made to the Financial Supervision Commission Act, which defines the FSC as a competent body and gives it regulatory and supervisory powers in connection with Regulation (EU) 2017/1129.

The Commission has been given the opportunity to give consent for the information constituting a professional secret provided under Art. 25, para. 4 and 6 of the Financial Supervision

Commission Act to bodies of a Member State and a third country performing financial supervision to be provided by the respective bodies to foreign investigative and judicial bodies.

In connection with the introduction of measures in the national legislation to ensure conditions for the application of the requirements of Regulation (EU) 2017/1129, changes have been made in the fees collected by the FSC under Section III of the arithmetic in Annex 1 under Art. 27, para. 1 of the FSCA.

Changes in the Insurance Code

The act has made a change in the Insurance Code, which aims to bring the code into compliance with the change of Art. 77d, paragraph 4 of Directive 2009/138/EC on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), carried out by Art. 2, point 1 of Directive (EU) 2019/2177 amending Directive 2009/138 / EC, Directive 2014/65/EU and Directive (EU) 2015/849. Directive 2009/138/EC provides for a national component of the volatility adjustment, which has been changed from 100 to 85 basis points.

Other laws

The Financial Supervision Commission during the past year actively participated in the legislative process, expressing opinions and proposals both at the stage of public consultations and in the interdepartmental coordination under Art. 32 of the Rules of Procedure of the Council of Ministers and its administration, as well as in the parliamentary phase of the adoption of normative acts concerning its activity.

As a specific case, in view of the complicated epidemic situation in the country, the adoption of the **Measures and Activities during the State of Emergency declared by Decision of the National Assembly of 13 March 2020 Act**³ and the subsequent amendments thereto - on which the FSC made the relevant proposals in accordance with the purpose of the act - to regulate the emergency measures on the territory of the Republic of Bulgaria to prevent, limit and overcome the consequences of the spread of COVID-19 virus. The act provided for a number of measures to reduce the administrative burden and extend the deadlines for the submission of certain documents and information by persons under the Commission's supervision. On 27.03.2020, the FSC published on its website information on the changed terms under the Social Security Code, the Insurance Code, the Public Offering of Securities Act, the Markets in Financial Instruments Act, the Collective Investment Schemes and Other Undertakings for Collective Investments Act. In addition, the act has allowed institutions to organize their activities flexibly, including through teleworking, so as not to impede administrative services.

Draft legislation on which the FSC is working in 2020 and to be considered and promulgated by the National Assembly:

- **Draft Bill to Amend and Supplement the Collective Investment Schemes and Other Undertakings for Collective Investments Act**

³ Prom. SG, issue 28 of 24.03.2020

The draft aims to transpose into national law the requirements of Directive (EU) 2019/1160 of the European Parliament and of the Council of 20 June 2019 amending Directives 2009/65/EC and 2011/61/EU with regard to cross-border distribution of collective investment undertakings, and aims to introduce measures to implement the requirements of Regulation (EU) 2019/1156 of the European Parliament and of the Council of 20 June 2019 on facilitating cross-border distribution of collective investment undertakings and amending Regulations (EU) No 345/2013, (EU) No 346/2013 and (EU) No 1286/2014 and Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector.

• **Draft Bill on Special Investment Purpose Companies and Securitization Companies**

The bill aims to update the legal framework in the field of existing companies investing in real estate and receivables, and aims to introduce measures to implement the requirements of Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitization and creating a specific framework for simple, transparent and standardized securitization, and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations (EC) No 1060/2009 and (EU) No 648/2012 (OJ L 347/35 of 28.12.2017).

• **Draft Bill to Amend and Supplement the Markets in Financial Instruments Act**

The bill provides for changes in national legislation arising from the following acts of the European Union:

- Directive (EU) 2019/2034 of European Parliament and of the Council of 27 November 2019 on the prudential supervision of investment firms and amending Directives 2002/87/EC, 2009/65/EC, 2011/61/EU, 2013/36/EU, 2014/59/EU and 2014/65/EU;
- Regulation (EU) No 2019/2033 of the European Parliament and of the Council of 27 November 2019 on the prudential requirements of investment firms and amending Regulations (EU) No 1093/2010, (EU) No 575/2013, (EU) No 600/2014 and (EU) No 806/2014;
- Directive (EU) 2019/878 of European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures;
- Directive (EU) 2019/2177 of the European Parliament and of the Council of 18 December 2019 amending Directive 2009/138/EC on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), Directive 2014/65/EU on markets in financial instruments and Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money-laundering or terrorist financing.

• **Draft bill to amend and supplement the Recovery and Resolution of Credit Institutions and Investment Firms Act**

The bill proposes amendments to the national legal framework for the resolution of credit institutions and investment firms, which fulfil the commitments to implement the requirements of Directive (EU) 2019/879 of the European Parliament and of the Council of 20 May 2019 amending

Directive 2014/59/EU as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms and Directive 98/26/EC (OJ L 150 of 7.06.2019).

- **Draft Bill to Amend and Supplement the Credit Institutions Act**

The bill introduces the requirements of Directive (EU) 2019/878 of European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU (the Capital Requirements Directive) as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures, including suggested amendments and supplementations to the Market in Financial Instruments Act.

- **Draft Bill to Amend and Supplement the Social Insurance Code**

The bill aims at the overall settlement of the pay-out phase of the universal pension funds. The bill proposes, along with the currently provided lifelong pensions, to regulate in more detail the deferred payment as a pension product, eligible in the payment phase. The bill also provides for changes related to the determination of the amount of the supplementary lifelong old-age pension.

Amendments in the by-laws and regulations

In 2020, the FSC adopted the following regulations, which were promulgated in the State Gazette:

- Ordinance amending and supplementing Ordinance No. 29 of 12.07.2006 on the minimum level of credit ratings of banks and on determining the countries, international financial organizations, markets and indices of these markets according to Art. 176, para. 2 of the Social Security Code⁴;
- Ordinance amending and supplementing Ordinance No. 34 of 04.10.2006 on the conditions for concluding transactions to reduce the investment risk related to the assets of a supplementary pension insurance fund and on the requirements and restrictions to these transactions⁵;
- Ordinance amending and supplementing Ordinance No. 58 of 28.02.2018 on the requirements for protection of financial instruments and cash of clients, for product management and for providing or receiving remuneration, commissions, other monetary or non-monetary benefits⁶;
- Ordinance to amend and supplement Ordinance No. 15 of 2005 on keeping and storing registries by the FSC and the circumstances subject to entry⁷;
- Ordinance No. 38 of 21.05.2020 on the requirements to the activities of investment intermediaries⁸;

⁴ Prom. SG, issue 8 of 28.01.2020.

⁵ Prom. SG, issue 8 of 28.01.2020.

⁶ Prom. SG, issue 21 of 13.03.2020

⁷ Prom. SG, issue 30 of 31.03.2020

⁸ Prom. SG, issue 51 of 05.06.2020

- Ordinance to amend and supplement Ordinance No 50 of 19.06.2015 on capital adequacy, liquidity of investment firms and supervision of compliance thereof⁹;
- Ordinance to amend and supplement Ordinance No. 48 of 20.03.2013 on the remuneration requirements¹⁰.
- Ordinance to amend and supplement Ordinance No. 15 of 2005 on keeping and storing registries by the FSC and the circumstances subject to entry¹¹;
- Ordinance amending and supplementing Ordinance № 2 of 17.09.2003 on the prospectuses to be published when securities are offered to the public or admitted to trading on a regulated market and on disclosure of information¹²;
- Ordinance to amend and supplement 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 Code¹³;
- Ordinance № 8 of 03.09.2020 on the requirements to the activity of the central securities depositories, the central securities register and other persons carrying out activities related to the settlement of securities¹⁴;

Together with the State Agency for National Security, Instruction No. I-7 of 20.05.2020 on the procedure for carrying out joint on-site inspections under Art. 108, para. 4 of the Law on Measures against Money Laundering by the Specialized Administrative Directorate “Financial Intelligence” of the State Agency for National Security and the FSC¹⁵.

In 2020, the Commission has agreed to follow in its supervisory practice the following guidelines issued by the European Securities and Markets Authority:

- Guidelines on performance fees in undertakings for collective investment in transferable securities and in certain types of alternative investment funds;
- Guidelines on liquidity stress tests in UCITS and AIF;
- Guidelines regarding the reporting to the competent authorities according to art. 37 of the Money Market Funds Regulation;
- Guidelines for the standardized procedures and protocols for communications under Art. 6 (2) of Regulation (EU) № 909/2014;
- Regulation and the Guidelines on Outsourcing to Cloud Service Providers issued by the European Insurance and Occupational Pensions Authority.

⁹ Prom. SG, issue 51 of 05.06.2020

¹⁰ Prom. SG, issue 61 of 10.07.2020

¹¹ Prom. SG, issue 61 of 10.07.2020

¹² Prom. SG, issue 61 of 10.07.2020

¹³ Prom. SG, issue 81 of 15.09.2020

¹⁴ Prom. SG, issue 81 of 15.09.2020

¹⁵ Prom. SG, issue 50 dated 02.06.2020

1.2. New aspects of EU policy

Directives and Regulations of the European Union

I. Directives published in the Official Journal of the EU:

Directive (EU) 2020/1504 of the European Parliament and of the Council of 7 October 2020 amending Directive 2014/65/EU on markets in financial instruments

The Directive amends Directive 2014/65/EU in order to ensure the application of Regulation (EU) 2020/1503 on crowdfunding service providers for businesses. Legal entities licensed as such service providers are excluded from the scope of Directive 2014/65/EU in order to avoid a situation where multiple licenses are required for the same activity within the Union.

II. Regulations published in the Official Journal of the EU:

Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088

This Regulation establishes the criteria for determining whether an economic activity qualifies as environmentally sustainable for the purpose of determining the degree of environmental sustainability of an investment. The Regulation also regulates the requirements for offering financial products or corporate bonds as environmentally sustainable investments. This will increase investors' confidence and awareness of the environmental impact of these financial products or corporate bonds, bring clarity and address concerns about greenwashing. The criteria for determining whether an economic activity qualifies as sustainable are harmonized. Transparency rules are introduced - pre-contractual disclosure of information by financial market participants offering financial products.

For the purposes of the Regulation, a Platform on Sustainable Finances being set up, involving the European authorities: European Securities and Markets Authority (ESMA), European Insurance and Occupational Pensions Authority (EIOPA), European Banking Authority (EBA). The platform has expert and advisory functions. A Member State Expert Group on Sustainable Finance with advisory functions was also set up.

Competent authorities for the application of the Regulation are those that are considered as such under Regulation 2019/2088, which refers to the competent authorities already determined in accordance with the sectoral regulations and directives referred to in Art. 6.3. of the same Regulation.

This Regulation shall enter into force on the twentieth day following that of its publication in the Official Journal of the European Union, some articles having deferred implementation from 01.01.2022 (Articles 4, 5, 6 and 7 and Article 8 (1), (2) and (3) with regard to the environmental objectives referred to in Article 9 (a) and (b).

Regulation (EU) 2020/873 of the European Parliament and of the Council of 24 June 2020 amending Regulations (EU) No 575/2013 and (EU) 2019/876 as regards certain adjustments in response to the COVID-19 pandemic

The Regulation amends Regulation 575/2013 accordingly to allow institutions (banks and investment firms) to direct their capital where it is most needed, while ensuring that institutions act prudently.

Regulation (EU) of the European Parliament and of the Council of 7 October 2020 on European crowdfunding service providers for business, and amending Regulation (EU) 2017/1129 and Directive (EU) 2019/1937

Crowdfunding improves access to finance, especially for start-ups and small businesses. Start-ups can present their projects on an online platform and announce that they are seeking support in the form of a loan (“peer lending”) or the purchase of a stake. Investments by investors are in exchange for financial compensation. At present, crowdfunding is much less developed in the EU than in other major world economies and the market is fragmented. One of the biggest obstacles is the lack of common EU rules. This significantly increases operating and compliance costs and prevents crowdfunding platforms from operating crossborder. Regulating these platforms will make it easier to offer services across the EU and thus improve access to this innovative form of funding for businesses seeking to raise additional capital.

The Regulation allows platforms to apply, in accordance with a single set of criteria, for an EU label, which will allow them to offer their services throughout the EU. Investors using crowdfunding platforms will be protected by clear rules on disclosure, administration and risk management and by a consistent approach to supervision.

The Regulation covers both lending-based crowdfunding and investment-based crowdfunding.

The same requirements are established for the provision of crowdfunding services, for the organisation, licensing and supervision of crowdfunding service providers, for the operation of crowdfunding platforms, as well as for transparency and marketing communications in connection with the provision of crowdfunding services in the Union.

This Regulation amends the Prospectus Regulation (REGULATION (EU) 2017/1129) and Directive (EU) 2019/1937 on the protection of persons who report breaches of Union law (this Directive is not transposed by the FSC).

The Regulation shall apply from 10.11.2021.

III. Delegated acts

During the year, a number of delegated regulations of the European Commission on the implementation of the main legislative acts were published. Part of the package of delegated regulations on the implementation of Regulation (EU) 2016/1011 regarding the EU climate transition benchmarks, the package of delegated regulations on the implementation of the basic regulation on securitisations Regulation (EU) 2017/2402 and a number of delegated regulations

were published on the application of the new amendments to Regulation 648/2012 (EMIR) as regards fees and the new powers of ESMA to CCPs established in a third country.

IV. Legislative proposals

Coronavirus-related recovery package for capital markets

The capital markets recovery package is linked to the European Commission's overall strategy for recovery from the COVID-19 crisis. The aim is to make it easier for capital markets to support the recovery of European businesses from the crisis. Targeted changes to capital market rules are proposed to encourage greater investment in the economy, create conditions for rapid recapitalisation of companies and to increase the banks' ability to finance the recovery. The proposals related to the non-bank financial services are the following:

1. Proposal for a Directive of the European Parliament and of the Council amending Directive 2014/65/EU as regards information requirements, product governance and position limits to help the recovery from the COVID-19 pandemic

This amendment to Directive 2014/65/EU, concerning investments in financial instruments, aims to eliminate the administrative burden caused by documentation and disclosure requirements. It will also change the position limits and the corresponding hedging exemption regime. Financial entities that are part of a predominantly commercial group may apply for a hedging exemption for positions held by those financial entities, when those positions are objectively measurable as reducing risks directly related to the commercial activities of the non-financial entities of the group.

The reliefs are in the following directions: phasing out the mandatory provision of information on paper, disclosure of costs and fees, alleviating ex-post reporting requirements, suspending best execution reports, simplifying cost-benefit analysis, product governance, service reports, costs for research and implementation, the position restriction regime for commodity derivatives.

2. Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) 2017/1129 as regards the EU Recovery prospectus and targeted adjustments for financial intermediaries to help the recovery from the COVID-19 pandemic

Targeted changes to the prospectus regime are proposed aiming at enabling the companies to access new financing in a short period of time and at supporting the economic recovery from the COVID-19 pandemic.

The amendments to the regulation are related to the creation of a new type of short-form prospectus (hereinafter referred to as the "EU recovery prospectus"), as well as to targeted amendments to release pressure on financial intermediaries (notifications of supplements and non-equity issues of credit institutions).

Digital finance package

The digital financial services package aims to strengthen Europe's competitiveness and innovation in this area, helping to make it a world leader in standards development. The package contains measures to further support the potential of digital financial services in terms of

innovation and competitiveness, while mitigating risks. It is in line with the European Commission's priorities for building a Europe ready for the digital age and building a future-oriented economy for the benefit of the people. The initiative also includes a new strategy for the digitization of financial services for the EU financial sector, which aims to ensure that the EU takes the digital revolution as a priority and implements it at the forefront of innovative European companies, providing European consumers and companies with the benefits of digital financial services.

Legislative initiatives will provide consumers with more choice and opportunities in the field of financial services and modern payments, while ensuring protection and financial stability. The measures are crucial for the EU's economic recovery, as they provide new ways of channelling funding to European entrepreneurs, while also playing a key role in implementing the European Green Pact and the New Industrial Strategy for Europe.

The package of measures includes:

1. Proposal for a Regulation of the European Parliament and of the Council on markets in crypto-assets and amending Directive (EU) 2019/1937

The regulation on markets in crypto-assets will boost innovation while preserving financial stability and protecting investors from risks. This legislation will provide legal clarity and security for issuers and providers of crypto-assets. Entities licensed in one Member State will be able to provide their services throughout the EU (the so-called “passporting”). Safeguards include: capital requirements, responsible safekeeping of assets, mandatory investor complaints procedure, as well as investor rights against the issuer. Issuers of significant crypto-assets secured by assets (the so-called “Stable cryptocurrencies”) will be subject to stricter requirements.

2. Proposal for a Regulation of the European Parliament and of the Council on a pilot regime for market infrastructures based on distributed ledger technology

The regulation aims to develop and promote the introduction in the financial sector of revolutionary technologies, such as blockchains and distributed ledger technology (DLT), and to address regulatory gaps due to the legal, technical and operational peculiarities of the use of DLT and cryptocurrencies that qualify as financial instruments.

In view of this, fair market relations, a high degree of financial stability, transparency and investor protection must be ensured. Such a pilot regime should temporarily exempt those infrastructures from certain specific requirements of Union financial legislation that would otherwise prevent them from developing solutions for the trading and settlement of cryptocurrency transactions that qualify as financial instruments. The pilot regime should also allow the European Securities and Markets Authority (ESMA) and competent authorities to gain experience with the opportunities and specific risks of cryptocurrencies that qualify as financial instruments and related technologies.

It is proposed to create a new union status of market infrastructures based on DLT. This status should be optional and should not prevent financial market infrastructures, such as trading venues, central securities depositories and central counterparties, from developing trading and post-trading services and activities for crypto- assets which qualify as financial instruments or are based on DLT, under the existing Union financial services legislation. DLT market infrastructure

should be defined as a DLT multilateral trading facility (DLT-MTF) or as a DLT securities settlement system.

3. Regulation (EU) No 2019/2033 of the European Parliament and of the Council of 27 November 2019 on digital operational resilience for the financial sector and amending Regulations (EC) No 1060/2009, (EU) No 648/2012, (EU) No 600/2014 and (EU) No 909/2014, COM/2020/595

The purpose of the proposed act is for all participants in the financial system to have the necessary safeguards to limit cyberattacks and other risks. The proposed legislation will require all companies to verify that they are invulnerable to all types of disruptions and threats related to information and communication technologies (ICT).

4. Proposal for a Directive of the European Parliament and of the Council amending Directives 2006/43/EC, 2009/65/EC, 2009/138/EU, 2011/61/EU, EU/2013/36, 2014/65/EU, (EU) 2015/2366 and EU/2016/2341

The purpose of the proposed act is to take appropriate and comprehensive measures to counter the digital risks arising for all financial entities due to the increased use of information and communication technologies (ICT) in the provision and use of financial services. This will ensure the operational sustainability of their digital activities in terms of risks, especially in conditions of market growth of transforming technologies, notably enabling digitally represented value or rights be transferred and stored electronically, by using the technology of the decentralized register or similar technology (“cryptoassets”) as well as technologies for services related to those assets.

5. Proposal for a Directive of the European Parliament and of the Council on the resilience of critical entities

The proposal aims to reduce vulnerability to critical infrastructures, which are essential for the functioning of society and the economy. Among the types of entities that fall within the scope of the legal framework are also persons for which the FSC is competent authority: the trading venues operators within the meaning of art. 4, pt. 24 of Directive 2014/65 / EU and Central Counterparties (CCP) within the meaning of Art. 2, pt. 1 of Regulation (EU) № 648/2012.

Capital Markets Union for People and Businesses - New Action Plan (CMU)

On September 24, 2020, the European Commission published a new plan for the development of the Capital Markets Union (COM(2020) 590 final), which builds on the achievements of the first plan for building CMU of 2015 and its revision of 2017. The plan also takes into account the extensive discussions with the stakeholders as well as the High-Level Forum on Capital Markets Union recommendations .

The action plan has three main objectives:

- guaranteeing environmentally friendly EU recovery, based on the digital technologies, inclusive and sustainable by providing more accessible financing for European companies and in particular for small and medium-sized enterprises;
- transforming the EU in an even safer place for depositors' savings and long-term investments;
- deeper integration of the national capital markets into a single European market.

To accomplish this, the European Commission has presented sixteen targeted measures for the achievement of real progress towards building the CMU. Some of the measures which the EU will undertake include:

- establishment of a single access point for investors to company data;
- encouraging insurers and banks to invest more in EU companies;
- strengthening investment protection in order to stimulate more cross-border investment within the EU;
- facilitated monitoring of pension adequacy across Europe;
- harmonization or convergence of insolvency rules;
- strengthening the efforts in order to achieve progress in the supervisory practices convergence and consistency in the application of the single regulatory framework for financial markets in the EU.

More information and access to all documents on the UPC 2020 can be found at the following address:

https://ec.europa.eu/commission/presscorner/detail/bg/IP_20_1677

2. Licensing activity, licensing regimes, notifications and certification

2.1. Licensing activity and licensing regimes

Investment Intermediaries, Tied Agents, Central Securities Depository, Investor Compensation Fund and Trading Venues

In 2020, no licenses to operate as an investment firm (IF) were issued. During the reporting year, two procedures for issuing a license to and IF were considered, one of which ended with a refusal (Global Strategies EAD) and the other was withdrawn in the completeness of documents phase (KR Global Financial Investment EOOD). One decision has been issued to expand the subject of activity of IF European Brokerage House OOD with own account transactions under Art. 6, para. 2, items 3 and 6 and ancillary services under Art. 6, para. 3, item. 4, 6 and 7 of the MFIA. During the reporting year, two IF licenses (Vaha Trade EOOD and Odessos 33 EOOD) were revoked.

Due to the above, at the end of 2020 the total number of investment firms is 56, incl. 20 banks¹⁶ and 36 non-bank investment firms. The number of investment firms (banks and non-banking institutions) with a full license (with the right to perform transactions and services in connection with financial instruments for own account) is 38, and the total number of investment firms with a partial license is 18 (17 of them with the possibility for holding client assets and 1 who does not have this right). Insofar as in 2020 one IF extended its license from partial to full and one credit institution that is an IF merged into another, there is no difference in the total number of IFs with a full license.

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

	Number as at 31.12.2019	Licenses issued	Licenses revoked	Number as at 31.12.2020
Investment firms, including:	59	0	3*	56**
Non-banking institutions	38	0	2	36
Regulated market	1	0	0	1
Multilateral trading facility	2	0	0	2
Central securities depository	1	0	0	1

Notes: * One of the mentioned revoked licenses is a result of the merger of Expressbank AD into DSK Bank AD, which ended in 2020.

**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.

In 2020, **15 applications for approval of election of a member of a management or supervisory body** of an investment firms were considered, resulting in one refusal and 14 approvals. In 2020, the main provisions of the Guidance to assess the suitability of management body members and key function holders applicable to this type of proceedings, issued jointly by the European Banking Authority and the European Securities and Markets Authority in 2018, have been included. in the provisions of the new Ordinance No. 38 of 21.05.2020 on the requirements to the activities of investment firms.

¹⁶The number of investment firm banks includes those that operate on the territory of the country through a branch.

In 2020 the FSC completed **2 assessment procedures for acquisition of qualified holdings of the capital or the votes in the general assembly of an investment firm were examined**, resulting in no acquisition bans. Four procedures on the basis of notifications for the acquisition of qualifying holdings were not considered at all or did not end with a ruling on the merits due to the revocation of the license of the respective investment firm. **3 notices for transfer of qualifying holdings** were considered.

In 2020, 7 applications were submitted for **exemption under Art. 5, para. 1, item 10 of the MFIA**.

Of the total number of administrative procedures completed in 2020 in respect of investment firms, 5 are related to proceedings for the issuance, extension or revocation of a license to operate as an investment firm, and 15 were related to approval of a member of a management or supervisory body of an investment firm.

Within 2020, 7 applications for **entry of a tied agent** in the register kept by the FSC were submitted, 4 of them ended with the entry of the tied agent, 2 were terminated by request of the applicant and 1 has ended in 2021.

In 2020 **Bulgarian Stock Exchange AD** is registered as a benchmark administrator under Art. 34 (1) (c) of Regulation (EU) 2016/1011 of the European Parliament and of the Council of 08.06.2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014. During the reporting year, one application for approval of changes in the Regulations for the activity of the regulated market and 3 applications for approval of members of the Board of Directors of the company were submitted, which ended in 2020.

At the end of 2020, a proposal was received for changes in the Rules for the structure and activity of **Investor Compensation Fund** as a production in this sense is to be initiated in 2021.

In 2020, a procedure for approval of the acquisition of participation by **Central Depository AD** in two companies according to art. 18 (3) of Regulation (EU) № 909/2014 of the European Parliament and of the Council of 23.07.2014 on improving the settlement of securities in the EU and for central securities depositories.

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

	Not concluded as at 31.12.2019	New in 2020	Concluded in 2020	Not concluded as at 31.12.2020
Investment firms	5	31	34	2
Tied agents	0	7	6	1
Regulated market	0	5	1	4
Multilateral trading facilities	0	0	0	0
Organized trading facilities	0	0	0	0
Central securities depository	0	1	1	0
Data reporting service providers	0	0	0	0
Investor Compensation Fund	0	0	0	0
Other proceedings*	2	28	27	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.

Management companies, collective investment undertakings and alternative investment fund managers

In 2020, no license was issued to operate as a management company. **One a procedure to extend the license of a management company** was completed (EF Asset Management AD). During the reporting year, a permit was issued for transformation through the merger of UBB Asset Management EAD into KBC Asset Management NV, Belgium.

In 2020 **one permit for organizing and managing a collective investment scheme** was issued (CFB Private Company, managed by CCB Assets Management). During the reporting period, CBC Asset Management NV, Belgium also initiated proceedings for the issuance of a permit for the organization and management of an umbrella feeder mutual fund, which ended in 2021.

Within the reporting period **two permissions for transformation** of mutual funds were issued: of MC DV Asset Management AD for transformation through merger of MF DV Eurobond into MF DV Balance and of MC Expat Asset Management AD and MC Alpha Asset Management AD for transformation through merger of MF Alpha SOFIX Index in ETF Expat Bulgaria SOFIX USITS ETF. With the transformation of the funds of MC DV Asset Management AD, initiated in 2019 and completed in early 2020 by merging two MFs into MF DV Balance, managed by the same MC, two classes of units are formed of MF Balance, respectively, Class A (Harmony) and

Class B (Treasure) units. This type of transformation is carried out for the first time in the Republic of Bulgaria.

Additionally, in 2020 **two permits for termination** of MF were issued - to MC Alpha Asset Management AD for MF Alpha Index Properties and MF Smart Tech. As a result of the described administrative procedures related to the transformation and termination of the MF, three MFs have been deleted from the register of the FSC for collective investment schemes. The procedure for transformation of MF Alpha SOFIX Index was completed in early 2021.

In 2020, 4 proceedings were initiated for the issuance of a **permit for organizing and managing a sovereign wealth fund**, as a result of which 3 such permits were issued during the year - to Expat Asset Management EAD for organizing and managing sovereign wealth fund (SWF) Expat Gold, to MC Activa Asset Management AD for organizing and managing SWF Activa and to MC DSK Asset Management AD for organizing and managing SWF DSK-OTP Premium Mix. All three permits are for SWFs, which is open-ended national mutual fund. The fourth procedure for organizing and managing a SWF was completed in early 2021.

In 2020, the trend from the previous year for strong interest in the registration procedures of **alternative investment fund managers** (AIFM) under Art. 214 et seq. from CISOUCA, as during the year 4 new AIFMs were registered, which were not management companies (Vitoshka Venture Partners OOD, MGG Advisors OOD, Innovation Starter Box EOOD and Silverline Partners OOD). The alternative investment funds organized by them are not subject to licensing proceedings before the FSC and are subject only to entry in the register kept by the FSC. Additionally Activa Asset Management AD and DSK Asset Management AD have been registered as AIFM, as a result of the above-mentioned permits for organization and management of SWF Aktiva and SWF DSK-OTP Premium Mix. To date, the FSC has not issued a license to operate as an AIFM.

Table 3. Licensing activity in relation to MCs, AIFMs and collective investment undertakings

	Number as at 31.12.2019	Issued licenses/ permits / registrations	Revoked licenses/ permits	Number as at 31.12.2020
Management companies	31	0	0	31*
Contractual funds	127	1	3**	125
Sovereign wealth funds (SWFs)	4	3	0	7
Alternative Investment Fund Managers (AIFM)	11	6	0	17***

Notes: * The number of MCs also includes the branch of KBC Asset Management NV, Belgium.

** The revoked permits are a result of transformation and / or termination of the MF.

*** Five of the registered AIFMs are MCs that manage sovereign wealth funds and one AIFM is a self-managed sovereign wealth fund.

In 2020, 30 proceedings were considered for approval of a new member of the management body of **management companies**, resulting in 29 approvals and 1 rejection. In the reporting period, 2 notifications regarding the intention to transfer a qualifying holding in a management

company and 2 notifications regarding the intention to acquire such holding. One of the acquisition notifications and one of the transfer notifications were submitted in 2019 and were reviewed during the reporting period. At the end of 2020, two notifications were submitted regarding the intention to acquire, respectively increase the qualifying holding in a management company, which will be considered in 2021.

In 2020, numerous proceedings were considered, related to approvals of changes to the rules of **collective investment schemes** under Art. 18 of the CISOU CIA. During the reporting period the procedures for issuing 54 approvals for changes to the rules for under Article 13, Paragraph 2 of the CISOU CIA, 33 approvals for changes of portfolio valuation rules and determination of the net asset value, 47 approvals for changes of risk assessment and management rules and 34 approvals for changes in the contracts for depository services and 1 approval for the replacement of a depository bank were concluded.

In 2020, 7 applications for approval of changes were reviewed under Art. 179 of the CISOU CIA for **sovereign wealth funds** - 2 for approval of changes in rules under Art. 173, para. 4 of the CISOU CIA, 1 approval of changes in the Articles of Association, 2 for approval of changes in rules for portfolio valuation and determination of the net asset value and 2 for approval of changes in rules for risk assessment and management.

During the reporting period, in accordance with the above, 6 proceedings for registration under Art. 214 of the CISOU CIA of **an alternative investment fund manager**.

Table 4. Administrative procedures in relation to MCs, AIFMs and collective investment undertakings

	Not concluded as at 31.12.2019	New in 2020	Concluded in 2020	Not concluded as at 31.12.2020
Management companies	5	35	36	4
Contractual funds	3	186	177	12
Sovereign wealth funds	0	11	10	1
Alternative investment fund managers	0	7	6	1
Other proceedings*	3	20	21	2

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

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

Regarding the activity of joint stock special investment purpose companies (SPICs) and in particular those whose activity is related to real estate investments, the real estate market trends in the last few years have an impact, which are characterized by increased growth in all segments. A significant role in strong demand and rising incomes in the sector is played by low interest rates maintained by local banks, which, on the one hand, directed savings to assets that bring higher returns on deposits (mainly real estate) and, on the other, encouraged acceleration of investment activity in the sector through the possibility of making a profit from rising prices. The current

expectations of construction companies and investors in the sector are for a certain stagnation in the real estate market given the complex and unpredictable situation both in the country and worldwide, as a result of the many anti-epidemic measures that have been imposed and are likely to continue related to the coronavirus pandemic, including the uncertainty about the duration and the negative impact that these measures will have on the sector and the economy as a whole. Despite the downward trend in real estate prices in different market segments as a result of declining demand and other relevant factors, such as rising costs and / or delays in construction and assembly activities, delays in obtaining the necessary permits and certification documents, deterioration of the financial condition, interruption of the normal activity of construction and investment companies, of key partners and contractors and other factors, the profitability of real estate investments at the moment is again higher than that of bank interest rates for deposits and, accordingly, is an alternative investment opportunity to receive income in the form of rents and other current payments or as a result of the purchase or renovation of real estate for resale or operation.

With regard to SPICs investing in receivables, the number of these companies tends to increase. The main reason for this is that in the last few years there has been a movement in the receivables sector - after the stress tests of commercial banks, they reduce their risk exposures and get rid of their portfolios of bad / non-performing loans. Another factor is the consistently high level of intercompany indebtedness in the real estate sector. In turn, these conditions lead to improved business opportunities of SPICs for investment in receivables.

As a result of all these circumstances, there is a stable trend in the number of applications for licensing of SPICs in recent years (on average one per year), on the one hand, and the inability of some licensed companies to operate as per their licenses, which requires the revocation of licenses and their termination, on the other hand.

In 2020 **no new licenses have been issued** of special investment purpose companies, as well as no refusals to issue a license to SPICs.

At the end of the reporting year, 1 request was received for the issuance of a license by a special investment purpose company for real estate investments, which will end in 2021.

In 2020 **2 licenses were revoked** of special investment purpose companies - Turin Imoti SPIC (for real estate investments) - voluntary refusal of a license through a successfully implemented offer for purchase of shares and of United Properties SPIC (for real estate investments) - compulsory revocation of license.

For the period 01.01.2020 - 31.12.2020 **2 decisions for refusal were issued** for revocation of a license for carrying out activity as a SPIC- of Argoenergy SPIC and of Argoenergy Invest SPIC (real estate investment companies), on applications for voluntary renunciation of a license.

During the commented period, 2 requests were received for issuing permits for termination of SPICs, for revocation of their licenses and for approvals of liquidators in connection with decisions of the General Meeting of Shareholders of these companies for voluntary renunciation of a license. On one application, with a protocol decision of the company, the provision of the administrative service was refused due to the existence of unpaid obligations of the company to the FSC. The proceedings on the second submitted application ended in 2021 with a positive decision.

As of the end of 2019, there are 59 companies licensed to operate as SPICs, and at the end of 2020 - 57. For comparison, a total of 72 companies have received a license to operate as a special investment purpose company, of which 15 have their licenses revoked as of 31.12.2020.

Table 5. Licensing activity with respect to SPICs

	Number as at 31.12.2019	Licenses issued in 2020	Licenses revoked in 2020	Number as at 31.12.2020
SPICs including:	59	0	2	57
SPICs for securitization of receivables	9	0	0	9
SPICs for securitization of real estate, including:	50	0	2	48
SPICs (agricultural land)	7	0	-	7

Irrespective of the public status of Special Purpose Investment Companies, given the exceptional nature of their object of activity, the special purpose investment companies 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 regarding SPICs, apart from the procedures for issuing and revoking licenses, are related to requested approvals for amendment of the Articles of Association and for replacement of a depository bank and a servicing company of special purpose investment companies. It should be noted that these approval procedures are regulated in the repealed Special Purpose Investment Companies Act (SPICA, in force until 16.03.2021), but in the newly adopted Special Purpose Investment Companies and Securitization Companies Act (SPICSCA, effective from 16.03.2021) the procedures for approval of an amendment to the Articles of Association for replacement of a depository bank and of persons entrusted with functions for servicing the activity of special investment purpose companies are also regulated, including new ones. approval procedures with regard to the members of the management bodies of the SPIC and in case of amendments to the contracts with persons who have been assigned functions for servicing the activity of the SPIC.

In relation to the activity of Special Purpose Investment Companies and the regulatory requirements for that activity according to the SPICA (revoked) in 2020 the FSC reviewed and issued decisions on a total of 20 proceedings, considered as follows:

- **17 applications for issuance of an approval of amendments to the Articles of Association** of Special Purpose Investment Companies, under which the FSC issued 17 decisions for approval of the envisaged amendments to the Articles of Association;

- **1 application for issuance of approval for replacement of a service company**, on which, respectively, 1 positive decision was issued;

- **2 applications for approval of the replacement of a depository bank** of a Special Purpose Investment Company for which 2 approvals was issued by the FSC.

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 applications.

Other public companies (outside special purpose investment companies) and issuers of securities are not subject to licensing, but to entry or deregistration from the special register of public companies and other issuers of securities kept by the FSC. In 2020, 4 public companies (excluding SPICs) were entered in said register - (Eleven Capital AD; Capman Debts Management AD, Port Fleet 99 AD and Square Cube Properties AD) and 3 issuers of securities (Elana Financial Holding AD, TBI Bank AD and ITF Soft AD), respectively during the period the companies written off from the register kept by the FSC are a total of 7¹⁷, of which 5 public companies and 2 issuers of securities.

During the reporting year, 13 more companies were officially deregistered from the register kept by the FSC, of which 6 companies with special investment purpose in liquidation and / or with revoked licenses to operate as SPICs and 7 public companies. All these companies have been written off ex officio, as public companies, as a result of the powers exercised by the regulator under the POSA.

During 2020, there were no rejections to enter or delete a public company or an issuer of securities from the register kept by the FSC.

The total number of public companies (excluding SPICs) and the other issuers of securities registered as at the end of 2020 was 243.

Table 6. Public companies and other issuers of securities

	Number as at 31.12.2019	Registered companies	Deleted companies	Number as at 31.12.2020
Public companies and other issuers*	249	7	13***	243**

Notes: * The number of public companies and other issuers does not include collective investment schemes. Public companies and other issuers are not licensed as such but are subject to registration and deregistration.

** The number of public companies and other issuers does not include special purpose investment companies, which have revoked SPIC licenses, but still have the status of public companies.

*** The total number of 13 written-off companies (public companies and issuers of securities) does not include 6 SPICs with revoked licenses to operate as SPICs and / or in liquidation proceedings, written off as public companies after legal powers were exercised by the FSC, and 1 company, which in 2020 had its license to operate as a SPIC revoked after voluntary refusal and within the same year was written off as a public company.

With regard to the activity of public companies and issuers of securities in 2020, apart from the proceedings for registration (7) and deletion (13) of public companies and issuers, a total of 42 proceedings for review of prospectuses and supplements thereto were considered, preserving the trend noted during previous period, when 48 such proceedings were considered.

For 2020, a total of 29 applications for approval of prospectuses and 3 supplements have been submitted. From the submitted applications it is established that there is a decrease of about 38% compared to the previous period, when the submitted applications were 47.

¹⁷ The total number of 7 deregistered companies (public companies and issuers of securities) does not include 13 companies, which during the period were deregistered as public companies ex officio.

In 2020, a total of 26 prospectuses were approved, which in turn represents about 21% reduction compared to the previous 2019, when the approved prospectuses were a total of 33.

During the reporting period, 4 supplements to approved prospectuses were approved - 3 supplements to a prospectus for initial public offering of shares and one supplement to a prospectus for admission to trading on a regulated market of shares, which was submitted in 2019.

The structure of the 26 prospectuses approved in 2020 is as follows:

a total of 14 prospectuses for initial public offering of shares, of which 2 of new companies;

2 prospectuses for initial public offering of bonds, of which 1 of a new issuer and

a total of 10 prospectuses for admission to trading on a regulated market, of which eight prospectuses for admission for trading on a regulated market of bond issues and three prospectuses for admission to trading on a regulated market for issues of shares.

Also during the year under review, the FSC issued a total of 2 refusals to approve prospectuses for initial public offering of shares.

In addition, in 2020 2 proceedings for approval of prospectuses were terminated, of which 1 prospectus for EU growth and 1 prospectus for initial public offering of shares.

With regard to applications for approval of a prospectus for initial public offering of warrants, 2 decisions were issued to suspend the proceedings due to the existence of other proceedings, which have prejudicial significance with regard to the approval of the prospectus.

At the end of the year, there were 6 pending proceedings for approval of prospectuses – 4 proceedings for admission to trading of bond issues, 1 proceeding for initial public offering of shares issues and 1 proceeding for admission to trading of a shares issue.

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 2020 a total of 26 issues of securities were entered in the FSC register, distributed as follows:

19 issues of shares were entered, 5 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;

- 7 bond issues are registered as a result of approved prospectuses for admission to trading on a regulated market of bonds, subscribed under the terms of Art. 205, para. 2 of the Commercial Act and their issuance did not create an obligation to publish a prospectus under Regulation (EU) 2017/1129, as they are offered to less than 150 persons.

During the reporting year, a total of 24 issues of securities were deleted from the register of public companies and other issuers of securities, kept by the FSC, with structure as follows:

- a total of 18 share issues were deleted;

- 6 bond issues were deleted;

In 2020 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.

In 2020 a total of 14 proceedings on registered tender offers, offers for purchase of shares and offers for redemption of shares were considered. With regard to the tender offers, purchase offers, and redemption offers considered in 2020, the following decisions have been issued:

- **for 13 proposals, the FSC issued decisions on a temporary ban** on the publication of proposals, and for 6 of these proposals after the submission of the corrected documents it decided not to issue a final ban on their publication;

- **4 final bans were issued for the publication of a tender offer;**

- **1 proceeding was terminated**, due to the fact that after the imposition of the temporary ban on the publication of the tender offer, a request for termination of the proceedings has been received from the tender offeror.

The total number of registered offers in 2020 is 14, of which 11 tender offers, 1 offer for purchase of shares and 2 offers for redemption of shares.

As of the end of the year, there are 3 pending proceedings for consideration of such proceedings - 2 proceedings for tender offers and 1 proceeding for redemption of shares under the tender offer.

During the reporting year 2020, no proceedings were initiated for approval of transformation documents with the participation of public companies. No decisions have been issued for inclusion of an auditor in the list of independent auditors, approved by the Deputy Chairperson of the FSC in charge of the Investment Activity Supervision Division and no refusals or terminated proceedings for approval of documents for transformation with participation of public companies.

In 2020 no applications have been submitted for approval of a draft joint venture agreement.

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

	Not concluded as at 31.12.2019	New in 2020	Concluded in 2020	Not concluded as at 31.12.2020
SPICs	0	1	0	1
PCs and issuers	9	104	103	10
Other proceedings*	0	36	36	0

Note: *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 2020.

Insurance and reinsurance

In the end of 2020, the licensed insurance companies based in the Republic of Bulgaria are **34**, the non-life insurers are **24**, life insurers are **10**, and **1 company** is a reinsurer for non-life and life insurance.

During the reporting period, 5 decisions were issued in connection with requests for the issuance of an additional license or for supplementing the license of insurance companies by type of insurance with new risks:

1. Decision №107-O3 of 30.01.2020 of the FSC for supplementing the issued license of GROUPAMA INSURANCE EAD, UIC 131421443, with registered office and address of management - Sofia, Sredets region, 47A Tsarigradsko Shose Blvd., bl. C, floor 3, for insurance

class Land vehicles (excluding railway rolling stock), according to Section II (A) (3) of Annex 1 of the IC, with a new risk Any damage or loss caused to land vehicles other than motor vehicles;

2. Decision №139-O3 of 13.02.2020 of the FSC for termination of proceedings instituted upon application, ent. №RG-10-90-23 dated 17.12.2019, with which a request was made to extend the scope of the license of IC EUROAMERICAN AD, UIC 124634117 for certain classes of insurance, according to Annex 1, section II(A) of IC as follows:

Accident insurance;

supplementing the license under the Sickness insurance class with additional risk: - fixed amounts of money;

Cargo during transport insurance;

Fire and natural disaster insurance;

Property damage insurance;

Miscellaneous financial losses insurance;

Legal expenses insurance.

3. Decision 50150-O3 of 20.02.2020 for issuance of a license to extend the license of the insurer with a new class of insurance under item 15 of Annex 1, Section II, (A) of the IC, to “BULGARIAN AGENCY FOR EXPORT INSURANCE” EAD, namely: Guarantees: - direct guarantees; - indirect guarantees.

4. Decision №177-O3 of 05.03.2020 of the FSC for issuance of a license to extend the license of the insurer with a new class of insurance of “INSURANCE COMPANY EIG Re” EAD, UIC 130427863, as follows:

Vessel insurance (sea, lake, river and canal vessels) under item 6 of Section II (A) of Annex 1 to the IC, with coverage of the following risks: Any damage or loss to

- river and canal vessels;

- lake vessels;

- sea vessels.

Guarantees insurance under item 15 of Annex 1, Section II, (A) of the IC, with coverage of the following risks:

- direct guarantees;

- indirect guarantees.

5. Decision №188-O3 of 10.03.2020 of the FSC for issuance of a license to extend the scope of the license with a new class of insurance under item 16 “Miscellaneous financial losses”, according to Annex 1, Section II (A) of the Insurance Code for all risks under the specified insurance class of INSURANCE COMPANY OZOK Ins AD, UIC 200140730, as follows:

- employment risks;

- insufficient income (total);

- bad weather;

- lost profits;

- long-term overheads;

- unforeseen commercial costs;

- loss of market value;

- loss of rent or income;

- other indirect commercial losses;
- other non-commercial financial losses;
- other financial losses.

At the end of 2020, the insurers domiciled in a Member State carrying out non-life insurance business on the territory of the Republic of Bulgaria under the right of establishment (through a branch) are a total of 9 companies:

- Certasig - Insurance and Reinsurance Company AD - Bulgaria Branch is prohibited from concluding new insurance or reinsurance contracts for all classes of insurance, to extend the term of concluded contracts and to expand their coverage by virtue of FSC Decision No 175- O3 dated 02.03.2020, as of the date of revocation of the license of the Romanian insurer Certasig - Insurance and Reinsurance Company AD by the Financial Supervision Authority of Romania. On 21.12.2020 in the Commercial Register and the register of on-profit legal entities kept by the Registry Agency, on the account of Certasig - Insurance and Reinsurance Company AD - Bulgaria branch, UIC 203318946, a decision of 29.06.2020 was entered on case №8080 / 3/2020 of the District Court in the city of Bucharest, which opened insolvency proceedings against Certasig - Insurance and Reinsurance Company AD, Romania;

- On 10.12.2020 the FSC sent a notification to the competent supervisory authority of Austria, providing information in accordance with Art. 49, para. 1 of the IC for the conditions under which the branch of Porsche Versicherungs AG may carry out insurance activities on the territory of the Republic of Bulgaria, through its branch "Porsche Insurance AG - Bulgaria Branch, UIC 206308423, represented by Stefan Grozdanov, with activity "Conclusion of insurance, except for life insurance."

- Insurance companies domiciled in a Member State carrying out life insurance business on the territory of the Republic of Bulgaria under the right of establishment (through a branch) are 3 companies.

Table 8. Licensing activity in relation to insurance and reinsurance

	Number as at 31.12.2019	Licenses issued	Licenses revoked	Number as at 31.12.2020
Insurers including:	35	-	-	34*
Non-life insurance	24	-	-	24
Life insurance	11	-	-	10
Branch of a foreign insurance company	12	1	1	12**
Non-life reinsurance companies	1	-	-	1
Life reinsurance companies	1	-	-	1
Insurance brokers	335	7	13	329

Notes:* By Decision № 326-Ж3 of 14.05.2020, transformation was allowed through merger of Groupama Life Insurance Express EAD, UIC 175294549, with registered office and management address: Sofia, 1124, 47a Tsarigradsko Shosse Blvd., bl. B, 3rd floor, into Groupama Life Insurance EAD, UIC 131272330, with registered

office and management address: Sofia, 1124, 47a Tsarigradsko Shosse Blvd., bl. B, 3rd floor. The termination without liquidation of the insurer was entered in the Commercial Register on 01.06.2020.

** By Decision of 20.02.2020, the Romanian Financial Supervisory Authority published a notice that at its meeting held on 19.02.2020 it had decided to revoke the license of the Romanian insurer Certasig - Insurance and Reinsurance Company AD.

On 10.12.2020 the FSC sent a notification to the competent supervisory authority of Austria, providing information in accordance with Art. 49, para. 1 of the IC for the conditions under which the branch of Porsche Versicherungs AG may commence to carry out insurance activities on the territory of the Republic of Bulgaria, through its branch "Porsche Insurance AG - Bulgaria Branch, UIC 206308423, with activity "Conclusion of insurance, except for life insurance."

In 2020, 2 decisions were issued for approval of the acquisition of qualifying holdings in insurance companies:

With Decision 90190-O3 of 10.03.2020 for approval of acquisition of direct qualified holding of UNIQA INTERNATIONAL AG, Austria in the capital of IC Uniqa AD, by acquisition of 5 215 119 shares, representing 99.91% of the capital of the insurer, as a result of the merger of UNIQA INTERNATIONALE BETEILIGUNGS - VERWALTUNGS GMBH into UNIQA INTERNATIONAL AG.

Decision 19419 – O3 of 18.06.2020 approved the acquisition by UNIQA OSTERREICH VERSICHERUNGEN AG, Austria of:

1. Direct qualified holding in the amount of 99.91% of the capital of IC UNICA AD, UIC 040451865;

2. Indirectly qualified participation in the amount of 99.94% of the capital of IC UNIQA Life AD, UIC 831626729, which will be carried out as a result of intra-group transformation through merger of UNIQA INTERNATIONAL AG, Austria into UNIQA OSTERREICH VERSICHERUNGEN AG.

In 2020, 1 proceeding was initiated on an application received in connection with the acquisition of 100% of AVESTA TRADE AD, UIC 121027425 in IC MEDICO-21 AD. The application was considered by the FSC at a meeting on 10.12.2020 and a decision was made to send a letter confirming the deadline for ruling on the application.

In 2020, 1 decision was issued for permission to transform an insurance company: By Decision- ЖЗ of 14.05.2020, transformation was allowed through merger of Groupama Life Insurance Express EAD, UIC 175294549, with registered office and management address: Sofia, 1124, 47a Tsarigradsko Shosse Blvd., bl. B, 3rd floor, into Groupama Life Insurance EAD, UIC 131272330, with registered office and management address: Sofia, 1124, 47a Tsarigradsko Shosse Blvd., bl. B, 3rd floor.

In 2020, the FSC issued 4 decisions on the application of the regulatory regimes under the Insurance Code to insurers with revoked licenses:

- With Decision №769-O3 of 22.10.2020, the FSC has given mandatory instructions to the conservator of IC EUROAMERICAN AD, UIC 124634117, appointed by virtue of Decision of FSC 301309-O3 of 17.12.2019;

- With Decision №770-O3 of 22.10.2020, the FSC has given mandatory instructions to the conservator of IC NADEZHDA AD, UIC, appointed by virtue of Decision of FSC 1132-O3 of 17.08.2017;

- By Decision №796-O3 of 05.11.2020, the FSC dismissed Stefan Stefanov, appointed by Decision of FSC 301309-OZ dated 17.12.2019 as conservator of IC EUROAMERICAN AD, and appointed Mircho Stoyanov, an employee of the FSC administration, to the position of “Senior Expert” in the Insurance Supervision Directorate in the FSC, as conservator of IC EUROAMERICAN AD, until the appointment by the court of a receiver or until the registration of a liquidator of the company;

- By decision No. 175-O3 of 02.03.2020 the FSC prohibited CERTASIG - INSURANCE AND REINSURANCE COMPANY AD - BULGARIA BRANCH, UIC 203318946 from concluding new insurance or reinsurance contracts for all classes of insurance, to extend the term of concluded contracts and to expand their coverage as of the date of revocation of the license of the Romanian insurer CERTASIG - INSURANCE AND REINSURANCE COMPANY AD by the Financial Supervision Authority of Romania.

During 2020 by decision of the FSC, **there were 8 insurance brokers entered** in the register kept by the FSC pursuant to Article 30, para 1, item 12 of the FSCA. In the same period **13 insurance brokers** were deleted at their request.

At the end of the reporting period there were a total of **330 insurance brokers** entered in the register kept by the FSC pursuant to Article 30, para 1, item 12 of the FSCA.

During the reporting period, the trend of decreasing the number of insurance agents continued. At the end of the year there were **a total of 7570 insurance agents entered** in the register of the FSC, including. **2483** insurance agents - legal entities, **226** sole proprietors’ insurance agents and **4 865** insurance agents individuals, **16** insurance intermediaries with additional activity - 14 legal entities and 2 intermediaries with additional activity - natural person. Compared to 2019, the number of insurance agents at the end of 2020 decreased, with the highest decline observed in registered legal entities.

Table 9. Registration in the register of insurance agents

	Number as at 31.12.2019	Number as at 31.12.2020
Insurance agents*, including:	7,759	7,570
Legal entities	2,612	2,483
Sole traders	251	226
Natural persons	4,865	4,829
Intermediaries offering insurance products as an ancillary activity	-	16

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

In 2020, in connection with the initiated administrative proceedings before the FSC, they were issued **a total of 150 decisions** on the application of the regulatory regimes under the IC and the by-laws on its implementation, as follows:

- During the reporting period **98** individual administrative acts were issued in connection with the procedures for issuing licenses, permits or approvals;
- **5 decisions** in connection with requests for the issuance of an additional license or for supplementing the license of insurance companies by type of insurance with new risks;

- **2 decisions** for approval of the acquisition of qualifying holdings in insurance companies;
- **1 decision** for application of coercive administrative measures to an insurer with revoked license;
- **3 decisions** for giving mandatory instructions to appointed conservators of insurers with revoked license;
- **1 decision** to approve the transformation of an insurance company;
- **2 decisions** on application of regulatory regimes to the Guarantee Fund;
- **48 decisions** on approvals of members of management and supervisory bodies of insurance and reinsurance companies and insurance holding companies and of persons performing key functions in insurance or reinsurance companies;
- **36 decisions** for approval of auditors of insurance or reinsurance companies and insurance holdings;
- During the reporting period **52** individual administrative acts were issued against supervised entities subject to registration regime;
- **8 decisions** for entry of insurance brokers in the register kept by the FSC;
- **22 decisions** for deletion of insurance agents from the register of the FSC at their request;
- **13 decisions** for deletion of insurance brokers from the register of the FSC at their request;
- **9 decisions** for registration of organizations conducting trainings for insurance brokers and vocational training programs according to Ordinance of FSC No. 28 of 10.05.2006

Table 10. Administrative procedures in respect of insurance and reinsurance

	Not concluded as at 31.12.2019	New in 2020	Concluded in 2020	Not concluded as at 31.12.2020
Insurance companies	18	109	96	31
Insurance intermediaries	5	56	43	18
Other proceedings	6	8	11	3
Total	29	173	150	52

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

Supplementary pension insurance

In 2020, 8 official proceedings were initiated to determine the minimum return on the management of the assets of the supplementary mandatory pension funds, as a result of which 4 decisions of the competent authority for determining the minimum return of the universal pension funds and 4 decisions of the competent authority for determining the minimum return of occupational pension funds were issued.

According to the mandate of the Deputy Chairperson of the FSC in charge of the Social Insurance Supervision Division, in 2020 one decision was issued for approval of the technical interest rate and the biometric mortality tables to be used for the calculation of the pension reserves as at 31.12.2020 by the pension insurance companies managing a universal pension fund and/or a supplementary voluntary pension fund.

During the reporting year 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 2020 was nine, and the number of supplementary pension funds was 29, including nine universal, nine occupational, nine voluntary and two voluntary pension funds under occupational schemes, and as at 31.12.2020 one of them was not active.**

Table 11. Licensing activity in relation to supplementary pension insurance

	Number as at 31.12.2019	Licenses issued	Licenses revoked	Number as at 31.12.2020
Pension insurance companies (PICs)	9	-	-	9
Supplementary pension funds (SPFs)	29	-	-	29

Preliminary supervision also includes the implementation of other actions, incl. the approval or confirmation of various documents of fundamental importance for the activity of pension insurance companies and the pension funds managed by them. Some of the proceedings related to the permit and approval regimes within the competence of the administrative body are initiated at the request of the persons obliged under the regulations, while other proceedings are carried out ex officio by the supervisory body.

In 2020 they **4 decisions were issued for approval of amendments and supplements to the regulations for the organization and activity of SPFs.** The changes in the regulations were made in connection with changes in the regulations of the activity of supplementary pension insurance and other internal documents of the PIC.

During the reporting year a total of **nine proceedings were initiated for preliminary coordination of selection of auditors** to perform audit and certification of the annual financial statements for 2020 of PICs and the pension funds they manage, and as a result, the administrative authority issued nine decisions to agree on the choice of proposed auditors.

Pursuant to Art. 121d, para. 10 of the Social Insurance Code (SIC) in 2020 **3 proceedings were formed, and the FSC has issued 2 decisions for approval of members of the governing bodies of the PIC, and one of the initiated proceedings was terminated at the request of the applicant.**

In 2020, an ongoing review of other documents submitted by the companies and the custodian banks was carried out, which, although not subject to approval, are checked from the point of view of their legality. In case of discrepancies in their content, their elimination is required.

Table 12. Administrative procedures regarding supplementary pension insurance

Object of the procedure	Not concluded as at 31.12.2019	New in 2020	Concluded in 2020	Not concluded as at 31.12.2020
Regulations	-	4	4	-
Coordinating the selection of auditors	-	9	9	-
Approval of members of management and supervisory bodies	-	3	3	-
Proceedings initiated ex officio	-	9	9	-
Total for pension insurance companies	-	25	25	-

2.2. Notifications

Investment firms, Management companies, Investment funds

In 2020 **70 notifications were received from IFs from EU Member States** who intend to operate on the territory of the Republic of Bulgaria under the conditions of **free provision of services**, including through a tied agent established in another Member State (UK - 31, Cyprus - 14, Germany - 10, France - 5, Ireland - 3, the Netherlands - 2, Malta - 1, Spain - 1, Luxembourg - 1, Slovakia - 1, Austria - 1). In relation to Brexit, during the year there has been a reduction in the number of notifications from the UK, as well as a number of inquiries about the status of IFs, which have already been notified by the competent authorities of that Member State. On the other hand, **71 IFs have ceased their passports** for provision of investment activities and services on the territory of the Republic of Bulgaria under the conditions of free provision.

No notifications have been received during the reporting year from IFs from other Member States with intention to operate on the territory of the Republic of Bulgaria **through the establishment of a branch**.

Three notifications have been received establishing measures to facilitate access to multilateral trading facilities (MTFs) or organized trading facilities (OTFs) (France - 2, UK - 1). During the period, **no notifications were received for the establishment of a representative office** on the territory of the Republic of Bulgaria.

In view of the above, the total number of IFs from Member States that can operate in our country **at the end of 2020 was 1952** (without the representative offices).

During the reporting year **17 notifications were received from management companies** from EU Member States in connection with their intention to **offer units of 89 classes of securities**

from 29 funds / sub-funds of collective investment schemes from Member States on the territory of the Republic of Bulgaria. During the period, additional notifications were received for registration of **463 new classes of securities** of already notified funds and sub-funds in the form of updated information. For the same period **6 notifications were received for termination of the offering of a total of 22 classes of securities, of 13 sub-funds, of 6 collective investment schemes by Member States.** Towards the end of 2020 **the total number** of the offered classes of securities of collective investment schemes from member states, which operate in our country, **is 1636 classes of securities of 333 funds / sub-funds of 48 collective investment schemes from Member States.**

Two notifications from management companies from a Member State intending to operate on the territory of the Republic of Bulgaria under the terms of free provision of services were received in 2020, and the notifications of another 5 MCs were supplemented, thus the **total number of management companies** from Member States intending to operate in Bulgaria at the end of 2020, **was 32.**

In 2020 a notification was received under Art. 17 of Directive 2009/65 / EC of CBC Asset Management HB, (Belgium) to change the scope of notification of CBC Asset Management HB - Bulgaria Branch, by adding new services.

In 2020, 3 notifications were received from **AIFM** from EU member states that intend to operate on the territory of the Republic of Bulgaria and 1 notification for termination of the passport. Additionally, in 2020 the termination of the notification of two more AIFMs was established, which means that the total number of AIFMs from Member States that intend to operate in Bulgaria by the end of 2020 is 72.

In 2020, 24 notifications were received in connection with the offering of 29 **alternative investment funds (AIF)** from EU Member States on the territory of the Republic of Bulgaria. At the same time, 48 alternative investment funds have ceased their passports, bringing the total number of AIF from member states offered in Bulgaria at the end of 2020 to 81.

In 2020, 15 notifications were received in connection with the offering of **21 European venture capital funds (EuVECA)** from an EU Member State on the territory of the Republic of Bulgaria, and 2 notifications for termination of 2 funds by which the total number of EuVECA funds from Member States offered in Bulgaria at the end of 2020 was 50.

