



FINANCIAL SUPERVISION COMMISSION

**ANNUAL REPORT
FOR THE ACTIVITY OF
THE FINANCIAL
SUPERVISION
COMMISSION
FOR 2022**

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
SEAV – Statement 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
SRM – Single Resolution Mechanism
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
CISOU CIA – Collective Investment Schemes and Other Undertakings for Collective Investments Act
SPICSCA - Special Purpose Investment Companies and Securitization Companies Act
CIA – Credit Institutions Act
FSCA – Financial Supervision Commission Act
MAMLA – Measures against Money Laundering Act
MAFTA – Measures against the Financing of Terrorism Act
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
KIID - Key Investor Information Document
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
NIF – National Investment Fund
NBBMI – National Bureau of Bulgarian Motor Insurers
NCGC – National Corporate Governance Committee
PW – Penal Warrant
GMS – General Meeting of Shareholders
CAM – Coercive Administrative Measure
PC – Public Company
UCITS – Undertakings for Collective Investment in Transferable Securities
PIC – Pension Insurance Company
PPF – Professional Pension Fund
MC – Management Company
UPF – Universal Pension Fund
SVPF – Supplementary Voluntary Pension Fund
SMPF – Supplementary Mandatory Pension Fund

SPF – Supplementary Pension Fund
LPPF – Lifetime Pension Payment Fund
DPF – Deferred Payment 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
Single Resolution Board (SRB)	www.srb.europa.eu

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ADDRESS OF THE CHAIR

Dear Ladies and Gentlemen,

I present to your attention the 2022 Annual Report for the Activity of the Financial Supervision Commission.

In 2022, the Financial Supervision Commission worked on its main strategic priorities: maintaining the stability of the non-banking financial sector, promoting the development of the insurance, investment and social insurance sectors, and protecting the users of financial services. The FSC's activity in terms of priorities was completely in sync with the development of the organization - optimization and digitalization of processes and improvement of the technical and management competencies of the FSC's team of experts.

In the past year of 2022, in the aftermath of the Covid pandemic, among global digitalization, the European Green Deal, the hostilities in Ukraine and Bulgaria's preparations for joining the euro area, the Financial Supervision Commission continued fostering a business environment favourable to innovation. Simultaneously, the Commission continued to analyse the development of financial technologies in the European Union, aiming to synchronise its systems with innovations in the sector. As a result of these processes, the Bulgarian regulator is on the innovation map with projects already implemented and developing in the current year 2023, laid down in its digital development plans.

The interconnectedness of high technology and financial instruments has reshaped the standard consumer behaviour and thinking. The synergy between the two, together with the pace of innovation, has led to the realization of new business models in the areas of capital markets, insurance and pension insurance. One of the FSC's tasks - to analyse and forecast the potential risks, has focused the Commission's activity on the balance between the promotion of innovation by companies with an investment objective and the protection of consumers from the negative aspects that the new online space implies.

In order to achieve prevention of potential risks and simultaneous development and innovation, the Commission actively works and liaises with the non-banking financial sector participants, and the result of the partnership between the national regulator and the business is the maintenance of a sustainable and innovation-friendly business environment. Dynamics in the development of technologies, digitization and digitalization are key to changing consumer attitudes and growth expectations. The role of FSC is to provoke the accomplishment of coherence between the regulatory requirements and their implementation in a digital environment, with the ultimate goal being to reduce the administrative burden. Some of the tangible results are

the already operational Innovation Hub, providing a single point of contact with fintech companies and the amended regulations for accessibility to the capital markets of small and medium-sized enterprises. The Commission is also engaged in the project „Building a unified information system (UIS) for the needs of the Financial Supervision Commission“. It is performed according to administrative contract No. BG05SFOP001-1.011-0001-C01/23.07.2020, one of the objectives is for the FSC to provide timely, quality and transparent supervisory activities. The development of the unified information system will allow the Bulgarian regulator to improve the services to citizens, businesses and supervised entities, to save them time by means of digital access to its administrative services, as well as to integrate the FSC activities and processes with the systems of the European Supervisory Authorities.

In 2022, the design and content of the website of the Financial Supervision Commission was renewed, and simultaneously another step was taken in the digital advancement of the FSC with the development of the Commission's mobile application - FSC Mobile. The purpose of the application is to help users and supervised entities using the most popular operating systems - Android and **iOS**. The application is completely free of charge and provides extra convenience in accessing information that the FCS publishes for users and participants in the non-banking financial sector - insurance, social insurance and investment.

The Financial Supervision Commission continued to observe all current business online trends, but above all to work proactively towards the full digitalization of the regulatory authority of the non-banking financial sector. Within the framework of integrating innovations to reduce the administrative burden, the European Commission presented a Proposal for a Regulation of the European Parliament and the Council establishing a European single access point (ESAP). Its purpose is to provide the public with centralized access to all necessary information relevant to financial services. The European single access point will give investors easy, fast and comparable access to data on European companies, thereby also facilitating access to financing for European companies. ESAP is expected to contribute to the further integration of financial services and capital markets in the EU single market and to foster the development of smaller national capital markets and economies by giving them greater visibility. The Financial Supervision Commission, in coordination with the European Commission, introduced measures for the implementation of the new regulations and fostered conditions for the realization of the European single access point.

Undoubtedly, in addition to digitalization, the “Green Deal” was one of the most current trends. The environment, social responsibility and transparent governance are already part of the worldview and way of thinking of institutions and regulators in Europe. In accordance with the objectives of the European Union, the Financial Supervision Commission in Bulgaria supports

through specific actions the targeting of national and European sources for financing a sustainable economy, the planning of instruments for business recovery after crises, as well as the balanced regional development of the country. The FSC has strategically aligned its actions in support of achieving the goals of the “Green Deal”, and all of us as a society must focus on renewable energy, energy efficiency, green buildings, clean transport, products created by circular economy. After the adoption of the European Green Deal, the focus of the FSC will be on financial risks for institutions and the financial system, as well as sustainability risk (ESG risks). In this regard, there are important challenges for the FSC in exercising its supervisory powers on capital market participants in complying with the requirements laid down in the legislative package for Sustainable Finance, namely the regulation on disclosures, the regulation on climate-related benchmarks and sustainable finance, and the taxonomy regulation.

In the context of this global transformation, FSC is starting a new strategic period 2022 - 2024. The change for the regulator includes long-term planning, a strong expert team and determination to implement innovation in the field of digitization and regulations to stimulate the capital market. All this will be accompanied by a constructive dialogue with all interested participants in the processes regulated by FSC. An important part for the development of the Bulgarian capital, social insurance and insurance market is the active and effective communication with the business directed at developing concepts and sustainable strategies. Our goal is to be predictable in our actions and to be objective when making decisions crucial for the development of Bulgaria.

The main macroeconomic challenge not only for the FSC, but also for the financial sector and the entire society, is related to the introduction of the euro in Bulgaria. The view of the Commission for this key process for the Bulgarian economy includes the systematisation of the necessary measures and actions in connection with the conversion of financial instruments. In order to carry out the necessary monitoring of the expected stages for adapting the clearing and settlement systems to work with the euro, the Commission is working on a daily basis with all industry organizations and supervised entities to build a full-scale action plan covering a total of 3 periods - time for legislative changes, time for testing the conversion and introduction of the new currency, communicating in a timely manner with users of insurance, investment and pension products.

FSC has an important task to create regulatory security and increased operational resilience of digital technologies in the financial sector by encouraging the development of innovation, but also by continuing to maintain a secure environment for an optimal, but above all, secure user experience. At the same time, increasing the financial literacy of the public remains a focus of the

strategic goals - in the fall of 2022, the Commission, together with the Ministry of Education and Science and the Atanas Burov Foundation, realised the 20th anniversary edition of its unique program in the country - “The Non-Banking Financial Sector in Bulgaria.” 22 students from economic and financial vocational schools from 21 cities in the country took part in the event.

Over the past year, the Financial Supervision Commission continued to promote the **#Invest safely** campaign. On the occasion of Global Money Week (March 21-27), online events were held under the title “Investment Security in the Digital World”. Several hundred students from leading universities in the country took part and got initial training for their meeting with the world of capital markets, operating the stock exchange and safe investing - UNWE, Faculty of Economics of Sofia University, University of Economics -Varna, VUZF, Academy of Economics - Svishtov, Burgas Free University, Shumen University and Southwest University. The initiative was implemented in partnership with the Bulgarian Association of Licensed Investment Firms (BALIF) and the Investor Compensation Fund (IFC).

The pilot initiative “The Superpower of the Young Investor” was also launched; it is dedicated to risk prevention in the use of investment products in the financial markets, aimed at high school students - nearly 200 students took part, and the first to join were adolescents from the 11th and 12th grades of the National High School of Finance and Economics, the National High School of Banking and Commerce and the National High School of Natural Science and Mathematics. Students were introduced to basic concepts from the world of investments, new technologies and integrated financial solutions.

Regarding the regulatory activity in 2022, experts from the FSC participated in working groups on the preparation of the following draft laws concerning public relations in the non-banking financial sector: draft act to amend and supplement the Social Insurance Code , proposing changes to the Financial Supervision Commission Act and the Credit Institutions Act; draft act onto amend and supplement the Measures Against Money Laundering Act.

In the beginning of 2023, the Act to Amend and Supplement the Markets in Financial Instruments Act was promulgated (Prom. SG issue 8/2023). The amendments implement the requirements of Regulation (EU) 2021/23 Of the European Parliament and of the Council of 16.12.2020 on a framework for the recovery and resolution of central counterparties and amending Regulations (EU) No 1095/2010, (EU) No 648/2012, (EU) No 600/2014, (EU) No 806/2014 and (EU) 2015/2365 and Directives 2002/47/EC, 2004/25/EC, 2007/36/EC, 2014/59/EU and (EU) 2017/1132, which creates conditions for the application of the harmonized European legal framework for the maintenance of critical functions performed by defaulting CCPs, as well as the related framework for supervision and cooperation between competent authorities.

In the previous year, a broad interdepartmental working group was established to draft a law to amend and supplement the Insurance Code in order to implement the requirements of Directive (EU) 2021/2118 of the European Parliament and of the Council of 24.11.2021. amending Directive 2009/103/EC on motorist third party liability insurance.

The changes in the subordinate legislation aim at their adaptation to the adopted legislative amendments and introduction of the best international practices.

At the same time, the new moments in EU politics pertain to the following regulations: Regulation (EU) 2022/858 of the European Parliament and of the Council of 30 May 2022 on a pilot regime for market infrastructures based on distributed ledger technology, and amending Regulations (EU) No 600/2014 and (EU) No 909/2014 and Directive 2014/65/EU ; Regulation (EU) 2022/2036 of the European Parliament and of the Council of 19 October 2022 amending Regulation (EU) No 575/2013 and Directive 2014/59/EU as regards the prudential treatment of global systemically important institutions with a multiple-point-of-entry resolution strategy and methods for the indirect subscription of instruments eligible for meeting the minimum requirement for own funds and eligible liabilities; Regulation (EU) 2022/2554 of the European Parliament and of the Council of 14 December 2022 on digital operational resilience for the financial sector and amending Regulations (EC) No 1060/2009, (EU) No 648/2012, (EU) No 600/2014, (EU) No 909/2014 and (EU) 2016/1011.

In the past year 2022, the following directives were published in the Official Journal of the European Union: Directive (EU) 2022/2556 of the European Parliament and of the Council of 14 December 2022 amending Directives 2009/65/EC, 2009/138/EC, 2011/61/EU, 2013/36/EU, 2014/59/EU, 2014/65/EU, (EU) 2015/2366 and (EU) 2016/2341 as regards digital operational resilience for the financial sector; Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting; Directive (EU) 2022/2381 of the European Parliament and of the Council of 23 November 2022 on improving the gender balance among directors of listed companies and related measures; Directive (EU) 2022/2557 of the European Parliament and of the Council of 14 December 2022 on the resilience of critical entities and repealing Council Directive 2008/114/EC.

During the reporting period, in the Official Journal of the European Union, more than 90 delegated regulations on the implementation of the main legal acts of the EU were published. The main package of delegated acts was issued in connection with Regulation (EU) 2020/1503 of the European Parliament and of the Council of 7.10.2020 on European crowdfunding service providers for business (Crowdfunding regulation). A number of technical and implementing standards were

also published on the application of Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (EMIR), the MiFID II legal framework, benchmarks (Regulation (EU) 2016/1011) etc.

Regarding the legislative proposals in 2022, they are as follows: Proposal for a Directive of the European Parliament and of the Council on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1937 (CSDDD); Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) No 909/2014 as regards settlement discipline, cross-border provision of services, supervisory cooperation, provision of banking-type ancillary services and requirements for third-country central securities depositories (CSDR); A package of legislative proposals in connection with listing (Listing act); A package of legislative proposals in relation to clearing.

In the field of capital markets, at the beginning of 2022, there was one refusal to issue a license to operate as an IF was issued and the license of one IF was revoked at its request.

In 2022 the FSC has reviewed 4 proceedings for acquisition or increase of qualified holdings of the capital or the votes in the general assembly of an investment firm were examined; no bans were issued but the proceedings for one of the notifications was terminated at the applicant's request. One notice for transfer of qualifying holdings was considered.

27 applications for approval of election of a member of a management or supervisory body of an investment firms were considered, no rejections were given.

Within the framework of the past year, no proceedings were considered in connection with the activity of Bulgarian Stock Exchange AD and Central Depository AD, as well as no license was issued or revoked to carry out activities as a management company. One proceeding was initiated for the issuance of a license, which was issued at the beginning of 2023.

One permit was issued to a Management Company to organize and manage a MF and one permit to organize and manage 6 umbrella-type MF sub-funds, as well as 1 permit to organize and manage a national investment fund.

In 2022 no new licenses were issued for operating as a special purpose investment company for investment in real estate or in debt claims, as well as no refusals to issue a license to SPICs.

There were 2 forced revocations of licenses for operating as a special purpose investment company.

For the reporting period, there were no revocations of licenses to operate as a special purpose investment company as a result of explicit voluntary refusals and completed repurchases of the shares of special purpose investment companies. Also, there were no decisions to issue a

permit for termination of a special purpose investment company, for revoking their licenses and for approvals of liquidators under Art. 33 of the SPICA.

In the end of 2022, the licensed insurance and reinsurance companies based in the Republic of Bulgaria are 34, the non-life insurers are 23, life insurers are 10, and 1 company is a reinsurer for non-life and life insurance.

2 decisions were issued to extend the scope of the license of insurance companies and 4 decisions were issued to approve the acquisition of qualified holdings in insurance companies.

The FSC also issued 11 decisions on the application of the regulatory regimes under the Insurance Code to insurers with revoked licenses:

In the field of supplementary pension insurance, during the reporting 2022 there were no applications for issue of licenses or 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 implementation of the Financial Technology (FinTech) Monitoring Strategy in the non-banking financial sector (2021 - 2024), in 2022 FSC took a number of initiatives to 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.

FSC representatives also took active part in the working groups of the European Supervisory Authorities ESMA and EIOPA, as well as in the organised workshops.

Experts of the Commission also participated in the event organized by the Bulgarian Fintech Association with representatives of small businesses at the Embassy of Bulgaria in London, as well as took an active part in the draft DORA regulation: 2nd global compromise proposal - DDL.

With regard to FSC's activity in exchanging information with foreign regulatory and supervisory authorities during the past year, FSC continued to provide active assistance. Over 50 requests for cooperation received from foreign supervisory authorities were satisfied pursuant to the memoranda of understanding with IOSCO, IAIS, ESMA, etc. In turn, the FSC has filed over 20 requests for cooperation with its foreign partners.

Five international agreements were additionally signed on cooperation and information sharing in an AML/CFT supervisory college on the basis of the Final Guidelines on cooperation and exchange of information for the purposes of Directive (EU) 2015/849 between the competent authorities exercising supervision over credit and financial institutions (JC 2019 81), issued by the ESA.

During the reporting year, FSC also concluded a Cooperation Agreement pursuant to Article 24(4) of Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories with the Luxembourg supervisory authority (Commission de Surveillance du Secteur Financier).

The FSC maintains and deepens its cooperation with state structures, sectoral associations of the FSC supervised entities and other stakeholders in view of the prepared amendments to the legislation and the practical problems that have arisen in its application.

The Financial Supervision Commission actively cooperates with sectoral associations – the Bulgarian Association of Asset Management Companies (BAAMC), Bulgarian Association of Licensed Investment Firms (BALIF), Bulgarian Association of Supplementary Pension Security Companies (BASPSC), as well as numerous state bodies and institutions – the National Statistical Institute (NSI), National Revenue Agency (NRA), State Agency for National Security (SANS), Bulgarian National Bank (BNB), Ministry of Finance (MF), the Registry Agency (RA), the Institute of Certified Public Accountants (ICPA) and the Commission of Public Oversight of Statutory Auditors (CPOSA) and the judiciary authorities (Prosecutor's Office, Courts, Investigation Service), structures to the Ministry of Interior, etc.

Structurally, the presented report consists of two parts. The first part outlines the activities of the FSC pursuant to its competencies as regulatory and supervisory body of the non-banking financial sector and the second part of the report represents comprehensive market analysis of the non-banking financial sector in Bulgaria under the conditions of the global and European economic environment in 2022.

In times of ever-changing processes, the role of the Financial Supervision Commission remains key regarding the regulations of the non-banking financial sector. To meet each challenge, the partnership between the Commission and businesses is crucial. Constructive dialogue, information sharing, exchange of ideas and good practices, proactive approach to solving each case, licensing, regulatory compliance, innovation promotion, international cooperation and law enforcement contribute to maintaining financial stability, consumer protection and facilitating the growth of the capital, insurance and social insurance market.

The Financial Supervision Commission, as an institution compliant with the European legislative framework, will continue to adhere to its working principles by maintaining established relationships with all stakeholders and by providing predictable and informed options for the regulation and development of the non-banking financial sector.

Thank you for your trust!

I. FSC'S ACTIVITY IN 2022

1. Regulatory activities

1.1. Amendments to the regulatory framework

In 2022, experts from the FSC participated in working groups on the preparation of the following draft laws concerning public relations in the non-banking financial sector:

Draft Law Amending and Supplementing the Social Insurance Code

The draft law amending and supplementing the Social Insurance Code provides for the introduction into national legislation of measures implementing Regulation (EU) 2019/1238 of the European Parliament and of Council of 20.06.2019 regarding a pan-European personal pension product (PEPP) (Regulation (EU) 2019/1238) and 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 (Regulation (EU) 2020/852).

With the draft law amending and supplementing the Social Insurance Code, changes are proposed to the FSCA and CIA.

By means of the amendments to the FSCA, the FSC is designated as the competent authority in the Republic of Bulgaria to supervise PEPP providers and PEPP distributors according to Regulation (EU) 2019/1238 that are life insurance companies, institutions for occupational retirement provision, investment firms, investment companies, management companies and alternative investment fund managers.

By means of the amendments to the CIA, the Bulgarian National Bank is designated as the competent authority in the Republic of Bulgaria for PEPP registration and supervision of credit institutions that offer PEPP. Provisions are introduced that also ensure the possibility of imposing administrative measures and sanctions.

Draft Law Amending and Supplementing the Markets in Financial Instruments Act

The Draft Law Amending and Supplementing the Markets in Financial Instruments Act plans amendments in the national legislation, stemming from Regulation (EU) 2021/23 of the European Parliament and of the Council of 16.12.2020 on a framework for the recovery and resolution of central counterparties and amending Regulations (EU) No 1095/2010, (EU) No 648/2012, (EU) No 600/2014, (EU) No 806/2014 and (EU) 2015/2365 and Directives 2002/47/EC, 2004/25/EC, 2007/36/EC, 2014/59/EU and (EU) 2017/1132 (Regulation (EU) No. 2021/23).

The introduction of measures to implement Regulation (EU) No. 2021/23 aims to develop and adapt the current legal framework to the adopted European legislation. The specific objective to be achieved is to create conditions for implementing the harmonized European legal framework for maintaining the critical functions performed by defaulting CCPs, as well as the related framework for supervision and cooperation between competent authorities. Following the introduction of the measures implementing Regulation (EU) 2021/23, competent authorities and

resolution authorities will be prepared and have the appropriate tools to deal with situations involving default and non-default events of central counterparties.

The Law Amending and Supplementing the Markets in Financial Instruments Act was promulgated in State Gazette, issue 8/2023.

Draft Law Amending and Supplementing the Measures Against Money Laundering Act

With the proposed draft bill to amend and supplement the Measures Against Money Laundering Act, additional measures to combat money laundering are introduced, laid down in the Action Plan with measures to address the subsequent commitments of the Republic of Bulgaria after joining the Exchange Rate Mechanism II (ERM II), the Action plan for addressing risks of money laundering and terrorism financing established in the National Risk Assessment of the Republic of Bulgaria and part of the Recommendations from the Fifth Round Mutual Evaluation Report for Bulgaria of the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL Committee). The main objective of the draft bill is to improve the effectiveness and achieve full compliance of the Bulgarian AML/CFT legislation against money laundering and the financing of terrorism, as well as with the requirements of Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, and amending Directives 2009/138/EC and 2013/36/EU (Directive (EU) 2018/843), as well as with FATF standards. The amendments are essential for the assessment of the progress that the Republic of Bulgaria should report in relation to the MONEYVAL Recommendations, the failure of which would have an extreme negative effect on Bulgaria's reputation and would affect both the public and private sectors. Some of the proposed changes are also aimed at removing the inaccuracies found during the introduction of Directive (EU) 2018/843 into the national legislation, established in the course of the compliance verification procedure by the European Commission.

The draft regulates the functions of the Financial Supervision Commission and the Bulgarian National Bank in connection with the exercise of supervisory powers over investment firms banks. The supervisory functions of each authority are clearly distinguished, with a view to avoiding the duplication of the same powers by two or more institutions. With this addition in Art. 108 of the draft, a Recommendation of Immediate Outcome 3 of the Fifth Round Mutual Evaluation Report for Bulgaria of the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL Committee) of the Council of Europe is implemented. Some of the proposed changes in the MAMLA are aimed at correcting some inaccuracies of a technical nature, the need for which has been identified by the supervisory authorities (Financial Intelligence Directorate of the SANS, the Bulgarian National Bank, the Financial Supervision Commission) during the implementation of the MAMLA. Addressing the latter will improve the enforcement of the framework by the competent authorities and overcome difficulties in complying with the conduct of obliged entities with these rules.

A broad interdepartmental working group has been established to draft a law to amend and supplement the Insurance Code

The draft act to amend and supplement the IC aims to introduce into national legislation the requirements of Directive (EU) 2021/2118 of the European Parliament and of the Council of 24 November 2021 amending Directive 2009/103/EC relating to insurance against civil liability in respect of the use of motor vehicles, and the enforcement of the obligation to insure against such liability, as well as elimination of identified problems in the practice of the application of the IC in the regulatory and supervisory activity carried out by the Commission.

Amendments to the subordinate legislation

In 2022, the Financial Supervision Commission adopted the following subordinate legislative acts, which were promulgated in the State Gazette:

- Ordinance to amend and supplement Ordinance No. 31 of 02.08.2006 on the conditions and procedure for conducting an examination and recognition of the capacity of a responsible actuary, for the recognition of such 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 Code¹;
- Ordinance to amend and supplement Ordinance No. 38 of 31.05.2020 on the requirements to the activities of investment firms²;
- Ordinance No 50 of 30.03.2022 on capital adequacy, liquidity of investment firms and supervision of compliance thereof³;

The same ordinance amends and supplements Ordinance No. 2 of 09.11.2021 on initial and subsequent disclosure of information during public offering of securities and admission of securities to trading on a regulated market and Ordinance No. 38 of 21.05.2020 on the requirements for the activity of investment intermediaries;

- Ordinance to amend and supplement Ordinance No. 10 of 29.06.2021 on the requirements to the solvency margin and the own funds of the pension insurance company, its recovery program and the minimum liquid funds of the company and the funds managed by it⁴;
- The same ordinance amends and supplements Ordinance No. 61 of 27.09.2018 on the requirements to the advertising and written information materials and Internet pages of the pension insurance companies;
- Ordinance to amend and supplement 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 securities⁵;

¹ Prom. SG issue 23 and 101/2022, issue

² Prom. SG issue 26, 27 and 55 /2022.

³ Prom. SG issue 27/2022.

⁴ Prom. SG issue 29 and 82/2022, issue

⁵ Prom. SG issue 37/2022.

- Ordinance to amend and supplement Ordinance No. 11 of 03.12.2003 on licenses for operating as a regulated market, market operator, for organizing a multilateral trading facility or an organized trading facility, for operating as an investment firm, investment company, management company, special purpose investment company, national investment fund, alternative investment fund manager⁶;

- The same ordinance amends and supplements Ordinance No. 15 of 05.05.2004 on keeping and storing registries by the Financial Supervision Commission and the circumstances subject to entry;

- 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 benefits⁷;

- Ordinance to amend and supplement Ordinance No. 44 of 20.10.2011 on the requirements for the activity of collective investment schemes, management companies, national investment funds and alternative investment fund managers⁸.

The same ordinance amends and supplements Ordinance No. 38 of 22.05.2020 on the requirements to the activities of investment firms (Ordinance No. 38).

- Ordinance No. 72 of 12.07.2022 on the information and documents proving the fulfilment of the requirements for the temporary and extraordinary manager of an investment firm, as well as on the terms and conditions for the selection of independent appraisers⁹;

- Ordinance No. 73 of 28.07.2022 on the disclosure of market data¹⁰;

- Ordinance to amend and supplement Ordinance No. 49 of 16.10.2014 on the mandatory motor third-party liability insurance and accident insurance for passengers in public transport¹¹;

- Ordinance to amend and supplement Ordinance No. 63 of 8 November 2018 on the requirements to the content, periodicity of preparation and deadlines for submission of reports for supervisory purposes of the pension insurance companies and the funds managed by them¹²;

The same ordinance amends and supplements:

- Ordinance No. 12 of 10.12.2003 on the manner and procedure for determining the minimum yield when managing the assets of supplementary mandatory pension insurance funds, for covering the difference to the minimum yield and for forming and using the reserves to guarantee the minimum yield, 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. 3 of the Social Insurance Code and Ordinance No. 68 of 10.06.2021 on the reserves of pension insurance companies to guarantee the gross amount of contributions to universal pension funds;

⁶ Prom. SG issue 47 and 67/2022, issue

⁷ Prom. SG issue 49/2022.

⁸ Prom. SG issue 55/2022.

⁹ Prom. SG issue 57/2022.

¹⁰ Prom. SG issue 64/2022.

¹¹ Prom. SG issue 64/2022.

¹² Prom. SG issue 64/2022.

- Ordinance No. 74 of 09.08.2022 on the requirements to the activities of market operators¹³;

The same ordinance amends and supplements Ordinance No. 11 of 03.12.2003 on licenses for operating as a regulated market, market operator, for organizing a multilateral trading facility or an organized trading facility, for operating as an investment firm, investment company, management company, special purpose investment company, national investment fund, and alternative investment fund manager;

- Ordinance No. 61 of 27.09.2018 on the requirements to the advertising and written information materials and the web pages of the pension insurance companies¹⁴.

The same ordinance amends and supplements Ordinance No. 10 of 29.06.2021 on the requirements for the solvency margin and the own funds of the pension insurance company, its recovery program and the minimum liquid funds of the company and the funds managed by it, and Ordinance No. 70 of 29.06.2021 on the requirements to the funds for benefits payment.

- Ordinance No. 13 of 22.12.2003 on the tender offer for the purchase and exchange of shares¹⁵.

With the same ordinance, amendments and additions were made to Ordinance No. 41 of 11.06.2008 on the requirements for the content of the justification of the price of the shares of a public company, including the application of valuation methods, in the cases of conversion, joint venture agreement and commercial supply.

- Ordinance No. 53 of 23.12.2016 on the requirements for reporting, the assessment of assets and liabilities and the formation of technical provisions of insurers, reinsurers and the Guarantee Fund¹⁶;

- Regulations for amending and supplementing the Regulations for the organization and operation of the Investor Compensation Fund¹⁷;

- Regulations for amending and supplementing the Regulations for the organization and activities of the Financial Supervision Commission and its administration¹⁸.

1.2. New aspects of EU policy

Regulations and Directives of the European Union

In the past 2022, the following acts were published in the Official Journal of the European Union:

REGULATIONS

1. Regulation (EU) 2022/858 of the European Parliament and of the Council of 30 May 2022 on a pilot regime for market infrastructures based on distributed ledger technology and amending Regulations (EU) No 600/2014 and (EU) No 909/2014 and Directive 2014/65/EU.

¹³ Prom. SG issue 67/2022.

¹⁴ Prom. SG issue 29 and 82/2022, issue

¹⁵ Prom. SG issue 84/2022.

¹⁶ Prom. SG issue 88/2022.

¹⁷ Prom. SG issue 84/2022.

¹⁸ Prom. SG issue 86/2022.

The regulation aims to create conditions for the development of cryptoassets that can be considered financial instruments, as well as the development of distributed ledger technology (DLT), while maintaining a high degree of investor protection, market integrity, financial stability and transparency, and avoiding regulatory arbitration and loopholes. In view of the above, the Regulation provides for creating a pilot scheme to allow certain DLT-based market infrastructures to be temporarily exempted from certain specific requirements of Union financial services legislation that would otherwise prevent operators from developing solutions for trading and settlement of transactions in cryptoassets that can be considered financial instruments without weakening existing requirements or guarantees applied to traditional market infrastructures. DLT-based market infrastructures and their operators should have appropriate safeguards in place for the use of DLT to ensure effective investor protection, including clearly defined responsibilities to customers for any losses due to operational problems. The regulation defines the requirements in relation to DLT-based market infrastructures and in relation to their operators in relation to the granting and withdrawal of special permits for the management of DLT-based market infrastructures; granting, amending and revoking exemptions related to special permits; management and supervision of DLT-based market infrastructures; cooperation between operators of market infrastructures and competent authorities and the European Supervisory Authority.

This Regulation has become effective on the twentieth day following its publication in the Official Journal of the European Union and it is applied from 23.03.2023.

2. Regulation (EU) 2022/2036 of the European Parliament and of the Council of 19 October 2022 amending Regulation (EU) No 575/2013 and Directive 2014/59/EU as regards the prudential treatment of global systemically important institutions with a multiple-point-of-entry resolution strategy and methods for the indirect subscription of instruments eligible for meeting the minimum requirement for own funds and eligible liabilities.

The Regulation introduces amendments necessary for the establishment in the Union of the international arrangements on the total loss-absorbing capacity (TLAC), published by the Financial Stability Board on 9.11.2015 (hereinafter referred to as the “TLAC standard”), for global systemically important banks, referred to as “global systemically important institutions” (G-SIIs) in the Union framework, and to improve the implementation of the minimum requirement for own funds and eligible liabilities (MREL) for all banks. The amended Union framework for bank resolution should ensure a greater share of private finance in the absorption of losses and the recapitalization of banks in financial difficulty and subsequently undergoing resolution.

This Regulation shall enter into force on the twentieth day following that of its publication in the Official Journal of the European Union and is applied from 14.11.2022.

3. Regulation (EU) 2022/2554 of the European Parliament and of the Council of 14 December 2022 on digital operational resilience for the financial sector and amending Regulations (EC) No 1060/2009, (EU) No 648/2012, (EU) No 600/2014, (EU) No 909/2014 and (EU) 2016/1011.

This Regulation aims to consolidate and upgrade ICT (information and communication technology) risk requirements as part of the operational risk requirements that have, up to this point, been addressed separately in various Union legal acts. It fills in the gaps or remedies inconsistencies in some of the previous legal acts, including in relation to the terminology used

therein, and explicitly refers to ICT risk via targeted rules on ICT risk-management capabilities, incident reporting, operational resilience testing and ICT third-party risk monitoring. The regulation also aims to raise awareness of ICT risk and acknowledge that ICT incidents and a lack of operational resilience have the possibility to jeopardise the soundness of financial entities.

The competent authorities for the implementation of the regulation are specified in Article 46 thereof.

Member States shall notify the European Commission, ESMA, EBA and EIOPA of the legal, regulatory and administrative provisions relating to the imposition of administrative sanctions and corrective measures, including any applicable criminal law provisions, by 17.1.2025.

This Regulation shall enter into force on the twentieth day following that of its publication in the Official Journal of the European Union and is applied from 17.1.2025.

DIRECTIVES

1. Directive (EU) 2022/2556 of the European Parliament and of the Council of 14 December 2022 amending Directives 2009/65/EC, 2009/138/EC, 2011/61/EU, 2013/36/EU, 2014/59/EU, 2014/65/EU, (EU) 2015/2366 and (EU) 2016/2341 as regards digital operational resilience for the financial sector.

The directive is part of the digital financial services package aimed at developing a European approach to promote technological development and ensure financial stability and consumer protection. Said directive, as well as Regulation (EU) 2022/2554, aims for the EU to address digital risks adequately and comprehensively to all financial entities stemming from an increased use of ICT in the provision and consumption of financial services, thereby contributing to the realisation of the potential of digital finance, in terms of boosting innovation and promoting competition in a secure digital environment.

Member States should adopt and publish no later than 17.1.2025 the measures they have taken at national level in fulfilment of the obligation to introduce the directive into national legislation.

2. Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting.

This Directive was adopted in the context of the European Green Deal, which aims to transform the Union into a modern and competitive resource-efficient economy with no net greenhouse gas emissions by 2050, and to protect, preserve and enhance the Union's natural capital, the protection of the health and well-being of citizens from environmental risks and impacts.

Given the stated objectives, the directive introduced a requirement for large companies whose securities are not admitted to trading on a regulated market in the Union to also disclose information on the sustainability of their investments, driven mainly by concerns about the impact and accountability of these companies, including through their value chain. The requirement is also consistent with the need for financial market participants to have information from those large enterprises whose securities are not admitted to trading on a regulated market in the Union.

The directive's requirement that third-country undertakings whose securities are admitted to trading on a regulated market in the Union also disclose information on sustainability-related issues aims to meet the information needs of financial market participants on such businesses to enable them to understand the risks and impacts of their investments and to comply with the disclosure requirements set out in Regulation (EU) 2019/2088.

Member States should implement the provisions of the directive in their national legislation by 6.7.2024.

3. Directive (EU) 2022/2381 of the European Parliament and of the Council of 23 November 2022 on improving the gender balance among directors of listed companies and related measures

The directive is aimed at ensuring the application of the principle of equal opportunities between women and men and achieving a gender-balanced representation among top management positions by establishing a set of procedural requirements concerning the selection of candidates for appointment or election to director positions based on transparency and merit.

The directive requires from each listed company develop a gender equality policy in order to achieve a more balanced gender representation at all levels. Such policy might include the nomination of both a female candidate and a male candidate for key positions, mentoring schemes and career development guidance for women, and human-resources strategies designed to encourage diverse recruitment. The directive applies to all companies listed on the stock exchange, but not to micro, small and medium-sized enterprises.

Member States should adopt and publish by 28.12.2024 the legal, regulatory and administrative provisions necessary to comply with the provisions of the directive, and by 29.12.2025 and every two years thereafter send a report to the Commission on its implementation in domestic legislation.

4. Directive (EU) 2022/2557 of the European Parliament and of the Council of 14.12.2022 on the resilience of critical entities and repealing Council Directive 2008/114/EC.

Each Member State shall identify the critical entities for the sectors and sub-sectors set out in the Annex to the Directive, which include financial market infrastructure.

The directive aims to establish a common legislative framework in the EU to enhancing the resilience of critical entities in the internal market by laying down harmonised minimum rules and assisting them by means of coherent and dedicated support and supervision measures. Establishing such rules ensures the provision of essential services in the internal market, enhances the resilience of critical entities and improves cross-border cooperation between competent authorities. It also aims to improve the capacity of critical entities to provide essential services in the face of a diverse set of risks, while investors and companies should be able to rely on and trust critical entities that are resilient, as reliability and trust are essential elements of a well-functioning internal market.

The competent authorities under this directive and the competent authorities under Directive (EU) 2022/2555 should cooperate and exchange information in relation to cybersecurity risks, cyber threats and cyber incidents and non-cyber risks, threats and incidents affecting critical entities as well as in relation to relevant measures taken by competent authorities under this Directive and competent authorities under Directive (EU) 2022/2555.

This Directive lays down obligations on Member States to take specific measures aimed at ensuring that services which are essential for the maintenance of vital societal functions or economic activities within the scope of Article 114 TFEU are provided in an unobstructed manner in the internal market, in particular obligations to identify critical entities and to support critical entities in meeting the obligations imposed on them.

Member States should adopt and publish by 17.10.2024 the provisions necessary to comply with this directive.

DELEGATED REGULATIONS AND COMPLIANCE REGULATIONS

During the past 2022, in the Official Journal of the European Union, more than 90 delegated regulations on the implementation of the main legal acts of the EU were published. The main package of delegated acts was issued in connection with Regulation (EU) 2020/1503 of the European Parliament and of the Council of 7.10.2020 on European crowdfunding service providers for business (Crowdfunding regulation). A number of technical and executive standards have also been published on the implementation of Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (EMIR), the MiFID II legal framework, benchmarks (Regulation (EU) 2016/1011) etc.

Legislative proposals

Proposal for a Directive of the European Parliament and of the Council on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1937 (CSDDD)

Some EU companies are associated with mitigation of adverse human rights and environmental impacts in their value chains, integrating sustainability into corporate governance and management systems, and framing business decisions in terms of human rights, climate and environmental impact, as well as in terms of the company's resilience in the longer term.

This proposal for a Directive aims to set out a horizontal framework to foster the contribution of businesses operating in the single market to the respect of human rights and environment in their own operations and through their value chains, by identifying, preventing, mitigating and accounting for their adverse human rights and environmental impacts, and having adequate governance, management systems and measures in place to this end. The proposal also includes companies from third countries operating in the EU market, based on a similar turnover criterion.

In particular, this Directive will:

- improve corporate governance practices to better integrate risk management and mitigation processes of human rights and environmental risks and impacts, including those stemming from value chains, into corporate strategies;
- avoid fragmentation of due diligence requirements in the single market and create legal certainty for businesses and stakeholders as regards expected behaviour and liability;
- increase corporate accountability for adverse impacts, and ensure coherence for companies regarding obligations under existing and proposed EU initiatives on responsible business conduct;

- improve access to remedies for those affected by adverse human rights and environmental impacts of corporate behaviour.

Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) No 909/2014 as regards settlement discipline, cross-border provision of services, supervisory cooperation, provision of banking-type ancillary services and requirements for third-country central securities depositories (CSDR)

The proposal should be viewed within the context of the broader EC agenda to make the EU markets more competitive and resilient as represented by the Capital Markets Union, digital finance and open strategic autonomy initiatives. Safe and efficient post-trade arrangements are an essential element of robust capital markets.

The specific proposals are in the following main areas:

- Settlement discipline regime - the proposal introduces changes in Article 7(2) of the Central Securities Depository Regulation, which provides that in situations where a settlement fail is caused by factors not attributable to the participants in the transaction or where a transaction does not involve two trading parties, such settlement fail is not subject to the penalty mechanism or the mandatory buy-in mechanism;
- Cooperation between competent authorities and relevant authorities, supervisory review and assessment, and recovery and resolution plans;
- Passporting regime and corporate or similar law of the Member State under which the securities are constituted;
- Colleges of supervisors;
- Central securities depositories (CSDs) from third countries and end of the grandfathering clause - a requirement is introduced that a CSD from a third country that intends to provide settlement services in relation to financial instruments constituted under the law of a Member State to submit a notification to ESMA, thereby addressing the lack of information in this regard at both national and EU level.
- Banking-type ancillary services - introducing the possibility for CSDs authorised to provide banking-type ancillary services to provide such services to CSDs that have not obtained this authorisation and which, therefore, cannot settle in specific currencies above certain amounts where they do not have access to the relevant central bank.

Package of legislative proposals in relation to admission to trading (Listing act)

The objectives of the proposed changes are to increase the attractiveness of public capital markets for EU companies and to facilitate access to finance through the capital markets for SMEs. It is in line with the main objective of the Capital Markets Union to improve access to market sources of finance for EU companies at every stage of their development, including smaller enterprises.

The Listing act package includes the following three draft legal acts:

- 1) Regulation amending Regulation (EU) 2017/1129 on prospectuses, Regulation (EU) 596/2014 on market abuse (MAR) and Regulation (EU) 600/2014 on markets in financial instruments (MiFIR) - the proposal focuses specifically on reducing the regulatory burden during

an initial public offering (Prospectus Regulation) as well as reducing the regulatory burden after admission to trading (Market Abuse Regulation). Additionally, limited technical amendments to the Markets in Financial Instruments Regulation are included.

The legislative package aims to amend the rules in a way that results in speeding up the process of listing, as well as reducing regulatory and compliance costs for companies (in particular the obligation to disclose as soon as possible all inside information) who wish to have their shares admitted to trading or whose shares are already admitted to trading on a capital market, while ensuring an appropriate level of investor protection.

2) Directive amending Directive 2014/65/EU on markets in financial instruments (MiFID) and repealing Directive 2001/34/EU on the listing of securities (Listing Directive) – additional requirements regarding investment research are introduced; the market capitalization threshold of companies is increased to EUR 10 billion, below which the spin-off rules do not apply; include the possibility of a SME growth market being registered as a segment of a multilateral trading facility (MTF); a requirement for an expected minimum market capitalization of EUR 1 million is introduced for companies that apply for admission of their shares to a regulated market, as well as a requirement for a minimum volume of shares to be freely traded (in connection with the repealing of the Listing Directive);

3) Directive on multiple-vote share structures (new directive) - the adoption of the Directive will enable SMEs registered as joint-stock companies with a multiple-vote share structure to trade securities on a SME growth market, making it possible to raise capital and additional financing at easier conditions, while at the same time granting them advantages similar to those of public companies. The SME growth market represents a good opportunity for start-ups without financial and business history, but with good and innovative ideas and promising business plans. One of the main reasons that deter founders (in many cases family companies) from deciding to go public is the fear of losing control over the company. After going public, ownership is diluted, thereby reducing the founders' control over important investment and operational decisions. In this regard, the proposal sets out the possibility of adopting multiple-vote share structures, which are an effective mechanism allowing company owners to retain their decision-making powers while raising funds in the public markets.

Package of clearing legislative proposals

The package of legislative proposals for the further development of the clearing system in EU and of EU Capital Markets Union as a whole includes a proposal for a regulation and a directive that make the relevant changes to the regulatory framework.

The Regulation amends Regulation (EU) 648/2012 on European Market Infrastructure (EMIR), Regulation (EU) 575/2013 on Capital Requirements (CRR) and Regulation (EU) 2017/1131 on Money Market Funds (MMF) with measures to limit excessive exposures to third country CCPs and improve the efficiency of Union clearing markets. The proposed measures will help to:

- make the European clearing environment more attractive by enabling CCPs to expand their products more quickly and easily, as well as by means of additional incentives for EU market participants to use the clearing services of EU CCPs and generate liquidity;

- building a secure and sustainable clearing system by strengthening the EU supervisory framework for CCPs and learning from the recent developments in energy markets, for example by increasing the transparency of margin calls, so that market participants (including energy undertakings) to be in a better position to anticipate them;

- reducing excessive exposures of EU market participants to CCPs in third countries, particularly for derivatives designated by ESMA as derivatives of substantially systemic importance, by requiring all market participants to maintain active accounts with EU CCPs for clearing of at least a portion of certain derivative contracts of systemic importance. This will improve the management of financial stability risks in the EU.

The Directive amends Directive 2009/65/EU on undertakings for collective investment in transferable securities (UCITS), Directive 2013/36/EU on capital requirements (CRD) and Directive (EU) 2019/2034 on investment firms (IFD) on treatment of concentration risk vis-à-vis central counterparties and counterparty risk in centrally cleared derivatives. The aim is to achieve a safer, more stable, efficient and competitive market for central clearing services in the EU. More specifically, the proposed measures will help:

- credit institutions and investment firms, respectively their competent authorities, to manage the risk of excessive concentration that may arise from the exposures of these institutions to the CCP;

- unification of regulatory restrictions in transactions with exchange-traded and over-the-counter derivatives carried out by UCITS.

2. Licensing activity, authorisation regimes, notifications and certification

2.1. Licensing activity and authorisation regimes

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

In the beginning of 2022, there was 1 refusal to issue a license to operate as an IF, and the license of 1 IF was revoked at its request (IF Capital markets AD). During the reporting year, the licenses of 2 IFs (Alaric Securities OOD and Deltastock AD) were extended, the first being extended to a license under Art. 10, para. 1 of the MFIA, and Deltastock AD was granted the first permit for the provision of services under Art. 9, para. 2 of MFIA.

Due to the above, at the end of 2022 the total number of investment firms is 55, incl. 20 banks¹⁹ and 35 non-banking IFs. 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 39, and the total number of investment firms with a partial license under Art. 10, para 2 of the MFIA is 16.

¹⁹The number of investment firm banks includes those that operate on the territory of the country through a branch.

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

	Number as at 31.12.2021	Licenses issued (no.)	Licenses revoked (no.)	Number as at 31.12.2022
Investment firms, including:	*56	0	1	*55
Non-banking institutions	36	0	1	35
Regulated market	1	0	0	1
Multilateral trading facility	2	0	0	2
Central securities depository	1	0	0	1

Notes: *IFs which operate in Bulgaria through a branch under the conditions of freedom of establishment are not included in the total number of non-banking investment firms.

In 2022, 27 applications for approval of election of a member of a management or supervisory body of IFs were considered, there were no refusals. The large number of proceedings are related to the need to bring some existing IFs in line with the applicable regulations by simultaneously applying the requirements of the MFIA and the CA, and in 2021 and 2022 almost all IFs have already completed this process.

In 2022 the FSC has reviewed 4 proceedings for acquisition or increase of qualified holdings of the capital or the votes in the general assembly of an IF were examined; no bans were issued but the proceedings for one of the notifications was terminated at the applicant's request. One notice for transfer of qualifying holdings was considered.

In 2022, 9 applications were considered for exemption under Art. 5, para. 1, item 10 of the MFIA.

From the total number of administrative procedures completed in 2022 regarding IFs: 4 are related to proceedings for the issuance or revocation of a license to operate as an IF, 27 were related to approval of a member of the management or supervisory body of an IF and 5 were related to acquisition or transfer of qualified holding. At the end of the year, 7 proceedings related to the activity of IFs were under consideration, of which one was an application for a license and one proceeding for the evaluation of the acquisition of a qualified holding from the capital of the IF.

Within 2022, 5 applications for entry of a tied agent in the register kept by the FSC were considered, 2 of them ended with the entry of the tied agent, 2 were suspended and 1 was terminated by request of the applicant.

Within 2022, no proceedings were considered in connection with the activities of the Bulgarian Stock Exchange AD and the Central Depository AD.

In 2022, one approval was issued for the early termination of the term of office of the Chair of the Board of Directors of the Investor Compensation Fund and Diyana Todorova Miteva was approved in the same position, and her powers as Deputy Chair were terminated. At the end of 2022, one approval of changes to the Regulations for the structure and activity of the Investor Compensation Fund was issued.

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 31.12.2021 (no.)	Newly opened in 2022 (no.)	Concluded in 2022 (no.)	Not concluded as at 31.12.2022 (no.)
Investment firms	9	34	36	7
Tied agents	0	7	5	2
Regulated market	0	0	0	0
Multilateral trading facilities	0	0	0	0
Organized trading facilities	0	0	0	0
Central securities depository	0	0	0	0
Data reporting service providers	0	0	0	0
Investor Compensation Fund	1	2	3	0
Other proceedings*	5	36	37	4

Note: *Replies to inquiries, requests for assistance 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 2022, no license was issued or revoked to operate as a management company. One proceeding was initiated within the year for the issuance of a license, which was issued at the beginning of 2023 (Thracian Invest EAD).

In 2022, 1 permit was issued to a MC to organize and manage a MF (MF Expat Natural Resources) and 1 permit to organize and manage 6 sub-funds of an umbrella-type MF (MF UBB ExpertEase). Within the year, permission was issued to Astra Asset Management AD for the transformation by merging MF Astra Balance into MF Astra Cash Plus, organized and managed by MC Astra Asset Management AD. In addition, 4 authorizations have been issued to terminate MFs (MF Arcus Balanced, MF Arcus Dynamic, MF Global Opportunities and MF Invest Diversified Fund). As a result of the mentioned proceedings, 5 MFs were removed from the FSC register (MF Arcus Balanced, MF Arcus Dynamic, MF Global Opportunities, MF Astra Balance and MF Invest Diversified Fund).

In 2022, 1 permit was issued for the organization and management of a national investment fund - a closed-end national mutual fund Advance Alternative Fund. Within the year, 1 more application was submitted for the issuance of a permit to organize and manage a national investment fund, which was issued at the beginning of 2023.

In 2022, 3 licenses were issued for AIFMs, 2 of which were licensed management companies (MC Activa Asset Management AD, Serdika Capital EAD and MC Ef Asset Management AD) and the license of AIFM Concord Asset Management AD was extended with a new predominant type of alternative investment funds that the AIFM will manage.

Within 2022, 2 AIFMs were registered under Art. 214 et seq. of CISOUICIA (MC Carol Capital Management EAD and Clint Hill Capital OOD) and 2 proceedings are pending. After the serious interest in the previous years for registering companies as AIFM, at the end of 2022 and the beginning of 2023, a tendency is observed for the emergence of prerequisites for the deregistration of registered AIFMs.

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

	Number as at 31.12.2021	Issued licenses/ permits/registrations(no.)	Revoked licenses/ Permits (no.)	Number as at 31.12.2022
Management companies	30	0	0	*30
Contractual funds	117	1	**5	113
Sovereign wealth funds (SWFs)	13	1	0	14
Alternative Investment Fund Managers - license	1	3	0	4
Alternative Investment Fund Managers - registration	20	2	***3	19

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.

*** The three companies to which a license was issued were registered AIFM before and now they are not.

In 2022, 19 proceedings were considered for approval of a new member of the management or supervisory body of management companies, no refusals were given. In the reporting period, 4 notifications regarding the intention to acquire a qualified holding in a management company and 1 notification regarding the intention to transfer such holding were considered.

During the reporting period the procedures for issuing 83 approvals for changes to the rules under Article 13, Paragraph 2 of the CISOUICIA, 54 approvals for changes of net asset valuation rules, 54 approvals for changes of risk assessment and management rules and 15 approvals for changes in the contracts for depository services were concluded.

In 2022, 31 applications were considered for approval of changes under Art. 179 of CISOUICIA for national investment funds.

During the reporting period, 5 proceedings related to alternative investment fund managers were concluded and 8 approvals were examined in connection with the alternative investment funds managed by them.

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

	Not concluded as at 31.12.2021 (no.)	Newly opened in 2022 (no.)	Concluded in 2022 (no.)	Not concluded as at 31.12.2022 (no.)
Management companies	1	25	24	2
Contractual funds	6	272	208	70
Sovereign wealth funds	1	34	32	3
Alternative investment fund managers	2	5	5	2
Alternative investment funds	0	8	8	0
Other proceedings*	1	35	33	3

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

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

In 2022 no new licenses were issued for operating as a special purpose investment company for investment in real estate or in receivables, as well as no refusals to issue a license to SPICs.

In 2022, 2 licenses for operating as special purpose investment companies (for investments in real estate) -Emirates Property SPIC and Real Estate Investment Fund - FINI SPIC were revoked.

In 2022 there were no revocations of licenses to operate as a special purpose investment company as a result of explicit voluntary refusals and completed repurchases of the shares of special purpose investment companies.

In 2022 there were no decisions to issue a permit for termination of a special purpose investment company, for revoking a licence and for approvals of liquidators under Art. 33 of the SPICSCA.

For the period 01.01–31.12.2022, 1 decision was issued to terminate proceedings for the issuance of a permit for the termination of a SPIC under Art. 28 of the SPICA (repealed), opened in March 2020, due to the company failing to follow the provided instructions several times.

As of the end of 2021, there are 53 companies licensed to operate as SPICs, and at the end of 2022 - 51. For comparison, a total of 73 companies have received a license to operate as a special purpose investment company, of which 22 SPICs have their licenses revoked as of 31.12.2022.

Table 5. Licensing activity with respect to SPICs

	Number as at 31.12.2021	Licenses issued in 2022 (no.)	Licenses revoked in 2022 (no.)	Number as at 31.12.2022
SPICs including:	53	0	2	51
SPICs investing in receivables	9	0	0	9
SPICs investing in real estate, including:	44	0	2	42
SPICs (agricultural land)	7	0		7

Irrespective of the public status of Special Purpose Investment Companies, given the specific nature of their scope of business, they are subject to stricter regulatory requirements which require prior approval by the FSC for changes in their articles of association and in the other statutory documents related to the replacement of the depository bank, an approval of the outsourcees under Article 27, para. 4 of the SPICSCA, an approval of the Risk Management Rules and an approval of the persons managing and representing SPICs. 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 approval procedures. It should be noted that part of the mentioned approval procedures was regulated in the repealed Special Purpose Investment Companies Act (SPICA), in force until 16.03.2021), and continue to be regulated in the new Special Purpose Investment Companies and Securitisation Companies Act (SPICSCA), in force from 16.03.2021).

In relation to the activity of Special Purpose Investment Companies and the regulatory requirements for that activity according to the SPICSCA currently in force in 2022 the FSC reviewed a **total of 95 proceedings**, and issued:

- 35 decisions for the approval of the planned changes in the Articles of Association or for the approval of new Articles of Association;
- 5 decisions for the approval of Risk Management Rules of SPICs when participating in the establishment or in the acquisition of shares or shares in a specialized company under Art. 28, para. 1 of the SPICSCA;
- 33 decisions for the approval of persons as members of the board of directors of special purpose investment companies;
- 1 decision to approve a procurator of a special purpose investment company;
- 13 decisions for issuing approval for the assignment of activity to an outsourcee under Art. 27, para. 4 of the SPICSCA regarding the activity of SPICs;
- 8 decisions for the approval as replacing of the depository bank of a special purpose investment company.

During the reporting year, no refusals were given to issue an approval of changes in the Articles of Association, of BD members or procurators, for designating an outsourcee as per Art. 27, para. 4 of the SPICSCA, of Risk Management Rules or to replace a depository bank of a special purpose investment company, and there was no termination of proceedings under such applications.

The current SPICSCA, in addition to the activities of the SPICs, secures the application of Regulation (EU) 2017/2402 laying down a general framework for securitisation and creating a

specific framework for simple, transparent and standardised securitisation (Regulation (EU) 2017/2402) is ensured in relation to of securitisation companies. In 2022, the FSC received no applications and, accordingly, no decisions were issued related to proceedings regarding securitisation companies and third parties verifying simple, transparent and standardised (STS) compliance.

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 under Art. 100k, para. 2, item 5 of the POSA, kept by the FSC. In 2022, the following were entered in the register: 3 public companies (excluding SPICs) - (Telematic Interactive Bulgaria EAD, TPP-Bobov dol AD and Toplofikatsia-Pleven AD) and 6 issuers of securities (Selena Holding AD, Technoimportexport AD, Naturika EAD, Money Plus Management AD, Varna Realities EAD and Reisswolf Bulgaria AD), respectively, during the period, the companies removed from the register maintained by the FSC are a total of 12²⁰, of which 9 public companies (Garant Invest Holding AD, Serdika Properties SPIC, Maritsatex AD, Agro Finance AD, Electric Distribution Grids West AD, Electrohold Sales AD, ZSK Lozovo AD, FAR AD and Dobrotitsa AD) and 3 issuers of securities (Azalia I EAD, Astera I EAD and Power Logistics EAD).

It should be noted that during the reporting year, 5 more public companies were removed ex officio from the register maintained by the FSC as a result of the exercise of the powers of the regulator under the POSA.

During the reporting 2022, 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 2022 was 232.

Table 6. Public companies and other issuers of securities

	Number as at 31.12.2021	Registered companies (no.)	Deleted companies (no.)	Number as at 31.12.2022
Public companies and other issuers*	237	****7	***12	**232

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 12 deregistered companies (public companies and issuers of securities) does not include 5 companies, which during the period were deregistered as public companies ex officio.

**** In the total number of 7 newly registered public companies and issuers of securities, TPP - Bobov dol AD and Toplofikatsia-Pleven AD are not included (to the extent that the companies are included in the number of 237 as of 31.12.2021 only as issuers, and in 2022 they will also receive the status of public companies).

With regard to the activity of public companies and issuers of securities in 2022, apart from the proceedings for registration and deletion of public companies and issuers, a total of 22

²⁰ The total number of 12 deregistered companies (public companies and issuers of securities) does not include 5 companies, which during the period were deregistered as public companies or issuers ex officio.

proceedings for review of prospectuses and supplements thereto were considered; there is a decrease by 46% compared to the previous period, when 41 such proceedings were considered.