In 2020, for the first time, a notification was received in connection with the offer of **1 European Social Entrepreneurship Fund (EuSEF).**

In 2020, there were no notifications regarding the free provision of services on the territory of the Republic of Bulgaria from a **central securities depository.** At the end of the year, 1 notification was received from the Securities Market Agency (SMA), Slovenia, regarding the free provision of services on the territory of the Republic of Bulgaria by the Central Securities Depository KDD - Central Securities Clearing Corporation LLC, Ljubljana, which ended in 2021.

In the FSC in the reporting year 2020 were received **a total of 28 notifications under the Prospectus Regulation,** out of which **15 notifications for new prospectuses and 13 notifications for additions** to prospectuses of companies from other EU member states, intending to make a public offering of securities on the territory of the Republic of Bulgaria.

In 2020, **The FSC has sent 2 notifications** of a Bulgarian public company in connection with the initial public offering of shares in other EU Member States.

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

	Number as at 31.12.2019	New and concluded in 2020	Terminated in 2020	Number as at 31.12.2020
Investment firms	1,953	70	71	1,952
Management companies	25	7	0	32
Collective investment schemes (classes)	1,106	552	22	1,636
Alternative investment scheme managers	72	3	3	72
Alternative investment funds	100	29	48	81
European Venture Capital Funds (EuVECA)	31	21	2	50
European Social Entrepreneurship Funds (EuSEF)	0	1	0	1
Central securities depositories	3	0	0	3
Prospectuses	155	28	0	183
Insurance companies				
Insurance intermediaries				
Institutions for occupational retirement provision				

In 2020, **25 notifications** were considered from **1 IF licensed by the FSC regarding the intention of the company to operate under the conditions of free provision of services without opening a branch** in other Member States (Austria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Sweden and Spain). During the period, notifications were received from 1 investment firm to 26 countries, for which the proceedings are targeted for 2021.

In 2020, 1 notification was received from a Bulgarian IF for the establishment of a branch on the territory of Germany, the proceedings on which were terminated at the request of the applicant. No notification has been received for the closure of a branch of a Bulgarian IF on the territory of another Member State.

During the period, the FSC has received **1 notification** from an If **to terminate operations in the UK through a tied agent** established in the United Kingdom.

In 2020, no notifications were received from management companies from the Republic of Bulgaria for carrying out activities on the territory of other Member States under the conditions of free provision of services. During the reporting year **3 notifications** were examined for offering **8 CISs from the Republic of Bulgaria** on the territory of Slovenia and Germany.

The FSC has not licensed AIFM so far, in view of which there is no Bulgarian AIFM that can send notifications applicable to AIF in this capacity, managed by it.

To date, Central Depository AD has not initiated a notification for the provision of services in other Member States in its capacity as a central securities depository licensed by the FSC.

During the reporting period, the FSC did not submit any applications for approval of prospectuses for securities issued in the Republic of Bulgaria for their admission to trading on foreign markets.

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

	Number as at 31.12.2019	Considered in 2020	Terminated in 2020	Number as at 31.12.2020
Investment firms	277	25	1	301
Management companies	3	0	0	3
Collective investment schemes	12	8*	0	20
Prospectuses	4	0	0	4
Insurance companies				
Insurance brokers				
Institutions for occupational retirement provision				

Note: ** Two proceedings of 2 MCs for 3 CIS have been initiated in 2019 but have not been concluded in 2020.

Insurance and reinsurance

In 2020, a total of **251 notifications** were received on the intention of insurance companies and insurance firms domiciled in other Member States to carry out or cease operation in the territory of the Republic of Bulgaria under the conditions of the freedom to provide services or the right of establishment, as well as to extend the scope of the notification sent to the FSC.

In 2020 **11 notifications** were sent to the competent authorities of EU Member States for the intention of insurance companies domiciled in the Republic of Bulgaria to carry out or cease operation on their territory.

In 2020 **8 notifications** were sent to the competent authorities of EU Member States for the intention of insurance intermediaries domiciled in the Republic of Bulgaria to carry out or cease operation as insurance intermediaries on their territory.

As of the end of 2020, the number of insurance companies domiciled in other EU and EEA Member States, for which notifications have been sent to the FSC for their intention to operate on the territory of the Republic of Bulgaria under the conditions of freedom to provide services, amounts to on **649**. The total number of insurance companies with registered office on the territory of the Republic of Bulgaria, which have stated their intention to carry out insurance activity on the territory of other EU Member States under the conditions of freedom to provide services, is **18**.

At the end of 2020, the number of insurance intermediaries from Member States that have stated their intentions to operate as insurance intermediaries on the territory of the Republic of Bulgaria under the terms of the freedom to provide services and right of establishment (through a branch), is **3123**. The total number of insurance intermediaries domiciled in the Republic of

Bulgaria that have stated their intentions to operate as insurance intermediaries on the territory of EU Member States under the terms of the freedom to provide services and right of establishment is **52 intermediaries**.

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

	Number as at 31.12.2019	New and concluded in 2020	Terminated in 2020	Number as at 31.12.2020
Investment firms				
Management companies				
Collective investment schemes (classes)				
Alternative investment scheme managers				
Alternative investment funds				
European Venture Capital Funds (EuVECA)				
Central securities depositories				
Insurance companies	640	19	10	649
Insurance intermediaries	2,603	573	53	3,123

Institutions for occupational retirement provision	-	-	-	-
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Supplementary pension insurance

No notifications by institutions for occupational retirement provision from EU Member States intending to operate on the territory of the Republic of Bulgaria as well as no notifications of local pension insurance companies intending to operate in the territory of the EU were received in 2020.

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

	Number as at 31.12.2019	New in 2020	Terminated in 2020	Number as at 31.12.2020
Institutions for occupational retirement provision	-	-	-	-

2.3. Certification

Investment firms

In 2020, there are no examinations for acquiring the right to operate as a broker of financial instruments and an investment consultant - both initiated examination campaigns (in May and November) were cancelled due to the complex and dynamic epidemic situation in the country caused by the coronavirus infection COVID-19.

In addition, in 2020, 2 certificates were issued as a result of a recognised capacity to operate as an investment consultant. In the reporting 2020 no refusals were issued to recognise the acquired qualification to operate as an investment consultant.

In 2020, there were no proceedings for revoking the right of persons to act as a financial instruments broker or an investment consultant, neither after their voluntary refusal nor on the initiative of the supervisory authority.

Table 17. Dynamics of certified persons

	2016	2017	2018	2019	2020
Investment consultants	14 (5)	31 (21)	14 (9)	23 (13)	2 (0)
Securities brokers	5 (6)	(14)	(45)	(17)	(0)
Insurance brokers					
Actuaries					

Note: The table shows the total number of persons who acquired the right to perform the activity determined by law during the respective year, and in brackets are marked the persons who received the legal capacity in question after passing an exam at the FSC. The change in the number of persons possessing the respective qualification includes both the permits for carrying out activity issued and revoked during the reporting period.

3. Supervisory activity

3.1. Off-site supervision

Off-site supervision is an independent part of the supervisory activity, which involves analysis of information received by the FSC. It ensures constant monitoring and periodic assessment of the condition of the supervised entities and the results of their activities. The aim is regular monitoring of compliance with the regulations by investment firms (IFs) and assessment of the financial status of each IF, as well as the legality of their activities. The received information allows the supervisory body to react in a timely manner to emerging problems and inconsistencies with regulatory requirements, in order to achieve the statutory objectives of the regulator - to protect the interests of investors and users of services and ensure transparency and information for market participants. During the reporting period, 18,579 inspections were carried out, including 149 inspections regarding the financial condition of the investment firms according to forms approved on the grounds of Art. 70, para. 2 of Ordinance № 50 of 19.06.2015 on the capital adequacy and liquidity of investment firms and supervision of their observance (Ordinance № 50) and according to Order № 218 / 10.07.2015 of the Deputy Chairperson of the FSC, managing Investment Supervision Department. 544 inspections of the owned client assets, divided into subject and not subject to compensation by the Investor Compensation Fund, 16 916 inspections of the concluded transactions with financial instruments admitted to trading on a regulated market, 373 inspections for the capital adequacy and liquidity of the investment firms, according to the requirements of Regulation (EU) № 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) № 648/2012. At the same time, during the off-site supervision, 56 reports on the results of the performed monitoring of the risks according to the requirements of Art. 52 of Ordinance № 38 on the requirements for the activity of investment firms.

In the reporting period 845 notifications were reviewed and analysed, which were 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.

Also 311 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 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.

Orders have been prepared for entering 894 circumstances regarding the activity of investment intermediaries, investment advisers, brokers of financial instruments and BSE AD.

During the reporting period, a circular was sent to all investment firms to identify significant investment firms, as required by item. 74 of the Additional Provisions of the Markets in Financial Instruments Act (MFIA), as well as to identify investment firms subject to consolidated supervision pursuant to Part Three, Section One “Supervision on a Consolidated Basis” of the MFIA.

Two letters were sent to all investment firms in connection with the impact and

consequences of the coronavirus infection COVID-19, the observed decline in major stock indices both in Bulgaria and worldwide, sharp changes in oil prices and more. In order to maintain financial stability and take preventive measures in this regard, companies had recommendations to review the existing internal rules and procedures, as well as a temporary anti-crisis measure, investment firms that have made a profit not to distribute dividends.

In 2020, a letter was sent to all investment firms regarding the provision of information on the date of the last update of the Recovery Plan. It shall be prepared in accordance with Art. 6, para. 1 of the Recovery and Resolution of Credit Institutions and Investment Firms Act (RRCIIFA) by investment firms, which have received a license for carrying out activity under Art. 6, para. 2, items 3 and 6 and under Art. 6, para. 3, item 1 of MFIA. According to Art. 6, para. 2 of RRCIIFA, the investment firms shall review and update the Recovery Plan at least once a year or after a change in the legal form, management structure or organizational structure, economic activity or financial condition that may have a material impact on the Recovery Plan or to impose a change in it.

In connection with the divergent practice on reporting the combined buffer requirement, a circular was sent to all investment firms, clarifying that the combined buffer requirement should be covered by equity that is a surplus above the minimum capital requirement under Regulation (EU) № 575/2013 and required additional capital in excess of the requirements of that Regulation.

In 2020, during supervision, 7 coercive administrative measures, 5 of which were related to taking specific measures, were imposed on investment firms and implemented by a decision of the Deputy Chairperson of the Commission, head of the Investment Supervision Department, in connection with established violations of the applicable legislation. The other 2 coercive administrative measures were implemented by a decision of the Commission, one of them obliging the investment firm to change its internal rules, and the other coercive measure is on the occasion of the suspension of trading in certain financial instruments.

Collective investment schemes and management companies

The scope of the off-site supervision performed by the FSC regarding CISs and MCs 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 according to a template, set by the Deputy Chairperson in charge of Investment Activity Supervision Division. During the reporting period, an **inspection of the documents of 163 annual, 127 six-month and 122 quarterly financial reports**, as well as **1509 monthly balance sheets** of the management companies of CISs were performed. During the year, **673 inspections of documents** received by the FSC, including through the unified system for providing information electronically, established and maintained by the FSC - e-Register, were carried out on the prospectuses of CISs and on key investor information documents in compliance with the obligation for their submission to the regulatory authority and respectively their publishing.

In accordance with the requirements of the CISOUCA, twice a month the MCs present summarized information on the determined issue values and redemption prices of the units of the CIS managed by them. To comply with these obligations, during 2020 the FSC has received and

accordingly **checked 3,018 reports with summarized information** for the determined issue values and redemption prices of the shares of the CIS managed by the companies.

Regarding the **information submitted regularly (twice a year) by the MC**, during the year, **61 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 managed CIS portfolios**, **151 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 **64 orders** of the Deputy Chairperson in charge of the Investment Activity Supervision Division, a total of **981 entries of circumstances** were made in the public register kept by the FSC regarding the MC and the CIS.

In connection with the performed off-site supervision over the activity of the MCs and the CISs organized and managed by them, during the reporting period **a total of 2 proceedings were initiated for issuance of individual administrative acts for the application of coercive administrative measures**. The open proceedings are in connection with non-fulfilment of certain regulatory obligations, concerning publication on the website of the Management Board of the six-monthly reports for the first half of 2020 of the CISs managed by them, with the content under Art. 75 of Ordinance № 44. Given the fact that the companies have fulfilled their obligations before issuing the coercive administrative measures, the open proceedings are **terminated**.

In the course of the off-site supervision **50 inquiries and requests for opinions** were examined from legal entities, incl. supervised entities, foreign persons, as well as from natural persons, as each of them has been analysed and the necessary actions have been taken in order to systematize the information necessary for preparation of a response to the persons.

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, **397 applications** for the updating of the webpage of the FSC were prepared during the reporting period, based on which a total of **5285 documents** were published, which were mainly prospectuses, documents with key information regarding investors and financial statements.

In connection with the performed supervisory activity, during the reporting period a total of **15 circular letters** were sent to **MCs** requiring the MCs to complete a CIS liquidity risk questionnaire, information on preferential terms for mutual fund investors, information on unit repurchase orders and the emergence of grounds for suspension of repurchase, providing information for the needs of the European Banking Authority, information on the average annual NAV of the CIS for 2019, it is required to ensure the continuity of the activity of the MC. Along with the previous letters, the MCs were informed about the update of the report for providing information on redeemed units, as well as about the change in the way of presenting the sample reports in the financial statements of the MC, instructions were given regarding the deadlines for updating the SGEIs, information was sent on the forthcoming update of the list of third country

markets in relation to Brexit, the inclusion of information in the prospectuses of the method of calculating the risk exposure was addressed, as well as information on the impact of the spread of COVID-19 on the activity of MCs and CISs.

During the reporting period, the FSC, together with the other national competent authorities of the EU Member States, participated in the joint supervisory action undertaken by ESMA on the management of UCITS liquidity risk. Compliance with UCITS liquidity risk management rules is key to ensuring financial stability, investor protection and the proper functioning of financial markets, reviewing internal rules and procedures and assessing the extent to which these rules are observed in practice. The results of the performed supervisory action will be finally analysed in the next reporting period.

Another focus topic of supervision in 2020 is the impact of the spread of **COVID-19** on the activity of MCs and CISs. In this regard, the MCs was required to provide information on a weekly basis on the redemption orders received during the period for CISs, and continuous monitoring of the volume of redemptions and liquidity of the CISs' assets was carried out.

In connection with **document checks on 3 MCs** performed in previous reporting periods, in 2020 the ongoing monitoring of certain aspects of their activity has been completed.

Apart from the above, during the reporting period **off-site inspections on 6 MCs** were initiated in connection with the additional portfolio management services provided by them at their own discretion, without special orders from the client and investment consultations, which inspections will continue in 2021.

The thematic off-site inspection carried out during the period, concerning all MCs and CISs, covered the annual reviews of remuneration policies for the previous year 2019. During the inspection, **13 MCs were given instructions** for a second review, taking into account the relevant provisions of the CISOUCA and the Guidelines on Reasonable Remuneration Policies under the UCITS Directive.

During the off-site supervision, thematic inspections were performed on the manner of representation of the MCs, the average annual net asset value of the CISs, as well as on the policies for engagement of the MCs.

With regard to the identified discrepancies with the current national and European standards, actions have been taken to eliminate them, and the monitoring of those that are not aligned at the end of the reporting period will continue in 2021.

Other collective investment undertakings

The object of off-site supervision carried out by the FSC are also other collective investment undertakings, such as the sovereign wealth funds (SWFs), representing a type of alternative investment funds (AIF), as well as the alternative investment funds managers (AIFMs) in relation to their activity. In this regard, during the reporting period one **document inspection** was carried out of the **4** annual, **4** biannual, **15** quarterly financial statements and **50** monthly balance sheets of the SWF regularly represented in the FSC, as well as **20 inspections** of the information disclosed every six months by AIFMs about the AIF managed by them. The information provided by the AIFMs to the FSC is reported to the European Securities and Markets Authority (ESMA) through the dedicated platform.

In connection with the convening and holding of **general meetings of the shareholders of the three closed-end SWFs** in 2020, **2 inspections of documents were carried out** regarding 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.

Regarding the **notifications and disclosure of major holdings of the three closed-end SWFs** during the reporting year **6 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 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.

One **circular was sent to AIFMs** regarding the annual fee due for 2020

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 **72 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

Off-site supervision of public companies, special purpose investment companies (SPICs) and other issuers of securities covers verification of the financial statements provided to the FSC and the public, through the media, individual annual and quarterly financial statements or quarterly statements of financial position, as well as consolidated ones submitted by issuers who are required to prepare consolidated financial statements. In addition, off-site supervision covers a review of the fulfilment of the obligations of bond issuers to submit to the FSC, BSE AD and the public a report on the fulfilment of their obligations under the terms of the bond issue and to the bondholders' trustees to submit to the FSC and on the regulated market where the bonds are traded, a report for the respective reporting period.

In order to ensure compliance with the requirements of POSA in connection with the public disclosure of due information on the regulated market in which the financial instruments of issuers are admitted to trading, in the reporting 2020 the effective interaction and exchange of information between the FSC and the BSE AD continued, which to a significant extent is aimed at detecting the companies that have not fulfilled their obligations under the law or have fulfilled them with a delay.

The reporting period covers an examination of the annual and interim (individual and consolidated) financial statements, respectively individual and consolidated interim public notifications submitted to the FSC, the BSE AD and the public. In addition to the above-mentioned reports, in 2020 documentary inspections were carried out on reports on the fulfilment of the obligations of the bond issuers, according to the terms of the bond issue, as well as on the reports provided to the trustees of the bondholders. In this regard, in 2020 **document inspections were performed on 4 213** financial statements. As a result of ongoing supervision **372 thematic**

inspections were initiated, mainly related to the analysis of additionally required data from the supervised entities, who submitted to the FSC and to the public financial reports on the observance of mandatory provisions of the POSA. AEA Vs have been drawn up for the established violations.

In connection with the convening and holding of **general meetings of shareholders** of public companies and **general meetings of bondholders** of issuers of securities in 2020, **1,428 documentary inspections were carried out** of the content and timely submission to the FSC of invitations and the written materials attached to them, as well as of the minutes of the decisions made by the General Meetings submitted to the Commission. AEA Vs have been drawn up for the established violations.

In 2020 on **the disclosure of a significant holding in the capital of a public company or the change in such a circumstance**, **38 inspections were carried out** of the information regularly received from Central Depository AD and the notifications submitted to the Commission. AEA Vs have been drawn up for the established violations.

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 1,777 disclosures using electronic forms for disclosure of inside information in 2019 that were analysed during the off-site supervision.**

As a result of the off-site inspections of the annual and quarterly financial statements and notifications on the financial condition (individual and consolidated) presented by the FSC and published through the media by public companies, bond issuers and SPICs, reports on the fulfilment of issuers' obligations related to issues bonds and the reports submitted to the trustees of the bondholders, as well as to the procedures for convening and conducting the GMS, **During the reporting period, 370 administrative proceedings for issuing individual administrative acts for application of coercive administrative measures were opened.** Due to the non-performance of the statutory obligations, which have not been fulfilled and following the initiation of administrative proceedings for issuing individual administrative acts for application of coercive administrative measures, **191 decisions were issued** obliging the supervised entities to bring their activity in compliance with the legal requirements, through observance of specific actions and measures.

As a result of the performance of statutory obligations, following the initiation of the administrative proceedings, **156 of these were terminated.**

Regarding the obligations of the supervised entities of the FSC for fees for general financial supervision, in 2020, electronically through a single platform for information exchange, the NRA were sent **11 acts for establishing public debts to the state (AEPDS)** - annual fee for general financial supervision and legal interest for delay.

In the course of the current supervision, during the reporting period they are **6,696 electronic forms were received and processed** in the electronic information disclosure system e-Register. Those of them, which after review were released publicly, are visualized through the official website of the Commission - "News" section of the e-Register.

In addition, in connection with notifications and documents received outside the e-Register system, related to circumstances subject to entry in the register under Art. 30, para. 1, item 3 of the FSCA, in the course of the off-site supervision of public companies, issuers of securities and REITs in 2020 are issued orders on paper for a total **792** entries.

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 **1946 applications for registration / deletion, title forms and reports** were received and processed in 2020.

During 2020, **a total of 140 complaints, reports and inquiries** from natural persons, legal entities and government authorities were received by the Commission. Some of them concern the activities of public companies, bond issuers and SPICs. After review and analysis of the factual situation presented in them, relevant inspections were carried out, and if 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 **100 responses were prepared which were sent directly to the persons, and the rest were made under Art. 28** of the Regulations on the Structure and Activities of the FSC and its Administration, for preparation of a final answer **in specific cases**.

As a result of the off-site supervision over the activity of the public companies, special purpose investment companies and the issuers of securities in 2020, a total of **567** AEAVs were drawn up.

Insurance and reinsurance

The supervision activity of Insurance Supervision Division over the supervised entities, consists in controlling their activity in compliance with the requirements of the Insurance Code (IC), 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).

Off-site supervision in 2020 is based on annual and periodic reports, reports of insurers and reinsurers, insurance groups, the Guarantee Fund and insurance brokers submitted to the FSC in accordance with the reporting obligations to the supervisory authority in accordance with the requirements of Art. 126 of the IC and Art. 311, para. 3 of the IC, as well as the required additional information for certain areas of their activity. During the year, 670 off-site inspections were performed on documents of insurers, reinsurers, insurance groups and the Guarantee Fund.

In 2020 the conformity with the legal provisions of the IC related to the minimum capital requirement and the solvency capital requirement was inspected within the current off-site supervision with regard to insurers and reinsurers implementing the Solvency II regime.

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 for compliance of the information with the Guidelines of the European Insurance and Occupational Pensions Authority (EIOPA). Letters were sent to insurers requesting supplementation of the submitted supervisory report on the results of the assessment of the aggregate needs in terms of solvency.

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 2020 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 order to verify the implementation of the prudent investor principle, guaranteeing the security, quality, liquidity and profitability of the investment portfolio of insurers, in 2020 the investment policies of non-life insurers were collected. On the basis of the information gathered, a report was prepared, including an analysis of the investments of non-life insurance companies with access to the single market and investments at European level according to the published statistics of EIOPA. The collection of this information aims to study and analyse the application of the prudent investor principle by non-life insurers, which in principle guarantees the security, quality, liquidity and profitability of the investment portfolio of companies. As a result, it is proposed to take action against certain insurers.

In connection with the shares held per shareholder, two insurance companies were required to reduce the equalization reserve when preparing reports S.23.01.01.02 and S.23.01.01.01 under Implementing Regulation (EU) №2015 / 2450 as of 31.12.2020 ., as this situation is unambiguously defined by the EIOPA Guidelines as a situation equivalent to owning shares by the insurer, respectively as a form of encumbrance of the main own funds.

Also, during the past year the monthly reports received by the FSC from the conservator of Euroamerican Insurance Company AD, whose license to conduct insurance activities was revoked at the end of 2019, were reviewed. As a result of the review, a letter was sent to the company to request additional information.

In addition, in 2020, off-site inspections were carried out on:

- separate categories of assets from the Solvency II balance sheet and the Financial position report under Ordinance No 53;
- the value of the shares held by the insurers, which are traded on a regulated market, in order to fulfil Art. 77a of Ordinance 53 of 23.12.2016 at the end of each quarter of 2020;
- lending policies in accordance with Art. 261 of Delegated Regulation 2015/35.

In 2020, based on the EIOPA Guidelines to support effective dialogue between supervisors and statutory auditors and audit firms carrying out statutory audits of these companies (EIOPA16/858), a number of working meetings were held with some of the audit firms approved to verify and certify the annual financial statements for 2019. As a result of the COVID-19 pandemic and the restrictive measures introduced, meetings were held remotely through conference calls. During the meetings a number of issues were discussed to be taken into account by the audit firms when performing the audit of the insurance and reinsurance companies.

The off-site supervision of insurers also included a verification of the sufficiency of the established technical provisions. In this regard, the following was done:

- 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.

- review of the reports submitted to the Commission by the insurers with the periodic reporting and of the data on the paid insurance claims under item 10.1 of section II (A) of Annex № 1 of the Insurance Code in the electronic information system for risk assessment, management and control, maintained by the Guarantee Fund. The identified deviations are communicated with the respective insurers;

- verification of the information received according to Order № 3-324 from 24.09.2019 from the insurers;

- opinions were prepared regarding motivated requests of the insurers for setting aside a reserve for incurred but not reported claims, according to Art. 92, para. 1 of Ordinance No 53. Based on the prepared opinions, decisions have been issued for approval of a method for forming a reserve for claims arising but not filed as of 31.12.2019 and currently in 2020;

- a decision was also issued approving a method for forming another reserve;

- Based on the information received from the insurers under Art. 125 and Art. 126 of the IC for the development of the market insurance portfolio by classes of insurance under Section II of Annex № 1 of the IC, during the reporting quarter calculations were performed in connection with Art. 91, para. 3, item 2 of Ordinance № 53 of 23.12.2016. A methodology of a database for the period 2009 - 2019 has been used for determining the minimum percentages under Art. 91, para. 3, item 2 of Ordinance № 53. In this regard, a procedure was opened for issuing a general administrative act for determining minimum percentages in connection with Art. 91, para. 3, item 2 of Ordinance № 53, which should be used by insurers who do not have sufficiently representative and reliable statistics for the development of claims in determining the amount of the reserve for incurred but not filed claims by insurance classes under Section II of Annex № 1 of the IC (with the exception of item 10.1. Any insurance against damages arising from the use of land motor vehicles) as of 31.12.2020 and currently in 2021;

- By the end of each quarter of 2020, 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.

- Regular review of the reports submitted to the FSC by the insurers with the periodic reporting in connection with the sufficiency of the reserve for reported but not settled claims for insurance under item 10.1 of Section II, letter "A" of Annex 1 of the IC.

- At the beginning of each quarter the maximum amount of the used technical interest in the calculations of the premiums and reserves was calculated and published on the FSC website according to Art. 86, para 11 of Ordinance No 53.

In connection with the performed off-site supervision over the activity of insurers and reinsurers in 2020, **a total 4 proceedings were initiated for issuance of an individual administrative act for the application of coercive administrative measures.** All open proceedings have ended with the issuance of an individual administrative act.

3.1.1. FOCUS TOPIC: Actions taken in order to preserve the financial stability of the insurance market in our country in the conditions of COVID-19

With the spread of the COVID-19 pandemic in 2020 in Europe and globally, financial market risks have increased as a result of expectations of significant negative economic consequences. In order to ensure the continuity of the provision of insurance services and products and to preserve the financial stability of the insurance market in Bulgaria, the Financial Supervision Commission (FSC) has taken measures in accordance with the recommendations and guidelines of the European Insurance and Occupational Pensions Authority (EIOPA). and the European Systemic Risk Board (ESRB).

In March 2020, the FSC sent letters to all (re) insurers based in the Republic of Bulgaria, which require them to analyse and evaluate their internal rules for action in crisis situations in order to take adequate action to ensure the continuity of their activities for the provision of insurance services in accordance with Art. 77, para. 3 of the Insurance Code (IC), analysis and assessment of the risk factors in terms of their investments, as well as preliminary reports in order to assess their financial condition.

The Commission has also issued a Practice on the implementation of the EIOPA Recommendations on a flexible supervisory approach regarding the deadlines for supervisory reporting and public disclosure in relation to COVID-19 (EIOPA-BoS-20/236).

In early April 2020, the FSC informed the general public about EIOPA's statement on actions to mitigate the impact of COVID-19 on the EU insurance sector.

In response to EIOPA's public statement on the temporary withholding of dividends, redemption for shareholder remuneration and other variable remuneration, as well as the

subsequent recommendation of the ESRB, the FSC sent letters to (re) insurers requesting information on their intentions and the legal obligation to pay remuneration, as well as an assessment of the impact of the actions taken by them on their financial stability. The FSC analysed the received information, and the results show that the actions taken by the insurers are adequate in the conditions of COVID-19 and do not have a negative impact on the coverage of the capital requirement for solvency, as well as on their liquidity position.

Based on the latest information available to the FSC on the insurance market, it can be concluded that the risk of COVID-19 is relatively limited, and no insurer is threatened by insolvency or insufficient liquidity due to the pandemic situation. The COVID-19 pandemic requires a number of changes in the activities of market participants, with the majority of companies focusing mainly on reorganization and optimization of internal processes and digitalization of products and services.

Actions against insurers and reinsurers arising from the spread of COVID-19 and the state of emergency imposed

In connection with the distribution of COVID-19, in March 2020 the FSC required insurers and reinsurers (including branches of insurers from other EU Member States) operating in the territory of the Republic of Bulgaria and the Guarantee Fund to submit:

- analysis and assessment of the internal rules for action in crisis situations, which must ensure adequacy with regard to the operational implementation of the activity, in order to ensure its continuity;
- analysis and assessment of the risk factors on the owned investments;
- information on the measures already taken and planned in the future, incl. actual actions, adopted new documents or amendments to existing documents such as investment policies, liquidity rules, business continuity rules, contingency plans, etc. ;
- other relevant information.

In addition, a recommendation has been made to insurers when concluding sickness and life insurance policies to clearly inform the users of insurance services whether the coverage under the insurance contracts includes the consequences of COVID-19. It is stated that instructions thereof should be given to all insurance intermediaries with which the respective insurer has contracts for distribution of insurance products.

Also, in order to provide more reliable information and real data by the end of the first quarter of 2020, in April the FSC requested from insurers and reinsurers a recalculation of the Solvency Capital Requirement (SCR) and its coverage as of 31.03.2020, cash flow statement, brief analysis of the most affected business lines (number of terminated contracts, amount of returned premiums, number and value of redemptions under life insurance, etc.), and information on intentions for distribution of dividends and the effect of this on the fulfilment of capital requirements.

In June 2020, insurers and reinsurers were required to provide information on:

- certain thresholds concerning the coverage of the Solvency Capital Requirement (SCR), respectively the Solvency Margin (SM), and the Minimum Capital Requirement (MCR),

respectively the Minimum Guarantee Fund (MGF), with eligible own funds (such as minimum and warning threshold) of coverage), under which the insurer will take measures;

- measures envisaged in case of breach of any of the upper thresholds;
- updated program for the activity of the insurer for a period of three years in accordance with Art. 77, para. 2 of the Insurance Code and planned significant deviations in the development strategy of the insurer as a result of COVID-19;
- current assessment of the duration and / or development of the COVID-19 crisis, which would significantly affect the financial indicators of the insurer - investments / assets, premium income, harmfulness and coverage of SCR / MCR, respectively SM/ MSM, threatening its stability;
- the assumptions and results made if the insurer has performed stress scenarios in connection with COVID-19.

Based on an analysis of the information provided, it is proposed to take supervisory action in respect of insurers.

In order to offer operational assistance and to support the business continuity of insurers and reinsurers by easing supervisory reporting requirements, as well as to promote convergence and consistent supervisory approaches in the Member States, the FSC has decided to comply in its supervisory practice the Recommendations on supervisory flexibility regarding the deadline of supervisory reporting and public disclosure - Coronavirus/COVID-19 (EIOPA-BoS-20/236) issued by EIOPA. Pursuant to Section III, item 2 of the Recommendations, insurance companies with the right of access to the single market and reinsurance companies were obliged to publicly disclose on their website part of the Solvency and Financial Status Report for 2019 by 21.04.2020 (earlier than the annual reporting deadline) namely to publish the balance sheet (S.02.01), the impact of long-term guarantee measures and transitional measures (S.22.01), own funds (S.23.01) and the solvency capital requirement (S .25.01) until 25.03.2020, and insurers without the right of access to the single market were obliged to disclose reports on the eligible amount of own funds to cover the solvency margin and guarantee capital. In this regard, the FSC checked the websites of the insurers for fulfilment of the obligation. Letters were sent to the insurers who did not publish the information, after which the publication of the information was followed.

The FSC inspected the websites of the insurers operating on the territory of the Republic of Bulgaria in order to analyse the published public information on the measures taken by them in connection with COVID-19 and to analyse the information provided on the coverage of the risk of pandemic.

A regular review of COVID-19 actions by other EU supervisors has been undertaken. EIOPA also had discussions on measures to mitigate the impact of COVID-19 on consumer protection, to address messages to insurance users and market participants, and to monitor possible indicators. risks to the interests of users, as well as to the liquidity of assets.

Representatives of the Insurance Supervision Division (ISD) actively participated in the work of the expert networks and committees of EIOPA to discuss the effect of COVID-19. EIOPA questionnaires were completed on:

- the assessment of the risks associated with the impact of the COVID-19 pandemic on individual business lines and how the materiality of the various risks posed by the current situation on insurers is assessed;

- the use of supervisory and regulatory measures in response to the COVID-19 pandemic, which include, inter alia, the use of transitional measures under the Solvency II Directive for technical provisions / risk-free interest rates and an adjustment for volatility to the relevant term structure of the risk-free interest rate.

In connection with the preparation of the annual Consumer Trends Report by EIOPA and the emphasis on the consequences of COVID-19, the FSC sent an inquiry to all insurers based in the territory of the Republic of Bulgaria regarding their actions for analysis and assessment of the level of risk on their operating products, the introduced FinTech technologies for risk assessment or automation of processes, as well as changes in the reported revenue from online sales. From the analysis of the received data there is no significant risk for the users of insurance services regarding the performance of the concluded insurance contracts, including changes in the conditions or introduction of exceptions under the already existing insurance policies. Information was obtained on a number of measures taken by insurers to limit the risk of the spread of COVID-19, such as: introduction of alternative methods for payment of insurance premiums and claims, mobile applications, online consultations, chat-bot, etc. In addition, several insurers have introduced changes to health insurance coverage or travel assistance insurance products, excluding the risks associated with COVID-19. At the same time, new products were introduced on the market, with explicit coverage for the COVID-19 risk.

In connection with a letter from EIOPA regarding concerns received by the Bulgarian Union of International Carriers about the withdrawal of support from insurers for the transport sector, letters were sent to the Association of Bulgarian Insurers, as well as to all insurers operating on the Bulgarian insurance market of Civil liability Insurance related to the possession and use of motor vehicles with a request for information. The analysis of the information provided showed that no action was taken by insurers with regard to the transport or other economic sectors related to the automatic reduction and / or limitation of insurance coverage, given the increased risks associated with the spread of COVID-19.

Risk based supervision

Based on the Solvency Risk Assessment Framework approved by the FSC, which consists of a manual for risk-based supervision and risk matrix, a quantitative and qualitative analysis of each insurer and reinsurer was performed in 2020 in order to prepare an impact assessment and assessment of each of them according to the risk-based supervision manual. In order to perform a more detailed assessment, internal documents of the insurers and reports of the actuarial function were additionally required and analysed, according to Art. 272 of Delegated Regulation (EU) 2015/35. Reports were prepared as a result of the performed analyses, as each insurer and reinsurer are categorized on a scale with four categories (1 - low risk; 2 - medium to low risk; 3 - medium to high risk and 4 - high risk). The results of the analyses are reflected in the Annual Supervisory Plan for 2021, which consists of all measures planned for each insurer and reinsurer based on a risk-based review.

Actions in connection with Bulgaria's accession to ERM II

In connection with the accession of the Republic of Bulgaria to the Exchange Rate Mechanism (ERM II) and on the basis of the agreed Action Plan between the FSC and EIOPA, in 2020 there was regular correspondence on the implementation of the plan, including insurers and areas where implementation was achieved.

Participation in supervisory colleges and market research of European supervisory authorities

- participation in supervisory colleges;

In 2020, it took part in the work of the supervisory boards in which the FSC participates. Employees of ISD/ FSC participated in the meetings of the supervisory bodies held during the year, as well as in the regular exchange of information between them. The planned field meetings were cancelled due to the COVID-19 pandemic and conference talks were held in their place. The frequency of the meetings increased, as well as the exchange of information in order to present data on the activities of the companies in the groups and their financial condition and solvency.

Also, in 2020, two meetings of the supervisory bodies of the college of the Euroins Insurance Group were held, for which the FSC is a group supervisor.

In addition, in 2020 there was a periodic exchange of information and conference talks between representatives of ISD/ FSC, the competent supervisory authority of Greece and EIOPA regarding the activities of Bulgarian insurers, subject to the freedom to provide services in Greece.

- assessment of the impact of the proposed changes on the review of the Solvency II Directive on the solvency of insurers and reinsurers;

In 2020, the assessment of the impact of the proposed changes on the review of the Solvency II Directive on the solvency of insurers and reinsurers, launched by EIOPA in 2019, continued. A follow-up impact assessment has been launched, the so-called holistic / combined assessment of the changes proposed by EIOPA, which would have a significant effect on the solvency of insurance and reinsurance undertakings /. In this regard, the FSC determined a sample of insurance companies based in the Republic of Bulgaria to take part in the assessment and sent letters to complete quantitative questionnaires. The completed quantitative questionnaires were checked according to EIOPA guidelines. The discrepancies found corresponded to the insurers, as a result of which additional questionnaires were received. After validation, the quantitative questionnaires were sent to EIOPA.

Given the situation caused by COVID-19, which has a significant impact on some balance sheet items of insurance and reinsurance undertakings and their solvency, a necessity arose to obtain more up-to-date information than that based on a holistic assessment, which takes into account the changes caused by COVID-19. In this regard, in July 2020, EIOPA started the subsequent collection of additional information with a reference date of 30.06.2020 and, through the national supervisory authorities, required insurance and reinsurance undertakings to provide quantitative information. The FSC sent letters to insurers designated to provide additional information. The information received is verified and sent to EIOPA.

- participation in EIOPA working groups and committees;

In 2020, representatives of the FSC took part in the regular and extraordinary conference calls of the committees and working networks of EIOPA.

Information was also sent to EIOPA in relation to:

- preparation of spring and autumn report on financial stability;
 - proposal for new references to the reporting on Solvency II;
 - updating the definitions in Guidelines (ECB / 2015/44 and ECB / 2014/15) of the European Central Bank in the field of insurance;
 - the impact of the application of the long-term guarantee and capital risk measures provided for in Directive 2009/138 / EC;
 - the provisions of Art. 37 and Art. 232 of Directive 2009/138 / EC on the addition of capital by insurers or reinsurers;
 - preparation of a consumer trend report for 2020;
 - the costs and results (Cost and Past Performance) of insurance products with an investment fund, as well as those with profit sharing;
 - preparation of the consumer trend report;
 - the existing practices regarding the use of risk scenarios related to climate change by insurance and reinsurance companies in our country.
- other participations;

In connection with the intention of the Republic of Bulgaria to acquire guest status in the Insurance and Private Pensions Committee (IPPC) of the Organization for Economic Cooperation and Development (OECD), in 2020 two questionnaires were completed, which provided quantitative and qualitative information on the development of the insurance sector in 2018 and 2019. The information collected by the OECD is analysed and summarized in a report called Global Insurance Market Trends.

Also, in 2020 **675 off-site documental inspections of insurance brokers** were carried out, out of which 33 thematic ones, as well as **22 thematic inspections of insurers**, related to their obligation to notify the Commission of changes in the list of persons with whom they have concluded contracts for insurance agency.

The reviewed information includes annual and periodic reports and reports from the insurance brokers based in the Republic of Bulgaria, submitted to the FSC in accordance with the reporting obligations to the supervisory body according to the requirements of Art. 311, para. 3 of the IC.

The thematic off-site inspections performed are related to the offer of insurance on the Internet. In connection with the expected change in the conditions of distribution of insurance products and services in the situation of COVID-19, the Insurance Supervision Directorate monitored the supply of insurance products and services remotely or through the websites of insurance brokers. In this regard, a review of a total of 156 websites of insurance brokers for which information is available in the FSC was performed, as well as compliance with the requirements set in the IC for sending information to users of insurance services, including marketing communications intended for users, as well as the fulfilment of the basic requirements for distribution of insurance services at a distance or through a website.

As a result of the monitoring, the impact of the identified discrepancies on the rights and interests of the users of insurance services was assessed. In this regard, **off-site inspections were performed of 33 insurance brokers**, by sending a letter to provide information and documentation or to rectify irregularities. As a result, evidence has been provided for compliance with the instructions or for the temporary cessation of the activities of the websites until the discrepancies have been eliminated.

A total of 26 acts for established administrative violations were drawn up, of which: 5 AEAVs related to the reporting requirements of insurance brokers, as well as 21 AEAVS of insurers, related to their obligation to notify the Commission of changes in the list of persons with whom they have concluded contracts for insurance agency.

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 pension insurance companies (PICs) websites.

Daily supervision is carried out on the basis of the daily reports received by the PIC and the custodian banks on the activity of the SPF. In 2020, 7,000 daily inspections were carried out. The inspections monitor the legality of transactions with the assets of pension funds, compliance with legal restrictions and prohibitions on investing the assets of the funds, the ratio of investments in certain types of financial instruments to the assets of pension funds, investments in an issuer, the manner of performing the valuation of the assets and their proper recording by the PIC and the registers of the custodian banks. During the daily supervision, the correct deduction of the investment fee and the deduction from each contribution to the supplementary mandatory pension insurance funds, the change in the value of net assets, the correct determination of the number of units corresponding to the received and withdrawn amounts, as well as the correct calculation are monitored. 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 (supplementary pension funds) managed by them. A total of 481 inspections were carried out in 2020, including 117 inspections of the submitted financial statements and reports on the activities of the PIC and 364 inspections of the submitted financial statements and reports on the activities of the SPF. The statutory and general financial indicators for the activity of the PIC and the SPF are calculated and analysed on the basis of the information in the financial statements and reports. The statutory indicators are used to monitor the lawful implementation of PIC activities on a monthly basis. The statutory indicators are capital adequacy of PIC, liquidity of PIC and SPF, deducted investment fee for PIC from VPF and VPF with occupational schemes, management fee from the insurance contributions of VPF and VPF with occupational schemes, a reserve to guarantee the minimum return for supplementary mandatory pension funds. The growth of assets and insured persons in the SPF, the investments and the rate of return of the pension funds are analysed on a monthly basis. The general financial indicators are calculated and analysed on an annual basis. These indicators are related both to the activities of the PIC – equity, assets, income and expenses of the PIC, as well as to the

activities of the SPF – assets, participants, investments, 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 Social Insurance Code (SIC) and 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 inspections 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, a report was prepared summarizing the opinions expressed in the reports of the joint auditors of the financial statements of the PICs and the managed SPFs for the year ending on 31.12.2019 and their findings, according to the reports issued by them for factual findings in connection with the audit. the order of art. 187, para. 3, item 2 of the SIC. As a result of the conclusions made, a letter was sent to one PIC, requesting a change in the presentation of certain information in the reports for supervisory purposes.

During the year, a report was prepared summarizing the findings of the PIC auditors, according to the reports issued by them for factual findings in connection with the requirements of Art. 187, para. 3, item 3 of the SIC for checking the compliance of the management system with the requirements of the SIC and the acts for its implementation. As a result of the conclusions made by the management of a PIC, a recommendation was given to supplement some of their internal rules.

During the year, an analysis of the overdue receivables of the pension funds related to bond issues and investment properties owned by them was performed. As a result of the analyses, letters were sent to the PICs requesting information on the actions taken by the companies to collect the receivables from the bond issues and from the investment properties. The information received from the companies is also analysed, and specific measures and deadlines for undertaking additional actions by the FSC are set, which will help the PIC to collect the overdue receivables of the funds in order to protect the interests of the insured persons. During the year, 2 companies were given recommendations in connection with the actions for collection of overdue receivables of the pension funds, related to owned bond issues and leased investment properties. In order to implement a systematic approach to the supervision, 4 PICs with a significant share of overdue receivables of the funds managed by them, related to bond issues, as well as leased investment properties, were sent a letter requiring regular submission of information on side of the companies' actions for collection of the receivables due to SPFs, with a view to taking due care in the management of the funds of the insured persons.

During the year, on the basis of selections, the valuations of certain properties, owned by SPF, prepared by the independent appraisers, were analysed. Based on the performed analyses, reports were prepared on compliance with the requirements of Art. 10 of Ordinance № 9 of 19.11.2003 of the FSC, and no violations were established. In connection with the findings in the reports during the year a letter was sent to a PIC, which drew attention to the fact that the company requires independent appraisers performing valuations of investment property owned by SPFs to submit to the appraisals a justification for not using other approaches and assessment methods. A

letter was sent to another PIC due to an error in the report of the independent appraiser for one investment property and a corrected report was required.

During the year inspections were performed for compliance with the restrictions on investments of SPF in financial instruments issued by companies of one group and persons with whom these companies are in close relations, regulated in Art. 178, para. 2 and Art. 251, para. 2 of SIC. An inspection was also performed for the presence of groups and related parties within the meaning of CSR in respect of mutual funds and their management companies. During the inspections, no violations were found of the restrictions under Art. 178, para 2 and art. 251, para. 2 of CSR, as well as the prohibitions concerning the investment of the funds of SPFs in mutual funds and their management companies contained in Art. 177, para. 1, item 4 of the SIC.

The FSC continued the implementation of intensive monitoring in terms of capital adequacy of 1 PIC during the reporting year.

At the beginning of March 2020, letters were sent to all PICs regarding the spread of COVID-19, the uncertainty related to Brexit, the imposed tariffs and other sanctions in world trade, the sharp changes in oil prices, etc., as these factors had an impact on the whole society, incl. on the implementation of the activity of economic entities and the state of the financial markets. With these letters the companies were asked for documents and information certifying the undertaken and planned risk management measures, including monthly reports of the risk management units for the months of January and February 2020, performed additional analyses and assessment of the risk factors as well. on the investments of the pension funds and the companies, as well as with regard to the operational implementation of the activity in order to ensure its continuity, information on the measures taken and planned in the future by the pension insurance company, incl. actual actions, adopted new documents or amendments to existing documents such as investment policies, contingency plans, etc. Based on the submitted documents, an analysis was performed, the final results of which do not form the conclusion that all PICs have promptly activated the emergency action plans, thus ensuring the smooth implementation of the activity and at the same time have taken the necessary measures to preserve health. of its employees. With regard to the investment activity with SPF funds, including risk management, it was concluded that in general PICs have undertaken timely protective strategies, actions for enhanced monitoring of certain positions in order to minimize risks and others. Also in the course of the daily supervision it was established that the PICs are taking active actions to minimize the risks in the investments of SPFs and to mitigate the negative effects of the crisis related to the pandemic.

In accordance with the Manual for implementation of risk-based supervision of PICs and the SPFs managed by them, a comprehensive assessment of the risk profile of each pension insurance company was performed during the year, including an assessment of systemic significance and the "time period after the last general inspection". end of each quarter. There were no significant changes in the risk profile of the companies during the year. At the end of 2020, 3 companies have a low-risk profile, and the remaining 6 companies fall into the range of medium-risk profile, including risk premium for systemic significance. If the risk premium for systemic significance is not taken into account, by the end of the year 6 PICs are defined as low risk and only 3 companies remain with a medium risk profile.

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 inspections are performed outside the annual schedule and aim 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 2020 **4 inspections** of investment firms are completed, which were opened in 2019. In view of the way of planning the inspections, they are differentiated into **3 scheduled** and **1 unscheduled**, and depending on the scope of the inspections: on **3 comprehensive (complex)** and **1 thematic**, and all inspections are **independent** from the point of view of the circle of officials carrying out the inspection. Within the inspections carried out during the reporting period, the supervised entities had drawn up **acts for establishing administrative violations, as well as coercive administrative measures have been applied**. All inspections were completed with the preparation of reports and delivery of statement of findings to the inspected supervised entities, and the relevant **recommendations** for observance of the applicable legislation and bringing the activity of the persons into compliance.

In 2020 **5 inspections** of supervised entities were initiated. In view of the manner of planning the inspections, they are differentiated into **4 scheduled** and **3 unscheduled ones**, and depending on the scope of the inspections - into **4 full (comprehensive)** and **1 thematic inspection**, and all inspections are **independent** from the point of view of the circle of officials carrying out the inspection. **All comprehensive inspections** of supervised entities encompassed the entire operation of the companies with regard to their compliance with the Public Offering of Securities Act (POSA), the Markets in Financial Instruments Act (MFIA), Regulation 575/2013, Regulation 648/2012, Regulation 600/2014, Delegated regulation 2017/565 and the acts on their implementation. **The thematic inspection** covers compliance with the requirements and provisions of MFIA, Regulation 575/2013 and the Law on Measures against Money Laundering and the acts on their implementation. The inspections were not completed during the reporting period.

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

The purpose of the inspections of the MCs and the CISs managed by them, as well as with regard to the SWF and the managers of these funds - AIFMs, is to establish compliance with the applicable regulations regarding the organization of the management companies according to the license issued by the FSC and with regard to the CISs organized and managed by them, incl. MFs, as well as regarding the activity of SWFs and AIFMs. The subject of the inspections is the observance of the requirements related to the capital adequacy and liquidity of the MCs, the relations of the MCs 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 CISs managed by them, the evaluation of the assets in the CIS portfolios, the sale and redemption of CIS units, the structure of the assets and liabilities, as well as the reporting of the CISs. With regard to SWFs and AIFMs, the subject of inspections is compliance with the requirements related to the safekeeping of SWF financial assets in a depository institution and the relations with investment firms, the structure of assets and liabilities, valuation of portfolio assets and determination of net asset value, as well as the disclosure of the due information by SWFs and AIFMs. In the cases where the MC provides the additional services under Art. 86 of the CISOUCA, the object of the inspections is also the observance of the requirements regarding the activity of portfolio management and provision of investment consultations regarding financial instruments.

In 2020 **2 full inspections** were initiated, one of which is scheduled by the MC and the 2 CIS managed by it, and the other is unscheduled by the MC and the 3 CISs managed by it. Within the reporting period **1 inspection** was completed and the other continues in next year.

During the inspections, special attention was given to the compliance with the requirements of the 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 a MC and the 6 mutual funds managed by it** was performed, initiated in 2019. 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, therefore examining the internal rules, policies and procedures of the MC, the compliance with all

requirements of the LMML and LMML Implementation Regulations for carrying out due diligence on customers, the origin of the funds, the transactions executed and their counterparties.

When violations are established, actions are taken to engage the administrative penal responsibility of the respective persons, respectively recommendations are made for bringing the activity in compliance with the regulatory requirements. The inspections have been carried out with a view to establishing compliance with the applicable legislation in relation to the activity carried out by the companies.

As a result of the performed on-site inspections grounds were established for **15 recommendations**, and the companies were made aware of the need to bring their activities in line with the applicable regulatory requirements.

In the course of the on-site inspections performed, a total of **3 acts for the establishment of administrative violations were drawn up** for the inspected persons.

Special Purpose Investment Companies

Special Purpose Investment Companies 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 fulfilment of the obligations in its capacity as a public company. 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, investment in specialized companies, the total annual management costs, the disclosure of regulated information, the holding of general meetings of the shareholders as well as all internal documents related to their operation.

During the reporting period **2 full inspections of SPICs and their service companies have been opened**. One inspection is scheduled, and the other is unscheduled and both continue in 2021.

In 2020 **2 full inspections of SPICs and of the companies servicing their activity** opened in 2019 were completed, one of which is scheduled and the other - unscheduled.

Due to established discrepancies with regulatory requirements of SPICs **13 recommendations were addressed, the implementation of which will be monitored during off-site monitoring, as well as 5 AEAVs have been drawn up and delivered**.

Public Companies

In 2019, with special orders, **3 inspections of public companies were opened**, 2 of which were completed in 2020. As a result of the performed inspections, 4 recommendations were made to one company, the implementation of which will be monitored in the course of off-site monitoring, and 2 AEAVs were drawn up and delivered to the representative of the other inspected company. The third inspection, opened in 2019, continues in 2021.

At the end of 2020, with a special order **one on-site inspection** of a public company was initiated, which continues in 2021.

Insurance and reinsurance

In 2020, nine of the on-site inspections of insurance companies started in the previous 2019 were completed, as follows:

- 3 comprehensive inspections of insurers, as a result of which some of the following recommendations and prescriptions have been made:
 - amendment and supplementation to the general and special conditions for the insurance products offered by the insurers, updated and amended in accordance with the requirements of the IC;
 - improving the quality of the data used and available;
 - preparation of a method for calculating the reserve for claims incurred but not reported, as a percentage of the reported claims, of the premiums earned or of the premium income for the period for which events are expected to have occurred that have not been announced;
 - calculation of the reserve for unexpired risks as of 31.12.2019, in compliance with Art. 85 of Ordinance № 53;
 - change in the accounting policies in implementation of Art. 77a of Ordinance № 53 and change in the liquidation policies of the companies;
 - submission of adjusted reports as of 31.12.2019 under Solvency II and adjusted forms for quantitative reporting under Solvency II as of 31.03.2019, 30.06.2019 and 30.09.2019;
 - inclusion in the investment policy of one of the companies of specific parameters for investments in related parties, as well as quantitative restrictions;
 - making a change in the information system of one of the companies, according to the requirements of Art. 114 of the IC;
 - compliance with the requirement of Art. 90, para. 14 of Ordinance № 53 regarding claims filed in court, as well as submission to the FSC, together with the annual reports, inquiries and appendices, and within the terms under Art. 126, para. 1, item 2, for the values of the used coefficients by types of insurance;
 - calculation by the responsible actuary of IBNR, according to the provisions of Art. 91, para. 3, item 2 of Ordinance № 53, as well as using methods for assessment of IBNR, suitable for the insurance class and its specifics, due to the fact that the chain-pillar method is not suitable for heterogeneous data and lack of sufficient data to be basis for generating a numerical sequence convergent to one;
 - compliance with the provision of Art. 85, para. 3 of Ordinance № 53 in the allocation of a reserve for unexpired risks by the insurer and with the provision of Art. 85, para. 4 of Ordinance № 53, which determines its amount;
 - presentation of a detailed analysis of all products and harmonization of tariffs, technical descriptions and all relevant documents for all products offered by one of the companies;
 - preparing a calculation for adequacy of reserves as of 31.12.2019 in respect of one of the companies;
 - compliance with the manner of recognition of acquisition costs, in accordance with the technical specifications of each of the offered insurance products by one of the companies.

- 5 thematic inspections of insurers regarding the reporting under proportional reinsurance contracts of the “Clean Cut” type, in which some of the following recommendations and prescriptions are addressed:

- introduction of changes in the information system, with the possibility to generate a report, which includes the full data necessary for verification of the unearned premium reserve and information on the end date of the insurance (under contract) and date of early termination, if any, for each policy;

- submission to the FSC of renewed reinsurance contracts;

- anticipation of scenarios in the stress tests in which the existing "Clean cut" contracts cannot be renewed due to the fault of the reinsurer;

- inclusion of a substantiated calculation, in accordance with Art. 43, Art. 61 and Art. 199 of Delegated Regulation 2015/35, for determining the adjustment due to non-compliance by the reinsurer in its method for determining the best estimates of the premium reserve and the claims reserve, concerning two of the inspected companies;

- discounting of the cash flows in the calculation of the best forecast assessment of the claims reserve, according to Art. 77, para. 2 of Directive 2009/138 / EC and the current EIOPA data, as required in Art. 43 of Commission Delegated Regulation (EU) 2015/35, in respect of one of the companies;

- providing timely information on the liabilities of one of the companies to the reinsurers under the “Clean cut” contracts at the end of the year, so that they will be presented correctly in the reports on Solvency II S.31.01. and respectively in S.02.01.

- One thematic inspection regarding the formation of sufficient technical reserves by type and amount, according to Art. 115, item 2 of the Insurance Code, to meet the obligations of the insurer under the “Green Card” system and arising as a result of events that occurred outside the territory of the Republic of Bulgaria and on the basis of policies concluded by the company for third-party liability for motorists and the validity and accuracy of the receivables reported by the insurer and the completeness of the liabilities. As a result of the inspection some of the following recommendations and prescriptions have been made:

- taking immediate action to obtain the necessary information on the requests received by the NBBMI for reimbursement of amounts paid by a correspondent / national bureau "Green Card" in another country and allocating adequate reserves, if necessary;

- taking immediate action to obtain the necessary information for 20 identified claims, missing in the report for the amount of RBNS as of 31.12.2019 and 5 claims that are lower in the reserve than the values of the liabilities formed by received requests for reimbursement of paid amounts and received requests for guarantee, respectively allocation or updating of the reserves set aside as of 31.12.2019 to adequate amounts;

- strict observance of the provision of Art. 90, para. 3 of Ordinance № 53, as well as the provisions and the approved formats of Ordinance № 49;

- submission of an opinion on the validity of the recourse claims, on which in the course of the inspection a lack of proven grounds for filing a claim was established. Compliance with the regulations governing the grounds for recourse, as well as the internal procedure of the insurer;

- amendment of the internal rules of the company for filing claims;

- presentation of a duly prepared and duly approved plan, containing specific measures (including personnel changes) and deadlines for their implementation in order to increase the efficiency of the company's management system;

- submission every quarter to the FSC of the regular reports under Ordinance № 53 and a list of the performed actions in order to check the validity and accuracy of the reported recourse receivables.

In the course of the inspection 3 administrative proceedings for application of coercive administrative measures (CAM) were opened, 1 proceeding was terminated, and decisions were issued for the other 2. The terminated procedure for application of CAM is in connection with the write-off of incorrectly reported receivables by the company.

With one of the proceedings in which a decision has been issued, the inspected company has been ordered to set aside a reserve for reported but not settled claims for damages under the Green Card. The decision was appealed before the Administrative Court - Sofia region and as of the date of preparation of this report it has not entered into force.

With the second administrative procedure, on which a decision for application of CAM was issued, the company was ordered to introduce and update the claims under the Civil Liability Insurance for motorists in UICRAMC. The decision has entered into force, and due to the lack of full implementation of the attached CAM, a Decree was issued for imposition of a property sanction and a fine under Art. 287, para. 1 of the Administrative Procedure Code for non-execution of a coercive administrative measure.

In 2020 the following inspections were initiated:

- 2 comprehensive inspections on the activity of insurers, one of which ended at the end of the same year. As a result of the inspection the following recommendations and prescriptions have been made:

- amendment of the Internal Rules for settling claims of the insurer, in accordance with the requirements of the IC;

- amendment and supplementation of the General and special conditions for the individual products;

- suspension of violations of the IC in the settlement of insurance claims;

- proper registration of each application for an insurance event with a reference number and date of its submission to the insurance company within the meaning of Art. 106, para. 2 of the IC;

- preparation and submission to the FSC of a new market valuation for determining the fair value of the shares held from the capital of another company;

- providing the audit firm, approved to perform the audit and certification of the annual financial statements for 2020, of the findings described in the statement of findings of the audit, in order to make the appropriate adjustment operations of the data for 2019;

- undertaking the respective actions for reconciliation of the accounting, by opening additional accounts with different IBAN numbers;

- monitoring the quality of the data submitted and used by the responsible actuary, respectively compliance with the provisions of Section II and Section III of Ordinance № 53, as

well as commenting on the quality of the data used for calculation of technical provisions in the annual actuarial report;

- ensuring that the actuarial function coordinates the valuation of technical provisions and the validation of relevant data to be used in the valuation process;

- compliance with the provisions of Art. 198, para. 2 of the IC and when the obligations under an insurance or reinsurance contract are set in a foreign currency or the contract contains a clause for indexation in a foreign currency, the technical reserves shall be formed in the same currency;

- ensuring compliance between the data used for calculation of technical reserves and those reported in the regular supervisory reporting submitted to the FSC;

- submission to the FSC of adjusted reports under Ordinance №53 as of 31.03.2020 in connection with the inaccuracies in the reporting established in the course of the inspection in Reference № TO.1.2: Outstanding claims reserve as at 31.03.2020

- submission to the FSC of adjusted reports under Ordinance №53 as of 31.03.2020 in connection with the inaccuracies in the reporting established in the course of the inspection in Reference № TO.3: "Sufficiency of the reserve for reported but not settled claims" of the RBNS at the end of 2019 and the amount of the RBNS at the end of the first quarter of 2020 on claims filed in previous years;

- providing reinsurance coverage, in case of possible renewal of the reinsurance contract for the next annual period;

- submission to the FSC of adjusted reports under Ordinance №53 as of 31.03.2020 in connection with the inaccuracies in the reporting in row "loss from the current year and uncovered losses from the previous years";

- submission to the FSC of information on what specific actions and measures the company envisages to increase its own funds upon reaching the minimum capital ratio set in its risk appetite, given the reported minimum capital ratio at the end of 2019 and in the first and second quarters in 2020.

The comprehensive inspection of the second insurance company was not completed during the reporting period.

- 1 thematic inspection of an insurer regarding the formation of technical reserves sufficient in type and amount for the insurances from section II, letter "A", item 10.1 of Annex № 1 of the Insurance Code, according to Art. 115, item 2 and Art. 121 para. 1 of the IC, in connection with Art. 92, para. 1 of Ordinance №53, according to Appendix №8, for approval of the method for formation of the reserve for incurred but not reported claims as of 31.12.2019.

As a result of the inspection of the audited company, a recommendation was made to ensure consistency between the data submitted to the UICRAMC of the GF, used for the calculation of technical provisions and those reported in the regular supervisory reports submitted to the FSC.

- 7 thematic inspections of an insurer of the internal rules, procedures and methodologies for determining the insurance premiums under the compulsory motor third party liability insurance for the period from 15.09.2020 to 15.12.2020.

Based on the thematic inspections of the inspected companies, an instruction was given to submit to the FSC a detailed justification of how they envisaged the last adopted tariffs, so that in

case of possible future events and insufficiency of technical reserves to ensure protection of the rights and interests of insurance services.

In 2019, an inspection was opened on the activity of a supervised person, which continued throughout the reporting year 2020.

It should be borne in mind that with the spread of COVID-19, the timely conduct of on-the-spot inspections is limited in order to comply with anti-epidemic measures. In this regard, a large part of the information and evidence is collected through correspondence, which takes a longer period of time for their entry into the FSC and for the analysis of the data. However, in order to carry out in-depth and adequate inspections, if necessary, the employees of the Insurance Supervision Department make on-site visits to the insurance companies. The on-site visits are carried out in compliance with the anti-epidemic measures and take into account the capabilities of the companies to ensure the presence of the relevant employees engaged in the subject matter and working remotely.

Insurance intermediaries

In 2020 **a total of 28 on-site inspections of insurance firms were carried out**, of which 26 scheduled and 2 unscheduled.

The comprehensive inspections of the activity of the insurance intermediaries aim at establishing the observance of the requirements of the Insurance Code (IC) and the acts on its application and prevention of committing violations of the law. The scope of the inspections monitors the requirements related to the distribution of insurance products, including the provision of pre-contractual information to users of insurance services, initial and continuing training of employees engaged in the distribution of insurance products, the guarantee of the activity and the terms for reporting the insurance premium collected by the intermediaries, etc.

As a result of what the **on-site inspections of insurance firms carried out during the year, 6 acts were issued for a total of 8 administrative violations**, the most common violations being related to non-compliance with the following regulatory requirements:

- the transfer in favour of the insurer of the premium received or an insurance instalment within the statutory terms;
- 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 provision of pre-contractual information to the users of insurance services by insurance intermediaries prior to the conclusion of the insurance contract;
- the notification of the FSC within seven days of changes in the facts and circumstances subject to entry in the registers kept by the Commission;
- the forbidding of 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 instalment.

Supplementary pension insurance

During the year, in response to the emergency situation related to the COVID-19 pandemic, the Annual Program for on-the-spot inspections of pension insurance companies and custodian banks in 2020 was revised and updated. As a result of the update, the inspections of the custodian banks cancelled (after receiving information from the BNB), and the planned inspections in the PIC are unchanged.

In performance of the updated schedule for on-site inspections, in 2020 **3 on-site inspections were opened**, 2 of the inspections were completed during the reporting period and the last one was transferred to 2021.

General scheduled inspections on the activity of PICs and the SPFs managed by them were opened for 2 pension insurance companies. During the general inspections, the observance of the provisions of the SIC and the by-laws on its implementation in connection with the implementation of the overall activity of the pension insurance companies and the supplementary pension insurance funds managed by them is monitored. During the year, an additional thematic inspection was carried out in a PIC to comply with the requirements of the regulations governing measures against money laundering and terrorist financing.

As a result of the general inspection completed in 2020, in the prepared statement of findings, the management of the pension insurance company was given 11 recommendations for improving its activity. No violations of the provisions of the SIC and the bylaws on its implementation have been established.

During the year, reports were prepared on the basis of analyses of actions taken by the PIC to implement certain recommendations during on-site inspections. As a result of the analyses performed during the year, letters were sent to the companies requesting additional documents, the essence of some of the given recommendations was clarified, as well as repeated recommendations were given.

3.3. Law enforcement

Legal activity

During 2020, a total of 27 PWs were issued by the Chairperson of the FSC for violations committed under the Special Purpose Investment Companies Act (SPICA), as well as for obstruction of the Commission, its bodies and duly authorized officials of its administration in the exercise of their supervisory powers (violation of Art. 32 of the FSCA).

The total value of the sanctions imposed on the administrative penalties imposed by the 20 penal decrees issued by the Chairperson of the FSC for violated provisions of the SPICA is BGN 340,000, all of which are in respect of supervised entities - joint stock companies with special investment purpose (SPICs).

For the purposes of this report, these are the following companies: Alteron SPIC, Sofia Real Estate SPIC, Balkan and Sea Properties SPIC and Capital Management SPIC.

The total value of the amount of the sanctions, determined by the imposed administrative penalties with the 7 penal warrants issued by the Chairperson of FSC for violated provision of Art. 32 of the FSCA, is 18 000 BGN The mentioned 7 penal warrants include: 2 penal warrants worth BGN 4,000 to two investment firms, 2 penal warrants worth BGN

8,000 to two non-life insurance companies, 1 penal warrant worth BGN 2,000 to one special investment purpose company, and 2 penal warrants worth BGN 4,000 to other legal entities.

For the purposes of this report, these are the following companies: Bull Ins Insurance Company AD, OZK Insurance AD, IF Lenno Global Advisors EAD, IF Alaric Securities OOD, First Investment Bank AD, Web Finance Holding AD, Emirates Properties SPIC.

In 2020, 10 penal warrants issued by the Chairperson of the FSC have entered into force, and this number includes PWs issued in previous years (until 2017), at a total value of BGN 51,000. Four penal warrants issued by the Chairperson of the FSC, totalling BGN 6,000, have been revoked. The total value of the sanctions imposed with PWs issued by the Chairperson of the FSC, including PWs issued in previous years (until 2017), which at the end of 2020 are in the appeal phase, amounts to BGN 351,000.

Out of the PWs issued in 2020, three penal warrants issued by the Chairperson of the FSC have entered into force, totalling BGN 32,000. During the reporting year, no penal warrants issued by the Chairperson of the FSC were revoked. The total value of PWs issued by the Chairperson of the FSC in 2020, which at the end of the year are in the appeal phase, amounts to BGN 326,000.

Table 18. Law enforcement in 2020 (PWs, issued by the Legal Directorate)

	Drawn up AEAVs	Issued PWs	Value of enforced PWs (BGN)	Proceedings opened under CAM	Decisions for implement ation of CAM
Investment firms, Central Depository, BSE and other persons	-	2	2,000	-	-
CIS, MC, SPIC, PC and other issuers	-	23	42,000	-	-
Non-life insurance companies	-	2	6,000	-	-
Life insurance companies	-	-	-	-	-
Insurance brokers	-	-	-	-	-
Insurance agents / persons operating as insurance agents, without being entered in the FSC register	-	-	-	-	-
Guarantee Fund, NBBMI	-	-	-	-	-
Pension insurance companies / their representatives	-	-	-	-	-
Other legal entities and natural persons	-	-	1,000	-	-

Investment firms

As a result of the supervisory and regulatory activity, in 2020 administrative violations were found with a rich variety both from the point of view of the national and from the point of view of the European legislation. For example, the established violations of the national legislation

are of the POSA, MFIA, CISOUCA, LMML, Ordinance No. 7, Ordinance No. 15, Ordinance No. 23, Ordinance No. 38, Ordinance No. 44, Ordinance No. 48, Ordinance No. 50 and Ordinance No. 58. The identified breaches of European legislation are Regulation (EU) 596/2014, Regulation (EU) 575/2013, Regulation (EU) 600/2014, Implementing Regulation (EU) 2016/1055 and Delegated Regulation (EU) 2017/565.

In 2020, 676 acts for establishing administrative violations (AEAVs) were issued. The acts are drawn up by employees of the FSC, explicitly authorized for this by the Deputy Chairperson, Head of the Investment Activity Supervision Department.

In 2020, 386 PWs were issued by the Deputy Chairperson, Head of the Investment Activity Supervision Department, taking into account the 6-month term under Art. 34, para. 3 of the AVPA, part of these PWs are in connection with proceedings initiated with AEA Vs, drawn up in the previous year. With the issued PWs, property sanctions and fines in the total amount of BGN 2,853,000 were imposed.

The value of PWs issued during the reporting period and entered into force as of 30.03.2021 amounts to a total of BGN 1,019,000.

As of 30.03.2021, one PW, issued in the reporting period, in the amount of BGN 5,000, was revoked.

The value of PWs issued during the reporting period and under appeal as of 30.03.2021 amounts to a total of BGN 1,807,500.

Table 19. Enforcement in 2020

	Executed AEA Vs	Issued PWs*	Value of enforced PWs** (BGN)
Investment firms	56	63	144,000
CIS, MC, SPIC, PC and other issuers, as well as their representatives	569	267	746,000
Other legal entities and natural persons	51	56	112,000

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

In 2020, a total of 497 AEA Vs were drawn up for public companies, special purpose investment companies and other issuers of securities, as well as for individuals and legal entities representing them.

During the reporting period, a total of 234 PWs were issued by the Deputy Chairperson, Head of the Investment Activity Supervision Department, considering the 6-month term under Art. 34, para. 3 of the AVPA, part of these PWs are under AEA Vs, drawn up in the previous year. With the indicated PWs, property sanctions and fines in the total amount of BGN 1,396,000 were imposed.

The value of PWs issued during the reporting period and entered into force as of 30.03.2021 amounts to a total of BGN 674,000.

As of 30.03.2021, no PWs issued in the reporting period have been revoked.

The value of PWs issued during the reporting period and under appeal as of 30.03.2021 amounts to a total of BGN 720,500.

The most common violations are under the POSA. In essence, these violations are related to the obligations for disclosure of regulated information to the FSC and the public, namely failure to provide within the statutory period of annual financial statements on an individual or consolidated basis, 6-month financial statements on an individual or consolidated basis and public notification of individual or consolidated basis for the financial condition of the company. There is a significant share of other types of violations, as follows:

- violations related to non-fulfilment of the obligation of the issuer of bonds, within the statutory term to submit to the trustee of the bondholders a report on the fulfilment of its obligations under the terms of the bond issue, including spending of the bond loan, compliance with certain financial indicators and the condition of the collateral.

- violations related to the obligation to send to the Commission and the regulated market and to publish on the company's website an invitation to convene a general meeting of shareholders together with the materials of the general meeting.

- violations in the form of non-compliance with an applied coercive administrative measure.

Table 20. Most frequent violations by PCs, SPICs and other issuers of securities in 2020

Type and basis of the violation	Executed AEAVs	Issued PWs*
Failure to submit regulated information on an annual, 6-month and quarterly individual and consolidated basis (Art. 100n, para. 1 and 2, Art. 100o, para. 1 and 2 and Art. 100o ¹ , al. 1 and 2 of the POSA)	145	87
- Non-fulfilment of the obligation of the issuer of bonds, within the statutory term to submit to the trustee of the bondholders a report on the fulfilment of its obligations under the terms of the bond issue, including spending of the bond loan, compliance with certain financial indicators and the condition of the collateral (Art. 100e, para. 2 of the POSA).	44	28
- Non-fulfilment of the obligation to send to the Commission and the regulated market and to publish on the company's website an invitation to convene a general meeting of shareholders together with the materials of the general meeting (Art. 115, para. 5 of the POSA).	44	22
Non-compliance with an applied coercive administrative measure (Art. 221, para. 6 of the POSA)	28	17

*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.

Management companies, Collective investment schemes and other collective investment undertakings, as well as representatives of the said persons

The committed violations concern non-compliance with deadlines and failure to submit information to the supervisory body, as well as omissions in the submitted information, untimely disclosure of required information on the websites of the companies, etc. There is a slight decrease in the number of violations compared to the previous reporting periods. There is still a tendency for the main infringements committed by the MCs to relate to the information to be submitted to the supervisory authority, as well as to the information published on the websites of the companies intended for public information.

In 2020, a total of 72 AEA Vs were drawn up of MCs and MCs in the capacity of CIS managers, as well as of the representatives of the indicated persons.

During the reporting period, a total of 33 PWs were issued by the Deputy Chairperson, Head of the Investment Activity Supervision Department, considering the 6-month term under Art. 34, para. 3 of the AVPA, part of these PWs are under AEA Vs, drawn up in the previous year. With the indicated PWs, property sanctions in the total amount of BGN 291,000 were imposed.

The value of PWs issued during the reporting period and entered into force as of 30.03.2021 amounts to a total of BGN 72,000.

As of 30.03.2021, no PWs issued in the reporting period have been revoked.

The value of PWs issued during the reporting period and under appeal as of 30.03.2021 amounts to a total of BGN 199,000.

The most common violations are under the CISOU CIA. In essence, these violations relate to the obligations and requirements for key investor information documents. During the reporting period other types of violations were identified, namely failure to publish in the FSC within the statutory period summary information on the issue values and redemption prices of CIS units, as well as non-compliance with the relevant requirements of Regulation (EU) 575/2013 in determining the amount of the equity of the MCs.

Table 21. Most frequent violations by MCs and MCs in the capacity of CIS managers in 2020

Type and basis of the violation	Executed AEA Vs	Issued PWs*
Violations related to the obligations and requirements regarding the key information document for investors	16	2

(Art. 57, para. 4 and Art. 58, para. 1 and 2 of the CISOU CIA)		
Failure to submit to the FSC within the statutory period of summarized information on the issue values and redemption prices of the CIS units (Article 64, paragraph 2 of the CISOU CIA)	11	5
Failure to comply with the relevant requirements of Regulation (EU) 575/2013 when determining the amount of equity of the MC (Article 90, paragraph 2, sentence 3 of the CISOU CIA)	7	3

*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 Offenses and Penalties Act.

Investment firms, central securities depository and regulated markets

In 2020, a total of 56 AEAVs of IFs were compiled.

During the reporting period, a total of 63 PWs were issued by the Deputy Chairperson, Head of the Investment Activity Supervision Department, considering the 6-month term under Art. 34, para. 3 of the AVPA, part of these PWs are under AEAVs, drawn up in the previous year. With the indicated PWs, property sanctions in the total amount of BGN 912,000 were imposed.

The value of PWs issued during the reporting period and entered into force as of 30.03.2021 amounts to a total of BGN 144,000.

As of 30.03.2021, one PW, issued in the reporting period, in the amount of BGN 5,000, was revoked.

The value of PWs issued during the reporting period and under appeal as of 30.03.2021 amounts to a total of BGN 764,000.

During the reporting period, violations of a large variety were identified, the most common being under MFIA. In essence, these violations are related to the non-fulfilment of obligations of the investment intermediary in performing investment services and activities, as well as additional services for clients, to act honestly, fairly and as a professional in the best interest of the client. During the reporting period, other types of violations were identified, namely under Ordinance № 23. By their nature, these violations are expressed in incorrect valuation of client assets and are incidental.

Table 22. Most frequent violations by IFs in 2020

Type and basis of the violation	Executed AEAVs	Issued PWs*
Non-fulfilment of obligations of the investment intermediary in performing investment services and activities, as well as additional services for clients,	10	6

to act honestly, fairly and as a professional in the best interest of the client (Art. 70, para. 1 MFIA)		
Incorrect assessment of client assets (Art. 6, para. 1 of Ordinance № 23)	4	given the 6-month term under Art. 34, para. 3 of the AVPA, during the reporting period no NPs were issued

During the reporting period in respect of BSE AD and Central Depository AD no AEAVs were drawn up.

Insurance and reinsurance

In 2020, 289 acts AEAVs of persons under the supervision of the Insurance Supervision Division were issued. A total of 351 administrative violations were ascertained with the issued acts, which were served in accordance with the provision of Art. 18 of the Administrative Offenses and Penalties Act. The violations were ascertained during inspections of the activity of the persons supervised by the FSC, as well as during the consideration of complaints of users of insurance services.

Table 23. Enforcement in 2020

	Executed AEAVs	Issued PWs*	Value of enforced PWs** (BGN)	Proceedings opened under CAM	Decisions for implementation of CAM***
Non-life insurance companies	256	257	1 114 000	15	8
Life insurance companies	16	7	14,500	1	1
Insurance brokers	12	9	50,000	1	1
Insurance agents / persons operating as insurance agents, without being entered in the FSC register and other individuals and entities	4	5	6,000	-	-
Pension insurance companies	-				
Guarantee Fund, NBBMI	1	2	9,000	-	-

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 Offenses and Penalties Act. ** The value of PWs that entered into force in 2020 also covers PWs issued in previous periods. *** A decision for application of CAM is reached in case the companies do not comply with the open procedure for application of CAM. When applying the CAM under the procedure of the SIC, the provisions of the APC regarding the explanations and objections of the interested parties are not applied.

Table 24. Results of the administrative penal activity in 2020

	Value of PWs issued in 2020 (BGN), of which:	Value of PWs (BGN)		
		Value of enforced PWs (BGN)	Value of revoked PWs (BGN)	Value of PWs under appeal (BGN)
Non-life insurance companies	646,500	314,000	0	331,500
Life insurance companies	21,000	9,000	0	5,000
Insurance brokers	17,000	12,000	0	18,000
Insurance agents	9,000	8,000	0	1,000
Other legal entities and natural persons				
Pension insurance companies				
Guarantee Fund, NBBMI	2,000	1,000	0	1,000

Notes: As a result of a court decision, the number of sanctions in the issued PWs may differ from the number of sanctions in the enforced PWs.

The number of considered complaints of users in 2020 is 879, which is less than those in 2019 (1,111) and is an indication of increasing the satisfaction of citizens with the insurance services.

Table 25. Most frequent violations in the field of insurance and reinsurance in 2020

Type and basis of the violation	Executed AEAVs	Issued PWs
Art. 108, para. 1 of the IC - 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	158	160
Art. 496, para. 2 in connections with para. 1 of the Insurance Code - failure of the insurer to pronounce within the three-month period provided by the Insurance Code in case of a claim under the Motor Third Party Liability Insurance	31	34
Art. 108, para. 6 of the IC - Failure to submit a factual and legal justification of the amount of the determined compensation in case of a complaint filed by a user of insurance services	10	10
Art. 290, para. 2 of the Insurance Code - failure to submit a response to a complaint from a user of insurance services	8	6
Art. 108, para. 2 of the IC - Failure of the insurer to issue a conclusion on an insurance claim filed within the statutory period of six months from the reporting of the claim	7	5
Art. 126, para. 1 of the Insurance Code - failure to submit periodic financial statements and reports by insurers within the statutory period	7	7

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 Offenses and Penalties Act.

In 2020, the main violations committed by the insurance companies still were mainly 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 189 AEAVs were issued.

Despite the fact that in 2020 the share of the established violations for 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 is still the largest it should be noted that in 2019 there is a trend towards their decrease. This is due both to the reduction in the number of complaints received from users of insurance services during the reporting year and to the spread of COVID-19, as a result of which the Measures and Activities during the State of Emergency declared by Decision of the National Assembly of 13 March 2020 Act. Before the amendment of the act on 09.04.2020 there was uncertainty in the application of the terms specified in the Insurance Code, especially those regarding the ruling on insurance claims by the insurers.

According to the provisions of the said act, for the period from 13.03.2020 until the annulment of the state of emergency the terms for fulfilment of obligations provided in the regulations (including in the Insurance Code) for the private legal entities are suspended, except

for terms which are explicitly listed in the MASEA. As can be seen from the above, the deadlines provided for in the Insurance Code for fulfilment of obligations arising for insurers are suspended for a period from 13.03.2020 to 09.04.2020.

As a result, when conducting inspections of complaints against insurers, there are cases in which the period for ruling on a claim ceases to run, as it falls in the period 13.03.2020 to 09.04.2020, which is why insurers often shall be pronounced immediately after this period. In view of the above, there was no need to draw up and AEAV, which in the usual case, in the absence of such an emergency situation, would be initiated against the insurers administrative penal proceedings.

The total value of the PWs that entered into force in 2020 amounts to BGN 1,193,500, as the main part of the amount is accrued in connection with the penal decrees that have entered into force, with which the administrative penal liability of the general insurance companies is engaged.

Supplementary pension insurance

In 2020, eight AEAVs of SICs were compiled. The issued penal warrants are 5, with which property sanctions in the total amount of BGN 45,000 and two fines in the amount of BGN 3,000 were imposed. The relatively small number of issued AEAVs and issued PWs is due to the preventive effect of the fines and sanctions imposed during the previous reporting periods, which have an educational and preventive deterrent effect on persons.

Three of the PWs issued during the reporting year are being appealed, as at the end of 2020 the FSC did not receive information about their entry into force, and two PW are not appealed and have entered into force.

During the reporting period were applied 7 coercive administrative measures on pension insurance companies, with which two pension insurance companies are obliged to accept applications for change of participation of insured persons. The coercive administrative measures have been implemented by the pension insurance companies within the set deadlines.

In 2020, three complaints were received against PRs of the Deputy Chairperson of the FSC, in charge of the Social Insurance Supervision Division.

Table 26. Enforcement in 2020

	Executed AEAVs	Issued PWs*	Value of enforced PWs** (BGN)	Proceedings opened under CAM	Decisions for implementation of CAM***
Investment firms, central securities depository and BSE					
CIS, MC, SPIC, PC and other issuers					
Non-life insurance companies					
Life insurance companies					

Insurance brokers					
Insurance agents					
Guarantee Fund, NBBMI					
Pension insurance companies / their representatives	8	5	3,000	-	7
Other legal entities and natural persons					

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 Offenses and Penalties Act. ** The value of PWs that entered into force in 2020 also covers PWs issued in previous periods. *** A decision for application of CAM is reached in case the companies do not comply with the open procedure for application of CAM. When applying the CAM under the procedure of the SIC, the provisions of the APC regarding the explanations and objections of the interested parties are not applied.

In 2020, the following were identified: one violation of the restriction on investing the assets of a fund for additional voluntary pension insurance in financial instruments issued by one issuer (Art. 251, para. 1 of the SIC), one violation of Art. 177a, para. 1 of the SIC (for possession by a PIC of more than 7 percent of the shares of one issuer), one violation of the restriction on investing the assets of a fund for supplementary mandatory pension insurance in units of CIS (Art. 178, para 14 of SIC)), a violation of Art. 251a, para. 3 of the SIC (acquisition at the expense of a fund for additional voluntary pension insurance, an asset in respect of which there is a 6-month term for adjustment to quantitative restrictions), a violation of a normatively determined indicator - liquidity of PIC (Art. 6 of Ordinance № 10 of 26.11.2003 of the FSC).

3.4. Market abuse

The legal framework regulating market abuse covers both national legislation - the Law on the Implementation of Measures against Market Abuse of Financial Instruments, as well as directly applicable European legislation - Regulation 596/2014 on market abuse, and its implementing acts. The concept of market abuse includes market manipulation of financial instruments, misuse of inside information and illegal disclosure of inside information.

Regarding the prevention of market abuse, **analysis of trading in financial instruments is carried out, as well as monitoring of the information disclosed 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. The process of trading analysis considers the characteristics of trading in each position such as liquidity, market depth, number and volume of transactions and monitors actions that meet the signs of market manipulation of financial instruments in Annex 1 of Regulation 596/2014. If necessary, information could be exchanged

with the BNB, with other state bodies and institutions, as well as supervisory authorities of other countries.

The supervision activity in the field of market abuse covers compliance with the Implementation of Measures against Market Abuse of Financial Instruments Act (IMMAFIA) and Regulation 596/2014 on Market Abuse. According to Art. 1, para. 2 of LPFMA, market abuses are: misuse of inside information, illegal disclosure of inside information and manipulation of the market in financial instruments.

In 2020, a total of 35 AEA Vs of were drafted for violations of Regulation (EU) 596/2014

During the reporting period, a total of 46 PWs were issued for these violations by the Deputy Chairperson, Head of the Investment Activity Supervision Department, considering the 6-month term under Art. 34, para. 3 of the AVPA, part of these PWs are under AEA Vs, drawn up in the previous year. With the PWs, property sanctions and fines in the total amount of BGN 214,000 were imposed.

The value of PWs issued during the reporting period and entered into force as of 30.03.2021 amounts to a total of BGN 90,000.

As of 30.03.2021 no PWs issued in the reporting period have been revoked.

The value of PWs issued during the reporting period and under appeal as of 30.03.2021 amounts to a total of BGN 114,000.

The most common violations under Regulation (EU) 596/2014 are related to failure to notify the FSC and / or the issuer of a transaction in financial instruments. During the reporting period, two violations for non-disclosure of inside information within the statutory period, one violation for manipulation of the market of financial instruments and one violation for misuse of inside information were identified.

Table 27. Most frequent violations of Regulation (EU) 596/2014 in 2020

Type and basis of the violation	Executed AEA Vs	Issued PWs*
Failure to notify the FSC and/or the issuer of a transaction in financial instruments (Art. 19, §1 of Regulation (EU) No 596/2014)	28	39
Failure to disclose inside information within the statutory period (Article 17 of Regulation 596/2014)	2	3
Market manipulation of financial instruments (Article 15 of Regulation 596/2014)	1	1
Abuse of insider information (Art. 14 of Regulation (EU) No 596/2014)	1	given the 6-month term under Art. 34, para. 3 of the AVPA, during the reporting period no NPs were issued

Note: *The number of PWs issued in the reporting year includes both PWs issued on the basis of AEA V of the same year and PWs issued on the basis of AEA V 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 Offenses and Penalties Act.

3.5. Money laundering

In connection with the obligations of the FSC as a competent body for the application of the law to investment intermediaries and management companies arising from the Law on Measures against Money Laundering (LMML) in 2020 an annual risk assessment of money laundering was performed as a result of which investment intermediaries and management companies are categorized according to the established level of risk. The assessment was prepared based on information provided by the Investment Firms and the Management Board - completed self-assessment questionnaires and forms with statistical information for 2019. Through the application of a developed system of criteria processing and analysis of the received information was performed. The risk profile of each company has been determined and a ranking of IFs and MCs has been prepared according to the level of money laundering risk.

Given the powers of the FSC regarding the implementation of measures against money laundering and the initiative taken in this regard to assist obligated supervisors in carrying out their activities in accordance with the relevant regulatory requirements, information materials have been published in the Moodle training platform implemented by the FSC. on current topics related to the activities of IFs, MCs and AIFMs concerning the main obligations in the field of measures against money laundering and terrorist financing. All IFS and MCs are provided with access to the training platform.

In 2020, the FSC completed a Technical Compliance Questionnaire in connection with the initiated procedure for the Evaluation of Bulgaria by the Fifth Evaluation Round of the Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL).

A Questionnaire was completed, and interviews were conducted with representatives of the Council of Europe in the framework of a country assessment on the implementation and effective implementation of the requirements of Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the financial system for the purposes of money laundering and terrorist financing.

In 2020, a sector assessment of the risk of money laundering and terrorist financing, as well as a manual for risk-based supervision for the prevention of money laundering and terrorist financing, have been prepared in the Trade in Financial Instruments sector. Correspondence was maintained with SAD FR - SANS in connection with work in an interdepartmental working group for preparation of an Action Plan for addressing the identified risks of money laundering and terrorist financing in the report on the National Risk Assessment and an annual plan for 2021 was prepared for specialized supervision over the Project and the Management Board for the implementation of the LMML.

4. Activities of the FSC for resolution of investment firms

The scope of RRCIIFA includes investment firms that carry out transactions for own account with financial instruments and underwriting of financial instruments and/or offering for initial sale of financial instruments under the conditions of unconditional and irrevocable obligation to subscribe/acquire financial instruments for own account, provide services related to underwriting of financial instruments and/or offering for initial sale of financial instruments under the conditions of unconditional and irrevocable obligation to subscribe/acquire financial instruments for own account, as well as those that store and administer financial instruments for clients 'accounts, incl. perform custodial activity and related services.

The FSC, in its capacity of body for resolution of investment intermediaries under Art. 1, para. 1, item 2 - item 7 of the Recovery and Resolution of Credit Institutions and Investment Firms Act (RRCIIFA), upon proposal of the FSC member, exercises its functions on restructuring of investment intermediaries on an individual and consolidated basis, supported by an independent structural unit.

In 2020, in accordance with Commission Delegated Regulation (EU) 2015/63 of 21 October 2014,¹⁸ the FSC as a Resolution Authority determined the annual contribution of every investment firm within the scope of the RRCIIFA to the Investment Firms Resolution Fund (IFRF) in accordance with Art. 102, para. 1 of Directive 2014/59/EU. Based on the requirements of Art. 10 of Delegated Regulation (EU) 2015/63, by decision of the FSC are determined individual annual contributions for 2020 for each investment firm with a full license in the amount of EUR 1,000 (BGN equivalent of BGN 1955.83).

According to Art. 7, para. 3 of the RRCIIFA, a review of recovery plans for investment firms covered by the RRCIIFA was carried out and recommendations were put forward to change the plans in order to identify any obstacles and actions that may adversely affect the possibility of restructuring them.

In 2020, an amendment to the Recovery and Resolution Act was adopted. Following a review made by FSC experts it showed that none of the investment firms covered by the RRCIIFA falls within the scope of Regulation (EU) No 806/2014, and the FSC will continue to exercise its function of resolution authority for IFs, and the funds of IFRF will continue to be managed by the Investor Compensation Fund. With regard to the establishment of close cooperation with the European Central Bank and assessment of the need to transfer the funds accumulated in the IFRF, in 2020 the communication with the Single Resolution Mechanism continued.

In 2020, the FSC participated as an observer in the Plenary Sessions of the Single Resolution Mechanism and in the sessions of the Resolution Committee of the Single Resolution Mechanism.

Following Directive (EU) 2019/879 of the European Parliament and of the Council of 20 May 2019 amending Directive 2014/59/EU as regards the loss-absorbing and recapitalisation

¹⁸ Commission Delegated Regulation (EU) No 2015/63 of the EC 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

capacity of credit institutions and investment firms and Directive 98/26/EC, in 2020 work was on the transposition of the provisions of this directive into local legislation concerning restructuring.

In 2020, work began on drafting an Ordinance on the recovery and resolution of a central depository.

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

The Financial Supervision Commission is the institution whose statutory obligations and powers include the protection of the rights of users of non-banking financial services (investors, insured persons and secured persons).

Its main responsibilities and activities are: regulating the non-banking financial sector and taking measures for the stability of the capital, insurance and pension insurance market, and protection of the rights of the users of financial services.

Since its establishment in 2003, the FSC has set a policy of financial literacy for the public as one of its main priorities and has established a tradition in the realization of this main priority.

The protection of users of financial services is realized in three main directions:

- implementation of adequate and timely regulatory and supervisory activities;
- financial literacy of the public through information campaigns, discussions and educational initiatives;
- by providing accurate and comprehensive information about the non-banking sector and the actions of the institution through various communication channels;;

In 2020, the FSC made timely changes in the regulatory framework and supervisory activities, in line with European requirements and the specifics of the national market, with an emphasis on good business practices and with a view to equal treatment of supervised entities. The focus of the Commission's activity during the year was providing accurate and comprehensive information about the non-banking sector and the actions of the institution through various communication channels. This process, together with the implementation of a series of educational initiatives, helps to increase the financial culture and create preconditions for awareness in the choice of financial services by consumers.

5.1. Access to financial information

Access to financial information, as well as information on all activities carried out by the Financial Supervision Commission, is carried out to end-users and its supervised entities through various communication channels, as follows:

- publications on the Commission's two public websites: <https://www.fsc.bg/bg/> and <http://www.tvoitefinansi.bg/>;
- organization of media campaigns;
- participation with news, statements and media interviews;
- providing information to citizens and supervised entities on particular and specific cases upon request at the information centre of the FSC.

The representative participation of the management and experts of the FSC in various public forums, round tables, national and international conferences and events further contributes to the sharing of current, analytical and prognostic information, as well as priority for discussion and sharing of good practices and examples.

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

The website publishes up-to-date information on the regulatory and supervisory activities of the FSC, on the measures taken by the Commission for the Financial Stability of the Non-Bank Financial Sector. Information about the supervised entities is constantly published - statistics, reports, amount of capital and other essential data about the activity of all supervised entities. The 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, including news, administrative documents, statistics, regulations, etc.

In 2020, an online form for submitting complaints in Bulgarian and English was created on the official institutional page in the section “For the consumer” - “Complaints”, and in the section “Insurance market”, five online forms with requests for registration of an insurance broker and insurance agent were introduced. The "e-Portals" section is renamed "e-Services" and a list of administrative services that the Commission offers to citizens and businesses has been added.

In 2020, more than 1,360 materials were published on the website of the Financial Supervision Commission, of which: 209 news, 608 decisions, 51 statistics. The distribution of market statistics is as follows: capital market - 1 pc., insurance - 38 pcs. and social insurance - 12 pcs. The published key information for investors is 429 messages.

During the year, several information campaigns were published on the official website of the Financial Supervision Commission. Firstly an active communication policy was implemented to mitigate the impact of COVID-19 on supervised entities and FSC employees, together with the European Securities and Markets Authority (ESMA), the European Insurance and Occupational Pensions Authority (EIOPA) and other international institutions. In the "News" section 17 press releases are published - warnings of international organizations to supervised entities to mitigate the impact of COVID-19, as well as measures taken by the FSC to facilitate business in the difficult international epidemiological situation. A notice was also published on the package of measures taken by the FSC in connection with limiting the spread of the coronavirus among the employees of the institution. 7 press releases were sent to the media.

On the occasion of Brexit, warnings and explanations were published, addressed to the users of financial services and to the supervised entities for the end of the transitional period and what is to come after 01.01.2021 - 5 press releases were prepared and disseminated.

In June 2020, the Financial Supervision Commission published on its website a notice on the new information platform in support of anti-money laundering proceedings in Bulgaria.

In the area of the capital market 8 summarizing materials were published during the year on the average daily number of transactions for the issues of shares admitted to trading on the Bulgarian Stock Exchange.

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.

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 EU.

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 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.

Proof of the good communication policy during the year is the large number of visitors to the FSC website. For the period 01.01.2020 - 31.12.2020 the site www.fsc.bg was visited by 244,863 users. Of these, 236,618 visited it for the first time.

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

The website “Your Finances” was created for the purpose of more accessible explanations for servicing the users of financial services and acquainting them with the main specifics in the three sectors of supervision carried out by the FSC. It describes in detail various financial products, divided into insurance, pension and investment. Information on consumer rights and advice that would be of interest to visitors on various cases has also been published. The materials have an educational focus, and for this purpose a test has been developed that takes into account the level of financial literacy, as well as a financial dictionary. In 2020, the information on the site was completely updated and up-to-date materials were published for better awareness and protections of the users of financial services. For the period 01.01.2020 - 31.12.2020 the site “Your finances” was visited by 19,689 users. Of these, 19,546 visited it for the first time. The average number of visits to the site per day is about 80 users.

Information Centre

Given the national and international situation related to the COVID-19 pandemic in 2020, the Information Centre of the Financial Supervision Commission served about 14% fewer citizens and supervised entities than in 2019. The Information Centre receives inquiries daily both from supervised entities and from citizens who need information on issues and cases on various topics. The Financial Supervision Commission has a specialized toll-free telephone number: 0800 40 444, available to all citizens, and inquiries are accepted by e-mail or by on-site visit.

In 2020, the total number of calls received at the FSC Information Centre was 4627. Of these, 2944 inquiries are related to the three areas of the non-banking financial sector, and the calls related to administrative issues are 1683. There are 73 visits by citizens on the spot. There is a decrease in site visits, which is explained by the epidemiological situation in the country during the year.

The telephone inquiries distributed by months are as follows: 612 in January, 393 in February, 434 in March, 283 in April, 334 in May, 372 in June, 601 in July 314 in August, 334 in September, 390 in October, 277 in November and 283 in December.

Among the most frequently asked questions by citizens are the following topics: inquiries about the procedure for filing a complaint, checking the status of voucher books, submitting reports in e-portals by insurance companies, insurance agents and insurance brokers, sending reports in e-modules by supervised entities , payment of a fee for general financial supervision, entry of documents in Record Keeping, deadlines for submission of declarations under the various regulatory requirements and documents, registration, registration and termination of insurance brokers. There are no significant differences between the topics of calls compared to 2019. There are more and more calls related to questions for unlicensed investment intermediaries.

The number of calls to the Commission Information Centre remains high in 2020, despite the complicated situation related to the COVID-19 pandemic. Given the above data, it can be summarized that the FSC Information Centre retains its popularity for both citizens and participants in the non-banking sector.

Using the internal communication channels, the Information Centre provides expert assistance to those who have sought information and assistance. The result of the effectiveness of the FSC Information Centre is the maintenance and strengthening of the positive image of the Financial Supervision Commission.

Participation of the members of the FSC at financial forums in Bulgaria.

In 2020, the Chairperson of the Financial Supervision Commission took part in many important economic events at the national level. The first standout event is the presentation of the major awards to insurers for 2019 at the ceremony "Insurer of the Year" and "Insurance Broker of the Year". The organizers of the event, which is being held for the 12th consecutive year, are the Higher School of Insurance and Finance (VUZF), the Association of Bulgarian Insurers and the Bulgarian Association of Insurance Brokers. For the first time, the ceremony was held online. Special guests at the ceremony were Boyko Atanasov, Chairperson of the Financial Supervision Commission and Iliana Hristova, Deputy Chairperson of the FSC, Head of the Insurance Supervision Department. Boyko Atanasov opened the ceremony and after thanking the organizers, focused on the situation in Bulgaria, as well as the world, and which involves the rapid transformation of existing models of thinking and behaviour of citizens and organizations.

Under the patronage of Boyko Atanasov, the Second International Conference on the Pan-European Pension Product (PEPP) was held. It was attended by MPs from the 44th National Assembly, leading experts from the Ministry of Finance, the Financial Supervision Commission, the Association of Bulgarian Insurers, the Bulgarian Association of Supplementary Pension Insurance Companies, management companies, financiers, economists and scientists from all over Europe.

Boyko Atanasov also opened the educational program for students on the topic for the eighteenth time "The non-banking financial sector in Bulgaria". Given the epidemic situation, the program was conducted online. The 3 webinars organized - on October 2, 9 and 16, were dedicated to each of the non-banking markets - social insurance, capital and insurance. The survey of 33 participants showed great interest and satisfaction with the program.

In 2020, 6 meetings of the interdepartmental task force for the preparation of a National Strategy on Financial Literacy took place, in which the Financial Supervision Commission actively participates.

FSC employees took part in a number of national and international seminars and discussion meetings.

Media communications

During the past 2020, the Financial Supervision Commission carried out active communication with the media, using various channels in order to inform consumers of financial services and increase public confidence in the activities of the Commission. During the year, 209 news items were published on the website and 53 press releases were sent to the media. Answers to journalist questions are provided on a daily basis.

During the year, the management of the Financial Supervision Commission was actively present in the media.

In January 2020, the Chairperson of the FSC, Boyko Atanasov, gave an interview regarding the Bonus-Malus system for the morning show of BTV Tazi Sutrin.

Later in the year, the Chairperson participated with two statements in the bulletin of the Association of Banks in Bulgaria.

In 2020, the Deputy Chairperson, Head of the Insurance Supervision Department, Vladimir Savov, gave two interviews to print and electronic media. His first interview, after his election as Deputy Chairperson of the Commission, was for the newspaper "Trud", and the second for Bloomberg TV.

The activity of the Financial Supervision Commission is actively covered in the media. Proof of this are a total of 6,902 publications, of which 508 in print media, in televisions there are 24, in internet there are 6,363, and in radio there are 7.

In 2020, the Financial Supervision Commission prepared two issues – a monthly Newsletter published on the FSC website and the Annual Report of the Financial Supervision Commission for 2019 summarizing the activities of the supervisory institution and reflecting the state of the non-banking sector in Bulgaria in 2019.

The FSC's monthly newsletter provides summarized information on the activities of the Commission by months - regulatory and supervisory, it provides information for all decisions of the FSC, the decisions of the Members of the FSC and all the entries during the month. The newsletter 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 order to monitor, study, but mostly for awareness of the economic and financial situation in Bulgaria, at the internal level the FSC prepares two daily monitoring reviews of media publications in traditional media. A total of 609 monitoring reviews were prepared for the year, 50 of which were related to extraordinary news and topics.

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

The protection of consumers of financial products and services is one of the statutory objectives of the Financial Supervision Commission. A major function of the FSC Member under Art. 3, item 5 of the FSCA is the consideration of complaints filed against persons supervised by the Commission, as well as against persons who provide financial products and services without licence.

In line with the European strategy for consumer protection to enable out-of-court settlement of disputes in Bulgarian legislation, this possibility is provided for by the Consumer Protection Act. Sectoral conciliation commissions have been established to deal with disputes between consumers and service providers in the non-banking financial sector - in the field of insurance, in the field of pension insurance, in the field of capital markets. Out-of-court dispute settlement is an alternative to resolving disputes between users and supervised entities by the FSC. Proceedings before the sectoral conciliation commissions are free of charge, which allows consumers with small claims to exercise their rights.

In order to inform individual consumers about the possibility of out-of-court settlement of a dispute in the answers to the complainants, the FSC provides information on the existence of such a mechanism, in case they are not satisfied with the decision of the supervised entities, to refer to the relevant sectoral conciliation commission.

In order to analyse the complaints received from consumers in the FSC, the FSC has established a procedure for processing of complaints, the results of which are used to improve the supervisory activity and to improve the regulatory framework. Each received complaint is inspected, written statements ascertaining any administrative infraction are issued if necessary, recommendations are made to the supervised entities, coercive measures are imposed, actions and measures are taken within the legal powers of the FSC bodies.

Consumer complaints play an important role in market discipline. They are one of the channels for receiving information by the regulator about compliance with the regulatory requirements for the activities on financial markets supervised by the FSC, as well as the behaviour of market participants on financial markets. Consumers of financial services receive useful information for decision-making.

Complaints are also a channel for market feedback about the satisfaction of users of financial services and products from the regulator's actions, from the inspections results and from the measures undertaken as a consequence of their complaints. The analysis of the feedback gives the regulator an overview of the level of awareness and financial literacy of consumers, as it is an important element for the formation of its policy for supervision of the non-banking financial sector.

The corrective actions undertaken by the FSC as a result of the analysis are the basis for establishing and maintaining a high level of confidence of consumers of financial products and services offered on the financial markets and build sense of security for consumers in using the products and services offered on the non-banking financial market. The corrective actions help preserving the stability of financial markets, the confidence in these markets, act as an incentive for the efficiency and transparency of the financial markets. The analysis of complaints, as well as of inquiries, covering the main complaints and issues raised in them, the analysis of the main reasons that led to the occurrence of the issues raised in the complaints and the inquiries,

highlighting systemic issue areas, possible poor commercial practices, are also excellent tools for making management decisions with a view to improving the regulatory framework, supervisory practices and for taking appropriate corrective actions and measures regarding the participants in the financial markets supervised by the FSC.

In 2020, the FSC received 1,204¹⁹ complaints and inquiries related to the activity of persons supervised by the FSC. There is a decrease in their number compared to 2019, when there were 1,492 (-288 pieces). Discipline in the market, improving the market behaviour of financial service providers and products, more careful and fair treatment of financial service and product providers to consumers, are the main reasons for reducing the number of complaints. On the other hand, the reduction is due also to the Commission's policy of providing information on its legal powers, on the ability of consumers to resolve disputes with financial service providers.

The number of complaints has changed over the years as follows: in 2013 - 1,356, in 2014 - 1,369, in 2015 - 1,242, in 2016 - 1,274. In 2017, the number of complaints and inquiries from users increased to 1,438, and in 2018 it reached its highest value of 1,943, after which in 2019 it decreased again to 1,492 complaints and the trend is preserved in 2020.

The presented analysis of the complaints for 2020 is based on 1 203 received²⁰

complaints on which the institution is competent to rule.

With respect to the complaints within competence for the period from 2013 to 2020, there was no clear upward or downward trend in their number. In 2013, 1,125 complaints were reported, in 2014 - 1,133 in 2015 - 1,026 in 2016 - 1,089. In 2017, their number increased to 1,415 and in 2018 - to 1,656 complaints by jurisdiction. A significant decrease is reported in 2019 compared to the previous two years - up to 1,203, and the same decrease is observed in 2020, namely 993²⁰ appeals on which the FSC is competent to rule.

In addition to complaints, the FSC also receives numerous inquiries on which the institution is competent to rule. Inquiries are processed mainly in the specialized administration and the accumulated information in the internal database does not give an accurate picture of this type of files. In 2020, only 6 inquiries were registered in this database.

The FSC also receives complaints for which the institution is not competent to rule.

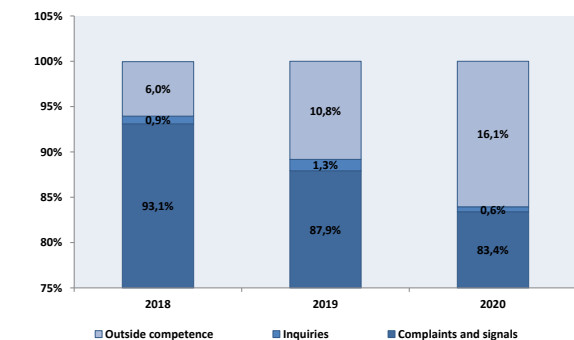
Analysing the statistical information since 2013, it is evident that the number of

¹⁹ The indicated 1,204 complaints are calculated by excluding from 1,395 (total received) files, the complaints and inquiries, which are not against actions of persons supervised by the FSC. The value of 1,204 represents received complaints and inquiries within competence within 2020, 205 of them were processed by the specialized departments, with letters from the office of the FSC to the respective complainants.

²⁰ Addressed to the Analyses, Complaints and Resolution Directorate (ACR) and processed by it opinions on complaints.

complaints falling outside the competence of the FSC began to decrease from 2015 to 2018 and varied about 100 per year with slight deviations. In 2013, 2014 and 2015 they were respectively 130, 150, 142, with the highest growth registered in 2015. In 2016 there is a decrease compared to 2015 by 32. In 2017, compared to 2016, a minimum increase of 2 complaints was registered. For 2018 they are 106, while in 2019 there is another increase to 146 complaints. In 2020, the complaints outside the competence of the FSC reported an increase again, reaching 191. The FSC processes complaints outside its competence in a timely manner and forwards them to the relevant competent institutions. This may be one of the reasons for the increased number of such complaints - in case the complainant does not know to whom to direct their complaint, they submit it so that it can reach the right institution for consideration.

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



Source: FSC.

Key:
 Некомпетентност – Outside competence
 Запитвания – Inquiries
 Жалби и сигнали – Complaints and signals

Complaints on which the institution was competent to rule represented 83.4 % of the total complaints and inquiries in 2020. In 2020, compared to 2019, there was a slight decrease in the proportion of complaints for

which the institution was competent, from 87.9% to 83.4%.

For comparison, in the period 2013 - 2020 this share is relatively constant, over 80%. In 2020, a slight decline was registered compared to 2019 to 83.4%. For comparison, the share of complaints within competence ranges as follows: from 83% in 2013, 82.8% in 2014, 82.6% in 2015, 85.6% in 2016, 91.4% in 2017, 93.1% in 2018, 87.9% in 2019.

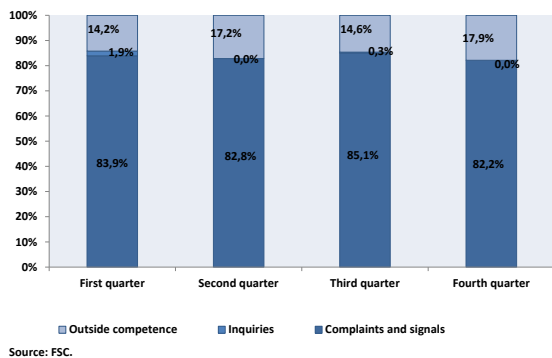
The share of inquiries has varied between 7.4% and 0.6% since 2013 and has been declining. In 2013 their share was 7.4%, in 2014 - 6.3%, in 2015 - 6.0%, in 2016 - 5.9%, in 2017 - 1.5%, in 2018 decreased to 0.9%, and in 2019 a certain increase to 1.3% is reported, and in 2020 there was a decrease to 0.6%. The share of complaints for which the institution is not competent, after the period of increase until 2015 varies within narrow limits until 2018 and marks an increase for 2019 and 2020. The share of these complaints in 2013 was 9.6%, in 2014. - 11.0%, in 2015 - 11.4%, in 2016 - 8.6%, in 2017 - 7.2%, in 2018 it is 6.0%, in 2019 - 10.8% and in 2020 it is 16.1% of the total share of received complaints and inquiries.

In 2020, the ratio between complaints, inquiries and alerts for which the institution is not competent is maintained by quarters. Complaints within the competence of the FSC represent 83.9% of all complaints received in the first quarter of 2020. In the second quarter their share was 82.8%. In the third quarter it increased to 85.1%, and in the fourth quarter it decreased to a minimum of 82.2%.

The dynamics of the number of complaints of incompetence during the year does not show a clear trend. In the first quarter of 2020 they had the lowest share,

namely 14.2% of all received complaints, in the second quarter they increased to 17.2%, and in the third quarter they were 14.6%, and the same level was maintained in the fourth quarter again with a share of 17.9%.

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



Key:

- I-во тримесечие – First quarter
- II-ро тримесечие – Second quarter
- III-то тримесечие – Third quarter
- IV-то тримесечие – Fourth quarter
- Некомпетентност – Outside competence
- Запитвания – Inquiries
- Жалби и сигнали – Complaints and signals

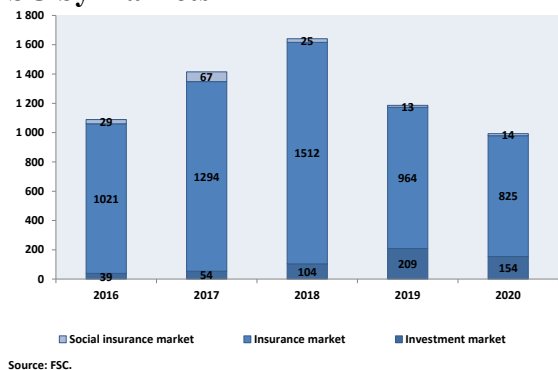
Of the analysed 993 complaints received in 2020, for which the institution is competent, most are complaints against actions of persons operating in the insurance market. Their number is 825. The number of complaints related to the services offered on the social insurance market is minimal - only 13. There are 154 complaints against actions of persons operating on the investment market.

In 2020 compared to 2019 there is a decrease in complaints concerning the insurance market by 139. The trend of decreasing the complaints on the insurance market has been observed since 2013 with one break in 2017. In 2013 the number of complaints was 171, in 2014 they were 96, in 2015 they dropped to 41, in 2016 they decreased further to 29. For 2017 they

increased to 67, while in 2018 there is another decrease to 25. In 2019 there are 13, and in 2020 - 14.

For the period 2013 - 2020, no clear trend can be defined in the number of complaints received in connection with the services and products offered on the investment market, with significant deviations in different years. Their number for 2014 is 102, for 2015 - 92, for 2016 - 39, for 2017 - 54, in 2018 it increases to 104, in 2019 - 209, and in 2020 it decreased to 154. During the last three-year period 2017 - 2020, there is a tendency for an increase in the number of complaints received in connection with the services and products offered on the investment market. This increase is a result of an increase in the number of complaints against actions of persons who do not have a license to perform activities for the provision of investment services and activities.

Graph 3. Dynamics of complaints at the FSC by markets



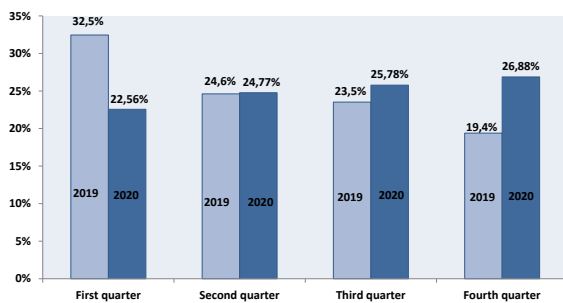
Key:

- Осигурителен пазар – Social insurance market
- Застрахователен пазар – Insurance market
- Инвестиционен пазар – Investment market

Within 2020, by quarters, there is no clear trend to increase or decrease the number of received complaints within the competence of the FSC. Their distribution is as follows: in the first quarter of 2020, 22.6% of the complaints within competence for the year were received. Compared to the same

period of 2019, this share is lower. In the second quarter of 2020, 24.8% of the total number of complaints within competence for the year were received and compared to the same period of 2019 no significant change was observed. In the third quarter of 2020, 25.8% of the complaints were received, while in the third quarter of 2019 they represented 23.5%. In the fourth quarter of 2020, 26.9% of the complaints were received. For comparison, in the fourth quarter of 2019 the share was 19.4%.

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



Source: FSC.

Key:

I-во тримесечие – First quarter

II-ро тримесечие – Second quarter

III-то тримесечие – Third quarter

IV-то тримесечие – Fourth quarter

Complaints related to the insurance market represent the largest share of received complaints within competence in 2020 - 83.1%. For the period 2013 - 2020 this level remained over 80.0%. For comparison, the share of this type of complaints during the period is as follows: in 2013 - 79.0% in 2014 - 82.5%, in 2015 - 87.0%, in 2016 - 93.8%, in 2017 - 91.4%, in 2018. - 92.1%, and in 2019 - 81.3%.

The share of complaints from the insurance market in the last few years is relatively small, as in 2020 they represent 1.4% of all received complaints by jurisdiction. The share is preserved compared

to 2019 - 1.1%, in 2018, - 1.5% in 2017. - 4.7%, in 2016 - 2.7%, in 2015 - 4%, in 2014 - 8.5%, and in 2013 their share was the largest - 15.2%, when a serious increase in complaints was registered in connection with the transfer of accumulated funds in the accounts of insured persons.

The complaints against persons operating on the investment market in 2020 are 15.5%. In 2019 they were 17.6% of all complaints received and increased compared to 2018 their share was 6.3%. For the period 2013 - In 2018, there is no clear trend in the share of investment complaints in the total number of complaints received by the FSC: their share in 2017 was 3.8%, 3.6% - in 2016, 9% - in 2015 and 2014 and 6.0% in 2013

The FSC also receives complaints related to the provision of investment services by persons who do not have a license to provide such services. The services are usually provided through electronic platforms, remotely, the complainants have not been active, have not checked whether the persons with whom they enter into contractual relations have the right to provide investment services and activities, do not have sufficient knowledge of the financial instruments in which they have decided to invest, they are not aware of the risks associated with the provision of their funds. They transfer funds to persons other than those with whom they have entered into a contractual relationship. Complaints are often submitted to the FSC by foreign persons due to the connection of electronic trading platforms in some way with Bulgaria, for example.

The distribution of complaints by sectors is maintained by quarters in 2020. In the first quarter of 2020 the share of complaints related to the insurance sector was 18.3%, in

the second quarter - 20.4%, in the third quarter- 21.4%, and in the fourth quarter - their relative share is 23.1%. Complaints against actions of pension insurance companies have an equal relative share in each quarter of 2020. Complaints from the investment market have the highest relative share in the second quarter of 2020, and the lowest - in the fourth quarter of the year.

Table 28. Dynamics of the structure of complaints by market segments

	2019			2020				2020
	2017	2018	2019	Q1	Q2	Q3	Q4	
Insurance market	91,4%	92,1%	81,3%	18,3%	20,4%	21,4%	23,1%	83,1%
Investment market	3,8%	6,3%	17,6%	3,8%	4,2%	4,0%	3,4%	15,5%
Social insurance market	4,7%	1,5%	1,1%	0,4%	0,2%	0,4%	0,4%	1,4%

Key:

Осигурителен пазар – Social insurance market

Застрахователен пазар – Insurance market

Инвестиционен пазар – Investment market

In 2020 the FSC also received complaints for which the institution is not competent to rule. The largest share of complaints a falling outside the competence of the FSC are complaints related to credit products - 27.8%, some of which were provided by non-bank credit institutions. In second place are the complaints related to remittances - 4.2%. Complaints related to savings products and mobile services account for a relative share of 0.5% and 2.6%, respectively, and others - 64.9% of the total.

Table 29. Structure of complaints outside FCS's competence

	2019	2020
Credit products	23,3%	27,8%
Money transfer	2,7%	4,2%
Savings products	1,4%	0,5%
Mobile services	0,7%	2,6%
Taxes	0,0%	0,0%
Others	71,9%	64,9%
	100,0%	100,0%

Source: FSC.

Key:

Кредитни продукти – Credit products

Паричен превод – Money transfer

Спестовни продукти – Savings products

Мобилни услуги – Mobile services

Данъчна сфера – Taxes

Други – Other

The FSC continues the established practice- in 2020 to forward complaints outside its competence to the institutions in whose competence they are.

In 2020, the FSC received complaints outside its competence, which are mainly within the competence of one institution in the country. Most complaints are within the competence of the Bulgarian National Bank (BNB), and their share is 61.8%. For 38.2% of the complaints outside the competence of the FSC, the competent body is the Consumer Protection Commission, CRC, Court, Prosecutor's Office, SANS and others.

Table 30. Structure of complaints by competent institutions other than the FSC

	2019	2020
Bulgarian National Bank	63,7%	61,8%
National Revenue Agency	0,0%	0,0%
CRC, CPC, Court, Prosecutor's Office, completely outside competence	36,3%	38,2%
	100,0%	100,0%

Source: FSC.

Key:

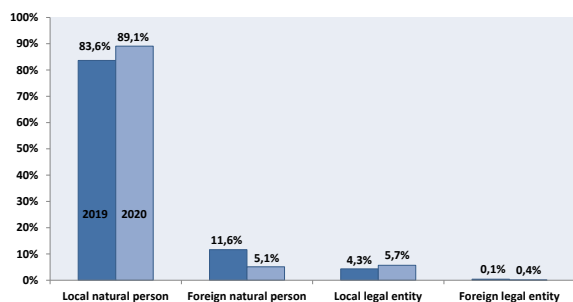
Българска народна банка – Bulgarian National Bank

Национална агенция за приходите – National Revenue Agency

КРС, КЗП, Съд, Прокуратура, пълна некомпетентност – CRC, CPC, Court, Prosecutor's Office, completely outside incompetence

Analysing the complaints of consumers in 2020 by legal entities, it can be said that the complaints and inquiries submitted by local individuals have the largest share of all received complaints and inquiries - 89.1%. Local legal entities have a share of 5.7%. Foreign individuals have a share of 5.1%, and foreign legal entities - 0.1%. A decrease in the share in 2020 compared to 2019 is reported for foreign individuals, from 11.6% to 5.1%. A slight increase in the share is reported among local legal entities - from 4.3% in 2019 to 5.7% in 2020. In 2020, there is an increase in complaints to the FSC filed through lawyers.

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



Source: FSC.

Key:

Местно физическо лице – Local natural person

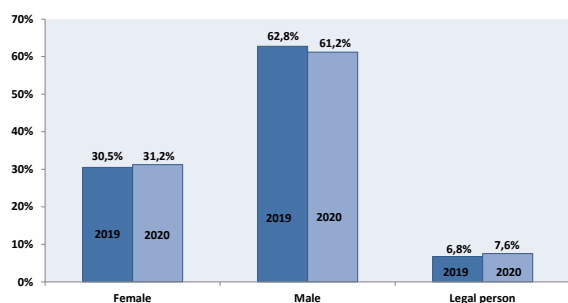
Чуждестранно физическо лице – Foreign natural person

Местно юридическо лице – Local legal entity

Чуждестранно юридическо лице – Foreign legal entity

The analysis of the complaints in terms of activity in seeking their consumer rights shows that men are prevalent over women. Their share in 2020 is 61.2 % compared to 31.2% for women. The complainants that are legal entities accounted for 7.6% of all complaints and inquiries. There is no significant change compared to 2019, as again men are more active - with a share of 62.8% and women with a share of 30.5%.