For 2022, a total of 14 applications for approval of prospectuses and 1 supplement have been submitted. From the applications submitted in 2022 it is established that there is a decrease – by 50% compared to the previous period, when the applications were 28.

In 2022, a total of 19 prospectuses were approved, which in turn is a decrease –by 30% compared to the previous 2021, when the approved prospectuses were a total of 27.

During the reporting period, 1 supplement to an approved prospectus for the primary public offering of preferred shares was also approved.

The structure of the 19 prospectuses approved in 2022 is as follows:

- a total of 4 prospectuses for initial public offering of shares, of which 1 of a new company;
- 1 prospectus for initial public offering of bonds;
- 1 prospectus for initial public offering of warrants;
- 1 prospectus for the initial public offering of shares;
- 12 prospectuses for admission to trading on a regulated market, of which 11 prospectuses for admission to trading on a regulated market of bond issues and 1 prospectus for admission to trading on a regulated market of issue of shares.

During the year there were no refusals for the approval of prospectuses, no terminated proceedings for the approval of prospectuses, and no refusals for the provision of administrative service for the approval of prospectuses.

At the end of the year, there were 2 pending proceedings for approval of prospectuses for initial public offering of shares.

Aside from the approved prospectuses for initial public offering of securities (respectively after successful subscription and entry of the capital increase in the commercial register) or for admission to trading on a regulated market of securities, in 2022 a total of 28 issues of securities were entered in the FSC register, distributed as follows:

- 14 issues of shares were registered, 3 of which by new companies admitted to trading on a regulated market for the first time, and the other 11 issues as a result of a subsequent capital increase of public companies;
- 11 bond issues 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.
- 3 warrant issues are registered as a result of successfully completed initial public offerings;

During the reporting year, a total of 18 issues of securities were deleted from the register of public companies and other issuers of securities, kept by the FSC, with structure as follows:

- 12 share issues;
- 5 bond issues;
- 1 warrant issue.

In 2022 there were no refusals to delete an issue of securities from the register kept by the FSC, including due to refusal to deregister the public company or issuer of the securities, and no such proceedings were terminated.

In 2022, a total of 13 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 2022, the following decisions have been issued:

- 9 decisions to issue a temporary ban to publish the proposals;
- 13 decisions by protocol for refusal to issue a final ban to publish the proposals;
- 1 decision under a protocol for termination of proceedings in respect of a registered offer to buy;
- no final bans were issued for the publication of a tender offer;

The total number of registered offers in 2022 is 13, of which: 7 tender offers, 5 offers to buy shares and 1 offer for redemption of shares.

As of the end of the year, there are 2 pending proceedings regarding consideration of tender offers.

During the reporting year 2022 no proceedings were initiated for approval of documents regarding mergers and acquisitions with the participation of public companies. In 2022, no decisions have been issued for inclusion of an auditor in the list of independent auditors, approved by the Deputy Chair of the FSC in charge of the Investment Activity Supervision Division and there are no refusals or terminated proceedings for approval of documents regarding mergers and acquisitions with participation of public companies.

In 2022, 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 31.12.2021 (no.)	Newly opened in 2022 (no.)	Concluded in 2022 (no.)	Not concluded as at 31.12.2022 (no.)
SPICs	0	0	0	0
PCs and issuers	10	81	87	4
Other proceedings*	3	49	52	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 2022.

Insurance and reinsurance

In the end of 2022, the licensed insurance and reinsurance companies based in the Republic of Bulgaria are 34, the non-life insurers are 23, life insurers are 10, and 1 company is a reinsurer for non-life and life insurance.

In 2022, 2 decisions were issued to extend the scope of the license of insurance companies:

1. With Decision No. 200-O3 dated 15.03.2022, the FSC issues to AXIOM INSURANCE COMPANY AD, UIC 131039664, with registered office and address of management: city of Sofia, Triaditsa district, complex Ivan Vazov, 150 Vitosha Blvd., block 70, fl. 1, license to expand

the scope of the insurer's license with new classes of insurance according to Annex No. 1, Section II, letter "A" of the Insurance Code:

- item 6 “Ships (sea, lake, river and canal vessels)”: Any damage or loss to - river and canal vessels; - lake vessels; - marine vessels;
- item 7 Goods in transit (including goods, baggage, etc.)": Any damage or loss caused to goods in transit or to baggage, regardless of the type of transit;
- item 13 General liability, with covered risks: Any liability for damages other than those specified in items 10, 11 and 12 of Annex No. 1, Section II, letter "A" to the IC;
- item 14 Credit: insolvency (general); export credit; instalment credit; mortgages; agricultural credit;
- item 15 Suretyship: direct suretyship; indirect suretyship;
- item 16 Miscellaneous financial loss employment risks, insufficiency of income (general), bad weather, loss of benefits, continuing general expenses, unforeseen trading expenses, loss of market value, loss of rent or revenue, other indirect trading loss, other non-trading financial loss, other forms of financial loss;
- item 17 Legal expenses Legal and litigation expenses;
- item 18 Travel assistance: Assistance for persons who have fallen into difficulties while traveling when they are away from home or their habitual residence.

2. With Decision No. 199-O3 dated 15.03.2022, the FSC issues to INSURANCE COMPANY BULGARIA INSURANCE AD, UIC, with registered office and address of management: city of Sofia, region Vitosha, 110 Bulgaria Blvd., entrance V, fl. 3, license to expand the scope of the insurer's license with new classes of insurance according to Annex No. 1, Section II, letter "A" of the Insurance Code:

- item 13. General liability: Any liability for damages other than those specified in items 10, 11 and 12 of Annex No. 1, Section II, letter "A" to the IC;
- item 15. Suretyship: direct suretyship;
- indirect suretyship.

At the end of the period, the insurers from EU Member States operating on the territory of the Republic of Bulgaria under the terms of the right of establishment (through a branch) are 10, excluding:

- Olympic Insurance Company - Bulgaria Branch, with headquarters in Cyprus, is in liquidation proceedings pursuant to the Decision dated 30.07.2019 of the District Court in Nicosia, Republic of Cyprus, published on 23/08/2019, in the Official Gazette of the Republic of Cyprus;
- Chertasig - Insurance and Reinsurance Company AD - Bulgaria Branch, in respect of which a Decision to open bankruptcy proceedings was issued, which became effective as of 14.01.2021.
- QBE UK LIMITED - SOFIA BRANCH, UIC 130085153, which was deleted from the Commercial Register on 30.12.2021;
- NN INSURANCE JOINT STOCK COMPANY - SOFIA BRANCH - deleted from the Commercial Register on 03.05.2022;

- The insurance branches established on the territory of the Republic of Bulgaria, which as of 31.12.2022 carry out non-life insurance activity, are a total of 8, while the branches carrying out life insurance activity are 2.

Table 8. Number of insurers operating on the territory of the Republic of Bulgaria, under the terms of right of establishment (through a branch)

No.	LIST OF INSURERS WITH HEADQUARTERS IN A MEMBER STATE CARRYING OUT NON-LIFE INSURANCE ACTIVITIES IN THE REPUBLIC OF BULGARIA UNDER THE TERMS OF RIGHT OF ESTABLISHMENT /BRANCHES/	
1	AVP P&S S.A., BULGARIA BRANCH	FRANCE
2	CARDIFF - NON-LIFE INSURANCE - BULGARIA BRANCH	FRANCE
3	COMPAGNIE FRANÇAISE D'ASSURANCE POUR LE COMMERCE EXTÉRIEUR CA- BULGARIA BRANCH KCHT	FRANCE
4	ATRADIUS CRÉDITO Y CAUCIÓN S.A. DE SEGUROS Y REASEGUROS BULGARIA BRANCH	SPAIN
5	GRAZER WECHSELSEITIGE VERSICHERUNG AG (BULGARIA BRANCH, SOFIA)	AUSTRIA
6	COLONNADE INSURANCE SA - BULGARIA BRANCH	LUXEMBOURG
7	PORSCHE INSURANCE AG-BULGARIA BRANCH	AUSTRIA
8	AIG EUROPE S. A	LUXEMBOURG
LIST OF INSURERS WITH HEADQUARTERS IN A MEMBER STATE CARRYING OUT LIFE INSURANCE ACTIVITIES IN THE REPUBLIC OF BULGARIA UNDER THE TERMS OF RIGHT OF ESTABLISHMENT /BRANCHES/		
9	METLIFE EUROPE D.A.C. – BULGARIA BRANCH	IRELAND
10	CARDIFF– LIFE INSURANCE - BULGARIA BRANCH	FRANCE

Table 9. Licensing activity in relation to insurance and reinsurance

	Number as at 31.12.2021	Licenses issued (no.)	Licenses revoked (no.)	Number as at 31.12.2022
Insurers and reinsurers including:	34			34
Non-life insurance	23			23
Life insurance	10			10
Non-life reinsurance companies	*1			1*
Life reinsurance companies	1			1
Branches of foreign insurers	12			10
Insurance brokers	338	16	**15	339

* GP REINSURANCE EAD is the only local reinsurer with a non-life and life insurance license.

** 6 voluntarily deleted insurance brokers and 9 compulsively deleted insurance brokers.

In 2022, 4 decisions were issued for approval of the acquisition of qualifying holdings in insurance companies:

1. Decision No. 430-O3 dated 02.06.2022, which approved the acquisition by Yordan Hristov of a qualified holding through direct acquisition of 8.12% and indirect acquisition of 88.36% in the capital of European Insurance and Social Insurance Company, Insurance company AD, UIC 200464480, and direct acquisition by PERLA TOURIST AD, UIC 102123255, of a qualified holding in the amount of 25.22% in the capital of European Insurance and Social Insurance Company AD with UIC 200464480.

2. Decision No. 605-O3 of 19.07.2022, with which the FSC approved the acquisition by ECOTOUR OOD, UIC 110018332, of a direct qualified interest in the amount of 23.04% of the capital of INSURANCE COMPANY LEV INS AD, UIC 121130788.

3. With Decision No. 1028-O3 dated 29.12.2022, the Financial Supervision Commission approved the indirect acquisition of a qualified participation of the European Bank for Reconstruction and Development with headquarters: 5 Bank Street, London E14 BG, United Kingdom in the amount of 15.57% of the capital of IC Euroins AD, UIC 121265113, in the amount of 15.79% of the capital of Insurance Company EIG RE AD, UIC 130427863, and in the amount of 15.79% of the capital of Life Insurance Company Euroins AD, UIC 1754364121, through the direct acquisition of a qualified interest in the amount of 15.79% of the capital of Euroins Insurance Group AD, UIC 175394058.

4. With Decision No. 978-O3 of 15.12.2022, the FSC changed the status of UNITED HEALTH INSURANCE FUND DOVERIE INSURANCE JOINT STOCK COMPANY AD, UIC 121911566, from an insurer without the right of access to the single market, to an insurer that operates under the general rules for access to the single market, starting from 01.01.2023.

In 2022, 11 decisions were issued on the application of the regulatory regimes under the Insurance Code to insurers with revoked licenses:

During the reporting period, the Commission examined reports and requests in connection with the application of the regulatory regimes in relation to insurers with a revoked license, on which decisions were made as follows:

1. Decision No. 149-O of 24.02.2022, by which the FSC extends by 1 year the term for liquidation of IC EUROAMERICAN AD, UIC 124634117, determined by Decision No. 123-O3 of 11.03.2021 of the FSC, as of 10.01.2022

2. At a meeting of the FSC according to Protocol No. 31 of 21.04.2022, a decision , was made in connection with a request received by the FSC, ref. No. ΠΓ-10-30-1/04.04.2022, regarding updating the remuneration of the conservators of "TRADE UNION MUTUAL INSURANCE CO-OPERATIVE - TUMICO" and reports No. 48, 49 and 50, with ref. No. ΡΓ-10-30-1 dated 14.01.2022, dated 15.02.2022 and dated 15.03.2022, for sending a letter requesting the conservators to submit additional documents. In connection with the decision, a letter was sent to the conservators of TUMICO, ref. No. ΠΓ-10-30-1 of 21.04.2022.

3. Decision No. 416 - ΓΦ of 26.05.2022, by which the FSC approves, at the proposal of the Guarantee Fund, an extraordinary expenditure from the assets of the Security Fund to the GF in connection with the bankruptcy of IC Olympic, Republic of Cyprus, adopted by a decision of the Management Board of the GF No. 10-1/19.04.2022, on the basis of the Arbitration decision of 13.10.2021 and the Convention of 1995.

4. At a meeting of the FSC according to Protocol No. 87 of 23.11.2021, a decision was made in connection with reports received by the FSC from the conservator of IC Nadezhda AD, ref. No. ΠΓ-10-82-13 dated 23.12.2021, dated 28.01.2022, dated 01.03.2022, dated 05.04.2022, dated 29.04.2022, dated 19.05.2022, from 30.05.2022 and from 21.06.2022, and the requests for giving prescriptions contained therein. At the meeting, a decision was made to send a letter to the conservator of IC Nadezhda AD, with which additional documents and information were requested, as well as to send a letter to Mazars OOD to provide the FSC with information about the reasons for the delay in the implementation of the audit commitment to check and certify the financial statements of IC NADEZHDA AD for 2019. In connection with the decision, letters were sent to the conservator of IC Nadezhda AD and to Mazars OOD, registered with ref. No. ΠΓ-10-82-13 of 05.07.2022.

5. At a meeting of the FSC according to Protocol No. 54 of 28.07.2022, a decision , was made in connection with a request received by the FSC, ref. No. ΠΓ-10-30-1/04.04.2022, supplemented on 12.05.2022, as well as reports with No. 51, 52 and 53, respectively registered with ref. No. ΡΓ-10-30-2 dated 21.04.2022 and No. ΠΓ-10-30-3 dated 12.05.2022 from the conservators of TRADE UNION MUTUAL INSURANCE CO-OPERATIVE - TUMICO, for sending a letter requesting the conservators to submit additional documents. In connection with the decision, a letter was sent to the conservators of TUMICO, ref. No. ΠΓ-10-30-1 of 28.07.2022.

6. At a meeting of the FSC under Minutes No. 69 of 29/09/2022, Decision No. 771-O3of 29/09/2022 was taken in connection with an application received by the FSC, ref. No. ΠΓ-10-82-2 dated 14.09.2022, signed by the conservator of IC NADEZHDA AD, for sending a letter giving mandatory instructions to the conservator.

7. With Decision No. 564-O3 of 07/05/2022, the FSC approved the amendment to the liquidation plan of IC EUROAMERICAN AD - in liquidation, IC 124634117, adopted by decision

of the Management Board of the Guarantee Fund No. 14/15.06.2022, approved with decision No. 474-O3 dated 08.07.2021 of the FSC and amended by decision No. 873-O3 dated 02.12.2021 of the FSC.

8. At a meeting of the FSC according to Protocol 80 of 08.11.2022, reports and letters received by the FSC were considered, incl. No. ПГ-10-82-13 dated 26.07.2022, dated 10.08.2022, dated 08.09.2022, dated 28.09.2022, dated 14.10.2022 and dated 27.10.2022, containing requests for giving prescriptions in connection with the performance of the functions of the conservator of IC Nadezhda AD. At said meeting, it was decided to send a letter (Ref. No. ПГ-10-82-13 of 08.11.2022) to the conservator of IC Nadezhda AD, giving instructions for taking actions on the management of the insurer with a revoked license.

9. At a meeting of the FSC according to Protocol 83 of 17.11.2022, a letter received in the FSC with Ref. No. ПГ-10-82-3/11/11/2022 was considered, containing request for prescriptions in connection with the performance of the functions of the of conservator of IC Nadezhda AD. At said meeting, Decision No. 856-O3 of 17.11.2022 was adopted, giving mandatory instructions to the conservator of IC Nadezhda AD.

10. At a meeting of the FSC under Record No. 93 of 29.12.2022, letters and reports received by the Commission were examined, ref. No. ПГ-10-82-13/19.05.2022 and of 30.05.2022, 26.07.2022, 08.11.2022, 09.11.2022 and 08.12.2022 by the conservator of IC Nadezhda AD, containing a request for prescriptions. At said meeting, Decision No. 1029-O3 of 29.12.2022 was adopted, giving mandatory instructions to the conservator to pay to the contractor under the contract for preparation of assessment/reassessment of the market value of assets - television equipment of 29.04.2022, due net remuneration in the amount of BGN 500 (five hundred).

11. At a meeting of the FSC according to Record No. 80 of 08.11.2022, a letter received by the FSC was considered, №ПГ-10-30-7 /19.10.2022 from the conservators of Trade Union Mutual Insurance Co-Operative - TUMICO, regarding storage of the archives of Trade Union Mutual Insurance Co-Operative - TUMICO, and its transfer to the Guarantee Fund after the completion of the court cases, in connection with which an offer was submitted by Direct Services OOD for digitization and physical storage of documents. At said meeting, it was decided to send a letter (Ref. No. ПГ-10-30-7 of 08.11.2022) to the conservator of Trade Union Mutual Insurance Co-Operative - TUMICO, giving instructions for taking actions on the management of the insurer with a revoked license.

With regard to the Guarantee Fund, the FSC issued 1 Decision No. 957-ГФ dated 06.12.2022, which determines the amount of the contribution of the insurers offering compulsory MTPL insurance in the Republic of Bulgaria \ under Art. 461, item 1 of the IC for 2023, the contribution of insurers offering compulsory Accident insurance for passengers in public transport in the Republic of Bulgaria under Art. 461, item 2 of the IC for 2023, and the contribution under Art. 563, para. 2, item 3 of the IC of all insurers under Art. 520, para. 1 of the IC for 2023 regarding the financing of the Security Fund in connection with Art. 563, para. 1, item 1 of the IC.

During 2022 by decision of the FSC, 16 insurance brokers were entered in the register kept by the FSC pursuant to Article 30, para 1, item 12 of the FSCA. In the same period 6 insurance brokers were deleted at their request.

At the end of the reporting period there were a total of 339 insurance brokers entered in the register kept by the FSC pursuant to Article 30, para 1, item 12 of the FSCA.

The number of insurance agents as at 31.12.2022 was 6,511, including – 2,345 legal entities, 170 – sole traders and 3,981 – individuals.

As of 31.12.2021, there are 15 ancillary insurance intermediaries, including – 16 legal entities and 15 individuals.

In the end of 2022, the number of insurance agents registered in the FSC register continues to decrease, the main reason being the termination of contracts for insurance agencies that have not been active for a long period of time.

The biggest reported difference is for individual insurance agents, who at the end of 2021 were 4,399, and in at the end of 2022 – 3,981.

Table 10. Registration in the register of insurance agents

	Number as at 31.12.2021	Number as at 31.12.2022
Insurance agents* including:	6,984	6,511
- Legal entities	2,392	2,345
- Sole traders	193	170
- Natural persons	4,399	3,981
Ancillary insurance intermediaries	17	15

During the reporting period, a total of 176 individual administrative acts were issued in connection with the implementation of the regulatory regimes in the field of insurance and insurance mediation.

123 individual administrative acts were issued in connection with the procedures for issuing licenses, permits or approvals;

- 4 for acquisition of qualifying holdings in insurance companies;
 - 2 for extending the scope of the license of insurance companies;
 - 11 for giving mandatory instructions to appointed conservators of insurers with revoked license;
 - 1 on application of regulatory regimes to the Guarantee Fund;
 - 53 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;
 - 39 for approval of auditors of insurance or reinsurance companies and insurance holdings;
 - 13 on suspension, termination and resumption of suspended administrative proceedings.
- In 2022, 22 decisions were issued regarding the registration regime:
- 16 for entry of insurance brokers in the register kept by the FSC;
 - 6 for deletion of insurance brokers from the register of the FSC at their request;

A total of 31 decisions were issued in connection with the organization and conducting of examinations for the recognition of the legal capacity of a responsible actuary, and admission to the examination for the acquisition of the professional qualification of an insurance broker:

- 7 for the admission of persons to the examination for the acquisition of the professional qualification of an insurance broker in accordance with the requirements of Regulation No. 28 of 10.05.2006 of the FSC, and one decision for admission to examination.
- 23 for admission to an examination for the recognition of legal capacity of a responsible actuary
- 1 for recognition of legal capacity of a responsible actuary.

Table 11. Administrative procedures in respect of insurance and reinsurance

	Not concluded as at 31.12.2021 (no.)	Newly opened in 2022 (no.)	Concluded in 2022 (no.)	Not concluded as at 31.12.2022 (no.)
Insurance companies	41	108	123	26
Insurance intermediaries	27	30	22	14
Other proceedings	4	29	31	2
Total	72	167	176	42

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

Supplementary pension insurance

During the reporting 2022 there were no applications for issue of licenses or for transformation of pension insurance companies and/or supplementary pension funds and funds for benefits payment, 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 2022 was 10, and the number of supplementary pension funds was 32, including 10 universal pension funds, 10 professional pension funds, 10 voluntary pension funds and 2 voluntary pension funds under occupational schemes, and as at 31.12.2022 one of them was not active.

In connection with the payout phase of pensions from the universal pension funds that started in 2021 (as per the amendments to the SIC, SG No. 19 of 5.3.2021) and the acquired rights of insured persons to a supplementary lifelong pension for old age, in 2022, the Financial Supervision Commission issued 3 decisions in connection with initiated administrative proceedings for the registration of funds for payment of lifelong pensions. These funds are segregated properties whose assets are separated from the assets of pension insurance companies and pension funds and are subject to independent reporting, independent financial auditing and

application of supervisory measures. They are deemed to be established by enactment of the decisions of the Commission and are subject to entry in the BULSTAT register and the register under Art. 30, para. 1, item 13 of the FSCA. As a result, the number of entities for which the Social Insurance Supervision Department carries out preliminary and ongoing supervision increases to 61.

Table 12. Licensing activity in relation to supplementary pension insurance

	Number as at 31.12.2021	Issued licenses/ authorizations/ decisions (no.)	Revoked licenses/ authorizations/ decisions (no.)	Number as at 31.12.2022
Pension insurance companies (PICs)	10			10
Supplementary pension funds (SPFs)	32			32
Funds for Payment of Lifelong Pensions (FPLPs)	7	3		10
Funds for Programmed Withdrawals (FPWs)	9			9

Preliminary supervision also includes the approval of documents of fundamental importance for the activity of the pension insurance companies and the supplementary pension insurance funds and funds for benefits payment managed by them. During the reporting period, the proceedings related to the authorization and approval regimes within the competence of the administrative authority were initiated at the request of the interested parties, both as a result of changes in the regulatory requirements that came into force, and in connection with the improvement of the systems of governance.

In 2022 there were issued 11 decisions by the FSC for approval of new, and of amendments and supplements to the rules for the organization and operation of supplementary pension insurance funds, dictated by the need for their further development and/or compliance with both the changes in the regulatory framework and the other internal acts of the pension insurance companies and the funds managed by them. The ruling on one of the proceedings initiated during the reporting year was made at the beginning of 2023.

Pursuant to Art. 121e, para. 10 of the SIC, in 2022 the FSC issued a total of 9 decisions to approve members of the management and supervisory bodies of PICs, 3 of the decisions being in proceedings initiated at the end of 2021.

During the reporting year a total of 10 proceedings were initiated for preliminary coordination of selection of auditors to perform audit and certification of the annual financial statements for 2022 of the PICs and the funds they manage, and as a result, the administrative authority issued decisions to agree on the choice of proposed auditors.

In 2022, 2 decisions of the FSC were issued approving a technical interest rate used in determining the amount of pensions from a supplementary voluntary pension insurance fund and 1 decision of the FSC approving a technical interest rate used in determining the amount of pensions from a supplementary voluntary pension insurance fund under occupational schemes.

In 2022, on the basis of an application submitted by a person, a decision was taken by the Financial Supervision Commission to include him as an independent expert for the evaluation of assets in the list under Art. 7, para. 1, item 2 of Ordinance No. 64 of 29.11.2018 on the requirements for persons under Art. 344, para. 2, item 2 of the Social Insurance Code and the order and manner of their appointment.

Table 13. Administrative procedures regarding supplementary pension insurance

Object of the procedure	Not concluded as at 31.12.2021 (no.)	Newly opened in 2022 (no.)	Concluded in 2022 (no.)	Not concluded as at 31.12.2022 (no.)
Approval of Rules for the organization and operation of a universal pension fund, professional pension fund, voluntary pension fund or voluntary pension fund under occupational schemes	2	10	11	1
Approval of a member of a management or control body in a pension insurance company	3	6	9	
Coordinating the selection of auditors to audit and certify the annual financial statements of the pension insurance company and the pension funds and funds for benefits payment managed by it		10	10	
Approving a technical interest rate used for calculating the amount of pension from a supplementary voluntary pension insurance fund		2	2	
Approving a technical interest rate used for calculating the amount of pension from a supplementary voluntary pension insurance fund under occupation schemes		1	1	
Registering of funds for payment of lifelong pensions		3	3	
Proceedings initiated ex officio		9	9	
Inclusion of a person in the list under Art. 7, para. 1, item 2 of Ordinance No. 64 for valuation of assets		1	1	

In the reporting year an ongoing review of other documents submitted by the companies and the custodian banks was carried out, which, although not subject to approval, are examined from the perspective of their legality, and in case of any discrepancies in their contents, those were required to be removed.

In 2022, in the register kept by the FSC under Art. 30, para. 1, item 14 of the FSCA of the social insurance intermediaries of the pension insurance companies, the following circumstances are entered:

- concluded contracts - 5,326, incl. 1,770 contracts with natural persons - social insurance intermediaries, 191 contracts with legal entities - social insurance intermediaries, and 3,365 authorized natural persons by legal entities that are social insurance intermediaries;
- Terminated contracts – 3,998, incl. 1,874 contracts with natural persons – social insurance intermediaries, 129 contracts with legal entities - social insurance intermediaries and revoked authorizations of 1,995 natural persons by legal entities - social insurance intermediaries.

2.2. Notifications

Investment firms, Management companies, Investment funds

In 2022, 33 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. On the other hand, 24 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.

2 notifications have been received during the reporting year from IFs from another Member State with intention to operate on the territory of the Republic of Bulgaria through the establishment of a branch. During the period, the regulatory body of the Republic of Cyprus (Cyprus Securities and Exchange Commission - CySEC) confirmed the receipt of a notification for the establishment of a branch on the territory of the Republic of Bulgaria of the IF Admiral Markets Cyprus Ltd and a letter of refusal to open a branch of the IF was sent, licensed by CySEC, on the territory of the Republic of Bulgaria.

During the period no notifications have been received for establishing measures to facilitate access to multilateral trading facilities (MTFs) or organized trading facilities (OTFs). 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 2022 was 1985 (not including representative offices).

During the reporting year notifications were received from management companies from EU Member States in connection with their intention to offer units of 18 classes of securities from 10 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 new classes of securities of already notified funds and sub-funds. For the same period 11 notifications were received for termination of the offering of a total of 64 classes of securities of

20 sub-funds of collective investment schemes by Member States. Towards the end of 2022 the total number of the offered classes of securities of collective investment schemes from member states, which operate in our country, is 1975 classes of securities of 352 funds/sub-funds of 56 collective investment schemes from Member States.

In 2022, 2 notifications were received from management companies from the Member States for carrying out activities on the territory of other Member States under the terms of free provision of services. The total number of management companies from the EU providing services on the territory of Bulgaria is 29.

In 2022 a notification was received under Art. 17 of Directive 2009/65/EC from KBC Asset Management N.V., (Belgium) to change the scope of notification of KBC Asset Management N.V.- Bulgaria Branch, by extending the scope of services.

In 2022, 1 notification was received from AIFM from an EU Member State which intend to operate on the territory of the Republic of Bulgaria. The total number of AIFMs from Member States that plan to operate in our country at the end of 2022 was 28.

In 2022, 49 notifications were received in connection with the offering of 63 AIFs, respectively sub-funds, from EU Member States on the territory of the Republic of Bulgaria. Also, 9 alternative investment funds have terminated their passporting. The total number of AIF from Member States offered in Bulgaria at the end of 2022 is 160.

In 2022, 40 notifications were received in connection with the offering of 43 European venture Capital Funds (EuVECA) from an EU Member State on the territory of the Republic of Bulgaria and two notifications of termination of offering. The total number of EuVECA funds from Member States offered in Bulgaria at the end of 2022 is 115.

In 2022, there are no notifications regarding the offer of European Social Entrepreneurship Funds (EuSEF) and regarding the free provision of services on the territory of the Republic of Bulgaria by alternative investment fund managers.

During the reporting year 2022, the FSC was notified through the notification portal created and maintained by ESMA under the Prospectus Regulation for a total of 63 notifications, of which 26 notifications for new prospectuses and 37 notifications for supplements to prospectuses of companies from other EU member states intending to carry out public offering of securities on the territory of the Republic of Bulgaria.

During the commented period, there were no notifications from public companies from the Republic of Bulgaria intending to carry out a public offering of securities in the territory of another EU Member State.

In 2022, the FSC received 2 notifications for the cross-border provision of crowdfunding.

Table 14. Notifications of foreign companies intending to operate on the territory of the Republic of Bulgaria

	Number as at 31.12.2021	New and concluded in 2022 (no.)	Terminated in 2022 (no.)	Number as at 31.12.2022
Investment firms	1,975	34	24	1,985
Management companies	27	2	0	29
Collective investment	1,866	173	64	1975

schemes (classes)				
Alternative investment fund managers	27	1	0	28
Alternative investment funds	106	63	9	160
European Venture Capital Funds (EuVECA)	75	43	3	115
European Social Entrepreneurship Funds (EuSEF)	1	0	0	1
Central securities depositories	4	0	0	4
Prospectuses	239	63	0	302
Cross-border provision of crowdfunding services	0	2	0	2
Insurance companies				
Insurance intermediaries				
Institutions for occupational retirement provision				

In 2022, the notifications of 2 IFs licensed by the FSC were considered to operate under the terms of free provision of services, without opening a branch, on the territory of other Member States - IF MK Brokers AD for 1 member state (Republic of Germany) and Alaric Securities Ltd. for all EU and EEA Member States (30 countries).

In the reporting period, 1 notification was considered regarding changes in the notification forms in connection with the IF's operations on the territory of other Member States, and no notifications were considered regarding termination of operations.

In 2022, no notifications for opening or closing a branch of a Bulgarian IF were considered.

In 2022, no notifications were received from management companies of AIFMs from the Republic of Bulgaria for carrying out activities on the territory of other Member States under the conditions of free provision of services or through a branch.

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 Financial Supervision Commission 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 15. Notifications of Bulgarian companies intending to operate on the territory of other Member States

	Number as at 31.12.2021	Considered in 2022 (no.)	Terminated in 2022 (no.)	Number as at 31.12.2022
Investment firms	294	30	0	324
Management companies	3	0	0	3
Collective investment schemes	20	0	0	20
Prospectuses	4	0	0	4
Crowdfunding services	0	0	0	0

Insurance companies				
Insurance brokers				
Institutions for occupational retirement provision				

Insurance and reinsurance

For 2022, 162 notifications were received from insurance intermediaries from EU Member States for distribution of insurance products on the territory of the Republic of Bulgaria under the terms of freedom to provide services or right of establishment (through a branch), as well as 213 notifications regarding intermediaries who requested suspension of their mediation activity.

In view of the above, the total number of insurance intermediaries from Member States who have the right to distribute insurance products on the territory of the Republic of Bulgaria under the terms of right of establishment (through a branch) or freedom to provide services in December 2022 stands at 2,112.

In the end of 2022, a total of 418 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 a previous period.

In 2022 6 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, as well as to expand the scope of the notification sent to the FSC in the previous period.

In 2022 7 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 well as to expand the territorial scope of the notification sent to the FSC in the previous period.

As of the end of 2022, 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 418. 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 19.

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 59 intermediaries.

Table 16. Notifications of foreign companies intending to operate on the territory of the Republic of Bulgaria

	Number as at 31.12.2021	New and concluded in 2022 (no.)	Terminated in 2022 (no.)	Number as at 31.12.2022
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	418	39	4	418
Insurance intermediaries	2168	375	213	2,112
Institutions for occupational retirement provision				

At the end of 2022, the only insurer based in the Republic of Bulgaria who declared the intention to carry out activities under the right of establishment and established branches on the territory of the Republic of Greece (17.08.2017) and the United Kingdom of Great Britain and Northern Ireland (22.12.2020) d.), is IC EUROINS AD.

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 2022.

Table 17. Notifications of Bulgarian companies intending to operate on the territory of other Member States

	Number as at 31.12.2021	Considered in 2022 (no.)	Terminated in 2022 (no.)	Number as at 31.12.2022
Institutions for occupational retirement provision	0	0	0	0

2.3. Certification

Investment firms

In 2022, 2 examination sessions were held for acquiring the right to operate as a broker of financial instruments and as an investment consultant - in May (on 28.05.2022 - an examination for brokers of financial instruments and on 29.05.2022 - for investment consultants), and in November (on 12.11.2022 - an examination for brokers of financial instruments and on 13.11.2022 - for investment consultants). A total of 66 persons were admitted to the examination, of which 34 candidates were admitted to the examination for acquiring the right to exercise activity as a broker of financial instruments, and 32 candidates to become an investment consultant. A total of 27 people passed the examinations (17 for brokers and 10 for investment consultants). Certificates for the right to operate were issued to the 27 persons who passed the examination.

Additionally, in 2022, 9 certificates were issued as a result of recognized legal capacity, of which 1 certificate for operating as a broker of financial instruments and 8 certificates for operating as an investment consultant. In the reporting 2022 no refusals were issued to recognise the acquired qualification to operate as a broker of financial instruments or an investment consultant.

During the reporting year, 1 proceeding for the recognition of acquired qualification for operating as a broker of financial instruments was terminated due to the withdrawal of the application, and 1 decision was made to revoke the right to operate as a broker of financial instruments at the initiative of the supervisory authority.

In 2022, there were no proceedings for revoking the right of persons to act as a financial instruments broker or an investment consultant after their voluntary refusal.

Supplementary pension insurance

Table 18. Dynamics of certified persons (no.)

	2017	2018	2019	2020	2021	2022
Investment consultants	31 (21)	14 (9)	23 (13)	2 (0)	20 (17)	18 (10)
Brokers of financial instruments	(14)	(45)	(17)	(0)	17 (15)	18 (17)
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.

Considering the systemic importance of the actuarial function in the field of insurance, pension insurance and financial audit, and in order to increase the interest to the responsible actuary occupation, amendments and supplementations were initiated and adopted during 2022 in Ordinance No. 31 from 2.08.2006 on the conditions and procedure for conducting an examination and for the recognition of the capacity as a responsible actuary, for the recognition of such capacity acquired outside the Republic of Bulgaria, for the form of actuarial certification, the form and the content of the actuarial report and the statements 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 Code (Ordinance No. 31). In this regard, in October 2022, an examination for the recognition of the legal capacity of a responsible actuary was organized and conducted by the FSC according to Ordinance No. 31. A total of 48 applications for admission to the examination were submitted by 47 persons, and the Regulatory Regimes of the Social Insurance Supervision Directorate examined 26 of the submitted applications. A total of 6 persons successfully passed the exam, from which applications for recognition of legal capacity as a responsible actuary of 4 persons were considered in the Regulatory Regimes of the Social Insurance Supervision Directorate.

During the reporting year, the Social Insurance Supervision Department received an application for recognition of the capacity of a responsible actuary acquired outside the Republic of Bulgaria, regarding which a decision for refusal for recognition of the capacity was adopted.

Table 19. Dynamics of certified persons (no.)

	2018	2019	2020	2021	2022
Actuaries					4 (4)

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 partial legal capacity 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

Investment firms. Central Depository AD. Regulated market and multilateral trading facilities. Investor Compensation Fund.

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, pertaining both financial condition and capital adequacy of each IF, as well as their activities. The received information allows the supervisory authority to react in a timely manner to established 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, 14,744 inspections were carried out, including 140 inspections on the financial conditions of investment firms in accordance with the requirements of Art. 43, para. 1 of Ordinance No. 50 of 30.03.2022 on the capital adequacy, liquidity of investment firms and supervision of their compliance (Ordinance No. 50), 12,073 inspections of concluded transactions with financial instruments admitted to trading on a regulated market, 146 inspections for compliance with the capital adequacy and liquidity requirements of investment firms on a separate and consolidated basis under Art. 42 of Ordinance No. 50. At the same time, in the course of off-site supervision, 52 reports on the results of the performed monitoring of the risks according to the requirements of Art. 52 of Ordinance No. 38.

In 2022, 72 inspections were carried out in connection with the requirement of Art. 60, para. 2 of the MFIA, according to which the investment firm provides the FSC with a list of the persons who hold direct or indirect qualified shareholdings, as well as data on the votes held by them in the general meeting.

During the reporting period, 624 inspections were carried out in connection with the requirement of Art. 77n, para. 12 of the POSA, according to which the investment firm is obliged to submit to the FSC a report on customer assets as of the last day of the previous month.

In the reporting period 704 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. Reports have been prepared for the review on a monthly basis.

During the year, 35 annual financial statements for 2021 were inspected, which were received by the FSC in connection with the requirement of Art. 128, para. 4 of the MFIA.

Also 174 inspections due to complaints, reports and inquiries from natural persons, legal entities and government authorities were carried out. The majority of the cited complaints were filed by foreign persons and are directed against companies that do not have an investment brokerage license issued by the FSC and/or against websites/platforms for trading in financial instruments managed by such persons. If necessary, some of the received complaints and signals are sent to the law enforcement institutions according to their competence.

In 2022, at its meeting, the FSC decided to publicize websites providing investment services offered by persons who do not have the right to provide such services on the territory of the Republic of Bulgaria. In accordance with Art. 231, para. 3 of the MFIA, the FSC submitted a request to the Chair of the Sofia District Court to order all undertakings providing public electronic communication networks and/or services to suspend the access to these websites.

Orders have been prepared for entering 712 circumstances regarding the activity of investment intermediaries, investment advisers, brokers of financial instruments.

During the reporting period, 12 monthly reports on trading in financial instruments were prepared, which contain analysis of trading on trading venues, as well as insights on the behaviour of market participants.

In 2022, 7 circular letters were prepared, providing supervised persons with information in connection with the application and interpretation of regulatory acts or are informed of the occurrence of events that are relevant to their operations.

In 2022, 10 inspections were carried out on incoming reports regarding failed settlement of financial instrument transactions reported by Central Depository AD in accordance with the requirements of Art. 7 of Regulation (EU) No. 909/2014. In the same year, 7 inspections were also carried out on the received reports on the number and value of monetary sanctions in connection with the collected and distributed sanctions regarding failed settlement according to Art. 71n of Ordinance No. 8.

During the reporting period, 21 inspections were carried out on received reports from settlement internalisers for the aggregated volume and value of all securities transactions that are settled outside the securities settlement systems in accordance with the requirement of Art. 9 of Regulation (EU) No. 909/2014.

During the reporting period, 4 signals for violations of Regulation (EU) No. 596/2014 were received and processed by the experts appointed by order.

During the reporting period, the implementation of the budget for administrative expenses and the annual financial statement of the ICF for 2022, as well as the implementation of the statement for 2021, were approved. Also, a draft budget for the administrative expenses of the ICF for 2023 was approved.

In 2022, 2 new information systems have been implemented in relation to investment firms by the FSC, as follows: for submitting reporting information regarding the capital adequacy and liquidity of investment firms in connection with the requirement of Art. 54, paragraph 1 of Regulation (EU) 2019/2033 and of Art. 43 of Ordinance No. 50 and for the submission of reports by settlement internalisers for the aggregated volume and value of all securities transactions that are settled outside the securities settlement systems in accordance with the requirement of Art. 9 of Regulation (EU) No. 909/2014.

In connection with the restrictive measures and sanctions imposed by the EU against the Russian Federation and the Republic of Belarus, a total of 2 circular letters were sent to IFs, containing explanations regarding the application of the relevant legal framework and a request for specific information.

During the reporting period the FSC, together with the other national competent authorities of the EU Member States, actively participated in the Common Supervisory Action on costs and fees undertaken by ESMA; in this context 5 off -site inspections of IFs were carried out. The purpose of said action is to establish whether the requirements regarding the costs and fees charged and collected by the investment firms are complied with. The results of the conducted supervisory action were reported to ESMA.

Collective investment schemes and management companies

The scope of the off-site supervision performed by the FSC with regard to CISs and MCs covers the annual financial statements of CIS and MC regularly submitted to the FSC, the semi-annual financial statements and the monthly balance sheets for CISs, and quarterly reports for MCs according to a template, set by the Deputy Chair in charge of Investment Activity Supervision Division. During the reporting period, an inspection of the documents of 155 annual, 132 semi-annual and 116 quarterly financial reports, as well as 1580 monthly balance sheets of the CISs organised by the management companies. 549 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 and on key investor information documents of CISs in compliance with the obligation for their submission to the regulatory authority and respectively their publishing.

In accordance with the regulatory requirements, AIFMs present summarized information on the defined issue values and redemption prices of the units of the SICs managed by them. In order to comply with these obligations, during 2022 the FSC has received and accordingly checked 1,738 reports with summarized information for the determined issue values and redemption prices of the units in CISs.

With regard to the information submitted regularly (twice a year) by MCs, during the year, 59 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 MCs' compliance with the investment restrictions in the managed CIS portfolios, 172 inspections were carried out during the reporting period based on notifications received by the Commission for violations of investment restrictions.

As a result of the documentary inspections during the off-site supervision, with 67 orders of the Deputy Chair of the FSC in charge of the Investment Activity Supervision Division, a total of 963 entries of circumstances were made in the public register kept by the FSC regarding MCs and CISs.

In connection with the off-site supervision over the activity of the MCs and the CISs organized and managed by them, during the reporting period no individual administrative acts for coercive administrative measures were issued.

In the course of the off-site supervision 35 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 responses have been sent 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, 446 applications for the updating of the webpage of the FSC were prepared during the reporting period, based on which a total of 6542 documents were published, which were mainly prospectuses, documents with key information regarding investors and financial statements.

Separately from the above, 17 requests have been prepared for updating the website of the FSC with the publication of information regarding the requirements for the entities supervised by the FSC, in particular related to the Green Deal, the main information document, supervisory action for 2022, etc.

In connection with the performed supervisory activity, during the reporting period a total of 20 circular letters were sent to MCs, namely:

In connection with the restrictive measures and sanctions imposed by the EU against the Russian Federation and the Republic of Belarus, a total of 4 circular letters were sent to MCs, containing explanations regarding the application of the relevant legal framework and a request for specific information.

Regarding compliance with the regulatory requirements, MCs and BAAMC were sent a total of 8 circular letters in connection with the provision of regular information by the MCs, updated report templates for MCs and CISs, presentation of the summary information under Art. 77, para. 1 of Ordinance No. 44, the application of Art. 48, para. 4 of CISOU CIA, compliance with Regulation No. 583/2010 when preparing KIIDs and guidance on material elements in CIS prospectuses and the management of conflicts of interest.

In connection with the Guidelines for Outsourcing Cloud Service Providers, which the FSC has adopted to comply with in its supervisory practice and with a view to establishing the persons using outsourced cloud service providers, 1 circular letter was sent to all MCs and BAAMC.

In connection with updating and supplementing the list of regulated markets in third countries, 1 circular letter was sent to all MCs and BAAMC.

In order to comply with the requirements provided for in Art. 65, para. 1 of the CISOU CIA and the Guidelines on marketing communications under the Regulation on cross-border distribution of funds issued by the European Securities and Markets Authority (ESMA 34-45-1272), 1 circular letter was sent to all MCs, with which the supervised entities were given clarifications related to the practical implementation of the provisions.

In connection with the European Commission's published legislative proposal for a Directive amending Directives 2011/61/EU and 2009/65/EC with regard to delegation arrangements, liquidity risk management, supervisory reporting, the provision of depository services and custodian services and the provision of loans from alternative investment funds to MCs, 1 circular letter was sent aimed at conducting a survey among supervised entities regarding the use of liquidity management tools. The positions presented by the companies have been analysed and taken into account with a view to expressing a position in relation to the legislative amendment.

On 22.03.2022, Regulation (EU) 2019/1238 of the European Parliament and of the Council of 20.6.2019 on a pan-European personal pension product (Regulation (EU) 2019/1238) became effective. In view of the latter and in view of the amendments and additions to the SIC, introducing measures for the implementation of Regulation (EU) 2019/1238 into the national legislation, and insofar as according to Art. 6, paragraph 1, letter "e" of the regulation, MCs are given the opportunity to operate as a provider (distributor) of a savings product for personal pension insurance, defined as PEPP, a study was conducted, aiming to establish the intentions of MCs regarding the creation, resp. the offering of that product, and the factors that would influence that decision. In this regard, 1 circular letter was sent to all MCs, and the provided information was analysed within the framework of remote supervision.

In connection with the implementation of Delegated Regulation (EU) 2017/653 of 8 March 2017 supplementing Regulation (EU) No 1286/2014 of the European Parliament and of the Council on key information documents for packaged retail and insurance-based investment products (PRIIPs) by laying down regulatory technical standards with regard to the presentation, content, review and revision of key information documents and the conditions for fulfilling the requirement to provide such documents, 1 circular letter with instructions on the extension of the period for entry into force of the relevant requirements in relation to undertakings for collective

investment in transferable securities; the companies were made aware that the new rules will apply from 1.1.2023.

During the reporting period, 1 circular letter was sent to all MCs and BAAMC, in which the companies were notified of the results of the Common Supervisory Action on costs and fees conducted by ESMA in 2021.

In connection with a study on the distribution of CIS units in a Member State of the European Union or a country under the Agreement on the European Economic Area, 1 circular letter was sent to all MCs, requesting information analysed within the framework of remote monitoring.

During the reporting period, 2 reports were prepared on off-site thematic inspections carried out for the assessment of customer assets of MCs in accordance with Ordinance No. 23 of 02.08.2006 on the terms and conditions for the assessment of customer assets (Ordinance No. 23) and for verification of SFDR disclosures and the content of the reports prepared by the regulatory compliance unit pursuant to Ordinance No. 38.

Given the regulatory obligation of MCs to periodically disclose and update the information necessary for investors to make a reasoned and informed investment decision, in 2022 the regular thorough inspections of the web pages of all MCs continued, and in relation to the identified non-conformities, appropriate supervisory actions were taken in a timely manner.

In connection with the measures taken by the FSC in 2020, related to the spread of the COVID-19 coronavirus infection and its impact on the activities of MCs and the CISs managed by them, during the reporting period the monitoring continued of liquidity risk management in CISs related to submitted orders for redemption of shares worth more than 10% of the net asset value of the CIS. Based on the information provided during the reporting period, individual cases of submitted redemption orders with a value above the specified amount were found, and no liquidity problems related to their implementation were established.

The reporting period is characterized by the sanctions imposed by the Council of the European Union against the Russian Federation and the Republic of Belarus, and in 2022, 9 packages of sanctions were adopted. In this regard, within the scope of the supervision, the monitoring of the investments of collective investment undertakings in companies from the prohibited lists has been strengthened, with a monthly inspection of the portfolio structure of all CICs. In addition, information was requested and an inspection was carried out of the portfolios managed by MCs under trust management and MCs own portfolios.

Alternative investment fund managers

The annual reports by AIFMs, six-monthly information by AIFMs and AIFs, quarterly reports and information by AIFMs and AIFs and monthly reports of open-end NIFs regularly submitted to the FSC are subject to off-site supervision by the FSC regarding AIFs and AIFMs. In this regard, during the reporting period a documentary inspection was carried out of the 13 annual, 9 biannual, 21 quarterly financial statements and 98 monthly balance sheets of the NIF regularly submitted to the FSC, as well as inspections of the information disclosed every six months by all

registered AIFMs and the AIF managed by them, and quarterly information from licensed AIFMs and the AIF managed by them.

In 2022, the FSC implemented a new information system (E-AIFM) in order to comply with the information reporting obligation under Article 110 of Commission Delegated Regulation (EU) No 231/2013 of 19 December 2012 supplementing Directive 2011/61/EU of the European Parliament and of the Council with regard to exemptions, general operating conditions, depositaries, leverage, transparency and supervision (Delegated Regulation (EU) No 231/2013). The information submitted by AIFMs to the FSC is reported successfully to ESMA through the platform created for this purpose.

In connection with the convening and holding of general meetings of the shareholders of closed-end NIFs in 2022, 7 inspections of documents were carried out with regard to the compliance with the obligation to announce to the FSC and the Commercial Register and Register of Non-Profit Legal Entities the invitations and the materials attached thereto as well as the minutes of the general meetings and their decisions.

With regard to the notifications and disclosure of major holdings of the closed-end NIFs during the reporting year 62 inspections were performed on the notification presented by the liable persons under Art. 145 of the POSA.

During the year, 44 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 and on key investor information documents of open-ended NIFs in compliance with the obligation for their submission to the regulatory authority and respectively their publishing.

In accordance with the regulatory requirements, twice a month AIFMs present summarized information on the determined issue values and redemption prices of the units of the open-ended NIFs managed by them. In order to comply with these obligations, during 2022 the FSC has received and accordingly checked 101 reports with summarized information for the determined issue values and redemption prices of the shares from open-ended NIFs.

With regard to the information submitted regularly (twice a year) by licensed AIFMs, during the year, 1 inspection was carried out of the list submitted to the FSC 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 AIFM), as well as of the data about their votes in the general meeting of company shareholders. The verification of the specified information regarding the other licensed AIFMs is reflected above, insofar as these AIFMs also hold a license to carry out activities as MCs.

Regarding the supervision of the compliance with the investment restrictions by MCs in the managed NIF portfolios, 6 inspections were carried out during the reporting period based on notifications received by the Commission for violations of investment restrictions.

As a result of the inspections of documents during the performance of off-site supervision, by order of the Deputy Chair in charge of the Investment Supervision Division, 95 entries of circumstances were made in the public registers of NIFs and AIFMs kept by the FSC.

In connection with the performed supervisory activity, during the reporting period a total of 7 circular letters were sent to AIFMs, namely:

In connection with the new information system (E-AIFM) implemented by the FSC to ensure the fulfilment of the obligation to report information under Art. 110 of Delegated Regulation (EU) No. 231/2013, 2 circular letters containing information and instructions on the functioning of the system, working with it and submitting files were sent to all AIFMs.

After reviewing the reported information under Art. 110 of Delegated Regulation (EU) No. 231/2013, 1 circular letter was sent to all AIFMs with instructions regarding the quality of information reported by AIFMs.

In connection with clarification of the upcoming obligations under 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, which applies from 01.01.2022 and in connection with the requirements of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27.11.2019 on sustainability-related disclosures in the financial services sector , 2 were sent to the AIFM circular letters.

In connection with the restrictive measures and sanctions imposed by the EU against the Russian Federation and the Republic of Belarus, a total of 2 circular letters were sent to AIFMs, containing explanations regarding the application of the relevant legal framework and a request for specific information.

During the reporting period, a thematic inspection was performed regarding the obligation of all AIFMs in connection to Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27.11.2019 regarding the disclosure of information on sustainability in the financial services sector (Regulation (EU) 2019/2088) and the obligation for the preparation of policies for the integration of risks, and disclosure of pre-contractual information.

During the reporting period, the supervision was also related to the sanctions imposed by the European Union against the Russian Federation and the Republic of Belarus, and in this regard information was requested and an inspection was carried out of the AIFMs own portfolios and the AIF's investments, with a monthly inspection of the portfolio structure of all open-ended NIFs.

Emphasis in the inspection of AIFMs and AIFs managed by them in 2022 is compliance with the requirement that investors in AIFs are only professional. 1 report was prepared on the results of the inspection.

The results of document inspections carried out during the reporting year, as well as financial statements and other regulated information, are objectified in special reports, and in 2022, in connection with the supervision a total of 30 reports were prepared.

During the reporting period the FSC, together with the other national competent authorities of the EU Member States, actively participated in the Common Supervisory Action on the valuation of financial assets in UCITS portfolios undertaken by ESMA; in this context 10 off-site inspections of MCs were carried out, one of which was an AIFM. The aim of the action is to establish whether the organizational rules and legal framework on the principles and methodologies for valuing financial assets held by CISs and AIFs are complied with, with a view to carrying out a fair and equitable valuation as in normal and under stressful market conditions, in particular with regard to the valuation of investments in illiquid assets. The results of the conducted supervisory action were reported to ESMA on 31.12.2022.

During the reporting period, new requirements were introduced regarding the performance of liquidity stress tests of CISs and AIFs in order to optimize the risk management process and with a view to introducing the requirements of the Guidelines on liquidity stress testing in UCITS and AIFs (ESMA34-39- 897), with the new legal framework applying from 2023.

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

Off-site supervision of public companies, SPICs and other issuers of securities covers verification of the financial statements provided by the FSC and the public, through the media, individual annual, biannual and quarterly financial statements or quarterly financial statements, 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 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 2022 the effective interaction and exchange of information between the FSC and the BSE 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 2022 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 2022 document inspections were performed on 3,319 financial statements. As a result of ongoing supervision 124 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.

As a result of the selection procedure carried out according to the selection methodology adopted by the FSC with Order No. 3-127/13.05.2021 for the selection of the review of the financial statements of public companies, other issuers of securities and special purpose investment companies, based on a mixed model, where a risk-based approach is combined with sampling and rotation approach, 44 companies have been designated to have their 2021 annual financial statements (individual and consolidated) audited for compliance with International Financial Reporting Standards (IFRS), ESMA guidelines adopted by the FSC, as well as verification regarding the proper and full disclosures in the financial statements of the companies, in accordance with the IFRS, and the ESMA Public Statement European common enforcement priorities for 2021 annual financial reports

As a result of the performed inspection and the identified inconsistencies in part of the issuers' annual reports, 13 letters with instructions regarding the future individual and consolidated financial statements were prepared.

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 2022, 1,289 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.

In 2022 on the disclosure of a significant holding in the capital of a public company or the change in such a circumstance, 16 inspections were carried out of the information regularly received from CD and the notifications submitted to the Commission.

In 2022, a part of the regular inspections carried out in the course of the remote control carried out by the Commission, there was an inspection of the due and actually paid dividend for 2020 from the CIS., according to Art. 29 of the SPICSCA. An inspection was also carried out for compliance with the requirements for submitting an annual declaration of property and business interests under Art. 20 of the SPICSCA of the persons under Art. 10, para. 2 and 4 of the same act.

Part of the regulated information that the obliged persons disclose to the Commission and to the public is the internal information according to Regulation (EU) No. 596/2014 of the EP and of the Council of 16.04.2014 on market abuse, which applies as of 03.07. 2016. During the substantive review of the disclosed information, the need to verify compliance with other special requirements of the law is assessed. When checking this information, part of which is also disclosed in the financial statements of public companies and other issuers of securities, in the course of the off-site supervision, the regulatory compliance of its disclosure should be established, including whether it has been properly disclosed. The supervised entities made 2,030 disclosures using electronic forms for disclosure of inside information in 2022 that were analysed in the course of the off-site supervision.

As a result of the off-site inspections of the annual, biannual and quarterly financial statements and quarterly 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, 46 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 or due to jeopardising the interests of investors, 34 decisions were issued obliging the supervised entities to bring their activity in compliance with the legal requirements, through observance of specific actions and measures, and 8 of the opened proceedings were terminated in agreement with the disposition of the opened proceedings.

During the period, 143 letters were sent, most of them with a request for the presentation of financial reporting information and in connection with deficiencies in already submitted

financial reports to tenants, public companies and SPICs and the rest with a request for the provision of documents concerning general meetings of shareholders.

In the course of the current supervision, during the reporting period they are 6,107 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 SPICs in 2022 are issued orders on paper for a total 1,227 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 742 applications for registration/deletion, title forms and reports were processed in 2022.

In 2022, a total of 152 complaints, reports and inquiries were received from individuals, legal entities and state bodies regarding 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 entities. A total of 88 responses to the individuals were prepared, opinions were prepared for of them 41 under Art. 28 of the Regulations on the structure and activities of the FSC and its administration for the preparation of a final answer on the specific cases, and the inspection of the others will be completed in the next reporting period.

Insurance and reinsurance

The supervision activity, which the Insurance Supervision Division exercises over the activities of the supervised entities, consists in controlling their activity in compliance with the requirements of the 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) (Directive 2009/138/EC).

Off-site supervision in 2022 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.

In 2022 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. In this regard, taking into account reported long-term capital investments, the information regarding the

fulfilment of each of the conditions of Art. 171a, paragraph 1, letters a) - h) 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 (Solvency II) (Delegated Regulation (EU) 2015/35). Also, 1 life insurer is instructed to take into account liabilities under reported annuities arising from non-life insurance contracts, since the provisions of Art. 138, Art. 140 and Art. 141 of Delegated Regulation (EU) 2015/35 apply to this type of liabilities.