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



Source: FSC.

Key:

Жена – Woman

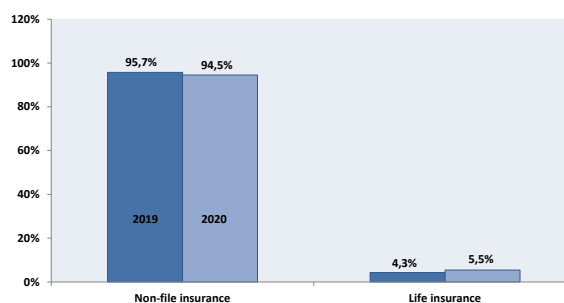
Мъж – Man

Юридическо лице – Legal entity

Insurance market

The trend for the complaints relating to the insurance market to have the highest relative share remained in 2020. Complaints against services and products offered by the non-life insurance companies continue to occupy a major part of the complaints concerning the insurance segment, and their share is 94.5% in 2020, compared to 95.7% in 2019. 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 increased from 4.3 % in 2019 to 5.5% in 2020. This increase is also related to the conclusion of a larger number of insurance contracts in this sector.

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



Source: FSC.

Key:

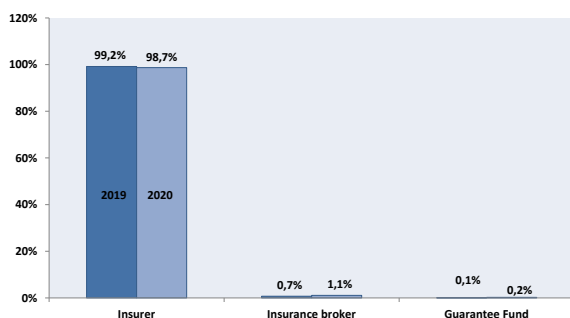
Общо застраховане – Non-life insurance

Животозастраховане – Life insurance

The analysis of complaints in the life insurance sector in terms of the entity against which they were filed showed that usually the complainants expressed grievance over the insurers' actions. In 98.7% 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 2020 is close to the one in 2019 (99.2%). During the year, the complainants also

complained about the actions of insurance brokers and the Guarantee Fund, however their share was insignificant.

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



Source: FSC.

Key:

Застраховател – Insurer

Застрахователен брокер – Insurance broker

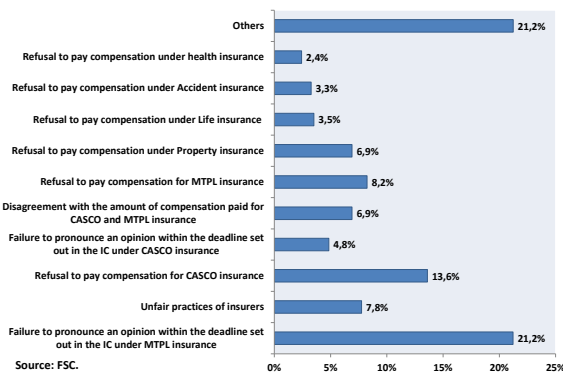
Гаранционен фонд – Guarantee Fund

Most often the subject of complaints concerning the insurance sector was related to failure to issue a conclusion under insurance claims within the deadlines of the Insurance Code (IC) regarding the most widespread insurance Motor Third-Party Liability (21.2%). Secondly, the applicants complained against the refusal to be paid compensations under Casco insurances (13.6%). In the third place, with 8.2%, were complaints in which applicants objected to the refusal to pay compensation under Motor Third-Party Liability insurance. The applicants also objected against unfair practices of the insurers, failure to rule on a submitted insurance claim under Casco insurance within the time limits of the IC, disagreement with the amount of indemnity paid under Casco and Motor Third Party Liability, Property insurance, Life insurance, Accident insurance and Health insurance

For comparison, in 2019 as well, 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 2020



Source: FSC.

Key:

Отказ за изплащане на обезщетение по здравна застраховка – Refusal to pay compensation under health insurance

Отказ за изплащане на обезщетение по застраховка „Злополука“ – Refusal to pay compensation under Accident insurance

Отказ за изплащане на обезщетение по застраховка „Живот“ – Refusal to pay compensation under Life insurance

Отказ за изплащане на обезщетение по застраховка „Имущество“ – Refusal to pay compensation under Property insurance

Отказ за изплащане на обезщетение „ГО“ – Refusal to pay compensation for Motor Third-Party Liability insurance

Несъгласие с размера на изплатеното обезщетение застраховка „КАСКО“ и „ГО“ – Disagreement with the amount of compensation paid for CASCO and Motor Third-Party Liability insurance

Непроизнасяне в сроковете по КЗ по застраховка „КАСКО“ – Failure to make a decision within the deadline set out in the Insurance Code under CASCO insurance

Отказ за изплащане на обезщетение застраховка „КАСКО“ – Refusal to pay compensation under CASCO insurance

Некоректни практики от застрахователи – Unfair practices of insurers

Непроизнасяне в сроковете по КЗ по застраховка „ГО“ – Failure to make a decision within the deadline set out in the Insurance Code under Motor Third-Party Liability insurance

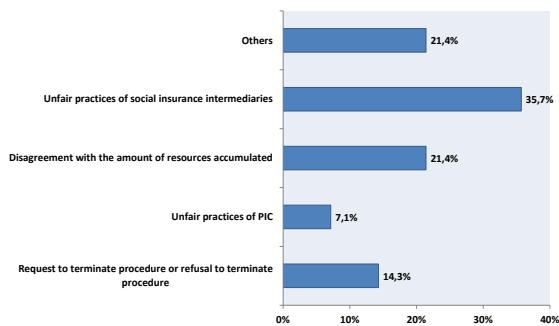
Social insurance market

Unfair practices by insurance firms is the most common subject of complaints related to the insurance market in 2020. Their share is 35.7% of all complaints received in connection with the insurance market. In second place are disagreements with the

amount of accumulated funds (21.4%), and in third place with 14.3% are complaints against a request for termination of the procedure or refusal to terminate the procedure for transferring funds from one SPF to another.

For comparison, in 2019 a request for termination of the procedure or refusal to terminate the procedure is the most common subject of a complaint related to the insurance market.

Graph 10. Distribution of complaints in the social insurance market by subject of the complaint in 2020



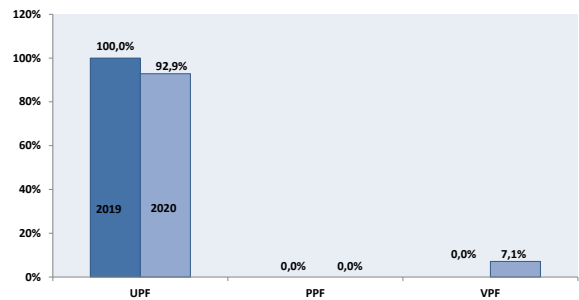
Source: FSC.

Key:

- Некоректни практики от осигурителни посредници – Unfair practices of social security intermediaries
- Несъгласие с размера на натрупаните средства – Disagreement with the amount of funds accumulated
- Некоректни практики от ПОД – Unfair practices of PICs
- Искане за прекратяване на процедурата или отказ от прекратяване на процедурата – Request to terminate the procedure or refusal to terminate the procedure

The trend of complaints related to the social insurance market and concerning mainly universal pension funds (UPFs) remained unchanged in 2020. Their share was 92.9% 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. For 2020, there is only one complaint concerning VPF.

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



Source: FSC.

Key:

- УПФ – UPFs
- ППФ – OPFs
- ДПФ – VPFs

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.

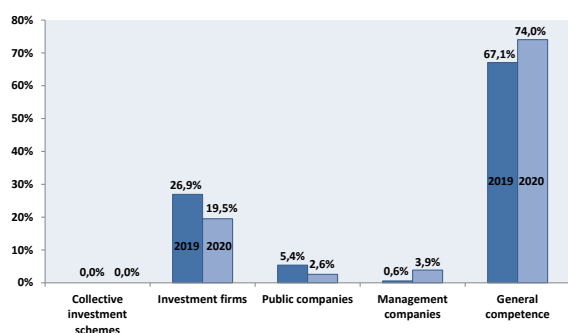
From the analysis of the complaints received it was established that there was a tendency for increased activity in the remote sale of investment products – on the telephone or via electronic platforms, as well as of complex financial instruments that were difficult for retail users to understand and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

an assessment of the pertinence and appropriateness of the financial service.

In 2020, most complaints from the investment market are against actions of unlicensed companies, many of which are not based in Bulgaria. Their share in 2020 amounts to 74.0%. In second place in 2020 are the complaints against investment firms or persons providing investment services and products (19.5%), and in third place are the complaints related to management companies (3.9%).

Compared to 2019, in 2020 there is a decrease in complaints related to public companies from 5.4% to 2.6%. The main subject-matter of these complaints relates to tenders, in particular against the price of the tender. The opposite dynamics is reported in the complaints related to the activity of the management companies, as their share increases to 3.9% in 2020 from 0.6% in 2019.

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



Source: FSC.

Key:

Инвестиционни посредници – Investment firms
 Публични дружества – Public companies
 Управляващи дружества – Management companies
 Обща компетентност – Generally outside competence

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. The necessary measures and actions were taken during the examination in case a violation of the legal requirements by the supervised entities is found, then administrative violation acts are issued, coercive administrative measures are applied, instructions are given.

The analysis of the responses to the complainants against actions on the insurance market revealed that in part of cases the consumers of insurance services were advised on the possibilities to protect their rights through sectoral conciliation commission for extrajudicial dispute resolution or by the court in case the FSC does not have the authority to undertake any actions. In 20% of the cases, insurance compensations were paid after a complaint had been filed to the FSC, and in 51.8% 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 a sectoral conciliation committee for extrajudicial dispute agreement or the competent court for consideration and resolution under the current legislation.

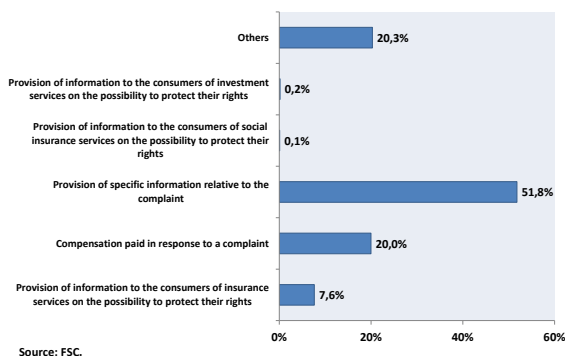
The Financial Supervision Commission in its replies to complaints against entities supervised by the FSC, the Financial

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 2020, there was a relative retention of the share of cases when compensation was paid after filing a complaint to FSC. This proves the effectiveness of the institution in carrying out its function of protecting consumers of investment, insurance and insurance services. The effectiveness of the Commission's actions is also confirmed by the growing number of complaints lodged by lawyers.

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.

Graph 13. Structure of the actions undertaken in response to complaints, inquiries and signals received by the FSC in 2018



Key:

Предоставяне на информация на потребителя на инвестиционни услуги за възможността за защита на неговите права – Provision of information to the consumer

of investment services regarding the possibility for protection of their rights

Предоставяне на информация на потребителя на осигурителни услуги за възможността за защита на неговите права – Provision of information to the consumer of social security services regarding the possibility for protection of their rights

Предоставяне на конкретна информация, относима по жалбата – Provision of specific information pertinent to the complaint

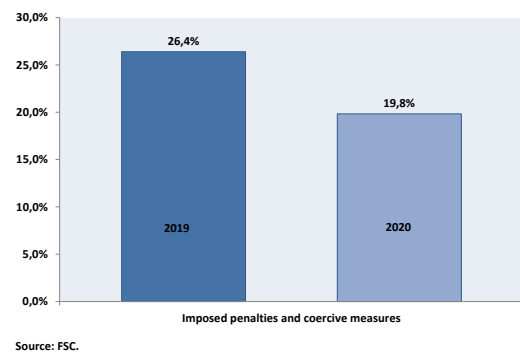
Изплатено обезщетение след подаване на жалба – Compensation paid after the submission of a complaint

Предоставяне на информация на потребителя на застрахователни услуги за възможността за защита на неговите права – Provision of information to the consumer of insurance services regarding the possibility for protection of their rights

As a result of inspections performed in 2020, there was a decrease in the number of cases where penalties and coercive administrative measures were imposed to supervised entities, their percentage dropping to 19.8% of all complaints within competence, as compared to 26.4% in 2019. This reduction can be explained by increased market discipline.

The analysis of the prepared answers to the complaints and inquiries, as well as of the actions taken by the FSC in connection with the complaints, shows a positive effect of the actions of the regulator. In many cases, the applicants' claims, both natural and legal persons, were granted.

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



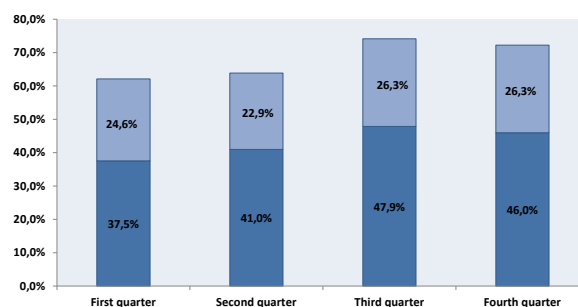
Key:

Наложени санкции и приложени принудителни мерки – Penalties imposed and coercive measures implemented

For 19.8% of the complaints and inquiries in 2020, 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 2020, the highest proportion of the positive effect was recorded in the third and fourth quarter of the year – 26.3%, and the lowest in the second quarter of the year - 22.9%.

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



Source: FSC.

Key:

- Първо тримесечие – First quarter
- Второ тримесечие – Second quarter
- Трето тримесечие – Third quarter
- Четвърто тримесечие – Fourth quarter
- Положителен ефект – Positive effect

5.3. Policy of financial literacy

In 2020, regardless of the epidemiological situation related to the spread of COVID-19, the Financial Supervision Commission was able to adapt digitally to continue to participate in various forums: conferences, seminars, workshops and educational initiatives. They were mainly aimed at protecting consumers and raising the financial literacy of various social groups, in partnership with both state institutions and non-governmental organizations that exercise their activity in the field of financial education.

In 2020, the Financial Supervision Commission together with the Ministry of Education and Science and the Atanas Burov Foundation organized for the 18th time the educational program for students on "The non-banking financial sector in Bulgaria".

For the first time the program was conducted online. The three webinars were on October 2, 9 and 16. In combination between theoretical and practical part, each day of the training was dedicated to one of the non-banking markets, and lecturers were experienced experts from the FSC and business. Virtual visits were made to a pension insurance and insurance company, a financial group and the Bulgarian Stock Exchange. The participants got acquainted in detail with the mission and activities of the Financial Supervision Commission, in its role as a regulator of the non-banking financial sector. The program was attended by 26 students from XI grade and 7 teachers from secondary vocational schools with economic and financial profile from the cities of Blagoevgrad, Burgas, Varna, Veliko Tarnovo, Vidin, Gorna Oryahovitsa, Gotse Delchev, Kyustendil, Kardzhali, Montana, Pazardzhik, Petrich, Popovo, Plovdiv, Razgrad, Ruse, Svishtov, Silistra, Sliven, Smolyan, Sofia, Targovishte, Stara Zagora, Razgrad and Haskovo. The main goal of the educational program is for the students from the secondary vocational schools in Bulgaria to gain valuable knowledge about the financial sector, about the management of personal finances, as well as about the specifics of the activity of the Financial Supervision Commission.

The Commission has taken active actions to analyse and monitor financial innovation in the non-banking financial sector. On September 10 and 11, 2020, representatives of the FSC took part in the next module of the FIN-TECH project of the University of Economics - Varna on "Artificial Intelligence, Market Risk and Robot Advice". Issues on the use of artificial intelligence in the provision of robo investment advice and in the formation of investment portfolios, cryptocurrency portfolio management models and their relationship to Forex trading were discussed.

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

6. Financial Technology Monitoring Strategy

In an environment of continuous dynamic development of the market of financial innovations worldwide, including at European level, and in implementation of the Financial Technology Monitoring Strategy (FinTech) adopted by the FSC in the non-banking financial sector (2018 - 2020), in 2020 the Financial Supervision Commission took a number of initiatives to monitor financial innovations, monitor the social insurance, investment and insurance markets on the financial innovations used, ensuring the protection of the rights of investors and consumers of innovative services and promoting its innovation activities.

In order to raise the awareness of experts in the FSC on the developments and trends in the financial innovations in 2020, as well as to get acquainted with innovative products offered on the financial markets, the experts attended all key forums related to financial innovations, namely: FinTech Summit 2020, 6th Lux FinTech Conference on digital finance platforms, Blockchain, private and public cryptocurrencies; 22nd IOSCO Seminar Training Program, Virtual Program, on RegTech/SupTech; training of the University of Economics - Varna - SUP-TECH 2 on financial innovations within a joint partnership project with the FSC. FSC experts are also involved and work actively in the innovation working groups of the European Supervisory Authorities ESMA and EIOPA, and they also took part in seminars organized on the topic.

In order to monitor market developments, analyse trends and identify risks, in 2020 the FSC conducted two surveys of the financial innovation market, and for this purpose special questionnaires were developed aimed at the persons supervised by the FSC.

The first survey on the use of financial innovation by supervised entities in 2020 and monitoring the impact of the crisis following COVID-19, 103 supervised entities were involved: 15 management companies, 7 public companies, 40 insurance brokers, 4 SPICs (special purpose investment companies), 13 insurance companies, 18 investment firms and 6 pension insurance companies.

The second survey focused on the use of cloud services by supervised entities, because they are essential for the creation of a genuine, competitive and single market for data governance. They are a key objective of the European Commission Data Strategy, Digital Strategy, Industrial Strategy and European Union (EU) Recovery Plan, which should provide access to more secure, sustainable, interoperable, environmentally friendly and massive cloud infrastructures and business services.

A total of 113 companies took part in the survey, of which 35 companies operating on the investment market (investment firms, public companies, management companies and special and investment purpose companies), 76 insurance companies and 2 pension insurance companies.

A group of experts prepared an analysis of the responses received in both surveys resulting in proposals to optimize the FSC's action in this area.

In 2020, the FSC examined within the established mechanism for cooperation with business - Innovation Centre (Innovation hub), specific inquiries from Bulgarian and foreign companies in connection with the regulatory framework and the applicable law to specific cases.

In reference to the implementation of measures to achieve the strategy for financial innovation, actions were taken to prepare and organize the participation of FSC experts in a discussion forum of the digital strategy of the EC, organized by the Bulgarian Fintech Association together with FISMA at the EC - Webinar Digital Finance Outreach, as well as participation in the Webinar Digital Finance Outreach.

Experts took part in a conference call for an innovative product for processing and data storage offered by a Luxembourg company, as the connection between the company and the FSC is on the recommendation of the EC. The “Complaints watch” project is related to the data collection and processing of information, accumulated in the EU supervisory authorities, acquired by them in connection with their supervisory functions for processing and responding to complaints of users of financial services.

7. International activity and cooperation

7.1. European dimension

The Financial Supervision Commission, as a participant in the European System of Financial Supervision (ESFS), is actively involved in the activities of the European supervisory authorities (ESMA and EIOPA) in order to associate the Bulgarian non-banking sector to the single European financial market. The FSC is part of the governing bodies and participates in the meetings of the Boards of Supervisors of the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA), supporting their activities through expert participation in the working committees and groups set up for them. In addition, the FSC participates as a non-voting member in meetings of the European Systemic Risk Board (ESRB) and cooperates with the European Banking Authority (EBA).

Key aspects of ESMA's work

The main mission of the European Securities and Markets Authority (ESMA) continues to be to strengthen investor protection and promote stable financial markets. ESMA achieves its mission through four activities:

- risk assessment for investors, markets and financial stability;
- creating common rules for EU financial markets;
- supervisory convergence;
- direct supervision of specific financial entities.

In this regard, in early 2020 ESMA published its strategic priorities for the period 2020-2022. These priorities are set against a changing landscape for ESMA, including shifting the focus of regulation to supervision and harmonised enforcement of EU legislation, as well as the continuing need to develop the EU's capital markets, especially having in mind the departure of the EU's largest capital market, the United Kingdom. ESMA's strategic objectives for the period, based on its four main activities, are as follows:

- risk assessment as a starting point for selecting ESMA's priorities;
- greater focus on the risks of retail investors - coordination of initiatives of national competent authorities in the field of financial literacy and education, analysis of bad practices and costs related to the purchase of financial products, coordination of "secret shopping" initiatives in the EU, steadfastness in the use of its powers to suspend the sale of certain financial products;
- ESMA as a data centre for EU securities markets in a global context;
- promoting supervisory convergence by focusing on supervisory outcomes using innovative tools;
- setting supervisory priorities by identifying the most significant risks and collecting data;
- increasing the number of peer reviews in order to achieve greater convergence of supervision in the EU;
- risk-based direct supervision focused on results with long-term impact on third-country central counterparties , critical benchmarks (from 1.01.2022), third-country benchmarks, data

reporting service providers (from 1.01.2022), securitisation registers, securities financing transactions, trade repositories and credit rating agencies.

ESMA's priorities for 2020, grouped by its core activities, are as follows:

- supervisory convergence - strengthening the convergence powers based on the new ESMA Regulation, while ensuring consistency in the application of MiFIDII/MiFIR for secondary markets; work on the performance and cost of retail investment products, while facilitating the development of its data-driven supervision;
- risk assessment - publication of annual statistical reports based on EMIR, AIFMD and MiFID II data; promoting cooperation on risk analysis;
- single Rulebook - contributing to the implementation of the Capital Markets Union, Fintech and Sustainable Finance Action Plans, developing the necessary rules under EMIR 2.2/EMIR Refit and reviewing MIFID II/MiFIR;
- direct supervision - ensuring effective supervision of credit rating agencies, trade repositories, entities under the Securitisation Regulation and the Securities Financing Transactions Regulation (SFTR), systemically important central counterparties, along with the recognition of third-country CCPs.

According to the amendments to the ESMA Regulation, which entered into force on 01.01.2020, the Authority is obliged to prepare up to two important priorities for the whole Union, which reflect the future changes and trends. National competent authorities are obliged to take these priorities into account when drawing up their work programs and to notify ESMA. ESMA shall discuss the relevant activities of the competent authorities in the coming year and draw conclusions on the implementation of these priorities and possible follow-up, which may include guidelines, recommendations to the competent authorities and peer reviews in the relevant field.

In November 2020, two Union Strategic Supervisory Priorities for national competent authorities were approved and published, according to which the specific topics on which the FSC should take supervisory action in 2021 and which will be coordinated by ESMA are:

1. costs and fees, charged by fund managers; and
2. improving the quality of transparency data reported under MiFIR.

In addition, ESMA is actively working on the topic of sustainable finance through a set of priority actions aimed at integrating environmental, social and governance (ESG) factors as part of the investment chain.

As a European regulator, ESMA has continued its work persistently and prudently to support the smooth and sustainable withdrawal of the United Kingdom from the European Union. The supervisory authority shall endeavour to ensure adequate regulatory and supervisory coverage of third country companies.

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 2020, task forces were formed in FSC to review a total of 5 ESMA guidelines, as a result of which FSC declared before ESMA **compliance with the following Guidelines:**

Guidelines on scenarios included in stress tests according to Art. 28 of the Money Market Funds Regulation;

It is addressed to the national competent authorities as well as to the money market funds and the persons managing those funds as defined in Regulation (EU) 2017/1131 of the European Parliament and of the Council on money market funds (MMF Regulation).

They determine common reference parameters for the scenarios used in the stress tests to be included in the MMF stress tests performed in accordance with Art. 28 of the MMF Regulation.

Their purpose is to ensure common, uniform and consistent application of the provisions of Art. 28 (1) of the MMF Regulation, setting common reference parameters for the scenarios used in the stress tests.

Guidelines for the standardized procedures and protocols for communications under Art. 6 (2) of Regulation (EU) № 909/2014;

The Guidelines are addressed to investment firms and the competent authorities of investment firms.

The guidelines shall be applied with regard to the requirements under Art. 6 (2), and in particular the standardized procedures and communication standards to be used to comply with Art. 6 (2), second subparagraph of Regulation (EU) № 909/2014.

The purpose of these guidelines is to establish consistent, efficient and effective supervisory practices within the ESFS and to ensure the common, uniform and consistent application of Art. 6 (2), second subparagraph of Regulation (EU) № 909/2014, supplemented by Art. 2 of Commission Delegated Regulation (EU) 2018/1229.

Guidelines regarding the reporting to the competent authorities according to Art. 37 of the MMF Regulation;

The guidelines are addressed to the competent authorities and the money market funds (MMFs) and to the MMF managers within the meaning of the MMF Regulation.

The guidelines apply in connection with Art. 37 of the MMF Regulation and the reporting template in the Annex to the Implementing Regulation on reporting.

The purpose of the guidelines is to establish consistent, efficient and effective supervisory practices and to ensure the common, uniform and consistent application of Art. 37 of the MMF Regulation and the Implementing Regulation on reporting.

Guidelines on performance fees in UCITS and in certain types of AIF

The guidelines are addressed to the managers and the competent authorities.

They aim to promote greater convergence and standardisation in the field of performance fees and to promote the convergence of supervision of the competent authorities. In particular, they aim to ensure that the performance fee models used by the management companies are in line with the principles of fair and honest way in the conduct of their business and the use of the necessary

skills, care and attention in the best interests of the fund they manage, in such a way as to avoid unjustified costs to the fund and its investors. They also aim to establish a common standard in relation to the disclosure of performance fees to investors.

Peer reviews

According to the amendments to the ESMA Regulation, which entered into force on 01.01.2020, the Authority starts to prepare a biennial peer review (PR) plan of the National Competent Authorities (NCAs), which should be voted on by the Board of Supervisors and is to be published. It reflects lessons learned from previous peer review processes and is a separate part of the annual and multi-annual work program. The follow-up actions after the completion of the peer review are already regulated - 2 years after the completion of each peer review, the implementation of the given recommendations will be monitored to the respective NCAs and the implementation will be evaluated.

In this regard, ESMA's Board of Supervisors discussed and approved the “Peer Review Work Programme 2021-2022”. The work programme is divided into the following categories:

- Mandatory PRs - those that are provided by law;
- Discretionary PRs- at the discretion of ESMA;
- Fast track - in case of emergency or unforeseen events, additional peer reviews can be performed outside the programme.

The programme can be accessed at the following link:

https://www.esma.europa.eu/sites/default/files/library/esma20-95-1273_2021_annual_work_programme.pdf

In 2020, ESMA conducted **Peer review on compliance with the Authority's Guidelines on enforcement of financial information standards (GLEFI) by the German supervisory authorities**. On 25 June 2020, the European Commission asked ESMA to conduct a factual analysis of the events that led to the collapse of Wirecard AG, a fintech company included in the German DAX 30 index. As a result, ESMA has launched a peer review of financial information supervision in accordance with the Transparency Directive (Directive 2004/109 / EC) and the Guidelines on enforcement of financial information (GLEFI). This inspection focuses on the supervisory actions of the German supervisory authorities, which have competence in this case. The full report on this inspection can be accessed at the following link:

https://www.esma.europa.eu/sites/default/files/library/esma42-111-5349_fast_track_peer_review_report_-_wirecard.pdf

Key aspects of EIOPA’s work

The European Insurance and Occupational Pensions Authority, EIOPA, focuses on activities that contribute to achieving the vision of a reliable supervisor. The main goals of the institution are related to business management, supervisory convergence and financial stability. EIOPA applies a method to prioritize its activities to identify the most important areas of work for the year.

Among the main focus topics on which EIOPA is working in 2020 are digitalization and sustainable finance. EIOPA monitors the development of new technologies and their use by identifying implications for supervisors, industry and consumers. With regard to sustainable

funding, EIOPA seeks to ensure that environmental, social and governance (ESG) factors are reflected in the contribution to the reviews of relevant regulations.

Among the main priorities for EIOPA in 2020 are:

- SupTech - study the use of technology by supervisors to provide innovative and effective supervisory solutions to maintain a more flexible and responsive supervisory system;
- Monitoring market developments and the development of new technologies - assessing and addressing supervisory and regulatory issues arising from the use of technologies such as DLT / Blockchain and artificial intelligence (AI);
- Cyber resilience of the insurance market - security and governance, promotion of supervisory convergence, as well as cooperation and discussion of all cyber areas;
- Creating a stable cyber insurance market as a tool for the digital economy;
- Sustainable finance - identifying key areas of supervision and promoting supervisory convergence in risk assessment of ESG factors.

EIOPA has set several important targets for 2020:

- Improving regulation and supervision regarding business management

EIOPA works to contribute to the review of both the IDD and the PRIIPs framework, in addition to the regulatory work on PEPP and sustainable finance. Convergence of supervision is a priority, as the development of cooperation platforms is increasingly deepened, with visits to countries and work with national competent authorities on the chapters on conduct in the Supervisory Manuals.

- Convergence related to high quality prudential supervision across the EU

EIOPA continues its work on the Solvency II Review, paying particular attention to the application of the principle of proportionality and focusing on the effectiveness of long-term measures, aspects of illiquid liabilities, and the inclusion of macroprudential elements.

In addition, the European regulatory body is prepared to take regulatory action in connection with the withdrawal of the United Kingdom from the EU. EIOPA has a crucial role to play in promoting the convergent implementation of the IORP II framework and will monitor the supervisory aspects of cross-border IORPs.

EIOPA works to improve the use and quality of supervisory information through effective standardized exchange mechanisms, centralized quality checks and the timely provision of business information.

EIOPA focuses on improving the use of a central database to provide valuable reports to national competent authorities, improving quality and supervisory convergence. One of the main objectives for the European regulator in 2020 is to ensure that EIOPA's IT infrastructure keeps pace with the changing cyber risk.

The European insurance sector has a large cross-border dimension, which means that the quality of national supervision is no longer just a national issue, but a European issue. Stronger and coordinated supervision is needed. Due to the completion of the Union Capital Markets process, key initiatives such as PEPP have an important role to play for EIOPA.

In 2020, the European Authority has set itself the goal of continuing to strengthen cross-border surveillance - facilitating cooperation between countries on cross-border cases and consensus on risks through early warning indicators.

- Strengthening the financial stability of the insurance and pension sectors

Challenging market conditions and a high political risk environment call for enhanced risk monitoring at EU level, aimed at early identification and proposing mitigation measures for the stability of the insurance and pension sectors.

EIOPA works to continuously develop and improve key financial stability products, with a particular focus on integrating newly obtained pension data and emerging risks such as cyber risks and their mitigation / management techniques, as well as a focus on ESG factors.

EIOPA also focuses on creating a methodological framework for the use of newly obtained pension data - in order to enrich the monitoring and assessment of risks to financial stability, the European Supervisory Authority aims to improve its framework by integrating pension data.

In 2020, EIOPA has also focused on improving the availability of data in the field of reliable risk analysis and statistics - transparency, trust and confidence in the insurance sector can be achieved by making more reliable and up-to-date information more easily accessible.

- Effective and efficient management of the EIOPA mandate, while adapting to new priorities and requirements

EIOPA seeks additional efficiency in administrative processes, including through the wider application of e-government. It also supports corporate social responsibility efforts, especially in the field of environment, through a proactive approach to environmental performance, based on the implementation of the European Commission's Environmental Management and Audit System (EMAS).

In order to ensure that EIOPA is flexible in its response to change and works as efficiently and effectively as possible, the Authority seeks to continuously improve the functioning of its processes, including automation and digitization.

EIOPA is also working on its ongoing commitment to act as a responsible international organization, including the ambition to reduce environmental impact and save resources and costs, in an open dialogue with staff and stakeholders.

In 2020, the world faced the extraordinary COVID-19 challenge, which caused significant shocks in the economy, business and people. Throughout the year, EIOPA works closely with national supervisors to mitigate the impact of the pandemic on the insurance and occupational pension sector in Europe. Measures were introduced to help insurers focus on ensuring business continuity and continue to serve their customers. The focus was on getting all economic actors to work together so that the insurance and pension sectors can emerge from the crisis with the least possible consequences.

EIOPA Guidelines

During the reporting year, the FSC adopted with its decision its intention to comply with the following EIOPA guidelines in its supervisory practice:

Guidelines for Outsourcing Cloud Service Providers

The purpose of the guidelines is to provide guidance to insurance and reinsurance companies on how to apply the outsourcing provisions set out in Directive 2009/138 / EC2 (Solvency II Directive) and in the Delegated Regulation (EU) № 2015/35 in case of outsourcing to cloud service providers.

The guidelines are addressed to the competent authorities, which should provide guidance on how insurance and reinsurance companies should apply the outsourcing requirements set out in the above-mentioned legislation in the context of outsourcing to cloud service providers. , as well as the companies that outsource these activities.

Peer reviews

In 2020, EIOPA conducted two peer reviews:

Peer review on the implementation of the Decision on the collaboration of insurance supervisory authorities

Increased cross-border activity in the EU internal market implies strong, close and timely cooperation between supervisors. The verification focuses on compliance with the EIOPA Decision on the cooperation of insurance supervisors (EIOPA-BoS-17/014), which is a key tool for strengthening this cooperation and helps to build a common supervisory culture.

The peer review analysed practices among NGOs in a number of areas, in particular: the effective implementation of the decision (through internal rules or procedures); cases of licensing of a new undertaking which will operate in another Member State; the process of notification of freedom to provide services and freedom of establishment; continuity of supervision; storage of data and preservation of all necessary information on cross-border activities.

The full report can be accessed at the following link:

https://www.eiopa.europa.eu/content/peer-review-regular-supervisory-report_en

Peer review of the regular supervisory report

It is important that national competent authorities apply a consistent approach to insurance undertakings and their supervisory accountability. This helps to ensure that Europe has the same level of supervision, which in turn protects consumers and contributes to the stability of the financial system.

No best practices have been identified in this PR, as Art. 312 of Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance provides for a high degree of flexibility in the application of the norm. However, EIOPA has identified some sound practices in this area, based on the principles and key features of high quality and effective supervision.

During the audit, EIOPA analysed the legal framework and national practices in 31 jurisdictions regarding their decisions on the frequency of the regular supervisory report and the notification of interested companies. The results show different approaches and practices of NCAs

in this area and as a result EIOPA will issue a number of recommendations in order to achieve greater supervisory convergence.

The full report can be accessed at the following link:

https://www.eiopa.europa.eu/content/peer-review-regular-supervisory-report_en

Key aspects of ESRB's work

With regard to COVID-19 and related measures taken to mitigate the pandemic, which led to an unprecedented economic contraction, the ESRB revised and updated its systemic risk assessment to take into account the new risk landscape arising from COVID-19.

In response to the changing risk pattern, the ESRB entered a "crisis regime" in April and May 2020, increasing the frequency of its political meetings.

With regard to the financial impact of loan guarantee schemes and other fiscal measures aimed at protecting the real economy, the ESRB published Recommendation ESRB/2020/08 on monitoring the financial stability implications of debt moratoria and public guarantee schemes and other measures of a fiscal nature taken to protect the real economy in response to the COVID-19 pandemic to establish minimum requirements for national monitoring of such measures by macro-prudential authorities and to establish a framework for reporting to the ESRB. The information with the measures is updated and published on a weekly basis, and a report on the support measures in the various EU member states has been prepared.

With regard to market illiquidity and its implications for asset managers and insurers, the ESRB adopted Recommendation ESRB/2020/04 on liquidity risks in investment funds, which advises ESMA to coordinate with national competent authorities on a focused supervisory engagement with the two sectors of investment funds.

As a result of the impact of the pro-cyclical bond declines on markets and financial system entities in 2020, the ESRB, together with its member institutions, continued to monitor the developments in this area in the financial system, publishing notes in July and September.

Recommendation ESRB/2020/07 on restriction of distributions during the COVID-19 pandemic and recommendation ESRB/2020/06 on liquidity risks arising from margin calls aimed at limiting the effect of market failure in relation to the demand for additional collateral in markets with central and non-central clearing, improving the liquidity management of central counterparties and reducing liquidity constraints related to margins.

A key focus of the ESRB's bodies and structures in 2020 was on the assessment of risks to financial stability in the EU, with a regular contribution from the ECB's monitoring and evaluation work through bottom-up survey, market information, risk management board of the ESRB, the biennial statistical section of the Analysis of National Banking Systems report and the assessment of the risk and policy priorities of the ESRB. Discussions on risk were further supported by the Country Risk Analysis Report, which was prepared semi-annually.

In 2020, the ESRB assessed the compliance of the measures and actions under Recommendation ESRB/2012/1 on money market funds and amended Recommendation ESRB/2016/14 on closing real estate data gaps (Recommendation ESRB/2019/3).

Pursuant to the ESRB Recommendation of 18 June 2014 on guidance for setting countercyclical buffer rates (ESRB/2014/1), pursuant to Art. 13, para. 1, item 25 of the FSCA, in

connection with Art. 111 of Ordinance № 50 of 19.06.2015 on capital adequacy, liquidity of investment intermediaries and supervision of compliance, the Financial Supervision Commission at its meetings decided to set the countercyclical buffer rates, and as a result of the pandemic COVID-19 in March 2020, the FSC adopted a decision revoking its decisions of 05.04.2019 and 04.02.2020, revoking the planned increase in the applicable countercyclical buffer rate applicable to credit risk exposures in the Republic Bulgaria for the second, third and fourth quarters of 2020 by 1% and for the first quarter of 2021 by 1.5%. The applicable countercyclical buffer rate of 0.5%, set on 23.10.2018, remains in force.

In accordance with Recommendation ESRB/2015/1 on recognising and setting countercyclical buffer rates for exposures to third countries, in 2019 the ESRB published without significant changes compared to 2016 the list of countries identified as significant third countries, including Brazil, China, Hong Kong, Russia, Singapore, Switzerland, Turkey and the United States.

Regarding Recommendation ESRB/2016/14 on closing real estate data gaps (as amended by Recommendation ESRB/2019/3), the FSC together with the BNB has prepared an interim report on the measures and actions taken. The real estate sector continues to be assessed as one of the sources of systemic risk in the medium term in some EU countries.

The ESRB continued its work on macroprudential policy beyond banking and on the analysis and development of macro-prudential instruments in insurance continues, and the outcome of this work will be taken into account in the review of the Solvency II Directive. An analysis of the incentives for central clearing and pro-cyclicality in relation to the new requirements arising from the EMIR review was also performed.

In 2020, the ESRB will contribute to the preparation of the adverse scenarios of the EIOPA stress tests for pension funds and ESMA for central counterparties.

The ESRB has also started work on sustainable finance by developing and implementing a methodology for conducting a study of the impact of different climate change scenarios that could affect the EU financial sector.

7.2. International cooperation, projects and initiatives

The 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 of 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, licensing and other procedures, FSC continued during the past year to provide active assistance. 50 requests for assistance received from foreign supervisory authorities were completed in accordance with IOSCO, IAIS and ESMA's memoranda of understanding. Respectively, FSC has made 40 requests for assistance to its foreign partners.

With the entry into force of the General Data Protection Regulation (GDPR), stricter requirements have been introduced for the collection and processing of personal data, including with regard to their transfer to third countries. In order to ensure the continued lawful exchange of information with third countries by aligning the IOSCO Memorandum with the GDPR, a draft administrative arrangement was prepared and approved by both the European Data Protection Authority and the Bulgarian Commission for the Protection of Personal Data. In April 2019, pursuant to Art. 46, para. 3 of the GDPR, the FSC signed the multilateral administrative arrangement on data transfer and subsequently in 2020 at its annual meeting IOSCO elected a representative of the FSC as one of the six members of the Assessment Group for the implementation of the administrative arrangement in case of a complaint.

Regarding the international activities, in connection with the UK's leaving the EU, when EIOPA and all Member States agreed in 2019 to sign a multilateral memorandum in the field of insurance with the national competent authorities of the United Kingdom (FCA and the Bank of England), a similar memorandum in the field of securities was signed in 2020 with the partnership of ESMA.

In 2020, two bilateral international memoranda were signed- with the Financial Services Regulatory Authority of Abu Dhabi (FSRA) and with the Financial Services Regulatory Authority of Astana (AFSA) in Kazakhstan, as well as two multilateral Brexit memoranda.

Multilateral Memorandum of Exchange of Information with the Financial Services Regulatory Authority of Abu Dhabi:

In 2020, a bilateral memorandum was concluded with the Financial Services Regulatory Authority of Abu Dhabi (FSRA) regarding the Abu Dhabi Global Market (ADGM). FSRA is also a member of IOSCO. This memorandum confirms the good cooperation between the two authorities, and its signing was planned as part of the events related to high-level visits held in 2019. The memorandum covers the possibility of exchanging information in the field of securities, insurance and money laundering.

Multilateral Memorandum of Exchange of Information with the Financial Services Regulatory Authority of Astana (Nur-Sultan):

In 2020, the FSC concluded a bilateral memorandum for the exchange of information in the field of the non-banking financial sector with the regulatory authority of Astana (AFSA). AFSA is a regulatory authority that is also an associate member of IOSCO. AFSA has a special status and jurisdiction over the Astana International Financial Centre (AIFC), which includes the area within the city of Nur-Sultan (Astana), designated by the President of the Republic of Kazakhstan as an area in which a special legal regime applies in the financial sector, established by the Constitutional Act of the Republic of Kazakhstan for AIFC (Constitutional statute of the Republic of Kazakhstan on the Astana International Financial Centre). The memorandum covers the possibility of exchanging information in the non-banking financial sector.

Given the intention of the Republic of Bulgaria to join the eurozone and the commitments arising for the FSC from the Action Plan for the implementation of the post- commitments after the accession to ERM II, in the period 14-18 December 2020 EIOPA conducted special online training

for more than 40 Commission officials. The purpose of the training was to further develop the expert capacity in the field of insurance supervision, and in addition to experts from the Insurance Supervision Division, employees from the Social Insurance Supervision Division, Legal Directorate and International Cooperation Directorate also took part in the training. Emphasis in the program was given on the specificities of the supervision of insurance and reinsurance undertakings and groups under Solvency II. The training covered the Solvency II requirements for valuation, investments, capital requirements for solvency, loss absorbing capacity of technical provisions, requirements for own funds and other important elements related to the Solvency II directive. The training included both an educational session with exchange of experience and discussion with the participants, as well as some practical case studies. Through such trainings of the national competent authorities, EIOPA contributes to the establishment of high-quality regulatory and supervisory standards as well as consistent supervisory practices amongst NCAs. The training has been funded by the European Commission via the Directorate General for Structural Reform Support, following an approved project of the Financial Supervision Commission under the Structural Reform Support Program.

Another project in which the FSC participated was in the field of financial education and is implemented by the International Network on Financial Education to the Organization for Economic Cooperation and Development and the Ministry of Finance of the Netherlands. It is a 5-year project (2018-2022) which aims to provide support for the development and implementation of initiatives adapted to the specific needs of the participating countries in the field of financial education, including preparing and implementing a Strategy for financial education. A total of 7 countries are participating in the project; in addition to Bulgaria, these are Romania, Croatia, North Macedonia, Montenegro, Moldova and Georgia. This project is a high priority, as well as in connection with the application of the Republic of Bulgaria for membership in the Organization for Economic Cooperation and Development. An interinstitutional task-force group has been established for the implementation of the project, with the participation of both governmental and non-governmental organizations. The project coordinator is the Ministry of Finance.

7.3. Cooperation with institutions in Bulgaria

The FSC maintains and deepens its cooperation with state structures, branch associations of the FSC supervised entities and other interested persons in view of the prepared changes in the legislation and the practical problems that have arisen in its implementation.

In order to increase the effectiveness of control and regulation of the non-banking financial sector in Bulgaria, the FSC maintains and deepens cooperation with government agencies, branch associations of its supervised entities and other stakeholders given the prepared changes in legislation and practical changes in its implementation, as well as other bodies and institutions related to the protection of consumers of non-bank 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), the Ministry of Finance (MF), the Ministry of Interior (MoI), the Ministry of Health (MoH), the Ministry of Transport, Information Technology and Communications (MTITC), the Registry Agency (RA), Executive Agency “Road Traffic Administration”, the Institute of Certified Public Accountants (ICPA) and the Commission of Public Oversight of Statutory Auditors (CPOSA).

Employees of the RRIS Directorate participated in a work meeting in connection with the accession of the Republic of Bulgaria to the OECD codes for liberalization of capital movements and invisible operations together with employees of the Ministry of Finance. The employees were asked questions about the regulations regarding the performance of insurance activity on the territory of the Republic of Bulgaria by insurers from EU Member States and third countries.

A representative of RRIS Directorate took part in a working meeting held at the Ministry of Tourism to discuss the problem of the continuing lack of supply on the Bulgarian insurance market Liability of the trader facilitating the provision of related tourist services.

At the beginning of 2020, meetings were held with the Institute of Certified Public Accountants (ICPA), and after talks with the Association of Bulgarian Insurers (ABI), an amendment was made to the Instructions on the certification under Art. 126, para. 3 of the IC of the annual reports under Art. 2, para. 1, items 1 and 2 of Ordinance № 53 of 23.12.2016 and of the model forms with annual quantitative data under Art. 304 (1) (d) of Regulation (EU) 2015/35.

At the end of 2020, a meeting of the expert task force of the European Commission (EC) for banks, payments and insurance was held in the form of a video conference call with the main topic of the meeting - Solvency II review and topics related to recovery and resolution. The work meeting was attended by employees of the RRIS Directorate together with employees of the Ministry of Finance, who prepared in advance the opinion of the Republic of Bulgaria on previously submitted issues, which were sent before the meeting to the Ministry of Finance, as a leading authority. After the meeting, the information on the affected topics was further developed and sent to the Ministry of Finance.

In December 2020, a meeting of the Expert task force of the European Commission (EC) on Banks, Payments and Insurance (insurance format) was held in the form of a video conference with the main topic of the meeting - the work of the EC and EIOPA on the forthcoming legislative proposal for insurance guarantee schemes (IGS). The work meeting was attended by employees of the RRIS Directorate and the Ministry of Finance, who prepared the opinion of the Republic of Bulgaria on previously submitted issues, which were sent before the meeting to the Ministry of Finance, as a leading authority. After the meeting, the participants from the Insurance Supervision department presented to the management a report, with all questions, answers, as well as the concept of the Republic of Bulgaria regarding the compensation schemes.

In the line of interdepartmental cooperation, in connection with the discussion and coordination of proposals for changes in the legislation and exchange of available information, in 2020 representatives of the Social Security Supervision Department initiated a number of working meetings with representatives of the Ministry of Finance and BASPSC in connection with the draft

act for amendment and supplement of SIC of the Ministry of Labour and Social Policy regarding regulation of the phase of payment from the additional obligatory pension insurance.

During the reporting year, the participation of representatives from the Insurance Supervision Department in the permanent working groups of the Council for European Affairs continued, in particular in Working Group 26 “Financial Services” and Working Group 27 “Accounting Policy and Independent Financial Audit”, subgroup “Accounting Policy”, with the leading institution MoF, Working Group 2 “Free Movement of People” and Working Group 13 “Social Policy and Employment ”at the MLSP.

During the reporting year, representatives of the Insurance Supervision Department participated in a joint project with ICPA to coordinate the type of engagement of the registered auditors, who check and certify the annual financial statements of PICs and pension funds managed by them and agreed procedures for fulfilling the requirements of Art. . 187, para. 3, item 3 of the SIC.

In 2020, meetings were held with representatives of the State Agency for National Security, where the investment behaviour of the PICs was discussed, especially in connection with the state of emergency in the country declared by a decision of the National Assembly of 13.03.2020 due to the COVID-19 pandemic, the change of participation and transfer of funds to insured persons, etc.

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 BASPSC.

No new cooperation agreements have been concluded in 2020.

8. Institutional development of FSC

8.1. New points in FSC's management and structure

During the reporting period the following changes were made in the organizational structure of the FSC:

Based on the performed specialized analysis and assessment regarding the workload and the volume of work related to the combination of two functions, through transformation of the staffing schedule of the FSC, the following positions have been separated into independent ones: Information Security Officer, as of 03.02.2020 and Financial Controller, as of 20.11.2020.

For the period from 22.01.2020 to 23.07.2020, the Commission is working part-time due to the early termination of the mandate of the Commissioner, supporting its policy on analysis and assessment of risks in the financial markets, improvement of supervisory practice and protection of the interests of the investors, the insured and the insured persons, with a decision of the National Assembly, promulgated. SG, issue 7 of 24.01.2020

By decision of the National Assembly, prom. SG, issue 67 of 28.07.2020, a new Deputy Chairperson of the Financial Supervision Commission was elected, heading the Insurance Supervision Department.

By decision of the National Assembly, prom. SG, issue 67 of 28.07.2020, a member of the Financial Supervision Commission was elected, supporting its policy on analysis and assessment of the risks on the financial markets, improvement of the supervisory practice and protection of the interests of the investors, the insured and the insured persons.

At the end of 2020, a change was made in the structure of the two directorates in the composition of the Insurance Supervision Department, which came into force at the beginning of 2021. The purpose of the structural changes in the two directorates is to increase work efficiency, to a working distribution of the functions of the Regulatory Regimes of Insurance Supervision Directorates and Insurance Supervision Directorate is achieved. The internal movement of employees, within the management, is in accordance with their competencies, strengths and professional qualities, on the one hand, and with the specifics of the functions of the units, on the other.

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 2020 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, whose functions are combined respectively by a Chief Inspector in the Inspectorate and an Adviser in the Office of the Chairperson.

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 2020, 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 – one permanent post;

Records and Administrative Services Directorate – seven permanent posts;

Financial and Economic Activities Directorate – 21 permanent posts;

Information Technologies Directorate – seven permanent posts;

Public Relations and Protocol Directorate – seven 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 following units are also directly subordinated to the FSC Chairperson: Office of the Chairperson - 5 full-time positions, Internal Audit Unit - 4 full-time positions, Inspectorate - 3 full-time positions and the positions of Secretary General, Information Security Officer and Financial Controller.

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 – 24 permanent posts;

Supervision of Investment Activity Directorate – 57 permanent posts;

Regulatory Regimes of Insurance Supervision Directorate – 14 permanent posts;

Insurance Supervision Directorate – 32 permanent posts;

Regulatory Regimes of Social Insurance Supervision Directorate – eleven permanent posts;

Social Insurance Supervision Directorate – 16 permanent posts;

Analyses, Complaints and Resolution Directorate – 10 permanent posts.

To achieve the strategic objectives, the Commission had as its priority the improvement of conditions and provision of favourable working and social environment to attract suitable recruits, as well as to keep qualified employees and further their professional development.

To successfully realize its functions and goals, the FSC, through the effective management of human resources, aims to provide capable, responsible, motivated employees with the necessary knowledge and competence. This is done with the consistent policy in the field of human resources management, aimed at ensuring and developing the expert potential of FSC employees, improving their professional qualifications, ensuring consistency in leadership and continuity, building and maintaining a working environment that enhances trust, motivation and satisfaction of employees, formation of internal institutional affiliation.

As a result of the actions taken to attract experts with the necessary professional qualities and qualifications, the number of staff employed in the Commission at the end of 2020 is 232, and

the employment rate amounts to 91% of the total, with an increase of 5% on this indicator compared to the end of 2019.

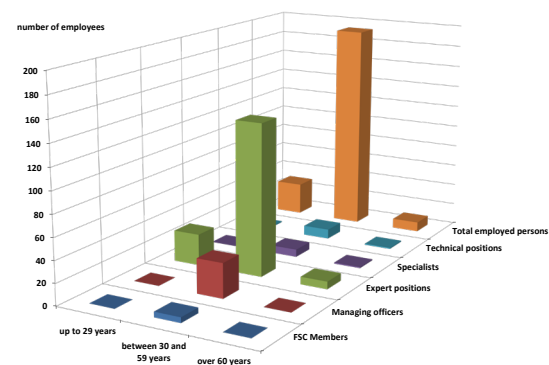
The current Procedure for selection of candidates for work in the FSC guarantees transparency of the selection process and is based on the principle of competition based on the professional and business qualities of the candidates. The procedure regulates the appointment of experts with the necessary qualification and experience in the non-banking financial sector, in strict compliance with the regulations in the field of labour relations. The circle of publicity in recruiting candidates who have a specialized interest in economics and have the required knowledge and competencies by the FSC has been expanded, which aims to attract experts to key positions with high qualifications and experience, with the help of alternative opportunities for selection.

In 2020, 45 new employees were appointed in accordance with the procedure for selection of candidates, including the Deputy Chairperson and a member of the FSC elected by the National Assembly of the Republic of Bulgaria, who fill the composition of the FSC as a collegial body.

There are 31 people who left in 2020, and according to this indicator there is a decrease of 14% in the number of those who left, compared to the previous 2019.

The trend to attract young people to work in the FSC continued during the reporting year, as employees under the age of 29 accounted for 13% of the employed employees of the FSC administration. The majority of employees fall into the age group of 30 to 59 years (83%). There are 9 (4%) employees working in the FSC over the age of 59.

Graph 16. Distribution of appointed employees by age and position as at the end of 2020

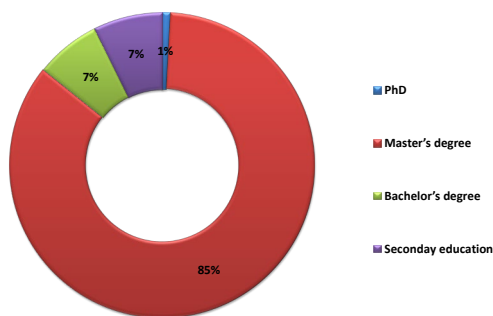


Source: FSC.

Key:
 ОБЩО ЗАЕТИ – TOTAL EMPLOYEES
 Технически длъжности – Technical positions
 Специалисти – Specialists
 Експертни длъжности – Expert positions
 Ръководни служители – Managing officers
 Членове на комисията – FSC Members
 до 29 г. – up to 29 years old
 от 30 до 59 г. – between 30 and 59 years old
 над 60 г. – over 60 years old

The educational and professional-qualification structure of the persons employed in the FSC meets the real needs necessary for the fulfilment of the goals and tasks set before the Commission. Employees with higher education are prevalent, representing 93% of those employed in 2020, including a doctorate (1%), a master's degree (85%) and a bachelor's degree (7%). The share of employees with secondary education is 7%. The distribution of FSC employees by areas of higher education is as follows: the highest percentage (54%) are employees with higher education in the field of economic sciences, 39% - in the field of legal sciences, 4% - humanities, 2% - natural sciences and mathematics, and 1 % have education in other fields.

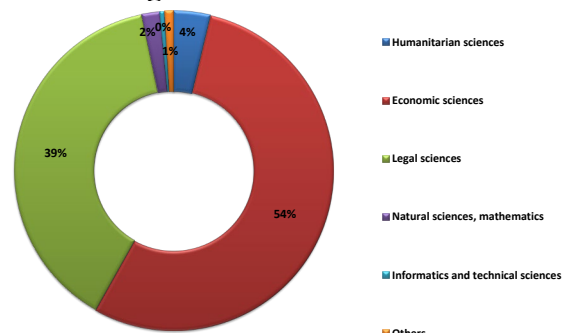
Graph 17. Distribution of employees by educational degree in 2020.



Source: FSC.

Key:
 Доктор – PhD r
 Магистър – Master’s degree
 Бакалавър – Bachelor’s degree
 Средно образование –Secondary education

Graph 18. Distribution of employees by areas of higher education in 2020



Source: FSC.

Key:
 Хуманитарни науки – Humanitarian sciences
 Стопански науки –Economic sciences
 Правни науки –Legal sciences
 Природни науки, математика – Natural sciences, mathematics
 Информатика и технически науки – Informatics and technical sciences
 Други – Other

The FSC's effective regulatory and supervisory activity, maintaining the high level of professional knowledge and skills and improving the employees' personal motivation are ensured through their participation in current and important to the FSC specialized trainings.

In order to absorb the specifics and innovations in the field of financial reporting and analysis, the changes in the regulations, the development of personal qualities and maintaining a high level of professional competence of employees, in 2020 trainings were held on a total of 69 topics in which 140 employees took part. The trainings cover topics for raising the professional qualification and personal development of the employees, organized by training institutions in Bulgaria and abroad.

The trainings are in the field of management and administration, strategic planning, public policies, legal aspects of administrative activity, financial and economic management, risk management in the public sector, information technology. Trainings on personal development and efficiency, foreign language training and specialized trainings related to the regulatory and supervisory functions of the FSC were conducted. In 2020, the possibilities of e-learning, without detachment from the work process, were mainly applied.

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

The motivation for better performance of the work duties and the achieved results from the activity of the employees gives opportunity for career growth. Promotion to a senior position in the Commission was carried out after an objective and fair assessment of the potential for development of employees, in compliance with the principle of equality, as in 2020 16 employees were promoted at the initiative of line managers and 7 employees are reassigned to another administrative unit, while retaining their position.

In 2020, 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 2020, in order to achieve the set strategic goals, by building and maintaining a modern information infrastructure in the field of information technologies, the processes of building a unified information system (UIS) continued, which will ensure the necessary automation of all major business processes in the FSC. . During the year, the business analysis of the regulatory and supervisory activities in the Commission was completed, which defines the functional and non-functional requirements for the future UIS, in accordance with the current regulations and work processes. As a result of the performed activities, a technical assignment was prepared for the implementation of the system, in compliance with all the requirements of the Electronic Government Act and the Cyber Security Act. The assignment was agreed and approved by the State Agency for Electronic Government.

The Financial Supervision Commission applied with a project proposal under Priority Axis №1 “Administrative Services and e-Government” of the Operational Programme “Good Governance” (OPGG) and received approval for the implementation of the project “Building a unified information system for the needs of the Financial Supervision Commission”, amounting to BGN 4,999,980.50, of which BGN 4,249,983.42 is financed by the European Union through the European Social Fund and BGN 749,997.08. - national co-financing. In this regard, an administrative contract №BG05SFOP001-1.011-0001-C01 / XX.07.2020 was concluded between the OPGG Managing Authority and the OPGG Grant Commission under procedure BG05SFOP001-1.011. Public procurement documentation was prepared and the procedure for selection of a contractor for the development and implementation of the system was opened on 31 December 2020.

In order to increase the level of security in case of remote access of FSC employees to the Commission's infrastructure in the conditions of emergency due to the pandemic of COVID-19, the e-mail service was optimized by migrating to a higher version of e-mail servers. A VPN connection was provided for remote access to the FSC infrastructure, as well as a VPN portal for easy and reliable use. In order to provide the necessary equipment for work from home, the heads of units were provided with additional rented laptops. To ensure remote operation of FSC employees, a new technological solution was introduced, meeting the modern requirements for network and information security, enabling all Commission employees to use the necessary information resources through their personal workstations via a web-based VPN portal.

In order to improve, facilitate and improve the communication between the FSC employees, supervised entities and external partners, in the conditions of emergency, Microsoft Teams was implemented - a software platform providing connection from different devices with a single solution for calls, document sharing, co-authorship of files, conducting workshops, video meetings and trainings.

During the year, the participation of the FSC in the working groups of ESMA and EIOPA on the implementation of IT solutions and their application for supervisory purposes at the local level continued. The Financial Supervision Commission has successfully participated in the development and implementation of a technology container for connection to the DG DIGIT (EC) blockchain network, based on an existing container used in the EFTG project of the European Commission's Directorate-General for Information Technology.

To fulfil the obligations of the FSC to EIOPA, the functionality of the information system UIS Data Warehouse - Insurance Supervision Department to the software for validation and generation of Excel files under Solvency II has been upgraded by including procedures for taxonomy for pension insurance companies. This ensures that pension companies can submit their quarterly reports in a format that complies with EIOPA requirements.

In order to fulfil the requirements of Commission Delegated Regulation (EU) 2018/815 of 17.12.2018 to supplement the Transparency Directive 2001/109 / EC, an automated connection of an established insurance / pension portal for validation and submission of reports was upgraded. under the European Single Electronic Format (ESEF) by including taxonomy procedures for public companies.

In order to comply with the requirements of the Implementation of Measures against Market Abuse of Financial Instruments (IMMAFIA), a new information system was developed and put into operation, providing online forms and information sections for supervisors, as well as an internal information system used by the employees of the FSC, for visualization and correction of the content of the electronic administrative services (EAS) offered by the FSC. The system provides submission of information on financial technologies / FinTech / in the non-banking financial sector; filing complaints against persons supervised by the FSC; acceptance of reports for violations of IMMAFIA; submission of an application for registration of an insurance broker, insurance agent, intermediary offering insurance products, providing an opportunity for signing with a qualified electronic signature. An automatic data exchange between the FSC and the Integrated Information System of the State Administration (IISSA) has been established.

During the year, the information system for human resources management "Hermes" was upgraded with additional functionalities. The implemented new modules of the system provide an opportunity for the FSC employees to submit applications for vacations, sick leave, official notes and remote work electronically in absentia. Modules for remuneration and payment of salaries to employees have been introduced, as well as generation of reports for the accounting system and generation of payment orders to the servicing bank of the FSC. A reference part was also provided for the FSC employees regarding the balances of paid annual leave, used leave, detailed information from salary slips by months, completed courses and trainings, etc. In order to ensure technological security of the working hours introduced in the FSC with variable limits, integration with the access control system was performed. All FSC employees have the opportunity to have real-time access to the hours worked in the presence of work for a day, week, month.

During the year activities were carried out to ensure the operability and continuity of the information systems of the FSC, as a result of these efforts provided an opportunity to perform the duties of all officials, maintaining up-to-date information in the registers of the FSC and compliance with the obligations of supervised entities for disclosure and submission of information. The

operability of the systems has made it possible to comply with the Commission's obligations to submit / receive information to / from the European Supervisory Authorities ESMA and EIOPA.

To ensure the compliance of the information infrastructure with the modern requirements for network and information security, actions have been taken to build a second centre for information reservation and storage of critical data, which will be used in case of failure of the main systems of the FSC. After working meetings and exchanged official correspondence between the heads of the FSC and the State Agency for Electronic Government (SAEG), consent was obtained for the deployment (collocation) of communication and information equipment of the Financial Supervision Commission at the SAEG centre. Next year, the physical relocation of the pre-prepared components of the IT infrastructure of the FSC in the centre is forthcoming. During the reporting year, a complete solution for managing the archives of systems and information and a response plan in critical situations was implemented.

To ensure security, continuity, reliability, operability and relevance of the information systems and computer configurations used by the FSC employees, systems for automatic updating of the application software and operating systems have been implemented. A large part of the employees' personal workstations were renovated, part of the active network equipment was replaced and the local computer network was optimized.

8.4. Report on the implementation of the budget of the Financial Supervision Commission for 2020 under the budget program "Improvement of the regulation and supervision of the non-banking financial sector"

The Financial Supervision Commission (FSC) is a legal entity supported by the budget, according to Art. 2, para. 3 of the Financial Supervision Commission Act. The President of the Commission is the primary authorizing officer. The budget of the Commission is compiled, implemented and reported in accordance with the Public Finance Act.

The revenue part of the budget is planned to receive non-tax revenues from fees, according to Art. 27, para. 1 of the Financial Supervision Commission Act (FSCA), fines, property sanctions and penalty interest. The proceeds from imposed fines and property sanctions go to the budget of the FSC, but according to Art. 28, para. 4 of the FSCA are reported as a contribution to the Central Budget.

The statement on cash amounts in FSC's budget for 2020 reported a total **income** in the amount of BGN 20,821,526. The annual plan is implemented at 97.5%.

The structure of revenues for 2020 was as follows:

- revenues from state fees - BGN 17,812,019, according to the Tariff for fees collected by the FSC, Annex to Art. 27, para. 1 of the FSCA (in force since 01.01.2018). Of the total amount of the reported fees by bank or cash, the FSC received BGN 17,794,868, and BGN 17,151 were reflected on the basis of received inquiries and orders for amounts collected by the NRA. The largest relative share (98.42%) in the reported fees has the annual fee for general financial supervision - BGN 17,529,969. The received fees for issuing licenses and permits for carrying out activities and other permits and approvals amount to BGN 282,050;

- revenue from fines, pecuniary sanctions and interest - BGN 3,169,308., of which BGN 2,927,005 are fines and pecuniary sanctions under penal warrants that have entered into force, BGN

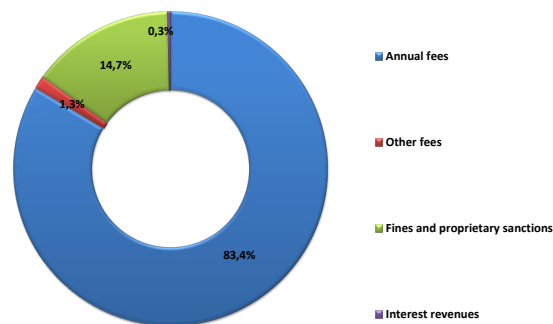
71,345 are interest for late payment of the annual fees for general financial supervision and penal decrees not paid within the statutory term. Amounts collected by the National Revenue Agency are also reflected on the basis of received inquiries and orders for BGN 170,958;

- **other non-tax revenues (-) BGN 160,676** - a negative exchange rate difference (BGN -76), an amount of insurance indemnity + BGN 879, amounts received from reimbursed legal fees + BGN 26,630 and the public receivables of the FSC collected by the NRA (- BGN 188,109), which according to instructions given by the Ministry of Finance, are also reflected with a minus sign in the cash report

- **rental income for the use of a departmental apartment - 902 lv.**

- **paid tax on business income - (-) BGN 27**

Graph 19. Structure of FSC revenues in 2020



Source: FSC.

Key:

Годишни такси – Annual fees

Други такси – Other fees

Глоби и имуществени санкции – Fines and proprietary sanctions

Лихви – Interest

The statement on cash amounts in FSC's budget for 2020 reported total **expenses** in the amount of BGN 17,040,608, distributed as follows:

- staff costs – BGN 12,144,828, 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 under the Labour Code and under Art. 40, para. 5 of the SIC, as well as costs for mandatory social insurance contributions due by the employer. The reported expenses for salaries and wages in 2020 amount to BGN 10,204,274

- current operating costs - BGN 2,034,462. The amount is spent for rent, security, cleaning and maintenance of the administrative building of the FSC, electricity, telecommunications and postal services, maintenance of software products, insurance, stationery, consumables and other supplies and services. Funds for specialized trainings for FSC employees and for business trips in the country and abroad have also been reported, and due to the anti-epidemic measures taken, the costs for business trips have been greatly reduced. The largest relative share in the maintenance costs have the costs for rent of the administrative building of the FSC;

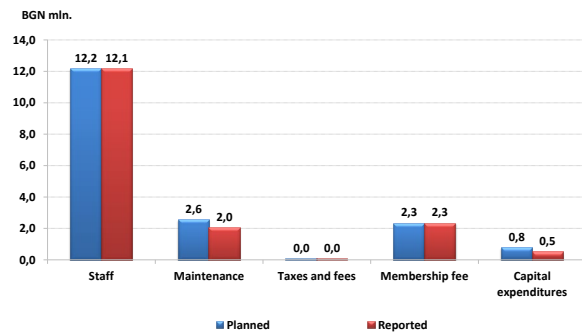
- costs for taxes and fees – BGN 42,079.

- costs of membership fee and participation in non-profit organizations and activities - BGN 2,330,854. The cost is for membership fees of the FSC in the European bodies: EIOPA - European Insurance and Occupational Pensions Authority, ESMA - European Securities and

Markets Authority and for 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 488,385, BGN 150,916 of which were for acquisition of tangible fixed assets, and BGN 337,469 were for acquisition of licenses and software products.

Graph 20. Structure of FSC expenditures in 2020 – planned and reported



Source: FSC.

Key:

Персонал – Staff

Издръжка – Maintenance

For 2020, a transfer to the central budget was reported in the total amount of (-) BGN 3,781,179.

The budget for 2020 has a deficit of (-) BGN 261, which in the part of financing is reflected with a plus sign and is formed by the difference between available and transferred foreign funds (-) BGN 1,372 and the difference from initial and final balance on foreign currency budget account BGN 1,633

8.5. Activity Report on the Internal Audit at FSC for 2020

The activity of the IAU in 2020 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 2019-2021 and the Annual Plan for the Audit Annual Schedule of Audits for 2020 were implemented, which are developed on the basis of a risk assessment, approved by the Chairperson of the FSC and agreed with the Commission.

In 2020, the internal audit generally fulfilled the planned commitments and activities, which achieves the set goals. Audit engagements have been performed to provide assurance as follows:

- audit of the revenues from fees of the FSC for 2019, which is aimed at assessing the legality and effectiveness of the administration and control of fees under the FSC;
- audit of supervisory practices and procedures Insurance Supervision Department in 2019, which aims to assess the compliance of national legislation with European regulations, legality and

adequacy of internal rules and procedures on the supervision of management systems of pension insurance companies;

- an audit to establish consistency between the planned and actual actions undertaken in 2020, on the implementation of 57 recommendations of the IAU made in the period 2019-2020.

- the internal audit fulfilled audit engagements for consulting, the most significant of which are related to:

- update of the order for maintaining a common register of all recommendations addressed to the FSC and of the corrective actions taken in connection with audits and inspections of internal and external control units and authorities, including recommendations and instructions of EIOPA and ESMA. The register systematizes up-to-date information for internal use, which improves the monitoring and the progress for the implementation of the planned activities.

- participation in filling in questionnaires (surveys) to take into account the opinion of stakeholders on the implementation of the Administration Act, the Financial Management and Control in the Public Sector Act, and the State Financial Inspection Act, with a view to conducting impact assessments.

There is a lasting tendency during the recent years for the recommendations of the IAU to be accepted by the management of the FSC and the employees of leading positions from the audited structures. In addition, a high implementation rate is reported (83%), which is an indicator of the development of the internal auditors' ability to formulate appropriate proposals for improving the activity and control in the FSC.

During the period, the changes and improvements that have occurred in the Commission as a result of the audit activity are primarily related to indicated opportunities for regulatory changes, the need for written settlement of some internal procedures and updating of certain rules.

In addition, efforts are being made to improve the internal audit activity and strengthen the administrative capacity of the unit. The IAU performs continuous ongoing supervision and periodic review (annual self-assessment) of the activity, as well as feedback with the heads of the audited structures, in order to obtain information on the level of satisfaction with the audits and analysis of performance indicators.

In order to develop the rules and procedures of the internal audit, a comprehensive review was performed and the Statute of the Higher Education Act, the Internal Rules for the organization of work in the Higher Education Act and the Program for quality assurance and improvement of the audit activity in the FSC were updated. The relevant documents have been agreed with the Commission and approved by an order of the FSC Chairperson.

As a result of the internal audit activity, the main conclusions on the functioning of the financial management and control systems at the FSC are as follows:

- The Commission established a steady process of goal setting with regard to the presence of legally regulated purposes, outlined short-term strategic objectives, and determining and reporting of annual activities to achieve those.

- risk management is an integral part of the activities of the FS and of the general management process in the Commission. The practice for parallel preparation of the annual action plan and the risk register of the organization is being approved. Further development should be in the direction of systematic upgrading of knowledge and experience of responsible employees for

the process, continuous improvement of the quality and interdependence of documents, as well as increasing the integrity of the risk register in the activity (use as a practical tool for preliminary consideration). and identifying potential difficulties).

- the rules and procedures governing the audited activities are generally risk-based. In the analysis of the control mechanisms it is appropriate to deepen the relationship with the identified risks, in order to identify procedures in which the cost of resources (time and human) does not correspond to the benefits of their implementation. This will effectively establish unnecessarily complicated internal procedures and take adequate measures to simplify them.

- Control mechanisms were integrated in the FSC's activity, ensuring compliance with applicable legislation and internal acts.

- the rules and procedures put in place ensure the reliability, comprehensiveness and protection of financial and operational information.

- the Commission is making constant efforts to improve communication and information exchange systems.

- At the FSC, activity was monitored effectively, thus allowing for changes and corrective actions, where necessary. Subsequent development may be in view of the timeliness of the changes.

8.6. Report of the Inspectorate

The activity of the Inspectorate of the Financial Supervision Commission (FSC) in 2020 was entirely based on the objectives and activities 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, as well as the other regulations detailing the activities of the inspectorates.

The Inspectorate of the FSC assists the Chairperson of the FSC in exercising their control functions with regard to the Commission administration's activity, the FSC Act, the Regulations on the Structure and Activities of the FSC and its Administration, the Law Against Corruption and for Establishing Conflict of Interest, 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 other regulations.

Objectives of the Inspectorate for 2020:

- Achieving effective administrative control over the activity of the administration by carrying out inspections, formulating proposals / measures to improve the work and eliminating the identified weaknesses and violations;

- Introducing effective mechanisms conducting the state anti-corruption policy through internal control and prevention of corruption;

- Achieving higher efficiency of the administration;

- Preventing and remedying violations in the administration's functioning within the FSC;

- Providing the necessary professional knowledge and skills of inspectors by raising qualifications.

In this regard, the activity of the Inspectorate in 2020 includes:

- Carrying out inspections in compliance with the regulations in the performance of the functions in the inspected structural units, in order to limit negative phenomena and improve the activity in the administration of the FSC;
- Performing inspections based on signals and proposals against illegal or improper actions or inactions by FSC administration officials;
- Performing inspections for compliance with applicable laws, regulations and internal acts on the organization of the activities of the FSC administration.
- Collecting and analysing information and performance of inspections at their own initiative to ascertain violations, potential corruption and non-effective operation of the administration;
- Initiation of proposals for change of the legal framework, on the occasion of gaps, weaknesses and errors in the activity of the FSC administration.
- Reporting the results of the performed inspections and giving proposals for elimination of the identified gaps and violations.
- Monitoring for compliance with the recommendations and suggestions made during the inspections.
- Survey and assessment of training needs in the field of administrative control so as to achieve higher quality and professionalism of control functions.

When implementing its control functions, the Inspectorate performed the following 25 scheduled and ad hoc inspections:

- for evaluation of the efficiency of the activity - 1;
- for compliance with applicable laws, regulations and internal acts on the organization of the activities of administration officials - 3;
- for submission and verification of declarations under LACFUAP - 18.;
- for corruption and inefficient work - 2.;
- at the initiative of the authority - 1;

The FSC Inspectorate initiated 3 changes in regulatory and internal acts.

Number of employees trained during the year - 3.

In conclusion, it should be noted that from the completed inspections in 2020 it was established that the FSC administration has legally performed its assigned duties and has not committed administrative violations subject to sanctions. There were no illegal or improper actions or omissions of any FSC administration officials. No conflict of interests and non-compliance with the deadlines for submitting declarations under the LACFUAP have been established. Notwithstanding these conclusions, specific proposals have been made for correction and improvement of the activity of the respective administrative units in the FSC.

II. MARKET ANALYSIS OF THE NON-BANKING FINANCIAL SECTOR

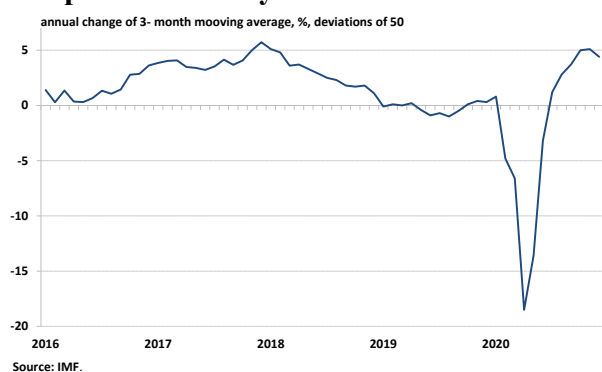
1. External environment and economic activity

1.1. External environment

The growth of the world economy in 2020 dropped to -3.3% from 2.8% in 2019. The main factor influencing the slowdown was the pandemic of COVID-19, which has affected the world socially and economically. In the last month of the year, a trade agreement was signed between the EU and the United Kingdom, finalizing the end of Brexit. At the end of 2020, Democratic presidential candidate Joe Biden won the US presidential election.

The slowdown in the global economy affected by COVID-19 and trade disputes between the US and China has a negative impact on the Purchase Manager Index PMI in 2020. In the first months of the year, the negative deviation of the index increases, as in a month April reached -18.5% of the reference limit of 50 points, which separates economic expansion from economic contraction. Since July, the PMI has been rising, reaching 4.4% above the 50-point mark at the end of 2020, a testament to the gradual recovery of the global economy.

Graph 21. Industry PMI - new orders



Key:
Отклонение от референтната стойност от 50 единици –
Deviation from the reference value of 50 units

EU industrial production slowed in 2020 due to the global economic and health crisis. Reduced investment costs in fixed assets and the slowdown in global activity are the factors

influencing the weaker demand for industrial goods. Since the beginning of the year, the decline in production has deepened, reaching -11.6% in May. The gradual recovery of the economy is the reason for the growth of the industrial production index to 5.1% at the end of the year.

Graph 22. Industrial production index (excluding construction)



Key:
ГОД. ИЗМЕНЕНИЕ НА 3-МЕС. ПЛЪЗГАЩА СЕ СРЕДНА% - annual change of 3-month moving average %

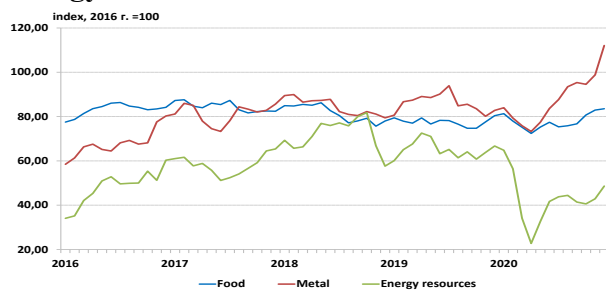
The decrease in the prices of metals and energy in the first months of 2020 is mainly due to reduced global economic activity. Metal prices are falling in line with weaker global demand and the continued trade conflict between the US and China. In the second half of the year, as a result of the recovery of the global economy, metal prices rose, due to increased

demand for cobalt and nickel used for batteries in the growing electric car market.

Changes in the price of oil during the year were influenced by factors such as reduced demand for the raw material, as the organization of oil exporting countries, including Russia and other producers (OPEC +), decided to cut oil production in 2020 in order to stabilize the price, as in April the average spot oil price dropped to USD 22.7 dollars per barrel, which is almost three times lower than the price in early 2020.

The price index of agricultural products traded on international markets has been declining for most of 2020. Major crops such as wheat, corn and soybeans have seen growth in the last months of the year. Soybean and corn prices are rising due to weaker-than-expected harvests in the United States and South America, as well as increased demand from China, which is seeking to rebuild its pig population after African swine fever in 2019.

Graph 23. Dynamics of prices of food, energy resources and metals



Source: IMF.

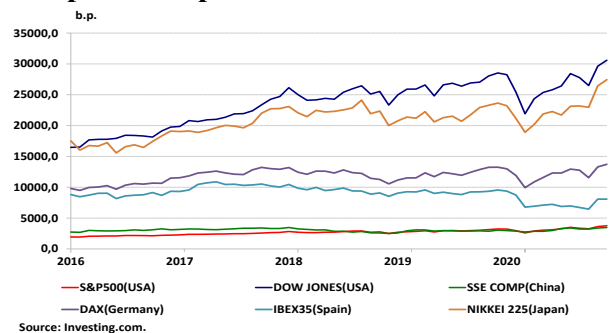
Key:
 Энергийни суровини – Energy raw materials
 Храни – Food
 Метали - Metals

Global capital markets report divergent dynamics in 2020. The decline in the first half of the year due to the COVID-19 pandemic and investor concerns about the global economy was gradually restored in late 2020 due to the accommodative monetary policy of leading central government banks in response to slowing economic growth and positive news

about the development of coronavirus vaccines. In the euro area, the German DAX rose by 5.7% and the Spanish IBEX35 decreased by -13.8%.

The US indices S&P500 and Dow Jones increased by 16.5% and 5.7%, respectively for 2020. Asia's stock markets in 2020 also went up, with Chinese SSE COMP increasing by 16.7% and Japanese NIKKEI225 increasing by 18.3%.

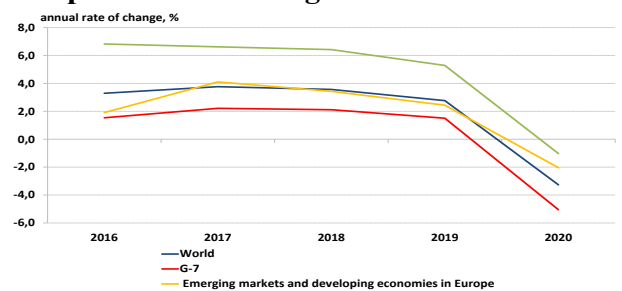
Graph 24. Capital markets



Source: Investing.com.

Global economic growth in 2020 fell to -3.3%. The economies of the seven most developed countries (G7), on the one hand, and emerging markets and emerging economies in Europe and Asia declined to -5%, -2% and -1% respectively in 2020 from 1.5%, 2.4% and 5.3% in 2019. The reason was weaker external demand due to reduced global economic activity, prolonged national blockades and quarantine measures.

Graph 25. Real GDP growth



Source: IMF.

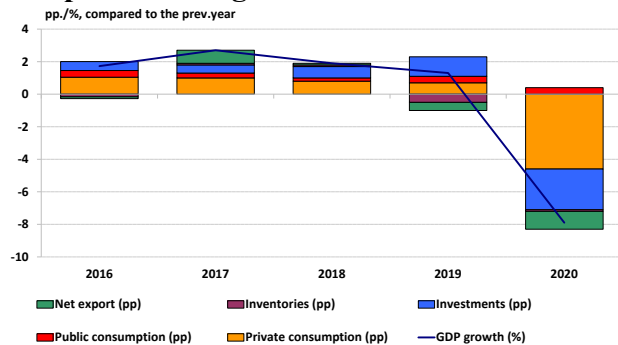
Key:
 Свят - World
 G-7

Нововъзникващи пазари и развиващи се икономики в Европа – Emerging markets and developing economies in Europe

Нововъзникващи пазари и развиващи се икономики в Азия – Emerging markets and developing economies in Asia

Real GDP growth in the euro area in 2020 fell to -7.9% compared to 1.3% in 2019, as a result of reduced economic activity due to COVID-19. The largest decrease was in private consumption (-4.6 p.p. in 2020 compared to 0.7 p.p. in 2019), followed by investments, which decreased by -2.5 p.p. GDP. The limit for GDP is net exports by -1.1 p.p. due to weak external demand. Stocks slowed to -0.1 p.p. for 2020 compared to -0.5 p.p. for 2019. Government consumption is unchanged at 0.4 p.p. in 2020, with the retained share due to increased government lending to combat the economic consequences of the coronavirus.

Graph 26. GDP growth in the euro area



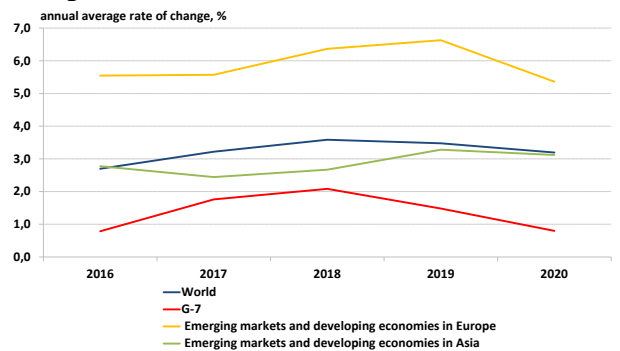
Source: Eurostat.

Key:

% спрямо същия период предх. г. - % compared to the same period in the previous year
 Нетен експорт (пр.п.) – Net export (pp.)
 Инвестиции (пр.п.) – Investment (pp.)
 Частно потребление (пр.п.) – Private consumption (pp.)
 Запаси (пр.п.) – Inventories (pp.)
 Правителствено потребление (пр.п.) – Public consumption (pp.)
 Растеж на БВП (%) – GDP growth (%)

In 2020, the average annual inflation decreased. In the G-7 economies, inflation fell to 0.8% in 2020 from 1.5% in 2019, remaining below central bank targets of 2%. Inflation in emerging markets and developing economies in Europe and Asia decreased to 5.4% and 3.1% respectively in 2020, from 6.6% and 3.3% in 2019. Globally, inflation has decreased to 3.2% in 2020.

Graph 27. Global inflation



Source: IMF.

Свят - World

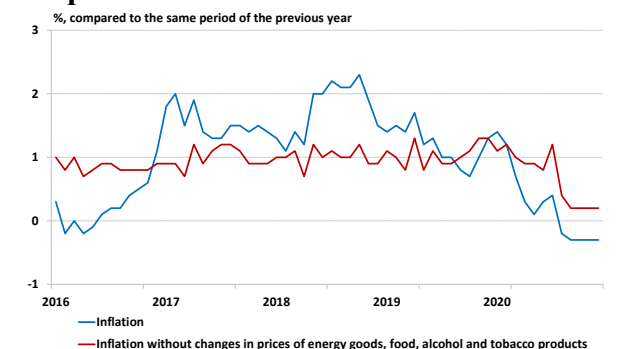
G-7

Нововъзникващи пазари и развиващи се икономики в Европа – Emerging markets and developing economies in Europe

Нововъзникващи пазари и развиващи се икономики в Азия – Emerging markets and developing economies in Asia

Average annual inflation in the euro area fell to 0.3 % in 2020, from 1.2% in 2019, due to weaker economic activity, lower external demand and lower oil prices. The average annual inflation, measured excluding the prices of energy goods, food, alcohol and tobacco products, had an increase of 0.7% for the same period.

Graph 28. Inflation in the euro area



Source: Eurostat.

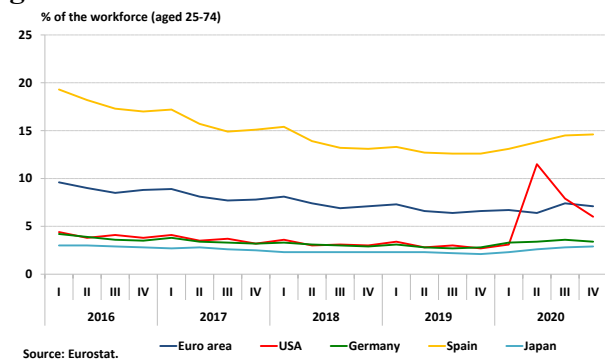
Key:

% , спрямо същия период на предх. г. – %, compared to the same period of the previous year
 Инфлация – Inflation
 Инфлация без цените на енергийните стоки, храните, алкохола и тютюневите изделия – Inflation without the prices of energy products, foods, alcohol and tobacco products

The labour market has shrunk in 2020 due to rising unemployment due to COVID-19, especially among those employed in the hotel, restaurant, tourism and other sectors. The

average unemployment rate in the euro area rose to 6.9% in 2020 compared to 6.7% in 2019. Unemployment is highest in Greece (15.4%) and Spain (14%). The unemployment rate remains the lowest in the Czech Republic (2.3%). The US labour market is deteriorating, with the unemployment rate rising to 7.1 % in 2020 from 3% in 2019.

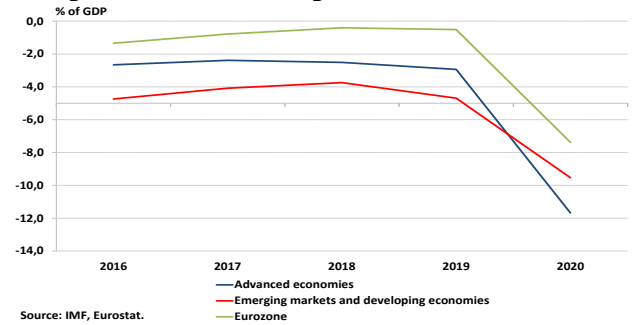
Graph 29. Unemployment dynamics on a global scale



Key:
 % от работната сила (25-74) - % of the workforce (25-74)
 Еврозона – Euro area
 САЩ – USA
 Испания – Spain
 Германия – Germany
 Япония – Japan

In 2020, the budget deficit worldwide continued to grow. The budget balance in developed economies remains in negative territory, expanding to -11.7% in 2020 from -2.9% in 2019. The budget deficit in the EU retains its trend and in 2020 increases to -7.4% for 2020 compared to -0.5% in 2019. The budget deficit in emerging markets and emerging economies also deepens to -9.5% in 2020 from -4.7% in 2019.

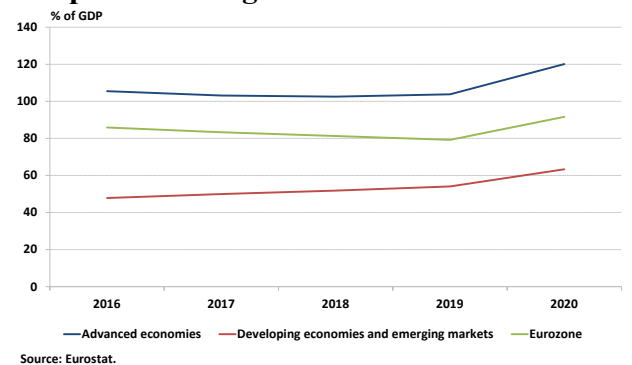
Graph 30. Balance of public finances



Key:
 % от БВП – % of the GDP
 Развити икономики – Advanced economies
 Нововъзникващи пазари и развиващи се икономики – Emerging markets and developing economies
 Еврозона-Eurozone

The total government debt of the EU countries (19) as a percentage of GDP increases to 91.7% in 2020 compared to 79.2% in 2019. Greece increases its debt to 213.1% of GDP in 2020 compared to 184.9% in 2019. Italy's total public debt increased to 155.6% in 2020 compared to 134.6% in 2019. Germany increased its debt to 68.9% in 2020 compared to 59.6% in 2019.

Graph 31. Total government debt

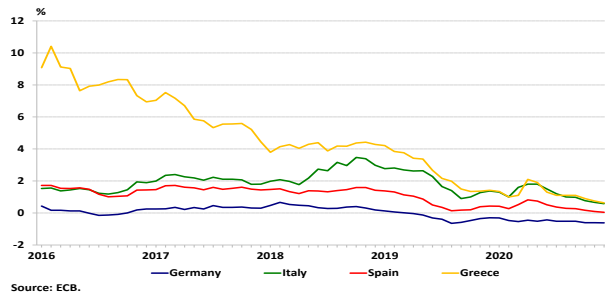


Key:
 % от БВП – % of the GDP
 Развити икономики – Advanced economies
 Нововъзникващи пазари и развиващи се икономики – Emerging markets and developing economies
 Еврозона-Eurozone

The long-term interest rate for the purposes of convergence decreased in 2020, with the average yield on Greek and Italian government securities reaching 1.2%, and on Spanish - 0.4%. The average annual yield on German

government securities remained in negative territory (-0.5%).

Graph 32. Long-term interest rate for the convergence of Germany, Italy, Spain and Greece

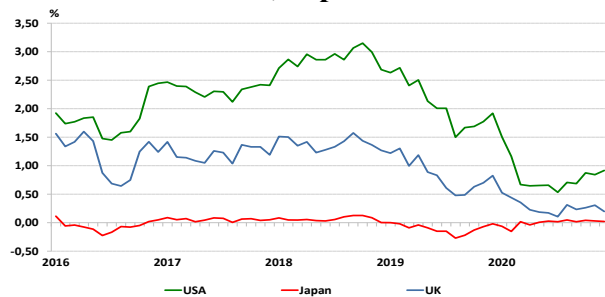


Source: ECB.

Key:
 Германия – Germany
 Италия – Italy
 Испания – Spain
 Гърция – Greece

In 2020, the 10-year government securities of the United States and Japan had average annual yields of 0.8% and 0%, respectively. The decline in government securities yields was a consequence of a slowdown in global economic activity. In 2020, British government securities reduced their average yield to 0.3%.

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



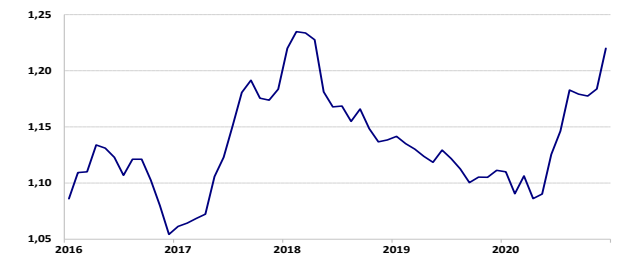
Source: Investing.com

Key:
 Германия – Germany
 Италия – Italy
 Испания – Spain
 Гърция – Greece

In 2020, the euro appreciated against the dollar, reached an average annual rate of 1.14 USD per euro as a result of continuing trade tensions between the United States and China, reducing concerns about the global economy following the development of vaccines against

COVID-19 and programs to support the economy of the US Federal Reserve (Fed).

Graph 34. USD/EUR Exchange Rate



Source: ECB.

In 2020, most countries in Central and Eastern Europe (CEE) report a decrease in GDP due to a slowdown in global economic growth and reduced external demand, especially from the euro area, which is their main trading partner. The least affected is Turkey, which reports the growth among the CEE countries (1.8%). The Czech and Hungarian economies in 2020 fall to -5.6% and -5% respectively compared to 2.3% and 4.6% in 2019.

Table 31. Real GDP growth in CEE

	2019	2020
Czech Republic	2,3	-5,6
Hungary	4,6	-5,0
Poland	4,5	-2,7
Romania	4,1	-3,9
Turkey	0,9	1,8

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

Key:
 Чехия – Czech Republic
 Унгария – Hungary
 Полша – Poland
 Румъния – Romania
 Турция – Turkey
 Бележка: Изменение спрямо предходната година (%) –
 Note: Change from the previous year
 Източник: МВФ, Национални статистически институти
 – Source: IMF, National Statistical Institutes

In 2020, inflation in the CEE countries had a different dynamic. The inflation in Poland has the highest growth, which increased to 3.4% in 2020 compared to 2.3% in 2019. Inflation in Turkey in 2020 decreased to 12.3% from 15.2% for 2019 but remains significantly higher than the regional average. The reasons were the weak

Turkish lira, the high costs of producers whose loans are in US dollars, the closure of production and others.

Table 32. Inflation in CEE

	2019	2020
Czech Republic	2,8	3,2
Hungary	3,4	3,3
Poland	2,3	3,4
Romania	3,8	2,6
Turkey	15,2	12,3

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

Key:

Чехия – Czech Republic

Унгария – Hungary

Полша – Poland

Румъния – Romania

Турция – Turkey

Бележка: Изменение спрямо предходната година (%) –

Note: Change from the previous year

Източник: МВФ, Национални статистически институти

– Source: IMF, National Statistical Institutes

In the CEE countries, the unemployment levels have different dynamics in 2020. The highest growth for the period is the unemployment in Romania (by 1.1%). Unemployment in Turkey in 2020 falls to 13.1% from 13.7% in 2019.

Table 33. Unemployment rate in CEE

	2019	2020
Czech Republic	2,0	2,7
Hungary	3,3	4,1
Poland	3,3	3,2
Romania	3,9	5,0
Turkey	13,7	13,1

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

Key:

Чехия – Czech Republic

Унгария – Hungary

Полша – Poland

Румъния – Romania

Турция – Turkey

Бележка: коефициент на безработица (%) – Note:

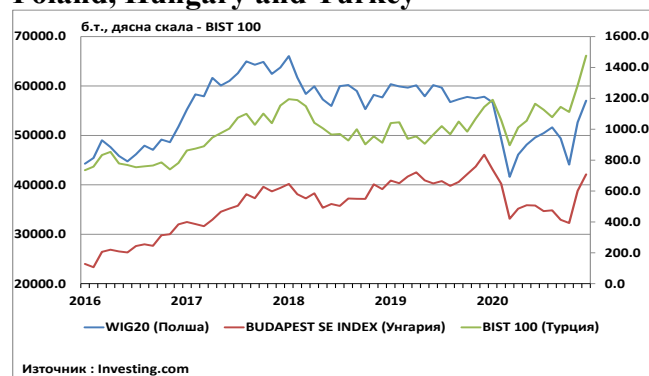
unemployment rate

Източник: МВФ, Национални статистически институти

– Source: IMF, National Statistical Institutes

In 2020, the values of most stock exchange indices in the CEE countries also have different dynamics. During the year, the Turkish BIST100 grew the most, by 23.9%. The probable reason was the entry of local investors into the stock market due to the low return in Turkey of fixed income products and bank deposits. The Czech PX-PRAGUE SE, the Hungarian BUDAPEST SE INDEX and the Romanian BET INDEX decreased by -4.2%, 2.2% and 2.2% respectively. Croatia's CROBEX fell -14.8% due to sales of shares in the country's important tourism sector, which suffered significantly from COVID-19.

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



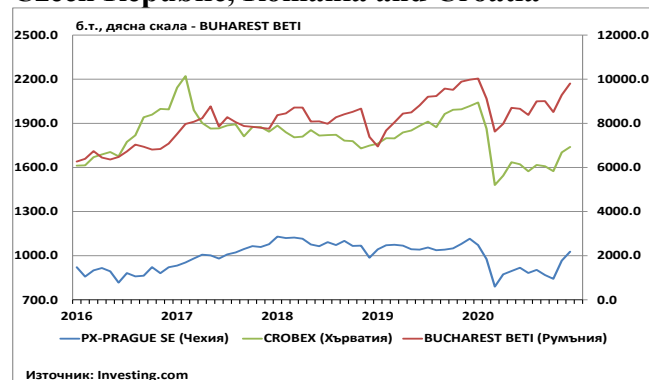
Key:

Полша – Poland

Унгария – Hungary

Турция – Turkey

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



Key:

Чехия – Czech Republic

Хърватия – Croatia

Румъния – Romania

1.2. Overview of economic activity in Bulgaria

The spread of the COVID-19 pandemic since the beginning of 2020 and the measures taken to limit it have had a negative impact on economic activity in Bulgaria and worldwide. In 2020, the Bulgarian economy reported a decline of -4.2%. The current account deficit at the end of 2020 amounted to EUR -399.9 million compared to a positive balance (EUR 1,121.2 million) at the end of the previous year. The volume of foreign direct investment in Bulgaria amounts to EUR 2124,9 million, which is EUR 590.1 million more than the previous year. In 2019, the country's gross external debt increased 8.9% annually, reaching EUR 38.4 billion at the end of the year, which represents 58.2% of GDP. Tendency of increasing bank loans to the private non-financial sector has been interrupted, as in 2020 loans to non-financial corporations and households in Bulgaria recorded an average annual growth of 5.2% compared to 6.7% at the end of 2019. Consumer price inflation began to decline in the middle of the year, reaching 0% on an annual basis at the end of December. The housing price index slows down its positive rate of change on an annual basis from 6.0% on average in 2019 to 4.6% in 2020. Tendency in rental prices follows the same trend, the index decreases to 2.3% in 2020 compared to 2.9 % for 2019.

Despite the reduced economic activity in Bulgaria, the stability of the banking system remains at a high level, the Banking sector reduces its foreign liabilities, as a result of which in 2020 the international rating agency S&P Global Ratings determined Bulgaria's credit rating as 'BBB' with a stable outlook.

Following a revision of the public data submitted in 2019*, the total current and capital account balance amounted to EUR 547.5 million at the end of December 2020, compared to EUR 2,012.8 million at the end of 2019, noting a significant decrease of 73% and still remains positive. For the period January-December 2020 the current account deficit of the balance of payments amounts to EUR -399.9 million, reducing its value by -2.5p.p. compared to 2019. As a result of the received capital transfers under EU operational programs, the capital account surplus reached EUR 947.4 million.

The balance on the financial account for the year is negative (EUR -3,341 million), which is EUR -6,246.7 million more than the reported positive balance in 2019. According to the balance of payments, the country's international foreign exchange reserves decreased by EUR -559.4 million. After accounting for exchange rate differences and price revaluations, the foreign exchange reserves in the BNB balance sheet increased by EUR 6,012 million (BGN 11.8

billion), as the assets of the Issue Department amounted to BGN 60.3 billion at the end of 2020

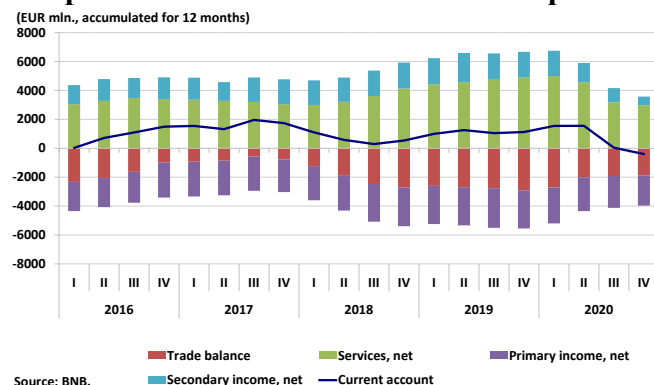
Graph 37. Dynamics of main accounts of the balance of payment

Key:
(млн. евро, кумулативно за предходните 12 месеца) –
(million EUR, cumulatively for the previous 12 months)
Изменение на валутните резерви – Change in currency reserves
Текуща сметка – Current account
Текуща и капиталова сметка – Current and capital account
Финансова сметка – Financial account

The current account deficit of EUR -399.9 million at the end of 2020 compared to the positive balance (EUR 1,121.2 million) of the previous year is mainly due to the contraction of the item “net services” by EUR -1 924.7 million compared to the end of 2019, reaching a value of EUR 2 969.7 million. A major factor in this is the spread of the COVID-19 pandemic, leading to a reduction in tourist travel, which is a significant source of foreign currency for the country's balance of payments. Net secondary income contribution item is the second factor for the negative current account balance, declining by EUR -1,172.7 million

compared to the end of December 2019 and reaching a value of EUR 601 million at the end of 2020. Main factors for these dynamics are the contraction of real imports compared to that of real exports, as well as the significant decline in global economic activity. The net primary income item remains with negative balance, with a deficit of EUR -2 098.4 million at the end of 2020 and contributes to a narrowing of the current account deficit by EUR 540.0 million at the end of the year.

Graph 38. Current account and its components



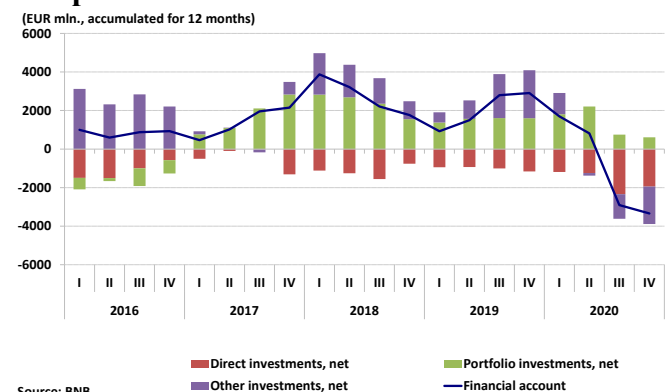
Key:

(млн. евро, кумулативно за предходните 12 месеца) –
 (million EUR, cumulatively for the previous 12 months)
 Търговски баланс – Trade balance
 Вторичен доход, нето – Secondary income, net
 Услуги, нето – Services, net
 Текуща сметка – Current account
 Първичен доход, нето – Primary income, net

For the period January-December 2020 the balance on the financial account amounts to EUR -3 340.6 million, which is EUR -6 246.7 million less than the positive balance reported in 2019 in the amount of EUR 2 9061 million. The negative balance is due to the larger increase in the foreign liabilities of the Bulgarian residents compared to that of the foreign assets. The increase in the liabilities of the general government sector due to the issue of bonds in the amount of EUR 2.5 billion, placed on the international capital markets in September 2020, as well as on the government securities with a total nominal value of BGN 1.2 billion issued for the domestic market in 2020, is of key importance for the growth of foreign liabilities.

All components of the financial account contribute to the contraction of the balance sheet by the end of 2020. "Direct investment" increased its deficit by EUR -787.1 million euros compared to the end of the previous year, reaching EUR -1 945.6 million by the end of 2020 "Other net investments" decreased in its balance by EUR -4 435.2 million compared to the end of 2019 and reached a value of EUR -1 944.5 million at the end of the last quarter of 2020.

Graph 39. Financial account and its components



Key:

(млн. евро, кумулативно за предходните 12 месеца) –
 (million EUR, cumulatively for the previous 12 months)
 Преки инвестиции, нето – Direct investments, net
 Други инвестиции, нето – Other investments, net
 Портфейлни инвестиции, нето – Portfolio investments, net
 Финансова сметка – Financial account

For the period January - December 2020, the flow of foreign direct investment (FDI) in the country amounted to EUR 2,124.9, which is EUR 590.1 million more than the previous year. Most of the FDIs in Bulgaria during the year took the form of reinvested earnings (EUR 1,028.8 million), which decreased by EUR 323.3 million compared to 2019, and reinvested profit (EUR 827.7 million), which decreased by EUR -327.7 million. billion more than in the previous year. The flow of FDI in the form of share capital, other than reinvested earnings, was positive and amounted to EUR 267.4 million.

Table 34. FDI dynamics in Bulgaria by type of investment

	2016	2017	2018	2019	2020
Total	940	1606	968	1534	2124
Equity and investment fund shares/units	255	-25	390	-327,1	267,4
Reinvestment of earnings	1091	861	1214	1155,4	827,7
Debt instruments	-407	770	-637	705,5	1028,8

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

Key:

Общо – Total

Дялов капитал, – Equity and investment fund shares/units

Реинвестирана печалба – Reinvestment of earnings

Дългови инструменти – Debt instruments

Бележка: Данните са за обем на ПЧИ в страната (в млн. евро) – Note: Data refer to the volume of FDI in the country (in EUR mil.)

The distribution of FDI in Bulgaria by sectors in 2020 is characterized by some change compared to the previous year. The Trade, repair of cars and motorcycles sector, which in 2019 ranks first, in 2020 lost its volume, reporting an outflow of FDI amounting to EUR -163.4 million. The Financial and insurance activities Sector increases its volume of FDI, reaching a value of (EUR 711.4 million), sector "Production and distribution of electricity and heat and gaseous fuels" takes second place in terms of volume of FDI, reaching a value of EUR 136.8 million, followed by the Transport, Warehousing and Post Sector (EUR 136.6 million).

Table 35. FDI structure in Bulgaria by economic activity

	2016	2017	2018	2019	2020
Mining and quarrying	-22,6	-21,4	11,2	20,4	15,4
Manufacturing	236,9	1099,5	1281,8	97,7	54,9
Electricity, gas, steam and air conditioning supply	15,0	-206,9	-109,9	46,8	136,8
Construction	23,2	175,9	-96,3	33,7	64,7
Wholesale and retail trade; repair of motor vehicles and motorcycles	477,5	339,6	135,6	523,3	-163,4
Transportation and storage	8,0	5,5	10,4	15,0	136,6
Accommodation and food service activities	24,9	-18,3	-14,1	-10,5	-12,8
Information and communication	19,4	-243,1	45,5	70,7	-41,4
Financial and insurance activities	179,2	294,6	583,5	-41,6	711,4
Real estate activities	-41,9	345,7	-148,9	233,4	16,6

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

Key:

Добивна промишленост – Mining industry

Преработваща промишленост – Manufacturing

Производство и разпределение на топлинна енергия и на газообразни горива – Production and distribution of heat energy and gaseous fuels

Строителство – Construction

Търговия, ремонт на автомобили и мотоциклети – Trade, repair of motor vehicles and motorcycles

Транспорт, складиране и пощи – Transport, storage and postal services

Хотелиерство и ресторантьорство – Accommodation Services

Създаване и разпространение на информация и творчески продукти; далекосъобщения – Creation and Distribution of Information and Creative Products, Telecommunications

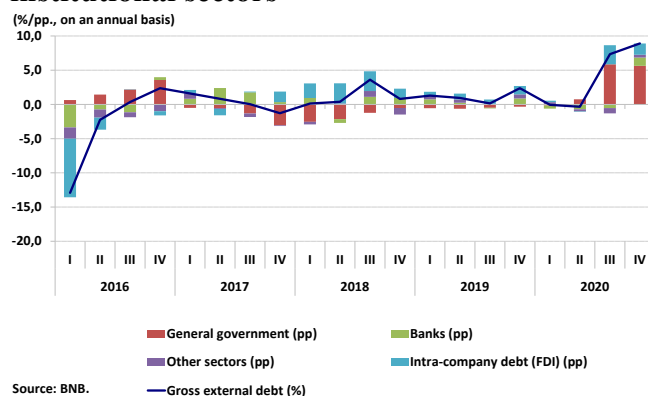
Финансови и застрахователни дейности – Financial and Insurance Activities

Операции с недвижими имоти – Real Estate Transactions

Бележка: Данните са в млн. евро. Структурата обхваща десет водещи икономически сектора. – Note: Data are in million EUR. The structure covers ten leading economic sectors.

In 2020, the country's gross external debt increased by 8.9 % on an annual basis, reaching EUR 38.4 billion at the end of the year, which represents 58.2% of GDP. The largest contribution to the increase in debt was made by the increase in banks' foreign liabilities (2.4 p.p.). The debt of the "Internal corporate debt" sector and the debt of the "General government" sector reported a decrease and limited the total growth of the gross external debt by -1.0 p.p., respectively. and -0.2 p.p.

Graph 40. Dynamics of gross external debt by institutional sectors



Source: BNB.

Key:

(процентни пункта, год. база, %) – (p.p., annual basis, %)

Държавно управление (пр. п.) – State government (p.p.)

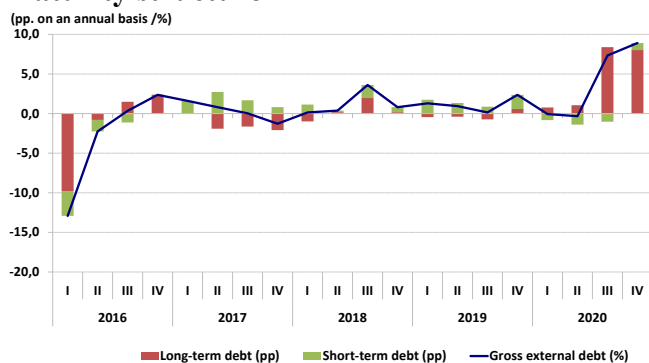
Банки (пр. п.) – Banks (p.p.)

Вътрешнофирмен дълг (ПЧИ) (пр.п.) – Intra-company debt (FDI) (p.p.)

Брутен вътрешен дълг (%) – Gross domestic debt (%)

In line with the overall dynamics of gross external debt in 2020, its short-term component increased by 3.5 % on an annual basis and represented 23.9% of total external debt at the end of the year. Long-term debt also increased by 10.7% and reached a share of 76.1% of the country's external debt at the end of 2020.

Graph 41. Dynamics of gross external debt by maturity structure



Source: BNB.

Key:

(процентни пункта, год. база, %) – (p.p., annual basis, %)

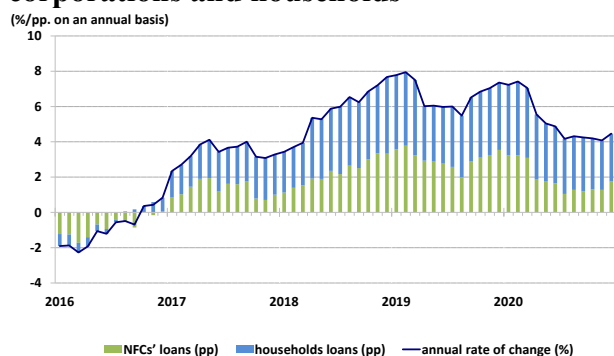
Дългосрочен дълг (пр. п.) – Long-term debt (p.p.)

Краткосрочен дълг (пр. п.) – Short-term debt (p.p.)

Брутен вътрешен дълг (%) – Gross domestic debt (%)

The trend of increasing bank loans to the private non-financial sector has been interrupted, as in 2020 loans to non-financial corporations and households in Bulgaria recorded an average annual growth of 5.2% compared to 6.7% at the end of 2019. Loans to households grew at a faster pace (6.6%), contributing 2.7 p.p. to the total growth of lending to the private non-financial sector at the end of the year. Loans to non-financial corporations reported a smaller growth of 3.0% at the end of the year, contributing 1.8 p.p. to the general dynamics.

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



Source: BNB

Key:

(процентни пункта, год. база, %) – (percentage points, annual basis, %)

Кредити на домакинства (пр.п.) – household credits (p.p.)

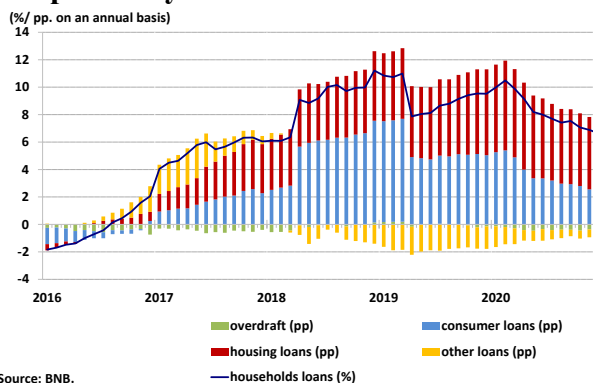
Кредити на нефинансови предприятия (пр.п.) – Credits to non-financial enterprises (p.p.)

Годишен темп на изменение (%) – Annual rate of change (%)

The growth of loans to households in 2020 is mainly due to the increase in housing loans by 11.6% at the end of the year, which contributes by 5.2 p.p. to the total growth of loans to households. At the end of 2020, consumer loans increased by 5% and contributed by 2.4 p.p. Loans other than consumer and housing, as well as overdrafts limit the overall growth with their negative contribution of -1.8 p.p.

At the end of December 2020, the total amount of the balance sheet assets of the banking system was BGN 124.0 billion. The gross amount of non-performing loans and advances in the banking system amounted to BGN 5.7 billion, and their share in the total amount of gross loans and advances reached 7.5%. The net value of non-performing loans and advances, after deducting the impairment inherent in this classification category, amounts to BGN 3.06 billion at the end of 2020 or 4.2% of the total net value of loans and advances.

Graph 43. Dynamics of loans to households



Source: BNB.

Key:

(процентни пункта, год. база, %) – (percentage points, annual basis, %)

Овърдрафт (пр.п.) – Overdraft (p.p.)

Потребителски кредит (пр.п.) – Consumer credit (p.p.)

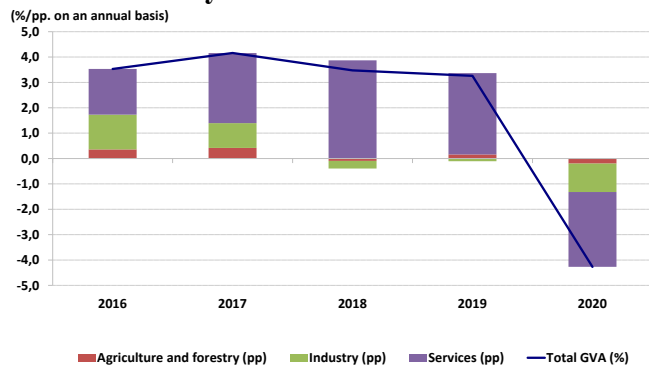
Жилищни кредити (пр.п.) – Housing credits (p.p.)

Други кредити (пр.п.) – Other credits (p.p.)

Кредити на домакинствата (%) – Household credits (%)

Total value added in the economy decreased in real terms by -4.3% in 2020, to which the service sector (-2.9 p.p.) contributed the most, followed by industry (1.1 p.p.), and agriculture and forestry (0.2 p.p.).

Graph 44. Dynamics of Value Added and contribution by sectors



Source: NSI.

Key:

(процентни пункта, год. база, %) – (percentage points, annual basis, %)

Селко и горско стопанство (пр.п.) – Agriculture and forestry (p.p.)

Услуги (пр.п.) – Services (p.p.)

Индустрия (пр.п.) – Industry (p.p.)

Общо по базисни цени (% на год. база) – Total by basic prices (p.p.)

A detailed breakdown of value added in the economy by sectors shows that among services the largest negative contribution to gross value added in 2020 is reported by the sector “Trade, repair of motor vehicles and motorcycles; transport, warehousing and post office; hotel and restaurant business ”(-2.8 p.p.), followed by the Mining and quarrying sector; manufacturing industry; production and distribution of electricity and heat and gaseous fuels; water supply; sewerage, waste management and remediation activities ”(-1.1 p.p.). The third sector with negative added value is “Professional activities and research; administrative and support service activities”, limiting by -0.5 p.p. the growth of total value added in the economy. Fourth and fifth place, the negative value of total value added is contributed by the sectors "Real estate activities" and "Agriculture, forestry and fisheries", respectively -0.4 p.p. and -0.2 p.p.

Table 36. Dynamics of Value Added by sectors

	2016	2017	2018	2019	2020
Total for the economy (%)	3,5	4,2	3,5	3,3	-4,3
<i>Contribution (pp), incl.</i>					
Agriculture, forestry and fisheries	0,4	0,4	-0,1	0,2	-0,2
Manufacturing; Mining and quarrying; Electricity, gas and water supply	1,7	0,8	-0,4	-0,3	-1,1
Construction	-0,3	0,2	0,1	0,2	0,0
Wholesale and retail trade, repair of motor vehicles and motorcycles; transportation and storage, accommodation and food service activities	0,2	0,6	0,9	0,7	-2,8
Creation and distribution of information and creative products; telecommunications	0,9	0,4	0,6	0,9	0,0
Financial and insurance activities	0,5	0,1	0,2	0,2	0,1
Operations with real estate	0,6	0,7	1,1	0,5	-0,4
Professional activities and research; Administrative and auxiliary activities	0,1	0,1	0,5	0,8	-0,5
Public administration, defence, education, human health and social work activities	-0,5	0,8	0,4	0,0	0,9
Culture, sports and entertainment; Others	0,0	0,1	0,1	0,0	-0,4

Note: Data for 2020 is preliminary.

Source: NSI.

Key:

Общо за икономиката (%) – Total for the economy (%)

Селко, горско и рибно стопанство – Agriculture, forestry and fisheries

Добивна и преработваща промишленост, произв. и разпр. на е. и топлинна енергия и на газообразни горива; доставяне на води; канализационни услуги; упр. на отпадъци и възстановяване – Manufacturing, mining and quarrying; production and allocation of electricity, heating and gas fuels; water supply; sewerage services; waste management and recovery

Строителство – Construction

Търговия, ремонт на автомобили и мотоциклети; транспорт, складиране и пощи, хотелиерство и ресторантьорство – Trade, repair of motor vehicles and motorcycles; transport, storage and postal services; accommodation services

Създаване и разпространение на информация и творчески продукти; далекосъобщения – Creation and distribution of information and creative products; telecommunications

Финансови и застрахователни дейности – Financial and insurance activities

Операции с недвижими имоти – Operations with real estate

Професионални дейности и научни изследвания; админ. и спомаг. дейности – Professional activities and research; administrative and auxiliary activities

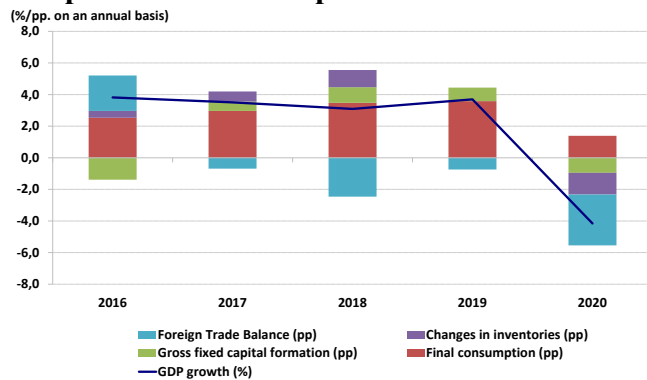
Държавно упр.; образование; хуманно здравеопазване и соц. работа – Government management; education, healthcare and social works

Култура, спорт и развлечения; други – Culture, sports and entertainment; others

Бележка: Данните за 2020 г. са предварителни. – Note: Data for 2020 are preliminary.