In respect of insurers without the right to access the single market in 2022, an inspection was carried out on the adequacy of the amount of own funds to cover the solvency margin/guarantee capital and compliance with the solvency requirements at the end of each quarter. A review was also carried out of the assets to cover the technical provisions of insurers without the right to access the single market and their compliance with the statutory requirements in respect of the types of assets and their structure, 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.

An examination and verification of the activity program, 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. Letters have been sent to insurers with recommendations to supplement some of these reports.

The monthly reports received from the trustees of IC Nadezhda AD and TUMICO, whose license to carry out insurance activity was revoked in 2017, were also reviewed.

On the basis of periodic inquiries and reports received from insurers and reinsurers, off-site inspection of the data in them were carried out in 2022. In certain cases, data corrections in references and reports are requested, as well as additional information regarding:

- separate categories of assets and liabilities from the Solvency II Balance Sheet and the Statement of Financial Position under Ordinance No. 53 of 23.12.2016 on the requirements for reporting, the assessment of assets and liabilities and the formation of technical provisions of insurers, reinsurers and the Guarantee Fund (Ordinance No. 53).
- presence of discrepancies between the information submitted in the individual statements;
 - policies and internal rules of insurers;
 - concluded reinsurance contracts;
 - results of applied stress scenarios;
 - the activity carried out by insurers in other member states under the terms of the right of establishment and the freedom to provide services.

A request for supervisory approval of additional Tier 3 own funds has also been received and considered. As a result, follow-up letters were sent requesting additional information and an approval decision was issued.

In 2022, internal policies, procedures and rules of the insurers were received and reviewed, which in accordance with the requirements of § 4, para. 1 of Ordinance No. 71 of July 22, 2021,

on the requirements for the system of governance of insurers and reinsurers (Ordinance No. 71), which within a period of 6 months from the entry into force of this Ordinance should bring their policies and procedures, as well as their internal documents, into compliance with the provisions of this Ordinance. As a result, letters were sent to insurers regarding identified deficiencies and/or failure to submit required documents.

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 2022:

- 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.

- reports have been prepared on information from the electronic information system for risk assessment, management and control, maintained by the Guarantee Fund, and inspections have been made for the correctness of the information submitted to the Guarantee Fund under Ordinance No. 54 of 12.30.2016 for the registers of the Guarantee Fund for the exchange and protection of information, and for the issuance and reporting of mandatory insurance under Art. 461, items 1 and 2 of the IC in connection with an inspection of the implementation of an issued individual administrative act for the application of a coercive administrative measure;

- opinions were prepared regarding motivated requests of the insurers for setting aside a reserve for incurred but not reported claims, according to Art. 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 31.12.2021 and currently in 2022;

- 1 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 No. 1 of the IC calculations were performed in connection with Art. 91, para. 3, item 2 of Ordinance No. 53. 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 No. 53. In this regard, a procedure is opened for issuing a general administrative act assets and decision of the Deputy Chair of the FSC in charge of the Insurance Department was issued, setting out minimum percentages in connection with Art. 91, para. 3, item 2 of Ordinance No. 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 claims incurred but not reported by insurance classes under Section II of Annex 1 of the IC (with the exception of item 10.1. Any insurance against claims arising from the use of land motor vehicles) as of 31.12.2020 and currently in 2022; Letters have been sent to all stakeholders.

- 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 2022, 5 proceedings were initiated for issuance of an individual administrative act for the application of coercive administrative measures. Given the fulfilment of the obligations

specified in the disposition before issuing the administrative act, only 1 of the open proceedings was terminated.

Based on established violations of the regulations in 2022, 6 acts to establish an administrative violation were drawn up and delivered.

In 2022, the review of the activity of insurance companies under Guarantee insurance continued. Initially, a complete list of insurance contracts in force as of 31.12.2021, as of 31.03.2022 and as of 30.06.2022 was requested. Subsequently, regular monthly submission of specific information was requested from several insurers.

In 2022, surveys were conducted among insurers regarding:

- assessment of the effect on the insurance sector in the Republic of Bulgaria related to the restrictive measures and sanctions imposed in connection with the military actions led by the Russian Federation on the territory of Ukraine, the observed decline of the main stock indices and the volatility of the financial markets;

- assessment of the risks regarding the usefulness of the Life insurance linked to an investment fund offering;

- supervision of the insurance market in a changing economic and geopolitical environment;

- the upcoming entry into force, from 01.01.2023, of the International Financial Reporting Standard 17 *Insurance Contracts* (IFRS 17) and the start of parallel application of IFRS 17 with IFRS 9 Financial Instruments from the same date;

- changes made in the investment strategy in 2022 and those projected in the investment strategy and policy in 2023. It is also required to present a detailed initial assessment of the effects of these changes on the activity and financial condition of the undertaking (qualitative and quantitative), as well as the challenges it faces in relation to its investment strategy, given the expected short-term increase in macroeconomic, credit and market risks, as well as insurance (underwriting) risks as a result of high inflation rates.

Based on the Solvency II Risk Assessment Framework approved by the FSC, a quantitative and qualitative analysis of each insurer and reinsurer was performed in 2022 in order to prepare an impact assessment and risk assessment for each of them according to the Manual for risk-based supervision of insurance and reinsurance undertakings. 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 and a plan for future management actions. Assessments were prepared as a result of the performed analyses, as each insurer and reinsurer is 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 2022, which consists of all measures planned for each insurer and reinsurer based on a risk-based review.

During the year, a total 686 off-site document checks of insurance brokers were carried out. 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.

Actions taken according to the reports and statements submitted through the Insurance Supervision online portal

According to Art. 311, para. 3, items 1 and 2 of the Insurance Code, insurance brokers submit annual and biannual reports and statements to the FSC - by January 31 of the year following the year to which they apply, respectively for the six-month period by July 31 of the respective year by model approved with Order No. 3-169 of the Deputy Chair in charge of the Insurance Supervision Department dated 08.06.2022. According to the regulations, during the calendar year 2022 664 off-site inspections have been carried out of the submitted statements and reports through the Insurance Supervision online portal by insurance brokers who were active in the reporting year 2022.

According to the most recently submitted annual statements and reports, 22 insurance brokers have chosen to guarantee their activities with their own funds according to Art. 306, para. 1 item 1 of the Insurance Code. As of 31.03.2022, all of them have provided annual financial statements (AFS) for the previous year 2021, pursuant to Art. 311, para. 3, item 3 of the IC. As a result of an off-site inspection, it was found that the 22 insurance brokers have sufficient capitalization to maintain a permanent equity capital of 4 percent of the total amount of insurance premiums under insurance and/or reinsurance contracts concluded with its mediation during the previous financial year, but not less than BGN 40,000. In view of this, all insurance brokers who choose to guarantee their activity in this way meet the requirements of Art. 311, para. 3, item 3 of the IC.

To update the information in the forms for the submission of periodic statements by insurance brokers, the following actions were taken:

- According to the published monthly lists of insurers from EU member states that have declared their intention to operate on the territory of the Republic of Bulgaria under the terms of the freedom to provide services, actions are taken monthly to update the codes in the form for filling out statements submitted through the electronic portal of the FSC from the insurance brokers, for appendix 2.3. Insurance intermediation for non-life insurers and 2.7. Insurance intermediation for life insurers.

- At the end of the reporting period codes were given to 452 insurers who declared their intention to operate on the territory of the Republic of Bulgaria under the terms of freedom to provide services.

In order to ensure the correctness of the data in the register of insurance agents and ancillary insurance intermediaries maintained by the FSC, during the reporting period 3 individual corrections were submitted related to the merger of companies, as a result of incorrectly submitted data, transfer of information from legal entities to sole traders, clearing of duplicate records, etc.

Supplementary pension insurance

The off-site supervision of supplementary pension insurance is carried out in 2 main directions – daily and periodic supervision. Monitoring is also carried out on the websites of PICs.

Daily supervision is carried out on the basis of the daily reports received from PICs on the activity of SPFs and from the custodian banks on the activity of SPF and funds for benefits

payment (FBPs). At the end of each month, PICs also submit detailed information about the assets of FBPs. In 2022, 12,082 daily inspections were carried out. The inspections monitor the legality of transactions with the assets of pension funds, incl. compliance with legal restrictions and prohibitions on investing the assets of the funds, investments held in one 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 on the activity of pension funds, the correct deduction of the investment fee and the deduction from each insurance 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 1 unit. Regarding the funds for benefits payment, the correct deduction of the fee under Art. 201, para. 1, item 3 of the SIC is also monitored. The results of daily supervision are reflected in daily forms, in the analytical monthly reports on the activity of each PIC and the funds managed by it, as well as in ad-hoc reports and report memos.

Periodic supervision is carried out on the basis of monthly, quarterly and annual financial reports and statements on the activity of PICs and the funds managed by them. In 2022, a total of 755 inspections were carried out, including 130 inspections of the submitted financial statements and reports on the activities of PICs and 625 inspections of the submitted financial statements and reports on the activities of the funds. Based on the information from the financial statements and reports, the regulatory and general financial indicators for the activity of PIC and the funds managed by them are calculated and analysed. Through the indicators determined by regulation the legal implementation of the PIC activity is monitored on a monthly basis. The regulatory indicators are own funds and solvency limit of PICs, liquidity of PICs and the managed funds, investment fee deducted for PICs from VPFs and from the VPFOS, management fee from the insurance contributions of VPFs and VPFOS under occupational scheme, reserve for guaranteeing the minimum yield for the funds for supplementary mandatory pension insurance and reserve for guaranteeing the gross contributions (for the universal pension funds). The growth of assets and insured persons in SPFs, investments and profitability of SPFs, as well as the growth of assets and investments in FPB are analysed monthly. The overall financial indicators are calculated and analysed on an annual basis. These indicators are related both to the activity of PICs - own capital, assets, income and expenses of PICs, and to the activity of the managed funds - assets, participants, investments and profitability (for SPFs).

During the year, monthly inspections were also carried out on the electronic pages of PICs in connection with compliance with the provisions of the SIC and Ordinance No. 61 of 27.09.2018 on the requirements for advertising and written information materials and the web pages of the pension insurance companies. Periodically (10th of the month following the quarter) the publication of information on the volume and structure of investments by types of assets and issuers of financial instruments is also inspected. During the year, an inspection was also carried out on the websites of all the PICs regarding the publication of the audited annual financial statements of the companies and the funds managed by them, as well as the other required information according to Art. 190, para. 2 of the SIC. During the inspections carried out through the year, no significant omissions or discrepancies were found.

In view of the amendments adopted in 2021 in the regulatory framework concerning the activity of supplementary pension insurance, at the beginning of 2022, the Handbook for the implementation of risk-based supervision of PICs and the funds managed by them was updated.

During the reporting year, inspections were carried out for compliance with the provisions of Art. 177, para. 2 and 3 of SIC. Their results have been set out in special reports and appropriate supervisory actions have been taken.

In view of the military actions between the Russian Federation and Ukraine that began in February 2022 and the subsequent new sanctions and measures against the Russian Federation by the EU, a letter has been sent to all PICs. It required inspection for the presence of insurance accounts of the persons, entities and bodies contained in the list of persons, entities and bodies subject to restrictive measures, which is annexed to Council Decision 2014/145/CFSP, and notification of their results. It is also required, in the event that the presence of accounts of such persons is established in the future, to notify the FSC in a timely manner. According to the information received from all PICs, no presence of insurance accounts of such persons has been established. During the year, the FSC was not notified of the existence of insurance accounts of such persons.

During the reporting year, checks were carried out for the presence of groups within the meaning of the SIC and compliance with the quantitative restrictions in relation to the issuers represented in the investment portfolios of the funds managed by four PICs. The results of the inspections were set out in four reports, and no SIC violations were found.

A report was prepared summarizing the opinions and findings expressed in the reports of the joint auditors of the financial statements of the PICs and the managed SPFs for the year ended 31.12.2021 in connection with the inspection under Art. 187, para. 3, item 2 of the SIC. Based on the findings of the auditors and the additional checks, letters were sent to 2 audit companies, which carried out an inspection and certification of the AFS, to 1 PIC in connection with discrepancies in the findings established by the FSC. Also, 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. The findings of the auditors did not make it necessary to take supervisory actions.

In the reporting year 2022, the implementation of enhanced monitoring continued on 3 PICs in relation to the actions taken by them to collect overdue receivables of SPFs related to owned bond issues and to leased investment properties, including interest on late payment, given the supervisory compliance due care in the management of the funds of the insured persons. During the year, due to a significant reduction in overdue receivables, including interest due for late payment of SPFs, managed by 1 PIC, the monitoring of this company was terminated. Also, the presentation by 1 PIC of information regarding rental contracts of investment properties owned by a SPF has been suspended due to the repayment of old overdue debt and the absence of new overdue receivables. During the year, an analysis of the regularly presented information was carried out, and the results were objectified in reports. As a result of the analysis of the information received during the year, letters were sent to the companies requesting additional documents and information, as well as the performance of certain actions.

During the reporting 2022, intermediate calculations of the yield achieved by the SPFs at random dates were carried out in order to determine the risk of not achieving the minimum yield and the risks regarding its coverage according to the regulatory requirements.

In accordance with the Manual for implementation of risk-based supervision of PICs and the funds managed by them, during the year based on selections, the valuations by independent appraiser of certain properties of SPF have been analysed. Based on the analyses, reports have been drafted on compliance with the requirements of Art. 10 of Ordinance No. 9 of 19.11.2003 on the manner and procedure for assessing the assets and liabilities of a pension insurance company and the funds managed by it, the value of the net assets of the funds, for calculating and announcing the value of one unit, for calculating and comparison of the yield from investment properties and the requirements for keeping individual lots and analytical accounts in a deferred payment fund, and no violations have been found during the year.

During the reporting year, employees from the management actively participated in workshops and performed prototype tests in connection with the construction of a Unified Information System for the needs of the FSC.

In accordance with the Manual for implementation of risk-based supervision of PICs and the funds managed by them, a comprehensive assessment of the risk profile of each pension insurance company at the end of each quarter. There were no significant changes in the risk profile of the companies during the year. At the end of 2022, all 10 companies have a 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 5 PICs are defined as low risk and 5 companies remain with a medium risk profile.

3.2. On-site inspections

Investment firms

In 2022, 4 general scheduled inspections were completed out. As part of the inspections carried out, acts establishing administrative violations were drawn up. All inspections were completed with delivery of statement of findings to the inspected supervised entities, and recommendations for observance of the applicable legislation and bringing the activity of the entities into compliance.

In 2022 6 inspections of supervised entities were initiated. In view of the manner of planning the inspections, they are differentiated into 4 full scheduled and 2 unscheduled ones and depending on the scope of the inspections - into 5 full (comprehensive) and 1 thematic inspection. All general inspections of supervised entities cover the activities of the companies for compliance by them with the requirements of the POSA, the MFIA and the regulatory acts on their implementation, as well as the applicable European regulations. The thematic inspection covers the company's activities for compliance with the requirements of Section V of Chapter Two and Section III and Section V of Chapter Seven of the MFIA, MAMLA, the Rules on implementation of MAMLA and MAFTA and the acts on their implementation.

As a consequence of the on-site inspections and the recommendations made to the supervised entities, monitoring and analysis of the implementation of these recommendations is

carried out. The results of the performed analyses of the actions taken by the supervised entities to implement recommendations made as a result of on-site inspections are objectified in special reports, and in this regard in the reporting year 2022. 3 reports were prepared.

Collective investment undertakings

The purpose of inspections of collective investment undertakings (CIUs) is to establish compliance with the applicable regulations regarding the organization of their activities in accordance with the license issued by the FSC. In the past year, both general (comprehensive) inspections were conducted, in which the object of inspection is the entire activity performed by the inspected company, as well as thematic inspections, where the scope of the inspection is a separate unit or activity performed by the supervised entity. In the cases where the MC/AIFM provides the additional services under the CISOU CIA, 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 2022, 4 general scheduled inspections of MC and the CIS and NIF managed by them and 2 thematic inspections, one of which was unscheduled, were opened. In the course of the on-site inspections an inspection was also carried out of the activities of depository banks in order to establish its compliance with the regulatory requirements.

The inspections have been carried out with a view to establishing the compliance with the applicable legislation relevant to the activities of the companies, namely the CISOU CIA, POSA, MFIA, FSCA and the regulatory acts on their implementation, as well as the applicable European regulations. Regarding the violations and non-conformities with the regulatory requirements or with the good market practices established during the inspections, the relevant supervisory actions were taken, namely invoking the administrative criminal liability of the responsible persons, making recommendations to bring the activity in line with the requirements, as well as placing the company's activity under monitoring for a certain period of time.

In 2022, with the delivery of a Statement of findings, 2 general inspections were completed, as a result of which grounds were established for issuing a total of 37 recommendations and 3 warnings.

As a consequence of the on-site inspections and the recommendations made to the supervised entities, monitoring and analysis of the implementation of these recommendations is carried out. As part of the analyses carried out during the year, letters were sent to the relevant companies, with which additional documents and/or information were requested, and the final result to be achieved is bringing the activities of the supervised entity into full compliance with the regulatory requirements and good practices. The results of the performed analyses of the actions taken by MCs to implement recommendations made as a result of on-site inspections are objectified in special reports, and in this regard in the reporting year 2022. 4 reports were prepared.

Special Purpose Investment Companies

Special purpose investment companies are a specific type of joint-stock companies that have received a license under the SPICSCA to carry out a certain type of activity, namely real estate securitization or receivables securitization. In this regard, the inspection covers: on the one

hand - the activity of the company as a SPIC, and on the other hand - the performance of its obligations as a public company. In this sense, the object of inspection is both the compliance with the SPICSCA and the POSA and the regulatory acts on its implementation. The purpose of the inspections of the SPICs 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 the SPIC's activity, the distribution of the profit, the storage and investment of the free funds, the investments in specialized companies, the total annual management costs, the disclosure of regulated information, the holding of general meetings of shareholders, as well as all internal documents related to their activities.

During the reporting period 2 general scheduled inspections of SPICs and their service companies have been opened. One of the inspections was completed in 2022, with 9 recommendations made, monitored in the course of off-site supervision. The second inspection continues in 2023.

In 2022, 2 full scheduled inspections of a SPIC and their service companies were completed, they were opened in 2021. In accordance with regulatory requirements of SPICs, 33 recommendations were given and their implementation is monitored in the course of off-site supervision.

Public Companies

During the year, 1 thematic unscheduled inspection of a public company was completed, opened with a special order in 2021. As a result of the inspection, a recommendation was made, which was implemented.

Insurance and reinsurance

In 2022, 5 general inspections were completed, 3 of which under the MAMLA and the Rules on implementation of the Measures Against Money Laundering Act (RIMAMLA) and 1 thematic on-site inspection under the IC, from those started in the previous year 2021. As a result of the completed inspections, some of the following recommendations and prescriptions were issued:

Regarding 2 of the general inspections under the Insurance Code:

- to revise the management and organizational structure of the company;
- to update the company's Articles of Association in accordance with the amendments and requirements of the IC effective from 01.01.2016;
- to take actions to change the job descriptions of the key functions and to ensure the independence and operational independence of the heads of the key functions;
- to comply with the statutory requirements in art. 80, para. 10 of the IC, related to an approval regime by the FSC before the appointment of the relevant persons;
- to take sufficiently adequate measures to guarantee the effectiveness of the management system, the expedient and reliable performance of responsibilities in the company;
- to apply such an internal procedure for reviewing the documents under Art. 77, para. 1 of the IC, which meets the requirements of Art. 77, para. 2 of the IC and Art. 11, para. 10 in connection with para. 9 of Ordinance No. 71;

- to take actions to amend and update certain internal policies of the company, in accordance with the IC and the acts on its implementation;
- to comply with the contracts of the persons under Art. 2, para. 1 of Ordinance No. 48 of 20.03.2013 on requirements for remuneration (Ordinance No. 48) with its requirements, in accordance with Art. 5, para. 4 of the same;
- to comply with the requirement of Guideline No. 3 of the Guidelines adopted by EIOPA for own risk and solvency assessment, and for each carried out ORSA, it is necessary to prepare an Internal Report on ORSA and to keep the respective records;
- to comply with the requirement of Guidelines No. 5 and 6 of the Guidelines adopted by EIOPA for own risk and solvency assessment, and for each carried out ORSA, to prepare an Internal Report on ORSA.
- to take actions to amend and supplement the General/Special Terms and Conditions for the insurance products offered by the company;
- to prepare a response to every complaint received by a user of insurance services within the legally defined timeframe according to Art. 290, para. 2 of the IC;
- to include investment management costs when projecting the cash flows of the best estimate of obligations and stresses under the Solvency II Standard formula;
- to prepare a Plan of the future actions of the management bodies, to be adopted by the administrative, management or supervisory body of the insurer in fulfilment of Art. 23 of Delegated Regulation (EU) 2015/35;
- to model and include an assessment of the value of financial options and guarantees in the calculation of the BE;
- to use a stochastic model to estimate the time value of financial options and guarantees;
- to carry out regular back-testing of assumptions against experience (practical results) according to Art. 264 of Delegated Regulation (EU) 2015/35 and, if necessary, to adapt the assumptions used so that they reflect the experience of the company;
- in the calculation of the best estimate of the premium reserve and the claims reserve, to include the amount of investment management costs, according to Art. 31, para. 1 b of Delegated Regulation (EU) 2015/35 and the amount of inflation, including on costs and claims, according to Art. 78, item 2 of Directive 2009/138/EC;
- in the calculation of the best estimate of the premium reserve, to correctly apply the relevant term structure of the risk-free interest rate;
- to adopt an internal methodology or internal document that describes the recognition and measurement principles applied to deferred taxes;
- to amend the investment policy, reflecting the findings detailed above, as well as the provisions of Ordinance No. 71;
- the accounting policy should be supplemented with information on impairment of receivables from insured persons and intermediaries, according to the provisions of art. 83 of Ordinance No. 53;
- in the information system to maintain detailed information on claims from insured persons and intermediaries, in order to fulfil the provisions of Art. 83 of Ordinance No. 53, as well as to impair receivables at each reporting date;

- to fill in correctly the amounts in the reports under Commission Implementing Regulation (EU) 2015/2450 of 2 December 2015 laying down implementing technical standards with regard to the templates for the submission of information to the supervisory authorities according to Directive 2009/138/EC of the European Parliament and of the Council (Implementing Regulation (EU) 2015/2450).
- to correctly apply the assumed percentage shocks on the shares of type 1 and type 2 according to Art. 169, par. 1b and par. 2b of Delegated Regulation (EU) 2015/35 on the calculation of the equity risk sub-module;
 - to update the internal document/methodology for calculating the Solvency Capital Requirement (SCR), describing the input parameters, the output parameters, as well as the relevant calculation steps;

Regarding the thematic on-site inspection in relation to the Insurance Code:

- the company and the responsible actuary to monitor the quality of the submitted and used data. When errors are found in the model in the forecast of cash flows used to calculate the BE, they should be commented on in the report of the actuarial function and actions should be proposed to eliminate them;
 - to include investment management costs when projecting net best estimate of obligations cash flows and stress scenarios under the Solvency II Standard formula;
 - to include all costs considered in the projection of future cash flows when calculating the cost risk sub-module in life insurance, and to analyse which administrative costs included in the projection of future cash flows are fixed and which are variable, with fixed costs being appropriately assessed at the policy level in the calculation of each of the life insurance underwriting risk sub-modules, especially for the mass termination risk sub-module;
 - to update the calculation of the solvency capital requirement, ensuring compliance with Delegated Regulation (EU) 2015/35;
 - to prepare a Plan of the future actions of the management bodies, to be adopted by the administrative, management or supervisory body of the insurer in fulfilment of Art. 23 of Delegated Regulation (EU) 2015/35;

Regarding 3 of the general on-site inspections in relation to the MAMLA:

- The head of the Specialized Service for MAMLA should fulfil the obligation to report its activity quarterly to the Management Board of the insurer. The approval of the reports (regular and/or extraordinary) should take place at a regularly held meeting of the Management Board. In this regard, the Management Board of the insurance company should require and monitor the regular accounting and reporting regarding the activity of the Specialized Service for the MAMLA;
 - to comply with Art. 79 of the internal rules for control and prevention of money laundering and the financing of terrorism with the provision of Art. 72, para. 3 of the MAMLA, so that the employees of the company are not prevented from notifying the State Agency National Security in case of suspicion and/or knowledge of money laundering and/or the presence of proceeds of criminal activity;
 - when verifying the collected identification data, the documents certifying the verification must contain information about the date and time of the actions taken, as well as the names and positions of the person who performed them;

- actions should be taken to update Annex No. 13 of the internal rules under MAMLA so that the information contained therein is consistent with the actual composition and contact details of the members of the company's Management Board;

- to observe and apply the requirements of Art. 55, para. 1 in connection with Art. 11, para. 1, item 1, connection with Art. 10, item 1 of the MAMLA. In addition, when establishing business relationships, the insurer should also check whether the relevant persons do not fall into the category of persons to whom enhanced due diligence is required under Section IV of the MAMLA;

- employees involved in anti-money laundering measures should be required to fill in all the documents required under the MAMLA and RIMAMLA, as well as to ensure that the documents are duly filled in by the insurer's clients.

In 2022, a total of 15 on-site inspections were opened, as follows:

- 2 general inspections on the activities of non-life insurance companies for compliance with the provisions of the IC, the acts on its implementation, as well as the acts of the European Commission on the implementation of Directive 2009/138/EC, one of which not been completed during the reporting period. As a result of the general on-site inspection of an insurer, some of the following recommendations and prescriptions have been made:

- to develop, adopt and apply a single internal document - Management and organizational structure according to Art. 77, para. 1, item 1 of the IC, in which the organizational structure of the insurer should be described in a clear and accessible manner, with a clear distribution and appropriate division of responsibilities;

- to comply with the contracts of the persons under Art. 2, para. 1 of Ordinance No. 48 with its requirements in accordance Art. 5, para. 4 of the ordinance;

- to take actions to amend the General Terms and Conditions for the insurance products offered by the insurer;

- to monitor the distributed insurance products in the course of their use, whether they continue to meet the interests, goals and characteristics of the target market;

- to comply with the established remuneration policies for both employees and the remuneration paid by insurers to their representatives acting on their behalf, so that they work in accordance with the general principle laid down in Article 17 of Directive (EU) 2016/97 of the European Parliament and of the Council of 20.1.2016 on the distribution of insurance products. To comply with the general principles for the remuneration of distributors of insurance products according to Art. 288a of the IC;

- to strictly comply with the provision of art. 319, para. 4, in connection with Art. 319, para. 3 of the IC, in connection with art. 27, para. 3-5 of Ordinance No. 15 of 05.05.2004 on the keeping and storage of registers by the Financial Supervision Commission, and on the circumstances to be recorded;

- to correct the information system regarding the proper definition of the remaining number of days of the insurance contracts, in order to correctly calculate the unearned premium reserve;

- to carry out an analysis of the identified shortfall for the past period;

- to carry out an analysis of the identified shortfall. The analysis, together with an opinion from the responsible actuary, should be sent to the FSC within the time limit specified above;
- to perform exactly and within the required terms of the obligations under Art. 573, item 2 in connection with Art. 571, para. 1, item 2 of the IC and Art. 13, in connection with Art. 12 of Ordinance No. 54;
- to prepare a Plan of the future actions of the management bodies, to be adopted by the administrative, management or supervisory body of the insurer in fulfilment of Art. 23 of Delegated Regulation (EU) 2015/35;
- in the calculation of the best estimate of the premium reserve and the reserve for claims, to include the amount of investment management costs, according to Art. 31, para 1 b of Delegated Regulation (EU) 2015/35;
- in the calculation of the best estimate of the premium reserve and the claims reserve, to include the amount of inflation, including on costs and claims, according to Art. 78, item 2 of Directive 2009/138/EC;
- to review and update the use of up-to-date inputs to the Solvency Capital Requirement modules required for the calculation of the risk allowance;
- to correctly fill out the investment report under Ordinance No. 53 for each reporting period;
- to correctly fill in columns C0140 and C0170 in template S.06.02.01 of Implementing Regulation (EU) 2015/2450, in which the required information on cash balances is indicated in each column separately for each bank;
- to comply with the requirements for impairment of receivables from insured persons and intermediaries of Art. 83 of Ordinance No. 53, as well as to exclude from the accounting registers receivables and write-downs on expired policies;
- to adopt an internal methodology or internal document that describes the recognition and measurement principles applied to deferred taxes.

In order to comply with the provisions of MAMLA and RIMAMLA, 3 general inspections of life insurance companies were opened, of which 1 was not completed during the reporting period. As a result of the completed 2 inspections some of the following recommendations and prescriptions have been made:

- in relation to the possibility of technical inaccuracies or incompleteness of the information contained in the customers' files, the responsible employees of the insurer should carefully review the information provided, observing the instructions in the sample forms (appendices) themselves;
- to comply with item "E" "Providing assistance to law enforcement authorities" of the Global Policy for the Prevention of Money Laundering with the provision of Art. 72, para. 3 of the MAMLA;
- when verifying the collected identification data from low-risk files, the documents certifying the verification must contain information about the date and time of the actions taken, as well as the names and positions of the person who performed them;

1 thematic inspection was carried out regarding the distribution of insurance products, settlement of insurance claims, control and management of products, management of complaints

of an insurance company operating on the non-life insurance market in the Republic of Bulgaria under the conditions of the right of establishment through a branch. As a result of the inspections the following prescriptions and recommendations have been made:

- to take actions to correct a document - "Information for users of insurance services according to Art. 324 et seq. of the IC" by supplementing the information under Art. 324, para. 1, item 7 of the IC;
- to take action to amend the Claims Filing Procedure, taking into account the findings regarding the requirement for a notarized copy of official documents;
- to take actions to amend and supplement the General and Special Terms and Conditions for the insurance products offered by the company.

1 thematic inspection of an insurer was carried out regarding the technical reserves and market behaviour of the company - distribution of insurance products, control and management of products, filing and settlement of insurance claims, management of complaints. As a result of the inspections the following prescriptions and recommendations have been made:

- more in-depth monitoring of distributed insurance products in the course of their use, whether they continue to meet the interests, goals and characteristics of the target market;
- to take into account the regulatory provisions of Delegated Regulation (EU) 2017/2358 regarding the application of procedures for significant adaptations of an existing insurance product before it is placed on the market or distributed to customers, taking into account the exact scope of the concept of "significant adaptation of an existing product";
- to take actions to amend the internal rules for the organization of insurance claims settlement activity, removing the limitation of the right to present claims, especially in circumstances beyond the will of the user of insurance services;
- to fully optimize and digitize the claims settlement processes so as to stop unreasonably delayed registration of documents; to comply with the information and accounting systems in a way that guarantees that outgoing/incoming correspondence is registered with a number and date automatically displayed by the relevant system, and not through manual intervention, which is a prerequisite for manipulating the number and date of the documents;
- for a period of 6 months, the head of the compliance function should prepare a monthly report to the Board of Directors regarding the detailed follow-up of the performance, along with the actions taken by the insurer to eliminate weaknesses and improve the claims settlement process. The written report shall be submitted to the governing body by the 10th day of the month following the month to which it pertains. A certified copy of the report, as well as comprehensive information on the measures taken by the management body, shall be submitted to the FSC within three days of its acceptance by the Board of Directors;
- to take actions to amend the rules for examining complaints, removing the technical error with the incorrect indication of the provision of Art. 108, para. 2 of the IC instead of the correct provision - Art. 108, para. 6 of the IC;
- to use the technical interest in the calculations of premiums and reserves not higher than 50 percent of the long-term interest rate published by the Bulgarian National Bank, averaged over the last seven years.

- to adapt the best estimate of obligations. In calculating the best estimate of the claims reserve, to include the amount of illness.

1 thematic inspection of an insurer regarding technical reserves and investments was carried out, as a result of which the following prescriptions and recommendations were made:

- to correctly treat the property used for own needs and to correctly fill out the investment reports under Ordinance No. 53 for each reporting period;

- to apply a fair value measurement in accordance with IFRS 13 and to impair the investment in a subsidiary representing a 100% equity interest;

- to take adequate actions in order to achieve the relevant results regarding compliance with the set quantitative limits in the investment risk management policy in relation to the owned real estate;

- to correct the information system regarding the correct calculation of the unearned premium reserve, accordingly the responsible actuary should monitor the quality of the submitted and used data and comply with the provisions of Section II and Section III of Ordinance No. 53. It is necessary also to comment on the quality of the data used to calculate the technical reserves and in the annual actuarial report;

- in the calculation of the best estimate of the claims reserve, in the part of discounting cash flows, according to Art. 77, par. 2 of Directive 2009/138/EC, to apply a correct term structure of the risk-free interest rate;

- in the calculation of the best estimate of the premium reserve and the claims reserve, to include the amount of investment management costs, according to Art. 31, para 1 b of Delegated Regulation (EU) 2015/35;

- in the calculation of the best estimate of the premium reserve and the claims reserve, to include the amount of inflation, including on costs and claims, according to Art. 78, item 2 of Directive 2009/138/EC;

1 thematic inspection of an insurer was carried out regarding the system of governance, investment activity, calculation of capital requirements and their coverage with own funds and information system, in order to establish compliance with the provisions of the IC, the acts on its implementation, as well as the acts of the European Commission on the implementation of Directive 2009/138/EC. As a result of the inspection the following recommendations and prescriptions have been made:

- to take actions to update the Management and organizational structure of the company with its current key functions, according to the requirements of the IC and Ordinance No. 71 of the FSC, as instead of a general reference to Art. 78, para. 1, item 5 of the IC, to describe all organizational units;

- to take actions to change the job descriptions of the key functions, so that a deputy of each of the persons designated to lead the relevant function is specified in them;

- the compliance function to take actions to overcome the identified negative indicators in the Compliance Plan, taking into account the findings made in the next Compliance Plan;

- to specify the job description of the internal audit function, complying with the provision of Art. 95, para. 2 of the IC;

- the actuarial function should fulfil the obligation, provided in Art. 272, paragraph 8 of Delegated Regulation (EU) 2015/35 and in item 5.11.8 of the Management and Organizational Structure of the Insurance Company, namely, to prepare and present a written report to the Board of Directors for 2021, in which all the tasks undertaken by the actuarial function and the corresponding results are noted and any weakness is clearly indicated, giving recommendations for its elimination;

- to submit to the FSC an Annual Report on the activity of the insurance product distribution function in 2021;

- to comply with the job description of the director of the Information Service Directorate with the Guidelines for security and management of information and communication technologies and the Decision of the Board of Directors;

- in fulfilment of Art. 5, para. 4 of Ordinance No. 48 and Section VI, Item 5 of the Remuneration Policy in conjunction with Art. 75, item 4 of the IC, to arrange in the relevant labour and civil contracts with regard to the persons under Art. 2 of Ordinance No. 48, respectively, to the employees of the company, the above-mentioned clauses;

- when updating the Operations Program, to the extent that the Service Provider function is not key, to remove its qualification as such;

- to provide the FSC with own risk and solvency assessment, which would include information on stress tests or scenario analysis in accordance with the requirements of Ordinance No. 71;

- to take appropriate actions regarding the restructuring of the investment portfolio in order to achieve compliance with the set quantitative limits in the investment risk management policy, as well as to comply with the requirements of Art. 124 of the IC;

- premiums received should be calculated as the sum of gross written premiums minus the change in the gross unearned premium reserve, according to Implementing Regulation (EU) 2015/2450;

- to provide a detailed calculation and justification of the constituent elements of the risk sub-module related to determining the premiums and reserves in non-life insurance as of 30.06.2022, according to Art. 115 of Delegated Regulation (EU) 2015/35;

1 thematic inspection of an insurer was carried out regarding investments, technical reserves and market behaviour, distribution of insurance products, product control and management. As a result of the inspections the following prescriptions and recommendations have been made:

- to adapt the BEL calculation model as of 31.12.2022, including investment management costs when forecasting BEL cash flows;

- to carry out regular back-testing of assumptions against experience (practical results) according to Art. 264 of Delegated Regulation 2015/35 and, if necessary, to adapt the assumptions used so that they reflect the experience of the company;

- to provide training to the natural person insurance agents for the distribution of insurance products, which they carry out on their behalf, as well as to the persons under Art. 316, para. 1, sentence two, to legal entity insurance agents, and to the employees of legal entity or sole

trader insurance agents, directly engaged with distribution of insurance products according to the provision of art. 317, para. 1 of the IC.

1 thematic inspection of an insurer was carried out in relation to the information system, the conclusion of compulsory motor third-party liability insurance when acquiring a motor vehicle with a foreign registration number, as well as the procedure for settling insurance claims under compulsory motorist liability insurance, including the management of complaints. As a result of the inspections the following prescriptions and recommendations have been made:

- to set aside the RBNS reserve in relation to the legal claims, on which there is no ruling of the court, in accordance with the provision of art. 90, para. 11 of Ordinance No. 53;
- to develop and adopt internal rules for the settlement of claims made on the basis of insurance contracts concluded on the territory of other member states.
- to take actions to amend the job description of the complaint management function, in accordance with the requirements of Art. 268, par. 1 of Delegated Regulation (EU) 2015/35, providing the requirement to report to the Board of Directors of the company both for the activity of the function, through periodic reporting, and exceptionally, in the cases of identified problems and/or violations.

1 thematic inspection was conducted of an insurer on the compliance function, policies, processes and procedures related to remuneration and asset valuation. The inspection was carried out jointly with another European supervisory authority. As a result of the inspections the following prescriptions and recommendations have been made:

- to align the organizational chart with the Management and organizational structure of the company;
- to comply with the contracts of the persons under Art. 2, para. 1 of Ordinance No. 48 with its requirements in accordance Art. 5, para. 4 of the ordinance;
- to comply with the provision of Art. 9, para. 8, sentence first of Ordinance No. 71 and to develop and implement its own policy for the management of assets and liabilities, part of the system of governance under Art. 77, para. 1, item 3, dd of the IC, which is in line with the Group's strategy and policies.

A total of 52 on-site inspections of insurance intermediaries were carried out in 2022, including 50 full scheduled inspections, including 5 inspections regarding compliance with provisions on measures against money laundering and terrorist financing, and 2 unscheduled inspections after received complaints and reports.

The 45 full scheduled inspections of the activity of insurance intermediaries include monitoring the compliance with the requirements of the IC and its implementing instruments and prevention of offenses, checking the distribution of insurance products and the persons offering and comparing such products. In the scope of the performed inspections, the requirements related to the provision of pre-contractual information provided to the users of the insurance services, the guarantee of their activity and the deadlines for reporting the insurance premium collected by the intermediaries, etc., were followed.

The scope of 5 of the carried out planned inspections is regarding compliance with the provisions of the MAMLA in the acts on its implementation and in the MAFTA.

As a result of the 2 unscheduled inspections carried out in connection with received complaints and reports, 6 SEAVs were drawn up for 19 administrative violations of the provisions of the IC, and in 1 of the inspections, grounds were established for the deletion of MISTRAL GROUP EOOD, due to non-payment of required and liquid monetary obligations in connection with its activity as an insurance broker, and with Decision No. 428-3B of 02.06.2022 it was deleted from the register of the FSC.

As a result of what the on-site inspections of insurance firms carried out during the year, 24 acts were issued for a total of 54 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 presence of documents certifying the necessary knowledge, skills and qualifications of the employees directly engaged in the activities of insurance distribution, so that they fulfil their tasks and obligations adequately;

As a result of the inspections the following recommendations have been made:

- to correct or supplement the pre-contractual information about the distributor of insurance services under Art. 325 of the IC;
- to correct the insurance intermediation agreements signed with the insurer, by entering the statutory deadlines for transferring the collected insurance premium to the insurer;
- to eliminate negotiated additional commissions based on sales volume;
- to submit documents certifying the continued training completed in 2021 by employees directly involved in the distribution of insurance products;
- to be provided with a document certifying the method of guaranteeing the activity of an insurance agent: through the maintenance of own capital or client/s accounts, or a power of attorney from the insurer, with which the agent is authorized to operate with the account of the insurer;
- to transfer for the benefit of the insurer the received payment of a premium or contribution under insurance in the statutory term under Art. 337, para. 2 of the IC, namely one month after receiving the payment, and for the mandatory insurances under Art. 461, items 1 and 2 - within 5 working days of receiving the payment
- to correct the information provided through the web pages of the distributors of insurance services addressed to consumers of insurance services, including marketing messages, so that it is true, clear and not misleading in terms of the name of the intermediary, the addresses of the offices of execution of insurance intermediation activity and for the insurers for whom insurance intermediation is carried out;
- to publish "Rules for handling complaints of users of insurance services" on the website maintained by the intermediary;

- to present documents certifying the necessary knowledge, skills and qualifications of the employees directly engaged in the activities of insurance product distribution, so that they fulfil their tasks and obligations adequately;

- The FSC shall be notified within 7 days of all new facts and circumstances that are subject to entry in the Commission's register in accordance with the provisions of Art. 311, para. 2 of the IC in connection with Art. 311, para. 1, item 1. of the IC in connection with Art. 27 of Ordinance No. 15 of 05.05.2004 on the keeping and storage of registers by the Financial Supervision Commission and on the circumstances to be recorded;

- to amend the model of the assignment contract for legal entities, providing that the insurance contracts are signed, amended and terminated on behalf and at the expense of the Assignor, only after a written declaration of intent by the user of insurance services.

Supplementary pension insurance

In implementation of the Annual Program for carrying out on-site inspections in pension insurance companies and custodian banks in 2022 (for compliance with legislation in the field of supplementary pension insurance), 3 on-site inspections were opened - 2 general and 1 thematic. 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 funds managed by them is monitored. The thematic inspection is for compliance with the provisions of the SIC and the by-laws on its implementation in terms of risk management, investments, receivables and obligations of the SPF and FPB managed by the company, and it was completed in the first quarter of 2023.

In the beginning of the reporting year the finding protocol of the general on-site inspection completed at the end of 2021 was handed over. No violations were found during the inspection. In connection with the inspection, the company was given 32 recommendations to improve the activity.

During the 2 comprehensive inspections carried out in 2022 in the PIC, no violations were found. In the statement of findings from the inspections of the management of one PIC were given 6 recommendations for improving the activity, and the other was given 8 recommendations.

In this reporting year, for the first time, an Annual Program for On-Site Inspections in PICs for Compliance with AML/CFT Legislation was prepared by the Social Insurance Supervision Directorate, on the basis of the approved in the third quarter of 2021 Risk-based supervision manual for the prevention of money laundering and terrorist financing in the sector: Social Insurance supervision.

In implementation of the Annual Program for On-Site Inspections in PICs for Compliance with AML/CFT Legislation, in 2022, the "Social Insurance Supervision" Directorate opened 2 general on-site inspections. These inspections monitored compliance with the requirements of the regulations governing measures against money laundering and terrorist financing. No violations were found during the inspections. As a result of the performed inspections the management of 1

PIC was given 2 recommendations for improving the activity, and the other was not given recommendations.

During the reporting 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 carried out during the year, letters were sent to the companies with which additional documents and information were requested.

3.3. Law enforcement

Legal activity

During 2022, a total of 2 penal warrants were issued by the Chair of the FSC 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). With the SPICSCA becoming effective, promulgated in the State Gazette no. 21 of 2021, administrative penalties for violations of the SPICSCA are imposed by the Deputy Chair of the Commission in charge of the Investment Supervision department, which were previously under the competence of the Chair of the Commission.

The total value of the amount of the sanctions, determined by the imposed administrative penalties with the issued penal warrants by the Chair of the Commission is BGN 6000. In the specified number of penal warrants are included 1 penal warrant worth BGN 4,000 per insurer and 1 penal warrant worth BGN 2,000 per insurance broker.

In the reporting 2022, 12 penal warrants issued by the Chair of the Commission have entered into force, including PWs issued in previous years (until 2020), at a total value of BGN 116,000. In the reporting 2022 there are 6 penal warrants revoked by the court, issued by the Chair of the Commission, at a total value of BGN 112,000. The total value of the sanctions imposed with penal warrants issued by the Chair of the Commission, including PWs issued in previous years (until 2017), which at the end of 2022 are in the appeal phase, amounts to BGN 38,000.

Table 20. Enforcement in 2022

	Drawn up SEAVs (no.)	Issued PWs (no)	Value of enforced PWs (BGN)	Proceedings opened under CAM (no.)	Decisions for implementation of CAM (no.)
Investment firms, Central Depository, BSE and other persons			2,000		
CIS, MC, SPIC, PC and other issuers			108,000		
Non-life insurance companies		1	4,000		

Life insurance companies					
Insurance brokers		1	2,000		
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					

Investment firms

In their day-to-day activities, employees of the Investment Supervision Department apply a wide range of regulations covering the prevention of money laundering and terrorist financing, capital market activity, protection of the rights of users of financial services, shareholders in public companies and investors. The legal framework is outlined both by national legislation, through laws and by-laws, and by directly applicable European acts.

In 2022 the officials of the Supervision of Investment Activity division have drafted and delivered 230 SEAVs initiating proceedings in connection with 257 administrative violations, the proceedings are within the competence of the Deputy Chair in charge of the Supervision of Investment Activity Division.

For the same period, 119 PWs were issued, which imposed sanctions in the amount of BGN 180,000 for 184 violations.

In 126 of the initiated proceedings concerning 164 violations, 1 of the proceedings was terminated, and in 56 of the proceedings concerning 77 violations, agreements were concluded with the offenders.

Table 21. Enforcement in 2022

	Drawn up SEAVs/Identified Violations (no)	Administrative penalties imposed (no.)	Value of effective enforced PWs (BGN)
Investment firms	33/57	19/99	209,100
CIS, MC, SPIC, PC and other issuers, as well as their representatives	184/186	140/140	340,250
Other legal entities and natural persons	13/14	13/19	47,600

*Note: *The number of PWs issued in the reporting year includes both PWs issued on the basis of SEAV of the same year and PWs issued on the basis of SEAV 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 SEAV according to Article 34, Paragraph 3 of the Administrative Offenses and Penalties Act.

The summary information thus indicated will be examined in detail in the following statement, depending on the suspected persons, indicating the actions taken and the completion of the administrative criminal proceedings initiated:

Investment firms

As a result of the comprehensive off-site supervision and on-site inspections, administrative violations of both national and European legislation were identified in 2022. Violations of the provisions of the POSA, MFIA, MAMLA and Ordinance No. 23 were found. The identified breaches of European legislation are Regulation (EU) 575/2013, and (EU) 600/2014.

In 2022, in relation to IFs, 33 SEAVs were drawn up in connection with 57 committed acts, the administrative criminal proceedings of which are under the competence of the deputy Chair in charge of Supervision of Investment Activity Division.

In 2022, 11 PWs were issued by the Deputy Chair, 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 SEAVs, drawn up in the previous year. With the issued PWs, pecuniary sanctions and fines in the total amount of BGN 515,000 were imposed for 70 administrative violations committed.

The value of PWs, issued during the reporting period and effective as of 20.03.2023, amounts to a total of BGN 123,000, and as of the same date, there are no court proceedings that have ended with annulment decisions in connection with administrative criminal proceedings instituted against IFs.

During the reporting period, 8 agreements concerning 29 committed administrative violations were concluded with the IFs. With the agreements concluded, with the consequences of a PW that came into force, administrative penalties in the amount of BGN 86,100 were imposed, which were promptly paid by the offenders.

As of 20.03.2023, 7 penal warrants in connection with 40 committed violations are under appeal, with the total value of administrative penalties amounting to BGN 392,000.

In 2022, 41 of the administrative criminal proceedings instituted in relation to IFs were terminated, and in 13 of them the offenders were warned that in the case of repeated violations of the same type, representing a minor case, the offender will be sanctioned.

During the reporting period, violations of various types of legislative acts - ordinances, laws and regulations - were found. A major part of the violations committed are the acts concerning the failure to submit a complete and precise report to the FSC for a concluded transaction or the submission of such after the required period, in violation of Art. 26, § 1 of Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012. During the reporting period, a significant number of violations of the MAMLA were established related to the lack or incomplete identification of clients by investment firms before establishing business relations with them. Incidental violations of the MFIA, Regulation 575/2013, as well as Ordinance 23 are also reported.

Table 22. Most frequent violations by IFs in 2022

Type and basis of the violation	Drawn up SEAVs/Identified Violations (no)	Administrative penalties imposed (no.)
Failure to submit a complete and accurate report on concluded transactions (Art. 26, § 1 of Regulation 600/2012)	3/20	4/31
Violations in the identification of proxies of customers in connection with the requirements of the MAMLA (Art. 54 and Art. 7 of the MAMLA)	12/12	given the 6-month term under Art. 34, para. 3 of the AVPA, during the reporting period no PWs were issued
Failure to comply with requirements related to trade and execution of orders (Art. 109, Para. 1 of the MFIA)	5/6	2/2

During the reporting period, in relation to BSE AD, 2 SEAVs were drawn up and handed over, with which 4 administrative violations were established. The proceedings have ended with the issuance of 2 warnings pursuant to Art. 28 of AVPA, as well as with the conclusion of 2 agreements.

In relation to Central Depository AD, no SEAVs were drawn up, and no administrative penalties were imposed.

Public companies, Special Purpose Investment Companies and other issuers of securities and their natural person representatives

In 2022, a total of 136 SEAVs were drawn up for public companies, special purpose investment companies and other issuers of securities, as well as for individuals representing them, establishing 138 violations.

During the reporting period, 75 penal warrants were issued by the Deputy Chair in charge of the Investment Activity Supervision Department, taking into account the 6-month term under Art. 34, para. 3 of the AVPA, some of these PWs are under SEAVs, drawn up in the previous year. With the indicated PWs, pecuniary sanctions and fines in the total amount of BGN 452,000 were imposed.

48% (36) of the issued penal warrants were appealed by their addressees in court. The reduced number of court proceedings can be attributed to the recent amendments to the AVPA, which enable the offender to pay the imposed fine or pecuniary sanction in the amount of 80% of the imposed amount, with which the issued penal warrant enters into force. Of the penal warrants issued in 2022, which imposed administrative penalties in the amount of BGN 177,000, 39 entered into force without being appealed by the offenders. As of 20.03.2023, 3 PWs issued in the reporting

period have been cancelled, the value of the administrative penalties for them is in the amount of BGN 5,000.

The value of PWs issued during the reporting period and under appeal as of 20.03.2023 amounts to a total of BGN 226,000 and pertains to 24 violations.

During the reporting period, 37 agreements concerning 37 committed administrative violations were concluded with public companies, companies with a special purpose of investment and other issuers of securities and natural persons representing them. With the agreements concluded, with the consequences of a PW that came into force, administrative penalties in the amount of BGN 98,650 were imposed, which were promptly paid by the offenders.

With the SEAV's drafted and delivered in 2022, the established violations are mostly 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.

Table 23. Most frequent violations by PCs, SPICs and other issuers of securities in 2022

Type and basis of the violation	Drawn up SEAVs (no.)	Issued PWs *(no)
Failure to submit regulated information on an annual and quarterly separate and consolidated basis (Art. 100b, para.8, Art. 100d, para. 1 and 2, Art. 100n, para. 1 and 2, Art. 100o, para. 1 and 2, Art. 100o ¹ , para. 1 and 2 of the POSA)	66	28
Failure to submit a declaration of property and business interests within the deadline (Article 20 of the SPICSCA)	15	11
Failure to declare legally defined circumstances within the term of election as a member of the board in a PC (Article 114b of the POSA)	10	8

*Note: *The number of PWs issued in the reporting year includes both PWs issued on the basis of SEAV of the same year and PWs issued on the basis of SEAV 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 SEAV according to Article 34, Paragraph 3 of the Administrative Offenses and Penalties Act.

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

In 2022, 48 SEAVs were drawn up in connection with the same number of violations committed by MCs. During the year, no acts of natural persons representing the mentioned companies were drawn up. There is a decrease in the number of detected violations compared to the previous reporting period.

A significant number of the committed violations relate to the failure to announce in a timely manner summary information on issue values and redemption prices of CIS units, violations

related to failure to maintain minimum liquid funds in a certain amount, failure to submit an updated prospectus of CISs within a time limit, etc. were also established.

During the reporting period, a total of 30 PWs were issued by the Deputy Chair, 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 is under SEAVs, drawn up in the previous year. With the drafted PWs, pecuniary sanctions in the total amount of BGN 154,000 were imposed.

The value of the PWs issued during the reporting period and entered into force as of 20.03.2023 amounts to a total of BGN 20,500, of which 2 worth BGN 2,500 have been confirmed by the competent court, and 4 PWs, worth BGN 18,000, have entered into force pursuant to Art. 64, b. "b" of AVPA.

There are no revoked PWs as of 20.03.2023, and the value of PWs issued during the reporting period and under appeal as of 20.03.2023 amounts to a total of BGN 131,500.

During the reporting period, one agreement was concluded with a management company that violated Art. 145 of the POSA.

42 of the established SEAV proceedings have been terminated, and the violations found in 36 of them have been determined as minor and the offenders have been warned that in case of a subsequent violation of the same type, a sanction will be imposed on them.

Table 24. Most frequent violations by MCs and MCs in the capacity of CIS managers in 2022

Type and basis of the violation	Drawn up SEAVs (no.)	Issued PWs *(no)
Violations related to failure to maintain minimum liquid funds in a certain amount (Art. 153, Para. 1 of Ordinance 44)	4	16
Failure to disclose on the website of the MC of summary information about the structure of the MF's portfolio (Art. 72, Para. 4 of Ordinance No. 44)	6	2
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 CISOUCA)	7	2
Failure to provide an updated KIID on time (Art. 58, para. 1 of the CISOUCA)	11	4

*Note: *The number of PWs issued in the reporting year includes both PWs issued on the basis of SEAV of the same year and PWs issued on the basis of SEAV 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 SEAV according to Article 34, Paragraph 3 of the Administrative Offenses and Penalties Act.

Other natural and legal persons who have committed violations of the legislation governing investment activity

In 2022 13 SEAV were drawn up in connection with 14 violations, the administrative criminal proceedings of which are under the competence of the Deputy Chair in charge of the Supervision of Investment Activity Division.

Different types of violations were found, from which it can be concluded that there is no permanence observed in the behaviour of the companies, but rather it is an accidental failure to fulfil stipulated legal obligations. There have been violations of the SPICSCA, MFIA, POSA, Regulation (EU) No. 596/2014 of the European Parliament and of the Council of April 16, 2014, on market abuse (Regulation on Market Abuse) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Directives 2003/124/EC, 2003/125/EC and 2004/72/EC of the Commission (Regulation (EC) No. 596/2014).

During the reporting period, a total of 3 PWs were issued in connection with 5 administrative violations committed, with which sanctions were imposed in the total amount of BGN 5,000, and among the issued PWs, the main share was those concerning violations of Art. 19, § 1 of Regulation No. 596/2014. All 5 imposed administrative penalties have become effective and have been paid in a reduced amount of 80% within the stipulated statutory 14-day period.

Table 25. Results of the administrative penal activity in 2022

	Value of PWs issued in 2022 (BGN), of which:	Value of PWs		
		enforced PWs (BGN)	revoked PWs (BGN)	under appeal (BGN)
Investment firms, central securities depository and BSE	601,100	209,100	0	392,000
CIS, MC, SPIC, PC and other issuers	703,950	343,450	5,000	355,500
Non-life insurance companies				
Life insurance companies				
Insurance brokers				
Insurance agents				
Other legal entities and natural persons	49,200	49,200	0	0
Pension insurance companies				
Guarantee Fund, NBBMI				

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

* One penal warrant has been amended, and the sanction imposed has been reduced from BGN 3,000 to BGN 2,000. This is the reason why the sum of the PWs that have become effective, cancelled and those under appeal is not equal to the value of the PWs issued in 2021.

Insurance and reinsurance

Table 26. Enforcement in 2022

	Drawn up SEAVs (no.)	Issued PWs *(no)	Value of enforced PWs** (BGN)	Proceedings opened under CAM (no.)	Decisions for implementation of CAM ***(no.)
Investment firms, CD and BSE					
CIS, MC, SPIC, PC and other issuers					
Non-life insurance companies	123	102	691,500	8	4
Life insurance companies	63	39	123,500	2	1
Insurance brokers	23	6	18,000	0	0
Insurance agents/persons operating as insurance agents, without being entered in the FSC register and other individuals and entities	2	0	1,000	0	0
Pension insurance companies					
Guarantee Fund, NBBMI					

Notes: *The number of PWs issued in the reporting year includes both PWs issued on the basis of SEAV of the same year and PWs issued on the basis of SEAV 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 SEAV according to Article 34, Paragraph 3 of the Administrative Offenses and Penalties Act. ** The value of PWs that entered into force in 2022 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 27. Results of the administrative penal activity in 2022

	Value of PWs issued in 2022 (BGN), of which:	Value of PWs (BGN)		
		Value of enforced PWs (BGN)	Value of revoked PWs (BGN)	Value of PW's under appeal (BGN)
Investment firms, central securities depository and BSE				
CIS, MC, SPIC, PC and other issuers				
Non-life insurance companies	251,500	142,500	0	109,000
Life insurance companies	116,000	103,500	0	12,500
Insurance brokers	18,000	9,000	0	9,000
Insurance agents	0	0	0	0
Other legal entities and natural persons	0	0	0	0
Pension insurance companies				
Guarantee Fund, NBBMI	0	0	0	0

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

In 2022, 211 SEAVs of persons under the supervision of the Insurance Supervision Division were issued. A total of 420 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..