According to preliminary data, real GDP drop in 2020 amounts to -4.2% on an annual basis. VT balance decreased by -3.2 p.p. at the end of the year compared to -0.7 p.p. in 2019. In 2020, final consumption contracted by -2.2 p.p., and the change in inventories contributed to the decline in GDP by -1.4 p.p.

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



Source: NSI.

Key:

(процентни пункта, год. база, %) – (percentage points, annual basis, %)

Нетен износ (пр.п.) – Net export (p.p.)

Образуване на основен капитал (пр.п.) – Forming equity (p.p.)

Растеж на БВП (%) – GDP growth (%)

Изменение на запасите (пр.п.) – Changes in inventories (p.p.)

Крайно потребление (пр.п.) – End consumption (p.p.)

Exports of Bulgarian goods and services in 2020 amounted to EUR 28.0 billion, decreasing by 6.4% compared to the previous year. The largest negative contribution to the overall growth was made by exports of energy resources (-5.3 p.p.), followed by exports of investment goods (-1.3 p.p.), raw materials (-0.1 p.p.) and the export of consumer goods accounts only for 0.2 p.p.

Table 37. Contribution of main groups of goods to the exports' dynamics

	2018	2019	2020
Exports (% on an annual basis)	2,6	4,2	-6,4
<i>Contribution (pp)</i>			
Consumer goods	0,9	1,7	0,2
Raw materials and supplies	1,8	1,0	-0,1
Investment goods	0,6	0,2	-1,3
Energy resources	-0,7	1,3	-5,3

Source: BNB.

Key:

Износ (% на годишна база) – Export (% on an annual basis)

Принос (пр.п.) – Contribution (p.p.)

Потребителски стоки – Consumer goods

Суровини и материали – Raw materials

Инвестиционни стоки – Investment goods

Енергийни ресурси – Energy resources

The dynamics of imports also follows the same trend. Imports in Bulgaria in 2020 shrank by -8.9% compared to the same period last year. The largest decline was -6.1 p.p. in the energy resources sector, followed by imports of capital goods (-2.1 p.p.), and imports of raw materials and consumer goods,

each contributing negatively by -1.4 p.p. for the total decrease amounting to BGN -5 886.9 million.

Table 38. Contribution of main groups of goods to the import's dynamics

	2018	2019	2020
Imports (% on an annual basis)	6,1	5,0	-8,9
<i>Contribution (pp)</i>			
Consumer goods	1,4	2,3	-0,4
Raw materials and supplies	2,2	-0,2	-0,4
Investment goods	2,4	1,7	-2,1
Energy resources	0,1	1,1	-6,1

Source: BNB.

Key:

Внос (% на годишна база) – Import (% on an annual basis)

Принос (пр.п.) – Contribution (p.p.)

Потребителски стоки – Consumer goods

Суровини и материали – Raw materials

Инвестиционни стоки – Investment goods

Енергийни ресурси – Energy resources

In 2020, the real growth of final consumption accelerated only to 1.8% from 4.7% in 2019. The main driving force for the reported dynamics is the individual consumption of households (0.8 p.p.), and the individual consumption of the government contributes by 0.7 p.p. Collective consumption, which measures the government's final expenditure on collective services provided to society as a whole, is growing, contributing 0.7 p.p. to real growth in total end consumption.

Table 39. Growth of end consumption expenditure and contributions of its components

	2016	2017	2018	2019	2020
Final consumption (%)	3,2	3,9	4,6	4,7	1,8
<i>individual consumption (pp)</i>	3,0	3,3	4,1	4,6	0,8
consumption of households (pp)	2,8	3,0	3,5	4,3	0,2
government (pp)	0,2	0,3	0,6	0,3	0,7
<i>collective consumption (pp)</i>	0,3	0,6	0,5	0,1	1,0

Note: Data for 2020 is preliminary.

Source: NSI.

Key:

Крайно потребление – End consumption

Индивидуално потребление (пр.п.) – Individual consumption (p.p.)

Потребление на домакинствата – Household consumption

Потребление на правителството – Government consumption

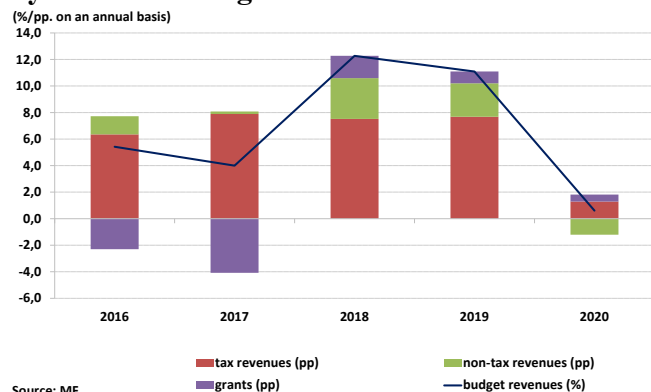
Колективно потребление (пр.п.) – Collective consumption (p.p.)

Бележка: Данните за 2020 са предварителни. – Note: Data for 2020 are preliminary.

The budget balance under the Consolidated Fiscal Program (CFP) in 2020 is negative at BGN -3.5 billion, which represents a deficit of -3.0% of GDP. Revenues reported an increase of 0.6%,

which is mainly due to income tax (4.5 p.p.) and social security and health insurance contributions (4.4 p.p.), while tax revenues from customs duties and taxes reported a decline of -8.9% for 2020. Non-tax revenues limit the growth of final consumption with a negative contribution of -1.2 p.p., and the aid reports a contribution of 0.5 p.p. Among the tax revenues, the revenues from indirect taxes have the largest negative contribution (-0.3 p.p.), while the revenues from social and health insurance contributions and direct taxes contribute by 1.0 p.p., respectively and 0.4 p.p. to the total growth of budget revenues.

Graph 46. Contribution of components to the dynamics of budget revenue



Source: MF.

Key:

(процентни пункта, год. база, %) – (percentage points, annual basis, %)

Данъчни приходи (пр.п.) – Tax income (p.p.)

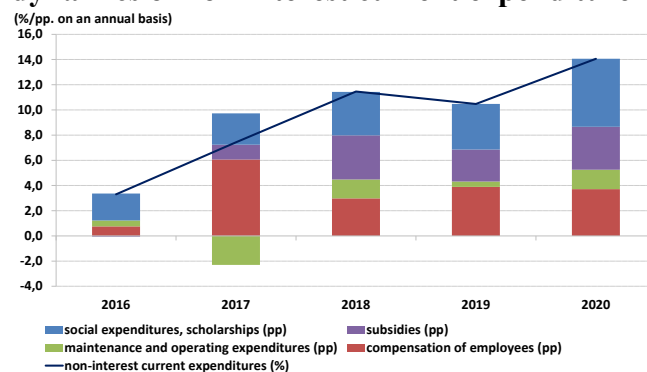
Помощи (пр.п.) – Assistance (p.p.)

Неданъчни приходи (пр.п.) – Non-tax income (p.p.)

Общо приходи (%) – Total income (%)

Budget expenditures increased by 5.9% in 2020 compared to the previous year, to which current expenditures contributed the most (11.1 p.p.), while capital expenditures had a positive contribution of -5.5 p.p. Current non-interest expenses increased by 14.1% on an annual basis, with the largest contribution coming from social security, assistance and care expenditure (5.4 p.p.), followed by expenditure on salaries and social security contributions (3.7 p.p.), subsidies (3.4 p.p.) and maintenance costs (1.5 p.p.).

Graph 47. Contribution of components to the dynamics of non-interest current expenditure



Source: MF.

Key:

(процентни пункта, год. база, %) – (percentage points, annual basis, %)

соц. осигуряване, подпомагане и грижи (пр.п.) – social insurance, assistance and care (p.p.)

Субсидии (пр.п.) – Subsidies (p.p.)

Издръжка (%) – Subsistence (%)

In 2020, employment in Bulgaria decreased by -3.4% on an annual basis, as the number of employees aged 15 and over decreased to 3.1 million. This dynamic is due to a decrease in the growth of employment for men and employment for women, as in both sexes the negative contribution amounts to -1.7 p.p. Employment decreased in all age groups, except for persons aged 65 and over, where it marked a slight increase of 0.02%. The largest negative contribution was made by the decline among workers aged 25 to 34 (-1.4 p.p.).

The number of persons in paid employment decreased by -6.8% on an annual basis to 2.2 million people. This trend is almost entirely due to a decline in employees in the private sector (-6.7 p.p.). By economic activities, there was a decrease in the number of employees in all sectors, but mainly in the manufacturing industry (-1.7 p.p.) and in the hotel and restaurant sector (-1.7 p.p.). The Construction sector and Transport, Warehousing and Post sector contributed to the overall decline, each by -0.7 p.p.

The income of employees measured by compensation of employees, representing gross income that also included changes in social

insurance contributions, increased by 3% in 2020 compared to an increase of 8.6% in the previous year. The unemployment rate continued to increase from 4.2% for 2019 to 5.1% of the workforce in 2020.

Table 40. Employment and income

	2016	2017	2018	2019	2020
Employed persons	-0,5	4,4	0,1	2,6	-3,4
Employees	1,0	1,4	0,5	0,1	-6,8
Compensation of employees	7,7	10,9	10,6	8,6	3,0
Unemployment*	7,6	6,2	5,2	4,2	5,1

Note: Data show a change compared to the previous year, as data for 2018 are preliminary;
Source: NSI.

Key:

Заети лица – Employed persons

Наети лица – Hired persons

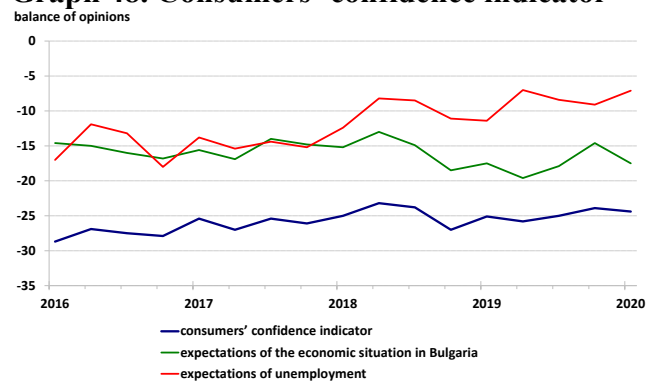
Компенсация за наетите лица – Compensation for hired persons

Безработица – Unemployment

Бележка: Данните показват изменение спрямо предх. г., като за 2020 са предварителни; * коеф. на безработица средно за периода (% от раб. сила). – Note: Data show a change compared to the previous year, and are preliminary for 2020; * average unemployment coefficient for the period (% of the workforce).

In April 2020, consumer confidence fell sharply to -41.8%, reaching levels from 2013. Consumer expectations for unemployment, which are sharply higher in 2020, support the indicator. High expectations for deterioration of the economic situation in the country.

Graph 48. Consumers' confidence indicator



Key:

Баланс на мнения – Balance of opinions

Показател за доверие на потребителите – consumers' confidence indicator

Очаквания за икономическата ситуация в страната – expectations of the economic situation in the country

Очаквания за безработицата – expectations of unemployment
Note: Unemployment expectations are taken with the opposite sign. An increase in the indicator means that consumers have optimistic expectations and vice versa.

Household incomes in 2020 accelerated their growth to 5.1% on an annual basis, to which salaries (4.1 p.p.) and pensions (10.8 p.p.) had the sole contribution. Restrictions on non-wage income (-18.9 p.p.) and sales income (-28.3 p.p.) restrict the growth of household incomes during the year. The savings withdrawn by households decreased by -9.2%, as well as the loans and credits received by them (-20.6%) in 2020.

Table 41. Dynamics of household incomes

	2016	2017	2018	2019	2020
Total	1,9	6,0	4,8	6,8	5,1
Salary and wages	0,6	6,1	6,9	8,9	4,1
Withdrawn savings	18,7	15,3	11,6	-3,5	-9,2
Loans and credits	19,5	11,1	62,0	-25,9	-20,6

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

Key:

Общ доход – Total income

Работна заплата – Work salary

Изтеглени спестявания – Savings withdrawn

Заеми и кредити – Loans and credits

Бележка: Данните са на год. база (%). – Note: Data are on an annual basis (%).

Household expenditures in 2020 decreased by -1.0% compared to their incomes. Consumer spending decreased by -1.3%, declining by -6.5 p.p. compared to the end of 2019, to which the largest negative contribution has the reduction of expenditures related to leisure, cultural recreation and education (-36.0 p.p.), transport costs (-20.6 p.p.) and costs for clothing and footwear (-8.6 p.p.). Household expenditures on taxes and social security increased by 2.1% and 4.8%, respectively, which contributed negatively by -4.5 p.p., respectively and -4.8 p.p. to total costs. In 2020, the trend of households to save continues. Their deposit expenditures report a growth of 31.3%, and the funds allocated for debt repayment or lending continue to shrink, with a decrease by -2.3%.

Table 42. Dynamics of households' expenditures

	2016	2017	2018	2019	2020
Total	-0,4	7,6	7,7	4,9	-1,0
Total consumer expenditures	-1,3	6,9	6,7	5,2	-1,3
Taxes	4,3	15,0	6,9	6,6	2,1
Deposit	45,1	41,8	5,2	22,6	31,3
Paid debt and granted loan	-9,2	-3,0	-15,3	-0,3	-2,3

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

Key:

Общ разход – Total cost

Потребителски общ разход – Total user cost

Данъци – Taxes

Влог – Deposit

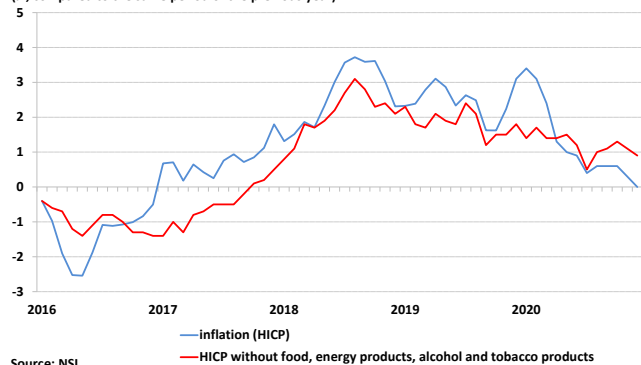
Изплатен дълг и даден заем – Repaid debt and loan given

Бележка: Данните са на год. база (%). – Note: Data are on an annual basis (%).

From the first quarter of 2020, inflation began to decline, with its average annual value of 1.2% declining by -1.2 p.p. compared to its average annual value from the previous year (2.5%), and as of December 2020 inflation in the country enters a neutral territory with a value of 0%. Core inflation also reported a lower rate of change, with an average annual value of 0.9% compared to 1.8% compared to 2019.

Graph 49. Inflation

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



Source: NSI.

Key:

(% спрямо същия период на предходната година) – (% compared to the same period of the previous year)

Инфлация (ХИПЦ) – Inflation (HICP)

ХИПЦ без храни, енергийни продукти, алкохол и тютюневи изделия – HICP excluding foods, energy products, alcohol and tobacco products

The largest contribution to the inflation accumulated during the year was made by services (0.7 p.p.) and foodstuffs (0.4 p.p.). Among the services, the prices of public catering have the largest contribution to the general inflation (0.2 p.p.), and the prices of the industrial goods limit the general growth of the inflation with their negative contribution of -1.2 p.p. Among them, the prices of liquid and transport fuels have the largest negative contribution of -1.0 p.p. Administrative prices increased slightly by 0.2 p.p.

Table 43. Contribution of main groups of goods to inflation

	2017	2018	2019	2020
Inflation (% compared to Dec. prev. year)	1,8	2,3	3,1	0,0
	<i>Contribution (pp)</i>			
Food stuffs	0,6	1,2	1,4	0,4
Unprocessed foods	0,2	0,2	0,5	-0,1
Processed foods	0,4	1,0	0,8	0,6
Services (all except goods)	0,4	1,8	0,9	0,7
Public food services	0,2	0,4	0,3	0,2
Transport services	0,1	0,4	0,0	0,1
Telecommunications	-0,1	0,1	-0,1	0,0
Energy and home heating	0,3	0,8	0,1	0,0
Liquid and transport fuels	0,4	0,4	0,3	-1,0
Industrial goods	0,6	0,7	0,6	-1,2
Administrative prices	0,4	0,8	0,4	0,2

Source: NSI.

Key:

Инфлация (% спрямо дек. на предх. г.) – Inflation (% compared to Dec. of the previous year)

Хранителни продукти – Food products

Непреработени храни – Unprocessed foods

Преработени храни – Processed foods

Услуги (всичко без стоки) – Services (everything excluding goods)

Обществено хранене – Public catering

Транспортни услуги – Transport services

Телекомуникации – Telecommunications

Енергия и отопление за дома – Electricity and home heating

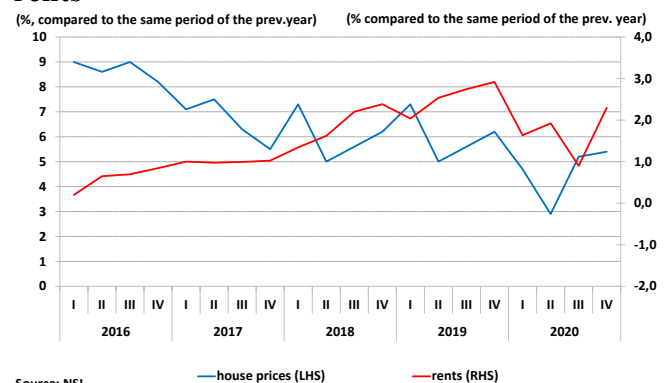
Течни и транспортни горива – Liquid and transport fuels

Промислени стоки – Industrial goods

Административни цени – administrative prices

In 2020, the growth of housing prices in our country is slowing down, reporting an increase of 4.6% on an average annual basis compared to 6.0% in 2019. The smaller growth of housing prices is determined by demand from households and the high percentage of vacant / unoccupied housing stock. Rental prices also decreased, reaching 1.7% on an average annual basis compared to 2.6% in 2019.

Graph 50. Dynamics of housing prices and rents



Source: NSI.

Key:

(% спрямо същия период на предходната година) – (%
compared to the same period of the previous year)
Цени на жилища, лява скала – Housing prices, LHS

Цени на наеми, дясна скала – Rental prices, RHS

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

In 2020, the assets of the participants in the non-banking financial sector increased by 3.2% and reached BGN 53 billion at the end of the year, as the assets of all types of non-banking financial companies and segments (except non-banking investment firms) reported a positive change in annual base. The largest contribution of 3.3 p.p. there is the growth of the assets of the pension funds, followed by the assets of the insurance and reinsurance companies (1.3 p.p.), the increase of the assets managed by the management companies and the alternative investment fund managers (0.1 p.p.), the change of the assets of collective investment schemes and sovereign wealth funds (0.1 p.p.) and the increase in the assets of special purpose investment companies (0.1 p.p.). The assets of non-bank investment firms, the main part of which are client assets, limit the growth with a negative contribution of -1.8 p.p. As a result of this dynamics, the role of companies in the non-banking financial sector in the structure of financial intermediation slightly decreases, as the assets of the participants in the supervised sector of the FSC reach 30.0% of the assets of the financial sector in Bulgaria.

As a share of GDP, the assets of the participants in the non-banking financial sector increased insignificantly and in 2020 amounted to 44.7%. The depth of financial intermediation in the non-banking financial sector measured through market capitalization on the stock exchange increased to 23.5% at the end of 2020 compared to 23.5% of the GDP at the end of 2019.

Table 44. 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	2016	2017	2018	2019	2020
Non-banking investment firms	4.5	10.8	13.6	12.5	11.1
Management companies and AIFMs	1.3	1.4	1.3	1.4	1.3
CIS and SWF*	1.0	1.0	1.0	1.0	1.0
SPICs	1.3	1.1	1.1	1.1	1.0
(Re)insurance companies	5.2	9.8	5.3	9.8	5.7
SPFs	9.1	9.2	8.8	9.5	9.8
Participants in the non-banking financial sector	1.0	1.0	31.2	31.0	30.0

Notes: * By 2017, closed-end investment companies were also included.

Source: BNB, FSC.

The assets of non-bank investment firms (IF) decreased by -4.4% in 2020 and at the end of the year reached BGN 19.7 billion. The reason for the decrease in the value of assets is a decrease in the client assets of non-bank investment firms with a partial license, whose contribution to this dynamics is -5.4 p.p. The assets of the non-banking IFs with a full license increased by 5.2% on an annual basis and limited the decline in the assets of the non-banking IFs with a positive contribution of 1.0 p.p.

The assets of management companies and alternative investment fund managers increased in absolute terms by BGN 70.5 million, which is an increase of 3.1% on an annual basis, amounting to BGN 2.3 billion at the end of the year. Of these, BGN 1.8 billion are the managed assets of collective investment schemes and BGN 0.5 billion are managed assets of clients on trust management of portfolios. The assets of collective investment schemes (CIS) and sovereign wealth funds (SWF) increased by a total of 4.3% compared to the previous year. The observed

dynamics is mainly due to an increase in the assets of the mutual funds and exchange traded funds (ETF) which at the end of the year were 125, and the amount of their assets reached BGN 1.8 billion. There are six sovereign wealth funds, which manage BGN 29.4 million of assets. Due to the relatively small absolute value of assets, collective investment schemes account for 1.0% of the structure of financial intermediation.

The assets of special purpose investment companies (SPICs) increased by 3.7% on an annual basis and by the end of the year their amount was BGN 1.9 billion. The largest contribution to this growth was made by the assets of SPICs investing in real estate and agricultural land (3.0 p.p.). SPICs securitizing receivables contribute positively by 0.7 p.p. in the annual growth of assets in the sector. In relative terms, the share of special investment purpose companies in the structure of financial intermediation at the end of 2020 remained at 1.1%.

The assets of (re) insurers increased by 7.5% in 2020 compared to 12.6% in 2019, and their share in the structure of financial intermediation is maintained compared to the previous year and

amounts to 5.6%. The largest contribution of 4.9 p.p. for the growth of the assets of the (re) insurance market lies with the increase of the assets of non-life insurance companies (10.3%), followed by the growth of the assets of the life insurance companies by 6.7%, which also have a positive contribution of 1.4 p.p. The assets of the only reinsurance company in Bulgaria increased by 3.8% on an annual basis and had a positive contribution of 1.2 p.p. to the change in the insurance market assets.

The growth of the balance sheet assets of pension funds decelerates to 10.6% in 2020 from 16.9% in 2019. The increase in their assets is due to both the proceeds from social security contributions and the positive result of investing the funds accumulated in individual accounts in the year. Pension funds continue to rank second among the institutional investors of the non-banking financial sector after the non-banking investment funds, as the amount of their balance sheet assets at the end of the year amounted to BGN 17.4 billion. Their relative share in the structure of financial intermediation at the end of the year amounted to 9.8%.

Table 45. Market capitalization of the stock exchange and assets of non-banking financial sector participants (% of the GDP)

	2016	2017	2018	2019	2020
Market capitalization of the stock exchange market	10.2	23.1	24.4	23.5	23.9
Non-banking investment firms	5.6	14.5	19.1	17.4	16.6
Management companies and AIFMs	1.6	1.8	1.8	1.9	2.0
CIS and SWF *	1.2	1.4	1.4	1.4	1.5
SPICs	1.6	1.5	1.6	1.5	1.6
(Re)insurance companies	9.8	7.4	7.5	7.6	8.4
SPFs	11.4	12.5	12.3	13.3	14.7
Participants in the non-banking financial sector	27.9	39.1	43.6	43.3	44.7

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 of the Bulgarian Stock

Exchange AD as a share of the GDP increased to 23.9% at the end of 2020 from 23.5% at the end of 2019.

The market capitalization of the BSE increased by 1.6% on an annual basis and reached BGN 28.4 billion at the end of the year. The market capitalization of the alternative market, which reached BGN 19.6 billion at the end of the year, had a positive contribution of 2.0 p.p., while the market capitalization of the main market, which reached BGN 8.8 billion at the end of 2020, had limited contribution of -0.4 p.p. By types of segments of the two markets organized by BSE AD, the highest contribution to this increase (1.6 p.p.) was made by the segment "Shares on the alternative market", whose market capitalization reached BGN 19.0 billion. in the end of the year. The main share in the segment is occupied by the shares of one public company²¹, whose market capitalization at the end of the year has 90.1% relative share in the segment. The segments "Standard Shares " and "SPIC" of the Alternative Market follow, which contribute positively by 1.3 and 0.4 p.p. each in the total increase in the capitalization of the two markets. The market capitalization of the Premium trading segment decreased by BGN 1.8 billion as of the end of 2019 to BGN 1.3 billion at the end of 2020 and has a negative contribution of -1.7 p.p. in the growth of

the market capitalization of the two markets organized by the stock exchange.

The dynamics of stock market indices in 2020 is influenced by the impact of the spread of the COVID-19 pandemic on capital markets. As at 31.12.2020, the main SOFIX index decreased by -21.2% compared to its level at the end of 2019 to 447.53 points. The broad BGBX40 index decreased by -9.3% on an annual basis to 101.38 points, while the weighted BGTR30 decreased by -3.3% during the year to 499.17 points. The sector index BGREIT, which in principle makes an exception to the general trend due to the type of companies included in the index, reported an increase of 5.9% on an annual basis to 137.69 points.

Expressed as share of the GDP, the assets of participants in the non-banking sector amounted to 44.7%, the largest among which was the share of assets of non-banking IFs (16.6%), followed by assets of supplementary pension funds (14.7%) and the share of the assets of the (re)insurance segment, which were 8.4% of the GDP. Assets managed by MCs and AIFMs amounted to 2.0% of the GDP, and those of the SPICs, CISs and SWFs – to 1.6% and 1.5% of the GDP, respectively.

In 2020, the development of the non-banking financial sector maintained the market environment in individual segments. The markets for services offered by special purpose investment companies, collective investment enterprises, management companies and non-life insurance companies were characterized by ongoing strong competition. A moderate competitive environment could be observed with pension insurance companies over the last five years, and the life insurance market and services segment provided by non-banking investment firms were characterized by high market concentration for the last four years. The overall development dynamics of the market environment during the year was divergent in the different segments and does not lead to a qualitative change in the market competition.

For non-banking investment firms, the concentration measured on client assets base

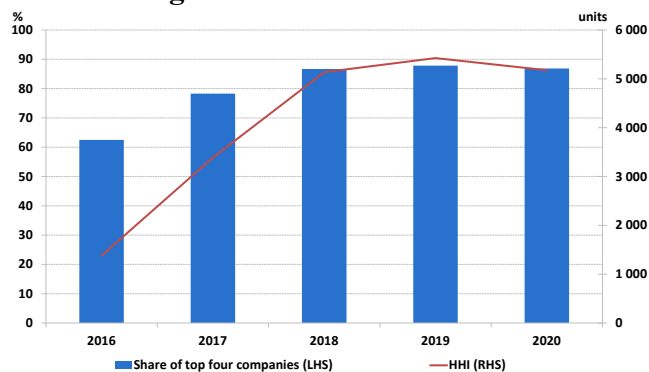
remains very high. By the end of 2020, the largest four investment firms held 86.9% of the total

²¹ The market capitalization of Capital Concept Limited AD as at 31.12.2020 was BGN 17.6 billion.

amount of all client assets,²² the share of the first investment firm being 71.2%. For the other investment firms, the average share of the client assets held was 0.8%.

The Herfindahl-Hirschman Index (HHI)²³ on the market of non-bank investment firms, calculated by client assets, decreased in 2020 to 5,176 units, which is 249 units less than the previous year. Despite this dynamics, the market for services provided by non-bank investment firms is still characterized as highly concentrated.

Graph 51. Concentration on the market of non-banking IFs



Source: FSC.

Key:

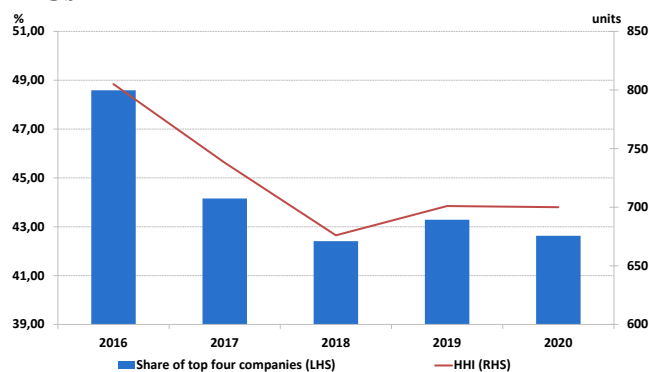
Дял на първите четири компании (лява скала) – Share of the top four companies (LHS)

HHI (дясна скала) – HHI (RHS)

The market concentration of the services offered by the management companies in 2020 is decreasing slightly compared to the previous year. The four management companies with the largest relative share in the managed assets hold 42.6% of the total amount²⁴. The value of the Herfindahl-Hirschman Index (HHI) on the market of management companies, calculated on the basis of managed assets at the end of 2020, decreased by one units to the level of 700 units in the direction

of decreasing concentration in the sector. The market segment continues to be characterized as highly competitive.

Graph 52. Concentration on the market of MCs



Source: FSC.

Key:

Дял на първите четири компании (лява скала) – Share of the top four companies (LHS)

HHI (дясна скала) – HHI (RHS)

The market for collective investment schemes is defined as highly competitive. The trend of gradual increase of the concentration in the segment continues in 2020, and an increase is observed both in relation to the Herfindahl-Hirschman index (HHI) and in the share of the first four funds in the total assets, despite this dynamics the market in this segment remains highly competitive. The change in the Herfindahl-Hirschman Index (HHI) is 21 units, increasing to 306 units at the end of 2020 compared to 285 units in 2019, while the share of the first four funds²⁵ increases respectively to 24.7%. from 23.6% at the end of 2019.

²² IF Intercapital Markets AD, IF Elana Trading AD, IF First Financial Brokerage House EOOD and IF Sofia International Securities AD.

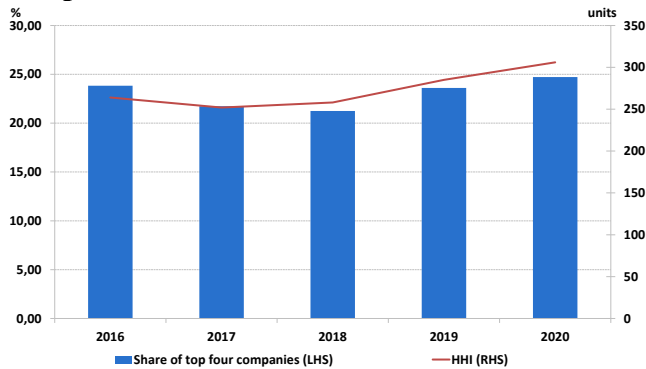
²³The Herfindahl-Hirschman Index (HHI) is calculated as the sum of the squares of the market share of each market participant, with its value varying between 0 and 10,000. For a value of less than 1000 units, the market is defined as highly competitive, between 1000 and 1800 units – as

moderately competitive environment, and more than 1800 units – the market is characterized by strong concentration.

²⁴KBS Asset Management NV, DV Asset Management EAD, DSK Asset Management AD and Raiffeisen Asset Management EAD.

²⁵MF UBB Platinum Bonds, MF Raiffeisen Conservative Fund (Bulgaria), MF DSK Standard and MF UBB Platinum Euro Bonds.

Graph 53. Concentration on the market of CISs



Source: FSC.

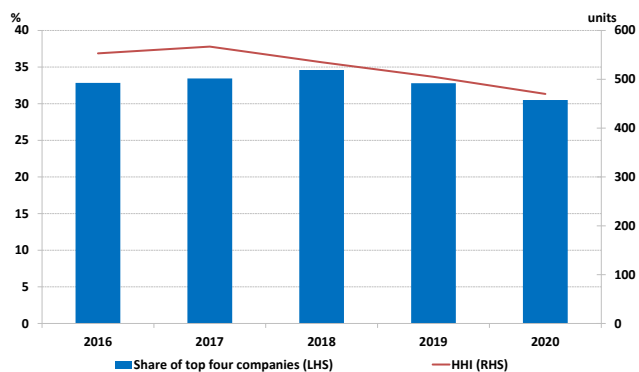
Key:

Дял на първите четири компании (лява скала) – Share of the top four companies (LHS)

HHI (дясна скала) – HHI (RHS)

The segment of special purpose investment companies remained highly competitive at a Herfindal-Hirschman index (HHI) of 470 units, which was 350 below the value of the 2019 indicator. Similar dynamics was observed in the change in the share of the first four companies, which decreased from 32.8% in the previous year²⁶ to 30.5% in 2020, the indicator remained within a strong competitive environment.

Graph 54. Concentration on the market of SPICs



Source: FSC.

Key:

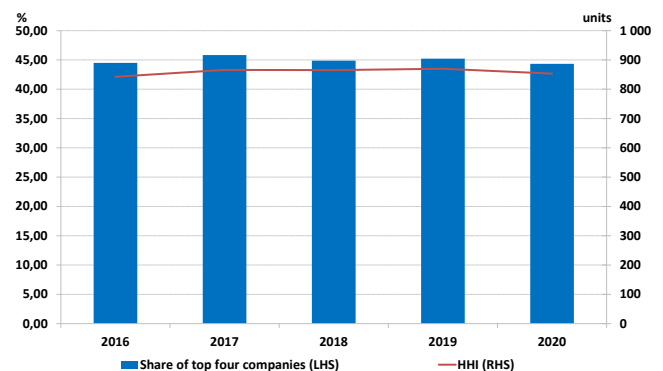
Дял на първите четири компании (лява скала) – Share of the top four companies (LHS)

²⁶ Advance Terrafund SPIC, Real Estate Fund Bulgaria SPIC, Capital Management SPIC and Super Borovets Property Fund SPIC.

²⁷ Insurance Company Lev Ins AD, Bulstrad Vienna Insurance Group AD Insurance Company, and DZI - Non-life Insurance EAD and Insurance Company Euroins AD.

The market of non-life insurance was determined as highly competitive, with the HHI index value decreasing by 17 units in 2020 compared to the previous year and by the end of December 2020 reached 853 units, which is an indicator for decreased competition. The market share of top four non-life insurance companies, measured in terms of assets,²⁷ decreased to 44.03% at the end of 2020 from 45.2% at the end of 2019.

Graph 55. Concentration on the non-life insurance market



Source: FSC.

Key:

Дял на първите четири компании (лява скала) – Share of the top four companies (LHS)

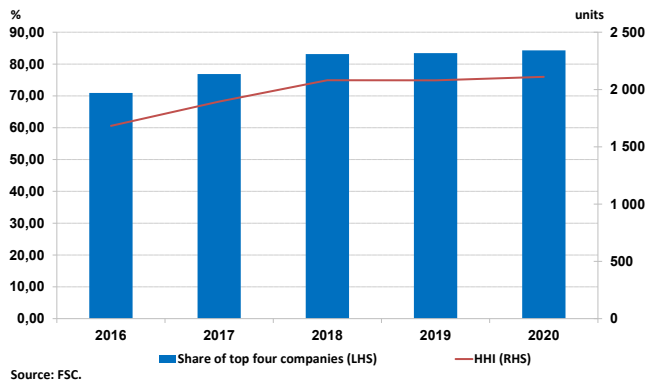
HHI (дясна скала) – HHI (RHS)

In 2020, the life insurance services market continues to be characterized by a highly concentrated competitive environment, which is deepening as a result of the transformation by merging one life insurance company into another in the second quarter of 2020. At the end of 2020, the curve of the Herfindahl - Hirschman Index (HHI) scored 2,111 units, which is 30 units compared to the previous year in the direction of increasing concentration in the sector. The combined market share of the four life insurance companies with the largest amount of assets²⁸ reaches a historically highest level and at the end

²⁸ 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.

of the fourth quarter of 2020 reaches a level of 84.3%.

Graph 56. Concentration on the life insurance market



By the end of 2020, the share of the first four companies²⁹ on the market of pension insurance services according to their balance sheet assets remains relatively unchanged at the level of the previous year 75.2%. The HHI index increased by

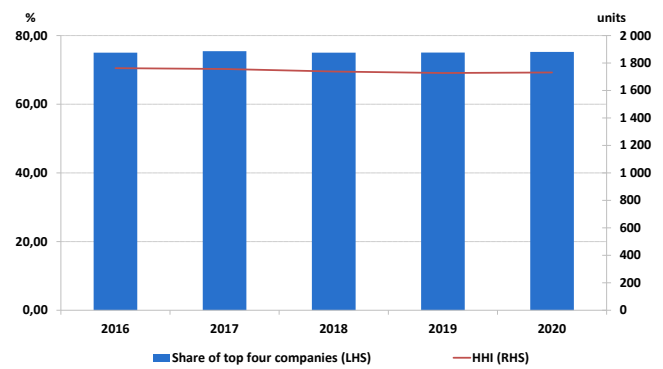
Key:

Дял на първите четири компании (лява скала) – Share of the top four companies (LHS)

HHI (дясна скала) – HHI (RHS)

4 units compared to the previous year and at the end of 2020 reached 1,731 units, thus maintaining the level of moderate concentration in the last five years.

Graph 57. . Concentration of the social insurance market



Key:

Дял на първите четири компании (лява скала) – Share of the top four companies (LHS)

HHI (дясна скала) – HHI (RHS)

2.1. Review of risks and main market trends

Global economic activity is slowing in 2020 as a result of the COVID-19 pandemic. Declining global economic activity and weaker external demand are having a negative impact on the economies of the eurozone and the EU as a whole, with national lockdowns and quarantine measures against coronavirus and complicated post-Brexit relations between Britain and the EU. In response to slowing global economic growth **in March 2020, the leading central banks agreed on measures aimed at stimulating the economies.**

The development of international capital markets in 2020 is characterized by upward dynamics, which after the first quarter of the year is supported by the expectations of market participants for stimulus measures by governments, and at the end of 2020 a positive factor are the vaccines against COVID- 19 by Pfizer-BioNTech, Moderna and AstraZeneca. In an environment of low interest rates the prospects for increasing the profitability in the financial sector are limited, as the settings of buffers is of great importance for effective coping during an economic downturn without negative consequences for the real economy.

The spread of the COVID-19 pandemic since the beginning of 2020 and the measures taken to limit it have had a significant impact on the slowdown of economic activity in Bulgaria and worldwide. In 2020, the Bulgarian economy reported a decline of -4.2%. The current account deficit at the end of 2020 amounted to EUR -399.9 million compared to a positive balance (EUR 1,121.2 million) at the end of the previous year.

²⁹PIC Doverie AD, PIC Allianz Bulgaria AD, PIC DSK – Rodina AD and PIC Saglasie AD.

The volume of foreign direct investment in Bulgaria amounts to EUR 2124,9 million, which is only EUR 590.1 million more than the previous year. In 2020, the country's gross external debt increased by 8.98% on an annual basis, reaching EUR 38.4 billion at the end of the year, which represents 58.2% of GDP. The trend of increasing bank loans to the private non-financial sector has been interrupted, as in 2020 loans to non-financial corporations and households in Bulgaria recorded an average annual growth of 5.2% compared to 6.7% at the end of 2019. In 2020, the current account deficit of the balance of payments amounted to EUR -399.9 million, reducing its value by -2.5 p.p. compared to 2019. Consumer price inflation began to decline in the middle of the year, reaching 0% on an annual basis at the end of December. The housing price index slows down its positive rate of change on an annual basis from 6.0% on average in 2019 to 4.6% in 2020. The trend in rental prices follows the same trend, the index decreases to 2.3% in 2020 compared to 2.9% for 2019.

Despite the reduced economic activity in Bulgaria, the stability of the banking system remains at a high level, sector "Banking" reduces its foreign liabilities, as a result of which in 2020 the international rating agency S&P Global Ratings **determined Bulgaria's credit rating as 'BBB' with a stable outlook.**

In search of profitability in conditions of global uncertainty and prolonged low interest rates, **institutional investors maintain an interest in alternative investments**, and the amount of the assets of the collective investment funds increased by 4.3% on an annual basis and reached BGN 1.8 billion by the end of 2020. The dynamics of the market indices of the Bulgarian Stock Exchange is influenced by the impact of the spread of the COVID-19 pandemic on the capital markets. Towards the end of the period the leading index - SOFIX decreased from -21.2% to 447.53 points, the broad BGBX40 decreased by -9.3% to 101.38 points, while the weighted BGTR30 ended the year with a decrease of -3.3% to 499.17 points. The sectoral BGREIT, which recorded an annual growth of 5.9%, ended the year at 137.69 points. This dynamics of the indices is due to the high volatility of the securities markets in the first quarter, which leads to a sharp decline in all indices as the recovery in the following quarters of the year is different in different sectors and leaves the indices below the levels of late 2019. The turnover of BSE AD increased by 19.2% or BGN 63.9 million in absolute value. In the sectoral structure of trade, the Financial and Insurance Activities sector, which traditionally forms the majority of the turnover on the BSE, accounts for 61.9% of the total turnover on the main market during the year. The market capitalization of the stock exchange increased by 1.6% on an annual basis, the contribution of the alternative market was 3.0 p.p., while the contribution of the main market limits the growth with a negative contribution of -1.4 p.p. Taking advantage of the still low interest rates in Bulgaria as well, corporate debt with a nominal value of BGN 135.4 million was issued on the stock exchange during the year.

The outlook for the insurance sector depends critically on the future development of the pandemic and on the resilience of the economic recovery. Insurers' capital buffers were stable at the end of 2020 (average SCR ratio 211.1%) and proved resilient at the time of the virus outbreak, declining in Q1 (182.4%) and reverting upwards again in the following quarters, as at the end of the fourth quarter of 2020 they reached an average SCR ratio of 202.1%. It is noted that life insurers are most affected, with their SCR declining at the end of the first quarter to 209% from 259% at the end of 2019 and recovering at the end of the fourth quarter of 2020 to more low annual level of 245%. The prolonged period of ultra-low bond yields is further negatively affecting the profitability prospects of insurers' investment portfolios due to the reinvestment risk. In addition, the risk of deterioration in corporates' ratings could affect the market value of corporate bond holdings of the insurers. The financial markets also have negatively affected the insurers' investment profitability in the first half of the year.

In an environment of low interest rates the investments of all insurers in the Republic of Bulgaria (based on the information from the quarterly reports according to Ordinance № 53 at the end of the fourth quarter of 2020, which includes the data for all insurers based in the Republic of Bulgaria) on an annual basis by 12.3% at the end of the fourth quarter of 2020. They retain their investment interest in debt securities dominated by Bulgarian government securities, reaching a historically high absolute amount, and their share in the total value of investments in non-life insurance companies decreases to 62.4%, and for life insurers it rises to 74.3%. Non-life insurance companies reduce their exposures in shares and other variable-income securities, while life insurance companies maintain their value on an annual basis, reducing their share in the investment portfolio to 15.8% for non-life insurance and to 11.7% for life insurers at the end. The trend of recent years to reduce exposures in bank deposits of life insurers to historically low levels is deepening, as their share decreases to 1.1% of their investments, while in non-life insurance companies they increase their share and reach 4.5% of investments. Investments in land and buildings of non-life insurance companies are also declining, while those of life insurers remain at the same level.

Although the insurance sector is adapting to the environment of prolonged low interest rates, the life insurance segment is most vulnerable when it offers insurance products with a guaranteed return significantly higher than the realized investment income in the long run aspect. Investments in Unit-linked life insurance policies, where the investment risk under this type of insurance is borne by the insured, continue to grow, reporting a change of 9.6% in the fourth quarter of 2020 and reaching 20.4% of the value of all assets of life insurers compared to 17.5% at the end of 2019.

The risk in terms of the profitability of the insurer remains moderate with a tendency to increase, as in the fourth quarter of 2020 the return on assets of non-life insurance companies remains the same, while that of life insurance companies increases slightly. Return on equity decreased for non-life insurance companies and increased for life insurance companies, while return on investment in both insurance sectors decreased. The solvency capital requirement of life insurers increased on a quarterly basis to 244.6%, and for non-life insurance companies the indicator, which is at a relatively lower level, increased from 156.2% to 159.5% on a quarterly basis.

Another vulnerability for the insurance sector could be the possible contagion through interconnectedness with banks.

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 supplementary pension funds are mainly exposed to the risks of the financial markets in which their assets are invested. As long-term investors, pension funds invested mainly in debt securities, among which dominated the investments in government securities, whose relative share slightly slowed down its growth rate and at the end of 2020 amounted to 56.7% of the total investment portfolio of SPFs. The share of investments in bonds other than government securities also decreased slightly compared to the previous year and decreased to the level of 9.5% of the total investment portfolio. Due to the higher yield, despite the riskier nature, the value of pension funds' investments in shares, rights and units increased to 31.2% 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 0.8% of all investments at the end of the year. The higher yield achieved on foreign markets, as well as the variety of financial instruments, leads to an increase in the share of investments of pension funds in financial instruments issued by issuers outside the Republic of Bulgaria, respectively to 70.8% of their investment portfolio at the end of 2020 compared to 67.1% at the end of 2019. At the beginning of 2020, the annual profitability of all types of SPFs fell sharply

and became negative, as a result of the negative dynamics, which covered to a greater extent the foreign capital markets during the rapid spread of the COVID-19 pandemic in Europe. In mid-2020, it began to recover, but remained in negative territory, slowing the pace of change. At the end of 2020, the annual profitability of SPF stabilizes, moving to a positive value.

2.2. Analysis of the participants on the capital market

The market capitalization of the Bulgarian Stock Exchange AD increased by 1.6% in 2020 and amounted to BGN 28.4 billion at the end of the year, which represents 23.9% of GDP (compared to 23.5% in 2019). Financial and insurance activities took first place in terms of turnover during the year with BGN 213.7 million. The assets of non-bank investment firms based in the Republic of Bulgaria reported a decrease of -4.4% on an annual basis and at the end of 2020 amounted to BGN 19.7 billion. In 2020, the assets of special purpose investment companies increased by 3.7% on an annual basis and reached BGN 1.9 billion. The assets of collective investment schemes and sovereign wealth funds increased by 4.3% compared to the previous year and at the end of 2020 amounted to BGN 1.8 billion. The total assets managed by the management companies increased by 3.1% and reached BGN 2.3 billion.

2.2.1. Investment firms ³¹

In 2020, the number of investment firms (IFs) operating on the territory of the Republic of Bulgaria is 60, 20 of which are banks and 3 bank investment firms operating on the territory of the country through a branch. The number of non-bank investment firms based in the Republic of Bulgaria is 36³², and the number of non-bank investment firms operating on the territory of the country through a branch is 4 at the end of 2020.

Depending on the authorizations issued, non-banking IFs were divided into three groups: (1) IFs with full license³³, for which the required capital is BGN 1,500,000, (2) IFs with a partial license³⁴, for which the required capital is BGN 250,000 and (3) IFs with a small license³⁵, for which the required

capital is BGN 100,000. At the end of 2020, 18 IFs with a full license, 17 companies with a partial license and 1 company with a small license were entered in the register of the FSC. In 2020, two investment firms have their operating licenses revoked, and one investment intermediary has its existing license changed.

³¹The analysis covers non-banking investment firms based in the Republic of Bulgaria, unless explicitly stated otherwise.

³² The number of non-bank investment firms did not include companies whose license had been revoked as at 31.12.2020.

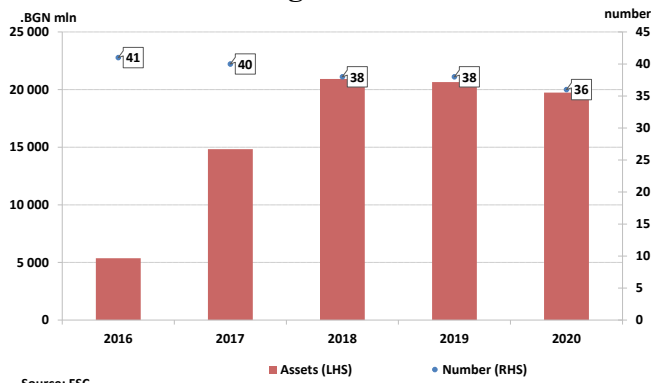
³³ They may carry out all the investment services and activities listed in Art. 6, para. 2 of the Markets in Financial Instruments Act (MFIA).

³⁴ 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.

³⁵ 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.

Graph 58. Dynamics in the number and assets of non-banking IFs



Key:

Млн. лв. – BGN million

Активи (лява скала) – Assets (LHS)

Брой (дясна скала) – Number (RHS)

The sum of total assets³⁶ of non-bank investment firms at the end of 2020 was BGN 19.7 billion, which is a decrease of -4.4% compared to the end of 2019. Of these, client assets amounted to BGN 19.5 billion. Contribution to the annual rate of change in customer assets of -4.9 p.p. non-bank investment firms with a partial license have, and those with a full license have a positive contribution limiting the decline of 0.4 p.p. The reason for this dynamics is a decrease of BGN -1 billion of the client assets of the IF with a partial license. In 2020, the number of non-bank investment firms with direct foreign participation from the EU will decrease from 4 in 2019 to 2 by the end of the year. The number of investment firms with indirect foreign participation from the EU is 5 at the end of the year. In terms of indirect participation from third countries, the number is 1 IFIF with direct participation from third countries and 1 IFIF with indirect foreign participation from third countries.

³⁶ The amount of the total assets included the amount of the contingent assets.

Table 46. Number of IFs with foreign ownership

	2019		2020	
	Direct	Indirect	Direct	Indirect
EU ownership	4	0	2	5
Third countries' ownership	0	1	1	1

Source: FSC.

Key:

Чуждестранно участие от ЕС – Foreign participation from the EU

Чуждестранно участие от трети страни – Foreign participation from third countries

Пряко – Direct

Непряко – Indirect

The amount of the assets of the only non-bank investment firm with a small license decreased by BGN 302.8 thousand at the end of 2019 up to BGN 201.2 thousand at the end of 2020, which is a decrease of -33.5% on an annual basis. The amount of assets of non-bank investment firms with a partial license decreased by -6.7% on an annual basis - from BGN 16.7 billion as of the end of 2019 to BGN 15.6 billion as at the end of 2020, while the assets of non-bank investment firms with a full license increased by 5.2% during the year to BGN 4.2 billion, compared to BGN 43.9 billion at the end of 2019.

Table 47. Assets, capital stock and equity of non-banking IFs

	2016	2017	2018	2019	2020
IFs with a small licence					
assets	0,2	0,3	0,3	0,3	0,2
capital stock	0,5	0,5	0,3	0,1	0,1
equity	0,2	0,2	0,3	0,3	0,2
IFs with a partial licence					
assets	915,0	9 341,2	16 169,2	16 682,9	15 564,0
capital stock	9,6	9,3	14,8	18,6	13,0
equity	16,5	17,7	23,6	28,2	23,6
IFs with a full licence					
assets	4 452,7	5 493,6	4 750,4	3 967,9	4 175,5
capital stock	59,2	65,8	62,4	56,8	53,1
equity	105,2	111,2	144,7	143,2	119,4
Total IFs					
assets	5 367,9	14 835,0	20 919,8	20 651,1	19 739,6
capital stock	69,3	75,5	77,4	75,4	66,2
equity	121,9	129,1	168,5	171,7	143,2

Note: Data are in million BGN, unless stated otherwise.

Source: FSC.

Key:

Активи – Assets

Основен капитал – Main capital

Собствен капитал – Equity

ИП с малък лиценз – IFs with small license

ИП с частичен лиценз – IFs with partial license

ИП с пълен лиценз – IFs with full license

Общо ИП – Total IFs

Бележка: Данните са в млн. лв., освен ако не е посочено друго. – Note: Data are specified in BGN million, unless stated otherwise.

The capital stock of non-banking investment firms decreased by -12.3% on an annual basis to BGN 66.2 million by the end of 2020. The equity of the investment firms decreased by -16.6% on an annual basis to BGN 143.2 million as at the end of 2020. The negative financial result achieved by the investment firms during the year amounting to BGN 9.1 million was the main factor contributing to the annual rate of change in equity.

The market value of the trade and investment portfolio of non-bank investment firms at the end of 2020 is BGN 80.2 million. 13 non-bank investment firms with a market value of BGN 55.6 million have formed a trading portfolio at the end of the year. The non-bank investment firms that formed the investment portfolio are 27 at the end of 2020 with a market value of BGN 24.6 million.

As of the end of 2020, 16 non-bank investment firms perform trust management. The market value of the securities provided for management on a trust basis was BGN 68.1 million, and the cash at the end of the period was BGN 4.1 million.

The number of transactions concluded by investment firms in 2020 increased by 38.5% on an annual basis to 61.2 thousand transactions, and the traded lots increased by 77.8% on an annual basis to 322.0 million lots. The trading activity of the stock exchange members on the regulated market of the BSE, measured by the turnover, increased by 19.2% on an annual basis to BGN 397.5 million in 2020. The first four investment intermediaries by commercial activity have a share of 45.9% of the total turnover realized on the regulated market of the BSE during the year.

Table 48. Number of transactions, turnover and volume (lots) of IFs (banking and non-banking) on BSE's regulated market

	2016	2017	2018	2019	2020
Number of transactions	58 442	79 629	54 341	44 167	61 173
Turnover (BGN mln.)	416	706	550	334	397
Volume (mln. lots)	186	401	282	181	322

Source: BSE, FSC.
Key:

Брой сделки – Number of transactions
Оборот (млн. лв.) – Turnover (BGN million)
Обем (млн. лотове) – Equity (million lots)

2.2.2. *Collective investment undertakings*

As of the end of 2020, the number of management companies (MCs) is 31, of which 5 are also alternative investment fund managers (AIFM) and 1 branch of a MC. The total number of registered AIFMs (which are not MCs) is 12 and 6 of them have issued permits for activities and entered in the register of the FSC in 2020. Five of the registered AIFMs are MCs that manage sovereign wealth funds and one AIFM is a self-managed sovereign wealth fund. During the reporting year a permit was issued for transformation through merger of UBB Asset Management EAD into KBC Asset Management NV, Belgium, and the license for carrying out the activity of another management company. Permits have been issued to operate 1 mutual fund (MF), 3 sovereign wealth funds (SWF) and 2 permits have been issued for transformation through merger into another MF. Two MFs have been issued a permit for termination of the activity, the issue of units issued by 3 MFs has been written off from the register of FSC, bringing the total number of CISs and AIFs, including SWF, to 141 at the end of the year. Out of them 114 MF, 11 ETFs and 16 AIFs, of which 9 AIFs, which are not SWF, 4 SWF, 2 NDF and 1 national exchange-traded fund (NETF)).

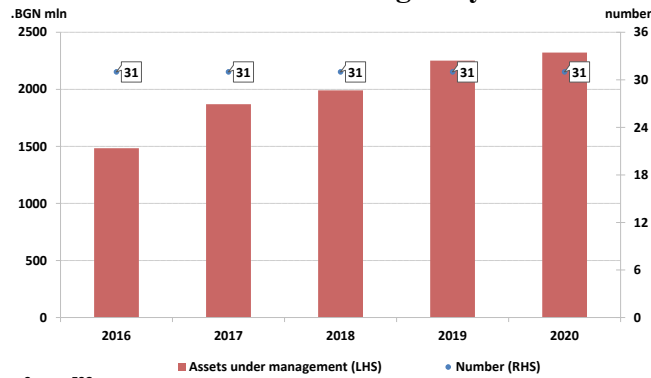
The amount of assets managed by management companies³⁷ increased in absolute terms by BGN 70.5 million and by the end of the year it reached BGN 2.3 billion, which was 13.1% annual growth. Of them, BGN 571.8 million are the managed assets of clients in trust portfolio management and BGN 1,750.5 million managed assets of collective investment schemes. As of the

³⁷ Incl. one branch of the Management Board, transformed in 2020 through a merger into another Management Board

(UBB Asset Management EAD in KBC Asset Management NV, Belgium)

end of 2020, the amount of assets managed by the AIFM amounts to BGN 102.5 million.

Graph 59. Dynamics in the number of MCs and AIFMs and assets managed by them

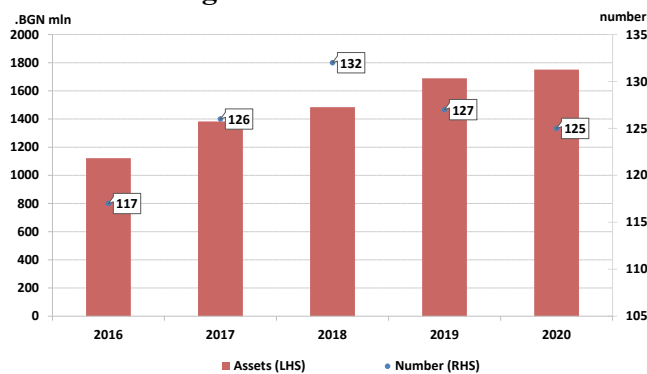


Key:
 Млн. лв. – BGN million
 Управлявани активи (лява скала) – Managed assets (LHS)
 Брой (дясна скала) – Number (RHS)

As of the end of 2020, there are seven sovereign wealth funds (SWFs), of which two national mutual funds (NMFs), four SWFs and 1 NETF whose total assets amount to BGN 29.4 million compared to BGN 17.9 million for the previous year.

In 2020, the assets accumulated by the CISs increased, while their number decreased. As at December 2020, there are 125 CISs, whose total balance sheet assets reach BGN 1.7 billion. (of which net assets are BGN 1.7 billion), or the increase in balance sheet assets is 3.6% compared to the previous year.

Graph 60. Dynamics in the number and assets of non-banking IFs



Key:
 Млн. лв. – BGN million

Активи (лява скала) – Assets (LHS)
 Брой (дясна скала) – Number (RHS)

In 2020, the number of contractual funds of foreign collective investment schemes increased by 2 and at the end of 2020 they were 49.

Table 49. Dynamics of the number of foreign CISs

	2016	2017	2018	2019	2020
Mutual funds - foreign CISs	27	26	44	46	49

Key:
 Взаимни фондове – чуждестранни КИС – Mutual Funds – foreign CISs

The total assets accumulated by CISs and SWFs in 2020 grew by 4.3% compared to the previous year, reaching BGN 1.8 billion at the end of the year. The balance sheet item Financial Assets and Instruments slowed down its growth from 30.3 % in 2019 to 7.3% in 2020, reaching BGN 1.6 billion with a positive contribution of 6.3 p.p. to the annual rate of change in assets. The items with the largest positive contribution to the annual rate of change are Shares (4.7 p.p.), amounting to BGN 794.3 billion, followed by Debt securities (1.9 p.p.), increasing to BGN 622.9 million, followed by CIS shares (0.93 p.p.) amounting to BGN 164.0 million. The balance sheet item Cash decreased to BGN 174.6 million for the year and has -2.1 p.p. negative contribution to the annual rate of change in assets.

Table 50. Dynamics of the CISs' and SWFs' assets

	2016	2017	2018	2019	2020
Cash	366,7	376,2	348,3	210,8	174,6
Term deposits	159,7	167,6	151,2	97,0	59,1
Financial assets and instruments, incl.:	760,7	998,8	1 137,1	1 481,8	1 589,4
Shares	375,2	536,6	611,2	714,4	794,3
Rights	7,9	0,0	0,0	0,0	0,0
Debt securities	251,9	307,7	371,0	590,1	622,9
Shares of CIS	110,4	132,8	145,3	159,5	164,0
Money Market Instruments	0,9	3,5	0,0	0,0	0,0
Derivatives	0,9	1,0	0,3	0,5	0,3
Other financial instruments	13,5	8,2	9,2	17,3	8,0
Non-financial assets (receivables)	13,8	12,7	7,4	6,3	8,9
Other	1,3	6,5	9,0	8,2	7,3
TOTAL	1 142,5	1 394,2	1 501,8	1 707,1	1 780,2

Note: Data are in million BGN, unless stated otherwise.
 Source: FSC.
 Key:
 Парични средства – Cash
 Срочни депозити – Term deposits
 Финансови активи и инструменти, в т.ч. – Financial assets and instruments, incl.
 Акции – Shares
 Права – Rights

Дългови ЦК – Debt securities
 Дялове на КИС – Shares of CIS
 Инструменти на паричния пазар – Money Market Instruments
 Деривативи – Derivatives
 Други финансови инструменти – Other financial instruments
 Нефинансови активи (вземания) – Non-financial assets (receivables)
 Други – Other
 ОБЩО – TOTAL

Бележка: Данните са в млн. лв., освен ако не е посочено друго.
 – Note: Data are in BGN million, unless specified otherwise

In 2020, the relative share of the Cash balance sheet item in the total structure of assets continued to decline from 12.3% in 2019 to 9.8% at the end of the year. There was an increase in the share of the Financial assets and instruments balance sheet item, which increased from 86.8% to 89.3%. The main contribution to this dynamics is made by the balance sheet item Shares, whose share reached 44.6% by the end of 2020, followed by the balance sheet item Debt securities, with a relative share of 35.0%. The share of the CIS Units item decreased slightly to 9.2% in the structure of assets. The Non-financial assets item, most of which are receivables, increased both in absolute terms (BGN 2.7 million) and as a relative share from 0.4% to 0.5% at the end of the year. Other items, which mainly represent prepaid expenditures, have a share of 0.4% in the total asset structure of CISs and SWFs.

Table 51. Relative structure of CISs' and SWFs' assets

	2016	2017	2018	2019	2020
Cash	32,1	27,0	23,2	12,3	9,8
Term deposits	14,0	12,0	10,1	5,7	3,3
Financial assets and instruments, incl.	66,6	71,6	75,7	86,8	89,3
Shares	32,8	38,5	40,7	41,8	44,6
Rights	0,7	0,0	0,0	0,0	0,0
Debt securities	22,0	22,1	24,7	34,6	35,0
Shares of CIS	9,7	9,5	9,7	9,3	9,2
Money Market Instruments	0,1	0,2	0,0	0,0	0,0
Derivatives	0,1	0,1	0,0	0,0	0,0
Other financial instruments	1,2	0,6	0,6	1,0	0,4
Non-financial assets (receivables)	1,2	0,9	0,5	0,4	0,5
Other	0,1	0,5	0,6	0,5	0,4
TOTAL	100,0	100,0	100,0	100,0	100,0

Note: Data are in percentages (%), unless stated otherwise.
 Source: FSC.

Key:

Парични средства – Cash

Срочни депозити – Term deposits

Финансови активи и инструменти, в т.ч. – Financial assets and instruments, incl.

Акции – Shares

Права – Rights

Дългови ЦК – Debt securities

Дялове на КИС – Shares of CIS

Инструменти на паричния пазар – Money Market Instruments

Деривативи – Derivatives

Други финансови инструменти – Other financial instruments

Нефинансови активи (вземания) – Non-financial assets (receivables)

Други – Other

ОБЩО – TOTAL

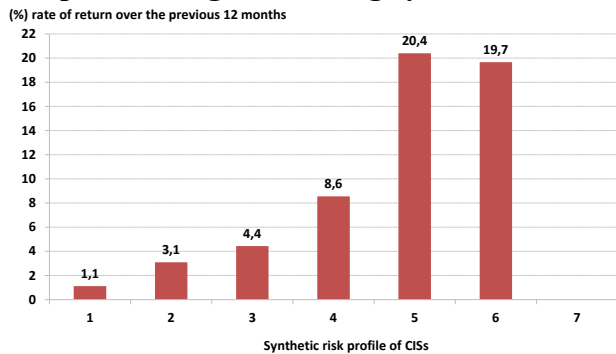
Бележка: Данните са в млн. лв., освен ако не е посочено друго.
 – Note: Data are in BGN million, unless specified otherwise

In 2020, collective investment schemes are faced with increased liquidity risk in the face of global uncertainty and increased redemption by investors. Meanwhile, with the prolonged environment of low interest rates and the search-for-yield by investors, the industry continues to be the preferred alternative for investment. For the last 12 months the weighted average return of all groups of risk profiles is positive. At the end of the year, the highest weighted average return for the previous 12 months was realized by the high-risk profile funds (20.4%), classified in category 5 (scale from 1 to 7),³⁸ followed by the funds with risk profile 6 (19.7%). Mutual funds with risk profiles of categories 3 and 4 report 4.4% and 8.6% returns, respectively, for the last 12 months. The yield realized by CISs with risk profiles 1 (whose investments are mainly in deposits and bonds) and 2 is positive, which is 01.1% and 3.1% respectively for the last twelve months.

³⁸ According to Regulation 583/2010 / EU, the scale (1 to 7) is a synthetic code for the risk profile of CISs, with the degree of risk increasing in ascending order. The return is weighted

by the value of the net assets of the individual CIUs with the same risk profile.

Graph 61. Weighted average yield of CISs



.Source: FSC

Key:

(%) доходност за предходните 12 месеца – (%) rate of return over the previous 12 months

Синтетичен риск профил на КИС – Synthetic risk profile of CIS

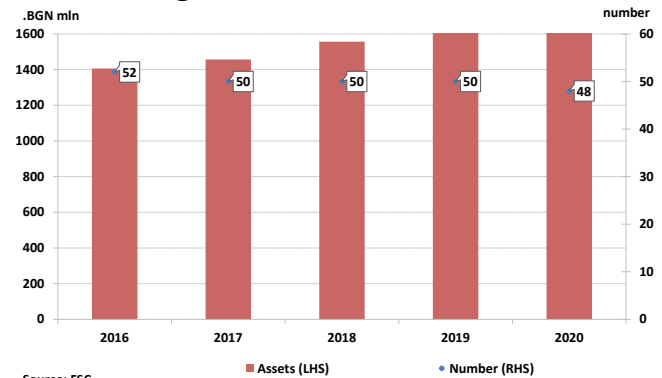
2.2.3. Special Purpose Investment Companies

At the end of 2020, the total number of licensed special investment purpose companies (SPICs) is 57³⁹, of which 48 securitize real estate and agricultural land, and the remaining 9 securitize receivables. The total value of the assets of all special purpose vehicles increased by 3.7% compared to the previous year 2019. The amount of assets of these companies at the end of 2020 amounted to BGN 1.9 billion or 1.6% of GDP. The contribution of the two categories of SPICs in the total growth of assets is positive, as for the securitizers in real estate it is 3.0 p.p., and that of the SPICs for securitization receivables is 0.7 p.p.

The amount of assets of SPICs securitizing real estate and agricultural land increased by 3.3% in 2020 and by the end of the year reached BGN 1.7 billion at the same time, the number of companies in the segment decreased to 48 SPICs compared to the previous year.

Graph 62. Dynamics in the number and assets of SPICs, performing securitization of real

estate and agricultural land



.Source: FSC

Key:

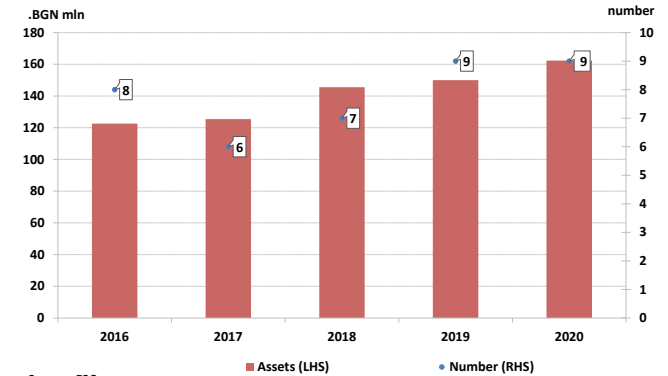
Млн. лв. – BGN million

Активи (лява скала) – Assets (LHS)

Брой (дясна скала) – Number (RHS)

In 2020, the amount of accumulated assets of SPICs securitizing receivables increased by 8.2% compared to 2019 and by the end of the year reached BGN 162.3 million. The number of companies in the segment remains at 9 SPICs.

Graph 63. Dynamics in the number and assets of SPICs, performing securitization of receivables



.Source: FSC

Key:

Млн. лв. – BGN million

Активи (лява скала) – Assets (LHS)

Брой (дясна скала) – Number (RHS)

The assets of SPICs securitizing real estate and agricultural land increased by 3.3% on an annual basis and reached BGN 1.7 billion at the end of 2020. In the structure of the balance sheet assets the investment properties main item increased by BGN 70 million, reaching BGN 77.6 million and has the

³⁹ The number of SPICs presented did not include companies the license of which had been revoked as at 31.12.2020.

highest positive contribution of 4.3 p.p. in the total annual growth of the assets of this type of companies (3.3%). The Investment Properties balance sheet item, which at the end of the year reached BGN 1.2 billion, has a relatively small contribution of 0.6 p.p. in asset growth. Next is the item Cash, which reaches BGN 82.2 million. and has a contribution of 0.5 p.p. in asset growth. The Receivables item has a growth-limiting negative contribution of -0.6 p.p., decreasing from BGN 191.4 million at the end of 2019 to BGN 181.8 million at the end of 2020, while Other items on the assets balance sheet fell to BGN 123.4 million, which limits the growth by -1.4 p.p.

Table 52. Assets of SPICs performing securitization of real estates and agricultural land

	2016	2017	2018	2019	2020
Investment properties	1 021,1	1 099,6	1 117,9	1 227,6	1 236,6
Financial assets	0,2	2,5	2,4	7,6	77,6
Cash	53,5	51,6	80,6	74,3	82,2
Receivables	182,6	155,4	251,0	191,4	181,8
Other	149,0	147,6	104,9	146,8	123,4
TOTAL	1 406,4	1 456,7	1 556,8	1 647,6	1 701,6

Note: Data are in million BGN, unless stated otherwise.

Source: FSC.

Key:

Инвестиционни имоти – Investment properties

Финансови активи – Financial assets

Парични наличности – Cash availabilities

Вземания – Receivables

Други – Other

ОБЩО – TOTAL

Бележка: Данните са в млн. лв., освен ако не е посочено друго. – Note: Data are in BGN million, unless specified otherwise.

In 2020, the relative structure of the assets of SPICs securitizing real estate and agricultural land remained relatively stable compared to the previous reporting period. The relative share of investment properties decreased from 74.5% at the end of 2019 to 72.7% at the end of 2020, although during the year their book value increased nominally by BGN 9.1 million. The share of the balance sheet item "Financial assets" increased from 0.5% to 4.5% of the total structure of assets. The highest decrease was observed in the relative share of receivables and other assets in the relative structure of assets, which decreased to 10.7% and 7.3% respectively at the end of 2020.

Table 53. Relative structure of the assets of SPICs, performing securitization of real estates and agricultural land

	2016	2017	2018	2019	2020
Investment properties	72,6	75,5	71,8	74,5	72,7
Financial assets	0,0	0,2	0,2	0,5	4,5
Cash	3,8	3,5	5,2	4,5	4,8
Receivables	13,0	10,7	16,1	11,6	10,7
Other	10,6	10,1	6,7	8,9	7,3
TOTAL	100,0	100,0	100,0	100,0	100,0

Note: Data are in percentages (%), unless stated otherwise.

Source: FSC.

Key:

Инвестиционни имоти – Investment properties

Финансови активи – Financial assets

Парични наличности – Cash availabilities

Вземания – Receivables

Други – Other

ОБЩО – TOTAL

Бележка: Данните са в млн. лв., освен ако не е посочено друго. – Note: Data are in BGN million, unless specified otherwise.

The assets of SPICs performing securitization of receivables increased by 8.2% in 2020, reaching BGN 162.3 million at the end of the period. Growth was marked by the Receivables (up to 1 year) main item, which in 2020 increased by BGN 16.6 million, reaching BGN 134.5 million at the end of the year, compared to BGN 117.9 million at the end of the previous year. The opposite dynamics was observed in the Receivables (over 1 year) item, which during the period decreased by BGN -11.3 million or by -46.9% and had a negative contribution of -7.5 p.p. for the annual asset growth of the companies from the segment.

Table 54. Assets of SPICs performing securitization of receivables

	2016	2017	2018	2019	2020
Financial assets	6,2	6,2	6,2	6,2	12,4
Cash	4,2	1,4	1,1	1,9	2,2
Receivables (up to 1 year)	77,5	108,9	106,2	117,9	134,5
Receivables (above 1 year)	34,6	8,9	31,9	24,0	12,7
Other	0,1	0,0	0,0	0,0	0,5
TOTAL	122,6	125,4	145,5	150,0	162,3

Note: Data are in million BGN, unless stated otherwise.

Source: FSC.

Key:

Финансови активи – Financial assets

Парични наличности – Cash availabilities

Вземания (до 1 г.) – Receivables (up to 1 year)

Вземания (над 1 г.) – Receivables (more than 1 year)

Други – Other

ОБЩО – TOTAL

Бележка: Данните са в млн. лв., освен ако не е посочено друго. – Note: Data are in BGN million, unless specified otherwise.

In relative terms, in the structure of assets of SPICs securitizing receivables, with the highest relative share of 82.9% remains the Receivables (up to 1 year) item, followed by Receivables (over

1 year) item, whose relative share in the period decreased from 16.0% to 7.8% at the end of 2020.

Table 55. Relative structure of the assets of SPICs performing securitization of receivables

	2016	2017	2018	2019	2020
Financial assets	5,0	5,0	4,3	4,2	7,6
Cash	3,4	1,1	0,8	1,3	1,4
Receivables (up to 1 year)	63,2	86,8	73,0	78,6	82,9
Receivables (above 1 year)	28,3	7,1	21,9	16,0	7,8
Other	0,1	0,0	0,0	0,0	0,3
TOTAL	100,0	100,0	100,0	100,0	100,0

Note: Data are in percentages (%), unless stated otherwise.

Source: FSC.

Key:

Финансови активи – Financial assets

Парични наличности – Cash availabilities

Вземания (до 1 г.) – Receivables (up to 1 year)

Вземания (над 1 г.) – Receivables (more than 1 year)

Други – Other

ОБЩО – TOTAL

Бележка: Данните са в млн. лв., освен ако не е посочено друго. – Note: Data are in BGN million, unless specified otherwise.

The registered capital of SPICs increased by 9.7% on an annual basis to BGN 582.7 million as at the end of 2020. Determinants for the overall dynamics are SPICs, performing securitization of real estate and agricultural land, which dominate the segment. The registered capital increased by 9.6% on an annual basis and contributed 9.4 p.p. for overall growth. In SPICs securitizing receivables, although the registered capital increased by 12.9%, the contribution was limited to a positive of 0.3 p.p. The equity of SPICs slowed down its growth from 8.4% in the previous year to 5.9% and reached BGN 1,242.9 million at the end of 2020. SPICs securitizing real estate and agricultural land have positive contribution of 6.3 p.p., while SPICs securitizing receivables have a negative contribution of -0.4 p.p. in the growth of equity.

Table 56. SPICs' registered capital and equity

	Registered capital		Equity	
	2019	2020	2019	2020
SIPC securitizing real estate, incl. agricultural land	519,6	569,6	1 094,8	1 168,5
SIPC securitizing receivables	11,6	13,1	79,2	74,4
TOTAL for SPICs	531,2	582,7	1 174,0	1 242,9
<i>change (%)</i>	<i>9,5</i>	<i>9,7</i>	<i>8,4</i>	<i>5,9</i>

Note: Data are in million BGN, unless stated otherwise.

Source: FSC.

Key:

АДСИЦ, секюризиращи недв. имоти, вкл. земед. – SPICs securitizing real estate, incl. agricultural

АДСИЦ, секюризиращи вземания – SPICs securitizing receivables

ОБЩО за АДСИЦ – Total for SPICs

изменение (5) – Change (5)

Регистриран капитал – registered capital

Собствен капитал – equity

Бележка: Данните са в млн. лв., освен ако не е посочено друго. – Note: Data are in BGN million, unless specified otherwise.

From the point of view of residency of the shareholders of SPICs, the share of Bulgarian residents remains with the highest relative share, reaching 94.1% at the end of the year, calculated on the basis of the nominal value of the shares. The relative share of the Shareholding and Holding Companies sector increased by 6.4 p.p., remaining the biggest investor in SPICs by the end of 2020 with a share of 53.6%. Bulgarian households own 17.5% of the share capital of all SPICs, followed by insurance companies and pension funds, whose share decreased by a total of -0.4 p.p. during the year to 16.4%. Banking institutions and financial intermediaries hold 2.8% and 3.7% of the nominal value of the share capital of SPICs, respectively.

EU legal and natural persons holding shares in SPICs are reducing their relative shares and by the end of 2020 they own a total of 1.2% of SPICs compared to a total of 1.3% in 2019.

The shares of SPIC shares held by individuals and legal entities from third countries increased from 1.3% at the end of 2019 to 2.3% in 2020.

There is also a small decline in the relative share of US investors in the share capital of Bulgarian SPICs, which decreased from 2.5% in the previous year to 2.4% at the end of 2020.

Table 57. Shareholders structure of SPICs

	2019	2020
Households	20,8	17,5
Banks	5,0	2,8
Public sector	0,1	0,0
Insurance companies (IC) and Pension funds (PF)	16,8	16,4
Financial intermediaries except for IC and PF	4,9	3,7
Shareholding and holding companies	47,3	53,6
Bulgaria	94,8	94,1
Households from the EU	0,4	0,4
Legal entities from the EU	0,9	0,9
EU	1,3	1,2
Households from third countries	0,1	0,1
Legal entities from third countries	1,2	2,2
Third countries	1,3	2,3
Households from the USA	0,0	0,0
Legal entities from the USA	2,5	2,3
USA	2,5	2,4
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.

Key:

Домакинства – Households

Банки – Banks

Публичен сектор – Public sector

Застрахователни компании – Insurance companies

Пенсионни фондове – Pension funds

Фин. посредници с изкл. на ЗК и ПФ – Financial intermediaries, excl. ICs and PFs

Акционерни и холдингови дружества – Shareholding and holding companies

България – Bulgaria

Домакинства от ЕС – Households from the EU

Юридически лица от ЕС – Legal entities from the EU

ЕС – EU

Домакинства от трети страни – Households from third countries

Юридически лица от трети страни – Legal entities from third countries

Трети страни – Third countries

Домакинства от САЩ – Households from the USA

Юридически лица от САЩ – Legal entities from the USA

ОБЩО – TOTAL

Бележка: Данните са в %, освен ако не е посочено друго. –

Note: Data are in %, unless specified otherwise.

2.2.4. Public companies and bond issuers

The number of public companies and issuers at the end of 2020 was 243, as public companies decreased net by seven companies, and issuers increased net by 1 during the year.

The examined prospectuses for initial public offering in 2020 are 19, of which 5 were of SPICs, 12 were of public companies other than SPICs, and 2 bond issues. The total value of the approved issues is BGN 420.6 million. (of which the actual amount collected is BGN 527.7 million), which is

an increase of 37.5% on an annual basis. The prospectuses for admission to trading on a regulated market confirmed in 2020 are 10, of which 2 issues of shares of public companies and 8 issues of bonds, with an issue value of the confirmed issues of BGN 115.5 million. The value of the confirmed issues of shares is BGN 2.1 million, and the value of the confirmed issues of bonds is BGN 113.4 million.

The considered tender offers with a decision not to issue a final ban on publication in 2020 decrease by three compared to the previous year. There is almost a double increase in turnover compared to the previous year, amounting to BGN 8.7 million. In 2020, a total of 6 tender offers without a final ban were considered with a total value of BGN 8.7 million. (of which the shares acquired as a result of the tender offers are worth BGN 141.1 thousand).

Table 58: Reviewed prospectuses and tender offers

	2016	2017	2018	2019	2020
Prospectuses for initial public offering (number)	17	19	19	20	19
Amount of issue*	190,6	352,7	358,4	306,0	420,6
Decisions for non-issuance of final prohibition for publishing of tender offers (number)	6	17	7	9	6
Turnover**	25,4	19,3	17,3	4,5	8,7

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.

Key:

Проспекти за първично публично предлагане – Prospectuses for initial public offering

Размер на емисията (млн. лв.) – Size of the issue (BGN million)

Решения за неиздаване на окончателна забрана за публикуване на търговски предложения (бр.) – Decisions for non-issuance of final prohibition for publishing of trade proposals (number)

Оборот – Turnover

Бележка: Данните са в млн. лв., освен ако не е посочено друго. * Размерът на емисията е стойността на одобрените емисии съгласно разгледаните проспекти за съответната година. ** Оборотът включва предложения брой дялове по търговите предложения, за които не е издадена окончателна забрана или не са прекратени. – Note: Data are in BGN million, unless specified 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 trade proposals for which no final prohibition has been given or which have not been terminated.

The market capitalization of the first ten companies on the Main Market decreased by BGN -37.7 million, which represents 14.74% of the total market capitalization of the BSE. On the first

position in terms of market capitalization is Tchaikapharma High Quality Medicines AD; the company increases its market capitalization by 23.9% compared to the previous year, as the company has a 3.29% relative share of the total market capitalization on the stock exchange. The market capitalization of CEZ Distribution Bulgaria AD increased by 5.5% during the reporting period, which moved the company from third to second position with a relative share of 1.6% of the total market capitalization on the stock exchange. Sopharma AD moved one position down to third place and has a 1.5% relative share of the total market capitalization of the BSE. In fourth place in the ranking is Gradus AD, which retains its position from the previous year, although its market capitalization decreased by -13.1% during the year. Eurohold Bulgaria AD moved from seventh to fifth position in 2020, although the market capitalization of the company decreased during the year. The market capitalization of Speedy AD also increased by 20.0% on annual basis, which moved the company from ninth to sixth position with a relative share of 1.1% of the total market capitalization on the stock exchange. In seventh position is Velgraf Asset Management, whose market capitalization increased by 4.6% and has a 1.0% relative share of total market capitalization. The largest reported decline of -29.9% are the shares of CB First Investment Bank AD, which takes the company from fifth to eighth place at the end of 2020. Although the market capitalization of Holding Varna AD decreased during the year, the company moves one place up in the rankings. In 2020, M + S Hydraulic AD ranks last, and Chimimport leaves the ranking of the leading companies on BSE AD. The difference between the first and the last public company by market capitalization is BGN 863.2 million. For comparison, at the end of the previous year this difference was BGN 635.2 million.

Table 59. Top 10 public companies by market capitalization on the main market

	2019		2020
Tchaikapharma High Quality Medicines AD-Sofia	896,0	Tchaikapharma High Quality Medicines AD-Sofia	1 109,7
Chimimport AD-Sofia	458,3	CEZ Distribution Bulgaria AD-Sofia	447,3
Sopharma AD-Sofia	424,2	Sopharma AD-Sofia	431,4
Gradus AD	409,3	Gradus AD	355,7
CEZ Distribution Bulgaria AD-Sofia	391,6	Eurohold Bulgaria AD-Sofia	343,7
CB First Investment Bank AD-Sofia	381,0	Speedy AD	320,0
Eurohold Bulgaria AD-Sofia	347,6	Velgraph Asset Management AD	282,8
Monbat AD-Sofia	270,4	CB First Investment Bank AD-Sofia	274,3
M+S Hydraulic AD-Kazanlak	266,7	Holding Varna AD	256,8
Velgraph Asset Management AD	260,7	M+S Hydraulic AD-Kazanlak	246,5
TOTAL	4 105,9	TOTAL	4 068,2

Note: Data are in million BGN, unless stated otherwise.

Source: BSE.

Key:

/List of companies:/

2019:

Tchaikapharma High Quality Medicines AD

Sopharma AD

CEZ Distribution Bulgaria AD

Gradus AD

CB First Investment Bank AD

Chimimport AD

Eurohold Bulgaria AD

Velgraph

Asset Management AD

Speedy AD

Holding Varna AD

2020:

Tchaikapharma High Quality Medicines AD

CEZ Distribution Bulgaria AD

Sopharma AD

Gradus AD

Eurohold Bulgaria AD

Speedy AD

Velgraph Asset Management AD

CB First Investment Bank AD

Holding Varna AD

M+C Hydraulic AD

Бележка: Данните са в млн. лв., освен ако не е посочено друго.

– Note: Data are in BGN million, unless specified otherwise

In the structure of trade of the first 10 leading branches of Bulgarian Stock Exchange AD for 2020, the branch Financial and Insurance Activities occupied the first place with a turnover of BGN 213.7 million and a relative share in the total turnover of 61.9%, followed by Processing industry with a turnover of BGN 51.7 million and a share of 15.0%. The Professional Activities and Research sector has an annual turnover of BGN 24.6 million. and 7.1% share in the structure of trade on the main market of BSE AD.

Table 60. Trade structure by Top 10 sectors on BSE in 2020

Sector	Transactions (thsnd. numbers)	Volume (million lots)	Volume (million BGN)
Financial and insurance activities	35,0	83,9	213,7
Operations with real estate	12,0	14,2	51,7
Manufacturing industry	3,6	11,8	24,6
Creation and distribution of information and creative products; telecommunications	0,8	8,0	23,2
Professional activities and research	1,1	1,1	10,4
Construction	2,4	4,6	9,1
Wholesale and retail trade, repair of motor vehicles and motorcycles	0,7	0,1	4,6
Production and distribution of electricity and heat, and of gaseous fuels	1,9	1,1	3,7
Accommodation and food service activities	1,1	0,2	3,3
Mining and quarrying industry	0,1	0,1	0,7
Transportation, storage and postal services	0,1	0,1	0,3

Source: BSE.

Key:

Отрасъл – Branch

Сделки (хил. бр.) – Transactions (thousand pcs.)

Обем (млн. бр.) – Volume (million pcs.)

Оборот (млн. лв.) – Turnover (BGN million)

Финансови и застрахователни дейности – Financial and Insurance Activities

Операции с недвижими имоти – Real Estate Transactions

Преработваща промишленост – Manufacturing

Създаване и разпространение на информация и творчески продукти, далекосъобщения – Creation and distribution of information and creative products, telecommunications

Професионални дейности и научни изследвания – Professional activities and research

Строителство – Construction

Търговия; ремонт на автомобили и мотоциклети – Trade, repair of motor vehicles and motorcycles

Производство и разпределение на електрическа и топлинна енергия и на газообразни горива – Production and distribution of heat energy and gaseous fuels

Хотелиерство и ресторантьорство – Accommodation Services

Добивна промишленост – Mining industry

Транспорт, складиране и пощи – Transport, storage and postal services

The shareholder structure of public companies remains stable compared to the previous year. At the end of 2020, Bulgarian residents hold 53.8% of the share capital of public companies, calculated on the basis of issued equity instruments at nominal value. Although the share of households and legal entities from third countries decreased by -1.2 p.p. in 2020, their share remains significant in the shareholder structure of public companies (43.8%). Households and legal entities resident in the EU have a share of 2.1%, followed by individuals and legal entities from the USA (0.3%). The internal structure of the share of Bulgarian residents is relatively preserved. The main Bulgarian shareholders remain the joint-stock and holding companies with a share of 28.1%, households with

a share of 14.1%, followed by insurance companies and pension funds with a share of 8.4%. The main contribution to the internal restructuring was the increase in the shares held by insurance companies and pension funds in public companies at the expense of the decrease in the share of shares held by financial intermediaries.

Table 58. Shareholders structure of PCs

	2019	2020
Households	13,7	14,1
Banks	2,0	2,6
Public sector	0,1	0,1
Insurance companies (IC) and Pension funds (PF)	6,3	8,4
Financial intermediaries except for IC and PF	3,2	0,5
Shareholding and holding companies	27,1	28,1
Bulgaria	52,5	53,8
Households from the EU	0,3	0,2
Legal entities from the EU	2,1	1,9
EU	2,3	2,1
Households from third countries	0,3	0,2
Legal entities from third countries	44,7	43,6
Third countries	45,0	43,8
Households from the USA	0,0	0,0
Legal entities from the USA	0,2	0,3
USA	0,2	0,3
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.

Key:

Домакинства – Households

Банки – Banks

Публичен сектор – Public sector

Застрахователни компании – Insurance companies

Пенсионни фондове – Pension funds

Фин. посредници с изкл. на ЗК и ПФ – Financial intermediaries, excl. ICs and PFs

Акционерни и холдингови дружества – Shareholding and holding companies

България – Bulgaria

Домакинства от ЕС – Households from the EU

Юридически лица от ЕС – Legal entities from the EU

ЕС – EU

Домакинства от трети страни – Households from third countries

Юридически лица от трети страни – Legal entities from third countries

Трети страни – Third countries

Домакинства от САЩ – Households from the USA

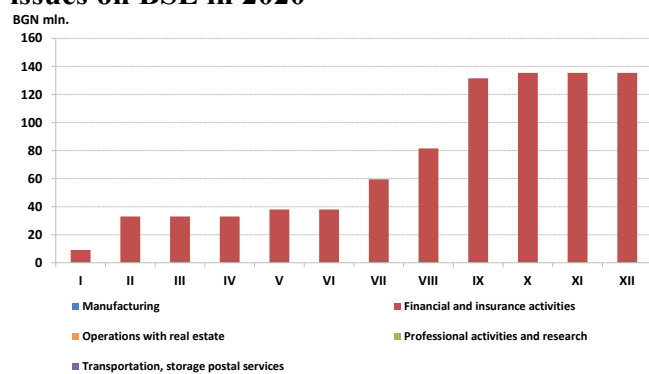
Юридически лица от САЩ – Legal entities from the USA

ОБЩО – TOTAL

Бележка: Данните са в %, освен ако не е посочено друго. – Note: Data are in %, unless specified otherwise

In 2020, 9 issues of corporate bonds with a face value of BGN 135.4 million were issued on a regulated market. All issues are from the Financial and Insurance Activities sector, which accounts for 82.9% of the total corporate bond debt traded on the BSE.

Graph 64. Amount of cumulative bond debt issues on BSE in 2020



Source: BSE, FSC.

2.2.5. Trading venues

Key:

Млн. лв. – BGN million

Транспорт, складиране и пощи - Transport, warehousing and post offices

Преработваща промишленост – Manufacturing

Финансови и застрахователни дейности – Financial and Insurance Activities

Операции с недвижими имоти – Real Estate Transactions

Професионални дейности и научни изследвания – Professional activities and research

The total market capitalization of the main market and the alternative market of the Bulgarian Stock Exchange AD increased by 1.6% on an annual basis and at the end of 2020 amounted to BGN 28.4 billion. The capitalization of the main market decreased by -1.8% on an annual basis and reached BGN 8.9 billion as at the end of 2020, while the alternative market recorded an annual growth of 3.0% and reached BGN 19.6 billion at the end of the year. The Premium shares trading segment on the main market shrank by BGN -467,0 million during the year and marked a decline of -26.0%, reaching BGN 1.3 billion market capitalization, which has a negative contribution of -1,7 p.p. in the decrease of the total market capitalization. The Standard shares trading segment on the main market reached BGN 6.7 billion, increasing its market capitalization by 5.7% on an annual basis (BGN 357.0 million) and has 1.3 p.p. positive contribution to the overall growth of both markets. Accordingly, the Shares on the alternative market segment, which at the end of 2020 reached BGN 19.0 billion, increased by

2.4% and contributed positively by 1.6 p.p. The market capitalization of the special purpose investment companies segment on the main market marked an annual decrease of -0.3% (BGN -2.7 million) and reached BGN 783.3 million, but due to the relatively small size of the segment there was no contribution to the change in the market capitalization, while the segment for special purpose investment companies on the alternative market, whose capitalization increased by 26.8% to BGN 528.1 million, has a contribution of 0.4 p.p. to the growth of the BSE market capitalization.

Table 62: Market capitalization

Market or segment	2016	2017	2018	2019	2020
Premium Equities Segment (main market)	1 720,3	2 303,3	1 938,7	1 796,4	1 329,4
Standard Equities Segment (main market)	5 766,6	19 350,2	6 138,3	6 314,9	6 672,0
SIPC segment (main market)	579,3	700,0	611,2	786,0	783,3
Equities Segment (alternative market)	1 255,7	895,7	17 590,4	18 590,7	19 041,7
SIPC segment (alternative market)	360,7	371,7	486,7	416,5	528,1
TOTAL	9 682,5	23 621,0	26 765,3	27 904,5	28 354,5

Note: Market capitalisation is at the end of the year.

Source: BSE.

Key:

Пазар или сегмент – Market or segment

Сегмент акции Premium (Основен пазар) – Premium Equities Segment (main market)

Сегмент акции Standard (Основен пазар) – Standard Equities Segment (main market)

Сегмент за ДСИЦ (Основен пазар) – SIPC segment (main market)

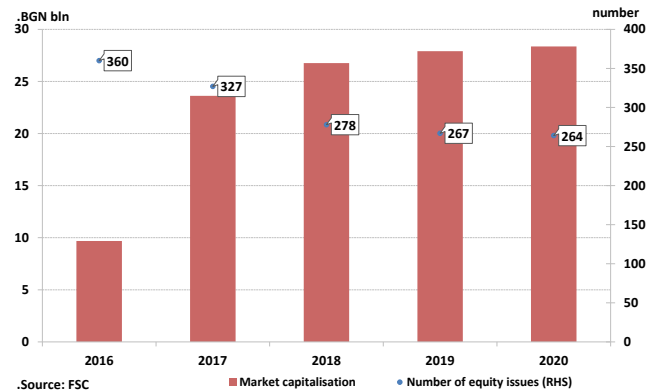
Сегмент акции (Алтернативен пазар) – Equities Segment (alternative market)

Сегмент за ДСИЦ (Алтернативен пазар) – SIPC segment (alternative market)

Бележка: Пазарната капитализация е към края на съответната година. – Note: Market capitalisation is at the end of the year.

The number of issues of financial instruments admitted to trading on the markets organized by the BSE in 2020 decreased net by 1 issue and by the end of the year their number was 369.

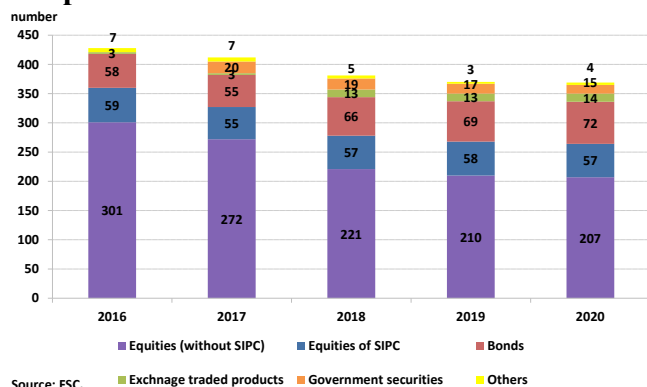
Graph 65. Market capitalization and number of share issues



Source: FSC
 Key:
 Млрд. лв. – BGN billion
 Пазарна капитализация – Market capitalization
 Брой емисии акции (дясна скала) – Number of share issues (RHS)

On the stock market without SPICs, issues decreased from 210 in 2019 to 207 in 2020. In the segment of special purpose investment companies, the number of issues decreases by one compared to the end of 2019 and by the end of 2020 their number is 57. The issues of bonds registered on the stock exchange in 2020 increased by 3 and by the end of the year their number reached 72. The issues of government securities traded on the segment of government securities trading on the main market are 15. In the segment for exchange-traded products, 14 issues of funds from this segment are traded. The issues of other financial instruments, which include issues admitted to trading in the Compensatory Instruments Segment, are a total of four.

Graph 66. Structure of issues

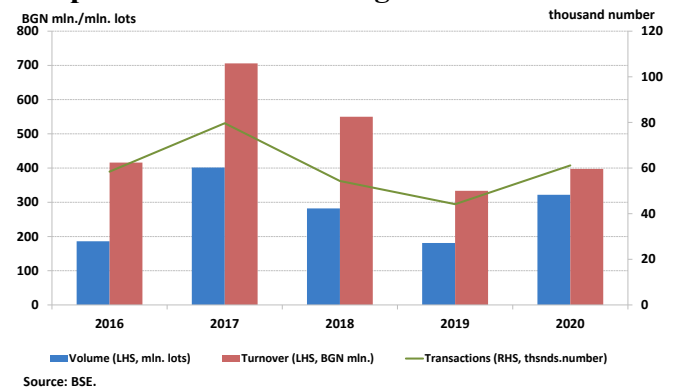


Source: FSC.
 Key:
 брой – number

Акции (без АДСИЦ) – Shares (excluding SPICs)
 Държавни ценни книжа – Government securities
 Акции на АДСИЦ – SPICs shares
 Борсово търгувани продукти – Exchange traded products
 Други – Other

The number of transactions increased by 38.5% on an annual basis, from 44,167 transactions at the end of 2019 to 61,173 transactions in 2020. The total number of lots transferred in 2020 was 321.8 million lots, which is an increase of -77.8% compared to the previous year or 140.9 million lots more. Trading on the BSE markets, measured by turnover, ended the year with an increase of -19.2%, from BGN 333.6 million in 2019 to BGN 397.5 million, as the change is in different directions in the separate groups of financial instruments. The average daily turnover on a regulated market in 2020 is BGN 1.6 million, increasing by 18.7% compared to the previous year. Main contribution of 10.7 p.p. has the SPIC stock segment on the main market, followed by the bond trading segment (6.7 p.p.) and the Premium segment (5.1 p.p.).

Graph 67. Trade on the regulated market



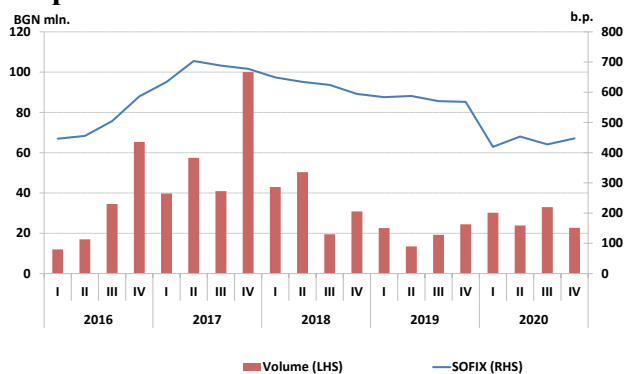
Source: BSE.
 Key:
 Млн. лв. / млн. лотове. – BGN million / million lots
 Обем (лява скала, млн. лотове) – Volume (LHS, million lots)
 Оборот (лява скала, млн. лв.) – Turnover (LHS, BGN million)
 Сделки (дясна скала, хил. бр.) – Transactions (RHS, thousand pcs.)

Due to the initial impact of the spread of the COVID-19 pandemic on capital markets and in line with international dynamics, the value of the BSE indices fell significantly in the first quarter, reaching its lowest values in March 2020 decline,

the movement of all indices on the BSE in the second quarter is upward, managing to partially recover losses from the end of March. The movement of the BSE indices in the third quarter is slowing down, but the upward trend continues, which continues until the end of 2020, and their value remains below the levels of the end of the previous 2019. The sectoral BGREIT of the companies included in the index moves upwards throughout the year, with its value above the short-term and long-term average. The turnover of the companies included in the indices in 2020 increases significantly in all market indices except SOFIX, whose turnover decreased during the year.

In 2020, the main stock exchange index SOFIX reported a decline of -21.2% on an annual basis, reaching 447.53 points at the end of the year. The market capitalization of the companies included in the index dropped to BGN 2.7 billion, which is a share of 9.6% of the total capitalization of the BSE, which at the end of 2020 was BGN 28.4 billion.

Graph 68. SOFIX market index



Source: BSE.

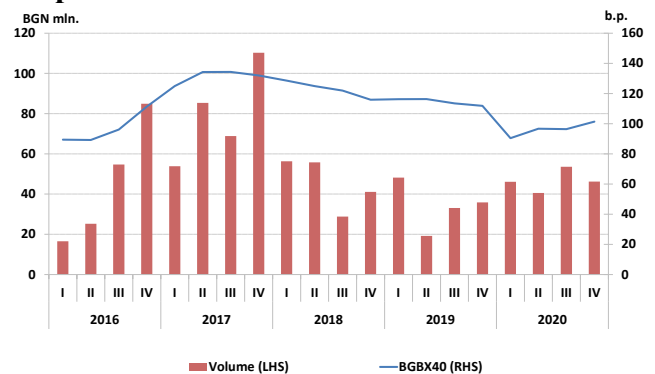
Note: The value of indices is the last value for the respective period.

Key:
 Млн. лв.– BGN million
 Обем (лява скала) – Volume (LHS)
 SOFIX (дясна скала) – SOFIX (RHS)

In 2020, the broad stock index BGBX40 reported a decline of -9.3%, ending the year at 101.38 points. The market capitalization of the companies included in the index, which dropped to BGN 6.4 billion, represents a share of 22.5% of the

total market capitalization of the BSE at the end of 2020.

Graph 69. BGBX40 market index



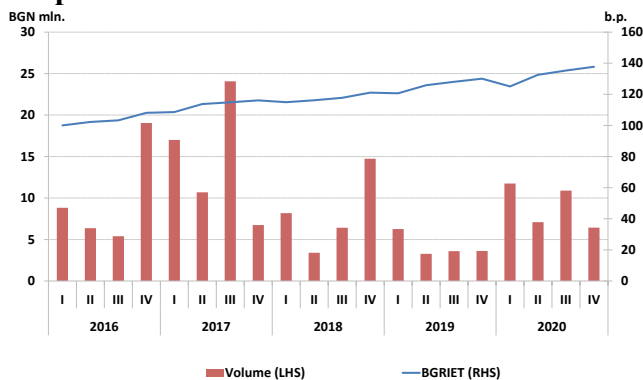
Source: BSE.

Note: The value of indices is the last value for the respective period.

Key:
 Млн. лв.– BGN million
 Обем (лява скала) – Volume (LHS)
 BGBX40 (дясна скала) – BGBX40 (RHS)

The BGREIT sector index slowed its growth rate from the previous year. In 2020, it reported an increase of 5.9% on an annual basis, ending the year at 137.69 points. Its sectoral profiling and the scale of the represented sector led to a limited share of the total market capitalization by the end of 2020, due to which its dynamics is not fully indicative of the general trends and dynamics of the SPIC segment. The market capitalization of the special investment purpose companies increased to BGN 511.6 million) included in the index represents 1.8% of the represented sector of SPICs from the total capitalization of the BSE as of the end of 2020.

Graph 70. BGREIT market index



Source: BSE.

Note: The value of indices is the last value for the respective period.

Key:

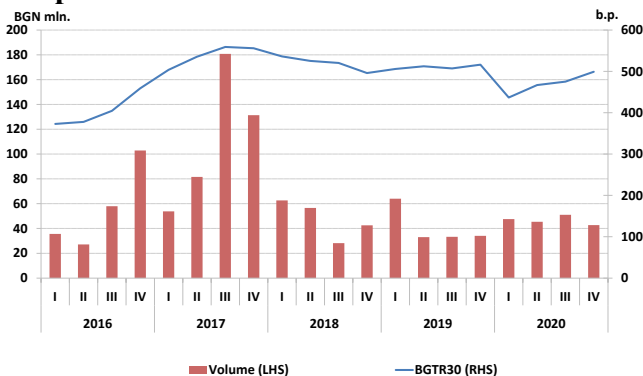
Млн. лв. – BGN million

Обем (лява скала) – Volume (LHS)

BGREIT (дясна скала) – BGREIT (RHS)

The weighted index BGTR30 decreased by -3.3% on an annual basis and by the end of 2020 its value reached 499.17 points. The market capitalization of the companies included in the index, which dropped to BGN 5.2 billion, represents a share of 18.2% of the total market capitalization of the BSE at the end of 2020.

Graph 71. BGTR30 market index



Source: BSE.

Note: The value of indices is the last value for the respective period.

Key:

Млн. лв. – BGN million

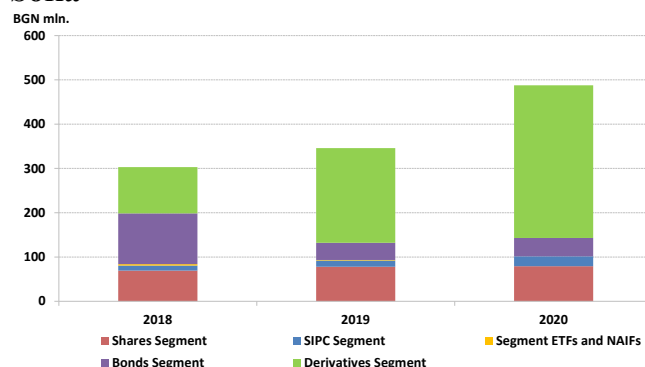
Обем (лява скала) – Volume (LHS)

BGTR30 (дясна скала) – BGTR30 (RHS)

In 2020, the Multilateral Trading Facility - Sofia (MTF) increased its turnover by 41.0% and reached BGN 487.7 million. The largest contribution to this increase was made by the Derivatives segment, whose turnover increased

during the year and reached BGN 344.8 million and has a positive contribution of 37.9 p.p. in trade growth. The Shares and SPICs segments follow, which increase by 1.6% and 58.4%, respectively, and reach BGN 79.3 million, respectively BGN 22.2 million annual turnover. Their positive contribution is a total of 2.7 p.p., while the Bonds segment has a contribution of 0.8 p.p.

Graph 72. Dynamics of the turnover of MTF-Sofia



Source: MTS - Sofia.

Key:

Млн. лв. – BGN million

Сегмент Акции – Shares segment

Сегмент облигации – Bonds segment

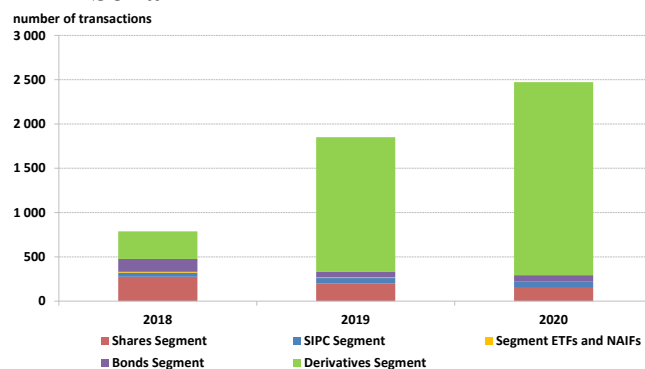
Сегмент АДСИЦ – SPIC segment

Сегмент Деривати – Derivatives segment

Сегмент БТФ и НАИФ – ETF and NAIF segment

The number of transactions marked an annual growth of 33.5% and reached 2,472. The main contribution to this increase is made by the Derivatives segment, on which 2,178 transactions were concluded during the year and it has a positive contribution of 35.5 p.p.

Graph 73. Number of traded transactions of MTF-Sofia



Source: MTS - Sofia.

Key:

млн. лв. – BGN million

Сегмент Акции – Shares segment

Сегмент облигации – Bonds segment

Сегмент АДСИЦ – SPIC segment

Сегмент Деривати – Derivatives segment

Сегмент БТФ и НАИФ – ETF and NAIF segment

In 2020, 37.4 million financial instruments were traded, which compared to the previous year is an increase of 38.9%. The main contribution to this increase was the increase in the number of traded instruments in the Equities segment, which contributed positively by 27.4 p.p., followed by the SPICs segment, which contributed positively by 11.5 p.p. and the Derivatives segment with a positive contribution of 0.3 p.p. In the Bonds segment the number of traded financial instruments increased by 16.0% on an annual basis, but due to the size of the segment, it did not contribute to the increase in the number of traded financial instruments.

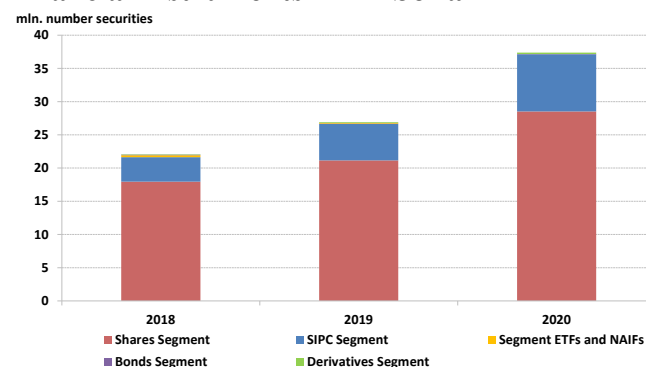
2.2.6. Central securities depository

The total value of the assets of Central Depository AD amounts to BGN 7.1 million. by the end of 2020

For 2020, the total number of completed transactions increased by 41.3% (a total of 62,099 transfers for 2020, of which 98.5% were executed on the stock exchange). The main contribution of 41.6 p.p. for the growth in the annual rate of change is of the stock exchange transactions, which increase from 42,886 in 2019 to 61,173 in 2020. The number of transferred securities increased by 77.2% on an annual basis (from 174.6 million to 309.3 million), and transactions with the object of trading compensatory instruments decreased by -47.5% on an annual basis (from 1,277 in 2019 to 670 transactions in 2020). The registered payments with compensatory instruments to state institutions decreased by -28.1% on an annual basis to 92 transactions. Inheritance transfers decreased to 58 transfers in 2020. Duplicate depository receipts issued decreased from 2,200 in 2019 to 951 in 2020. During the year the number of rights transactions increased from 121 in 2019 to 660 in 2020, while the transferred rights increase from 74.4 million rights in 2019 to 174.1 million rights.

In 2020, through the system of Central Depository AD, dividends were paid to 57 companies worth BGN 100 million. and 339 payments of interest and principal on bond issues were made with a total amount of BGN 184 million. During the reporting period, 53 companies registered new issues of dematerialized financial instruments (71 companies for 2019), of which 17 issues of shares, 18 issues of bonds, 15 issues of rights and 3 issues of units of mutual funds. Applications for change in the register were submitted by 85 companies. Applications for a change in the capital with the issuance of new shares were submitted by 74 companies, while a change in the capital through a change of the nominal value was registered by 11 companies. Eleven procedures for increasing the capital by conducting an initial public offering of shares

Graph 74. Dynamics of the traded number of financial instruments MTF-Sofia



Source: MTS - Sofia.

Key:

млн. лв. – BGN million

Сегмент Акции – Shares segment

Сегмент облигации – Bonds segment

Сегмент АДСИЦ – SPIC segment

Сегмент Деривати – Derivatives segment

Сегмент БТФ и НАИФ – ETF and NAIF segment

and trading in the issue of rights were conducted in 2020. The number of applications for extracts from share books has increased from 2,885 in 2019 to 2,978 in 2020. In 2020, 1,038 entries were registered in the register of special pledges (1,045 for 2019). Of these, 39 entries on a special pledge, 740 arrests and 249 entries on other circumstances. The entries in the register of financial collateral agreements are 10 in 2020.

2.2.7. Investor Compensation Fund

In 2020, the activity of the Fund was focused mainly on the fulfilment of its obligations in connection with the requests for payment of compensation by the clients of investment intermediary Matador Prime OOD (n), whose license was revoked on October 11, 2018. Activation of the procedure on payment of compensations is a consequence of Decision of the Financial Supervision Commission № 102-IP of 24.01.2019, which establishes that in respect of Matador Prime OOD there are circumstances for payment of compensations from the Fund to the clients of intermediary.

In 2020, the Fund received 68 requests for payment of compensation from clients of Matador Prime (n) OOD, all within the statutory one-year period, which expired on 01.02.2020. With the received in 2019 78 requests for payment of compensations from clients of Matador Prime OOD (n), their total number in 2020 and 2019 reached 146.

It should be noted that all clients of the company who submitted claims for compensation to the Fund are foreigners, which in turn made it somewhat difficult and slowed down the process of communication and collection of the necessary documentation.

In 2020, the Management Board of the Fund took a total of 116 decisions on received requests, 16 of which were found to be justified and paid compensation in the total amount of BGN 198 thousand. At the beginning of 2021, the Management Board of the Fund has taken another decision to pay compensation in the amount of BGN 40,000. The reserve for compensation of ICF investors has been reduced by the amount of the determined compensations. Respectively, 100 of the decisions are for refusal to pay compensation and / or to leave without consideration the claims due to the fact that incompleteness and irregularities have been established, which have not been eliminated by the persons within the set term.

Along with the actions in connection with the requests for payment of compensations from clients of Matador Prime (n) OOD, in 2020 the activity of the Fund is also aimed at collecting the contributions due from the participants, managing the Fund's funds, collecting and analysing of information on client assets managed by the participants in the scheme and an assessment of the Fund's exposure.

During the past year the membership of two investment firms was terminated - Odessos 33 EAD (previous names: Leno Markets EAD, Lenno Global Advisors AD, Balkan Investment Company AD) and Vaha Trade EOOD. The license of both firms was revoked by the FSC. Also, during the year Expressbank AD merged with DSK Bank AD, due to which the client assets held with the two banks merged. Thus, as of 31.12.2020 the active participants in the Fund are a total of 56, of which 35 investment firms (IFs), 17 investment firm banks (B-II) and 4 management companies (out of a total of 32), which hold client assets subject to of compensation. With respect to one investment firm, the Financial Supervision Commission has issued a decision extending the existing license with the services and activities under Art. 6, para. 2, items 3 and 6 of MFIA.

As of 31.12.2020, the participants in the Fund hold client assets totalling BGN 51.16 billion compared to BGN 49.5 billion at the end of 2019. The increase is due to an increase in the amount of client assets subject to compensation, as well as those who are not subject to compensation. The total amount of

client assets subject to compensation marked a significant increase, about 45% more than at the end of 2019. For the reporting period their amount is BGN 3.28 billion, of which cash (SD) is BGN 117.9 million, and financial instruments (FI) are worth BGN 3.16 billion. Non-eligible client assets are BGN 47.8 billion compared to BGN 47.2 billion at the end of 2019. The share of eligible client assets in the total amount of all assets (BGN 51.16 billion) managed by the participants is 6.4 %.

As of the end of 2020, B-II holds the most client assets subject to compensation, 71.0% of all assets subject to compensation, in absolute value they are BGN 2.34 billion. Non-bank IFs- 27.0% of the client assets subject to compensation, and MC - 2.0%.

The total number of clients that are subject to compensation, for all participants in the Fund (II, B-IP, AB), as of 31.12.2020 is 153 223 - increasing by 26 361 compared to 31.12.2019. The increase is due entirely to the eligible customers in the B-II group, which report the largest number of customers (108 256) compared to the other groups. As of 31.12.2020 the exposure of the Fund to its participants is BGN 868 million compared to BGN 587.30 million as of 31.12.2019. The increase is mainly due to the larger number of clients with compensable assets who declare B -IP.

As of 31.12.2020 the assets of the Fund amount to BGN 18.96 million. The value of assets invested in government securities and available on current and deposit accounts of the FCI amounted to BGN 18.34 million. The cash receipts from annual and entrance fees of the participants in the Fund in 2020 amount to BGN 1.34 million. The majority of the funds are received from the annual contributions of the participants, which are determined on the basis of the average monthly values of the client assets subject to compensation. In 2020, on average per month, the participants in the Fund hold reimbursable FIs of clients worth BGN 2.62 billion compared to BGN 2.29 billion in 2019. The average monthly number of reimbursable vehicles in 2020 is BGN 111 million compared to BGN 80.3 million in 2019.

At the end of the year, the Management Board of the Fund decided to keep the amount of the annual instalment for 2021 at the level of 0.05% on the eligible financial instruments and 0.25% on the eligible cash, determined on an average monthly basis for 2020, in as a result of which the participants in the Fund for the 12th consecutive year will pay half lower than the maximum allowable by law contribution under FI, and for the fifth consecutive year will owe a lower instalment under PS.

The Management Board of the Fund is also responsible for the management of the Investment Firms Resolution Fund (IFRF), which was established in 2017 with the main purpose of financing the implementation of the instruments for rescue and restructuring of problematic investment firms. The funds of IFRF are formed mainly by annual contributions from the investment firms, the amount of which is determined each year by the FSC in its capacity of a resolution body. In addition to the annual instalments, a source of funds of IFRF is also the income from investing the funds raised in the Fund and the interest on overdue receivables.

As of 31.12.2020 the funds in IFRF amount to BGN 143 thousand, of which 51.25% are invested in debt instruments in euro, issued by foreign countries, which have one of the three highest credit ratings issued simultaneously by two credit rating agencies, and 48.75% are available in the Bulgarian National Bank in a separate account, which is in the name of ICF, as IFRF is not an independent legal entity. Despite the fact that the funds of IFRF are managed by the Management Board of ICF, they are separate and independent from those of ICF. The funds raised in UFRF may be used only after a decision of the FSC in its capacity as a restructuring body, and the implementation of the decision taken is assigned to the Management Board of ICF. IFRF funds can only be used for resolution purposes.

2.3. Insurance market

As of the end of 2020, the total number of licensed (re) insurers based in the Republic of Bulgaria is 35, including 24 non-life insurers, 10 life insurance insurers and 1 reinsurer, whose license entitles the company to operate in reinsurance in general insurance and in life insurance. Of these, 30 companies apply Solvency II and are entitled to market access to the European Union and the European Economic Area (Single Market), while the other 5 insurers operate without a single market access.

On the basis of the information from the quarterly reports according to Ordinance No. 53 at the end of the fourth quarter of 2020, which included the data for all insurers with headquarters in the Republic of Bulgaria:

- the gross premium income as at 31.12.2020 amounted to BGN 2885 million, recording a decrease of 0.9% on an annual basis;
- the Bulgarian insurance market (life and non-life insurance) was allocated in an 85% to 15% ratio for the benefit of the premiums written by non-life insurers;
- insurance penetration, calculated on the basis of gross premium income as a percentage of GDP,⁴⁰ is estimated at 2.43% at the end of 2020 compared to 2.45% at the end of the previous year.
- the insurance density calculated as gross premium income per capita⁴¹, decreases to BGN 417 at the end of 2020 compared to BGN 419 at the end of 2019;
- the financial result realized by the insurers at the end of 2020 amounts to BGN 186 million, compared to BGN 148 million at the end of 2019. Non-life insurers report a financial result in the total amount of BGN 165 million, compared to BGN 119 million at the end of 2019. Life insurers also reported a positive financial result of BGN 21 million, compared to a result of BGN 29 million at the end of 2019.

2.3.1. Non-life insurance

The gross premium income realized by non-life insurers, domiciled in the Republic of Bulgaria, with the right of access to the single market⁴², at the end of 2020 amounts to BGN 2,404 million, incl. BGN 2,389 million on direct insurance and BGN 15.6 million on active reinsurance. On a yearly basis, gross premium income grew by 1%. The growth of the premium income for the market as a whole is mainly due to the growth of the premium income for property insurance against fire and other disasters and for

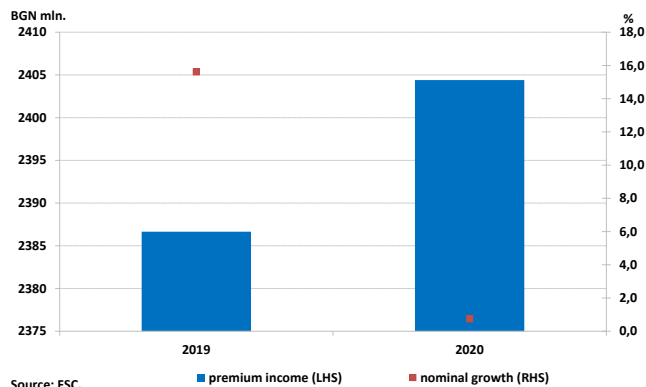
the premium income for insurance in connection with general civil liability.

⁴⁰ According to NSI data, the GDP in 2020 amounted to BGN 118,605 million.

⁴¹ According to NSI data, the population in 2020 amounted to 6,916,548 people.

⁴² The analysis for the insurance market was based on the quarterly reports for the fourth quarter of 2020 received by the Financial Supervision Commission (FSC) in accordance with Commission Implementing 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. The data for 2019 are based on the audited annual reports according to Implementing Regulation (EU) 2015/2450.

Graph 75. Gross premium income in non-life insurance



Source: FSC.

Key:

Млн. лв.– BGN million

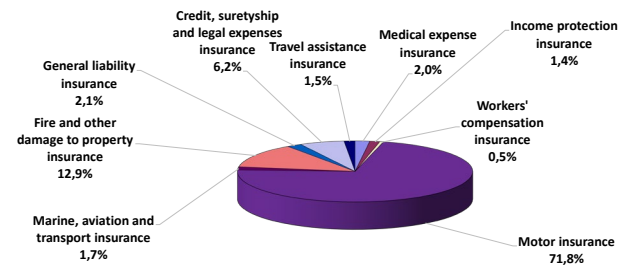
Премиен приход (лява скала) – Premium income (LHS)

Номинален ръст (дясна скала) – Nominal growth (RHS)

In 2020, in the structure of the portfolio of non-life insurance companies, the major share of 72% was held by motor insurances, with motor third-party liability insurance accounting for 45%, and the share of other motor insurance (AutoCasco) insurances was 27%, respectively.