The number of reviewed user complaints in 2022 was 871, a decrease compared to the 981 complaints reviewed in 2021. It should be noted that over the past two years, the number of complaints against insurers and insurance intermediaries received by the Financial Supervisory Service remained lower than in the previous three years (2018 – 1,664, 2019 – 1,111, 2020 – 951.) The latter is an indication of increasing citizens' satisfaction with the insurance services used.

Table 28. Most frequent violations in the field of insurance and reinsurance in 2022

Type and basis of the violation	Drawn up SEAVs (no.)	Issued PWs (no)
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	98	86
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	19	19
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	16	14
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	15	15
Art. 325 and Art. 325a of the IC - non-compliance with the requirements for providing information and advice to users of insurance services in the distribution of insurance products by insurance intermediaries	8	3
Art. 337, para. 2 of the IC- non-transfer of the received insurance premium from an insurance intermediary to an insurer	6	2
Art. 290, para. 2 of the Insurance Code - failure to submit a response to a complaint from a user of insurance services	5	5
Art. 126, para. 1 of the Insurance Code - failure to submit thematic financial statements and reports by insurers within the statutory period	5	5

Notes: *The number of PWs issued in the reporting year includes both PWs issued on the basis of SEAV of the same year and PWs issued on the basis of SEAV 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 SEAV according to Article 34, Paragraph 3 of the Administrative Offenses and Penalties Act.

The main violations committed by insurance companies in 2022 continue to be in the area of not ruling on claims for the payment of insurance benefits within the statutory terms under Art. 108, para. 1, para. 2 and Art. 496 of the IC. 129 SEAVs were drawn up for these violations.

Despite the fact that in 2022 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 decrease of violations of this type.

The decrease in the number of detected violations is an indicator of the effectiveness of insurance supervision and of the applied supervisory measures, as a result of which there is an

improvement in the market behaviour of the supervised persons and, to a greater extent, compliance of their activities with legal requirements.

The total value of the PWs that entered into force in 2022 amounts to BGN 691,500, 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 2022, 34 SEAVs were drawn up according to the provisions of the SIC and the by-laws for supplementary pension insurance. 47 penal warrants have been issued, imposing fines property sanctions in the total amount of BGN 189,000. All the PWs issued during the reporting year are being appealed, as at the end of 2022 the FSC did not receive information about their becoming effective.

During the year, 50 proposals were made for concluding agreements were made (1 by a supervised entity and 49 by the administrative penalising authority). There are 2 agreements concluded and entered into force with a total value of BGN 31,500.

In 2022, 6 PWs with a total value of BGN 120,000 became effective all of which were issued in the previous year, 2021. In the reporting year, 1 criminal decree issued in 2020, worth BGN 20,000, was revoked. The total value of the sanctions imposed with PWs, including issued in previous years, which at the end of 2022 are in the appeal phase, amounts to BGN 229,000.

During the reporting year, 5 CAMs were imposed on 4 PICs. One of the imposed CAMs obliges the PIC to stop violations of Regulation No. 10 of 29.06.2021 of the FSC. In respect of 2 PICs, 2 CAMs are imposed obliging the companies to stop a violation of the SIC. Also, during the reporting year, 2 CAMs were imposed, obliging 2 PICs to accept applications to change the participation of insured persons. The coercive administrative measures have been implemented by the PICs within the set deadlines.

In 2022, 47 complaints were received against issued PWs of the Deputy Chair of the FSC in charge of the Social Insurance Supervision Division.

Table 29. Enforcement in 2022

	Drawn up SEAVs (no.)	Issued PWs (no)	Value of enforced PWs* (BGN)	Agreements concluded (no.)	Value of effective agreement (BGN)	Proceedings opened under CAMs (no.)	Decisions for implementation of CAMs ***(no.)
Pension insurance companies/ their representatives	4	17	120,000	2	31,500		5
Other legal entities and natural persons	30	30					

Notes: * The value of PWs that became effective in 2022 also covers PWs issued in previous periods. ** 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 30. Most frequent violations in the field of supplementary pension insurance in 2022

Type and basis of the violation	Drawn up SEAVs (no.)	Issued PWs (no)
13 violations of Art. 177, para. 2, item 2 of the SIC in connection with §1, para. 2, item 3a, (aa) of the Supplementary Provisions of the SIC - for acquisition of assets of SPFs by persons affiliated with the PIC.	26	26
2 violations of Art. 177, para. 2, item 6 of the SIC in connection with §1, para. 2, item 3a, (aa) of the Supplementary Provisions of the SIC - acquisition of assets of SPFs by collective investment schemes, management by persons affiliated with the PIC.	4	4

3.4. Market abuse

Investigating market abuse

The legal framework regulating market abuse covers Regulation (EU) No. 596/2014, the IMMAFIA and the acts on their implementation.

In accordance with the statutory functions of the FSC, in 2022, the trade in financial instruments admitted to trading on trading venues in the Republic of Bulgaria was supervised. Measures are taken to prevent and reveal transactions and actions with inside information and market manipulations, and monitoring of the disseminated information relating to the issuers. The main factors in the process of trading analysis, which are reported for each financial instrument, are the change in price, the volume of shares traded, the number of submitted orders and concluded transactions.

In the course of the analysis, it is mainly monitored for changes from the usual values and trends of the specified factors, as well as their influence. Also, taking into account the characteristic features of trade for each position such as liquidity, market depth, number and volume of

concluded transactions, actions are monitored that meet the manipulation hypotheses listed in Art. 12 of Regulation (EU) No. 596/2014 and the indicated signs of manipulation of the market of financial instruments specified in Annex I of the same regulation. In the monitoring of the disseminated information relating to issuers admitted to trading on a regulated market in the Republic of Bulgaria, information agencies through which public companies disclose regulated information, as well as media and forums, are monitored. The verification of the disclosed regular information consists mainly in assessing how price sensitive it is and, if so, checking whether there is a change in the usual intensity of trading in the position before its disclosure.

In 2022, information was exchanged with the Ministry of Finance, as well as supervisory authorities of other countries.

In 2022, a total of 6 SEAVs were drafted for 9 violations of Regulation (EU) 596/2014. Unlike the previous year, when the main number of violations were for non-fulfilment of Art. 19, § 1 of the Regulation, in 2022, violations concerning the disclosure of inside information prevail - Art. 17, § 1 of Regulation (EU) 596/2014.

For violation of Regulation 596/2014 in 2022, 3 PWs were issued in connection with 9 violations, for which administrative penalties were imposed - a property sanction in the total amount of BGN 9,000. A substantial part of the committed violations, namely - 89% concern established violations of Art. 19, § 1 of Regulation (EU) 596/2014. All issued PWs have become effective in accordance with Art. 64, letter "b" from AVPA and were paid by the offenders in a reduced rate of 80%.

Specialized supervision of investment firms and management companies on the implementation AML/CFT measures

In the joint Guidelines of the ESA for risk-based supervision, it is provided that so-called individual and general supervision plans will be prepared on the basis of the assessed risks in the relevant sub-sector and the risk assessment of each supervised entity. Individual supervisory plans are tailored to the risk profile of the assessed obliged entity. Based on the risk assessment of the sector and the individual assessments and risk profiles of the obliged entities, the overall supervision strategy is determined, providing resources for its implementation. In order to ensure the balance between all individual supervisory plans, they are coordinated within a general supervisory plan.

Depending on their scope, on-site inspections are full or thematic inspections. The scope of comprehensive on-site inspections includes verification of compliance with all requirements of the AML/CFT legislation by the inspected supervised entity. During these inspections, the fulfilment by the obliged persons of all measures under Art. 3, items 1-6 of the MAMLA and Art. 3, para. 1 and 2 of the MAFTA in accordance with the procedure and under the provisions of the said laws and the acts on their implementation. In order to make efficient use of supervisory resources and their proper allocation according to the types and levels of risk identified, full inspections are carried out on an exceptional basis, are much more limited in number than thematic inspections and are focused on the areas in which the highest levels of risk are identified.

Thematic inspections target the highest risk areas identified in the risk assessment at national, sectoral and individual level. Given the identified areas of higher risk and the

recommendations of the European Commission addressed to the supervisory authorities of the Member States, thematic on-site inspections were carried out in 2022 covering the following topics:

With regard to IFs, including banks - investment firms:

- Trading through online platforms and performing remote identification of customers - checking for compliance with the requirements of the legislation regarding the accounting of the risk arising from the offer of services through online trading platforms, as well as the introduction and implementation of measures for remote identification in accordance with the established risk;
- Business risk assessment under Art. 98 of the MAMLA and Art. 60 of the RIMAMLA, risk assessment of individual business relationships and determination of the risk profile of clients at non-banking IFs- review of the risk assessment under Art. 98 of the MAMLA and Art. 60 of the RIMAMLA of the obliged entity and verification of its compliance with the nature and scale of the activity of the investment firm; verification of the determined risk profiles of the customers and of the individual business relationships with them, to what extent the procedure introduced by the investment firms for determining the risk profile of the customers meets the requirements of Chapter Two, Section I of the RIMAMLA and how it is applied in practice;
- identification and verification of the identification of legal entities and other legal persons and their beneficial owners - verification of the fulfilment of the obligations of the investment firms according to the provisions of the MAMLA and RIMAMLA for carrying out identification and verification of the identification of clients - legal entities and other legal bodies, as well as and to establish, identify and verify the identification of the natural persons who are the beneficial owners of such customers;
- compliance and effectiveness of the procedures for monitoring and reporting suspicious transactions, operations and customers - review of the procedures introduced by the investment firm in accordance with the established risks for monitoring the customers and the transactions carried out by them, checking the effectiveness of these procedures and the extent to which they are applied to practice, as well as verification of effectiveness in establishing, tracing and reporting transactions, operations and customers where there is reason to suspect money laundering, terrorist financing or funds of criminal origin;
- application of the measures for enhanced due diligence - verification of compliance with the procedure, conditions and ways of applying the measures for enhanced due diligence by the inspected person according to Chapter Two, Section IV of the MAMLA and Chapter Two, Section III of the RIMAMLA.
- correspondence and effectiveness of the AML/CFT resources - composition of the Specialized Service (SS) under the MAMLA, intended functions of the SS and their practical implementation, number and scope of training conducted for the head and members of the SS and the other employees who have functions for the fulfilment of the company's obligations under the MAMLA, and MAFTA.

In relation to management companies:

- identification and verification of the identification of legal entities and other legal persons and their beneficial owners - verification of the fulfilment of the obligations of the

managing company according to the provisions of the MAMLA and RIMAMLA for carrying out identification and verification of the identification of clients - legal entities and other legal persons, as well as and to establish, identify and verify the identification of the natural persons who are the beneficial owners of such customers;

- compliance and effectiveness of the AML/CFT resources - composition of the Specialized Service (SS) under the MAMLA, intended functions of the SS and their practical implementation, number and scope of training conducted for the head and members of the SS and the other employees who have functions for the fulfilment of the company's obligations under the MAMLA, RIMAMLA and MAFTA.

- In order to achieve a higher level of efficiency in the implementation of the supervision of the implementation of the preventive AML/CFT legislation, joint inspections should be carried out with other control bodies under Art. 108 of MAMLA. Joint inspections contribute to: the correct understanding, assessment and subsequent reduction of the general level of identified risks; proper and effective exchange of information between the various supervisory authorities for the purposes of the control activity being carried out; proper distribution of supervisory resources at the national level, including with a view to avoiding duplication of inspections of persons obliged under the MAMLA, unification of the practices in establishing violations of the relevant legal framework and sanctioning the violators, as well as in issuing recommendations and instructions to the obliged persons on the order and ways of complying with the legal requirements.

In relation to the established strategy regarding the frequency and intensity of on-site inspections to comply with the requirements of the AML/CFT preventive legislation, as well as the common supervisory action plan for 2022 and the individual plans for each of the supervised entities - non-banking IFs investment firms - banks and management companies, in 2022, the Financial Supervision Commission carried out 16 on-site inspections in the “Trading in financial instruments” sector for compliance with the requirements of the MAMLA, MAFTA and the acts on their implementation, of which 9 of investment firms, 2 of banks - investment firms and 5 of management companies. There were 6 full on-site inspections, 3 of IFs, 1 of a bank - investment firm and 1 of a management company, and they include verification of the fulfilment of all requirements of the AML/CFT preventive legislation the inspected supervised entity. The other 10 are thematic inspections aimed at the highest risk areas identified in the risk assessment at national, sectoral and individual level. Apart from that, 1 of the on-site inspection was carried out jointly with inspection teams, including experts from the specialized administration of the FSC and experts from the Financial Intelligence Department of the SANS.

As a result of the on-site inspections carried out during the reporting period, grounds were established for a total of 81 recommendations and the companies were made aware of the need to bring their activities in line with the applicable regulatory requirements, also of the preventive legislation in the field of AML/CFT.

Off-site supervision for the purposes of a risk-based approach to the prevention of money laundering and terrorist financing in the financial instruments trading sector

- In its capacity as a competent AML/CFT authority the FSC develops, implements, reviews and improves the model for risk-based supervision in accordance with the Guidelines for

risk-based supervision issued jointly by the EBA, ESMA and EIOPA in accordance with the requirements of Art. 48, paragraph 10 of Directive (EU) 2015/849 and pursuant to Art. 114 and Art. 115 of the MAMLA. Off-site supervision covering the “Trading in financial instruments” sector includes collection information and review of the internal rules for control and prevention of money laundering and the financing of terrorism under Art. 101 of the MAMLA, the group policies under Art. 104 of the MAMLA, the risk assessments under Art. 98 of the MAMLA and Art. 60 of RIMAMLA. In the course of supervision there is also a periodic review (every 6 months) of documents (reports) through which the fulfilment of the duties of the Specialized Services under the MAMLA and of the internal audit units (where applicable) is established.

For the purposes of the annual planning of supervisory actions in connection with the implementation of specialized supervision on the prevention of money laundering and terrorist financing, in 2022 the Commission carried out a risk assessment and determination of the risk profile of each of the following supervised entities:

- 34 non-banking IFs;
- 19 bank IFs and branches of foreign bank IFs;
- 29 MCs and branches of foreign management companies.
- 13 AIFMs.

By the end of 2022, there are 35 non-banking IFs that have received a license under the conditions and according to the rules of the MFIA. A risk assessment was carried out and the risk profile of all of them was determined, except for 1, which received a license to operate as an IF in August 2021.

By the end of 2022, 3 non-banking investment firms are operating through a branch on the territory of the country. One of them received permission to operate in March 2022, while the others do not operate independently as IFs, respectively, they do not have concluded transactions and realized turnover in 2021, which is why they have not been assigned a risk profile.

As of the end of 2022, there are 29 MCs that have received a license under the conditions and according to the procedure of CISOU CIA, and each of them has been assigned a risk profile.

As of 31.12.2022, 1 branch of MC operates on the territory of the country, and in 2021 it has no direct clients and has not established business relationships with investors, which is why a risk profile has not been prepared according to the AML/CTF requirements.

The number of AIFMs, which are not MCs the same time as of 31.12.2022, is 14. A risk profile has been prepared for each of them, with the exception of 1, which is entered in the register under Art. 30, para. 1, item 7 of the FSCA on 31.03.2022.

The risk assessment and defining of the risk profile of each of the supervised entities was carried out on the basis of both the annual off-site supervision carried out for the period from 01.01 - 31.12.2021 and the results of the on-site inspections carried out according to the accepted annual plan for 2021 for specialized supervision of IFs and management companies for the implementation of measures for the prevention of money laundering and the financing of terrorism. The used methodology and evaluation factors are presented in detail in the Manual on risk-based supervision for the prevention of money laundering and the financing of terrorism, approved by Order No. 3-317 of 16.12.2020 of the Chair of the FSC, section 2.2.6. “Risk factors specific to investment firms” and section 2.2.7. “Risk factors specific to management companies”.

In connection with the need to improve the practice of carrying out the supervisory activity on the implementation of measures for including preventing the use of the financial system for the purposes of money laundering under Art. 114, para. 1 of the MAMLA and reduction of the administrative burden in relation to the persons under Art. 4, item 5 and 8 - 11 of MAMLA, with Order No. 3-1830/11.07.2022 of the Chair of the State Agency "National Security" (SANS) and Order No. 3-187/12.07.2022 of the Chair of the FSC, in July an interdepartmental working group was established, consisting of employees of the Specialized Administrative Directorate "Financial Intelligence" of the SANS (FID - SANS) and the FSC. The main task of the group is the preparation of a project of a unified methodology of the FID - SANS and the FSC for assessing the risk of money laundering and financing of terrorism in the "Investment Activity", "Life Insurance" and "Voluntary Pension Insurance" sectors (the Methodology). As a result of the group's activity, the Methodology was approved with Reg. №09-2-7/15.11.2022 by the Chair of FSC and Reg. No. RD-103-2/21.11.2022 of the Chair of SANS, which will apply from 2023.

As a result of the off-site supervision carried out in the "Trading in financial instruments" sector, the FSC has established a strategy regarding the frequency and intensity of on-site inspections to comply with the requirements of the AML/CFT legislation, as well as a common supervisory action plan for 2022, and the individual plans for each of the supervised entities - non-banking IFs, bank IFs and management companies.

4. Activities of the FSC for resolution of investment firms

The scope of RRCIIFA includes IFs that carry out transactions for own account with financial instruments and underwriting issues 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 issues 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 own account of clients, incl. perform custodial activity and related services.

The FSC, in its capacity of body for resolution of IFs under Art. 1, para. 1, item 2 - 7 of the RRCIIFA, upon proposal of the FSC member, exercises its functions on restructuring of IFs on an individual and consolidated basis, supported by an independent structural unit.

In 2022, in accordance with Commission Delegated Regulation (EU) 2015/63 of 21.10.2014,²¹ the FSC determined target level and the annual contribution of every IF 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, with a decision of the FSC are determined individual annual instalments for 2022 for each IF with a full license in the amount of EUR 1,000 (equivalent of BGN 1955.83).

²¹ 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

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

According to the provision of Art. 14 of RRCIIFA, the FSC in its capacity as an authority for the resolution of IFs on a separate and consolidated basis, accepts plans for the resolution of institutions under Art. 1, para. 1, items 2-7 RRCIIFA, which provides for resolution actions that the FSC can undertake. For 2022, 7 resolution plans have been prepared and adopted.

Communication with the Single Restructuring Mechanism continued in 2022, and representatives of the FSC in its capacity of an observer, participated in the Plenary Sessions of the SRM and in the sessions of the SRM Restructuring Committee. During the summer, the SRM provided Commission-designated representatives with online training on working with the new centralized document management system - FORA.

At the end of 2021, the European Parliament and the Council initiated a proposal for a Directive to create a framework for the recovery and resolution of insurers and reinsurers; the FSC resolution unit continued to participate and provide opinions of competence in 2022.

5. Protection of the consumers of non-banking 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 its realization.

The protection of users of non-banking financial services (investors, insured and socially insured persons) is realized in 3 main directions:

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

In 2022, the FSC made timely changes in the regulatory framework and supervisory activities, in line with European requirements and the specificities 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 provision of 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, contributed to the increase of the financial culture and created preconditions for informed consumer choice of financial services.

5.1. Access to financial information

End-users and supervised entities have access to financial information, as well as to information on all activities of the FSC, through various communication channels, as follows:

- publications on the Commission's three public websites: <https://www.fsc.bg/bg/>, <http://www.tvoitefinansi.bg/> и <https://investsafely.fsc.bg/>;
- posts on the new channels on LinkedIn and Youtube;
- 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.

Institutional page of FSC – www.fsc.bg.

From June 2022, FCS has a renewed institutional site - with a new look and improved functionalities. The site follows current web trends - more visual elements are used, user access is facilitated through an adaptive design allowing its visualization on smart devices.

The site contains both information about the Commission and useful information for supervised entities. The updated regulations, as well as administrative documents, e-portals, registers and references are available to all users. Access to the requested information is also available through the search engine based on keywords. Important news and announcements are published in real time, and the site is also a means of receiving feedback from users; with just one click can dial the indicated phones, load the address of the FSC in Google Maps or send an email directly.

A completely new, modern and easily accessible navigation to the Commission's other consumer and supervisory channels has been created, namely the YouTube channel, the LinkedIn profile, the #investsafe campaign site and the Your Finances educational site.

The design of the site is made in colours that are easy to handle on desktop and mobile phones, and to make the user experience as pleasant as possible, one of the functionalities allows changing the design theme, with the possibility of increasing or decreasing the font. The new site is constantly updated with interactive content - photos, banners and videos that support the modern tone of communication. Up-to-date information allows users to follow the latest developments and to be promptly informed about the dynamics of the insurance, insurance and capital market processes.

In the Legal framework section, the codes, laws and ordinances have been updated after their promulgation in the State Gazette.

In 2022, 2 programs for regulatory activity, 23 public consultations and 9 announcements were published.

A register of the guidelines of the European supervisory authorities has been created and a completely individual search engine has been integrated just for it. The section “Guidelines and recommendations of the European supervisory authorities” has been completely renewed.

In the already supported existing heading For the user" - "Warnings for users" - "From the European regulatory and supervisory authorities" are published 1,326 alerts received by the Commission's European partners in the calendar year 2022.

In 2022, more than 1,600 materials were published on the institutional website of the FSC, of which: 248 news, 787 decisions, 55 statistics and 542 materials.

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 from switching of participation 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.

The regulatory documents from the European legislation, directives of the European Parliament and the Council of the European Union, regulations and decisions of the Council and the European Parliament are published in the section "European matters".

Through the electronic portals on the FSC website, the participants in the non-banking financial sector submit the information required by the Commission - reports, references, etc., signed with an electronic signature. The information submitted through electronic modules is provided to the general public through the public register, which is available on the website in the sections "Electronic Register and File (ERiK)" and "News from e-Register".

Proof of the good online communication during the year is the large number of visitors to the FSC website. For the period 01.01-31.12.2022, the website www.fsc.bg was visited by 146,315 users, with 142,208 of them visiting it for the first time.

Online channels of FSC

The website "Your Finances" (<http://www.tvoitefinansi.bg>) is consumer-oriented and enables the consumers of financial services to be informed easily and conveniently of 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 various cases is published as well. 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. For the period 01.01-31.12.2022, the website "Your Finances" was visited by 3,086 users, with 3,074 of them visiting it for the first time.

The "Invest safely" campaign continued, with the educational initiative for students taking place at five leading universities in the country - UNWE, Faculty of Economics of Sofia University, AUBG, VUZF and UE-Varna.

In 2022, the FSC positioned itself very successfully in the LinkedIn professional network. The total number of visitors for the past year was 2,336. Compared to 2021, there was an increase of 1,547 visits. The majority of visitors are from the financial services, banking, IT and insurance

sectors. The total number of followers is 581, with 384 new followers last year alone. The posts and information published by the FSC reach more and more different users, which contributes to the recognition of the Commission and to raising the awareness of the general audience.

The YouTube channel of the Commission provides another opportunity to communicate with citizens and supervised persons in the form of videos. As at 31.12.2022, 18 videos have been posted, 11 of the posted videos are part of the Invest Safely campaign. The channel has 63 subscribers. The video with the participation of the FSC in the conference "Bulgaria on the European fintech map" has the most interest - 494 views.

As of 2022, the FSC also has a business profile that allows monitoring the interaction with users or how many people specifically searched for the Commission or similar institutions, how many called directly after the found result, how many viewed the information based on the displayed result, how many searched for the location of the FSC in Google Maps and other similar indicators. FSC searches totalled 55,436, with 46,763 searches directly by name.

Information Centre

In 2022, the Information Centre of the Financial Supervisory Service received a total of 3,469 calls from citizens and supervised entities, and the breakdown by supervision is: social insurance supervision – 51, insurance supervision – 988 and investment supervision – 1,406 calls. The rest of the calls concern administrative matters. In percentage terms, the largest number of inquiries are related to the Investment Activity Supervision Division- 58%, followed by Insurance Supervision with 40% and Social Insurance Supervision with 2%. There were 1,204 calls from citizens and supervised entities related to administrative issues. There are 29 visits by citizens on the spot. By months, telephone inquiries are as follows:

- January – 465;
- February – 129
- March – 464
- April – 303;
- May – 267;
- June – 333;
- July – 376;
- August – 214;
- September – 212;
- October – 218;
- November – 271;
- December – 217.

The trend for the most calls in the month of January is preserved in 2022 and is in connection with the submission of annual reports and statements as of 31.01.2022, as well as payment of fees for general financial supervision by the entities supervised by the FSC..

The most frequently asked questions by citizens to the Information Centre are in connection with the filing of complaints and reports against insurers for unpaid claims within the legal term, as well as other regulatory violations; inquiries for verification of licensed IFs, as well as complaints against unlicensed firms; questions about universal pension funds and the transfer of

funds between them and the National Social Security Institute; inquiries about voucher books and owned shares in the former privatization funds.

The number of calls to the Commission's Information Centre remains high in 2022. Given the above data, it can be concluded that the Information Centre retains its popularity both for citizens and non-banking participants.

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 Information Centre is the maintenance and strengthening of the positive image of the Financial Supervision Commission.

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

In the beginning of 2022 the Deputy Chair of the Financial Supervision Commission in charge of the Investment Supervision Department, Mariya Filipova, was a special guest at the XXI award ceremony for investment firms and banks that achieved the highest results in 2021. She also participated in the initiative of the Bulgarian Stock Exchange “BSE rings the bell for peace” - “To ring the bell for gender equality” - on the occasion of International Women's Day, March 8.

In the end of March, the Chair of the FCS, Boyko Atanasov, launched the educational initiative for students #invest safely In sync with new technologies, to improve the level of public awareness related to the non-banking financial sector and to protect consumers of financial products and services, the FSC in December 2021 launched the digital campaign #invest safely.

The Deputy Chair of the FSC in charge of the Insurance Supervision Department, Vladimir Savov, took part in the March edition of the FinTech Summit 2022 conference. In his opening remarks on the panel “Digital Innovation in the Financial Sector”, he addressed the benefits and risks associated with financial digitalization, as well as the challenges for regulators in the changing business environment. He emphasized that “the FSC, as a regulatory and supervisory body of the financial markets, monitors the development of the market and takes the necessary measures to promote innovations, but also to guarantee legal security and consumer protection, as well as to introduce European rules and practices related to financial innovations into the Bulgarian regulatory environment.”

Within the framework of a round table on topic “Strategic management and regulation of business processes in the state”, organized by the Higher School of Insurance and Finance and the Laboratory for Scientific and Applied Research attached to it at the end of March, the Chair of FSC, Boyko Atanasov, presented the strategy for the development of the regulator for 2022-2024.

On the occasion of the 70th anniversary of the founding of the oldest Bulgarian finance department, the “Finance and Credit” department at the “Dimitar A. Tsenov” Academy of Economics, Svishtov, in April the head of the department, Prof. Dr. Stoyan Prodanov, presented special plaques to the Chair of the Financial Supervision Commission, Boyko Atanasov, and to the Deputy Chair of the FSC in charge of the Insurance Supervision Department, Vladimir Savov. The Chair of FSC congratulated the management of the department on the occasion of the anniversary, sending strong messages of future success and prosperity.

The Deputy Chair of FSC in charge of the Investment Supervision Department, Mariya Filipova, took part in "Accelerate Green" - Policies and practices for stimulating green investments

in the economy and business. The event was opened by the Deputy Prime Minister and Minister of Finance, Asen Vasilev. The Deputy Prime Minister and Minister of Environment and Water, Borislav Sandov, the Vice President of the European Investment Bank, Liliana Pavlova, world analysts and leading European financiers, introduced the participants to the most important topics in the field of sustainable finance, as well as shared the experience of the state, business and the non-governmental sector on green financing.

On May 19, 2022, for the 14th year in a row, the most prestigious annual awards in the insurance and pension insurance sector in our country were presented - Insurer of the Year, Pension Insurance Company of the Year and Insurance Broker of the Year for 2021, as well as the annual awards of the Prof. Dr. Veleslav Gavriyski Foundation. The Chair of FSC - Mr. Boyko Atanasov, presented the Insurer of the Year award in the category "Non-Life Insurance". The Deputy Chair of the FSC, Head of the Pension Insurance Supervision Department, presented the Pension Insurance Company of the Year 2021 award in the category "Supplementary Mandatory Pension Insurance". Vladimir Savov, the Deputy Chair of FSC in charge of the Insurance Supervision Department, presented the Insurance Broker of the Year" award in the Non-Life Insurance category and the "Insurer of the Year - Life Insurance" award.

At an official event held on 13 June 2022 in the FSC building, certificates were awarded to those who successfully passed the exams for acquiring the right to carry out activities as a broker of financial instruments and as an investment consultant. The Deputy Chair of FSC in charge of the Investment Supervision Department, Mariya Filipova, together with the member of the Board of Directors and Executive Director of the Bulgarian Stock Exchange, Manyu Moravenov, the Chair of the Bulgarian Association of Licensed Investment Brokers, Radoslava Maslarska, and the Chair of the Bulgarian Association of Asset Management Companies, Petko Krastev, opened the event.

The Deputy Chair of FSC in charge of the Insurance Supervision Department, Diana Yordanova, was among the official guests of the national competition "Young Auditor" 2022, and also addressed the organizing committee of the competition on behalf of the Chair of FSC, Boyko Atanasov.

Vladimir Savov, the Deputy Chair of the FSC in charge of the Insurance Supervision Department, took part in the applied science conference "Economy of Fear" in June. The panel addressed issues of monetary policy and the implications for fiscal policy, credit markets, fear trading and investment markets.

On September 19, 2022, the Deputy Chair of the FSC in charge of the Insurance Supervision Department, Vladimir Savov, opened an exhibition organized by the Association of Bulgarian Insurers, dedicated to 140 years of insurance activity in Bulgaria.

On October 5, 2022, in the presence of officials and guests, an anniversary conference was held on the occasion of 140 years since the beginning of insurance in Bulgaria and 30 years since the establishment of the Association of Bulgarian Insurers (ABI). The Chair of FCS, Boyko Atanasov, opened the conference. Leading figures of European insurance: Petra Hielkema, President of EIOPA, Michaela Köhler - Director General of the European Federation of Insurers Insurance Europe and Didier Millero - Head of the Insurance and pension insurance Sector in the Directorate General "Financial Stability, Financial Services and Capital Markets Union" of the

European Commission. During the conference, the Deputy Chair of the FSC in charge of the Insurance Supervision Department, Vladimir Savov, took active part during the conference in the discussion part of the panel “Insurance Market: Regulations and Competitiveness - in Search of the Balance”. Topics fundamental to insurance were discussed and effective policies were outlined to stimulate the development of the sector, with all the resulting benefits for the economy and society.

In October 2022, the Chair of FSC, Boyko Atanasov, the Deputy Chair in charge of the Insurance Supervision Department, Vladimir Savov, and the Deputy Chair of the FSC in charge of the Insurance Supervision Department, Diana Yordanova, held an official meeting with the Chair of EIOPA, Petra Hielkema. Strategic priorities were discussed in two of the most important directions in the non-banking sector – insurance and pension insurance. The management of FSC declared its readiness to cooperate with EIOPA, within committees, taskforces and the implementation of common goals aimed at ensuring financial stability in the insurance and pension sectors.

On 21 October 2022, the Chair of the FSC - Boyko Atanasov launched the 20th edition of the educational program for students "The non-banking financial sector in Bulgaria" The traditional initiative is organized in partnership with the Ministry of Education and Science and the Atanas Burov Foundation. 22 students from vocational schools with an economic and financial profile from the cities of Blagoevgrad, Gorna Oryahovitsa, Varna, Kyustendil, Plovdiv, Sofia, Burgas, Stara Zagora, Veliko Tarnovo, Shumen, Gotse Delchev, Sliven, Smolyan, Montana, Silistra, Petrich, Kardzhali, Ruse, Varna, Yambol and Dryanovo will take part in the anniversary edition of the event.

The 30th anniversary of the establishment of the Atanas Burov Foundation was attended by the Deputy Chair of the FSC in charge of the Social Insurance Supervision Department, Diana Yordanova, the Deputy Chair of the FSC in charge of the Investment Supervision Department, Maria Filipova, and the member of the FSC, Petar Dzhelepov. On behalf of the Chair of the FSC, Boyko Atanasov, Deputy Chair of the FSC in charge of the Insurance Supervision Department, Diana Yordanova, welcomed the Board of Directors and all members of the foundation.

On 2 December 2022, the Deputy Chair of the FSC in charge of the Investment Supervision Department, Maria Filipova, on behalf of the examination board, presented the certificates to those who successfully passed the examinations for acquiring the right to operate as a broker of financial instruments and as an investment consultant.

On December 6, 2022, the Association of Banks in Bulgaria (ABB) gathered prominent representatives of the financial sector on the occasion of Banker's Day. The official event began with a conference opened by the Chair of the ABB Board of Directors, Diana Miteva. The first panel of the conference, dedicated to the new realities – macroeconomic factors and regulatory environment, was attended by the Chair of FSC Boyko Atanasov, who congratulated the banking community on the holiday and shared his belief that the banking and non-banking sectors are actually two sides of the same coin in the equation of the new economic reality.

In the end of 2022, the Chair of the FSC - Boyko Atanasov and the Rector of the University of National and World Economy - Prof. Dr. Dimitar Dimitrov discussed the possibilities for the implementation of an analysis and assessment of the development of the non-banking financial

sector until 2030. The study aims to predict and plan market development, to help companies plan their income and expenses, and to find out how regulations affect the insurance sector.

On 15 December 2022, the birth date of Prof. DrEconSc Mihail Dinev,, a large round table was held - "The work of Prof. DEconSc Mihail Dinev and the future of control" in UNWE. The Chair of FSC - Boyko Atanasov, was among the official participants in the event, among other professionals distinguished by their contribution to the development of control in Bulgarian institutions: During the discussion dedicated to the new control environment, the Chair of FSC pointed out the challenges facing the non-banking sector - alternative investment funds, financial innovations, the Green Deal and the European legislative framework for digitalization, as defining the equation of the new economic reality, which provide new horizons, but also bring new risks.

Media communications

During the past 2022, the FSC 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, 248 news items were published on the website and 43 press releases and opinions were sent to the media. Answers to journalist questions are provided on a daily basis.

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

In February 2022, the Head of Department for Supervision of Public Companies, Securities Issuers and Special Purpose Investment Companies, Neda Muzho, and the Director of Public Relations and Protocol, Anka Kostova, presented a series of video messages with investment advice, part of the #investsafe campaign, on Bloomberg TV's "Smart Hour".

In March 2022, the Chair of FSC, Boyko Atanasov, gave a special interview to the "24 Hours" newspaper, emphasizing the results achieved in the non-banking financial sector - the stability of the pension insurance market, innovation in the insurance market, transparency of the capital market. The Chair stressed that the insurance sector is going through the crisis smoothly and successfully, given the spread of the pandemic and the increased risks in the financial markets. Regarding the pension insurance market, he shared that "the investment portfolios of the pension funds are well structured and highly diversified.

In April 2022, the Deputy Chair of the FSC in charge of the Insurance Supervision Department, Vladimir Savov, took part in the "Life Insurance - Protection and Investments" project on Bulgaria ON AIR.

The opinion of the Chair of FSC, Boyko Atanasov, was reflected in the bulletin of the Association of Banks in Bulgaria: In the context of the post pandemic period, global digitization, the European Green Deal, the hostilities in Ukraine and on the threshold of the euro area the Financial Supervision Commission continues to work for stability of the insurance market in Bulgaria, to introduce innovations in the regulation of the capital market, as well as ensure absolute strictness and complete transparency of the actions and processes of the pension insurance market.

The development trend of the capital market is headed towards digitization and creation of conditions for more participants and reduced administrative burden. The positive relationship between innovation and financial technology has already reshaped standard consumer behaviour

and thinking, and this process has led to new opportunities for realizing optimized business models. At the same time, we, the participants in the financial sector, have the task of analysing and forecasting potential risks. It is in this direction that the FSC focuses its activity on the balance between the promotion of innovation on the part of companies for investment purposes and the protection of consumers from the negative aspects that the new online space implies.

In the "Direktno" program, the director of "Public relations and protocol" at the FSC, Anka Kostova, commented on the topic that in 2022 the Commission started working on several educational programs related to the non-banking sector and young investors with the aim of improving financial literacy among young people. One of the strategic goals of the FSC is to increase the public's confidence in the use of financial products and services by increasing its general awareness of them and by ensuring the protection of users of such services.

On Nova TV, the Deputy Chair of FSC, who heads the Insurance Supervision Department, Vladimir Savov, commented on how much drivers will pay for MTPL insurance.

The Director of "Public Relations and Protocol", Anka Kostova, commented on Znanie.BG on BNT 2, to what extent young people know how to properly manage cash flows.

The Chair of FSC, Boyko Atanasov, gave a special interview to the "Standart" newspaper on the occasion of Banker's Day, in which he emphasized that the main challenges facing the FSC are the fintech industry and the adoption of the euro.

The Director of "Public Relations and Protocol", Anka Kostova, participated in the Voice of the Capital on the topic "How to invest correctly", on BNT.

The Deputy Chair of the FSC in charge of the Investment Supervision Department, Mariya Filipova, participated with a speech on the implementation of financial innovations in the non-banking financial sector, in the "Annual Report of the Bulgarian Fintech Association" for 2022, dedicated to the most significant fintech achievements, challenges and opportunities, the Bulgarian Fintech Mapping'2022, progress in fintech education, the latest fintech regulations in Bulgaria and the EU.

In 2022, the activity of FSC was reflected in the media with a total of 4,599 publications, and by type of media channels are as follows: press - 313, television - 28, internet - 4,251, radio - 7.

At the beginning of 2022, FSC presented a report on its activities for the period 2019-2022 and adopted the Regulator's Development Strategy for 2022-2024.

Within the three-year period, FSC managed to ensure stability of the insurance market, introduced innovations in the regulations of the capital market and strengthened the pension-insurance market to the extent of exceptional rigor and full transparency. All this happened in sync with the development of the organization - digitization, optimized processes and at the same time improvement of the team of high-level experts of the FSC.

"The facts about the results achieved so far, presented in the report for the previous period, presented on the official page of the Commission, show that the Strategy of the FSC is well formulated and the main priorities and set sub-goals are being implemented. The strategy of the FSC for the upcoming period is in the direction of several main priorities, with the set ultimate goals being the reduction of the administrative burden, flexibility and adaptability to the business environment and optimization of processes through digitization.

In 2022, the FSC prepared two issues – a monthly Newsletter published on the FSC website and the Annual Report of the Financial Supervision Commission for 2021 summarizing the activities of the supervisory institution and reflecting the state of the non-banking sector in Bulgaria in 2021.

FSC's monthly newsletter offers summarized information on the activities of FSC by months - regulatory and supervisory, it provides information for all decisions of 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 FSC's official website.

Two monitoring reviews are prepared daily - a review of media publications related to the activities of the FSC and the leading financial, economic and political news. A total of 569 monitoring reviews were prepared for 2022, 15 of which were related to extraordinary news and topics.

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

The examination of complaints filed against persons under the supervision of the Commission, as well as against persons who provide financial products and services without the relevant authorization, is the main function of the Member of the FSC under Art. 3, item 5 of the FSCA. The protection of consumers of financial products and services is one of the statutory objectives of FSC.

According to the set goals in the Program for consumer protection 2021 - 2024 of FSC and in line with the European strategy to enable out-of-court settlement of disputes in Bulgarian legislation, this possibility is provided for in the Consumer Protection Act. Sectoral conciliation commissions have been set up to deal with disputes between consumers and service providers in the non-banking financial sector - in the field of insurance, pension insurance, and capital markets. Proceedings before these commissions are a free of charge option, which allows consumers with small claims to claim their rights.

In order to analyse the complaints received from consumers, the FSC has a process in place for managing complaints, the results of which are used to improve the supervisory activity and to improve the regulatory framework. Each complaint received in the FSC is reviewed, if necessary statements for establishing administrative violations are issued, recommendations are made to the supervised entities, coercive measures are imposed, actions are taken within the legal powers of the FSC structures.

Consumer complaints have 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 FSC, as well as the behaviour of participants on financial markets.

Complaints are also a channel for market feedback about the satisfaction of users of financial services and products from the actions of the regulator resulting from the inspections performed and measures undertaken. The analysis of the feedback gives the regulator an idea 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.

In 2022, FSC received 1,039²² complaints and inquiries related to the activity of persons supervised by the FSC. Compared to 2021, when there were 1,204, there was a decrease in their number by 165 complaints. Discipline in the market, improving the market behaviour of financial service providers and products, more careful and fair treatment of consumers, are the main reasons for decreasing the number of complaints. On the other hand, this is due also to the FSC's policy of providing information on its legal powers, on the ability of consumers to resolve disputes with providers.

The total number of complaints has changed over the years as follows: in 2018 they reached their highest value of 1,943, then in 2019 they dropped to 1492. The trend remained in 2020 and 2021, when there were 1,204 complaints each, and for 2022 they dropped further to 1,039 complaints.

The presented analysis of the complaints for 2022 is based on 841 received²³ complaints on which the institution is competent to rule.

With respect to the complaints within competence for the period 2018 - 2022, there was no clear upward or downward trend in their number. In 2018, their number reached 1,656. A significant decrease was reported in 2019 compared to the previous 2 years - up to 1,203, and the same decrease is observed in 2020, reaching 993, and in 2021 it remains at

990 complaints, and in 2022 - 841 complaints, 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 2022, only 82 inquiries were registered in this database.

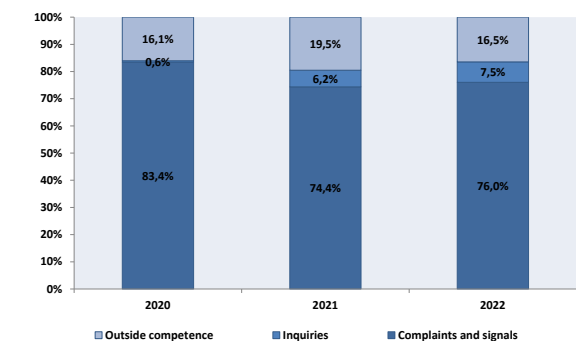
FSC also receives complaints for which the institution is not competent to rule. They are processed in a timely manner and forwarded to the relevant competent institutions, and a response is sent to the complainant. This may be one of the reasons for the increased number of such complaints - in case the complainant does not know to whom to direct their complaint, they submit it to the Commission so that it can reach the right institution for consideration.

The analysed statistical information from 2018 to 2021 shows a gradual increase in the number of complaints outside of competence, in contrast to the last reporting year. For 2018 there are 106, in 2019 there are 146, in 2020 they increase to 191, and for 2021 they mark a peak of 260 complaints outside of competence. For 2022, there were 182 complaints outside of competence.

²² The indicated 1,039 complaints are calculated by excluding from 1,221 (total received) files, the complaints and inquiries, which are not against actions of persons supervised by the FSC. The value of 1,039 represents received complaints and inquiries within competence within 2022, 116 of them were processed by the specialized divisions.

²³ Addressed to the Analyses, Complaints and Resolution Directorate (and processed by it opinions on complaints).

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



Source: FSC.

Complaints on which the institution was competent to rule represented 76.0 % of the total complaints and inquiries in 2022. In 2022, compared to 2021, there was a slight decrease in the proportion of complaints for which the institution was competent, from 74.4% to 76.0%.

For comparison, in the period 2018 - 2021 this share is relatively constant, over 80%. In 2021, a slight decrease was registered to 74.4%, compared to 2020, which continues in 2022, reaching 74.0%. For comparison, the share of complaints within competence ranges as follows: from 93.1% in 2018, 87.9% in 2019, to 83.4% 2020.

For the last 5 years, the share of inquiries was quite dynamic and varied between 6.2% and 0.6%. In 2022, there was a growth of 7.5%. In 2018 it dropped to 0.9%, in 2019 there was a slight increase to 1.3%, in 2020 it fell to 0.6%, and for 2021 it reached to 6.2%.

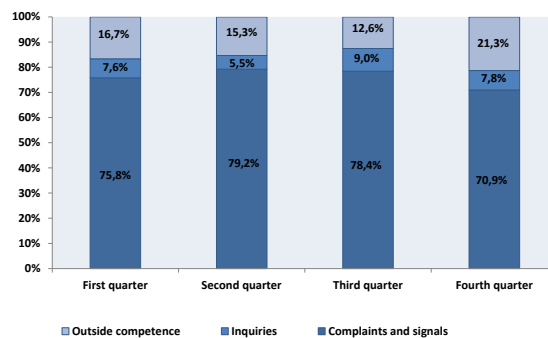
The share of complaints for which the institution is not competent increased during the considered five-year period. In 2018 they represent 6.0%, in 2019 - 10.8%, in 2020 – 16.1%, and in 2021 - 19.1% of the total share of received complaints and inquiries. In 2022, they marked a slight decline and reached 16.5% of the total, given that the total number

of complaints submitted to the FSC is decreasing.

In 2022, the ratio between complaints, inquiries and alerts for which the institution is not competent is maintained by quarters, varying between 70-80%. Complaints within the competence of the FSC represent 75.8% of all complaints received in the first quarter of 2022. In the second quarter their share was 79.2%. In the third quarter it decreased to 78.4%, and in the fourth quarter it decreased to 70.9%.

The dynamics of the number of complaints of incompetence during the year does not show a clear trend. In the third quarter of 2022 they had the lowest share, namely 12.6% of all received complaints, in the first and second quarter they reached 16.7%, and in the fourth quarter they had the highest share of 21.3%.

Graph 2. Dynamics of complaints, inquiries and signals filed with the FSC in 2022 by quarters



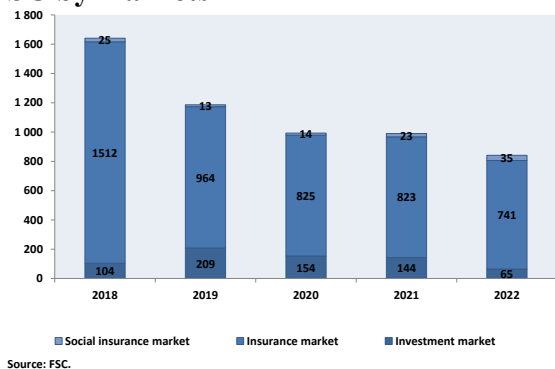
Source: FSC.

Of the 841 complaints received in 2022, for which the institution is competent, most are complaints against actions of persons operating in the insurance market - 741. The number of complaints related to the services offered on the social insurance market is insignificant, only 35. There are 65 complaints against actions of persons operating on the investment market.

In 2022 compared to 2021 there is a decrease by 82 in complaints concerning the insurance market. For the 5-year period under review, there is a general trend towards a decrease in complaints on the social insurance market, despite the reported growth during the last year. In 2018 they dropped to 25 complaints, in 2019 they were 13, and in 2020 - 14 complaints. For 2021, they mark a slight increase, close to that in 2018, namely 23, and in 2022 they increased to 35.

For the period 2018-2022, there was an increase, followed by a decrease in the last 2 years, in the number of complaints received in relation to the services and products offered in the investment market. In 2018 they increased to 104, in 2019 they were 209, in 2020 they decreased to 154, for 2021 they were 144, and in 2022 there was a sharp decrease to 65 complaints. The last decrease is a result of a drop in the number of complaints against actions of persons who do not have a license to perform activities for the provision of investment services.

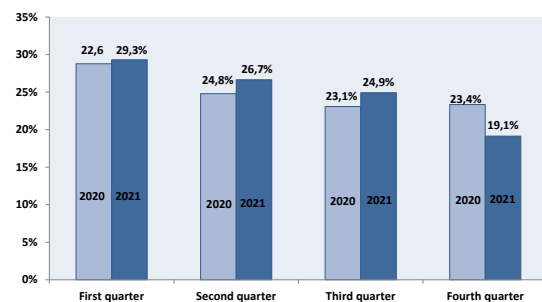
Graph 3. Dynamics of complaints at the FSC by markets



Within 2022, by quarters, there is no clear trend to increase or decrease the number of received complaints within the competence of the FSC. In the first quarter of 2022, they made up 28.8% of the complaints

within the competence of the FSC for the year, which is less compared to the same period of 2021 – 29.2%. In the second quarter of 2022, they made up 24.8% of the total number of complaints within the competence of the FSC for the year, and compared to the same period of 2021 there was a decrease. In the third quarter of 2022 they were 23.1%, while in the third quarter of 2021 they represented 24.9% of complaints, in the fourth quarter of 2022 they made up 23.4% of complaints. For comparison, in the fourth quarter of 2021 the share was 19.1%.

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



Source: FSC.

Complaints related to the insurance market represent the largest share of received complaints within competence in 2022 - 88.1%. For the period 2018 - 2022 this level remained over 80.0%. For comparison, the share of this type of complaints during the period is as follows: in 2018 – 92.1%, in 2019 – 81.3%, in 2020 83.1%, and in 2021 it remained at the same level.

The share of complaints relating to the social insurance market, in the last few years is relatively small, and in 2022 they represent 4.2% of all received complaints within the competence of the FSC, which is a slight growth compared to 2021 - 2.3%. in 2020 - it was 1.4%, in 2019 - 1.1%, and in 2018 - 1.5%.

The complaints against persons operating on the investment market marked a decrease in 2022 and reached 7.7%. In 2021 they were 14.6% of all complaints received and there was a slight decrease compared to 2020 when their share was 15.5%. For 2018, they were significantly less – 6.3% respectively.

FSC also receives complaints related to the provision of investment services by persons who do not have a license for this activity. Typically, services are provided remotely, via electronic platforms. The reasons for these occasions are several - the complainants have not taken action to verify if their counterparty has 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 their funds to persons other than their contractual partner. Complaints are often submitted to FSC by foreign persons due to the connection of electronic trading platforms in some way with Bulgaria.

The distribution of complaints by sectors is maintained by quarters in 2022. In the first quarter of 2022 the share of complaints related to the insurance sector was 29.6%, in the second quarter - 24.6%, in the third quarter - 23.9%, and in the fourth quarter - their relative share is 22.1%. Complaints against actions of pension insurance companies have an equal relative share in the quarters of 2022. Complaints from the investment market have the highest relative share in the second quarter of 2022, and the lowest - in the fourth quarter of the year.

Table 31. Dynamics of the structure of complaints by market segments

	2019	2020	2021	2022				2022
				Q1	Q2	Q3	Q4	
Insurance market	81,3%	83,1%	83,1%	29,4%	24,6%	23,9%	22,1%	88,1%
Investment market	17,6%	15,5%	14,6%	27,7%	36,9%	23,1%	12,3%	7,7%
Social insurance market	1,1%	1,4%	2,3%	14,3%	31,4%	22,9%	31,4%	4,2%

Source: FSC.

The largest share of complaints a falling outside the competence of FSC in 2022 are those related to credit products - 27.5%, some of which were provided by non-bank credit institutions. In second place are the complaints related to remittances - 3.3%. Complaints relating to mobile services occupy a relative share of 2.2%, complaints concerning the tax sphere – 1.1%, and others – 65.9% of the total.

Table 32. Structure of complaints outside FSC's competence

	2021	2022
Credit products	22,7%	27,5%
Money transfer	4,2%	3,3%
Savings products	0,8%	0,0%
Mobile services	2,3%	2,2%
Taxes	0,0%	1,1%
Others	70,0%	65,9%
	100,0%	100,0%

Source: FSC.

In 2022 FSC continues the established practice to forward complaints outside its competence to the institutions in whose competence they are.

In 2022, FSC received complaints outside its competence, which are within the competence of another institution in the country, mainly BNB - a share of 2.1%. For 35.7% of the complaints outside the competence of the FSC, the competent body is the CPC, CRC, Court, Prosecutor's Office, SANS and others.

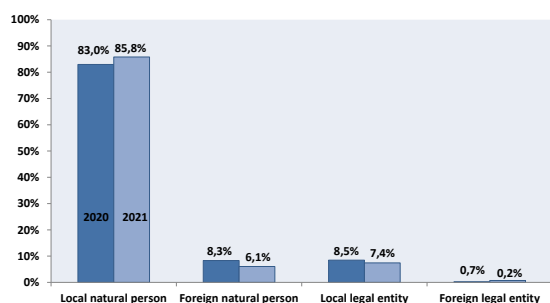
Table 33. Structure of complaints by competent institutions other than the FSC in 2022

	2021	2022
Bulgarian National Bank	62,7%	62,1%
National Revenue Agency	0,0%	2,2%
CRC, CPC, Court, Prosecutor's Office, completely outside competence	37,3%	35,7%
	100,0%	100,0%

Source: FSC.

Analysing consumer complaints in by legal subject, it can be said that complaints and inquiries submitted by local individuals have a share of 85.8% compared to 83% in 2021. Those of local legal entities have a share of 7.4 %, compared to 8.5% for 2021. Complaints by foreign individuals have a share of 6.1%, and foreign legal entities - 0.2%.

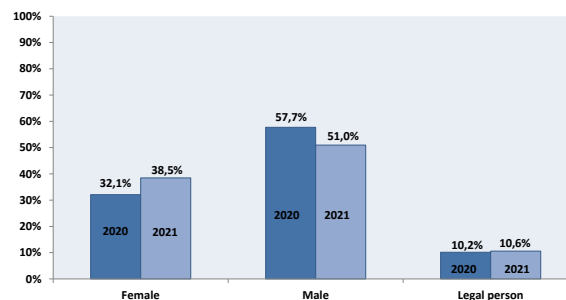
Graph 5. Dynamics of complaints, inquiries and signals by legal entities



Source: FSC.

The analysis of the complaints in terms of activity of the complainants in seeking their consumer rights shows that men are prevalent over women - 51% to 38.5%. The complainants that are legal entities accounted for 10.6% of all complaints and inquiries. There is no significant change compared to 2021, as again men are more active - with a share of 57.7% and women with a share of 32.1%.

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

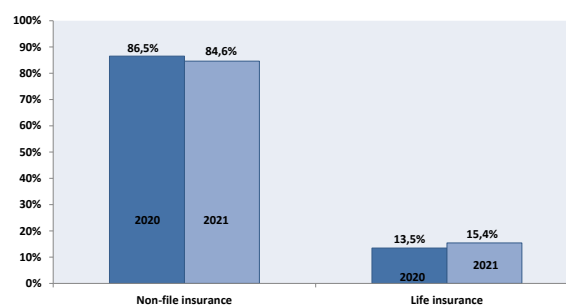


Source: FSC.

Insurance market

The trend for the complaints relating to the insurance market to have the highest relative share remained in 2022. 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 84.6% in 2022, compared to 86.5% in 2021. The higher share 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 13.5% in 2021 to 15.4% in 2022. 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

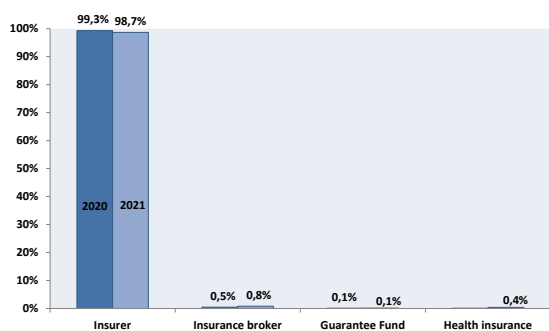


Source: FSC.

Key:

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 2022 is close to the one in 2021 (99.3%). 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



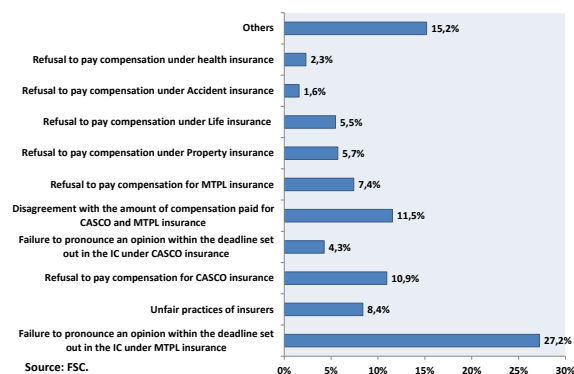
Source: FSC.

Most often, the subject of complaints relating to the insurance sector is related to disagreement with the amount of compensation paid MTPL insurance and CASCO insurance - in 14.4% of cases. Secondly, the complainants complained against the refusal to be paid compensations under Casco insurances (13.6%). In the third place, with 8.8%, were complaints in which applicants objected to the refusal to pay compensation under Motor Third-Party Liability insurance.

For comparison, in 2021 as well, the most frequent subject of the complaints

related to the insurance sector was against the failure to rule on insurance claims under the most common insurance 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 2022



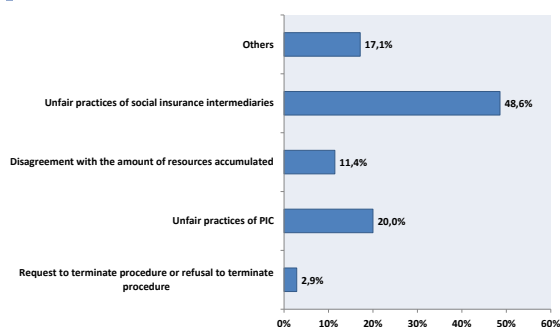
Source: FSC.

Social insurance market

Unfair practices by pension insurance companies are the most common subject of complaints related to the social insurance market in 2022. Their share is 48.6% of all complaints received in connection with the social insurance market. In second place with 20% are unfair practices by social insurance intermediaries, and in third place with 11.4% are complaints regarding disagreement with the amount of accumulated funds.

For comparison, in 2021 the most common subject of complaints related to the social insurance market were improper practices by social insurance intermediaries.

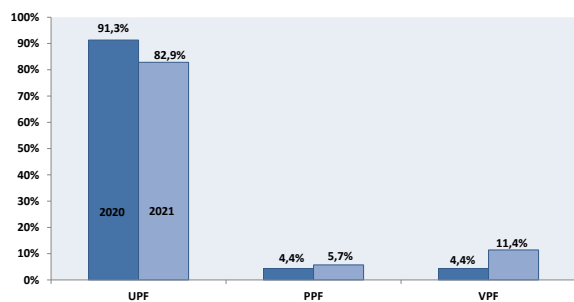
Graph 10. Distribution of complaints in the social insurance market by subject of the complaint in 2022



Source: FSC.

The trend of complaints related to the social insurance market and concerning mainly UPFs, remained unchanged in 2022. Their share was 82.9% 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 2022, there were four complaints concerning VPFs.

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



Source: FSC.

Investment market

A significant number of the complaints concerning the investment market were related to the provision of investment services by companies which had not received the relevant license. In this regard, the FSC focused its efforts on taking actions to limit the supply of investment services by non-licensed companies and to create a

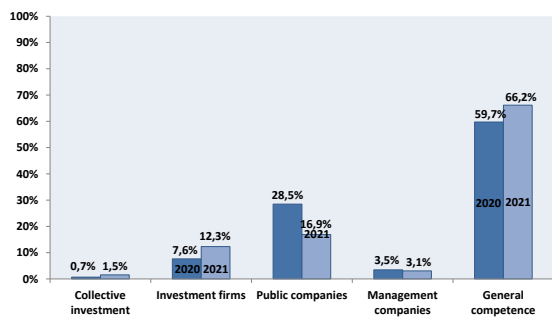
competitive environment with adequate investor protection for the development of the investment business. The official website of the FSC publishes the persons who were found to carry out an investment activity without a license, and the relevant law enforcement authorities had been notified.

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 2022, most complaints from the investment market are against actions of unlicensed companies, most of them are not based in Bulgaria. Their share amounts to 66.2%. In second place are complaints against public companies - 16.9%, and in third place are IFs or persons providing investment services and products (12.3%). The share of complaints against management companies is 3.1% of the total.

Compared to 2021, in 2022 there is a decrease in complaints related to public companies - from 16.9% to 28.5%. The main subject-matter of these complaints relates to tenders, in particular against the price of the tender. Growth is reported in complaints against the activity of investment firms, from 7.6% in 2021 to 12.3% in 2022.

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



Source: FSC.

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 necessary. The necessary measures and actions were taken during the examination in case a violation of the legal requirements by the supervised entity is found, then administrative violation acts are issued, coercive 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 14.8% of the cases, insurance

compensations were paid after a complaint had been filed to the FSC, and in 56.2% of the complaints, the complainants were given specific information relevant to the details of the complaint that was helpful to the complainants.

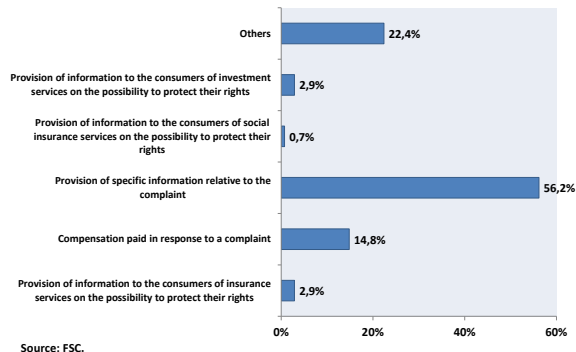
Very often, the consumer complaints involved civil litigation between the complainant and the supervised entity which was beyond the competence of the FSC and which should be referred to a sectoral conciliation committee for extrajudicial dispute agreement or the competent court for consideration and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

In response to complaints, the FSC 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 2022, 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 FSC'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 statements 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



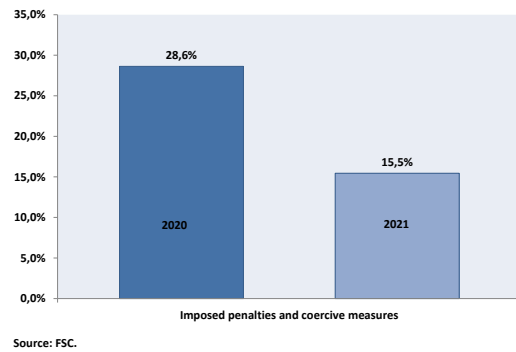
As a result of inspections performed in 2022, there was a decrease in the number of cases where penalties and coercive administrative measures were imposed to supervised entities, their percentage decreasing to 15.5% of all complaints within the FSC’s competence, compared to 28.6 % in 2021.

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.

5.3. Policy for financial literacy

In 2022, FSC took part in various forums: conferences, seminars, workshops and educational initiatives aimed at protecting consumers and raising the financial literacy of various social groups, partnering with both state institutions and non-governmental organizations that exercise their activity in the field of financial education.

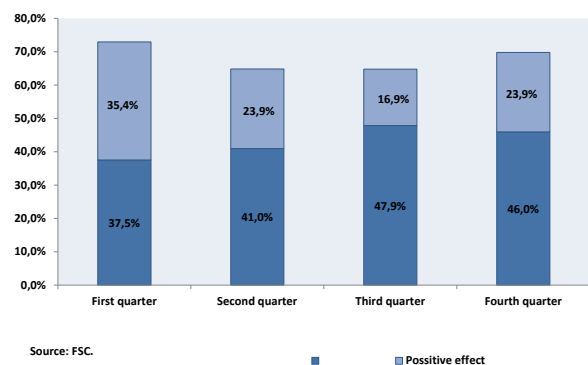
Graph 14. Penalties and coercive administrative measures imposed under the received complaints



For 15.5% of the complaints and inquiries in 2022, 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 2022, the highest proportion of the positive effect was recorded in the first quarter of the year – 35.4%, and the lowest in the third quarter of the year - 16.9%.

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



In 2022 FSC conducted the XX edition of the educational program: The Non-Banking Financial Sector in Bulgaria in partnership with the Ministry of Education and Science and the Atanas Burov Foundation.

The program is specifically aimed at students and teachers in secondary schools of economics. For another year, the event was held online in the form of four webinars on 21.10.2022, 28.10.2022, 4.11.2022 and 11.11.2022. On 4 consecutive Fridays, the topics were presented: Social Insurance Market, Insurance Market and Capital Market. For the first time, students were also introduced to several new topics, namely "Measures against money laundering and terrorist financing"; "ESG Investors and the Green Deal" and "Cybersecurity and Cryptocurrencies". The lecture was followed by a practical step in which the participants virtually visited a pension insurance company and an insurance company, an IF and the Bulgarian Stock Exchange, where they witnessed how the capital market works, understood the nature of insurance and why pension insurance is necessary.

21 students and 5 teachers from secondary vocational schools with economic and financial profile from the cities of Blagoevgrad, Burgas, Varna, Veliko Tarnovo, Gorna Oryahovitsa, Gotse Delchev, Dryanovo, Kyustendil, Kardzhali, Montana, Petrich, Pernik, Plovdiv, Ruse, Silistra, Sliven, Smolyan, Sofia, Stara Zagora and Shumen took part in the XX edition of the educational program. 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 program "Non-Banking Financial Sector in Bulgaria" is one of a kind for our country. It is one of the longest-standing initiatives of the FSC, launched since its inception and has become a true tradition. The aim of the educational program is for students from secondary vocational schools in Bulgaria to get an excellent opportunity for career guidance in the non-banking financial sector, as well as to increase their knowledge and financial literacy, this is one of the strategic goals of the Commission - consumer protection through financial literacy.

In 2022, the FSC dedicated a series of educational initiatives to Global Money Week, which took place from March 21 to 27.

In sync with new technologies, to improve the level of public awareness related to the non-banking financial sector and to protect consumers of financial products and services, the FSC in December continued its the digital campaign #invest safely in 2022 as well. Increasing financial literacy in the field of safe investing remains among the leading chief goals of the FSC, which promotes the campaign during Global Money Week (March 21-27).

Experts from the FSC in partnership with industry organizations, represented by the Bulgarian Association of Licensed Investment Brokers and the Investor Compensation Fund, presented to students a series of public lectures under the title "Investment Security in the Digital World", dedicated to the protection of investors, the recognition of legitimate investment firms and the functioning of the capital market.

The initiative marks the beginning of meetings between experts and students, within the framework of the first event, with graduates of one of the most authoritative and largest business universities in Bulgaria - the University of National and World Economy. The main objective of the #invest safely -campaign to the audience to meet the needs of society with up-to-date information

regarding the areas regulated by the FSC in the non-banking financial sector - capital in the non-banking financial sector - capital markets, insurance and pension insurance,.

Within the framework of the educational initiative of FSC, the future economists from 7 leading universities in the country - the University of National and World Economy, the Faculty of Economics of the University of Sofia, the Higher School of Insurance and Finance, the Institute of Economics, Varna, Burgas Free University, Southwest University "Neofit Rilski" and Academy of Economics, Svishtov, acquired key competencies for investing in the capital markets and protecting against financial fraud through the digital events specially organized for them.

On the occasion of Global Money Week, FSC experts also took part as guest speakers in the events: "From Zero To Fintech", organized by the Bulgarian Fintech Association, where they presented the Innovation Centre of the FSC, as well as in the webinar on "Security of digital financial instruments: Pay safely on the Internet!" initiated by Junior Achievement. The FSC experts also contributed as part of the jury of the "My Business" competitions - for the youngest and financial #LIFEHACK - for adolescents in high school.

In 2022, the FSC launched another new educational initiative: "The superpower of the young investor" in which nearly 200 students from professional financial and banking high schools participated. The program is dedicated to risk prevention in the use of investment products in the financial markets. With the initiative, the FSC aims to establish both good partnership relations with schools and to contribute to increasing the financial literacy of high school students, some of whom have a targeted interest in the field of capital markets and future investors.

The first to participate in the pilot events were the teenagers from the 11th and 12th grades of the National Financial and Business School, the National Commercial and Banking School and the National Natural Science and Mathematics School. Students were introduced to basic concepts from the world of investments, new technologies and integrated financial solutions. How the Bulgarian stock exchange functions, what is hidden behind the abbreviations DLT and NTF, what are Bitcoin, cryptocurrencies, quantum computers, what are the risks and how to react when they are established, are only some of the topics that were discussed with interest together with the teachers and their high school students.

At the end of 2022, experts from the FSC took part in the presentation of a master's program of the Higher School of Insurance and Finance - "Fintech, Finance and Digital Innovation".

The strategy for monitoring financial innovation (Fintech) in the non-banking financial sector 2021-2024 and the four main priorities: promoting the deployment of digital technologies by 2024, overcoming the fragmentation of the digital single market, developing the EU regulatory framework to facilitate access to digital innovation in the interest of consumers and market efficiency, creating a European financial data space and meeting the new challenges and risks related to the deployment of digital technologies were presented to the students.

They also got acquainted with the innovation hub of the FSC, emphasizing that the Commission continues the process of cooperation with supervised entities and FinTech companies, providers of financial innovations in the non-banking financial sector. For this purpose, an application form has been developed, which enables applicants to establish an informal dialogue with the regulator. In the second part of the event, experts from the FSC spoke about artificial intelligence (AI) and the serious progress in its development, which provokes the creation of

applications in the field of financing. The various aspects of artificial intelligence were also discussed - the real possibility not only to replace human capital in whole or in part, but also to improve its efficiency.

6. Financial Technology Monitoring Strategy

In implementation of the Financial Technology (FinTech) Monitoring Strategy in the non-banking financial sector (2021 - 2024), in 2022 FSC took a number of initiatives to 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.

FSC experts participated in key events, such as: FinTech Summit 2022, Digitalk 2022 Annual Conference; ad-hoc conversation at the Task Force FISC group on EC-imposed sanctions against Russia regarding crypto-assets; Green Centre meeting; a meeting of a working group of the European Forum of Innovative Facilitators (EFIF), at which the ACR Directorate presented a position on actions taken in the field of financial innovation in the non-banking financial sector; continuing the work on the Mobile Application of the FSC; meetings of working groups and committees of European supervisory authorities.

In support of this activity, the following information materials were prepared and published on the FSC website: video about the new Digital Operational Resilience Act (DORA) regulation; warning about unlicensed crypto funds; materials on the nature, regulation and application of smart contracts in the non-banking financial sector; explanatory posts about robo-advisors.

FSC representatives also took active part in the working groups of the European Supervisory Authorities ESMA and EIOPA, as well as in the organised workshops.

Experts from the FSC have developed a methodology for collecting data from studies on financial innovations, defining criteria and key indicators for evaluation and analysis of the development of financial innovations, data storage.

Representatives of the Commission also participated in the event organized by the Bulgarian Fintech Association with representatives of small businesses at the Embassy of Bulgaria in London.

In 2022, a pilot initiative of the FSC "The Superpower of the young investor" for risk prevention in the use of investment products on the financial markets, aimed at high school students, will be implemented (pilot with the National High School of Natural Science and Mathematics, Sofia, National High School of Commerce and Banking, Sofia and National High School of Finance and Economy, Sofia). The initiative simultaneously combines part of the activities of the Action Plan for the Financial Innovation Monitoring Strategy 2021-2024 and the National Financial Literacy Strategy (on the part of the FSC) and the FSC Consumer Protection Program 2021-2024. Based on an analysis of feedback from a student survey, a presentation was prepared on capital markets, blockchain and cryptocurrencies, including warnings about popular financial abuses. Three meetings-presentations were held in the pilot schools.

In order to track market developments, analyse trends and define risks in 2022, the FSC conducted a survey among supervised entities about the financial innovations they use. Answers

were given by 92 persons supervised by the FSC, with insurance brokers being the most active, followed by investment intermediaries.

In 2022, within the framework of the established mechanism for cooperation with business - Innovation hub, the FCS considered and analysed the received inquiries about the regulatory framework and the law applicable to the specific cases submitted by Bulgarian and foreign companies. In order to establish a sustainable framework, internal rules have been prepared for the functioning of the innovation centre for communication with interested parties regarding financial innovations in the non-banking financial sector.

Experts from FSC took an active part in the draft DORA regulation: 2nd global compromise proposal - DDL.

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. FSC is a full member and participates in the meetings of the boards of ESMA and EIOPA, supporting their activities through expert participation in the working committees and groups set up for them. In addition, FSC participates as a non-voting member in the meetings of ESRB and cooperates with EBA.

Key aspects of ESMA's work

ESMA's core mission continues to be investor protection, orderly financial markets and financial stability. ESMA achieves its mission through four activities: assessment of the risks for investors, markets and financial stability; creating common rules for EU financial markets; supervisory convergence and direct supervision of specific financial entities.

In 2022, ESMA continued the implementation of its strategic priorities for the period 2020-2022. Specifically, during the year, ESMA focused on its objectives of enhancing investor protection and promoting stable financial markets through the following priority work streams:

- Focus on contributing to the achievement of EU priorities: developing the Capital Markets Union and the legal framework for sustainable finance, innovation and digitalisation. To this end, the authority has contributed to the development of the regulatory and supervisory framework in particular through its work on the European Single Access Point (ESAP), on the Retail Investment Strategy and EC initiatives to facilitate SME access to public markets. It continued work on environmental, social and governance (ESG) disclosure rules and methodology for identifying their risks. It contributed to the work on non-financial reporting and working with national competent authorities (NCAs) to prevent the risk of greenwashing. Work has begun on the drafting of regulatory technical standards implementing the Regulation on digital operational resilience for the financial sector (DORA), the Regulation on Markets in Crypto Assets (MiCA) and the Regulation on the Pilot Regime for Market Infrastructures Based on Distributed Ledger Technology (DLT);

- Supervisory Convergence – focuses on a risk-based, consistent and coordinated approach to supervision in the EU, taking into account the assessment of the results of the Union's strategic supervisory priorities and revising the supervisory convergence toolkit, as well as conducting peer reviews;

- Risk assessment - strengthening risk identification work and cooperation with NCAs and EU public authorities and international organizations. ESMA assisted in the development of risk identification stress tests and supervisory responses to risks to financial stability. ESMA's new coordination role on the 'mystery client' supervisory practice has brought clarity to how the requirements for providing investment advice and offering investment products to retail investors

apply across EU. ESMA continued to assess the benefits and risks of financial innovation and ESG developments for financial markets and investors;

- Direct supervision – considering the financial and commodity market shocks in 2022 following the start of the war in Ukraine, ESMA prioritized the highest risk areas in its supervision, namely credit rating agencies and central counterparties, closely monitoring stability in both sectors. It also focused further on the new entities under its direct supervision – critical benchmarks, data reporting service providers and Tier 2 CCPs.

During the year, ESMA began work on its new strategy document for the next five-year period 2023-2028. The set framework published in October 2022 is ambitious and takes into account rapidly changing market conditions and geopolitical developments. The strategy is centred around three priorities: promoting market efficiency and stability, improving the protection of retail investors as well as enhanced supervision.

ESMA's common supervisory priorities:

According to the amendments of the ESMA Regulation, which entered into force in 2020, the Authority is obliged to prepare up to two Union-wide priorities within one year, 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 view of its new strategy for the period 2023-2028, ESMA has changed its Union Strategic Supervisory Priorities (USSP) to include the disclosure of ESG factors in place of the costs and performance of retail investment products. The aim is to promote the transparency and comprehensibility of ESG factor disclosures in key segments of the sustainable finance value chain, such as issuers, investment managers or IFs, and thus ESMA and NCAs address the risk of greenwashing.

In the context of the second supervisory priority: quality of market data, ESMA has developed and implemented common methodologies and thematic reviews. Both ESMA and NCAs continue to engage in targeted and coordinated supervisory work.

Regarding the costs and performance of retail investment products, ESMA and NCAs have carried out the following major actions in the last two years (2021 and 2022):

- Common Supervisory Action on costs and fees under the UCITS framework – a report was published in May 2022 with the main conclusions of the conducted supervisory action ;
- Common supervisory action on MiFID II costs and charges;
- General supervisory action on product management requirements and to check whether it is suitable for a particular client under MiFID II - a report with the results of the supervisory action was published in July 2022;
- Mystery shopping exercise (with some NCAs);
- Drafting guidelines and questions and answers to aid interpretation;
- Draft regulations and technical advice;

- Annual Statistical report on expenditure monitoring.

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 2022, task forces were formed in the FSC to review a total of 6 ESMA guidelines, as a result of which the FSC declared before ESMA compliance with the following Guidelines:

- **Guidelines on settlement fails reporting under Article 7 of the CSD Regulation (ESMA70-156-4717);**

These Guidelines apply to competent authorities designated under Article 11 of CSDR and to central securities depositories as defined in the CSD Regulation.

The purpose of these guidelines is to establish consistent, efficient and effective supervisory practices within the framework of the European System of Financial Supervision (ESFS) and to ensure common, uniform and consistent application of Article 7(1) of CSDR as well as Articles 14 and 39 of the RTS on settlement discipline, including the exchange of information between ESMA and the competent authorities regarding settlement fails, and the content of such reporting. According to Article 7(1) of CSDR, for each securities settlement system it operates, a central securities depository shall establish a system that monitors settlement fails of transactions in financial instruments referred to in Article 5(1). Regarding Articles 14 and 39 of the RTS on settlement discipline, the objective of these Guidelines is to clarify the scope of the data to be reported by CSDs, the representation and valuation of financial instruments, as well as how to report settlement fails based on the reason (cause) of the settlement fails.

- **Guidelines on methodology, oversight function and record keeping under the Benchmarks Regulation (ESMA81-393-288);**

These guidelines apply to the competent authorities designated under Article 40(2) and (3) of the Benchmarks Regulation and administrators as defined in Article 3(1)(6) of the same regulation

The objectives of these guidelines are to ensure the common, uniform and consistent application of the requirements related to material changes to the methodology, the use of an alternative methodology in exceptional circumstances and the oversight function. In particular, these guidelines achieve those objectives by setting out a transparent framework for administrators of critical and significant benchmarks when consulting on material changes to the methodology or using an alternative methodology in exceptional circumstances, together with an adequate oversight function. Furthermore, the guidelines aim at ensuring the common and consistent application of the record-keeping requirements related to the use of an alternative methodology for all benchmark administrators.

- **Guidelines on stress test scenarios according to the Money Market Funds Regulation (MMF) (ESMA34-49-446);**

These guidelines apply to competent authorities, money market funds and managers of money market funds as defined in the MMF Regulation.

The purpose is to ensure common, uniform and consistent application of the provisions in Article 28 of the MMF Regulation. In particular, and as referred to in Art. 28(7) of the MFF Regulation, they shall set common reference parameters for the scenarios used in the stress tests to be included in the stress tests, taking into account factors referred to in Art. 28(1). According to Art. 28(7) of the MFF Regulation, the guidelines are updated at least once a year, taking into account the latest market trends.

- **Guidelines on certain aspects of the MiFID II appropriateness and execution-only requirements (ESMA35-43-3006);**

The guidelines apply to competent authorities and firms. The purpose is to promote greater convergence in the application of, and supervisory approaches to, the MiFID II appropriateness and execution-only requirements. This will enhance the value of existing standards and strengthen compliance with regulatory standards, which will lead to strengthening of investor protection.

- **Guidelines on common procedures and methodologies on supervisory review and evaluation process of central counterparties under Article 21 of EMIR (ESMA70-151-3374);**

The guidelines apply to competent authorities designated under Article 22 of EMIR that supervise CCPs authorised under Article 14 of EMIR. These guidelines seek to assist competent authorities in the application of the regulation provisions in the context of performing the review and evaluation of central counterparties by further specifying common procedures and methodologies in order to ensure consistency in the format, frequency and depth of these reviews and evaluations.

- **Guidelines on MAR delay in the disclosure of inside information and interactions with prudential supervision (ESMA70-159-4966).**

The guidelines amend and complement the previous rules adopted by ESMA in 2016, for which the Financial Supervision Commission has decided to comply. The additions and amendments to the Guidelines from 2016 are in relation to issuers (banks or private individuals under Article 9a, Paragraph 2 of the MFIA).

Procedure for updating FSC forms to comply with guidelines

In 2022, the FSC took action to ensure full compliance with guidelines it had declared its intention to comply with due to the need to take additional measures. As a result, the FSC has updated the following ESMA guidance forms, declaring full compliance:

- Guidelines on ETFs and other UCITS issues, (ESMA/2014/937), as amended in Regulation No. 44;
- Guidelines on liquidity stress tests in UCITS and AIF (ESMA34-39-897), amended in Ordinance No. 44;;
- Guidelines on performance fees in UCITS and in certain types of AIF (ESMA34-39-992) with amendments in CISOU CIA and Ordinance No. 44;
- Final Guidelines on the MiFID II/ MiFIR obligations on market data. (ESMA70-156-4263), with amendments and additions to MFIA and Ordinance No. 73 on the disclosure of market data;

- Guidelines on marketing communications under the Regulation on cross-border distribution of funds (ESMA34-45-1272), after amendments and additions in CISOU CIA.

EBA Guidelines

In 2022, the FSC reviewed a total of 6 EBA guidelines, as a result of which the FSC declared full compliance with the following ones:

- **Guidelines on cooperation and information exchange between prudential supervisors, AML/CFT supervisors and financial intelligence units under Directive 2013/36/EU (EBA/GL/2021/15);**

These guidelines are addressed to competent authorities as defined in point (2)(i) and (2)(viii) of Article 4 of Regulation (EU) No 1093/2010¹⁷, and to competent authorities as defined in point (2)(iii) of Article 4 of Regulation (EU) No 1093/2010 to the extent these authorities are supervising the compliance with the requirements of Directive (EU) 2015/849 of institutions as defined in point (3) of Article 3(1) of Directive 2013/36/EU, or of financial sector operators as defined in point (1a) of Article 4 of Regulation (EU) No 1093/2010 where these operators are included in the institution's prudential consolidation, including of branches established in the Union whether their head office is situated in a Member State or in a third country.

The guidelines specify the manner of cooperation and information exchange, particularly in relation to cross-border groups and in the context of identifying serious breaches of anti-money laundering rules, according to Article 117(6) of Directive 2013/36/EU.

- **Guidelines on the characteristics of a risk-based approach to anti- money laundering and terrorist financing supervision, and the steps to be taken when conducting supervision on a risk-sensitive basis under Article 48(10) of Directive (EU) 2015/849 (amending the Joint Guidelines ESAs 2016 72), (EBA/GL/2021/16);**

These guidelines are addressed to competent authorities as defined in point (2)(iii) of Article 4 of Regulation (EU) No 1093/2010. These guidelines specify in accordance with Article 48(10) of Directive (EU) 2015/849 the characteristics of a risk-based approach to anti-money laundering and countering the financing of terrorism (AML/CFT) supervision and the steps competent authorities should take when conducting AML/CFT supervision on a risk-sensitive basis. Competent authorities should apply these guidelines when designing, implementing, revising and enhancing their own AML/CFT risk-based supervision model (RBS Model).

- **Guidelines for the assessment of the suitability of members of the management body and key function holders (EBA/GL/2021/06);**

These Guidelines are addressed to competent authorities as defined in Regulation 1093/2010 and Regulation 1095/2010, to financial institutions and to financial market participants as defined in Article 4(1) of Regulation 1095/2010 that are investment firms as defined in Article 4(1)(1) of Directive 2014/65/EU. These Guidelines specify the requirements regarding the suitability of members of the management body, in particular the notions “honesty, integrity and impartiality of a member of the management body”, “adequate collective knowledge, skills and experience of the management body”, “adequate human and financial resources devoted to the induction and training of such members”, and others. The notion of “diversity” to be taken into account for the selection

of members of the management body is also specified. The Guidelines also specify elements regarding the suitability of the heads of internal control functions and the chief financial officer, where they are not part of the management body, and, where identified on a risk-based approach by those institutions, of other key function holders, as part of the governance arrangements.

- **Guidelines on the criteria for the exemption of investment firms from liquidity requirements in accordance with Article 43(4) of Regulation (EU) 2019/2033 (EBA/GL/2022/10);**

These guidelines are addressed to competent authorities and to financial institutions that are IF meeting the conditions for qualifying as small and non-interconnected investment firms set out in Article 12(1) of Regulation (EU) 2019/2033. These guidelines specify further the criteria which competent authorities may take into account when exempting IFs meeting the conditions for qualifying as small and not-interconnected IFs under Article 12(1) of Regulation (EU) 2019/2033 from liquidity requirements in accordance with Article 43 of Regulation (EU) 2019/2033.

- **Guidelines on sound remuneration policies under Directive (EU) 2019/2034 (EBA/GL/2021/13);**

The guidelines specify further, the sound and gender-neutral remuneration policies that investment firms should have in place for all staff and for staff whose professional activities have a material impact on the risk profile of investment firms or the assets they manage and facilitate the implementation of the derogations under paragraphs 4, 5, 6 of Article 32 of Directive (EU) 2019/2034. While investment firms are required to have remuneration policies for all staff, additional requirements apply to remuneration policies and the variable remuneration of identified staff.

These guidelines are addressed to competent authorities and to financial institutions as defined in Article 4 (1) of Regulation (EU) 1093/2010 that are IFs as defined in Article 4(1)(1) of Directive 2014/65/EU on markets in financial instruments, that do not fall under Article 2 (2) of Directive (EU) 2019/2034 and do not meet all of the conditions to be qualified as small and non-interconnected investment firms under Article 12(1) of Regulation (EU) 2019/2033 on the prudential requirements of investment firms.

- **Guidelines on internal governance under Directive (EU) 2019/2034 (EBA/GL/2021/14).**

The guidelines apply in relation to investment firms' governance arrangements as required under Directive (EU) 2019/2034 on the prudential supervision of investment firms, including their organisational structure and the corresponding lines of responsibility, and also to the processes to identify, manage, monitor and report all risks that they are or might be exposed to, and to the internal control framework. They apply on both an individual and consolidated basis.

The guidelines are addressed to competent authorities and to financial institutions as defined in Article 4 (1) of Regulation (EU) 1093/2010 that are IFs as defined in Article 4(1)(1) of Directive 2014/65/EU on markets in financial instruments, that do that not fall under Article 2 (2) of Directive (EU) 2019/2034 and do not meet all the conditions to be qualified as small and non-interconnected investment firms under Article 12(1) of Regulation (EU) 2019/2033 on the prudential requirements of investment firms.

Procedure for updating FSC forms to comply with guidelines

In 2022, the FSC took action to ensure full compliance with guidelines it had declared its intention to comply with due to the need to take additional measures. As a result, the FSC has updated the following EBA forms:

- Final guidelines on cooperation and information exchange for the purpose of Directive (EU) 2015/849 between competent authorities supervising credit and financial institutions (JC 2019 81), following an amendment to the Covered Bonds Act, as § 18 of the transitional and final provisions provide for amendments and additions to the MAMLA relating to the application of these guidelines;

- Guidelines on STS criteria for non-asset-backed commercial paper securitization (EBA/GL/2018/09);

- Guidelines on STS criteria for asset-backed commercial paper securitization (EBA/GL/2018/08).

Peer reviews

In 2020, ESMA adopted a two-year plan for peer reviews, which sets out their time ranges, the follow-up of the performance of past reviews and the mandatory reviews required under European law. The peer review plan is part of ESMA's work programme for 2022, which can be found at the following link: https://www.esma.europa.eu/sites/default/files/library/esma20-95-1430_2022_annual_work_programme.pdf.

- **Peer review on supervision of CSDs;**

The peer review covers the supervision of cross-border provision of services by CSDs including through links and branches and were applicable through the operation of an interoperable link, under the freedom to provide services in another Member State in accordance with Article 23 of Regulation (EU) No 909/2014 of the European Parliament and the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories (CSDR). Accordingly, the peer review focuses on the NCAs' supervision of cross-border provision of services by CSDs, in the NCAs' capacity as home and host authorities, across six key areas: initial authorisation process; passporting procedure; cooperation arrangements between home and host NCAs; ongoing supervisory activities; investigations and inspections; and enforcement measures. The FSC is not among the authorities selected for the peer review.

- **Peer Review on central counterparties' Business Continuity in Remote Access Mode**

This peer review assesses the overall functioning of central counterparty colleges and provides an in-depth analysis of supervisory activities of NCAs of central counterparties registered on their territory with respect to requirements set out in EMIR related to central counterparties' business continuity. This peer review is based on a specific methodology developed for mandatory peer reviews under EMIR.

The peer review findings are based on information gained by ESMA staff through participation in CCP colleges, the responses by the NCAs to a predefined questionnaire, including, where relevant, tailored follow-up questions. The information is supplemented by findings from on-site visits at selected NCAs in 2022. There are no registered central counterparties on the territory of the Republic of Bulgaria, therefore FSC was not selected for the peer review.

- **Peer review to apply the criteria for simple, transparent and standardized securitization.**

Despite being included in the annual plan, the peer review was postponed to 2024. FSC is not among the authorities selected for the peer review.

Key aspects of EIOPA's work

The focus areas for EIOPA for 2022 were prioritized on EU legislative initiatives, market developments, including activities related to digital transformation. In 2022, the European Supervisory Authority will focus its activities generally on the following topics:

- integrating sustainable finance considerations into all areas of work;
- supporting the market and supervisory community through digital transformation;
- increasing the quality and effectiveness of supervision;
- ensuring a technically sound prudential and business policy;
- identifying, assessing, monitoring and reporting risks to financial stability and business conduct;
- ensuring good governance, flexible organization, cost-effective organization of resources and a strong corporate culture.

During the reporting period, EIOPA continued to work on many of its existing priorities in order to achieve full implementation of the new tasks assigned to it as a result of the review of the European Supervisory Authorities Regulations. This includes the topics of digitalization and financial innovation, conducting regulatory reviews and developing business governance, converging supervisory business management practices with an increased focus on addressing emerging risks, effective use of data, supervisory convergence with a focus on cross-border and cross-sectoral supervision, developing and improving core financial stability products and strengthening EIOPA's corporate resilience and effectiveness to ensure that the European regulator uses its resources to deliver its products and services.

In 2022, EIOPA focused on developing and implementing a digital transformation strategy. It is also actively working to implement its Sustainable Finance Action Plan, including efforts to provide input to the European Commission's Sustainable Finance Strategy, as well as developing shared resilience solutions to address natural disasters and other systemic risks. In line with the European Commission's Action Plan on Building a Capital Markets Union and in preparation for the planned Retail investment strategy, EIOPA is working to review how the existing legal frameworks for IDD, PRIIPs and PEPP can better enable consumers to make informed investment decisions.

EIOPA also focuses on coordination of supervisory activities related to the implementation of the PEPP Regulation – supervisory approaches to PEPP, coordination of supervisory plans and reporting requirements. As before, the European authority also focused its efforts on the supervision of distribution channels for the benefit of consumers. In 2022, EIOPA is also working on the follow-up to the 2020 Opinion on the Solvency II framework, including on the principle of proportionality. Also, among the main activities of the European body for the past year, the work for the contribution to the review of the IORP II Directive stood out. EIOPA also followed up on pension tracking services.

Last but not least, EIOPA continued work on emerging risks, measures related to COVID-19, cyber risks, reporting risks related to ESG factors and developing stress tests.

EIOPA's union-wide strategic supervisory priorities

From 1 January 2020, specific amendments to the European Supervisory Authorities Regulations were made, and EIOPA has an obligation to define, at least every three years, up to 2 priorities of Union-wide relevance that reflect future developments and trends. National competent authorities shall take these priorities into account when drawing up their work programmes. The two EU-wide priorities in 2022 set by EIOPA are:

1. business model sustainability;
2. adequate product design, including through strict monitoring of product oversight and governance (POG).

2022 is the second year in terms of the reporting of activity under these two priorities, and work on them will continue in 2023.

In light of the current macroeconomic environment, the review of the implementation of the overall supervisory priorities in 2022 focuses on the impact of rising inflation on the supervisory priorities, the impact of a worsening macroeconomic environment, monitoring new trends in digitalization and cyberspace, and value for money in equity-related businesses.

EIOPA Guidelines

In 2022, task forces were formed in the FSC to review a total of 3 EIOPA guidelines, as a result of which the FSC declared compliance with the following:

- **Guidelines on Legal Entity Identifier (LEI) (EIOPA-BoS-2021/456);**

The guidelines are intended to facilitate the use of LEI as unique identification codes for insurance and reinsurance undertakings and groups, as well as institutions for occupational retirement provision, which fall under the remit of national competent supervisory authorities. The Guidelines support the introduction of the Legal Entity Identifier System (LEI), proposed by the Financial Stability Board (FSB) and supported by the G20, aimed at achieving a single, worldwide identification of parties to financial transactions.

- **Revised Guidelines on Contract Boundaries (EIOPA-BoS-22-394);**

The act amends the text of the previous guidelines, on which the FSC decided in 2015. The amended guidelines are addressed to the competent authorities and apply both to individual enterprises and mutatis mutandis at the group level. The aim is to provide the necessary clarity on how and under what conditions contracts should be treated when determining which cash flows are included within their limits and which are not. New texts are introduced on topics relevant to defining contract boundaries, in particular regarding the assessment of whether a cover or financial guarantee has a demonstrable effect on the economic content of the contract and the identification of contracts that can be unbundled.

- **Revised Guidelines on Valuation of Technical Provisions (EIOPA-BoS-22-393);**

The revised guidelines amend and supplement the Guidelines on valuation of technical reserves (EIOPA-BoS-14/166), which the FSC decided on in 2015. The revised guidelines are addressed to competent authorities and apply both to individual undertakings and mutatis mutandis

at group level. The aim is to bring the necessary clarity to certain elements that should be taken into account in the process of calculation and validation of technical reserves. New texts are introduced regarding the determination of the best estimate, including the use of future management actions and expert judgment; the modelling of expenses and the valuation of options and guarantees through economic scenario generators; the modelling of policyholder behaviour; the calculation of expected earnings in future premiums.

- **Procedure for updating FSC forms to comply with guidelines**

In 2022, the FSC took action to ensure full compliance with guidelines it had declared its intention to comply with due to the need to take additional measures. As a result, the FSC has updated the forms for the following EIOPA guidelines:

- Guidelines on contract boundaries (EIOPA-BoS-14/165);
- Guidelines on Valuation of Technical Reserves (EIOPA-BoS-14/166).

Peer reviews

Pursuant to Article 30 of the EIOPA Regulation, the Authority draws up a two-year work plan for peer reviews that reflects EIOPA's priorities according to their long-term work programme. The plan can be found at the following link: https://www.eiopa.europa.eu/document-library/annual-work-programme/single-programming-document-2021-2023-including-annual-work_en?source=search

In 2022, FSC continued its activities on several peer reviews of EIOPA, such as:

- **Peer review on outsourcing activities**

Under the Solvency II Directive, undertakings can outsource not only operational tasks, but also, for example, a key function or part of such a function. At the same time Art. 49, para. 2 of the Directive defines when the outsourcing of critical or important operational functions or activities is not permitted.

The goal of this peer review is to assess the implementation of the relevant provisions related to the outsourcing of activities, as well as to exchange experience and information on supervisory activity in order to identify best practices in the European Union. The peer review assesses the approaches of national competent authorities to the outsourcing and supervision of outsourced functions and activities.

As a result of providing answers to questions raised by EIOPA, as well as following conference calls, an EIOPA report on the peer review on outsourcing was published in summer 2022.

The report can be accessed at the following link:

https://www.eiopa.europa.eu/system/files/2022-07/final_report_on_peer_review_on_outsourcing.pdf

- **Peer review on Product Oversight and Governance requirements**

Last year, the first phase of the peer review began, namely the self-assessment phase, with the FSC completing a questionnaire on the topic, participating in conference calls, and then answering additional questions during the review.

The Insurance Distribution Directive (IDD) product oversight and governance requirements came into effect on 1 October 2018 and aim to ensure that customer interests are paramount in

product design, throughout the product lifecycle, including distribution. A key task is to ensure that product risks are sufficiently addressed and mitigated by developing adequate processes to avoid and identify such product risks.

- **Follow-up of the implementation of recommendations from completed peer reviews:**
 - **Peer review on propriety of administrative, management or supervisory body (AMSB) members and qualifying shareholders (Follow-up peer review on propriety);**

Following the FSC's response to follow-up questions regarding the peer review, EIOPA published its report in autumn 2022 assessing how national authorities have implemented the recommended actions following the peer review.

The report can be accessed at the following link:

https://www.eiopa.europa.eu/system/files/2022-10/follow-up_report_to_the_peer_review_on_the_propriety_assessment_of_administrative_management_and_supervisory_body_members_and_qualifying_shareholders.pdf

- **Peer review on the supervisory practices for the application of proportionality principle in government requirements regarding key functions**

The peer review started in 2018 and a follow-up report on the implementation of the recommendations made by EIOPA to national competent authorities is published in 2021. After the preparation of the report, as the next phase of the inspection, EIOPA continues to monitor the implementation of the recommended actions, calling on the authorities that, at the time of the follow-up report, have not yet fully implemented the recommendations, to consider the identified examples and use them to develop national supervisory practices. In this regard, in 2022 EIOPA conducted the surveillance phase following the follow-up report by communicating with the supervisory authorities. FSC provided answers to additional questions asked by EIOPA, so that the actions recommended to FSC were considered fully implemented by the Bulgarian regulator.

7.2. International cooperation, projects and initiatives

7.2.1. FOCUS TOPIC: Bulgaria's accession process to the Organization for Economic Co-operation and Development (OECD)

In 2022, one of the main foreign policy priorities of the Republic of Bulgaria continued to be the membership in the Organization for Economic Co-operation and Development (OECD), with FSC working actively and carrying out a continuous exchange of information with the Ministry of Foreign Affairs, in its capacity as a national coordinator for accession to OECD.

On January 25, 2022, with a decision taken by the OECD Council, talks on the accession of the Republic of Bulgaria began, and on June 10, 2022, the Organization's Secretariat handed **Roadmap for Bulgaria's accession process**, which officially marked the beginning of this important activity for our country. For the purposes of the smooth running of the processes and good coordination between the institutions, a **Resolution No. 242 of August 11, 2022, of the Council of Ministers** was adopted for the organization and coordination of the process of talks and preparatory activities for the accession of the Republic of Bulgaria to OECD. The decree determined the lead and partner institutions in connection with the implementation of the technical reviews by the thematic committees of the OECD - one of the main activities in the accession

process. The Financial Supervision Commission is designated as a co-leading institution, together with the Ministry of Finance, in the work of the Insurance and Private Pensions Committee, and FSC is a partner institution to the Ministry of Finance in the Committee on Financial Markets.

In November 2022, in fulfilment of the delivered Roadmap, Bulgaria accepted and sent to OECD **Initial Memorandum** - this is a key document and this deposition practically started the actual part of the talks on Bulgaria's accession to the organization. More specifically, the document represents a first self-assessment of the compliance of Bulgarian legislation, policies and practices with the current legal instruments of the OECD.

Based on its status as an acceding country, Bulgaria is invited to participate in the meetings of all substantive/thematic committees of OECD and their subsidiary bodies, and the committees have initiated in-depth technical reviews of Bulgarian legislation, policies and practices through active exchanges with relevant institutions.

During the year, FSC took part in all meetings of the permanent **Inter-agency Coordination Mechanism (ICM)**, which was created with a view to improving coordination and speeding up actions on acceding to the OECD.

On 24 October 2022, the Council of Ministers adopted Decision No. 817 on the designation of lead and partner institutions for the legal instruments of OECD, with the institutions specified in the Decision being responsible for ensuring compliance with each individual legal instrument of OECD in the specific committees. In communication with all involved institutions, the initiation of the process of preparing self-assessments of compliance with respect to each individual legal instrument of OECD in the areas in which FSC has competence as a lead or partner institution is organized. As a leading institution, FSC prepared 6 self-assessments on legal instruments in the Insurance and Private Pensions Committee, and as a partner institution participated in the preparation of more than 10 self-assessments in other committees, including the Committee on Financial Markets.

At the end of 2022, the FSC joined the work of the Corporate Governance Committee of OECD, with representatives of the Bulgarian regulator joining the composition of the inter-agency working group for the fulfilment of the obligations of the Republic of Bulgaria during the review by this committee. The participation of experts from FSC in the group is necessary considering the review of one of the mandatory eight standards of OECD - the Recommendation of the Council on the Principles of Corporate Governance. In the period 21-23 November 2022, a regular meeting of the Corporate Governance Committee of the OECD was held in Paris, France, and for the first time Bulgaria was invited to attend the meeting of the Committee, although the country's accession to the organization is still ongoing. A representative of FSC took part in the meeting from the Bulgarian side, and during the meeting the motivation and willingness of Bulgaria and OECD to cooperate closely in the accession process was confirmed.

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 a 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.

Peer reviews

The IAIS peer reviews are part of the assessment strategy designed to assist members in applying the supervisory standards endorsed by the organization. These reviews provide an assessment to identify the nature and extent of any weaknesses or gaps in the supervisory and regulatory frameworks and provide information on the level of current supervisory capacity and the extent of future supervisory development.

FSC took part in a peer review of IAIS regarding the compliance with principles 9 "Supervisory Review and Reporting" and 10 "Preventive Measures, Corrective Measures and Sanctions" of the organization's Core Insurance Principles. After further discussion of the final individual report on both principles, this review was successfully concluded.

More information on the IAIS peer reviews and published reports can be found here:

<https://www.iaisweb.org/activities-topics/implementation-assessment/peer-review-process/>

Exchange of information

With regard to the activity in exchanging information with foreign regulatory and supervisory authorities during the past year, FSC continued to provide active assistance. More than 50 requests for assistance from foreign supervisors have been processed in accordance with the IOSCO MMoU, the IAIS MMoU, the ESMA MMoU, etc. For its part, FSC has sent over 20 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. After FSC signed the administrative arrangement on data transfer in April 2019 on the grounds of Art. 46, para. 3 of the GDPR, in 2020 at its annual meeting IOSCO elected a representative of FSC as one of the six members of the Assessment Group for the implementation of the administrative arrangement, the Bulgarian active participation continued in 2022.

New Memoranda

In 2022 FSC signed 5 international agreements on cooperation and information sharing in an AML/CFT supervisory college on the basis of the Final Guidelines on cooperation and exchange of information for the purposes of Directive (EU) 2015/849 between the competent authorities exercising supervision over credit and financial institutions (JC 2019 81), issued by the ESAs. The first agreement governs the creation of a college of supervisors for the GROUPAMA Group, with the French Prudential Supervision and Resolution Authority (Autorite de Controle Prudentiel et de Resolution – ACPR) as the lead supervisor. The second agreement regulates the creation of a college of supervisors for KBC Group, the latter being organized by the National Bank of Belgium (La Banque nationale de Belgique), the group's lead supervisor. The third agreement governs the establishment of a college of supervisors for the BNP PARIBAS Group, which is again organized by the ACPR). The fourth agreement regulates a college of supervisors for the UNICREDIT Group, which is organized by the National Bank of Italy (Banca d'Italia), as the lead supervisor. The fifth agreement concerns the establishment of a college of supervisors for OTP Group and is organized by the Central Bank of Hungary (Magyar Nemzeti Bank - MNB) in its capacity as lead supervisor.

During the reporting year, FSC also concluded a Cooperation Arrangement under Art. 24(4) of Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories with the Luxembourg supervisory authority (Commission de Surveillance du Secteur Financier - CSSF).

Considering the fact that in 2021 the Board of Supervisors of EIOPA, with the participation of the FSC representative, adopted a Decision on the collaboration of the insurance supervisory authorities of the Member States of the EEA with a view to the exchange of information on supervised persons (EIOPA-BoS-21-234/10.06.2021), according to which the supervisory authorities should send notifications and exchange information electronically, an electronic notification platform organized by EIOPA was created during the reported year (CBN Platform). In this regard, and with a view to the correct and lawful operation of the platform, in 2022 a Joint Controllershship Agreement was signed between EIOPA and the NCAs of EEA. This agreement ensures the lawful transfer of personal data between the joint controllers in connection with the fulfilment of the obligations under Chapter VII of the Solvency II Directive for the cross-border notification carried out through the dedicated EIOPA platform.

At the beginning of 2022, the three European Supervisory Authorities ESMA, EIOPA and EBA started the implementation of a project to create a system for the exchange of information relevant to fitness and propriety. For this purpose, an intersectoral coordination group of ESAs (ESAs FPS Coordination Group) was created to develop the information exchange system, and every national authority, including FSC, received an invitation to participate in the work.

The system is developed in accordance with Art. 31a of Regulation (EU) No. 1093/2010 of the European Parliament and of the Council of November 24, 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC, Regulation (EU) No 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/79/EC, and Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC, which mandates EBA, EIOPA and ESMA to establish a system for the exchange of information relevant to the assessment of the fitness and propriety of holders of qualifying holdings, directors and key function holders of financial institutions by competent authorities.

The ESAs Joint Coordination Group is tasked with implementing the system, following a two-stage approach: developing a technological solution facilitating the exchange of information (consisting of a cross-sectoral shared database and a list of contact points from the competent authorities) and developing guidelines and operational rules for the exchange of assessment-related information.

FSC took advantage of the opportunity to get involved in the work of the coordination group and actively participated in the process of developing an information exchange system with its own representative. The project will continue in 2023 with the development of the exchange platform.

7.3. Cooperation with institutions in Bulgaria

The FSC maintains and deepens its cooperation with state structures, sectoral 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.

The Commission was actively cooperating with sectoral associations – the BAAMC, BALIF, BASPSC, as well as numerous state authorities and institutions – the National Statistical Institute (NSI), NRA, SANS, BNB, Ministry of Finance (MF), the Registry Agency (RA), the Institute of Certified Public Accountants (ICPA) and the Commission of Public Oversight of Statutory Auditors (CPOSA) and the judiciary authorities (Prosecutor's Office, Courts, Investigation Service), structures to the Ministry of Interior, etc.

On the occasion of the negotiations between the Bulgarian GF and the Cypriot GF on the Memorandum of Understanding on the implementation of the decision of the sole arbitrator in the arbitration case, filed at the request of the GF in connection with the applicability of the 1995 Convention in relation to IC Olympic, Cyprus - in bankruptcy, the following actions were carried out:

- In connection with the information provided to the FSC on the decision of the single arbitrator in the case initiated by the Bulgarian GF against the Guarantee Fund of the Republic of Cyprus in connection with the bankruptcy of the Olympic Insurance Company, the opinion of the Guarantee Fund on the decision and the progress of the work on a memorandum of understanding between the Guarantee Funds of the Republic of Bulgaria and the Republic of Cyprus, as well as in connection with a meeting held between representatives of the FSC, the GF and NBBMI, expressed opinion from the IS Department and instructions have been given to the GF. The IS Department also expressed an opinion on whether certain monetary payments are subject to a guarantee by the Bulgarian GF in the case with IC Olympic, respectively to reimbursement by the Cypriot GF, namely: a) claims of the injured parties for interest on demandable guaranteed claims; b) legal costs awarded in favour of the injured persons in legal cases against IC Olympic; c) payments to insurers under property insurance of motor vehicles of the injured person.

- In connection with the entry into force of IFRS 17 – Insurance Contracts from 01.01.2023, in 2022 the work of the joint working group, established by Order No. Ж-271 of 14.10.2021 of the Chair of the FSC, continued with the participation of representatives of the FSC and ABI. The working group prepared a draft proposal to amend Ordinance No. 53 with a view to the entry into force of IFRS 17. During the reporting period, meetings were held and correspondence was carried out with EIOPA, BNB and other European insurance supervisory authorities in order to exchange experience regarding regulations and supervisory practice in relation to the legal framework of the supervisory reporting of insurers. Department officials also held a working meeting with representatives of ICPA in order to discuss the possibility of improving the applicable framework with regard to the valuation of certain assets in the context of the preparation of a draft amendment to Ordinance No. 53 in view of established differences in the information in the annual financial statements prepared in accordance with IFRS, the annual reports under Solvency II and under Ordinance No. 53.

The members of the working group from the FSC prepared proposals for amendments and additions to the IC, sent to the Ministry of Finance, about ensuring the application of IFRS 17 which

is mandatory for insurers and reinsurers with headquarters in the Republic of Bulgaria, as of 01.01.2023 and the elimination of the requirements of Directive 91/674/EEC.

- During the reporting period, communication continues with representatives of IC Lev Ins AD and NBBMI, in connection with the need to reduce the insurer's obligations to the bureau and to other participants in the Green Card system, in the context of the implementation of Bulgaria's commitments set out in the Action Plan for the implementation of subsequent commitments after joining ERM II.

In connection with a letter received by the FSC from the Minister of Finance, in implementation of the Decision of the Council of Ministers under Protocol No. 40 of 21.09.2022, which assigned the Ministry of Finance, in coordination with the FSC, to analyse the need for legal changes related to the functioning of the Green Card system in Bulgaria, the Ministry of Health prepared and submitted to the Ministry of Finance an Analysis of the best practices and legislation in the member states of the European Union in relation with the Green Card system.

- Pursuant to Order No. 3-330/08.12.2021 of the Chair of the FSC for the creation of an interdepartmental working group for updating the Criteria for coordinating the selection of audit firms performing audits of insurance and reinsurance undertakings, insurance holding companies, mixed financial holding companies, pension insurance companies and the pension funds managed by them based in the Republic of Bulgaria, adopted by decision under protocol No. 27 of 04/07/2017, amended and supplemented by a decision according to protocol No. 81 of 02/11/2021 of the FSC (the Criteria), in which representatives of CPORA participate, a report was prepared, presenting the major issues identified in the regulatory and supervisory practice of the FSC in applying the Criteria.

During the reporting period, a number of meetings were held, a draft of amendments and additions to the IC was prepared, a review of the practice for the previous five years in the implementation of the Criteria was carried out by the members of the working group.

The results of the review are objectified in the report prepared by the members of the working group. The report also proposed a draft of new Criteria for coordinating the selection of audit firms, which was sent by the FSC to CPORA for coordination, on the basis of Art. 187a, para. 2 of SIC and Art. 101a, para. 2 of the IC. In response, a statement from CPORA was presented in a letter, in which the considerations and proposals of the supervisory authority regarding the project of new Criteria for coordinating the selection of audit firms are presented.

- In the first quarter of 2022, the work on amending and supplementing the IC began. The immediate reason for starting the work is the adopted Directive (EU) 2021/2118 amending and supplementing Directive 2009/103/EC on third party liability insurance for motorists (the Motor Directive), which must be implemented by 23 December 2023, but also from the need to introduce changes in order to solve issues arising from the application of the IC, such as: the impossibility to reimburse NBBMI the compensations paid as a result of the bankruptcy of IC Olympic; the issues of remote distribution of insurance products with means of digital communication; loopholes in the insolvency regime of insurers; issues related to improving the organization of specific entities in the field of insurance - Guarantee Fund and NBBMI; the objections expressed against the previous concept of the “Bonus-malus” system; identified weaknesses in the regulation of requirement for fitness and

propriety of members of management and control bodies of insurers and other persons performing key functions in them; identified weaknesses in the regulation of the criteria for the selection of auditors; the lack of regulation of Guarantee insurance and others. In this regard, the Deputy Chair and employees of the Insurance Supervision Department held numerous meetings with representatives of professional associations of insurers, insurance brokers, as well as the Guarantee Fund and the National Bureau of Bulgarian Automobile Insurers, on the issues of upcoming changes in the IC.

In the process of work on the introduction of Directive (EU) 2021/2118 and in connection with an invitation to participate in a series of seminars organized by the European Commission, questions to be addressed to the organizers to clarify controversial aspects of the directive were discussed at the meetings. The amended and supplemented questions were sent to the participants of the working group by the Ministry of Finance for sending to the competent European institutions.

In the process of work, questions were formulated to the General Directorate National Police, to which answers were received. Also, a study of the regulation of the use and insurance of light electric vehicles in the Federal Republic of Germany was published on the page of the Ministry of Transport of the country.

- In 2022 employees of the department have taken part in meetings of the subgroup of Working Group 26 Financial Services to prepare proposals for regulatory amendments in order to introduce measures for the implementation of Regulation (EU) 2019/1238 of the European Parliament and of Council of 20.06.2019 regarding a pan-European personal pension product (PEPP Regulation), created by order No. 3MΦ-545 of 29.06.2021 of the Minister of Finance. The employees took part in the drafting of the Law amending and supplementing the Social Insurance Code (LAS SIC), which provides conditions for the implementation of Regulation (EU) 2019/1238 on a pan-European personal pension product, containing measures to implement the PEPP Regulation. With the Transitional and Final Provisions of the LAS SIC, amendments are introduced to the IC regarding the implementation of the PEPP Regulation.

- Employees from the administration took part in the Non-Banking Financial Sector Working Group at the Coordination Council for preparing the Republic of Bulgaria for membership in the Eurozone and in the work of the interdepartmental working group at the Coordination Council with the aim of drafting an Act to Introduce the Euro in the Republic of Bulgaria (Euro Act). In 2022, an opinion was drawn up on the drafting of an Act to Introduce the Euro in the Republic of Bulgaria (ST-17/12.09.2022), meetings of the working group were held and specific proposals and comments on the draft Act to Introduce the Euro in the Republic of Bulgaria were prepared.

- In connection with a letter received from the Ministry of Foreign Affairs, a questionnaire was sent regarding the application of certain provisions of Regulation (EU) No. 833/2014 regarding restrictive measures in view of Russia's actions destabilizing the situation in Ukraine, employees from the Department of Insurance provided answers to the questions related to the activities of insurers and reinsurers which falls under the authority of the FSC and the Deputy Chair in charge of the Insurance Supervision Department.