The realized premium income on motor third-party liability insurance for 2020 decreased by 1% on an annual basis (BGN 13 million in absolute terms) and amounted to BGN 1,073 million. The reduction of the premium on an annual basis under this class of insurance is due to the reduction of the average premium. It is most significant in the risk group "Cars and trucks with a maximum permissible mass of up to 5 tons", where there is a decrease in the average premium of 10% on an annual basis⁴³.

Graph 76. Structure of gross premium income by classes of insurance for 2020



Source: FSC.

Key:

Морско, авиационно и транспортно застраховане – Maritime, aviation and transport insurance

Пожар и природни бедствия и други щети на имущество – Fire and natural disasters and other damage to property

Обща гражданска отговорност – General liability

Кредити, гаранции, разни финансови загуби и правни разноски – Credits, guaranees, miscellaneous losses and legal expenses

Помощ при пътуване – Travel assistance

Застраховане във връзка с медицински разходи – Insurance for medical expenses

Застраховане във връзка със защита на доходите – Insurance for protection of income

Застраховане във връзка с обезщетение на работниците – Employee compensation insurance

Автомобилно застраховане – Motor vehicle insurance

For the period January- December 2020, the premium income written on AutoCasco insurance amounted to BGN 653 million. This class of insurance also reported a decrease of 1% on an annual basis.

At the end of 2020, property insurances against fire and other disasters in Bulgaria accounted for a share of 12.9% of the gross premium income compared to 12.5% at the end of 2019. The realized premium income for these insurances amounted to BGN 309 million, a minimum growth of 4% on an annual basis being reported.

Insurance in respect of medical expenses, income protection and compensation of workers occupied a 9% share in the structure of gross premium income realized by non-life insurers at

⁴³ According to data from the Unified Information System for Risk Assessment, Management and Control of the Guarantee Fund.

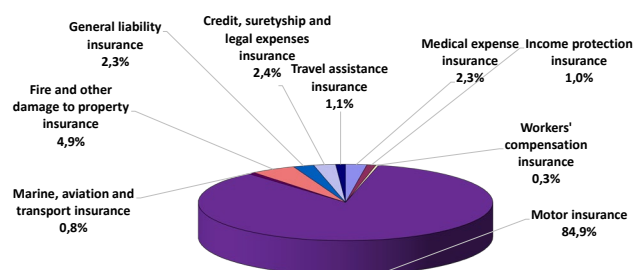
the end of 2020. Premium income on these insurances in 2020 amounted to BGN 93.4 million compared to BGN 92.9 million in 2019, as a result of greater demand for this class of insurance.

In 2020, there is an increase in insurance premiums written by insurers in connection with general liability from BGN 42.1 million at the end of 2019 to BGN 49.4 million at the end of 2020. Growth is also observed in Assistance insurance from BGN 29.3 million at the end of 2019 to BGN 36.1 million at the end of 2020.

The premiums ceded to reinsurers for non-life insurance for 2020 were in the amount of BGN 809 million, representing 34% of the gross written premium generated in the sector. Self-retention coefficient was calculated at 0.66.

The claims arising for non-life insurance at the end of 2020 amounted to BGN 1196 million, with a decrease of 7% on an annual basis.

Graph 77. Structure of claims arising by classes of insurance for 2020



Source: FSC.

Key:

- Морско, авиационно и транспортно застраховане – Maritime, aviation and transport insurance
- Пожар и природни бедствия и други щети на имущество – Fire and natural disasters and other damage to property
- Обща гражданска отговорност – General liability
- Кредити, гаранции, разни финансови загуби и правни разности – Credits, guaranees, miscellaneous losses and legal expenses
- Помощ при пътуване – Travel assistance
- Застраховане във връзка с медицински разходи – Insurance for medical expenses
- Застраховане във връзка със защита на доходите – Insurance for protection of income
- Застраховане във връзка с обезщетение на работниците – Employee compensation insurance
- Автомобилно застраховане – Motor vehicle insurance

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 5%.

A decrease of the claims on an annual basis in the amount of BGN 90 million is reported. The largest decrease compared to the previous year is reported under the Motor Third Party Liability Insurance (BGN -95 million), which is due to the restrictive measures related to dealing with the COVID-19 pandemic and the limited mobility of the population. Next are the property insurances against fire and other disasters, for which the claims have decreased by BGN 59 million compared to the previous year.

The gross loss ratio at the end of 2020 in general for the market is 0.51 compared to 0.58 a year earlier.

Table 63. Gross loss ratio

	2019	2020*
Medical expense insurance	0,54	0,58
Income protection insurance	0,37	0,34
Workers' compensation insurance	0,41	0,29
Motor vehicle liability insurance	0,76	0,63
Other motor insurance	0,47	0,45
Marine, aviation and transport insurance	0,17	0,23
Fire and other damage to property insurance	0,40	0,18
General liability insurance	0,39	0,57
Credit and suretyship insurance	0,20	0,22
Legal expenses insurance	0,01	0,05
Assistance	0,35	0,37
Miscellaneous financial loss	0,74	0,57
TOTAL	0,58	0,51

Note: * Data for 2020 are preliminary.

Source: FSC.

Key:

- Застраховане във връзка с медицински разходи – Insurance for medical expenses
- Застраховане във връзка със защита на доходите – Insurance for protection of income
- Застраховане във връзка с обезщетение на работниците – Employee compensation insurance
- Гражданска отговорност във връзка с моторни превозни средства – Motor third-party liability
- Друго застраховане във връзка с моторни превозни средства – Other motor vehicle insurance
- Морско, авиационно и транспортно застраховане – Maritime, aviation and transport insurance
- Имуществено застраховане срещу пожар и други бедствия – Property insurance against fire and other disasters
- Обща гражданска отговорност – General liability
- Кредитно и гаранционно застраховане – Credit and warranty insurance

Застраховане във връзка с правни разноски – Insurance in relation with legal expenses
 Оказване на помощ – Assistance
 Застраховане срещу разни финансови загуби – Insurance against miscellaneous financial losses
 ОБЩО – TOTAL
 Бележка: Данните за 2020 г. са предварителни. – Note: The data for 2020 are preliminary.

The expenses incurred by the non-life insurance companies (all technical expenses incurred by the companies during the reporting period) increased by 8% on an annual basis and at the end of 2020 amounted to BGN 624 million. They were 26% of the gross premium income generated by the sector.

Table 64. Gross expense ratio

	2019	2020*
Medical expense insurance	0,23	0,29
Income protection insurance	0,45	0,40
Workers' compensation insurance	0,37	0,41
Motor vehicle liability insurance	0,14	0,17
Other motor insurance	0,37	0,36
Marine, aviation and transport insurance	0,20	0,20
Fire and other damage to property insurance	0,31	0,30
General liability insurance	0,31	0,33
Credit and suretyship insurance	0,48	0,37
Legal expenses insurance	0,56	0,31
Assistance	0,53	0,51
Miscellaneous financial loss	0,87	0,61
TOTAL	0,26	0,26

Note: * Data for 2020 are preliminary.
 Source: FSC.

Key:
 Застраховане във връзка с медицински разходи – Insurance for medical expenses
 Застраховане във връзка със защита на доходите – Insurance for protection of income
 Застраховане във връзка с обезщетение на работниците – Employee compensation insurance
 Гражданска отговорност във връзка с моторни превозни средства – Motor third-party liability
 Друго застраховане във връзка с моторни превозни средства – Other motor vehicle insurance
 Морско, авиационно и транспортно застраховане – Maritime, aviation and transport insurance
 Имуществено застраховане срещу пожар и други бедствия – Property insurance against fire and other disasters
 Обща гражданска отговорност – General liability
 Кредитно и гаранционно застраховане – Credit and warranty insurance
 Застраховане във връзка с правни разноски – Insurance in relation with legal expenses
 Оказване на помощ – Assistance
 Застраховане срещу разни финансови загуби – Insurance against miscellaneous financial losses
 ОБЩО – TOTAL
 Бележка: Данните за 2020 г. са предварителни. – Note: The data for 2020 are preliminary.

At the end of 2020, the gross combined ratio is 0.77 and decreases compared to the previous year. The highest gross combined ratio, above 1, was calculated for Miscellaneous Financial Loss Insurance.

Table 65. Gross combined ratio

	2019	2020*
Medical expense insurance	0,77	0,86
Income protection insurance	0,81	0,74
Workers' compensation insurance	0,79	0,69
Motor vehicle liability insurance	0,90	0,80
Other motor insurance	0,84	0,81
Marine, aviation and transport insurance	0,37	0,43
Fire and other damage to property insurance	0,70	0,49
General liability insurance	0,70	0,90
Credit and suretyship insurance	0,67	0,59
Legal expenses insurance	0,58	0,36
Assistance	0,88	0,88
Miscellaneous financial loss	1,61	1,18
TOTAL	0,83	0,77

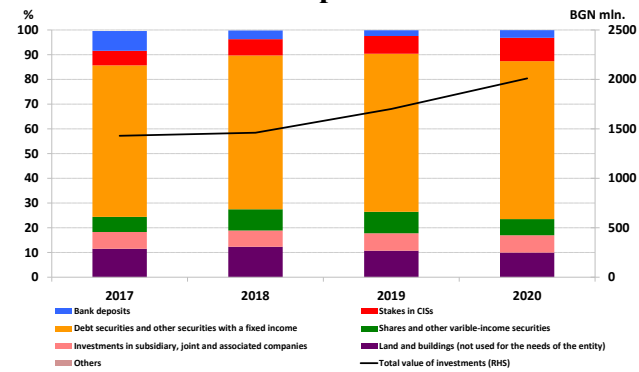
Note: * Data for 2020 are preliminary.
 Source: FSC.

Key:
 Застраховане във връзка с медицински разходи – Insurance for medical expenses
 Застраховане във връзка със защита на доходите – Insurance for protection of income
 Застраховане във връзка с обезщетение на работниците – Employee compensation insurance
 Гражданска отговорност във връзка с моторни превозни средства – Motor third-party liability
 Друго застраховане във връзка с моторни превозни средства – Other motor vehicle insurance
 Морско, авиационно и транспортно застраховане – Maritime, aviation and transport insurance
 Имуществено застраховане срещу пожар и други бедствия – Property insurance against fire and other disasters
 Обща гражданска отговорност – General liability
 Кредитно и гаранционно застраховане – Credit and warranty insurance
 Застраховане във връзка с правни разноски – Insurance in relation with legal expenses
 Оказване на помощ – Assistance
 Застраховане срещу разни финансови загуби – Insurance against miscellaneous financial losses
 ОБЩО – TOTAL
 Бележка: Данните за 2019 г. са предварителни. – Note: The data for 2019 are preliminary.

At the end of the reporting period, the total assets of non-life insurance companies amounted to BGN 4090 million increasing by 15% on an annual basis. The value of investments of these companies increased by 18% at the end of 2020 and amounted to BGN 2010 million, occupying a share of 49% of total assets. In the structure of the aggregate investment portfolio of non-life insurance companies, government bonds occupy a

major share (52%), followed by corporate bonds (11%) and real estate investments (10%).

Graph 78. Structure of investment portfolio of non-life insurance companies



Source: FSC.

Key:

Депозити в банки – Bank deposits

Облигации – Bonds

Дялово участие в свързани предприятия, вкл. участие – shareholding in affiliated enterprises, incl. participation

Други – Other

Колективни инвестиционни схеми – Collective investment schemes

Акции – Shares

Недв. собственост (различна от тази за собствено ползване) – Real estate (other than real estate for own use)

Обща стойност на инвестицията (дясна скала) – Total value of the investment (RHS)

The share of investments in real estate (other than for own use) in the total investment portfolio of non-life insurance companies in the last three years remains relatively constant in the range of 10% -12%. The share of investments in shareholdings in affiliated enterprises also remained within 7%. The share of investments in bonds, including GS, remains at the previous year levels of 64%. 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 2-3% for the last two years.

By the end of 2020, the total amount of the liabilities of the non-life insurers amounted to BGN 2818 million and increased by 13% on an annual basis. Technical reserves set aside by non-life insurance companies accounted for 86% of the liabilities of non-life insurers.

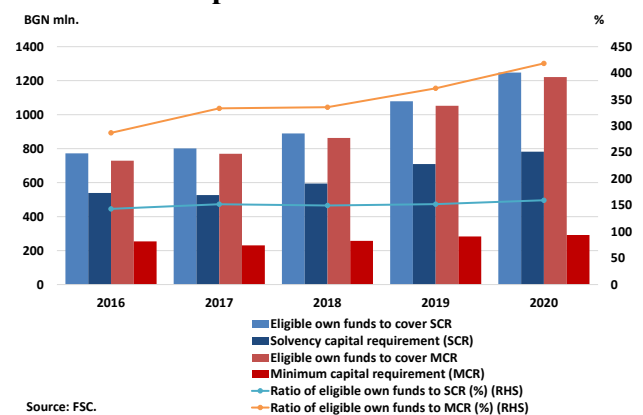
At the end of 2020, the technical reserves set by non-life insurance companies increased by 5% reaching BGN 2424 million.

The excess of the assets over the liabilities of the non-life insurers at the end of 2020 was estimated at BGN 1272 million compared to an excess of BGN 1,059 million at the end of 2019

The eligible own funds to cover the solvency capital requirement of non-life insurers as at 31.12.2020 amounted to BGN 1248 million and the solvency capital requirement (SCR) amounted to BGN 782 million. Eligible tier 1 own funds - unlimited, occupy 96% of the total eligible own funds. The coverage of the MCR with eligible own funds at the end of 2020 was estimated at 159%.

The eligible own funds to cover the minimum capital requirement of non-life insurers as at 31.12.2020 amounted to BGN 1221 million, and the minimum capital requirement (MCR) amounted to BGN 292 million. Respectively, the coverage of the MCR with eligible own funds at the end of 2020 was estimated at 418%.

Graph 79. Capital requirements of non-life insurance companies



Source: FSC.

Key:

Млн. лв. – BGN million

Допустими собствени средства за покритие на КИП – Eligible own funds to cover the SCR

Капиталово изискване за платежоспособност – Solvency capital requirement

Допустими собствени средства за покритие на МКИ – Eligible own funds to cover the MCR

Минимално капиталово изискване (МКИ) – Minimum capital requirement (MCR)

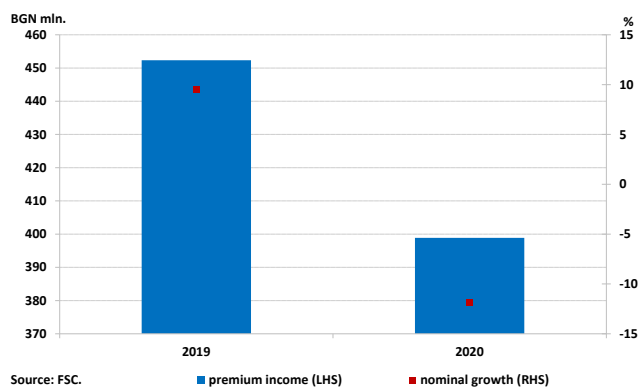
Покритие на КИП (%) (дясна скала) – SCR coverage (%) (RHS)

Покритие на МКИ (%) (дясна скала) – MCR coverage (%) (RHS)

2.3.2. Life insurance

The gross premium income recorded by life insurers ⁴⁴at the end of 2020 reported a decrease of 12% on an annual basis and at the end of 2020 amounted to BGN 399 million.

Graph 80. Gross premium income of life insurance



Source: FSC.

Key:

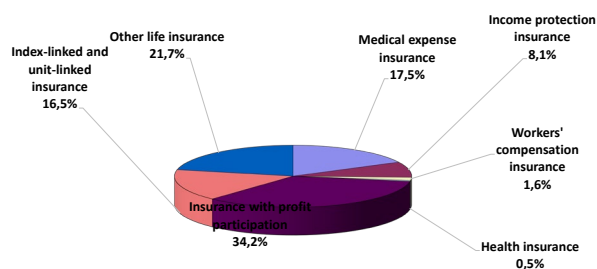
Млн. лв. – BGN million

Премиен приход (лява скала) – Premium income (LHS)

Номинален ръст (дясна скала) – Nominal growth (RHS)

Regarding the structure of the portfolio of life insurers by insurance classes at the end of 2020, the following dynamics is observed: The main share in it, as in the previous year, is occupied by "Insurance with profit sharing" (34%, compared to 33% for the previous year), decreases the share of "Insurance in connection with medical expenses" (18%, compared to 25% for the previous "Other life insurance" (22%) remained at the levels of the previous year, and the share of "Insurance linked to an index and units in an investment fund" increased to 17% compared to 11% in the previous year.

Graph 81. Portfolio structure of life insurance companies in 2020



Source: FSC

Key:

Застраховка с участие в печалбата – Profit-sharing insurance

Застраховка, обвързана с индекс и с дялове в инвестиционен фонд – Index-linked and unit-linked insurance

Други застраховки „Живот“ – Other Life insurances

Презастраховане в животозастраховането – Reinsurance in life insurance

Застраховка във връзка с медицински разходи – Insurance for medical expenses

Застраховка във връзка със защита на доходите – Insurance for protection of income

Застраховка във връзка с обезщетение на работниците – Employee compensation insurance

Здравно застраховане – Health insurance

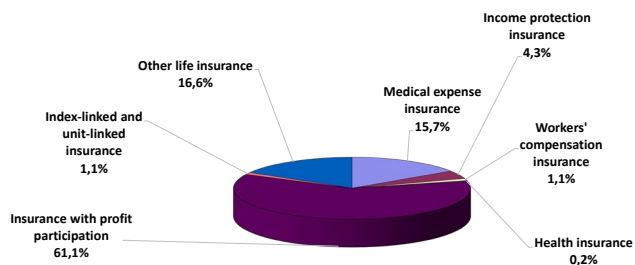
A decrease on an annual basis in the amount of subscribed premiums is reported for insurance in connection with medical expenses, insurance with profit sharing, other life insurance, insurance in connection with income protection and health insurance. On an annual basis, there is an increase in insurance linked to an index and units in an investment fund and insurance in connection with workers' compensation.

The gross claims incurred in 2020 for life insurance amount to BGN 176 million. On an annual basis, an increase of claims arising during the year by 2% is reported.

In the overall structure of the incurred claims, the largest share was the share of profit-sharing insurance (61%), followed by other life insurance (17%) and insurance for medical expenses (16%).

⁴⁴ It also includes income from non-life insurance in connection with medical expenses, income protection and workers' compensation, recorded by life insurers.

Graph 82. Structure of claims arising by classes of insurance for 2020



Source: FSC

Key:

Застраховка с участие в печалбата – Profit-sharing insurance

Застраховка, обвързана с индекс и с дялове в инвестиционен фонд – Index-linked and unit-linked insurance

Други застраховки „Живот“ – Other Life insurances

Презастраховане в животозастраховането – Reinsurance in life insurance

Застраховка във връзка с медицински разходи – Insurance for medical expenses

Застраховка във връзка със защита на доходите – Insurance for protection of income

Застраховка във връзка с обезщетение на работниците – Employee compensation insurance

Здравно застраховане – Health insurance

The expenses incurred by life insurers in connection with their operation decreased by 3% annually and at the end of 2020 amounted to a total of BGN 117 million, representing 33% of the premiums earned for the period.

The total amount of the assets in the life insurance sector increased by 9% on an annual basis and at the end of 2020 amounted to BGN 2017 million.

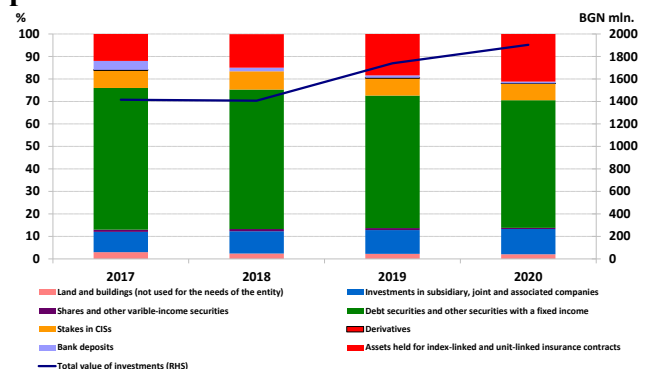
The value of the investments of the life insurers (including the value of the contractual investments linked to an index and with investment fund shares) was BGN 1903 million at the end of 2020, representing 94% of the total assets in the sector. Their value increases by 9% on an annual basis.

The value of investments, excluding the assets held for index-linked and unit-linked contracts, amounted to BGN 1500 million. Of this, a major part at the end of 2020 was occupied by the value of the government bonds (62%), followed by the value of the shareholding in

affiliated enterprises (14%) and of corporate bonds (10%). The largest increase on an annual basis was observed in the value of government bonds (BGN 55 million in absolute value) and shareholding in affiliated enterprises, including participation (BGN 30 million in absolute value). As a result of the continuing environment of low interest rates, in 2020 there was a decrease (by BGN 3.3 million on an annual basis) in the value of deposits other than cash equivalents.

The value of the assets held for index-linked and unit-linked contracts increased by 26% on an annual basis reaching BGN 403 million at the end of 2020, these investments accounting for 21% of the total amount of investments in the life insurance sector.

Graph 83. Structure of the investment portfolio of life insurers



Source: FSC.

Key:

Активи, държани за обвързани с индекс и с дялове в инвест. фонд договори –

Депозити, различни от парични еквиваленти –

Колективни инвестиционни схеми – Collective investment schemes

Облигации – Bonds

Акции – Shares

Дялово участие в свързани предприятия, вкл. участие – shareholding in affiliated enterprises, incl. participation

Недв. собственост (различна от тази за собствено ползване) – Real estate (other than real estate for own use)

Обща стойност на инвестицията (дясна скала) – Total value of the investment (RHS)

The technical reserves allocated by the life insurers (excluding technical reserves under index-linked and unit-linked shares) in 2020 increased by 4% and at the end of the year amounted to BGN 1,018 million.

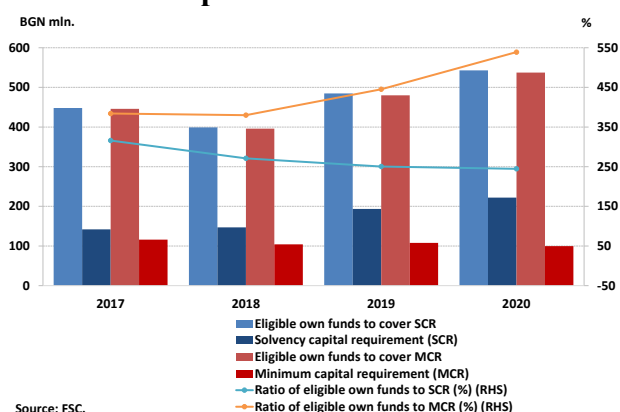
Technical reserves under index-linked and unit-linked contracts set aside at the end of 2020 increased by 27% on an annual basis and amounted to BGN 383 million at the end of the year.

The excess of the assets over the liabilities of the life insurers at the end of 2020 was estimated at BGN 549 million compared to an excess of BGN 492 million at the end of 2019

The eligible own funds to cover the solvency capital requirement of life insurers as at 31.12.2020 amounted to BGN 543 million and the solvency capital requirement (SCR) amounted to BGN 222 million. Eligible tier 1 own funds - unlimited, occupy a share of 95% of the total eligible own funds. The coverage of the MCR with eligible own funds at the end of 2020 was estimated at 245%.

The eligible own funds to cover the minimum capital requirement of life insurers as at 31.12.2020 amounted to BGN 537 million, and the minimum capital requirement (MCR) amounted to BGN 100 million. Respectively, the coverage of the MCR with eligible own funds at the end of 2020 was estimated at 539%.

Graph 84. Capital requirements for life insurance companies



Source: FSC.

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”

Key:

Млн. лв. – BGN million

Допустими собствени средства за покритие на КИП – Eligible own funds to cover the SCR

Капиталово изискване за платежоспособност – Solvency capital requirement

Допустими собствени средства за покритие на МКИ – Eligible own funds to cover the MCR

Минимално капиталово изискване (МКИ) – Minimum capital requirement (MCR)

Покритие на КИП (%) (дясна скала) – SCR coverage (%) (RHS)

Покритие на МКИ (%) (дясна скала) – MCR coverage (%) (RHS)

Compared to 2019, there is a growth in eligible own funds to cover the solvency capital requirement, as well as the solvency capital requirement.

2.3.3. Re-insurance

In the year 2020, seven non-life insurance companies, one life insurance company and one re-insurer operated in the field of reinsurance.

The premium income realized by them during the year amounts to BGN 1843 million compared to BGN 1904 million a year earlier. The main share in the activity of active reinsurance during the reporting year is occupied by the property insurance against fire and other disasters and the Civil Liability Insurance in connection with motor vehicles.

The indemnities paid to assignors amount to BGN 890 million. In the structure of the indemnities paid the largest share is occupied by motor insurances.

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 2020 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 38.3 million, compared to BGN 37.6 million at the end of the same period of the previous year.

At the end of 2020, the funds available in the Fund for uninsured motor vehicles, according to Art. 556, para. 1 of the IC, amounted to BGN 85 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 2020 amounted to BGN 6.7 million and grew by 4% on an annual basis.

In 2020, no guaranteed insurance receivables from consumers of insurance services were paid from the funds of the Security Fund. As at 31 December 2020, the funds of the Security Fund amount to BGN 77 million.

2.4. Social insurance market

The net assets of the supplementary pension funds (SPF) increase in 2020, reaching BGN 17294.3 million by the end of the year. The increase in the net assets of the pension funds during the year is a result of both the receipts from contributions for the insured persons, which at the end of 2020 are 4,819,139 people, and the positive result of the investment of the funds in the individual accounts by the pension insurance companies. (PICs). The upward trend in net assets is maintained despite the right granted to change the insurance from the supplementary mandatory pension insurance funds (SPF) to the State Social Insurance (SSI) and the influence of the crisis caused by the COVID-19 pandemic.

2.4.1. Pension insurance companies

As at 31.12.2020, nine licensed PICs operated, with the total number of the pension funds managed by them being 29, including 9 universal (UPFs), 9 occupational ones (OPFs), 9 voluntary ones (VPF) and two voluntary pension funds with occupational schemes (VPFOS).⁴⁵

Four of the companies active on the pension insurance market were part of international financial groups – NN PIC EAD – NN Group

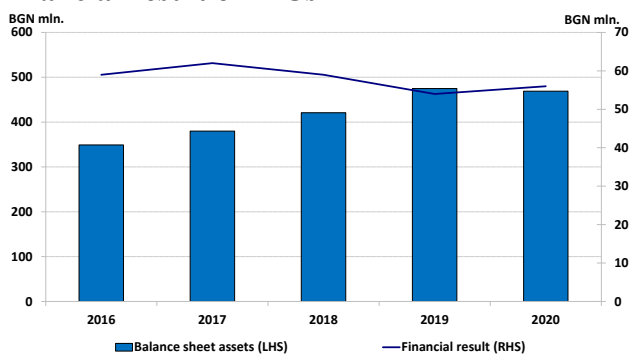
N.V., PIC Allianz Bulgaria AD – ALLIANZ SE, PIC Doverie AD – Vienna Insurance Group AG Wiener Versicherung Gruppe and PIC DSK – Rodina AD – OTP BANK NYRT.

⁴⁵There were no insured persons yet in one of the VPFOS.

In four of the licensed companies there were shareholders directly holding more than 90% of the capital.⁴⁶

The balance sheet assets of PICs as at 31.12.2020 are BGN 469.2 million, marking a decrease of 1.3% compared to 2019. The opposite dynamics is observed in the total net financial result of PICs, which for 2020 amounts to BGN 56.0 million and is BGN 1.9 million or 3.5% higher compared to the total net financial result for 2019.

Graph 85. Balance sheet assets and net financial result of PICs



Source: FSC.

Key:

Млн. лв. – BGN million

Балансови активи (лява скала) – Balance sheet assets (LHS)

Финансов резултат (дясна скала) – Financial result (RHS)

The average value of the capital adequacy indicator for 2020, of all nine licensed pension insurance companies, was 473.8% which significantly exceeded the statutory minimal amount of 50% below the minimum capital.

In 2020, the largest part of the PICs maintained a high level of capital adequacy. The average value of the indicator in 2020 decreased by 74.8 p.p., mainly as a result of the significant decrease in the capital adequacy of one company - by over 60%, as a result of the distribution of dividends during the year. For seven PICs the value of the indicator increases, and only for two

it decreases. The indicator varied widely between 64.7% and 976.6% for different companies. The implementation of intensified monitoring of the capital adequacy of a PIC, due to a lasting downward trend in the indicator, continued throughout the year.

The liquid resources of PICs and SPFs as at 31.12.2020 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 for guaranteeing the minimum return in UPFs and in OPFs, set aside with funds of PICs, as at Thursday, December 31, 2020, amount to BGN 190 million, and their amount corresponds to the legal provisions. The investments made with the funds from the reserves, as well as the valuation of the assets, subject to these investments, are in accordance with the regulatory requirements.

Table 66. Capital adequacy and liquidity of PICs and SPFs

	2019	2020
Capital adequacy of PIC (%)	548,6	473,8
Liquidity of PIC (coef.)	10,0	7,0
Liquidity of UPF (coef.)	18,7	22,1
Liquidity of OPF (coef.)	18,8	18,4
Liquidity of VPF (coef.)	88,4	74,0
Liquidity of VPFOS (coef.)	155,2	31,9

Note: The indicators are calculated as an arithmetic mean of the values of individual PIC/SPF.

Source: FSC.

Key:

Капиталова адекватност на ПОД (%) – Capital adequacy of PIC (%)

Ликвидност на ПОД (коэф.) – Liquidity of PIC (coef.)

Ликвидност на УПФ (коэф.) – Liquidity of UPF (coef.)

Ликвидност на ОПФ (коэф.) – Liquidity of OPF (coef.)

Ликвидност на ДПФ (коэф.) – Liquidity of VPF (coef.)

Ликвидност на ДПФПС (коэф.) – Liquidity of VPFOS (coef.)

Бележка: Показателите са изчислени като средноаритметична от стойността на отделните ПОД/ФДПО. – Note: The indicators are calculated as an arithmetic mean of the values of individual PIC/SPF.

⁴⁶ATBIH 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,

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.

The degree of coverage of the registered capital ranges widely between 53.7% and 725.8%. The average unweighted value of the indicator for 2020 is 333.1%, compared to 392.0% for 2019. The registered decrease of 55.9 p.p. is a result mainly of the double decrease in the indicator value compared to the previous year in one PIC. For two PICs the value of the indicator decreases, one of which is due to a significant decrease in equity and maintaining the amount of registered capital, and the other due to the faster growth rate of registered capital compared to the increase of equity. The registered capital of this company increases by BGN 500 thousand. For seven companies the value of the indicator increases, for six of them this is due to an increase in equity and maintaining the amount of registered capital, and in one PIC it is due to a higher rate of growth of equity compared to the increase in registered capital. The registered capital of this company increases by BGN 50 thousand.

In 2020, the reported return on equity was 19.8% on average for the sector, as compared to 2019 there was an increase of 1.2 p.p. The return on equity indicator in 2020 is increasing for four of the nine PICs, three of which are due to an increase in profit, and the fourth to a significant decrease in equity. For five companies the indicator decreases, for three of them this is due to a decrease in operating profit and an increase in equity, for one it is due to a faster growth rate of equity compared to profit growth, and for the other it is due to more the fastest growth rate of the loss compared to the growth of equity. The range of return on equity for individual PICs is broad, its lowest value is (-8.2%) and the highest is 56.1%.

Table 67. Analysis of PICs equity

	2019	2020
Level of coverage of registered capital	389,0	333,1
Profitability of equity	18,6	19,8

Note: Data are in %, unless stated otherwise. The indicators are calculated as an arithmetic mean of the values of individual PIC.
Source: FSC.

Key:

Степен на покритие на регистрирания капитал – Level of coverage of registered capital

Рентабилност на собствения капитал – Profitability of equity

Бележка: Данните са в %, освен ако не е посочено друго.

– Note: Data are in %, unless stated otherwise.

The degree of coverage of the assets of the managed SPFs is in the range between 1.9% and 4.7%. The average unweighted value of the indicator for 2020 is 2.9%, compared to 3.1% for 2019. The value of the indicator for individual companies remains almost unchanged, except for one, where the value of the indicator decreases almost twice.

Due to the reported positive current financial result from the activity in 2020, all companies have a positive return on assets, except for one PIC. The average unweighted value of the indicator at the end of 2020 is 10.2% compared to 9.9% for 2019, i.e. a decrease by 0.3 p.p. For five companies the return on assets indicator decreased, and for three PICs this was due to a decrease in profit and an increase in PIC assets, for one as a result of an increase in PIC assets at a faster rate than the increase in operating profit, and for the last one, the loss increases at a faster rate than the growth of assets. The return on assets increased for four companies, for two of which were due to an increase in profit at a faster rate than the growth of assets, and for the other two the assets decreased compared to an increase in loss. The range of return on assets for individual PICs is broad, its lowest value is (-4.4%) and the highest is 27.8%.

Table 68. Analysis of PIC assets

	2019	2020
Level of coverage of SPFs' assets	3,1	2,9
Profitability of PIC assets	9,9	10,2
Growth of PIC assets	14,7	4,0

Note: Data are in %, unless stated otherwise. The indicators are calculated as an arithmetic mean of the values of individual PIC/SPF.

Source: FSC.

Key:

Степен на покритие на активите на ФДПО – Level of coverage of SPF assets

Рентабилност на активите на ПОД – Profitability of PIC assets

Ръст на активите на ПОД – Growth of PIC assets

Бележка: Данните са в %, освен ако не е посочено друго.

– Note: Data are in %, unless stated otherwise.

For the year, all companies have a positive value of the asset growth indicator, except one. The average unweighted value of the indicator decreases from 14.7% for 2019 to 4.0% for 2020, i.e. during the year there is a much slower growth rate of PIC assets compared to 2019. The value of the indicator decreased for seven PICs, and increased only for two. For individual companies, the asset growth indicator is in the range between (-33.0%) and 11.3%.

Table 69. Analysis of PIC income and expenses

	2019	2020
Efficiency of PIC activities	134,1	133,8

Note: Data are in %, unless stated otherwise. The indicators are calculated as an arithmetic mean of the values of individual PIC.

Source: FSC.

Key:

Ефективност на дейността на ПОД – Efficiency of PIC activities

Бележка: Данните са в %, освен ако не е посочено друго.

– Note: Data are in %, unless stated otherwise.

The average unweighted value of the PIC performance indicator in 2020 is 133.8%, and compared to 2019 there is a decrease of 0.3 p.p. In the case of six PICs, the value of the indicator decreases, and in all of them this is due to an increase in expenditures at a faster rate than the increase in revenues. For the other three companies the value of the indicator increased, for two of them this is due to an increase in revenues and a decrease in expenses, and for the third PIC the revenues increase at a faster rate than the

expense increase. The value of the indicator varies between 93.2% and 199.9%.

Compared to 2019, the revenues of PICs from fees and deductions per participant in pension funds are increasing. The average unweighted value of the indicator for 2020 amounts to BGN 34.53 compared to BGN 33.33 for the previous year, i.e. an increase by BGN 1.20. The value of the indicator for seven PICs is increasing, for five of them this is due to the faster growth rate of revenues from fees and deductions compared to a decrease of participants, and in the other two-revenues from fees and deductions increase at a faster rate than the increase in participants. In the case of two PICs the value of the indicator decreases, one of which is due to a decrease in the revenues from fees and deductions and an increase in the participants, and in the other due to a faster growth rate of the participants compared to the increase of the revenues from fees and deductions. The value of the indicator for individual PICs is between BGN 23.84 and BGN 45.32.

The costs for PIC's operations per participant in the managed pension funds increased by BGN 3.164 in the reporting 2020, and at the end of the year they amounted to BGN 34.60 compared to BGN 30.69 in 2019. For seven PICs, the value of the indicator increased, and for four companies this was due to increase of costs and a decrease on the number of participants, and for three companies the increase of costs is at a faster rate than the increase in participants. The value of the indicator decreased for two companies, for one of them resulting from cost reductions and growth in the number of participants, and in the other 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 19.47 and BGN 66.17.

Table 70. Fees, deductions and operating expenses per participant in SPFs

	2019	2020
Fees and deductions per participant in SPFs	33,3	34,5
Operating expenses per participant in SPFs	31,0	34,6
Note: Data are in BGN, unless stated otherwise. The indicators are calculated as an arithmetic mean of the values of individual SPF.		
Source: FSC.		

Key:

Такси и удържки на един участник във ФДПО – Fees and deductions per participant in SPFs

Разходи за дейността на един участник във ФДПО – Operating expenses per participant in SPFs

Бележка: Данните са в лв., освен ако не е посочено друго.

– Note: Data are in BGN, unless stated otherwise.

The revenues from fees and deductions per BGN 100 of assets of the funds as at the end of 2020 were between BGN 0.97 and BGN 1.28, with the average unweighted value of the indicator amounting to BGN 1.09 compared to BGN 1.15 in 2019, or a reduction of BGN 0.06. The value of the indicator for all PICs decreases, as in eight of the companies this is due to the faster growth rate of the balance sheet assets of the funds compared to the increase in revenues from fees and deductions, and in one PIC is due to an increase in assets and reduction of revenues from fees and deductions.

The operating costs per BGN 100 of assets of SPFs for 2020 varied between BGN 0.52 and BGN 1.74. The average unweighted value of the indicator reported an increase by BGN 0.042, amounting to BGN 1.09 at the end of 2020 compared to BGN 1.07 at the end of 2019. The value of the indicator for seven companies decreased, which for five of them was due to the increase in the assets of SPFs at a faster rate than the increase of expenses, and for the other two it was the growth of SPFs assets and a decrease in costs. For two PICs, the indicator increases as the growth rate of expenses outpaced the growth of the balance sheet assets of the managed SPFs.

Table 71. Fees, deductions and operating costs per BGN 100 of SPFs assets

	2019	2020
Fees and deductions per BGN 100 of SPFs assets	1,1	1,1
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.		

Key:

Такси и удържки на 100 лв. активи на ФДПО – Fees and deductions per BGN 100 of SPFs assets

Разходи за дейността на 100 лв. активи на ФДПО – Operating expenses per BGN 100 of SPFs assets

Бележка: Данните са в лв., освен ако не е посочено друго.

– Note: Data are in BGN, unless stated otherwise.

In the supervision of PICs' operations with regard to the management of pension funds in 2020, no deviations from the statutory requirements were identified in terms of the amount of the mandatory fees and deductions paid to PICs.

In 2020, almost all PICs maintain the maximum allowable amounts of fees and deductions collected by a SMPF, according to the SIC. 3.75% deduction from each social security contribution and investment fee in the amount of 0.75% per annum, calculated on the value of the fund's net assets depending on the period during which they were managed.

One PIC has adopted a differentiated approach regarding the deductions from each insurance contribution for the SMPF managed by it, depending on the period of insurance of the person, namely reduction of their amount after a certain period of time. During the year, one PIC also adopted a differentiated approach depending on the period of insurance of the person and reduced the deduction from each insurance contribution to the universal pension fund managed by it. Another PIC reduced the deduction from each social security contribution for the universal pension fund managed by it without additional conditions.

Fees and deductions for management of the supplementary voluntary pension funds (SVPF), collected by the PIC, are in amounts lower than

the statutory ones. The average amount of deduction from each social security contribution in VPF in 2020 and in 2019 is 2.8%, and in VPFOS it is 3.9% in 2020 compared to 4.0 in 2019. The statutory maximum amount of deduction from each social security contribution in SVPF is 7.0%.

Table 72. Investment fee and social insurance contributions' fee to SVPFs

	2019	2020
Deducted investment fee of VPF	8,8	8,7
Deducted investment fee of VPFOS	10,0	10,0
Average amount of social insurance contributions' fee in VPF	2,8	2,8
Average amount of social insurance contributions' fee in VPFOS	4,0	3,9

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.

Key:

Отчислена инвестиционна такса на ДПФ – Average amount of social insurance contributions' fee in VPF

Отчислена инвестиционна такса на ДПФПС – Average amount of social insurance contributions' fee in VPFOS

Среден размер на такса от осиг. вноски на ДПФ – Average size of a fee from social security contributions of the VPF

Среден размер на такса от осиг. вноски на ДПФПС – Average size of a fee from social security contributions of the VPFOS

Бележка: Данните са в %, освен ако не е посочено друго. Показателите са изчислени като средноаритметична от стойността на отделните ДФ и ДПФПС. – Note: Data are in %, unless stated otherwise. Indicators are calculated as the average value of the individual CFs and VPFOS.

The investment fee in VPF in 2020 amounts to 8.7% compared to 8.8% in 2019 with a statutory fee of up to 10%. As at 31.12.2020, only one VPF reported negative investment revenue, as a result of which no investment fee was deducted for the management company, and from all other VPF an investment fee was deducted for the managing PICs, due to reported positive investment income. As at 31.12.2019, a positive investment income was reported from all VPFs and an investment fee was deducted. As of 31.12.2019, the VPFOS also reported a positive income from investments, and investment fee in the amount of 10.0% was deducted for the management company, as well as at 31.12.2019.

2.4.2. Supplementary pension funds

During the reporting year, the amount of balance sheet assets of all SPFs grew at a significantly slower pace than in the previous 2019, which was inevitably affected by the COVID-19 pandemic. In 2020, the balance sheet assets of SPFs increased by a total of 10.6% on an annual basis, while in 2019 the balance sheet assets of SPFs increased by 16.9%.

The rate of change in assets is different by type of fund, with the largest increase of 11.7% observed in UPF, followed by the only operating VPFOS, with an increase of 10.6%. An increase in assets was also reported in OPF and VPF by 6.7% and 3.1%, respectively.

Table 73. Increase of SPFs' assets

	2019	2020
UPF	17,9	11,7
PPF	11,7	6,7
VPF	10,9	3,1
VPFOS	14,3	10,6

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.

Key:

УПФ – UPF

ППФ – OPF

ДПФ – VPF

ДПФПС – VPFOS

Бележка: Данните са в %, освен ако не е посочено друго. Показателите са изчислени като отношение на изменението за годината към състоянието им в началото на годината – 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.

The market shares of the individual companies based on the amount of the managed balance sheet assets of the pension funds did not change significantly during the past year. The pension insurance company with the largest market share occupies 24.5% of the managed balance sheet assets, and the one with the smallest market share occupies 1.1%.

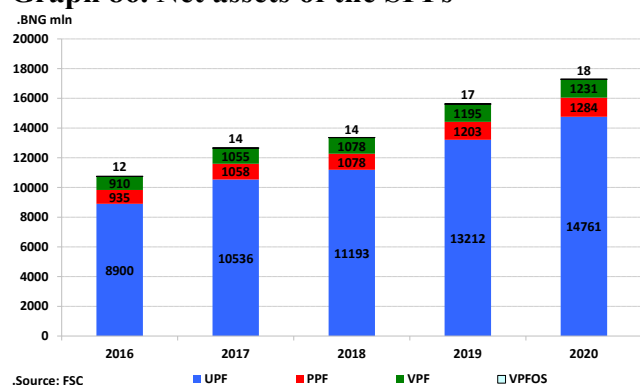
The structure of balance sheet assets by type of fund is strongly dominated by UPF. As at the end of 2020, the relative share of this type of funds is 85.4%. As a result of the higher growth rates of the balance sheet assets of UPF, their relative

share in the total balance sheet assets of SPFs expands by 0.8 p.p. compared to 2019 at the expense of the shares of VPF and OPF. As of the end of 2020, the balance sheet assets of OPF, VPF and VPFOS occupy shares of 7.4%, 7.1% and 0.1%, respectively.

The observed trends in balance sheet assets are also reported for net assets. In 2020, the net assets of SPFs increased by 10.7 % on an annual basis, which was less than their growth in 2019 (16.9%).

As at the end of 2020, the net assets of SPFs amount to BGN 17,294.3 million. They show the total value of liabilities to insured persons and are a key indicator of the state of the supplementary pension insurance system. The net assets accumulated at the end of 2020 amount to 14.6% of the volume of GDP⁴⁷ of the country.

Graph 86. Net assets of the SPFs



Source: FSC

Key:
 Млн. лв. – BGN million
 УПФ – UPF
 ОПФ – OPF
 ВПФ – VPF
 ВПФПС – VPFOS

The rate of increase of net assets differs by types of funds, the most significant being in UPF (11.7%), followed by VPFOS (10.5%), OPF (6.7%) and VPF (3.0%). The structure of net assets by types of pension funds at the end of 2020 does not differ significantly from that of balance sheet assets.

⁴⁷ GDP for 2020 was BGN 118605 million according to preliminary NSI data.

The average unweighted amount of managed assets per participant in 2020 in UPFs is BGN 3,426.98 compared to BGN 3,123.00 in 2019; in OPF is BGN 3,716.01 for 2020 compared to BGN 3,536.63 in 2019; in VPF it is BGN 1 804.30 for 2020 compared to BGN 1 774.91 in 2019 and in VPFOS it is BGN 1 809.45 for 2020 compared to BGN 1 916.22 in the previous year. For all types of funds there was an increase in the managed assets per participant, except for VPFOS.

In terms of companies, there were different deviations from the average levels – in UPFs the managed assets per participant were between BGN 1,885.60 and 4,614.79, in OPFs – between 2,033.05 and BGN 4,697,97 and in VPFs – between BGN 685.63 and BGN 4,095.71. The average values of the indicator for individual PICs were between BGN 1,534,76 and BGN 4,209.82.

Table 74. Assets managed per participant in a SPF

	2016	2017	2018	2019	2020
UPF	2239,3	2581,8	2714,7	3123,0	3427,0
PPF	2918,2	3192,7	3225,7	3536,6	3716,0
VPF	1480,9	1696,3	1697,2	1774,9	1804,3
VPFOS	1631,9	1817,3	1743,1	1916,2	1809,4

Note: Data are in BGN, unless stated otherwise. The indicators are calculated as an arithmetic mean of the values of individual SPF.
 Source: FSC.

Key:
 УПФ – UPF
 ОПФ – OPF
 ВПФ – VPF
 ВПФПС – VPFOS
 Бележка: Данните са в лв., освен ако не е посочено друго.
 – Note: Data are in BGN, unless stated otherwise.

Gross revenues from social security contributions in SPFs in 2020 increased by 3.2% compared to revenues in 2019. The increase in revenues is due to a significant increase in revenues from social security contributions for UPF - by BGN 72.3 million or by 5.0% . Practically, the revenues from social security contributions with OPF remain unchanged. Gross revenues from social security contributions in

VPF in 2020 registered a decrease of BGN 18.7 million or by 14.0% compared to 2019. Revenues from social security contributions at VPFOSs mark significant growth of 23.5. Despite the different dynamics of the types of pension funds, the total revenues from social security contributions in 2020 report the highest value for the last five years.

Table 75: Gross proceeds from social insurance contributions

	2016	2017	2018	2019	2020
UPF	1083,9	1161,4	1285,0	1451,5	1523,8
PPF	100,4	102,6	110,2	120,5	120,8
VPF	99,2	139,0	144,7	133,7	115,0
VPFOS	1,5	1,6	1,6	1,7	2,1
Total	1285,0	1404,6	1541,5	1707,4	1761,7

Note: Data are in BGN million, unless stated otherwise.
Source: FSC.

Key:

УПФ – UPF

ППФ – OPF

ДПФ – VPF

ДПФПС – VPFOS

Общо – Total

Бележка: Данните са в млн. лв., освен ако не е посочено друго. – Note: Data are in BGN million, unless stated otherwise.

The amounts accrued and paid in 2020 increased compared to the previous year by 20.9% in total for all SPFs. The main contribution to the dynamics of the accrued and paid amounts have the amounts paid by VPFs, whose share in the total value is 72.8% on average for the last five years. In the supplementary mandatory pension insurance market, which is in the accumulation phase, the ratio “Paid amounts / received funds” amounts to 0.02 on average for the period 2016 - 2020, while in VPFs this ratio is 0.60.

Table 76: Accrued and paid amounts

	2016	2017	2018	2019	2020
UPF	13,8	17,4	20,4	24,1	30,6
PPF	5,9	6,4	6,3	6,7	8,0
VPF	66,8	57,7	66,8	85,7	102,4
VPFOS	0,2	0,3	0,4	0,8	0,8
Total	86,7	81,8	93,9	117,3	141,8

Note: Data are in BGN million, unless stated otherwise.
Source: FSC.

Key:

УПФ – UPF

ППФ – OPF

ДПФ – VPF

ДПФПС – VPFOS

Общо – Total

Бележка: Данните са в млн. лв., освен ако не е посочено друго. – Note: Data are in BGN million, unless stated otherwise.

The average value of the return ratio on managed assets in 2020 for UPFs, OPFs and VPFs is 0.02, and for the only operating VPFOS, the indicator is 0.03. In 2019, the average value of the indicator for OPFs and UPFs is 0.06, for VPF it is 0.05, and for the only operating VPFOS, the indicator is -0.09. Compared to the previous year, the indicator decreased for all types of funds, which is due to the declines in financial markets in 2020 caused by the COVID-19 pandemic. The average values of the indicator for individual PICs were between -0,03 and 0.04.

Table 77: Return on managed assets

	2016	2017	2018	2019	2020
UPF	0,05	0,06	-0,02	0,06	0,02
PPF	0,05	0,07	-0,03	0,06	0,02
VPF	0,05	0,07	-0,03	0,05	0,02
VPFOS	0,06	0,10	-0,06	0,09	0,03

Note: Data are in coefficients. The indicators are calculated as an arithmetic mean of the values of individual SPF.
Source: FSC.

Key:

УПФ – UPF

ППФ – OPF

ДПФ – VPF

ДПФПС – VPFOS

Общо – Total

In 2020, the participants in SPFs increase, but compared to 2019 the growth is slower. In 2020, the increase is a total of 1.2%, and in 2019 it is 2.0%. The growth of the participants in 2020 by funds is as follows: for universal funds - growth of 1.2% (with growth of 2.0% in 2019), for occupational funds the growth is 1.4% in 2020 (compared to 2.2% in 2019), for voluntary funds the growth is 1.4% compared to 1.9 % in 2019, and the only operating VPFOS reports an increase in participants of 17.2% in 2020 compared to 4.0% in 2019. The PIC with the largest market share in terms of the number of participants in its managed SPF retains its position with 24.5%, and the company with the smallest market share occupies

1.0% of the market. The gradual decrease trend of the market share of the largest companies is preserved.

Table 78: Increase in the number of participants

	2019	2020
UPF	2,0	1,2
PPF	2,2	1,4
VPF	1,9	0,8
VPFOS	4,0	17,2

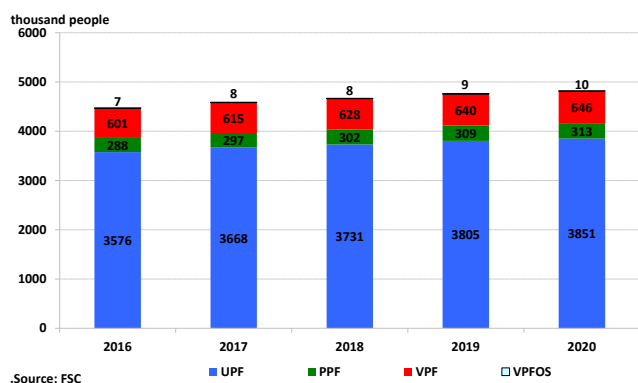
Note: Data are in %, unless stated otherwise. Indicators are calculated as a ratio between the change for the year and their condition in the beginning of the year.

Source: FSC.

Key:
 УПФ – UPF
 ППФ – OPF
 ДПФ – VPF
 ДПФПС – VPFOS
 Общо – Total
 Бележка: Данните са в %, освен ако не е посочено друго.
 – Note: Data are in %, unless stated otherwise.

Regarding the structure of distribution of insured persons between SPFs, no significant changes are observed compared to the previous year. At the end of 2020, the largest share of insured persons was concentrated in the universal pension funds (79.9%). The persons insured in the voluntary and occupational pension funds occupy respectively a share of 13.4% and 6.5% in the structure of distribution of the insured persons. The share of the insured in VPFOS remains the smallest (only 0.2%).

Graph 87. Number of insured persons



Key:
 Брой в хил. – Number in thousand
 УПФ – UPF
 ППФ – OPF
 ДПФ – VPF

ДПФПС – VPFOS

In 2020, still the majority of people who start their first job and should be insured in SMPF, do not exercise their right to choose a pension fund. The submitted individual applications for participation in UPF and OPF during the year are 4,104 and 830, respectively. The predominant part of the persons, who are subject to insurance in SMPF and have not made their choice, are distributed ex officio among the funds. In 2020, these are 66,490 persons, or 94.2% of the total number of persons admitted to UPF, and respectively 9,721 persons, or 92.1% of the total number of persons admitted to OPF.

During the year, a total of 232,148 people exercised their right to change their participation from one to another respective SMPF. Compared to the previous 2019, their number increased by 6.7%.

Funds transferred from the individual accounts of persons who changed their participation in supplementary pension funds in 2020 increased by a total of 12.6% compared to 2019 and amounted to BGN 813.2 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 number of resources in their individual accounts.

The increase is mainly due to the funds transferred to UPF, the amount of which is BGN 87.5 million or 13.4% higher than the previous year. The OPFs also reported an increase in the transferred funds by BGN 5.1 million, or 7.8%. For VPFs, compared to 2019, there is a decrease in the transferred funds by BGN 1.7 million, which in relative terms represents a decrease of 32.7% given the lower number of transfers in this type of funds.

Table 79: Amounts transferred from individual accounts

	2016	2017	2018	2019	2020
UPF	405,7	456,6	478,1	651,7	739,2
PPF	47,9	49,8	54,6	65,4	70,5
VPF	5,0	3,7	4,2	5,2	3,5
Total	458,6	510,1	536,9	722,3	813,2

Note: Data are in BGN million, unless stated otherwise.
Source: FSC.

Key:

УПФ – UPF

ППФ – OPF

ДПФ – VPF

Общо – Total

Бележка: Данните са в млн. лв., освен ако не е посочено друго. – Note: Data are in BGN million, unless stated otherwise.

The absolute value of invested resources of SPFs at the end of 2020 was BGN 16.0 billion, representing 91.8% of their balance sheet assets. The SPF's investments in 2020 continued to grow, and the reported growth during the year is 10.4%. In the total volume of invested funds of SPF in 2020, as well as in 2019, the highest share is occupied by UPF (85.3%), followed by OPF (7.4%), VPF (7.2%) and VPFOS (0.1%).

Between 2016 and 2020, the SPFs' investment portfolios were developing, following the dynamics of asset accumulation in the sector, the accumulated investment experience and the capital market trends. In 2020, the crisis caused by the COVID-19 pandemic also left its mark on the investment activity of SPFs, the structure of investment portfolios and the achieved profitability.

For a five-year period there is a steady trend of increasing the relative share of funds invested in government securities in the portfolios of SPFs, which reached its highest value at the end of 2019 (61.2% of investments). At the end of 2020, the share of government securities decreased to 56.7% of investments, but compared to the beginning of the five-year period there was an increase in the relative share by 6.3 p.p.

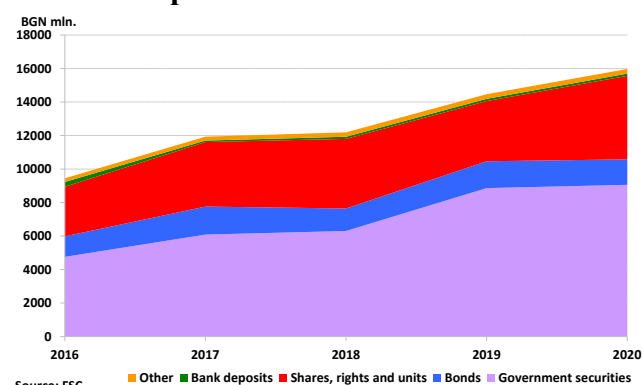
At the end of 2020, the relative shares of all other categories of investment instruments in the portfolios of SPFs are lower than at the beginning

of the period under review. The most significant is the decrease in the relative share of funds invested in bonds (corporate and municipal). From 12.9% in 2016 and a gradual increase to 14.0% in 2017, at the end of the five-year period this share was 9.5% of the invested funds. The reported decrease for the period 2016 - 2020 is 3.4 p.p.

The decrease in the relative share of bank deposits in the aggregate investment portfolio of SPFs is noticeable, although smaller. The funds invested in bank deposits, which at the end of 2016 accounted for 3.0% of the investment portfolio, shrank to 0.8% by the end of 2020.

For the period 2016 - 2020 there is a minimum decrease of 0.2 p.p. of the relative share of investments in shares, rights and units. The observed trend in this indicator over the five-year period is mixed. From 31.4% in 2016 and a gradual increase to 34.1% in 2018, the share of shares, rights and units at the end of 2019 decreased to 24.9% of the invested funds of SPFs. Towards the end of 2020, there is again an increased interest in investments with variable income, which reach 31.2% in the aggregate portfolio of SPFs.

Graph 88. Structure of the aggregate investment portfolio



Key:

Млн. лв. – BGN million

Други – Other

Банкови депозити – Bank deposits

Акции, права и дялове – Shares, rights and parts

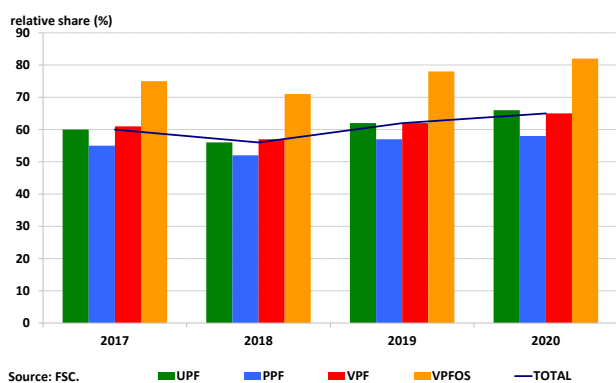
Облигации – Bonds

ДЦК – Government securities

The relative share of the SPF's investments in financial instruments issued by issuers outside the Republic of Bulgaria at the end of 2020 reached 65.0% of their balance sheet assets. Compared to the end of the previous year, there was an increase in the relative share of these investments by 3.3 p.p.

As of the end of 2020, the structure of investments in financial instruments issued by issuers outside the country is dominated by government securities with a share of 63.1%. Variable income securities form 29.1% of investments in financial instruments issued by issuers outside the country, and the remaining 7.8% are invested in corporate debt securities.

Graph 89. Investments abroad as a percentage of SPFs' balance sheet assets



Source: FSC.

Key:

Отн. дял (%) – Relative share (%)

УПФ – UPF

ППФ – OPF

ДПФ – VPF

Общо – Total

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. Following the negative yield in 2018, SPF reported a positive weighted average yield in 2019 and 2020.

Table 80. Weighted average rate of return

	2016	2017	2018	2019	2020
UPF	4,1	6,3	-4,2	6,5	1,5
PPF	4,5	6,5	-3,6	5,8	1,7
VPF	5,2	7,5	-4,6	6,5	2,2
VPFOS	4,8	9,3	-5,9	8,8	2,9

Note: Data are in %, unless stated otherwise. *Wighted by the value of the net assets of individual funds.

Source: FSC.

Key:

УПФ – UPF

ППФ – OPF

ДПФ – VPF

ДПФПС – VPFOS

Общо – Total

Бележка: Данните са в %, освен ако не е посочено друго. –
Note: Data are in %, unless stated otherwise

III. Organisational structure of FSC



I, the undersigned Emiliya Veselinova Marinchevska, certify that this is a true and accurate translation done by me from Bulgarian into English of the attached document. The translation consists of 199 pages.

Translator:
Emiliya Veselinova Marinchevska