- In connection with conducting an examination for the recognition of the capacity of a responsible actuary during the reporting period, a working group was established with the Chair and the members of the examination board, determined by the decision of the FSC according to Protocol

No. 53 of 26.07.2022, with the aim of preparing and conducting an examination in accordance with Ordinance No. 31. In October 2022, an exam was held to recognize the legal capacity of a responsible actuary according to the Ordinance on the four modules: Base Module, Life Insurance module, Risk Models and Non-Life Insurance module, Pension Insurance module.

In view of the need to improve and update ordinances regulating the activity of supplementary pension insurance, a number of meetings were held in 2022 between employees from the Social Insurance Supervision Department and representatives of BASPSC, at which proposals for changes were discussed.

In connection with initiated legislative changes, directly or indirectly affecting the activities of pension insurance companies and the funds managed by them, within the framework of the coordination and public consultation procedures, the Commission promptly provided opinions, comments and/or proposals, including on draft laws amending and supplementing the Value Added Tax Act, the Commercial Act, etc.

Employees of the Social Insurance Supervision Department participated in meetings with representatives of the Ministry of Finance, BASPSC and the Institute of Chartered Accountants to discuss and prepare a draft of a national accounting standard relating to the financial reporting of supplementary pension insurance funds and funds for benefits payment.

For the purpose of maintaining the good inter-institutional cooperation, as well as for the performance of timely and preventive supervisory functions, representatives of the Commission participated in a number of working meetings and initiatives held with representatives of supervised persons and other bodies and organizations, including:

- discussion of the development of the pension system in connection with a study carried out by Ernst & Young Bulgaria EOOD in the field of private pension insurance, commissioned by the International Finance Corporation;
- a discussion on the topic Accounting and auditing in Bulgaria - the accumulated experience after the recent changes, organized by the Institute of Chartered Accountants;
- conducting the 20th edition of the educational program for students "The non-banking financial sector in Bulgaria" with the partnership of the Ministry of Education and Science and the Atanas Burov Foundation, etc.

During the reporting year, the participation of representatives from the Regulatory Regimes of Social Insurance Supervision Directorate in the permanent working groups of the Council on European Affairs continued, more specifically in Working Group 26 "Financial Services" with leading institution Ministry of Finance, Working Group 2 "Free Movement of People" and Working Group 13 "Social Policy and Employment" with the leading institution Ministry of Labor and Social Policy.

Regulation (EU) 2019/1238 on a pan-European personal pension product (PEPP) regulates the creation and registration of PEPPs, the distribution of these products in all EU member states, as well as the supervision of these activities. In the reporting year 2022, representatives from the Regulatory Regimes of Social Insurance Supervision Directorate took an active part in the formed interdepartmental Working Group at the MoF for the preparation of the necessary amendments to the national legislation to ensure the implementation of the regulation. According to the draft Law Amending and Supplementing the Social Insurance Code, comments and proposals to the Ministry

of Finance have been prepared with a view to its refinement in the course of public consultations and coordination in accordance with Art. 32 of the Rules of Procedure of the Council of Ministers and its Administration (RPCMA) and in the spirit of effective and fruitful administrative cooperation, assistance was provided to the ministry submitting the draft law in the course of considering the comments and proposals received from the stakeholders during the period for the public discussion of the draft law. The draft was submitted to the 48th National Assembly.

In the reporting year 2022, representatives from the Regulatory Regimes of Social Insurance Supervision Directorate worked together with the Ministry of Finance within the framework of the Non-Banking Financial Sector working group at the Coordination Council for Preparation of the Republic of Bulgaria for Euro Area Membership. The upcoming actions on the implementation of the Action Plan for the national plan for the introduction of the euro in the Republic of Bulgaria were regularly discussed. The basic structure, scope and content of the draft act to introduce the euro in the Republic of Bulgaria were discussed. Within the framework of the "Euro Act" working group formed in 2022, with the leading institution the Ministry of Finance, the Concept of an Act to Introduce the Euro was discussed, and subsequently the draft Act to Introduce the Euro in the Republic of Bulgaria, prepared by the Ministry of Finance, was examined. According to the draft, after taking into account the opinions of the sectoral organizations, proposals were sent for revisions in the texts, including texts in the Transitional and final provisions concerning the changes to the SIC related to the adoption of the euro as the official currency.

In 2022, in line with interdepartmental cooperation, within the working group established by order of the Chair of the FSC with representatives from the Regulatory Regimes of Social Insurance Supervision Directorate, the Insurance Supervision Division, the Legal Directorate and the CPORA, expert work meetings were held. An analysis was prepared of the supervisory and regulatory practice for the previous 5 years on applying the Criteria for coordinating the selection of the audit firms that audit an insurer, reinsurer, insurance holding, financial holding with mixed activity, pension insurance company and the pension funds managed by it based in the Republic of Bulgaria, adopted by decision under protocol No. 27 of 04.07.2017, amended and supplemented by decision under protocol No. 81 of 02.11. 2021 of the FSC and proposals for future amendments were discussed.

A representative of the Regulatory Regimes of Pension Insurance Supervision Directorate took part in the procedure for the ex officio distribution of the persons who had not selected a fund for supplementary mandatory pension insurance that was carried out in accordance with Instruction No. 1/21.02.2006. The ex officio distribution was carried out four times a year by a commission created with the National Revenue Agency which included one authorized representative of the NRA, FSC and the BASPSC.

FSC experts participated in the drafting of an agreement for monitoring and reporting on the reforms included in the National Recovery and Resilience Plan. The reforms and investments in the National Recovery and Resilience Plan are aimed at overcoming obstacles to lasting and sustainable growth, and the investments are aimed at addressing common European challenges by joining the ecological and digital transition, strengthening economic and social sustainability and the convergence of the single market. All reforms and investments must be carried out by August 31,

2026, according to Regulation (EU) 2021/241 of the European Parliament and of the Council of February 12, 2021, to establish a Recovery and Resilience Mechanism.

In 2022, FSC experts participated in the preparation of a cooperation agreement between the Financial Supervision Commission and the Ministry of Finance pursuant to Art. 111, para. 6 of the Markets in Financial Instruments Act. In relation to the powers of the Minister of Finance under Art. 17a of the State Debt Act, in its capacity as a competent authority within the meaning of Art. 32, par.1 of Regulation (EU) No 236/2012 of the European Parliament and of the Council of 14 March 2012 on short selling and certain aspects of credit default swaps , the FSC provided information on the concluded transactions with government securities, obtained on the basis of Art. 26 of Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012, regularly or upon request, in a manner defined in a cooperation agreement between the two bodies.

8. Institutional development of FSC

8.1. New points in FSC's management and structure

In 2022 the Regulations for amending and supplementing the Regulations for the organization and activities of the Financial Supervision Commission and its administration were adopted.

The changes made in the Regulations for the organization and activities of the Financial Supervision Commission and its administration are a consequence of the need to align the rules of the Financial Supervision Commission with the current legislation, as well as to optimize its structure. The amendments and additions to the regulations specify the duties of the individual structural units in the Financial Supervision Commission.

The functions of the Regulatory Regimes of Investment Activity Directorate have been supplemented. The Directorate will prepare assessments of the impact of bills, as a key tool for measuring the effect of both the introduction of new regulations and the current regulatory framework and the practice of its implementation, which will serve to prepare proposals with measures to eliminate the identified weaknesses and gaps. The directorate is expected to develop draft acts, by-laws, instructions, guidelines and practices related to the capital market.

The functions of the Regulatory Regimes of Insurance Supervision and Regulatory Regimes of Social Insurance Supervision directorates have been supplemented. The employees of the directorates will develop assessments of the impact of draft laws related to the insurance, respectively the social insurance market, market and other analyses in the field of insurance, respectively in the field of supplementary pension insurance, in order to contribute to the tasks related to ensuring the stability of the financial sector. The functions of the supervisory directorates have been specified in order to ensure the organizational security of the work of the Financial Supervision Commission have been refined. The functions of the Analysis, Appeals and Resolution Directorate have been supplemented with the aim of monitoring and introducing financial innovations in the non-banking financial sector, including the development of the mechanism for communication with interested parties (Innovation Hub).

Some regulations regarding the rights and obligations of employees have been changed in view of the organizational security of the work of the Financial Supervision Commission.

In the practice of the application of the regulations, a number of gaps have been identified, which have been corrected.

During the reporting calendar year 2022, two changes were made to the organizational structure of the Financial Supervision Commission.

In connection with the optimization of revenue collection processes and activities in the Financial Supervision Commission, a revenue collection unit was created. The main function of the Revenue Collection Unit is the planning, organization and implementation of the Financial Supervision Commission's debt collection activities and processes. Among its main goals is to plan, organize and carry out the activities of collecting the receivables of the Financial Supervision Commission (public and private) - the fees under Art. 27, para. 1 of the FSCA, the receivables under criminal decrees entered into force and decrees for the fulfilment of obligations arising from the enforcement grounds under Art. 268 of the APC, awarded legal fees, interest income and other

sources and activities. The unit will also organize and carry out the activities of opening, following and terminating the administrative proceedings for the issuance of statements for the establishment of public state receivables for overdue fees for the implementation of general financial supervision under Art. 27, para. 1 of the FSCA. The employees of the unit will take the necessary measures in connection with the payment of the due fees for the implementation of general financial supervision under Art. 27, para. 1 of the FSCA, will carry out the actions defined in the Administrative Offenses and Penalties Act and the Tax and Social Insurance Procedure Code for the voluntary collection of fines and property sanctions under criminal decrees that have entered into force and legal fees awarded, as well as handing them over to the National Revenue Agency or private enforcement agents for enforcement. The unit will consider requests for reimbursement and/or set-off of overpaid and erroneously paid fees, fines and property sanctions and will prepare draft orders, will prepare opinions and letters on received inquiries, objections and signals related to the activities of collecting receivables of the Financial Supervision Commission and will also carry out other activities related to the administration of the revenues of the Financial Supervision Commission, resulting from regulatory acts or assigned by the Chair of the Financial Supervision Commission.

The Coordination and Policy of Regulatory and Supervisory Activity Directorate, which is part of the general administration of the Financial Supervision Commission in its current form - as an independent structural unit, has been closed. The restructuring of the administration of the Financial Supervision Commission through consolidation, relocation and closure is aimed at optimizing the administration and its more efficient management.

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. After the changes in the RSAFSCA and the addition of 10 new full-time employees to perform the additional functions assigned to the organization, the confirmed staff number of the FSC at the end of 2022 is 265 (5 members of the FSC and 260 administration personnel). According to the distribution of functions, the Commission's administration consisted of general and specialized administration and units and positions directly subordinate to the Chair:

The general administration assists the Chair 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 2022, the following administrative units comprised the general administration:

- Legal Directorate – 19 permanent posts;
- International Cooperation Directorate – 10 permanent posts;
- Revenue Collection Unit - 4 permanent posts;
- Records and Administrative Services Directorate – 7 permanent posts;
- Financial and Economic Activities Directorate – 19 permanent posts;
- Information Technologies Directorate – 7 permanent posts;

- Public Relations and Protocol Directorate – 7 permanent posts;

According to the RSAFSCIA, the Legal and International Cooperation Directorates and the Revenue Collection Unit were part of the general administration but in the exercise of their functions they were directly subordinate to the Chair of the Commission.

The following units are also directly subordinated to the Chair of FSC:

- Chair's office - 4 permanent posts;
- Internal audit unit - 4 permanent posts;
- Inspectorate – 3 permanent posts.

In addition to these administrative units, the following positions are directly subordinated to the Chair:

- Secretary General;
- Information Security Officer;
- Finance Controller;
- Data Protection Officer;
- Network and Information Security Officer.

The functions of the last three are performed respectively by a chief expert in the Revenue Collection unit, a chief inspector in the Inspectorate and an adviser in the Office of the Chair. These persons perform the duties assigned to them in parallel with those for their main position.

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 – 23 permanent posts;
- Supervision of Investment Activity Directorate – 68 permanent posts;
- Regulatory Regimes of Insurance Supervision Directorate – 16 permanent posts;
- Insurance Supervision Directorate – 30 permanent posts;
- Regulatory Regimes of Social Insurance Supervision Directorate – 11 permanent posts;
- Social Insurance Supervision Directorate – 16 permanent posts;
- Analyses, Complaints and Resolution Directorate – 10 permanent posts.

In order to achieve the Commission's strategic goals, emphasis has been placed on organizational improvement and development of human capital by increasing management capacity, upgrading leadership skills and building and developing a sustainable organizational structure. Increasing motivation and commitment in the team, as well as digital competences, are among the other tools through which the Financial Supervision Commission strives to achieve the priorities and sub-goals set out in the Development Strategy.

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 competence and potential. This is achieved 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.

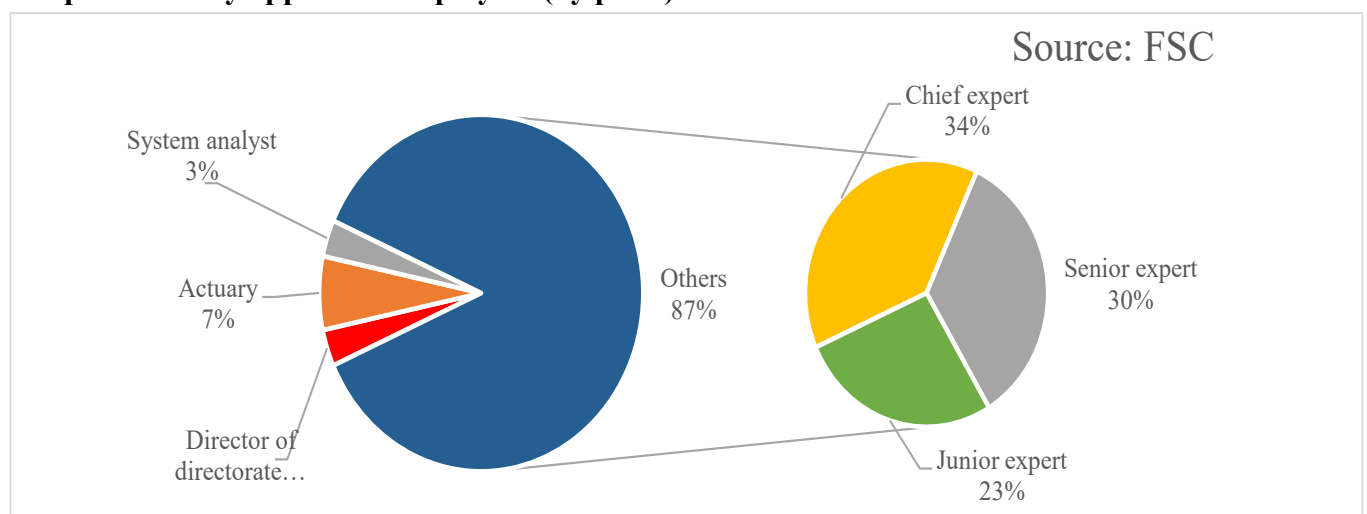
As a result of the actions taken to attract experts with the necessary professional qualities and qualifications, the number of staff employed in the Commission at the end of 2022 is 240, and

the employment rate amounts to 91% of the total, There is an increase of 3% in terms of the number of staff employed compared to the end of 2021.

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 for recruiting candidates who have a specialized interest in the area of supervision exercised by the regulator and possess the knowledge and competences sought by the FSC has been expanded. In this manner, through greater publicity and with the help of alternative selection options, the aim is to attract to key positions experts with high qualifications and experience.

In 2022, a total of 30 new employees were appointed, via the Procedure for recruitment, selection and appointment of employees in the Financial Supervision Commission. Of all the appointments, 87% were assigned to the three expert positions in the Commission's staff list - chief expert, senior expert and junior expert. The largest number of people who joined the administration of the FSC in the position of chief expert is 10 or 33% of the newly appointed, followed by the position of senior expert - 9 persons (30%). 7 employees or 23% of the employees who joined the Commission in 2022 have been appointed to the position of junior expert, and in general these are young specialists with little or no professional experience, for whom the Financial Supervision Commission is the first step in the professional path, giving them exactly what is lacking for higher education graduates - experience. The remaining appointed employees took the positions of Director of Directorate (1 employee), System Analyst (1 employee) and Actuary (2 employees). One of the employees who entered the position of actuary holds the legal capacity of a certified expert accountant, as well as completed first level of professional accreditation in the CFA program for certified financial analysts (CFA Level 1).

Graph 16. Newly appointed employees (by posts) in 2022.

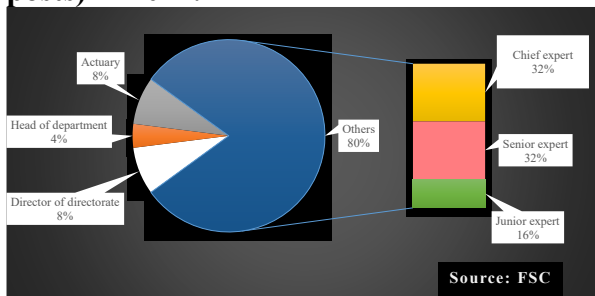


There are 25 employees who left the administration of the Commission in 2022, and

in this category the largest share (80%) is distributed among the three expert positions -

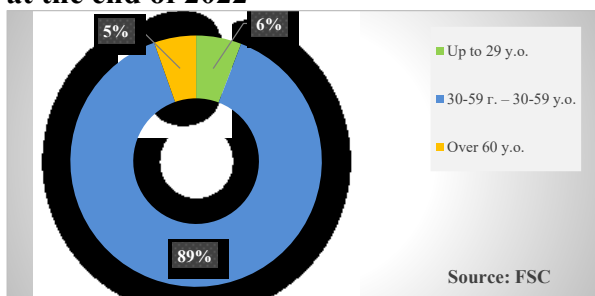
chief expert, senior expert and junior expert - 8 each of the positions of chief and senior expert and 4 in the position of junior expert. The remaining employees, whose employment were terminated in 2022, are director of directorate (2), head of department (1) and actuary (2).

Graph 17. Terminated employees (by posts) in 2022.



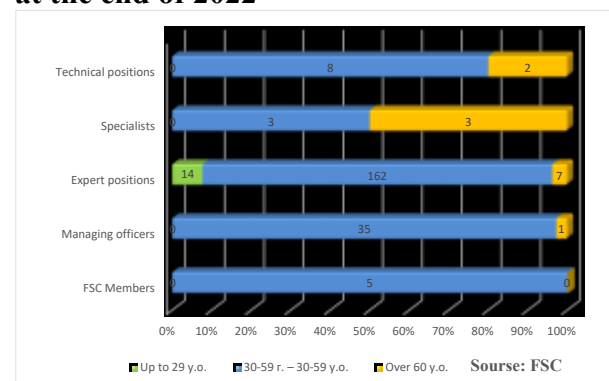
The age distribution among employees is considered in three separate groups - employees up to 29 years old inclusive, between 30 and 59 years old inclusive and those over 60 years old. Employees from the first group (up to the 29 y.o.) make up 6% of the employees of the FSC. The majority of employees fall into the age group between 30 and 59 years - 89% of all staff. 5% of the employees fall in the third category, which includes employees of the FSC administration over the age of 60.

Graph 18. Age distribution of employees as at the end of 2022



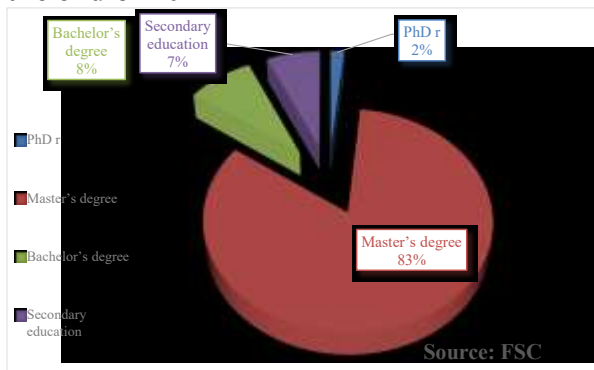
In schedule No. 19, together with the age category, one more criterion has been added - position category, with the separate categories of positions being members of the FSC, management positions, expert positions, technical positions and specialists. All members of the FSC fall into the age category 30-59 years. 95% of the remaining management staff of the Financial Supervision Commission fall into the same age category, and 3% of employees with managerial functions fall into the “60 plus” category. In the case of expert positions, the distribution is - age group up to 29 years incl. – 8%, employees aged 30-59 incl. – 89%, employees over 60 years – 4%. In staff category “specialists” there is parity between the age groups 30-59 years incl. and “60 plus” - 50% for each of the two. 80% of employees holding technical positions are aged between 30 and 59, and 20% are over 60.

Graph 19. Distribution of appointed employees by age and position category as at the end of 2022



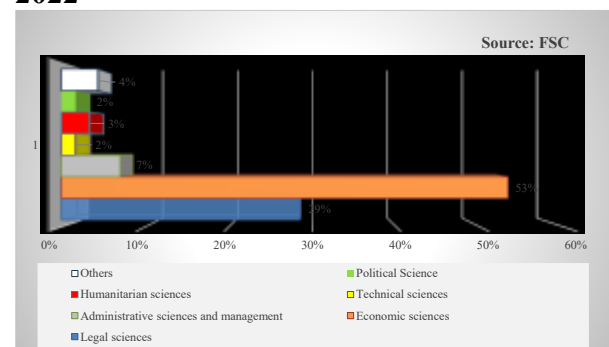
The educational and professional-qualification structure of the persons employed in the FSC meets the real needs necessary for the fulfilment of the goals and tasks set before the Commission. Employees with higher education dominate, representing 93% of those employed in 2022, including those with an educational and scientific degree "Doctor" - four people (2%), an educational-qualification degree "Master" - 200 employees (83%), and 20 employees (8%) have a bachelor's degree. The share of employees with secondary education (including secondary-special education) is 7%. Examined and filtered by field of higher education, employees with professional qualifications in the field of economics stand out - 53% of employed higher education graduates. A significant percentage is also assigned to those who completed their education in the field of legal sciences - 29%, the share of employees who obtained a higher education in the field of "Administration and Management" is 7%. 3% of those higher education graduates were trained in "Humanities". A degree in the field of political sciences and technical sciences is held by 2% of the employees in the sample. The rest (4%) have higher education in other fields.

Graph 20. Distribution by education as at the end of 2022



4% - humanities, 2% - natural sciences and mathematics, and the rest have education in other fields.

Graph 21. Distribution of employees by areas of higher education as at the end of 2022



The distribution of FSC employees by areas of higher education is as follows: the highest percentage - 51%, are employees with higher education in the field of economic sciences, 35% - in the field of legal sciences,

The FSC's effective regulatory and supervisory activity, maintaining and raising the level of professional knowledge and skills of employees, related to the realisation of the FSC's priorities, and improving the employees' personal, motivation and engagement are ensured through their participation in specialized trainings current and important to the FSC.

The activities concerning training of human resources are tied to the real needs of the Commission in this area, and trainings are prepared, planned and carried out on this basis, leading to the improvement of the competences of the employees and are the basis of their professional development.

The training of the Commission employees is a systematic process of building and improving the knowledge, skills, attitudes and behaviour for the successful performance of work tasks, and

through participation in various educational initiatives, the goal is to upgrade knowledge and skills in the learning process, creating an opportunity to increase the expert potential of knowledge to manage more complex and more responsible activities and tasks in accordance with the fulfilment of the high goals and requirements set for the Commission.

Key to the Commission is the strategic management of knowledge and the development of a culture of continuous learning and sharing of knowledge and experience within it. One of the practically proven effective approaches to preserve and transfer knowledge and share experience, between generations in the workplace, implemented by the Commission, is mentoring.

In the month of January 2022, an order of the Chair entered into force, in which rules were defined for the implementation of a mentoring program for newly joined FSC employees. Mentoring of newly appointed employees is a long process, the purpose of which is to help the newcomer to get to know the goals, structure and activities of the FSC, the organizational culture, to get used to their professional duties, by upgrading their knowledge and skills with those that they will need for the specifics of their work, as well as to help build the relationship between the employee and the Commission.

The use of mentoring as a tool for human resources development led to an increase in motivation, efficiency in the performance of daily work tasks and faster adaptation of newly appointed employees to the organization, and in particular to the work process in the relevant unit. The mentoring lasts for 6 months. The time and resources invested in supported staff create a sense of belonging to the Commission and ensure the continuity that is important for any organization to develop and maintain to ensure its long-term perspective.

In order to maintain and increase the necessary theoretical training, as well as the acquisition of new knowledge and skills, during 2022 a number of trainings were held for the professional and personal development of employees. The main part of the trainings carried out during the year were realized in accordance with the established annual plan, trainings, seminars and other events outside of it were also carried out, based on currently established needs for the participation of employees in current and important training topics.

For the training for its employees, the Financial Supervision Commission continued long-standing partnership relations with Bulgarian and foreign training institutions, including the Institute of Public Administration (IPA), the School of Public Finance, the Institute of Internal Auditors in Bulgaria, the Diplomatic Institute of the Ministry of Foreign Affairs, which organize training both independently and in cooperation with the Britannica Educational Centre, the National Consulting Centre “Resolution”, as well as foreign institutions such as EIOPA, Joint Vienna Institute, the Council of Europe and others. Commission employees also participated in trainings organized by national supervisory authorities of other European countries.

In order to maintain and increase the necessary theoretical training, as well as the acquisition of new knowledge and skills by employees, during the reporting period the following trainings were held for the professional and personal development of employees:

- Organized and conducted by the Institute of Public Administration on 70 training topics in which 232 employees participated, with one employee participating in more than one. The trainings are in the field of digital competence, e-governance, rulemaking and law enforcement, management and personal effectiveness, trainings under the Bulgaria in the European Union

program, Sustainable Development and Innovations program, cyber security, foreign language trainings, etc.;

- Trainings to increase the professional qualification of employees, organized by training institutions in Bulgaria (Public Finance School, Institute of Internal Auditors in Bulgaria, SANS, Chamber of Independent Appraisers in Bulgaria) on 25 topics, with the participation of 22 employees, one employee participated in more than one. The main areas of the courses held are in the field of public procurement, the legislative process, internal audit, current issues of civil and bond law, evidentiary weight of the electronic document, financial and accounting topics, as well as familiarization with the changes in various regulatory acts concerning the activities of the Commission, etc.;

- Trainings organized by foreign organizations - EIOPA, ESMA, Joint Vienna Institute (JVI), Malta Financial Services Authority (MFSA), Council of Europe - 13 topics, 23 employees participated, and again one employee participated in more than one;

- In 2022, 8 employees successfully completed the foreign language training in terminological English on European and international issues, which was launched in 2021, organized by the Diplomatic Institute at the Ministry of Foreign Affairs;

- Following an invitation from the Institute of Public Administration, two employees took part in the international modular training program under the Synergy project. The program is mainly aimed at the improvement and modernization of management in the public administration in Central and Eastern Europe. The project includes the implementation of an international training program for employees in a managerial position, aimed at developing leadership knowledge, skills and exchange of experience between senior civil servants from Poland, Bulgaria, Hungary and Latvia;

- At the invitation of the Diplomatic Institute, 9 employees participated in the training courses organized by the Institute, with topics: “Communication and presentation skills in an international environment”, “Protocol and etiquette” and “Public diplomacy”;

- In connection with the implementation of the project “Building a Unified Information System (UIS) for the needs of the Financial Supervision Commission”, 18 employees participated in training related to its developing and use;

- In 2022, the Financial Supervision Commission concluded qualification improvement agreements with two employees, by financing their studies respectively in the international master's program “European Union Law” of Sofia University “St. Kliment Ohridski” and the University of Lorraine, France and in the training program “PR and reputation management” of the London School of Public Relations;

- In order to upgrade the achieved team motivation and institutional affiliation, in the month of August in the city of Sofia a special motivational event was initiated and held on the topic: “Leadership skills: creating trust and evoking extra team effort”, with a focus on building social and communication competencies and the associated trust in teams.

In 2022, 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 talented Bulgarian students educating themselves in the country and abroad.

During the reporting period, 5 interns had the opportunity to become closely acquainted with the nature of the work of the Financial Supervision Commission, as well as with specific activities performed by the experts in the directorates where the students had their internship.

By providing the opportunity to conduct internships throughout the year, the Financial Supervision Commission strives to provide the greatest benefit and support to Bulgarian students by complementing their theoretical knowledge with real practical skills. With the participation of the organization in the Program for Student Internships in the State Administration, a higher recognition of the Commission for Financial Supervision among Bulgarian students is achieved, and as a result of their actual implementation, the activity of the administration is popularized among students by the “word of mouth” method.

Directorate	Number of interns
Insurance Supervision	2
Supervision of Investment Activity	1
Regulatory Regimes of Insurance Supervision	1
Financial and Business activities	1

8.3. Development of information technologies for the needs of supervision

In 2022, in order to achieve the set strategic goals, by developing and maintaining a modern information infrastructure in the field of information technologies, the processes of building a UIS continued, which will ensure the necessary automation of all major business processes in the FSC.

During the period, a number of meetings were held between FSC experts and the system developer Scale Focus AD related to the analysis of the business processes in the FSC, data inflows and outflows, construction of the necessary hardware infrastructure, etc., while a number of meetings were also held with the Ministry of Electronic Government, the Guarantee Fund, the Central Depository, Bulgarian Stock Exchange, Borica AD, etc. to discuss details related to the implementation of the necessary integration of the UIS with external systems.

As a result of the joint activities and in accordance with an accepted linear development schedule, in August and November 2022, the developer provided Prototype 1 and 2 for testing, and subsequently meetings were held between the teams to discuss the results of the tests.

For the hardware equipment of the UIS under construction, a technical specification for delivery was developed, a procedure was carried out according to the Public Procurement Act, and subsequently a contract was concluded for the delivery of server equipment.

At the end of the year, preparations began for carrying out a procedure according to the PPA for the purchase and the license right to use DBMS Oracle software products for storage and management of data arrays, software for archive management and guaranteeing time-consistent back-up copies of data and systems through which to ensure the continuity of business processes,

as well as a software tool for business analysis BI Tool necessary for the normal functioning of the UIS after a productive start in 2023.

In fulfilment of the obligations of the FSC to the European Securities and Markets Authority to automate the process of receiving data from the supervised entities and sending them to the European regulator, an information system was built to ensure the implementation of Art. 9 of Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012 (CSDR).

After conducting the necessary acceptance tests, the system was released for operation in a real environment in the month of August 2022.

In April 2022 ended the development and deployment of an information system to ensure the fulfilment of the obligations to report the information under Art. 110 of Commission Delegated Regulation (EU) No. 231/2013 of 19 December 2012 supplementing Directive 2011/61/EU of the European Parliament and of the Council with regard to exemptions, general operating conditions, depositories, leverage, transparency and supervision.

According to a signed contract, in 2022, the development of a software system began to enable the XML messages generated in the system for access to information from the transaction registers (TRACE) to be converted into a readable format and to be able to make inquiries about the data in them, and after tests, the system was put into real operation at the end of 2022.

In the past year, the system for registration and deregistration of users of the system according to Art. 26 of MIFIR was upgraded, with a Public Unified Portal for registration and deregistration of users to information systems currently operating in a real environment:

- System under Art. 26 of Regulation 600/2014;
- System under Art. 9 of the CSDR – submission by settlement internalisers;
- System under Art. 110 of Regulation 231/2013 – submission of reports by AIFMs.

During the reporting period, the data acceptance system under Art. 26 (1) of the Markets in Financial Instruments Regulation has been successfully upgraded and implemented in connection with a new technical decision of the European Securities and Markets Authority in connection with the third paragraph of Art. 26 (1) of the Markets in Financial Instruments Regulation (MiFIR). This new decision enabled the FSC to forward to the European Securities and Markets Authority all transaction report files received from approved reporting mechanisms (ARMs), IFs and trading venues.

In the first half of 2022, an information system was implemented and successfully launched, ensuring the presentation of annual separate statements and annual consolidated statements of public companies and other issuers whose securities are traded on a regulated market in the European Single Electronic Format (ESEF).

The Information Technologies Division continued its active participation in the EBA project for reporting by investment firms pursuant to Art. 54 of Regulation (EU) 2019/2033 of the European Parliament and of the Council of 27.11.2019 on prudential requirements for investment firms.

During the period, the construction was completed and an information system was implemented, which ensures the reporting of the investment firms to the EBA.

During the period, the development work was completed and a new institutional site of the FSC was launched in a real environment.

In 2022, the development of a Smart FSC mobile application was completed, which was published through the standard distribution channels of Apple App Store and Google Play Store.

The application publishes current news related to the activities of the FSC, a Supervisory Calendar has been implemented, which includes visualization of key terms for each of the three sectors (insurance, insurance, investment), it is possible to track the status of a complaint filed with the Commission, etc.

Meetings were held with IA "Infrastructure of Electronic Government" in connection with the possibility of free use of the resources provided by them for reserving and archiving information from critical data and systems of the FSC.

After receiving official confirmation about the possibility of the FSC using their infrastructure, technical meetings were held at which decisions were made on the distribution of tasks and responsibilities of both parties, and by the end of 2022, the service for reserving and archiving information is about to be finalized.

During the period, a new disk array was delivered, installed and put into operation, which expanded the available resources, the productivity of the available servers in operation, as well as provided an opportunity for future deployment and development of the entire virtual infrastructure as a whole, as well as a test environment was built for the UIS being constructed

In 2022, network equipment was delivered, installed and put into operation to ensure wireless communication on the territory of the FSC, which ensured coverage in all areas of the building for access to information resources through the corporate wireless network without compromising security, while at the same time preserving the possibility of Internet access for external devices by separating them into a separate public segment of the wireless network.

In order to ensure the normal operation of the information systems and hardware resources in the FSC, the maintenance contracts and the licenses for the right to use software products that are not owned by the FSC have been gradually renewed.

8.4. Report on the implementation of the budget of the Financial Supervision Commission for 2022 under the budget program "Improvement of the regulation and supervision of the non-banking financial sector"

The Financial Supervision Commission is a legal entity supported by the budget, according to Art. 2, para. 3 of the FSCA. 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 (PFA). Revenues and expenses are reported according to the Unified Budget Classification for 2022.

The FSC organizes its reporting in 3 separate reporting groups, with reports prepared for 2022:

- Budgetary implementation report of the FSC;
- Report on the accounts for funds from the European Union, administered by the National Fund to the Ministry of Finance;

- Report on operations and balances on accounts for foreign funds.

8.4.1. Budget implementation report

8.4.1.1. Revenue

The budget implementation report of the FSC for 2022 reported a total income in the amount of BGN 21,257,226. The annual plan is implemented at 99.43%.

The revenue part of the budget receives non-tax revenues from fees, according to Art. 27, para. 1 of the 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.

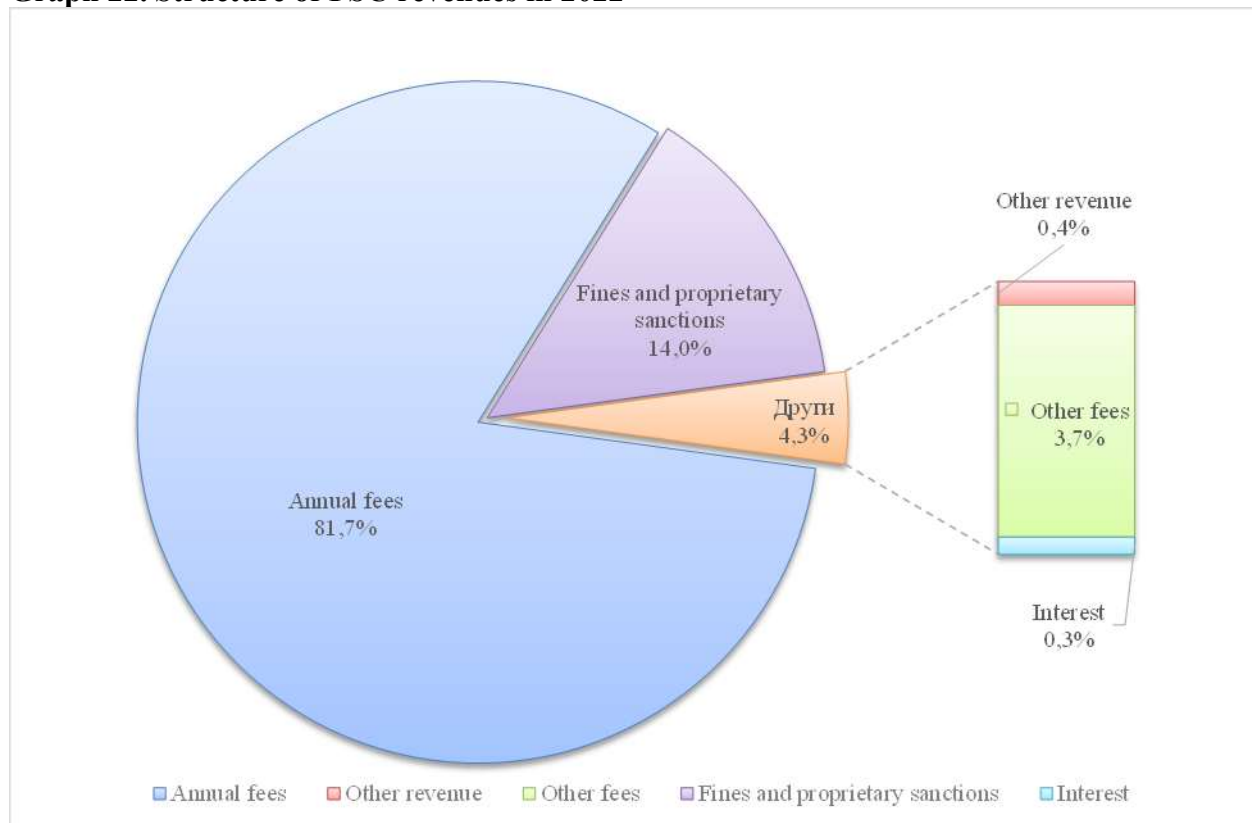
The structure of revenues for 2022 was as follows:

- revenues from state fees - BGN 18,168,647, according to the Tariff for fees collected by the FSC, Annex to Art. 27, para. 1 of the FSCA. Of the total amount of the reported fees by bank or cash, the FSC received BGN 18,151,563, and BGN 17,084 were reflected on the basis of received inquiries and orders for amounts collected by the NRA. The largest relative share (95.69%) in the reported fees has the annual fee for general financial supervision - BGN 17,385,717. The received fees for issuing licenses and permits for carrying out activities and other permits and approvals amount to BGN 782,930;

- revenue from fines, pecuniary sanctions and interest - BGN 4,542,229., of which BGN 2,966,450 are fines and pecuniary sanctions under penal warrants and warrants under Art. 287 of APC that have entered into force, BGN 58,824 are interest for late payment of the annual fees for general financial supervision and penal decrees not paid within the statutory term and BGN 4,409 – contractual penalty. Amounts collected by the National Revenue Agency are also reflected on the basis of received inquiries and orders for BGN 1,512,546;

- other non-tax revenues (- BGN 1,453,650). - a negative exchange rate difference (BGN - 104), an amount received for insurance compensation (BGN +899),, amounts received from reimbursed legal advice fees (BGN +75,185) and the public receivables of the FSC collected by the NRA (- BGN 1,529,630), which according to instructions given by the Ministry of Finance, are also reflected with a minus sign in the cash report

Graph 22. Structure of FSC revenues in 2022



8.4.1.2. Expenses

In the cash report of the FSC's budget for 2022 the expenses are a total of BGN 19,871,439, distributed as follows:

- staff costs – BGN 13,808,725, including reported payroll costs and remuneration of employees, remuneration paid to employees on non-permanent posts, those employed under Resolution No. 66 of 1996 of the Council of Ministers for staffing of certain positions in budgetary organizations, paid amounts for non-employment relationships, for social, household and cultural services for persons under employment contracts, for compensations to employees under the Labour Code 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 2022 amount to BGN 11,659,419;

- current operating costs - BGN 2,532,125. The amount is spent for building rent, security, cleaning and maintenance of the administrative building of the FSC shall keep, electricity, telecommunications and postal services, software and hardware maintenance, insurance, stationery, spare parts and consumables for hardware, printed materials 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. The largest relative share in the maintenance costs have the costs for rent of the administrative building of the FSC;

- expenses for taxes and fees – BGN 41,997. for payment of state fees for promulgation of FSC decisions in the State Gazette, tax on official cars and other municipal and state taxes and fees;
- costs of membership fee and participation in non-profit organizations and activities - BGN 2,573,537. The cost is for annual membership fees in connection with the participation of the Financial Supervision Commission in European supervisory bodies - ESMA, EIOPA and for membership in international organizations - International Organization of Securities Commissions (IOSCO), International Organization of Pension Supervisors (IOPS), International Association of Insurance Supervisors (IAIS) and for annual membership fees in the Bulgarian Society for Public Relations;
- capital expenses – BGN 915,055, BGN 356,363 of which were for acquisition of computers and hardware, and BGN 558,692 were for acquisition of licenses and software products.

The spending of the funds under budget paragraphs is within the approved budget for the year, is in compliance with the revenues from fees and the transfer from the central budget and represents 98.7% of the annual plan. The realization of the expenses is carried out under a regime of strict financial control and is in accordance with the goals and priorities of the FSC.

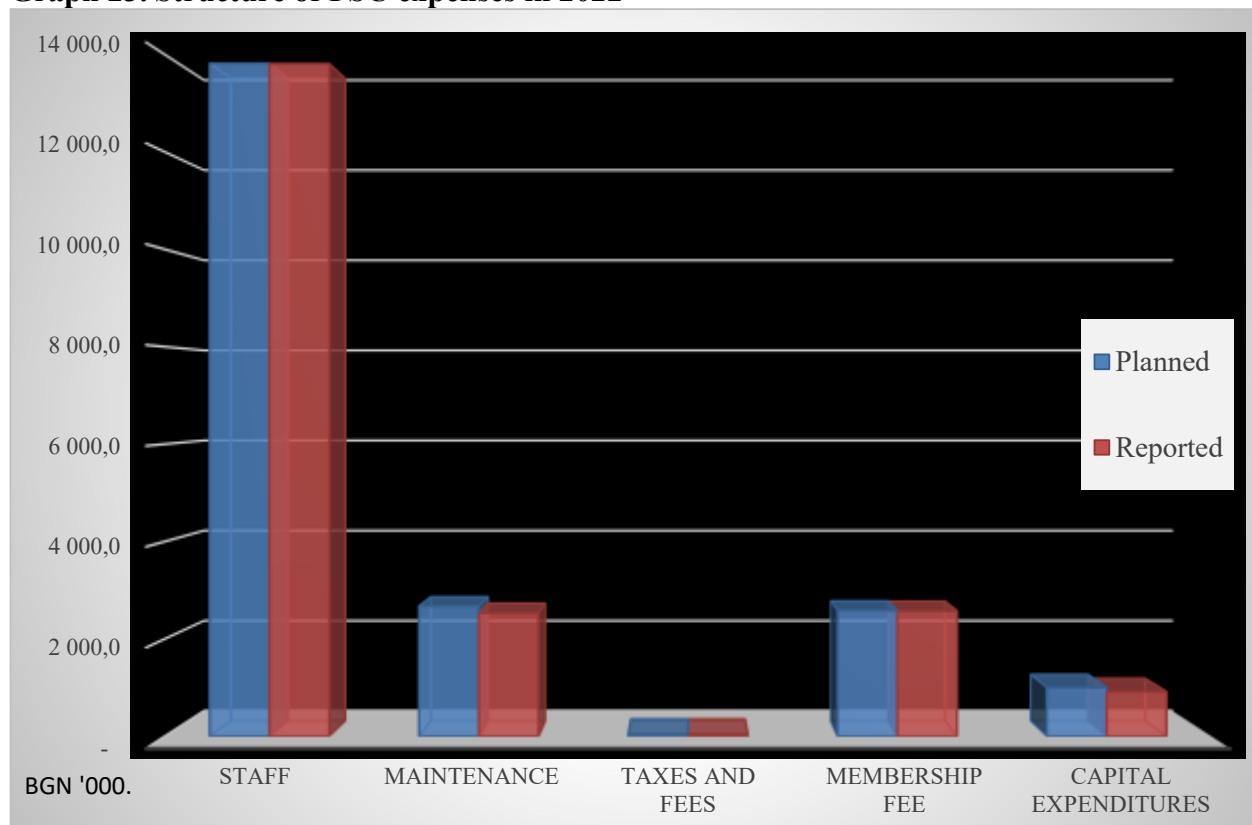
For the period 01.01-31.12.2022, BGN 511,660 current and BGN 915,055 capital expenses were reported in the field of electronic management and the information and communication technologies used. The expenses are for software maintenance, maintenance and repair of hardware, subscription for information systems and acquisition of computer equipment and of software products and licenses.

8.4.1.3. Transfers, budget balance and budget financing

For the reporting period, a transfer to the central budget of (–) BGN 1,318,099 was reported, including a transfer to the Central Bank of (–) BGN 3,029,683. - implementation vs. the plan 100.99% and transfer from the Central Bank (+) BGN 1,711,584. - fulfilment vs. the plan 98.55%.

The budget for 2022 has a **surplus** of BGN 67,688, which in the part of financing is reflected with a minus sign and is formed by reported amounts under subparagraph 88-03 “Funds collected and payments made from/to EU accounts” - (-BGN 70,066), the difference between available and transferred balance on a foreign currency budget amount “minus” (+BGN 102) and the difference between the available and transferred foreign funds (+BGN 2,276). The amount of BGN 70,066, reflected in the statement of cash amounts of the FSC budget for 2022 with a “minus” sign under paragraph 88-00, represents a difference from the first interim payment made in 2022 - BGN 959,802, financed with the remainder of funds from 2021 from the Operational Programme “Good Governance” (OPGG) in connection with the implementation of project BG0 5SFOP001-1.011-0001 for the construction of UIS, and the verified amount from OPGG - BGN 889,736.

Graph 23. Structure of FSC expenses in 2022



8.4.2. Statement of accounts for funds from the European Union

The Financial Supervision Commission has concluded a contract for the implementation of project BG05SFOP001-1.011-0001 for the construction of a Unified Information System, carried out with the financial support of the Operational Program “Good Governance”, co-financed by the European Union through the European Social Fund under procedure BG05SFOP001-1.011 through a direct grant.

As of 31.12.2022, the reported expenses in the SES field are in the amount of BGN 959,802, for the first interim payment according to the terms of the contract concluded with a contractor for the construction of the UIS.

A deficit in reported in the amount of BGN 70,066, which in the part of the financing is reflected with a "plus" sign and is a result of reported amounts under sub-paragraph 88-03 "Funds collected and payments made from/to EU accounts", mirroring the reported amounts in the budget.

8.4.3. Report on operations and balances on accounts for foreign funds.

Funds for guarantees under the Public Procurement Act are received on the account for foreign funds of the FSC. The balance under it as of 31.12.2022 is BGN 11,348.

8.4.4. Budget changes

For the period from 01.01- 31.12.2022, changes were made to the budget of the FSC as follows:

- Pursuant to Art. 110, para. 3 of the PFA in connection with Art. 77, para. 5, item 2 and para. 6 of the State Budget of the Republic of Bulgaria Act for 2022 and the Decision of the Assembly of proxies of FSC Employees on spending funds for social, domestic and cultural services on 28.11.2022, the expenses under the indicator "Sustainability and other current expenses" were reduced and the expenses under the "Personnel" indicator were increased by BGN 238,000. The "Maximum amount of spending commitments that can be made in 2022" and "Maximum amount of new obligations that can be accrued in 2022" indicators have been reduced by the same amount.

- Pursuant to Art. 112, para. 2 of the PFA on 28.11.2022, an internally compensated change was made within the framework of approved expenses, reducing the expenses under the indicator Current expenses - Maintenance and other current expenses - Current maintenance with BGN 110,000 and increasing the expenses under "Capital expenses" with BGN 110,000. The change was agreed with the Minister of Electronic Government, since it pertains to targeted costs in the field of electronic government and the information and communication technologies used.

- Pursuant to Art. 75 of the State Budget of the Republic of Bulgaria Act for 2022 and in implementation of Decree No. 386 of the Council of Ministers of 1 December 2022, a change was made to the provisions established by Art. 43, para. 3, item 1 of the State Budget of the Republic of Bulgaria Act for 2022, an indicator of the budget of the Financial Supervision Commission for the maximum amount of spending commitments that can be undertaken in 2021, and the same has been increased by 4,950,000 BGN

Pursuant to Art. 20 of the Internal rules for the organization of the budget process in the FSC, 2 internally compensated changes were made within the "Personnel" item, respectively on 04.10.2022 and on 29.12.2022. They do not change the indicators under the budget of the FSC within the meaning of the Public Finances Act.

8.4.5. Maximum amount of expenditure commitments and maximum amount of new expenditure commitments

According to the budget of the FSC - according to a specified plan, the indicator "Maximum amount of expenditure commitments that can be undertaken in 2022" is in the amount of **BGN 11,355,700**, and the one reported as at 31.12.2022 – **BGN 10,204,733**. A change was made to the indicator in connection with Decree of the Council of Ministers No. 386/01.12.2022, as well as with the Decision of the Assembly of the proxies of the employees of the Commission on spending funds for social, household and cultural services. The report on the budget commitments includes information on all the commitments that arose and were realized for the period, regarding all the contracts concluded during the period, as well as the commitments with immediate implementation. The indicator "Maximum amount of new payables that can be accumulated in 2022" according to a specified plan is in the amount of **BGN 6,255,700**. A change was made to the indicator in connection with Decision of the Assembly of the proxies of the employees on spending funds for social, household and cultural services. According to reporting data as of 31.12.2022, the

new liabilities for expenses for the FSC are in the amount of **BGN 6,043,956**, of which BGN 5,128,901 for current costs and BGN 915,055 for capital costs.

On the accounts for EU funds - information as of 31.12.2022 is reflected on commitments realized for the period and new obligations for expenses in the amount of BGN 959,802 in connection with an interim payment made under a contract for the implementation of project BG05SFOP001-1.011-0001 for the establishment of a Unified Information System.

8.5. Activity Report on the Internal Audit at FSC for 2022

The activity of the IAU in 2022 was carried out in accordance with the requirements of the Public Sector Internal Audit Act (PSIAA), the International Standards for Professional Practice in Internal Auditing (ISPPIA), 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 2012-2024 and the Annual Plan for the Audit Annual Schedule of Audits for 2022 were implemented, which are developed on the basis of a risk assessment, approved by the Chair of the FSC and agreed with the Commission.

In 2022 the internal audit fulfilled the planned audit engagements, which achieves the set goals. When planning and executing the audits, a process approach is applied to audit the main activities of the FSC, with the aim of providing independent and objective assessments of legality and effectiveness. The benefit brought by the audit activity is promoting the introduction of uniform internal procedures, when appropriate, and improving the conditions for the functioning of the Commission as an effective supervisory body of the non-banking financial sector and development of internal control.

Assurance audit engagements have been made during the period, with the aim to evaluate:

- rules and procedures for managing the risks of the financial system being used for money laundering and terrorist financing in 2021;
- the activities to ensure network and information security in the FSC in 2021-2022;
- ensuring security, accessibility and identity of the official website of the FSC in 2020-2022;
- consistency between the planned and actual actions undertaken on the implementation of recommendations of the IAU made in the period 2020-2022.
- supervisory practices and procedures of Supervision of Investment Department in application of the Special Purpose Investment Companies and Securitisation Companies Act in 2021-2022.

In 2022, as a result of the internal audits, 25 recommendations were given. There is a lasting tendency for the recommendations of the IAU to be accepted by the management of the FSC and the employees of leading positions. In addition, a high rate of implementation is reported (almost 95%, including recommendations from previous periods). This is an indicator of the development of the internal auditors' ability to formulate appropriate proposals for improving the activity and control in the FSC. Effective communication was carried out during the audits, with the heads of the audited structures and key employees providing assistance, having the necessary understanding and taking corrective actions on identified weaknesses, including during the engagements.

During the reporting period, a total of 15 informal audit consulting engagements were conducted. The most important of them are related to supporting the process of preparing opinions on drafts of some regulatory acts and updating internal rules, by submitting notes, comments and proposals.

The main conclusions about the functioning of the Financial Management and Control Systems (FMCS) in the FSC, made as a result of the internal audit activity, are the following:

- a steady process of goal setting is established with regard to the presence of legally regulated purposes, outlined priorities and mid-term strategic objectives, and determining and reporting of annual activities to achieve those.
- risk management is an integral part of the overall management process in the Commission, based on prescribed procedures. Further development should be in the direction of continuing upgrading of the knowledge of operative managers responsible employees for accurate application the Risk-management strategy in the FSC for the period 2022-2024 and deepening the integrity of the risk register in the activity (use as a practical tool for preliminary consideration and identifying potential difficulties).
- The Commission has all the current written rules in the field of FMCS. In connection with the legal requirements and the applicable methodology in the field, it is necessary to successfully finalize the measures taken to develop new procedures related to the subsequent performance evaluations;
 - the rules and procedures governing the audited activities are generally risk-based. Along with this, it is important to deepen the effectiveness of the analysis, with a view to identifying the needs of comprehensive settlement of some processes and mechanisms;
 - the FMCSs introduced ensure compliance with the applicable legislation and internal acts, and effective implementation of the activities; The individual non-conformities are the result of control gaps in the first line of defence;
 - the rules and procedures put in place ensure the reliability, comprehensiveness and protection of financial and operational information.
 - constant efforts are made to improve communication and information exchange systems. Examples of this are the written rules and policies in the field of information and network security, as well as the activities of the project to build a unified information system. Efforts should be made to keep the external and internal information pages of the FSC up to date in order to use them as reliable channels for providing accessible and up-to-date information;
 - activities are monitored, as a result of which corrective actions are taken. Development is needed in for timeliness of changes.

In 2022, an external assessment of the quality of the audit activity was carried out in implementation of the PSIAA. The evaluation of the Internal Audit Office at the FSC is “works in compliance”, which means that the internal audit activity meets the requirements of the PSIAA, the ISPPIA and the Code of Ethics of Internal Auditors, and no inconsistencies have been identified in their application.

According to the external assessment, the activity of the IAO and achieves the set goals. The independence of the unit is ensured, and the auditors have the necessary professional competence. The recommendations given are aimed at increasing the efficiency of the activity of the structural units in the Commission and achieving higher added value for the organization.

8.6. Report of the Inspectorate

In 2022, the Inspectorate of the FSC in accordance with the provisions of the RSAFSCIA, the Internal rules for the activity of the Inspectorate in the FSC, the Ordinance on the organization and procedure for

checking declarations and detecting conflict of interest, and in fulfilment of the orders of the Chair of the FSC, carried out scheduled and unscheduled inspections regarding the activities of the employees of the FSC administration. The activity of the Inspectorate in 2022 is fully subordinated to the goals and activities laid down in the Strategic and Annual Plans for control activities of the Inspectorate, as well as to the regulatory acts governing the activity of the Inspectorates.

The Inspectorate of the FSC assists the Chair of the FSC in carrying out his control functions regarding the activity of the administration in the Commission, the FSCA, the Administration Act, the Anti-Corruption and Detection of Conflicts of Interest Act.

The goals of the Inspectorate in 2022 include:

- Assisting the FSC to ensure by legal, administrative and informational means the stability and transparency of the non-banking financial system in the Republic of Bulgaria, as well as to protect the interests of investors, insured and socially insured persons.
- Continuous improvement of the Inspectorate activity meeting the challenges of the investment, insurance and social security sector in order to protect the interests of consumers of non-banking financial services.
- Prevention and elimination of violations in the functioning of the administration through an independent and objective assessment;
- 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;
- Strengthening control in the FSC by providing assessments, appropriate, accurate and timely recommendations to improve its effectiveness;
- Control for the legal and correct functioning of the structures, by removing the identified weaknesses and violations, based on the implementation of proposed measures and recommendations;
- Introducing effective mechanisms conducting the state anti-corruption policy through internal control and prevention of corruption;
- Focusing of the Inspectorate on increasing customer satisfaction through timely verification of received proposals and signals against administrative units and employees and an effective response to eliminate the detected irregularities;
- Strengthening the administrative capacity and increasing the professional qualification of the employees in the unit, as well as improving the interaction with other bodies, organizations and units;
- Dealing with the challenges that arose with the introduction of anti-epidemic measures in the country, which led to some changes in the work regime, making efforts not to negatively affect the volume and quality of work.

To achieve the goals, the activity of the FSC Inspectorate in 2022 was aimed at:

- 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;
- Collecting and analysing information and performance of inspections at their own initiative to ascertain violations, potential corruption and non-effective operation of the administration;

- Performing inspections for analysis of the activity of the units and organization of the work in the FSC 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.
 - 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 22 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 - 2;
- for submission and verification of declarations under LACFUAP - 15.;
- for corruption and inefficient work - 1.;
- at the initiative of the authority - 1;
- follow-up inspections– 1.;
- incomplete inspections - 1.;

The FSC Inspectorate initiated 2 changes in regulatory and internal acts.

Number of employees trained during the year - 2.

In conclusion, it should be noted that from the completed inspections in 2022 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

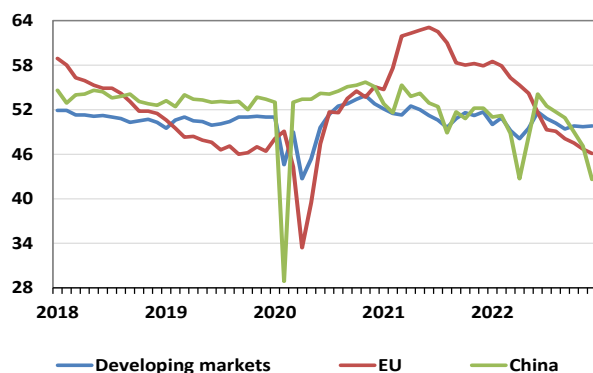
1. External environment and economic activity

1.1. External environment

The global economy slowed down in 2022. EU GDP growth dropped to 3.7% in 2022, down from 5.6% in 2021. The main negative factors are the residual effect of the COVID-19 pandemic on the global economy, Russia's invasion of Ukraine, rising inflation, etc. At the end of February, Russia attacked Ukraine and the war continued throughout 2022. The European Union, the United States and other countries introduced a number of sanctions against Russia, including a ban on access to the SWIFT international money transfer system for almost all Russian financial institutions, a price cap on imported Russian oil, etc. Credit rating company S&P Global Ratings downgraded Turkey's credit rating outlook to “negative” due to a weakening national currency and rising inflation, both of which pose serious risks to the country's economy.

The development of the global economy, affected by COVID-19, the war in Ukraine and the growth of inflation affects the index of new orders Purchase Manager Index (PMI) in 2022. In the second half of the year, the manufacturing PMI in developing countries, EU and China gradually decreased to 49.8, 46.1 and 42.6 points respectively in the month of December compared to 51.7, 57.9 and 52.2 points respectively in the month of December 2021, remaining below the 50-point benchmark that separates economic expansion from contraction.

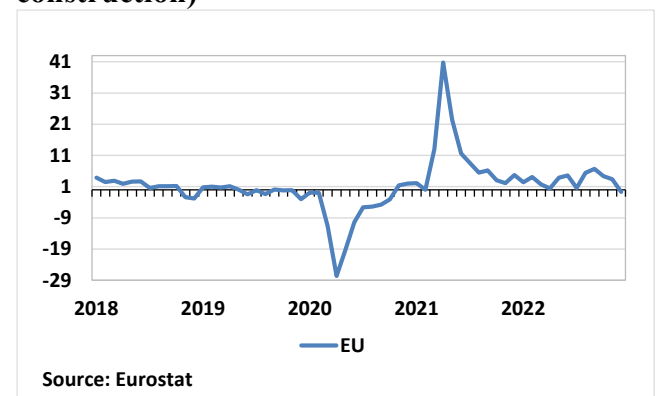
Graph 24 PMI in manufacturing



Source: Bloomberg

Industrial production in the EU in 2022 contracted for most of the year, decreasing to -0.7% in the month of December 2022, compared to 4.7% at the end of 2021. The slowdown in global activity, disruptions in commodity supply chains and others are the reasons for the decline in the industrial production.

Graph 25. Industrial production (excluding construction)



Source: Eurostat

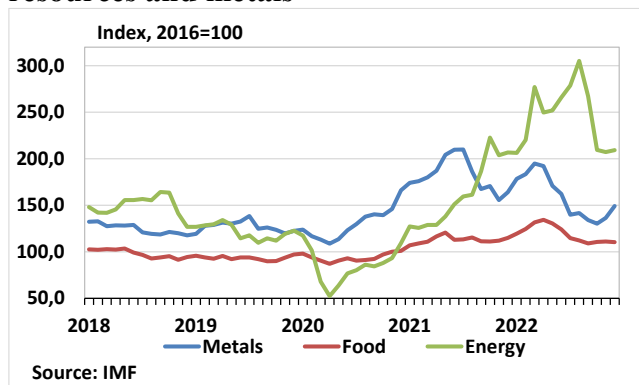
The decline in metal prices in the second half of 2022 is due to a slowdown in the global economy and reduced demand due to a decline in the Chinese economy, the largest consumer of base metals. In December 2022, the index

decreased to 149.1 points, compared to 164.1 points at the end of 2021.

The rise in the price of oil during the year was affected by factors such as the war in Ukraine and investor concerns about the impact of sanctions against Russian oil imports on the price of the commodity. At the end of 2022, the energy index reached 209.2 points, at a price of 206.8 points at the end of 2021.

The price index of agricultural products traded on international markets increased in the first half of 2022. The decrease in the stocks of basic foods in the main exporting countries, in the last 2 years, due to the pandemic and the war in Ukraine, affects the supply and demand, which increases food prices. After the conclusion of the grain deal between Ukraine and Russia, in the second half of 2022 the price of wheat is decreasing. The food index decreased to 110.4 points at the end of 2022, down from 114.9 points in December 2021.

Graph 26. Dynamics of prices of food, energy resources and metals

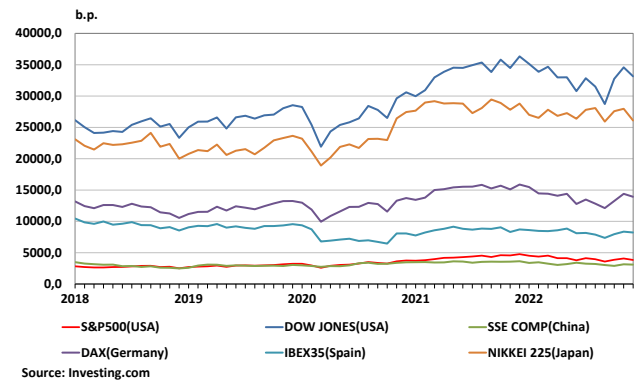


Capital markets on a global scale report a decline in 2022 due to the slowdown in the global economy, fears of a recession and the complicated geo-political environment. In the euro area, the German DAX dropped by -12.4% and the Spanish IBEX35 by -5.6%.

The US indices S&P500 and Dow Jones dropped by -19.4% and -8.8%, respectively for

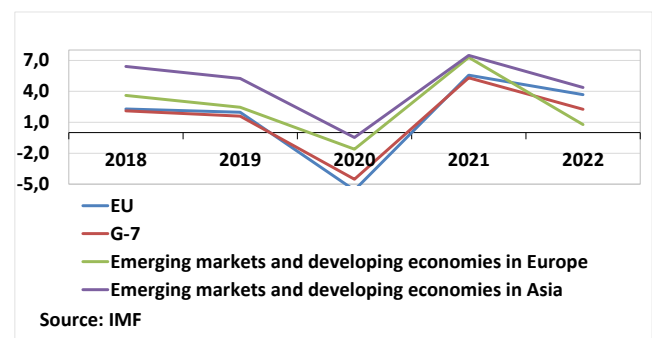
2022. Asia's stock markets in 2022 also went down, with Chinese SSE COMP decreasing by -15.1% and Japanese NIKKEI225 by -9.4%.

Graph 27. Capital markets in developed economies



Economic growth in the EU decelerated with 3.7% in 2022, compared to 5.6% in 2021. The economies of the seven most developed countries (G-7) on the one hand and emerging markets and developing economies in Europe and in Asia, are increasing to 2.3%, 0.8% and 4.4% respectively in 2022 compared to 5.3%, 7.3% and 7.5% respectively in 2021. The reason is the high inflation, the war in Ukraine, etc.

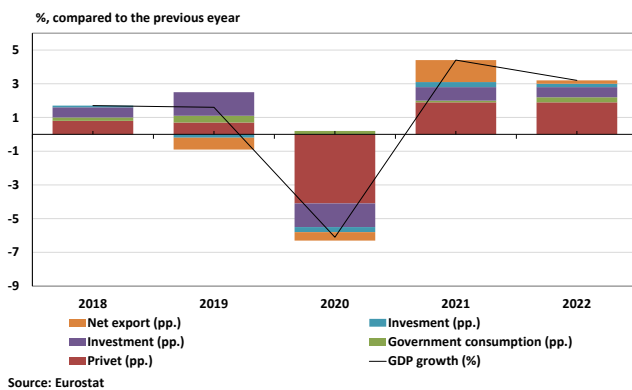
Graph 28. GDP growth, annual rate of change



Eurozone real GDP growth slows to 3.2% in 2022 from 4.4% in 2021 due to the global economic slowdown, supply chain disruptions and more. The contribution of private consumption remained unchanged at 1.9 p.p. in 2022, followed by investment, which lowers its contribution to 0.6

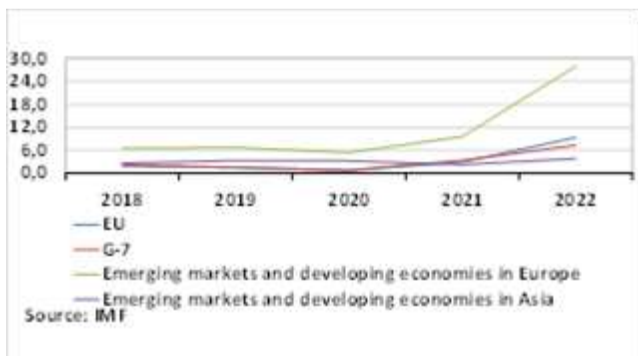
p.p. Net export contributes 0.2 p.p. due to the decrease of international trade. Stocks decreased slightly to 0.2 p.p. for 2022 compared to 0.3 p.p. for 2021. Government consumption increased to 0.3 p.p. in 2022 due to increased government lending to combat the economic consequences of the coronavirus.

Graph 29 GDP growth in the euro area



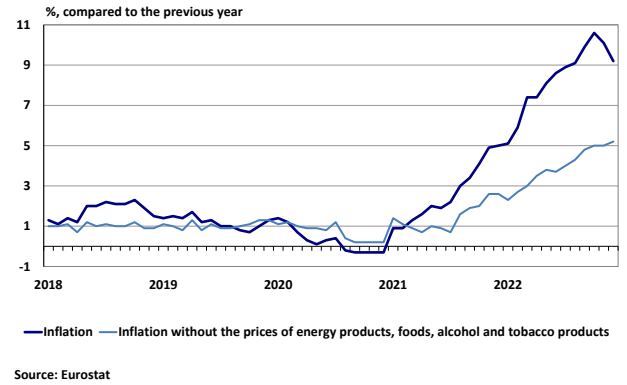
In 2022, the annual inflation increased. In G-7 inflation is 7.3% at the end of 2022 from 3.3% at the end of 2021, exceeding significantly the central bank targets of 2%. Inflation in the EU reaches 9.3% at the end of 2022 compared to 2.9% at the end of 2021. The reasons are the increase in the price of oil due to the war in Ukraine, the increase in food prices, etc. Rising inflation, especially in food prices, has a significant impact on the economies of developing countries as their food import costs rise.

Graph 30. Inflation



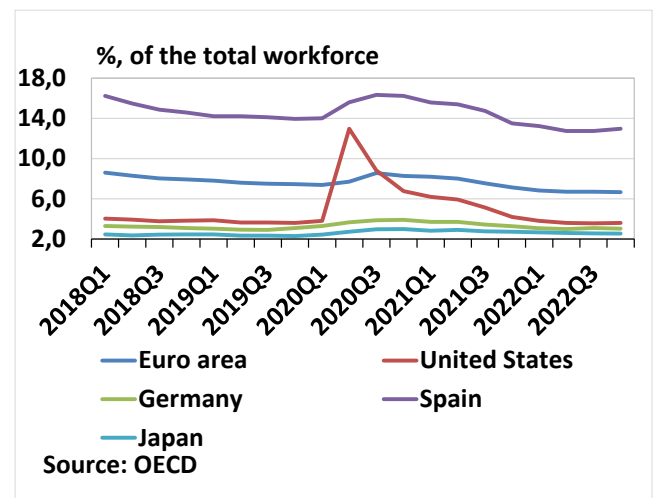
Euro area core inflation increased to 9.2% in 2022, compared to 5% in 2021. Inflation, measured excluding energy, food, alcohol and tobacco prices, reached 5.2% at the end of 2022.

Graph 31. Inflation in the euro area



In 2022, unemployment declined as economies opened up after COVID-19. The unemployment rate fell to 6.7% at the end of 2022 from 7.1% at the end of 2021. US unemployment also fell, reaching 3.6% in the last quarter of 2022 from 4.2% in the last quarter of 2021. Unemployment in Germany and Japan fell more moderately, reaching 3% and 2.7% respectively.

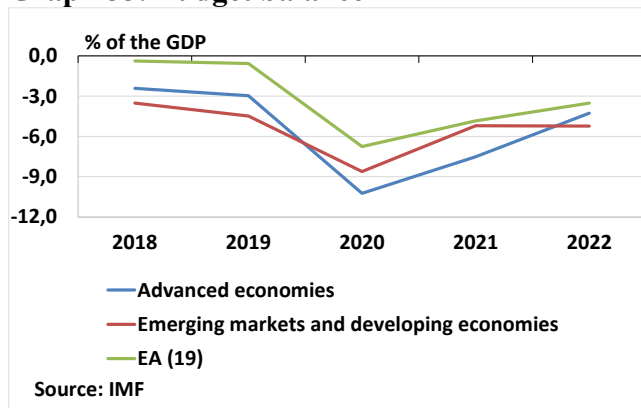
Graph 32. Unemployment dynamics on a global scale



In 2022, the budget deficit worldwide slowed down. The budget balance in developed

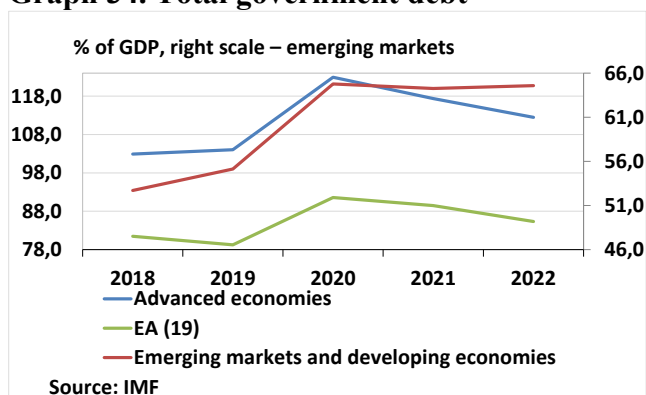
economies remains in negative territory, decreasing to -4.3% in 2022 from -7.5% in 2021. The budget deficit in the EU reached to - 3.5% for 2022 compared to 4.8% for 2021. The budget deficit in emerging markets and emerging economies remains unchanged at -5.2% in 2022.

Graph 33. Budget balance



The total government debt of the EU countries (19) as a percentage of GDP dropped to 85.3% in 2022 compared to 89.5% in 2021. The public debt of advanced economies fell to 112.5% compared to 117.4% for the same period. Government debt in emerging markets and developing economies rose slightly to 64.6% in 2022, up from 64.3% in 2021. The likely reason for the rise is the additional debt taken to compensate users due to high energy prices.

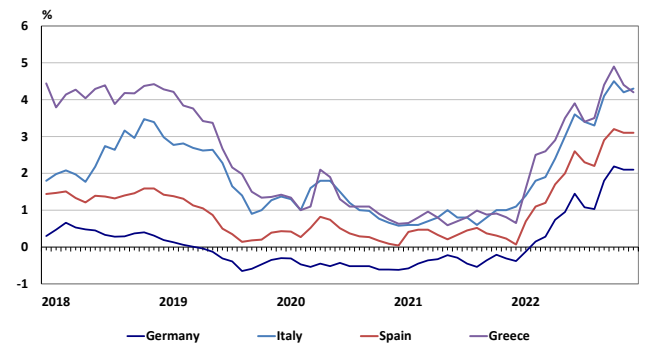
Graph 34. Total government debt



The long-term interest rate for convergence purposes rises in 2022. The average annual

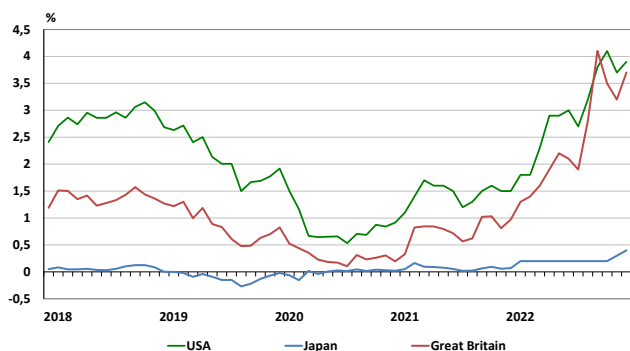
interest rate on Greek and Italian government securities reaches 3.5% and 3.2% respectively, compared to 0.8% for both types of bonds in 2021. The average annual interest rate on German government securities reaches 1.1% in 2022, compared to -0.4% in 2021.

Graph 35. Long-term interest rate for the convergence of Germany, Italy, Spain and Greece



In 2022, the average annual interest on US 10-year government securities rose 1.5% and remained 0.1% in Japan. The increase in interest rates on government securities is a consequence of the general increase in interest rates. UK government bonds marginally increase their average annual interest rate in 2022 to 0.9%. The rise in interest rates on government securities has had a negative impact on the economies of some emerging markets, as they have to raise interest rates on their government securities in order to attract investors.

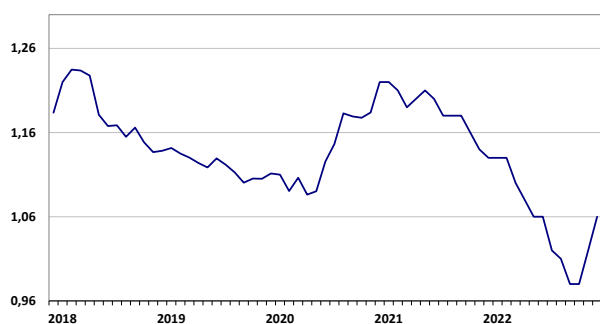
Graph 36. Yield of 10-year government securities of the US, Japan and UK



Source: Investing.com

In 2022, the euro depreciated against the dollar, reaching an average annual rate of 1.5 USD per EUR as a result of the slowdown of European economy and the interest policy of the FED (the US Federal Reserve).

Graph 37. USD/EUR Exchange Rate



Source: ECB

In 2022, Central and Eastern European (CEE) countries reported slowing of GDP growth due to a slowdown of the global economy and decreased external demand. Turkey reported the highest growth among CEE countries (5.6%). The Czech and Hungarian economies in 2022 grew by 2.4% and 4.9%, respectively, compared to 3.6% and 7.1% in 2021. GDP growth in the Polish and Romanian economies was 4.9% and 4.8% respectively for the same period.

Table 34. Real GDP growth in CEE

	2021	2022
Czech republic	3,6	2,4
Hungary	7,1	4,9
Poland	6,8	4,9
Romania	5,9	4,8
Turkey	11,4	5,6

Note: Change from the previous year (%).
Source: IMF, National Statistical Institutes.

In 2022, inflation in the CEE countries increased. The biggest increase is inflation in Turkey, rising to 72.3% in 2022 from 19.6% in 2021, due to the Turkish central bank's unconventional policy of cutting interest rates rather than raising them amid rapidly rising prices. Inflation in Poland and the Czech Republic reached 14.4% and 15.1% respectively in 2022, compared to 5.1% and 3.8% respectively in 2021. Inflation in Hungary and Romania increased to 14.5% and 13.8%, respectively, compared to 5.1% and 5% for the same period.

Table 35. Inflation in CEE

	2021	2022
Czech republic	3,8	15,1
Hungary	5,1	14,5
Poland	5,1	14,4
Romania	5	13,8
Turkey	19,6	72,3

Note: Change from the previous year (%).
Source: IMF, National Statistical Institutes.

In the CEE countries, the unemployment rates dropped most countries in 2022. Unemployment in Turkey fell to 10.5% in 2022 compared to 12.3% in 2021. Unemployment in Poland and the Czech Republic reached 2.9% and respectively 2.2%. Unemployment in Hungary fell to 3.6%, and in Romania it is unchanged at 5.6%.

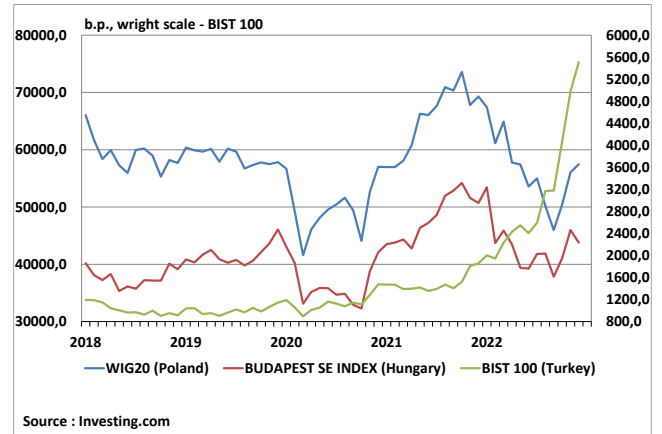
Table 36. Unemployment rate in CEE

	2021	2022
Czech republic	2,8	2,2
Hungary	4,1	3,6
Poland	3,4	2,9
Romania	5,6	5,6
Turkey*	12,3	10,5

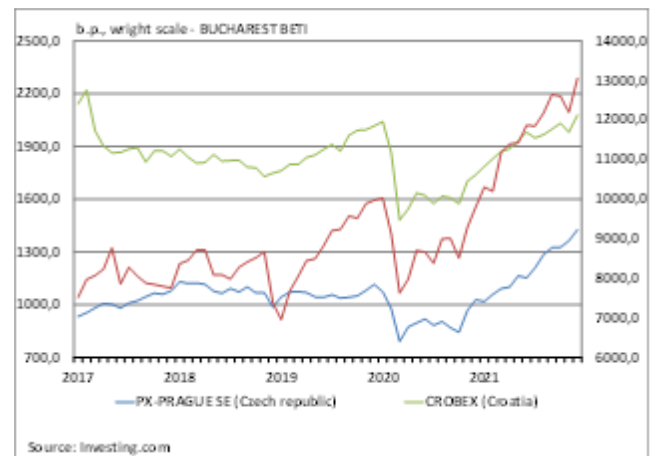
Note: Unemployment rate (%). * Data are arithmetic averages.
Source: IMF, National Statistical Institutes.

In 2022 most stock indices in CEE countries had a negative dynamics. During the year, the biggest increase was the Turkish BIST100, with 196.6%, the reason being the hedging of investors against the increase in consumer prices and the weakening of the Turkish lira. The Czech PX-PRAGUE SE and the Hungarian BUDAPEST SE INDEX fell by -15.7% and -13.7% respectively. Croatia's CROBEX, Poland's WIG and Romania's BET INDEX are down -4.8%, -17.1% and -10.7%, respectively. The reasons for the decline are the slowdown of the world economy, the war in Ukraine, etc.

Graph 38. Capital markets dynamics in Poland, Hungary and Turkey



Graph 39. Capital markets dynamics in the Czech Republic, Romania and Croatia



1.2. Overview of economic activity in Bulgaria

In 2022, the Bulgarian economy reported growth of 3.4%. Despite the economic upheavals related to the war in Ukraine and high inflation in the country, according to preliminary data for 2022, GDP amounts to BGN 165.4 billion. The major factor of economic growth is domestic demand, investments contribute 0.6 p.p., while net exports account for a decline in real terms, which limits GDP growth by -1.2 pp. The mining and processing industry, as well as the production and distribution of electricity, reported a huge growth, their total contribution to the growth of the Bulgarian economy being 2.9 p.p., which represents 84% of the total growth. Regardless of the indicators, household spending in 2022 grew at a faster rate than income, consumer confidence during the year maintained historically low levels and reached -39.0 at the end of 2022. Consumers' expectations of unemployment, which are highly inflated, support the indicator.

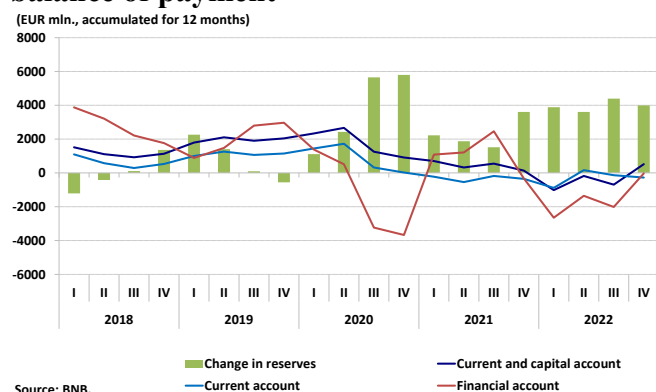
The volume of foreign direct investment in Bulgaria amounts to EUR 2,378.7 million, which is EUR 778.6 million more than the previous year. In 2022, the country's gross external debt increased by 5.8% annually, reaching EUR 43.9 billion at the end of the year or 51.9% of GDP. Banks' credit exposures to the private non-financial sector are growing, with households growing at an average annual rate of 12.2% compared to 8.3% in 2021. After starting to increase significantly already in 2021, the average annual value of consumer price inflation is at 13.0% in 2022, reaching 14.3% year-on-year as of December. Tendency of increase in the prices of homes and rent remains in 2022, and the housing price index almost doubled its rate of change on an annual basis from 8.7% on average for 2021 reaching 13.8% in 2022. Rental prices follow the same dynamic, the index increased to 9.6% in 2022 compared to 3.8% for 2021

The banking sector remains stable, and following economic growth, the results and operations of banks going better. At the end of December 2022, the total amount of the balance sheet assets of the banking system was BGN 155.4 billion, earnings reached BGN 2.1 billion. The trend of improving the quality of the credit portfolio continues, with the gross amount of non-performing loans and advances in the banking system decreasing to BGN 4.5 billion.

According to preliminary data for 2022, the total current and capital account balance is in the amount of EUR 519.9 million, compared to EUR 139.9 million at the end of 2021, increasing 3.7 times. For the period January-December 2022, the current account deficit of the balance of payments shrunk to EUR -274.7 million, with the balance reporting an increase in value of 21.7% compared to 2021. The main negative contribution to the deficit is the article "Trade balance", whose balance decreases significantly compared to the same period last year. As a result of the higher amount of EUR 1,850.0 million in capital transfers (as investment subsidies) received by the General Government sector, the capital account surplus reached EUR 794.6 million.

The balance on the financial account for the year is negative (EUR -26.7 million), but EUR 3,053.8 million more than the reported negative balance in 2021. According to the balance of payments, the country's international exchange reserves decreased to EUR 3,991.7 million. After accounting for exchange rate differences and price revaluations, the international exchange foreign reserves in the BNB balance sheet increased by EUR 3,827 million (BGN 7.5 billion), as the assets of the Issue Department amounted to BGN 75.2 billion at the end of 2022.

Graph 24. Dynamics of main accounts of the balance of payment

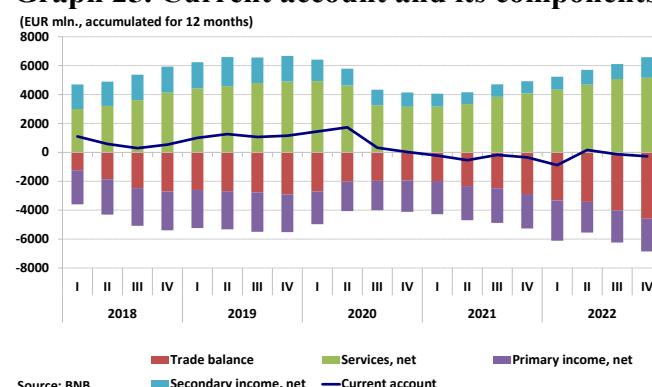


At the end of 2022, the current account deficit of EUR -274.7 million compared to the larger balance (EUR -351.0 million) of the previous year, mainly due to the contraction of the trade balance with EUR -1,706.3 million compared to the end of 2021, reaching a value of EUR -4,593.0 million. The major factor for this is the high growth rate of the import of goods in real terms on an annual basis compared to the contraction of real exports.

Primary, income, net item is the second factor for the negative current account balance, even though it has grown by EUR 119.2 million compared to the end of December 2021 and reaching a value of EUR -2,259.3 million at the end of 2022. Main factor for these dynamics is the lower amount of outflows under item "income from share capital" related to direct investments.

Secondary income, net contribution item reduce of the current account deficit, marking EUR 592.7 million more compared to the same period last year and reaching amount of EUR 1,424.8 million at the end of 2022. A major factor for this is the higher amount of transfers to the "General Government" sector.

Graph 25. Current account and its components

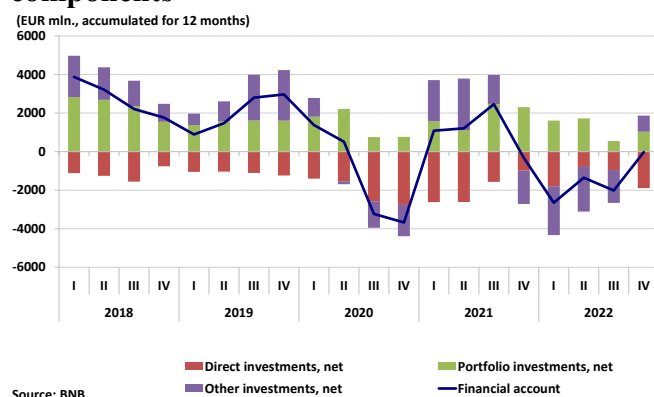


For the period January - December 2022, the balance on the financial account amounts to EUR -27.7 million, which is EUR 299.0 million

more than reported for the same period of 2021 and it is due to an increase the foreign assets of Bulgarian residents compared to foreign liabilities. For the growth of foreign assets, their increase in the "Central Bank" sector is of primary importance. The growth is due to the higher amount of the banks' short-term assets in the form of "Currency and deposits". In "other sectors", an increase in assets outside Bulgaria is also reported - again along the lines of the banking sector, in the form of currency and deposits, as well as the bond loan issued in September 2022 in the amount of 2.25 million euros.

The only one component of the financial account that contributes to the contraction of balance at the end of 2022 is "Direct net investments", recording a negative growth in the balance of EUR -900.0 million compared to the end of 2021 and reach EUR -1,887.5 million at the end of the last quarter of 2022. "Other investments, net" went into the positive with a balance of EUR 853.3 million compared to the end of the previous year, reporting a significant growth of EUR 2560.7 million in 2022.

Graph 26. Financial account and its components



For the period January - December 2022, the flow of foreign direct investment (FDI) in the country amounted to EUR 2,378.7 million which is with EUR 778.6 more than the previous year. The majority of FDI in our country is in the form of

reinvested profit (EUR 1,332.7 million) and equity capital other than reinvested profit (EUR 580.6 million). Despite both components having a positive value during the year, reinvested profit recorded an outflow of FDI of EUR 1,141.2 million, while equity investments increased by EUR 852.6 million compared to 2021. The flow of FDI in the form of debt instruments was also positive, amounting to EUR 465 million.

Table 34. FDI dynamics in Bulgaria by type of investment

	2017	2018	2019	2020	2021
Total	1605,6	967,5	1639,0	2997,0	1265,0
Equity and investment fund shares/units	-25,0	390,4	-157,0	674,0	-36,0
Reinvestment of earnings	861,1	1214,0	1159,0	1053,0	1775,0
Debt instruments	769,5	-636,8	637,0	1270,0	-474,0

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

The distribution of FDI by sector in the country in 2022 is similar to the previous year, excluding 2 sectors where the flow is in the opposite direction. The Trade, Repair of Cars and Motorcycles sector, which in 2021 recovered some of its volume, reports a surge of FDI amounting to EUR 455.8 million EUR. The "Processing industry" sector attracted the largest volume of FDI in the amount of EUR 1,018.8 million, and the largest outflow was reported by the "Production and distribution of electric and thermal energy and gaseous fuels" sector, which reduced its volume by EUR -383.9 million and reached EUR -301.6 million. The sector "Creation and distribution of information and creative products; telecommunications" takes the second place, with a decrease of EUR -128.1 million compared to EUR 117.1 million in 2021.

A significant difference of FDI at the end of 2022 is reported by the "Financial and insurance activities" sector, which decreases by EUR-117.4 million, with a reported positive inflow of FDI in the previous 3 years.

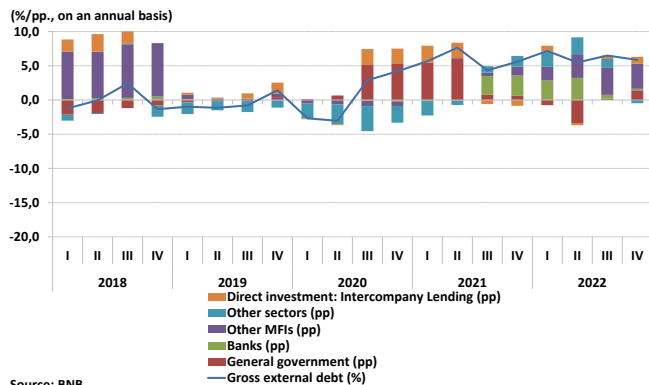
Table 35. FDI structure in Bulgaria by economic activity

	2018	2019	2020	2021	2022
Mining industry	-17,3	-13,6	47,5	11,0	144,0
Manufacturing	-135,5	301,4	205,5	-113,6	905,2
gaseous fuels	-70,3	-14,9	-4,3	82,3	-301,6
Construction	-4,8	63,2	216,6	-22,2	-59,9
Trade, repair of motor vehicles and motorcycles	424,4	807,4	-12,6	0,5	456,3
Transport, storage and postal services	35,8	16,2	229,8	-82,3	31,9
Accommodation and food service activities	-56,5	-36,4	-76,3	-65	7,8
Information and communication	-93,4	39,5	166,8	245,2	117,1
Financial and Insurance Activities	649,7	145,6	705,2	1009,9	892,5
Real estate Activities	78,1	185,3	70,7	-72,8	123,9

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

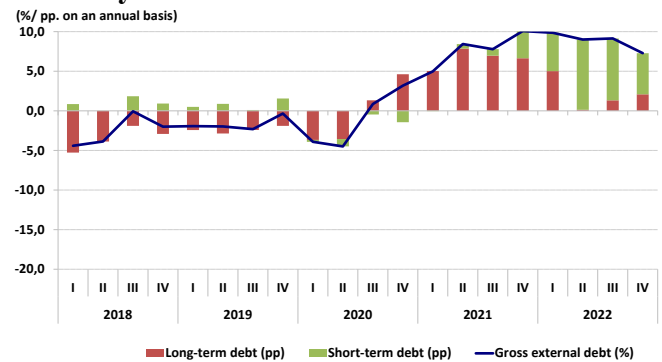
In 2022, the country's gross external debt increased by 5.8% annually, reaching EUR 43.9 billion at the end of the year or 51.9% of GDP. The foreign liabilities of other monetary and financial institutions and the debt of "General Government" sector contributed equally to the growth of the debt, which reported a growth of 1.1 p.p. The debts of the "Central Bank", "Direct Investments, Intra-Corporate Lending" and "Other Sectors" sectors report a decrease compared to 2021 and limit the total growth of the gross external debt by -0.1 p.p., -0.5 p.p., -1.4 p.p., respectively.

Graph 27. Dynamics of gross external debt by institutional sectors



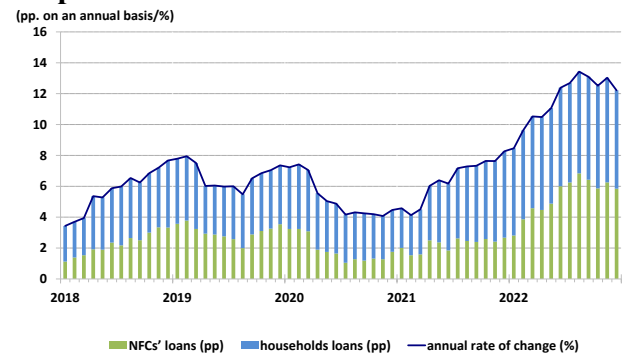
In line with the overall dynamics of gross external debt in 2022, its short-term component without intercompany lending increased by 20.9% on and represented 28.0% of total external debt at the end of the year. Long-term debt increased by 2.8% and reached a share of 72.0% of the country's external debt at the end of year

Graph 28. Dynamics of gross external debt by maturity structure



In 2022 there was a noted increase in bank loans to the private non-financial sector has been interrupted, and loans to non-financial corporations and households recorded an average annual growth of 12.2% compared to 8.3% at the end of 2021. Loans to households grew at a faster pace (14.6%), contributing 6.4 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 growth of 5.3% at the end of the year, contributing 5.6 p.p. to the general dynamics.

Graph 29. Dynamics of loans to non-financial corporations and households

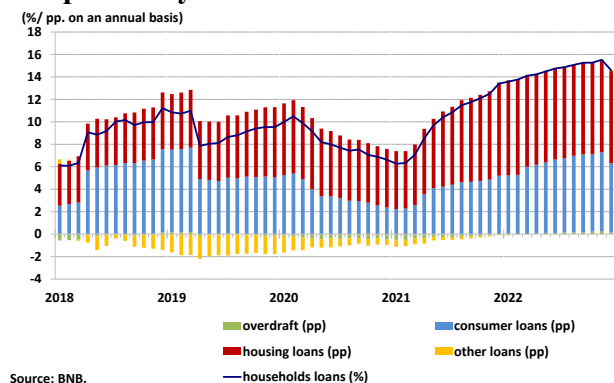


The growth of loans to households in 2022 is mainly due to the increase in housing loans by 16.8% at, which contributes by 8.2 p.p. to the total growth of loans to households. At the end of 2022, consumer loans increased by 13.5% and contributed by 5.2 p.p. Loans other than consumer

and housing, as well as overdrafts, contribute to the overall growth by 5.3 p.p.

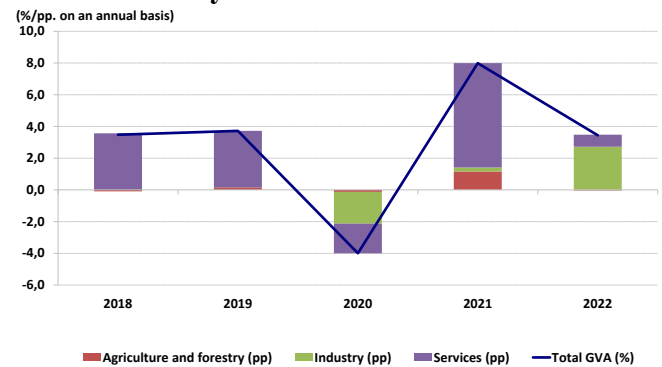
At the end of December 2022, the total amount of the balance sheet assets of the banking system was BGN 155.4 billion, and earnings reached BGN 2.1 billion. The trend of improving the quality of the loan portfolio continues, and at the end of 2022 the gross amount of non-performing loans and advances in the banking system amounted to BGN 4.5 billion, and their share in the total amount of gross loans and advances decreased to 3.6%. The net value of non-performing loans and advances, after deducting the impairment inherent in this classification category, amounts to BGN 2.3 billion at the end of 2022 or 2.4 % of the total net value of loans and advances.

Graph 30. Dynamics of loans to households



Total value added in the economy increased in real terms by 3.4% in 2022, with the main contributors being the industry sector (2.7 p.p.) followed by services (0.8 p.p.), while sector of agriculture and forestry (has not contribution

Graph 31. Dynamics of Value Added and contribution by sectors



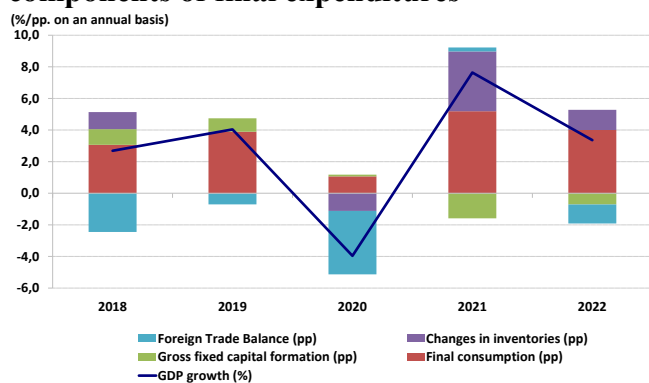
A detailed breakdown of value added by sector in the economy shows that among services, the largest positive contribution to gross added value in 2022 was reported by the sectors: "Mining and quarrying sector; manufacturing industry; production and distribution of electricity and heat and gaseous fuels; water supply; sewerage, waste management and remediation activities" (2.9 p.p.), followed by "State administration; education; human health care and social work" (0.4 p.p.). There are three sectors that contribute with the same values of 0.1 p.p. - "Real estate operations", "Creation and distribution of information and creative products; telecommunications", "Financial and insurance activities" and "Professional activities and scientific research; administrative and auxiliary activities". The following are without contribution to the growth of added value: "Agriculture, Forestry and Fisheries", sector "Trade, repair of cars and motorcycles; transport, storage and mail; Hospitality and Restaurant", "Real Estate Operations" and "Culture, Sports and Entertainment; other activities". The only sector with a negative contribution of -0.2 p.p. is the "Construction" sector.

Table 36. Dynamics of Value Added by sectors

	2018	2019	2020	2021	2022
Total for the economy (%)	3,5	3,7	-4,0	8,0	3,4
<i>Contribution (pp), incl:</i>					
Agriculture, forestry and fisheries	-0,1	0,2	-0,1	1,2	0,0
Manufacturing, mining and quarrying; production and allocation of electricity, heating	0,0	-0,2	-2,0	1,1	2,9
Construction	0,0	0,2	0,0	-0,8	-0,2
Wholesale, repair of motor vehicles and motorcycles; transport, storage and postal	0,7	0,9	-1,5	3,1	0,0
Creation and distribution of information and creative products; telecommunications	0,6	0,9	0,3	0,5	0,1
Financial and insurance activities	0,1	0,2	0,5	1,4	0,1
Operations with real estate	1,1	0,5	-0,7	0,8	0,0
Professional activities and research; administrative and auxiliary activities	0,5	0,9	-0,3	0,7	0,1
Government management; education, healthcare and social works	0,4	0,1	0,4	0,1	0,4
Culture, sports and entertainment; others	0,0	0,1	-0,6	0,0	0,0

Note: Data for 2022 are preliminary.
Source: NSI.

According to preliminary data, real GDP growth in 2022 amounts to 3.4% annually. The main factor of economic growth is domestic demand, which contributes 4.6 percent. Among the components of internal demand, final expenditure is the strongest (4.0 p.p.). Investments have a contribution of 0.6 p.p. and among them the dynamics of the change in stocks and the formation of fixed capital are in the opposite direction, respectively 1.3 p.p. and -0.7 p.p. Net exports reported a decline in real terms, which limited GDP growth with its negative contribution of -1.2 p.p.

Graph 32. GDP growth and contribution of components of final expenditures

Exports of Bulgarian goods and services in 2022 amounted to EUR 47.8 billion, increasing by 36.6% compared to the previous year. The largest contribution to the total weight is the export of energy resources (12.1 p.p.), followed by the export of raw materials and materials (10.5 p.p.) and investment goods (7.7 p.p.). Consumer goods

contributed 6.6 p.p., and exports of other goods limited growth by -0.3 p.p.

Table 37. Contribution of main groups of goods to the exports' dynamics

	2018	2019	2020	2021	2022
Exports (% on an annual basis)	2,6	4,3	-6,3	24,9	36,6
<i>Contribution (pp)</i>					
Consumer goods	0,9	1,7	0,2	2,9	6,6
Raw materials and supplies	1,8	1,0	0,0	12,2	10,5
Investment goods	0,6	0,2	-1,3	5,5	7,7
Energy resources	-0,7	1,3	-5,3	4,3	12,1

Source: BNB.

Imports of goods and services is with higher nominal rate than exports in 2022 (40.8%), amounting to EUR 55.3 billion. The biggest contribution to this dynamic is the import of energy resources (13.6 p.p.), followed by raw materials and materials (12.3 p.p.), and the import of investment goods and consumer goods contribute respectively with 8.9 p.p. and 6.6 p.p.

Table 38. Contribution of main groups of goods to the import's dynamics

	2018	2019	2020	2021	2022
Imports (% on an annual basis)	6,1	5,0	-8,9	27,6	40,8
<i>Contribution (pp)</i>					
Consumer goods	1,4	2,3	-0,4	4,2	6,6
Raw materials and supplies	2,2	-0,2	-0,3	10,5	12,3
Investment goods	2,4	1,7	-2,1	6,1	8,9
Energy resources	0,1	1,1	-6,2	6,7	13,6

Source: BNB.

The real growth of final consumption slowed from 6.7% in 2021 to 5.2% in 2022. The main driver for the reported dynamics is the individual consumption of households (4.2 p.p.), and the individual consumption of the government contributes by 0.6 p.p. Collective consumption, which measures the government's final expenditure on collective services provided to society as a whole, contributing 1.0 p.p. to real growth in total end consumption.

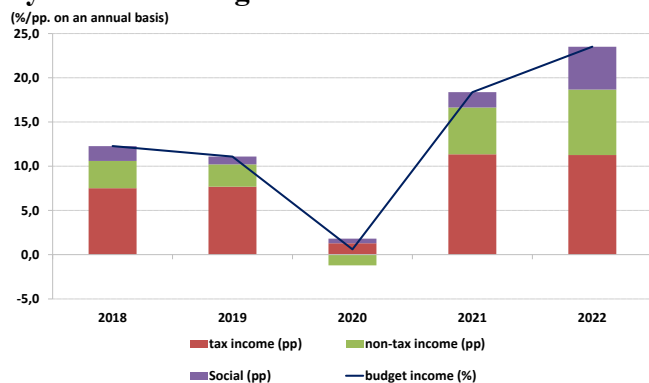
Table 39. Growth of final consumption expenditure and contributions of its components

	2018	2019	2020	2021	2022
Final consumption (%)	4,0	5,1	1,4	6,7	5,2
individual consumption (pp)	3,6	5,0	0,6	7,1	4,2
(pp)	2,9	4,7	-0,4	6,6	3,6
general government (pp)	0,6	0,3	1,1	0,5	0,6
collective consumption (pp)	0,5	0,1	0,8	-0,4	1,0

Note: Data for 2022 is preliminary.
Source: NSI.

The budget balance under the Consolidated Fiscal Program (CFP) in 2022, according to official data, is negative in the amount of BGN -1.3 billion, which represents a deficit of -0.8% of GDP. Revenues reported a growth of 23.5%, which is mainly due to the value added tax (4.5 p.p.), the tax on social and health insurance contributions (2.9 p.p.) and personal income tax (0.9 p.p.). Non-tax revenues contribute 7.4 p.p., and aid reports a positive contribution of 4.8 p.p. Customs duties and fees tax (0.3 p.p.) and other taxes (0.3 p.p.) made the same contribution to the growth of budget revenues.

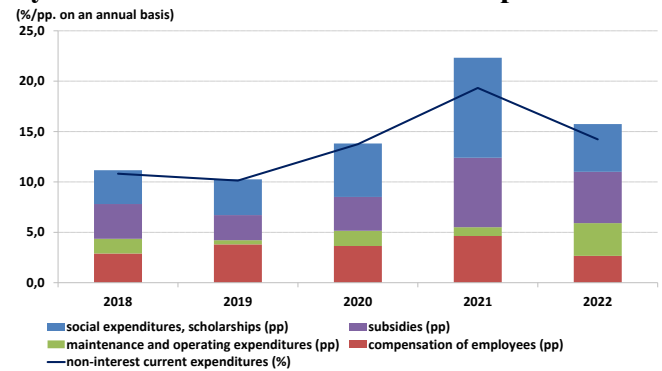
Graph 33. Contribution of components to the dynamics of budget revenue



Budget expenditures remain at their level from 2021 with 17.5%, with current expenditures contributing the most (14.2 p.p.), followed by social insurance, aid and care expenses (4.7 p.p.), while capital expenditures have a contribution of 3.3 p.p. The budgetary expenditure for contribution to the general EU budget in 2022 increased slightly by 1.4% compared to 29.8% in 2021 and does not

contribute to the general growth of budget expenditures.

Graph 34. Contribution of components to the dynamics of non-interest current expenditure



In 2022, employment in Bulgaria increased by 2.4% on an annual basis, and the number of employees aged 15 and over is 3.2 million. This dynamic is due to a growth in employment, with positive contribution of 1.0 p.p. for women and 1.4 p.p. for men. Employment is also increasing in all age groups, but it is most pronounced among workers over 45 (1.8 p.p.).

The number of persons in paid employment decreased by -2.4% annually to 2.2 million people. This trend is almost entirely due to a decline in employees in the private sector (-2.2 p.p.). By economic activities, there was a decrease of the number of employees in all sectors, but mainly in the processing industry (-1.6 p.p.) and in the construction sector (-0.6 p.p.). The hospitality and catering sector has a negative contribution of -0.4 p.p., and the "Transport, warehousing and post" sector, with -0.2 p.p.

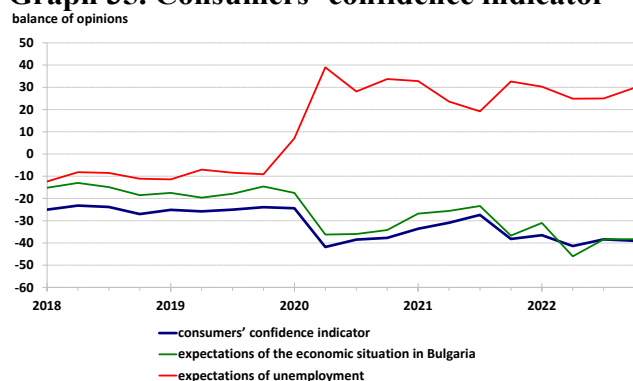
The income of employees measured by compensation of employees, representing gross income that also included changes in social insurance contributions, increased by 19.3% in 2022 compared to an increase of 12.4% in the previous year. The unemployment rate continued to decrease, reaching 4.3% of the workforce in 2022.

Table 40. Employment and income

	2018	2019	2020	2021	2022
Employed persons	0,1	2,6	-3,4	-1,4	2,4
Employees	0,5	0,1	-4,8	1,7	-2,4
Compensation of employees	10,6	8,6	4,2	12,4	19,3
Unemployment*	5,2	4,2	5,1	5,3	4,3

Note: Data show a change compared to the previous year, as data for 2022 are preliminary;
*unemployment coefficient is period average (% of the workforce).
Source: NSI.

Consumer confidence during the year remains at historically low levels, reaching -39.0 at the end of 2022. The indicator is supported by consumer expectations of unemployment, which are highly elevated in 2022 as well. The deterioration of consumer confidence is influenced by extremely high expectations of a worsening of the economic situation in the country.

Graph 35. Consumers' confidence indicator

Household incomes in 2022 accelerated their growth to 15.1% annually, to which pensions (8.8 p.p.) and salaries (5.2 p.p.) had a major contribution. A contribution of 1.2 p.p. to income growth is accounted for by withdrawn savings, which accelerate their annual rate of change to 33.2% in 2022, received loans and credits by only 4.5%. Limitation on the growth of household incomes during the year is provided by income from unemployment benefits (-4.7%) and other incomes (-0.7%).

Table 41. Dynamics of household incomes

	2018	2019	2020	2021	2022
Total	4,8	6,8	5,1	6,8	15,1
Salary and wages	6,9	8,9	4,1	8,2	9,1
Withdrawn savings	11,6	-3,5	-9,2	23,3	33,2
Loans and credits	62,0	-25,9	-20,6	-23,1	4,5

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

Household spending in 2022 grew faster than their income and record a significant growth of 17.3% compared to 9.9% in 2021. Consumer spending grew by 18.6% and contributed the most - with 15.28 p.p. in total household expenditure. Of these, the costs of food and the costs of housing, water, electricity and fuels have a significant contribution, respectively from 16.6 p.p. and 2.76 p.p. In 2022, all household expenses have increased, and the largest growth, outside of those described above, being observed in transport expenses (25.3%), other expenses (23.20%), healthcare expenses (21.9%), leisure, cultural recreation and education (19.9%). Household expenses on taxes and social security increased by 5.7 p.p. and 10.5%, respectively, contributing respectively by 0.32 p.p., and 0.79 p.p., respectively, to the growth of total expenses. In 2022 households' tendency to save grew, and their deposit expenses show growth of 20.0%, and the funds allocated for debt repayment or lending decreased by -1.7%.

Table 42. Dynamics of households' expenditures

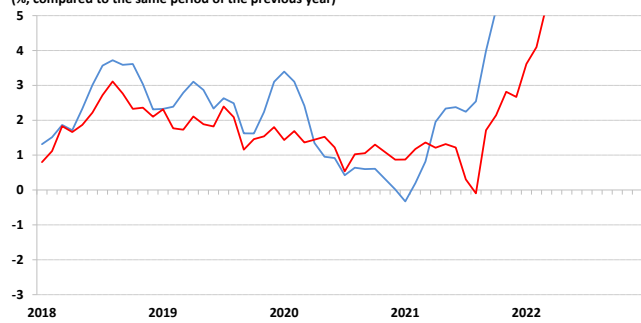
	2018	2019	2020	2021	2022
Total	7,7	4,9	-1,0	9,9	17,3
Total consumer expenditures	6,7	5,2	-1,3	11,2	18,6
Taxes	6,9	6,6	2,1	6,5	5,7
Deposit	5,2	22,6	31,3	1,6	20,0
Paid debt and granted loan	-15,3	-0,3	-2,3	1,4	-1,7

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

In 2022, inflation was positive, with its average annual value (13.0%) being significantly higher than last year's (2.9%), and as of December it rose to 14.3%. Core inflation recorded a lower rate of change, but nevertheless its average annual value rose to 7.6%.

Graph 36. Inflation

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



Source: NSI.

The largest contribution to the inflation accumulated during the year was made by foodstuffs (5.6 p.p.) and industrial goods (4.8 p.p.). Among services, the biggest contribution to overall inflation is the prices of catering (1.0 p.p.), followed by transport (0.7 p.p.) and telecommunications services (0.4 p.p.). Energy and heating prices contributed to the overall growth by 1.5 p.p., and administrative prices contributed 1.3 p.p.

Table 43. Contribution of main groups of goods to inflation

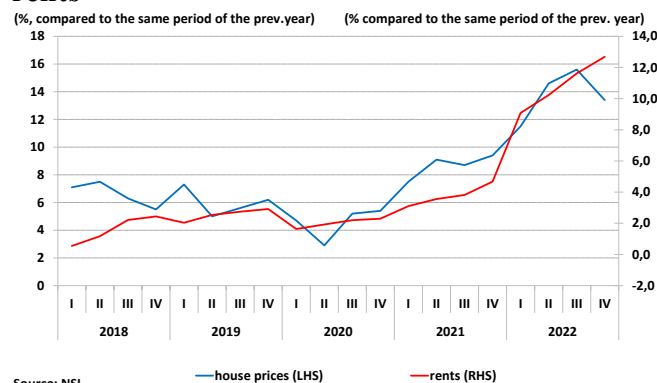
	2018	2019	2020	2021	2022
Inflation (% compared to Dec. pr	2,3	3,1	0,0	6,6	14,3
<i>Contribution (pp)</i>					
Food stuffs	1,2	1,4	0,4	1,9	5,6
Unprocessed foods	0,2	0,5	-0,1	0,4	1,3
Processed foods	1,0	0,8	0,6	1,5	4,3
Services (all except goods)	1,8	0,9	0,7	0,7	3,4
Public food services	0,4	0,3	0,2	0,3	1,0
Transport services	0,4	0,0	0,1	0,2	0,7
Telecommunications	0,1	-0,1	0,0	-0,3	0,4
Energy and home heating	0,8	0,1	0,0	1,1	1,5
Liquid and transport fuels	0,4	0,3	-1,0	1,9	0,2
Industrial goods	0,7	0,6	-1,2	3,8	4,8
Administrative prices	-0,2	0,4	0,2	0,7	1,3

Source: NSI.

Key:

In 2022, the growth of housing prices in our country increased its rate, reporting a significant increase of 13.8% on average annual compared to 8.7% in 2021. The higher growth of housing prices is determined by demand from households and the high percentage of newly built/vacant housing stock. Rental prices also grew, reaching 9.6% on an average annual basis compared to 3.8% in 2021.

Graph 37. Dynamics of housing prices and rents



Source: NSI.

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

In 2022, the assets of the participants in the non-banking financial sector grew by 0.9% and at the end of the year exceeded BGN 47 billion, with the change in the various segments having different dynamics. The contribution of insurance and reinsurance companies is 0.5 p.p., as well as that of non-bank IFs, the main part of which are client assets. Special purpose investment companies, collective investment schemes and alternative investment funds contribute a total of 0.5 p.p. in the change in assets. With a negative contribution of -0.6 p.p. for the first year is the change in the value of the assets of the pension funds. Despite the reported increase, the role of companies in the non-banking financial sector in the structure of financial intermediation decreased, as the assets of the participants in the supervised sector of the FSC reach 23.4% of the assets of the financial sector in Bulgaria.

As a share of GDP, the assets of the participants of the non-banking financial sector fall in 2022, reaching 28.7% by the end of the year. The depth of financial intermediation in the non-banking financial sector measured through market capitalization on the stock exchange decreased to 18.2% at the end of 2022 compared to 22.1% of GDP at the end of 2021.

Table 47. 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	2018	2019	2020	2021	2022
Non-banking investment firms	13.6	12.5	11.1	4.5	4.2
Management companies /AIFMs	1.3	1.4	1.4	1.7	1.6
CIS and AIF*	1.0	1.0	1.0	1.5	1.4
SPICs	1.1	1.1	1.1	1.0	1.0
(Re)insurance companies	5.3	9.8	5.7	6.2	5.7
SPFs	8.8	9.5	9.8	10.8	9.5
Participants in the non-banking financial sector	31.2	31.0	30.0	25.8	23.4

Notes: * Includes balance sheet assets of CISs, AIFs, NIFs and NID.

Source: FSC

The assets of non-bank IFs increased by 2.6% in 2022 and at the end of the year reached BGN 8.5 billion. The reason for this dynamic is an increase in the assets of IFs with a full license by 3.0%, while the assets of non-banking IFs with a partial license grew by 1.8% on an annual basis.

The assets of management companies and alternative investment fund managers increased in absolute terms by BGN 17.2 million, which is an increase of 0.5% on an annual basis. At the end of 2022, assets under management amount to BGN 3.2 billion. Of these, BGN 2.6 billion are the managed assets of collective investment schemes and BGN 0.6 billion are managed assets of clients on trust management of portfolios.

The assets of CISs increased by a total of 2.1% compared to the previous year. The observed dynamics is mainly due to the total increase in the assets of AIFs, NIFs and national investment companies (NICs), which contribute 6.7 p.p. in the change in assets. Assets of mutual funds and exchange-traded funds (ETFs) decreased in total by -5.1% on an annual basis and limited the growth of assets of collective investment schemes by -4.6 p.p. In the structure of financial intermediation, collective investment schemes occupy a share of 1.4%, which decreases slightly compared to the previous year 2021.

The assets of SPICs increased by 9.4% on an annual basis and by the end of the year their

amount reached BGN 2.1 billion. The biggest contribution to this growth is the assets of SPICs investing in real estate and agricultural land (9.2 p.p.), while SPICs investing in receivables contribute 0.2 p.p. in the annual growth of assets in the sector. In relative terms, by the end of 2022, the share of special purpose investment companies in the structure of financial intermediation remains at the level of 1.0%.

The assets of (re) insurers increased by 1.9% in 2022 compared to 14.3% in 2021, and their share in the structure of financial intermediation increased compared to the previous year and amounts to 5.7%. The largest contribution of 2.4 p.p. for the growth of the assets of the (re) insurance market lies with the increase non-life insurance companies' assets (5.1%), while the assets of life insurance companies decreased by 4.7% and have a negative contribution of -1.1 p.p..

The assets of the only reinsurance company in Bulgaria increased by 1.9% on an annual basis and had a positive contribution of 0.6 p.p. to the change in the insurance market assets.

A decrease of -1.4% in balance sheet assets is reported by pension companies in 2022 compared to a growth of 12.8% in 2021. The decrease in the value of assets is entirely due to the reported negative income from investing the funds of all SPFs compared to the previous year. Regardless of that, pension funds rank first among the institutional investors of the non-banking financial sector and the amount of their balance sheet assets at the end of the year amounted to BGN 19.4 billion. Their relative share in the structure of financial intermediation at the end of the year amounted to 9.8%.

Table 48. Market capitalization of the stock exchange and assets of non-banking financial sector participants (% of the GDP)

	2018	2019	2020	2021	2022
Market capitalization of the stock exchange market	24.3	23.2	23.5	22.1	18.2
Non-banking investment firms	19.0	17.2	16.4	5.9	5.1
Management companies /AIFMs	1.8	1.9	2.0	2.3	1.9
CIS and AIF*	1.4	1.4	1.5	2.0	1.7
SPICs	1.5	1.5	1.5	1.4	1.3
(Re)insurance companies	7.5	7.7	8.2	8.2	7.0
SPFs	12.2	13.1	14.4	14.1	11.7
Participants in the non-banking financial sector	43.4	42.7	44.1	33.8	28.7

Notes: * Includes balance sheet assets of CISs, AIFs, NIFs and NID.

Source: FSC, BSE, NSI.

The depth of financial intermediation of the non-banking financial sector, measured by the market capitalization of BSE AD as a share of GDP, decreased to 18.2% compared to 22.1% at the end of 2021. The market capitalization of BSE AD marked a decline of -2.0% on an annual basis and at the end of the year reached BGN 30.2 billion. The market capitalization of the Main market, which dropped

to BGN 10.9 billion at the end of 2022, had a contribution of -2.3 p.p., while the market capitalization of the Alternative market, which reached BGN 19.0 billion at the end of the year, had a decline-limiting contribution of 0.2 p.p. The market capitalization of the BEAM growth market, which at the end of 2022 reached BGN 330.5 million, contributes 0.2 p.p. in the general change of market capitalisation. By types of

segments, of the three markets organized by BSE AD, the Standard Equities segment, whose market capitalization falls to BGN 8.1 billion, contributes -2.9 p.p. All other segments limited the total decrease in the capitalization of the three markets with a positive contribution. The market capitalization of the Premium Equities trading segment and the Alternative Market Equities segment limited the decline in the market capitalization of the three markets with a positive contribution of 0.2 p.p. The main share in the segment Shares on the alternative market is occupied by the shares of one public company, whose market capitalization at the end of the year has 87.8% relative share in the segment. The capitalization of the Main Market's SPIC segment also has a growth-limiting contribution of -0.3 p.p.

The dynamics of the stock market indices in 2022 are mixed. As at 31.12.2022, the main SOFIX index decreased by -5.4% compared to its

level at the end of 2021 to 447.53601.49 points. The broad index BGBX40 recorded a decrease of -3.1% on an annual basis to 139.28 points. The weighted index BGTR30 grew by 7.1% during the year up to 713.20 points, and the sectoral BGREIT which generally makes an exception to the general trend due to the type of companies included in the index, reported growth of 11.7% on an annual basis to 183.17 points.

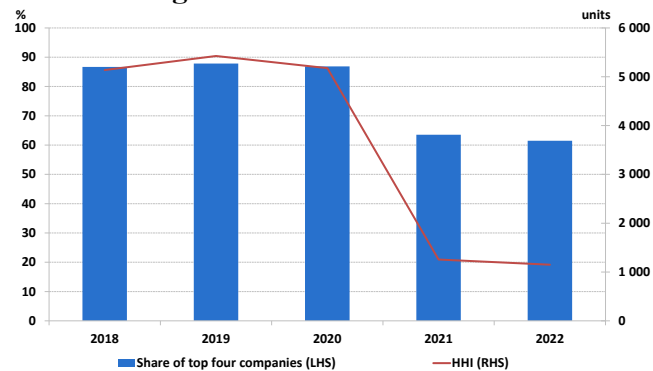
Expressed as share of the GDP, the assets of participants in the non-banking finance sector amounted to 28.7%, the largest share being the assets of supplementary pension insurance funds (11.7%), followed by assets of the (re)insurance segment (7.0%) and assets of non-banking IFs which were 5.1% of GDP. Assets managed by MCs /AIFMs amounted to 1.9% of GDP, and those of the CISs and NIFs, and SPICs— respectively 1.7% and 1.3% of GDP, respectively.

In 2022, the development of the non-banking financial sector maintained the market environment in individual segments. Non-life insurance companies are characterized by strong competition, while a moderate competitive environment is observed in pension insurance companies and the segment of services provided by non-banking IFs. The life insurance market is characterized by high market concentration. 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.

The market environment for non-bank IFs, measured on the basis of client assets, is characterized by moderate concentration. At the end of 2022, the largest four investment firms held 61.5% of the total amount of all client assets, the share of the first investment firm being 21.7%. For the remaining IFs the average share of the client assets held was 2.3%.

The Herfindahl-Hirschman Index (HHI) on the market of non-banking IFs, calculated on the basis of client assets, decreased in 2022 with the 107 units to 1,150 units, which sets the market environment for services provided by non-banking IFs as moderately concentrated.

Graph 38. Concentration on the market of non-banking IFs

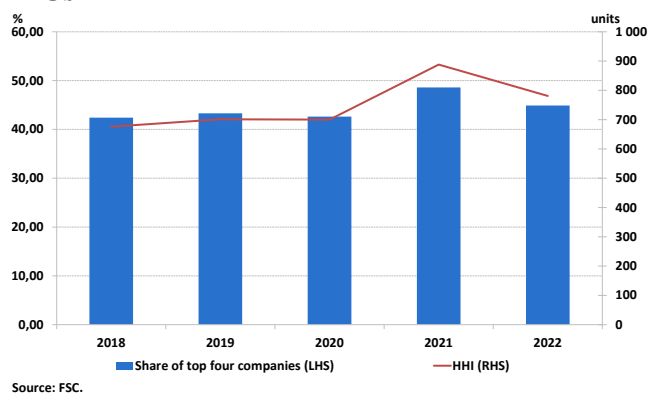


Source: FSC.

The market concentration of the services offered by the management companies in 2022 is

decreasing compared to the previous year. The four management companies with the largest relative share in the managed assets hold 44.9% 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, decreases by 107 units to the level of 781 units in the direction of decreasing concentration in the sector. The market segment continues to be characterized as highly competitive.

Graph 39. Concentration on the market of MCs



Source: FSC.

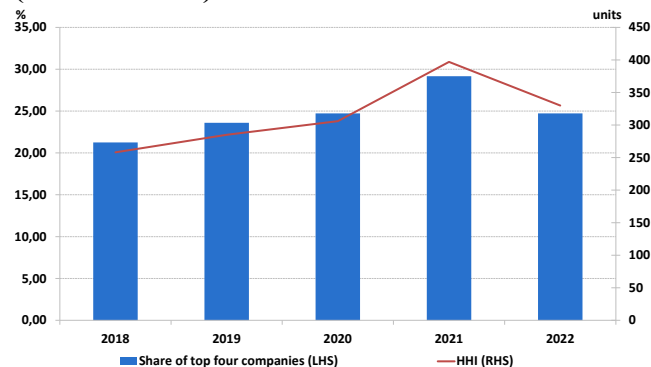
The market for collective investment schemes is defined as highly competitive. The trend of gradual increase of the concentration in the segment stopped in 2022, and a decrease is observed both in relation to the Herfindahl-Hirschman index (HHI) and in the share of the first four funds in the total assets. The change in the Herfindahl-Hirschman Index (HHI) is 67 units, decreasing to 330 units at the end of 2022 compared to 397 units at the end of 2021. The share of the first four funds²⁵ calculated on the basis of balance sheet assets decreases

²⁴KBC Asset management NV, MC DSK Asset Management AD, MC Concord Asset Management EAD and MC DV Asset Management EAD.

²⁵MF UBB Platinum Bulgaria, MF DSK Standard, MF Conservative Fund Bulgaria and MF Conconrd fund -2 units.

respectively to 24.7% at the end of 2022, from 29.2 at the end of 2021.

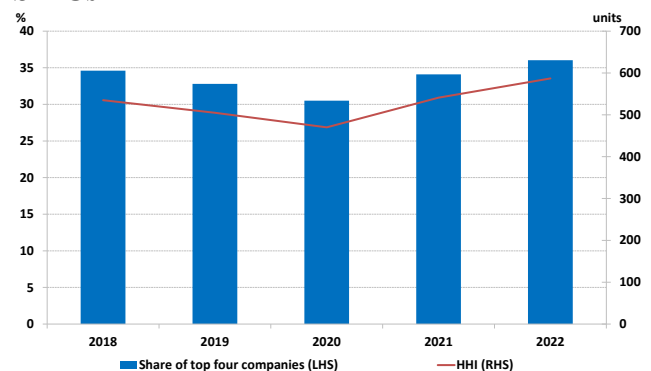
Graph 40. Concentration on the market of CISSs (MF and ETF)



Source: FSC.

The segment of special purpose investment companies remained highly competitive at a Herfindahl-Hirschman index (HHI) of 587 units, which was 46 over the value of the 2021 indicator. Similar dynamics was observed in the change in the share of the first four companies²⁶, which increased to 36.0% from 34.1% at the end of 2021, and despite these dynamics, the market environment of special purpose investment companies remains highly competitive.

Graph 41. Concentration on the market of SPICs



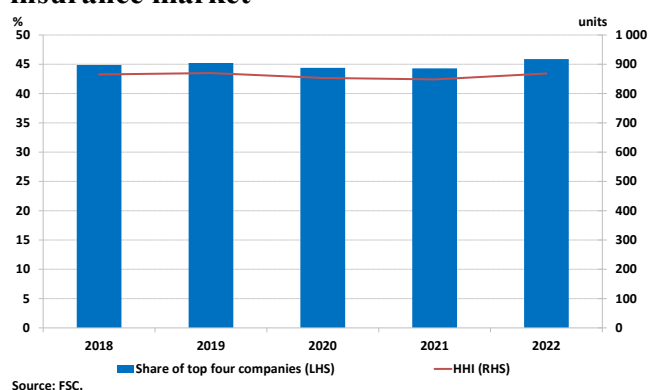
Source: FSC.

HHI (дясна скала) – HHI (RHS)

²⁶ Advance Terrafund SPIC, Real Estate Fund Bulgaria SPIC, Fairplay Propertiest SPIC and Balkan and Sea Properties SPIC.

The market of non-life insurance was determined as highly competitive, with the HHI index value increasing by 20 units in 2022 compared to the previous year and by the end of December 2022 reached 869 units, which is an indicator for decreased concentration. The market share of top four non-life insurance companies, measured in terms of assets, increased from 44.03% at the end of 2021 to 45.2% at the end of 2022.

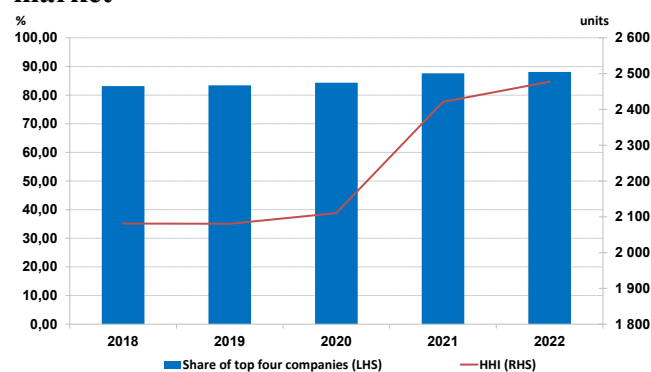
Graph 42. Concentration on the non-life insurance market



In 2022, the life insurance services market continues to be characterized by a highly concentrated competitive environment that is deepening. At the end of 2022, the curve of the Herfindahl-Hirschman index (HHI) marks 2,478 units, which is 56 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 assets²⁷ reaches a historically highest level and at the end of the fourth quarter of 2022 reaches a level of 88.1%.

²⁷ DZI-Life Insurance EAD, IC Allianz Bulgaria-Life AD, Grave Bulgaria Life Insurance EAD and IC Bulstrad Vienna Insurance Group AD.

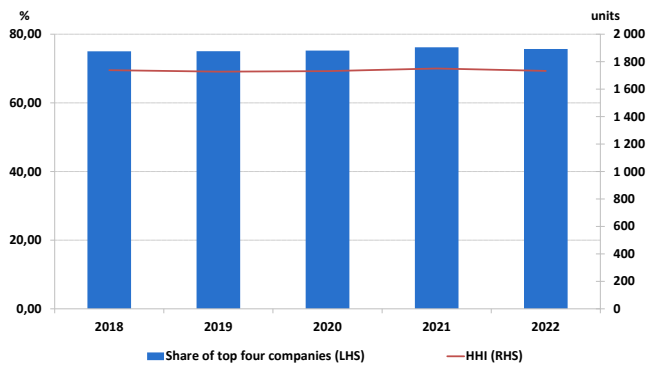
Graph 43. Concentration on the life insurance market



In end of 2022, the share of the first four companies²⁸ on the market of pension insurance services, according to their balance sheet assets, decreased by -0.5 p.p. to 75.69%, compared to 76.17% for the previous year. Among the first four PICs, an increase of 0.6 p.p. was reported by the fourth most significant company PIC DSK - RODINA AD, whose share reached 19.3%, followed by the first most significant PIC Doverie, which increased its share to 24.75%. The company, which at the end of 2022 has the largest decline of 1.0 p.p. is PIC Allianz AD, while PIC UBB EAD reported only -0.12 p.p. less. Their shares reached 21.12% and 10.51%, respectively. At the end of 2022, the HHI index fell, reporting a value of 1,732 units, compared to 1,750 at the end of 2021, indicating a lower concentration over the past twelve months. Nevertheless, the market for pension insurance services continues to be characterized as moderately competitive.

²⁸ PIC Doverie AD, PIC Allianz Bulgaria AD, PIC DSK – Rodina AD and PIC UBB AD.

Graph 44. Concentration of the social insurance market



Source: FSC.

2.1. Review of risks and main market trends

The economic activity around the world slowed down in 2022. due to the residual effect of the COVID-19 pandemic on the global economy, Russia's invasion of Ukraine, rising inflation, etc. At the end of February, Russia attacked Ukraine and the war continued throughout 2022. The European Union, the United States and other countries introduced a number of sanctions against Russia, including a ban on access to the SWIFT international money transfer system for almost all Russian financial institutions, a price cap on imported Russian oil, etc. Credit rating company S&P Global Ratings downgraded Turkey's credit rating outlook to “negative” due to a weakening national currency and rising inflation, both of which pose serious risks to the country's economy.

Capital markets on a global scale report a decline in 2022 due to the slowdown in the global economy, fears of a recession and the complicated geo-political environment. In the conditions of rising interest rates, the prospects for increasing profitability in the financial sector are increased, but this has a negative impact on the world economy.

In 2022, the Bulgarian economy reported growth of 3.4%. Despite the economic upheavals related to the war in Ukraine and high inflation in the country, according to preliminary data for 2022 GDP amounts to BGN 165.4 billion. The main driver of economic growth is domestic demand, investments contribute 0.6 pp, while net exports account for a decline in real terms, which limits GDP growth by -1.2 pp. The mining and processing industry, as well as the production and distribution of electricity, reported a huge growth, their total contribution to the growth of the Bulgarian economy being 2.9 pp, which represents 84% of the total growth. Regardless of the indicators, household spending in 2022 grew at a faster rate than income, consumer confidence during the year maintained historically low levels and reached -39.0 at the end of 2022. Consumers' expectations of unemployment, which are highly inflated, support the indicator.

The volume of foreign direct investment in Bulgaria amounts to EUR 2,378.7 million, which is EUR 778.6 million more than the previous year. In 2022, the country's gross external debt increased by 5.8% on an annual basis, reaching EUR 43.9 billion at the end of the year or 51.9% of GDP. Banks' credit exposures to the private non-financial sector are growing, with households growing at an average annual rate of 12.2% compared to 8.3% in 2021. After starting to increase significantly already in 2021, the average annual value of consumer price inflation is at 13.0% in 2022, reaching 14.3% year-on-year as of December. The trend of increase in the prices of homes and rent remains in 2022, and the housing price index almost doubled its rate

of change on an annual basis from 8.7% on average for 2021 reaching 13.8% in 2022. Rental prices follow the same dynamic, the index increased to 9.6% in 2022 compared to 3.8% for 2021

The segment of management companies/ alternative investment fund managers²⁹, reports 2022 with assets under management in the amount of BGN 3.2 billion and 0.5% growth on an annual basis. The weighted average return for the last 12 months of most fund categories is negative, ranging from -1.3% to -6.9%. As interest rates rise, the probability of credit risk materializing increases for various financial institutions and their assets. Particularly exposed to this risk are those holding illiquid assets, for whom a sudden market revaluation could potentially trigger an outflow of investors and massive asset sales. Should credit risk materialize, the stress in the funds sector could spill over to other parts of the financial system and the wider economy but given the sector's low relative share of financial sector assets (1.6%), the effect would be limited.

Market index performance in 2022 is characterized by high levels of volatility and downward price pressure in early 2022 and to a lesser extent in the third quarter of 2022 amid global growth concerns, strong inflationary pressures and tight monetary policy. In the fourth quarter, the main indices rose, but nevertheless, by the end of 2022, two of them remained below their 2021 levels. The leading index - SOFIX recorded a decline from -5.4% to 601.49 points, and the broad BGBX40 fell by -3.1% to the level of 139.28 points. The dynamics of the other two indices are different. The weighted BGTR30 ended the year up 7.1% to 731.20 points, and the sectoral BGREIT posted an annual gain of 11.7% to end the year at 183.17 points, above its short-term and long-term moving averages. The turnover on the regulated market of BSE AD³⁰ marks an annual growth of 22.6% or BGN 185.4 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 39.7% of the total turnover on the main market during the year. The market capitalization of the stock exchange decreased by -2.0% on an annual basis, the contribution of the Main market was -2.3 p.p., while the Alternative market and the Beam growth market limits the decrease with 0.2 p.p. each.

Financial stability risks in the insurance sector in the post-pandemic 2022 are increasing as a result of the sharp increase in inflation and interest rates combined with concerns about a global economic recession, increased market volatility, Russia's invasion into Ukraine, supply chain disruptions and high energy prices.

Profitability and solvency risks remain among the top risks for insurers. In terms of new business environment, life insurers realized a growth in gross premiums written of only 3.0% on an annual basis with a growth of 36.0% at the end of 2021. Premiums written for non-life insurance increased by 12.7%. A prolonged high inflation environment could put additional pressure on insurer profitability, particularly for the non-life business, through reduced underwriting margins (i.e., higher claim costs and higher operating costs).

A bright spot in all the uncertainty is insurers' solvency positions, offering room and buffers to absorb losses given macro headwinds. Solvency remained stable and increased compared to 2021. Life insurers improved their Solvency Capital Requirement (SCR) ratio in the second quarter of 2022, with the average increasing from 240% in the first quarter of 2022 to 249% in the second quarter of 2022, and in the second half of the year it decreased to 233%. In non-life, however, the median SCR ratio remained stable in 2022, reaching 150% at the end of the year.

²⁹ This amount includes the assets managed by MCs/AIFMs of clients under trust management of portfolios and managed assets of CIS.

³⁰ Includes turnover on Main Market, Alternative Market, BEAM Growth Market and BSE International.

The macroeconomic situation can also create risks to investment portfolios. The expected deterioration in macroeconomic conditions and high interest rates could increase market and credit risks for insurers in the next year. Possible channels are credit rating downgrades and drops in asset prices. For insurers, interest rate risk is a major driver of market risks, reflecting their high exposure to fixed income assets and interest rate guarantees.

In these conditions the investments of all insurers in Bulgaria (on the basis of the information from the quarterly reports according to Ordinance No. 53 at the end of the fourth quarter of 2022, which included the data for all insurers with headquarters in the of Republic of Bulgaria) dropped on an annual basis by -2.8% at the end of the fourth quarter of 2022. They maintain their investment interest in debt securities, which are dominated by Bulgarian government securities, maintaining a high absolute amount, and their share of the total value of investments at non-life insurance companies decreased to 54.9%, and life insurers to 73.3%. Non-life and life insurance companies increase their exposures to shares and other variable-income securities, their share in the investment portfolio increases up to 19.4% for non-life insurance and decreases to 6.8% for life insurers at the end of 2022. The trend of recent years to reduce exposures in bank deposits of life insurers is deepening, as their share decreases to 0.5% of their investments, while in non-life insurance companies they increase their share and reach 9.3% of investments. Investments in land and buildings of non-life insurance companies are also declining, while those of life insurers have the opposite trend and are rising.

Inflation levels are a serious source of risk for non-life insurers and particularly in relation to long lines of business. This is because future claim payouts may increase more than insurers planned for when calculating their technical provisions. A downward revaluation of fixed income assets as a result of rising interest rates could have a negative impact on insurers, as this asset class represents a large proportion of their investments. On the liability side, insurers typically benefit from higher interest rates as future payments to policyholders are discounted at higher rates, reducing the value of technical provisions.

Investments in favour of unit-linked life insurance policies, where the investment risk is borne by the insured persons, continue to grow, reporting an increase of 4.0% in the fourth quarter of 2022 on an annual basis and reaching 30.6 % of the value of all assets of life insurers compared to 28.1% at the end of 2021.

The risk, in terms of the profitability of the insurer, remains moderate with a tendency to increase, as in the fourth quarter of 2022 the return on equity and assets in non-life insurers decreases, while there is an increase in life insurers. The return on investment in non-life and life insurance companies is improving. The coverage of the capital requirement for solvency of life insurers decreased on an annual basis to 234.2%, and for non-life insurance companies the indicator, which is at a relatively lower level, increased from 148.3% to 150.0%.

For insurers, risks related to digitization are also heightened, with cyber security a predominant concern. One concern related to cyber security is possible attacks on IT infrastructure in Europe as response to the economic sanctions that the EU has imposed on Russia, and in general there is already an increase in cyber-attacks. Insurers are not only potential victims, but also offer protection in the growing cyber insurance market. The risk associated with digitization is expected to further increase in the coming year. The geopolitical instability and uncertainty, along with the increased use of digitization, is increasing the vulnerability of the insurance sector to these risks.

The main objective of pension fund asset management is to increase the long-term value of their assets by achieving return on their investment, in compliance with the principles of reliability, liquidity, profitability and diversification. The supplementary pension funds are mainly exposed to the risks of the financial markets

in which their assets are invested. In 2022, the structure of their investment portfolio is similar to the previous year. As long-term investors, pension funds invested mainly in debt securities, among which dominated the investments in government securities, whose relative share slightly increased its growth rate and at the end of 2022 amounted to 52.3% of the total investment portfolio of SPFs. The share of investments in bonds other than government securities also marked a slight growth compared to the previous year and increased to the level of 8.8% of the total investment portfolio. Despite the higher yield, the value of pension funds' investments in shares, rights and units decreased to 36.3% of the total value of their investment portfolio. In an environment of increasing interest rates, investments in bank deposits grew to 1.1% of all investments at the end of the year. The changes in foreign markets last year, caused by the war in Ukraine, led to a decrease in the share of pension funds' investments in financial instruments issued by issuers outside the Republic of Bulgaria, respectively, to 71.0% of their investment portfolio at the end of 2022 compared to 75.1% at the end of 2021. Investments in the country increased to 29.0%. Since the beginning of 2022, the annual yield of all types of SPFs began to decrease, the trend is maintained throughout the year, and at the end of 2022, their rate of return continues to be negative as a result of the dynamics of the external capital markets, high inflation and the residual consequences of the spread of COVID-19 in Bulgaria and Europe.

2.2. Analysis of the participants on the capital market

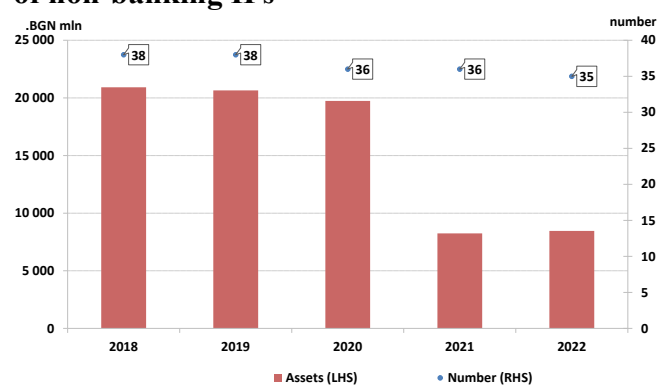
The market capitalization of the Bulgarian Stock Exchange AD dropped by -1.97% in 2022 and amounted to BGN 30.2 billion at the end of the year, which represents 18.2% of GDP ³¹(compared to 22.1% in 2021). Financial and insurance activities took first place in terms of turnover during the year with BGN 343.4 million. The assets of non-bank IFs based in the Republic of Bulgaria reported a growth of 2.6% on an annual basis and at the end of 2022 amounted to BGN 8.5 billion. In 2022, the assets of special purpose investment companies increased by 9.4% on an annual basis and reached BGN 2.1 billion. The assets of collective investment schemes decreased by -5.1% compared to the previous year, and at the end of 2022 their assets reached BGN 2.3 billion. Total assets managed by management companies/alternative investment fund managers grew by 0.5% and reached BGN 3.2 billion by the end of the year.

2.2.1. Investment firms³²

By the end of 2022, the number of IFs operating on the territory of the Republic of Bulgaria is 58, of which 20 are banks and 38 are non-bank IFs. The number of bank IFs operating on the territory of the country through a branch is 3, as well as the number of non-bank IFs operating on the territory of the country through a branch is also 3 at the end of 2022.

Depending on the authorizations issued, non-bank IFs were divided into three groups: (1) IFs with full license³³, for which the required starting capital is BGN 1,500,000, (2) IFs with a partial license³⁴, for which the required starting capital is BGN 250,000 and (3) IFs with a small license³⁵, for which the required starting capital is BGN 100,000. At the end of 2022, 19 IFs with a full license and 19 companies with a partial license were listed in the register of the FSC. In 2022, the license to operate of one non-bank IF was revoked at the request of the company and one license one amendment was made to the license to operate as IF of another company.

Graph 45. Dynamics in the number and assets of non-banking IFs



As at the end of 2022, the balance sheet assets³⁶ of non-bank IFs was BGN 8.5 billion, which is an increase of 2.6% compared to the end of 2021. Of these, client assets amounted to BGN 8.2 billion. Client assets grew by 2.9% on an annual basis, with the contribution of non-banking IFs with a full license being 2.3 p.p., and those with a partial license being 0.6 p.p. The reason for these dynamics is a decrease of BGN 183.7 billion of client assets of the IF with a full license. In 2022, the number of non-banking IFs with direct foreign

³¹ As of 31.12.2022, GDP is BGN 165,384 million.

³²The analysis covers non-banking investment firms based in the Republic of Bulgaria, unless explicitly stated otherwise.

³³ They may carry out all the investment services and activities listed in Art. 5, 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.

³⁶ The amount of the balance sheet assets included the amount of the contingent assets.

participation from the EU remains the same compared to the previous year, and the number of investment firms with indirect foreign participation from the EU increases by 2. In terms of indirect participation from third countries, there is 1 IF with direct participation and 2 IFs with indirect foreign participation from third countries.

Table 50. Number of IFs with foreign ownership

	2021		2022	
	Direct	Indirect	Direct	Indirect
EU ownership	2	1	2	3
Third countries' ownership	1	4	1	2

Source: FSC.

The book value of assets of non-bank IFs with a full license decreased by -0.1% on an annual basis to BGN 5.67 billion at the end of 2022 compared to BGN 5.68 billion at the end of 2021, while the assets of non-bank IFs with a partial license increased by 8.7% during the year to BGN 2.8 billion, compared to BGN 2.6 billion at the end of 2021.

Table 44. Assets, capital stock and equity of non-bank IFs

	2018	2019	2020	2021	2022
IFs with a small licence					
assets	0,3	0,3	0,2	0,0	0
initial capital	0,3	0,1	0,1	0,0	0
equity	0,3	0,3	0,2	0,0	0
IFs with a partial licence					
assets	16 169,2	16 682,9	15 564,0	2 561,2	2 783,9
initial capital	14,8	18,6	13,0	13,0	14,3
equity	23,6	28,2	23,6	25,7	26,9
IFs with a full licence					
assets	4 750,4	3 967,9	4 175,5	5 683,4	5 676,6
initial capital	62,4	56,8	53,1	53,6	53,6
equity	144,7	143,2	119,4	156,3	149,5
Total IFs					
assets	20 919,8	20 651,1	19 739,6	8 244,6	8 460,5
initial capital	77,4	75,4	66,2	66,6	67,9
equity	168,5	171,7	143,2	182,0	176,3

Note: Data are in million BGN, unless stated otherwise.

Source: FSC.

The capital stock of non-bank IFs increased by 2.0% on an annual basis to BGN 67.9 million by the end of 2022. The equity of the investment firms decreased by -3.1% on an annual basis to BGN 176.3 million at the end of 2022. The main contribution to the annual rate of change in equity

³⁷ Data on the commercial activity of investment firm TradeGate AD Berlin are not included, since it is not supervised by the FSC.

is the lower financial result reported by non-bank IFs during the year.

The market value of the trade and investment portfolio of non-bank IFs at the end of 2022 is BGN 66.8 million. 13 non-bank IFs have formed a trading portfolio with a market value of BGN 38.0 million as at the end of the year. By the end of 2022, 29 investment firms have formed an investment portfolio with a market value of BGN 28.8 million.

As of the end of 2022, 13 non-bank IFs perform trust management. The market value of the securities provided for trust management was BGN 48.0 million, and the cash at the end of the period was BGN 1.5 million.

The number of transactions concluded by IFs in 2022 on all BSE AD markets increased by 10.6% on an annual basis to 95.1 thousand transactions,³⁷ and the traded lots decreased by -38.9% for the same period to 234.0 million lots. The trading activity of the stock exchange members on the markets organized by the FSC, measured by the turnover, increased by 15.7% during the year to BGN 942.0 million at the end of 2022. The first four IFs by commercial activity have a share of 50.3% of the total turnover realized on all BSE markets during the year.

Table 51. Number of transactions, turnover and volume (lots) of IFs (banking and non-banking) on BSE's regulated market

	2018	2019	2020	2021	2022
Number of transactions	54 341	44 167	61 173	85 991	95 072
Turnover (BGN mln.)	550	334	397	814	942
Volume (mln. lots)	282	181	322	382	234

Source: BSE, FSC.

2.2.2. Collective investment undertakings

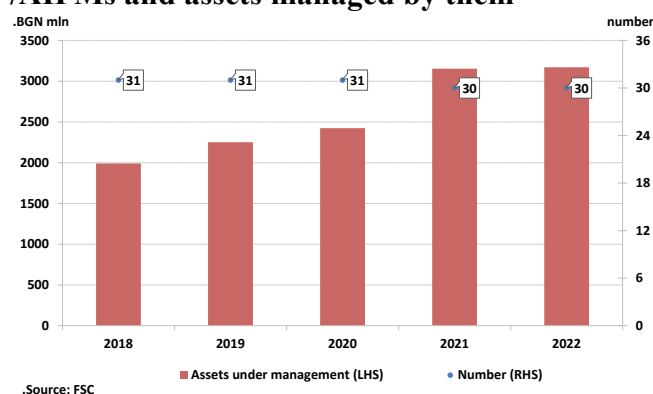
As of the end of 2022, the number of MCs is 29, of which 9 are also AIFMs, as well as one branch of a MC.³⁸ The total number of registered

³⁸ Branch of KBC Asset Management NV, Belgium.

AIFMs is 22, 9 of them are also management companies and 4 AIFMs have a license to operate. The number of the undertakings for collective investment is 144 at the end of the year. Of these, 101 are MFs, one of which manages 16 sub-funds; 12 exchange-traded funds (ETF), of which 14 are NIFs.

The amount of assets managed by MCs increased in absolute terms by BGN 17.2 million and by the end of the year it reached BGN 3.2 billion,³⁹ which is 0.5% annual growth. Of them, BGN 0.6 billion are the managed assets of clients in trust portfolio management and BGN 2.6 billion are managed assets of collective investment schemes.

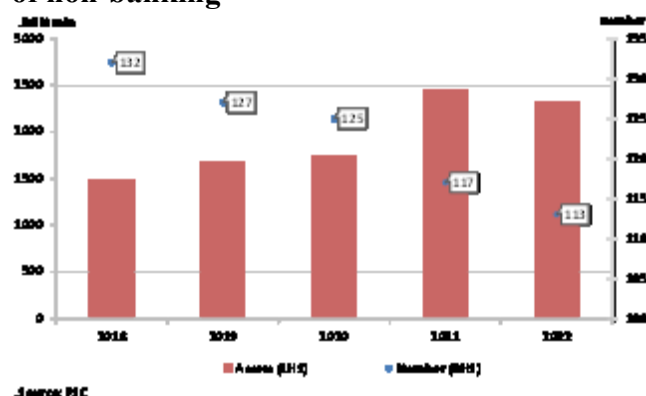
Graph 62 Dynamics in the number of MCs /AIFMs and assets managed by them



As of the end of 2022, 14 NIFs are registered in the FSC registers, of which 8 are national mutual funds (NMF), 5 NIF, and one national exchange-traded fund, whose assets amount to BGN 204.4 million.

As of 31.12.2022, the number of CISs is 113, with the size of their balance sheet assets reaching BGN 2,328 billion. (of which net assets are BGN 2,232 million), or the decrease of balance sheet assets is -5.1% compared to the previous year.

Graph 46. Dynamics in the number and assets of non-banking



In 2022, the number of contractual funds of foreign collective investment schemes remained 56.

Table 45. Dynamics of the number of foreign CISs

	2018	2019	2020	2021	2022
Mutual funds - foreign CISs	44	46	49	56	56

.Source: FSC.

The value of the assets accumulated by CIS in 2022 reached BGN 2.3 billion, marking a drop of -5.1%. The largest contribution to the decrease of assets is the Financial assets and instruments balance sheet item, which dropped -4.4% on an annual basis and reached BGN 2.2 billion. The balance sheet item Cash decreased to BGN 119.0 million for the year and has -1.2 p.p. negative contribution to the annual rate of change in assets. The remaining balance sheet items have a limited contribution to the annual rate of change in assets.

³⁹ This amount includes the assets managed by the branch of KBC Asset Management NV, Belgium.

Table53. Dynamics of the CISs' assets

	2018	2019	2020	2021	2022
Cash	346,6	209,6	171,7	148,8	119,0
Term deposits	150,9	96,9	58,6	36,5	31,1
Financial assets and instruments, incl.:	1 121,7	1 465,3	1 562,6	2 296,3	2 195,8
Shares	598,2	704,7	774,3	1429,9	1410,3
Rights	0,0	0,0	0,0	0,0	0,0
Debt securities	368,8	587,4	611,8	603,8	524,0
Other	6,1	10,8	10,6	17,8	35,4
Money Market Instruments	0,0	0,0	0,0	0,0	0,0
Shares of CIS	144,9	159,1	163,4	241,3	223,8
Derivatives	0,3	0,5	0,3	0,7	0,4
Other financial instruments	3,4	2,9	2,0	2,7	1,9
Non-financial assets (receivables)	15,9	14,2	16,2	8,9	9,1
Other	0,0	0,0	0,0	0,1	4,4
TOTAL	1 484,2	1 689,2	1 750,5	2 454,0	2 328,2

Note: Data are in million BGN, unless stated otherwise.
Source: FSC.

In 2022, the relative share of the Cash balance sheet item in the total structure of assets continued to decline, reaching 5.1% at the end of the year. There was an increase in the share of the Financial assets and instruments balance sheet item, which increased to 94.3% from 93.6% at the end of the previous year. The main contribution to these dynamics is made by the balance sheet item Debt Securities, whose share dropped to 22.5% by the end of the year, followed by the balance sheet item CIS Units, with a relative weight of 9.6%. Although in 2022 the assets in shares decreased, their relative share in the total structure of assets increased to 60.6%. The Non-financial assets item, most of which are receivables, increased in absolute terms, without changing the general structure of CIS assets.

Table 54. Relative structure of CISs' assets

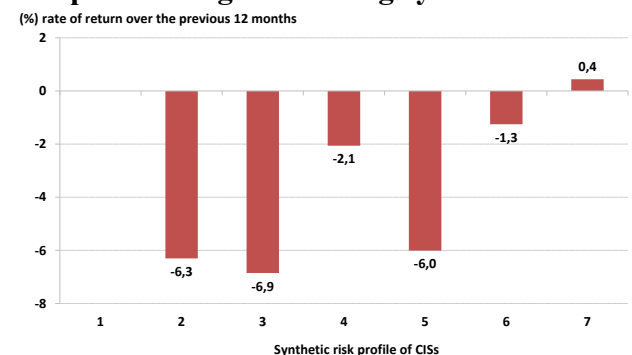
	2018	2019	2020	2021	2022
Cash	23,2	12,4	9,8	6,1	5,1
Term deposits	10,1	5,7	3,3	1,5	1,3
Financial assets and instruments, incl.:	75,7	86,7	89,3	93,6	94,3
Shares	40,7	41,7	44,2	58,3	60,6
Rights	0,0	0,0	0,0	0,0	0,0
Debt securities	24,7	34,8	35,0	24,6	22,5
Other			0,6	0,7	1,5
Money Market Instruments	9,7	9,4	9,3	9,8	9,6
Shares of CIS	0,0	0,0	0,0	0,0	0,0
Derivatives	0,0	0,0	0,0	0,0	0,0
Other financial instruments	0,6	0,2	0,1	0,1	0,1
Non-financial assets (receivables)	0,5	0,8	0,9	0,4	0,4
Other	0,6	0,0	0,0	0,0	0,2
TOTAL	100,0	100,0	100,0	100,0	100,0

Note: Data are in percentages (%), unless stated otherwise.
Source: FSC.

⁴⁰The return is weighted by the value of the net assets of the individual CISs with the same risk profile.

⁴¹ 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.

Collective investment schemes are the preferred investment alternative in the context of global uncertainty and in the search for higher yield by investors. For the last 12 months the weighted average return⁴⁰ of all groups of risk profiles is negative. At end of the year the highest weighted average return for the previous 12 months was realized by the risk profile 3 funds (-6.9%) (scale from 1 to 7),⁴¹ followed by the funds in category profile 2 (-6.3%). Mutual funds with risk profiles from categories 4 and 5 report -2.1% and -6.0% returns, respectively, for the last 12 months. The realized return of CISs with risk profile 7 is 0.4% for the last twelve months.

Graph 47. Weighted average yield of CISs

.Source: FSC

2.2.3. Special Purpose Investment Companies

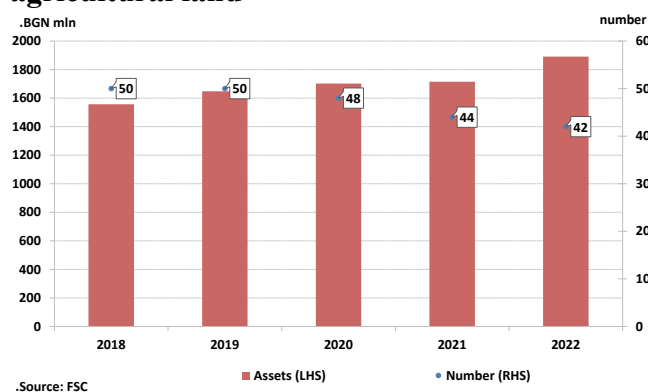
At the end of 2022, the total number of licensed SPICs is 51⁴², of which 42 invest in real estate and agricultural land, and the remaining 9 invest in debt claims. The total value of the assets of all special purpose vehicles increased by 9.4% compared to the previous year 2021. The amount of assets of these companies at the end of 2022

⁴² The number of SPICs presented did not include companies the license of which had been revoked as at 31.12.2022.

amounted to BGN 2.1 billion or 1.3% of GDP. The contribution of the two categories of SPICs in the total growth of assets is positive, as for the investors in real estate it is 9.2 p.p., and that of SPICs for securitization of debt claims is 0.2 p.p.

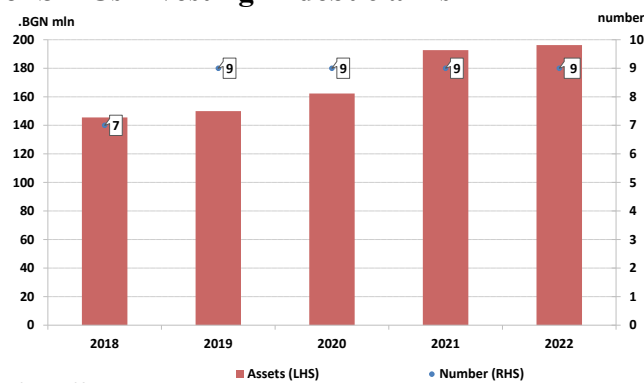
The amount of assets of SPICs investing in real estate and agricultural land increased by 10.3% in 2022 and by the end of the year reached BGN 1.9 billion. at the same time, the number of companies in the segment decreased to 42 SPICs compared to the previous year.

Graph 48. Dynamics in the number and assets of SPICs investing in real estate and agricultural land



In 2022, the amount of accumulated assets of SPICs investing in debt claims increased by 1.8.% compared to 2021 and by the end of the year reached BGN 192.2 million. The number of companies in the segment remains at 9 SPICs.

Graph 49. Dynamics in the number and assets of SPICs investing in debt claims



The balance sheet assets of SPICs investing in real estate and agricultural land increased by BGN 176.0 million in absolute value. The change in the main item "Investment properties" was 15.0%, and their book value reached BGN 1.4 billion with a contribution of 10.5 p. p. in the change in assets. The book value of the "Financial assets" item increased to BGN 67.0 million and contributed by 0.9 p.p.. in the change in assets. The balance sheet item "Claims" grew to BGN 224.4 million at the end of 2022, compared to BGN 181.8 million at the end of 2021. The opposite dynamic was observed in "Cash and other assets", which at the end of the year reached BGN 215.1 million and limited the growth of assets in total by -4.0 p.p.

Table 56. Assets of SPICs investing in real estates and agricultural land

	2018	2019	2020	2021	2022
Investment properties	1 117,9	1 227,6	1 236,6	1 203,3	1 384,1
Financial assets	2,4	7,6	77,6	52,0	67,0
Cash	80,6	74,3	82,2	96,5	86,6
Receivables	251,0	191,4	181,8	174,8	224,4
Other	104,9	146,8	123,4	187,9	128,5
TOTAL	1 556,8	1 647,6	1 701,6	1 714,5	1 890,5

Note: Data are in million BGN, unless stated otherwise.
Source: FSC.

In 2022, the relative structure of the assets of SPICs investing in real estate and agricultural land remained relatively stable compared to the previous reporting period. The relative share of investment properties grew to 73.2% at the end of 2022 from 70.2% at the end of 2021. The share of the balance sheet item Financial assets grew to

3.5% in the total structure of assets from 3.0% at the end of the previous year. The highest decrease was observed in the relative share of other assets and cash in the relative structure of assets, which decreased to 6.8% and 4.6% respectively at the end of 2022.

Table 55. Relative structure of the assets of SPICs, investing in real estates and agricultural land

	2018	2019	2020	2021	2022
Investment properties	71,8	74,5	72,7	70,2	73,2
Financial assets	0,2	0,5	4,5	3,0	3,5
Cash	5,2	4,5	4,8	5,6	4,6
Receivables	16,1	11,6	10,7	10,2	11,9
Other	6,7	8,9	7,3	11,0	6,8
TOTAL	100,0	100,0	100,0	100,0	100,0

Note: Data are in percentages (%), unless stated otherwise.
Source: FSC.

The assets of SPICs investing in debt claims increased by 1.8% in 2022, reaching BGN 196.2 million at the end of 2022. The book value of the main item “Claims (up to 1 year)” increased, reaching BGN 113.2 million, compared to BGN 106.8 million at the end of the previous year, while the book value of the item “Claims (over 1 year)” decreased during the period, reaching BGN 6.2 million. The decrease in cash balances had a limiting contribution to the change in assets of the companies from the segment, their book value dropping to 1.5 million at the end of the year..

Table 46. Assets of SPICs performing securitization of receivables

	2018	2019	2020	2021	2022
Financial assets	6,2	6,2	12,4	74,4	75,0
Cash	1,1	1,9	2,2	3,8	1,5
Receivables (up to 1 year)	106,2	117,9	134,5	106,8	113,2
Receivables (above 1 year)	31,9	24,0	12,7	7,3	6,2
Other	0,0	0,0	0,5	0,4	0,3
TOTAL	145,5	150,0	162,3	192,7	196,2

Note: Data are in million BGN, unless stated otherwise.
Source: FSC.

In 2022, the relative structure of the assets of SPICs investing in debt claims is preserved compared to the previous year, as due to the reported growth of receivables up to 1 year, their share increased to 57.7% at the expense of a decrease in the remaining balance sheet items from the assets at the end of the year.

Table 58. Relative structure of the assets of SPICs investing in debt claims

	2018	2019	2020	2021	2022
Financial assets	4,3	4,2	7,6	38,6	38,2
Cash	0,8	1,3	1,4	2,0	0,8
Receivables (up to 1 year)	73,0	78,6	82,9	55,4	57,7
Receivables (above 1 year)	21,9	16,0	7,8	3,8	3,1
Other	0,0	0,0	0,3	0,2	0,2
TOTAL	100,0	100,0	100,0	100,0	100,0

Note: Data are in percentages (%), unless stated otherwise.
Source: FSC.

As of 31.12.2022, the SPICs initial capital amounted to BGN 549.7 million, which represents growth of 4.4% compared to the previous year. The main reason for the noted growth is the capital increase realized during the year through the exercise of warrants of a company investing in real estate. The amount of the initial capital of SPICs investing in debt claims remains unchanged compared to the previous year in the amount of BGN 13.1 million. The total equity capital of the companies from the SPIC segment also increased during the year, due to the positive financial results achieved by the companies, reaching BGN 1.3 billion.

Table 59. SPICs’ registered capital and equity

	Initial capital		Equity		
	2021	2022	2021	2022	
SIPC securitizing real estate, incl. agricultural land	513,2	536,5	1 086,6	1 237,9	
SIPC securitizing receivables	13,1	13,1	78,0	82,4	
TOTAL for SPICs	526,4	549,7	1 164,6	1 320,3	
<i>change (%)</i>		-9,7	4,4	-6,3	13,4

Note: Data are in million BGN, unless stated otherwise.
Source: FSC.

From the point of view of residency of the shareholders of SPICs, the share of Bulgarian residents remains with the highest relative share, reaching 94.5% 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 decreased by -1.1p.p., still remaining the biggest investor in SPICs by the end of 2022 with a share of 43.5%. Bulgarian households own 24.4% 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 14.0%. Financial intermediaries and banking institutions hold

respectively 8.7% and 3.8% of the nominal value of the share capital of SPICs.

EU legal and natural persons holding shares in SPICs are reducing their relative shares and by the end of 2022 they own a total of 3.2% of SPICs compared to a total of 3.6% in 2021.

The shares of SPIC shares held by individuals and legal entities from third countries decreased to 2.2% at the end of 2022 from 2.3% in 2021.

The relative share of US investors in the share capital of Bulgarian SPICs, remained at 0.1% at the end of 2022.

Table 47. Shareholders structure of SPICs

	2021	2022
Households	22,2	24,4
Banks	3,5	3,8
Public sector	0,1	0,1
Insurance companies (IC) and Pension funds (PF)	14,4	14,0
Financial intermediaries except for IC and PF	9,2	8,7
Shareholding and holding companies	44,6	43,5
Bulgaria	94,0	94,5
Households from the EU	1,0	0,8
Legal entities from the EU	2,6	2,5
EU	3,6	3,2
Households from third countries	0,1	0,1
Legal entities from third countries	2,2	2,1
Third countries	2,3	2,2
Households from the USA	0,0	0,0
Legal entities from the USA	0,1	0,1
USA	0,1	0,1
TOTAL	100,0	100,0

Share of the shareholder groups is calculated on the basis of the nominal
Source: CD, FSC.

2.2.4. Public companies and bond issuers

The number of public companies and issuers at the end of 2022 is 232, with a net decrease of 5 companies during the year.

The examined prospectuses for initial public offering in 2022 are 6, of which 4 were of public companies other than SPICs, 1 warrant issue and 1 bond issue. The total value of the approved issues is BGN 161.7 million. (of which the actual amount

collected is BGN 89.1 million), which is a decrease of -48.1% on an annual basis. The prospectuses for admission to trading on a regulated market confirmed in 2022 are 12, of which 1 issue of shares of a public company and 11 issues of bonds, with an issue value of the confirmed issues of BGN 212.9 million. The value of the confirmed issues of shares is BGN 8.7 million, and the value of the confirmed issues of bonds is BGN 204.1 million.

The considered tender offers with a decision not to issue a final ban on publication in 2022 decrease by 1 compared to the previous year. There is a significant decrease in turnover compared to the previous year, amounting to BGN 192/8 million. (compared to BGN 762.0 million in the previous year). The number of considered tender offers without a final ban is a total of 12, of which the shares acquired as a result of the tender offers are worth BGN 63.2 million.

Table 61. Reviewed prospectuses and tender offers

	2018	2019	2020	2021	2022
Prospectuses for initial public offering (number)	19	20	19	21	6
Amount of issue*	358,4	306,0	420,6	311,5	161,7
Decisions for non-issuance of final prohibition for publishing of tender	7	9	6	13	12
Turnover**	17,3	4,5	8,7	762,0	192,8

Note: Data are in million BGN, unless stated otherwise. * The amount of the issue is the value of the approved issues according to the reviewed prospectuses for the respective year. ** The turnover includes the proposed number of shares under tender offer for which no final prohibition has been given or which have not been terminated.
Source: FSC.

The market capitalization of the first ten companies on the Main Market decreases by BGN -242.0 million in 2022, and their relative share represents 16.4% of the total market capitalization of the BSE AD. On the first position in terms of market capitalization is Tchaikapharma High Quality Medicines AD; the company increases its market capitalization by 8.1% compared to the previous year, as the company has a 4.5% relative share of the total market capitalization on the BSE AD. Sopharma AD moves to second place without any change in the value of the company's market capitalization, with a 2.0% relative share of the total market capitalization. Despite the reported drop of -8.9% in the market capitalization of Speedy AD, the company retains its third position, with a relative share of 1.8% of the total market

capitalization of the stock exchange. Eurohold Bulgaria AD moved from second to fourth position due to decrease of the company's market capitalization by -26.8% during the year. Despite Alterco's market capitalization declining by -16.9% in 2022, the company moves up to the fifth position in the ranking of the top ten public companies. With the largest reported annual increase is the market capitalization of Gradus AD, and the company moved from eighth to sixth position. The market capitalization of M+ Hydraulic AD decreased by -2.2% during the year, and the company retained its seventh place in the ranking. Velgraf Asset Management reports a growth in market capitalization by 5.1%, which moves the company up one position to eighth place. In 2022, the market capitalization of TB First Investment Bank AD increased by 24.4% and the company again entered the ranking of the leading companies of BSE AD in ninth place. In 2022, Holding Varna AD, whose market capitalization grew by 3.8% on an annual basis, is again in the tenth position. The difference between the first and the last public company by market capitalization is BGN 1.1 billion. For comparison, at the end of the previous year this difference was BGN 987.9 million.

Table 62. Top 10 public companies by market capitalization on the main market

	2021	2022
Tch aikapharma High Quality Medicines AD-Sofia	1 259,1	Tch aikapharma High Quality Medicines AD-Sofia 1 360,5
Eurohold Bulgaria AD-Sofia	640,8	Sopharma AD-Sofia 601,2
Speedy AD-Sofia	602,3	Speedy AD-Sofia 548,5
Sopharma AD-Sofia	601,2	Eurohold Bulgaria AD-Sofia 468,9
CEZ Distribution Bulgaria AD-Sofia	563,0	Allterco AD-Sofia 370,8
Allterco AD-Sofia	446,4	Gradus AD-Stara Zagora 353,2
M+S Hydraulic AD-Kazanlak	360,9	M+S Hydraulic AD-Kazanlak 353,0
Gradus AD-Stara Zagora	328,9	Velgraf Asset Management AD-Sofia 311,8
Velgraf Asset Management AD-Sofia	296,6	CB First Investment Bank AD-Sofia 296,7
Holding Varna AD-Varna	271,1	Holding Varna AD-Varna 281,5
TOTAL	5 370,3	4 946,1

Note: Data are in million BGN, unless stated otherwise.
Source: BSE.

In the structure of trade of the first ten leading sectors of Bulgarian Stock Exchange AD for 2022, Financial and Insurance Activities occupied the first place with a turnover of BGN 343.4 million and a relative share in the total turnover of 46.1%, followed by Manufacturing industry with a turnover of of BGN 148.0 million and 19.9%

relative share. The Electricity, gas, steam and air conditioning supply sector has an annual turnover of BGN 116.5 million and 15.8% share in the structure of trade on the Main market of BSE AD.

Table 63. Trade structure by Top 10 sectors on BSE in 2022

Sector	Transactions (thsnd. numbers)	Volume (million lots)	Volume (million BGN)
Financial and insurance activities	46,4	98,1	343,4
Manufacturing	15,3	18,3	148,0
Electricity, gas, steam and air conditioning	0,3	2,8	116,5
Real estate activities	1,5	10,8	59,6
Professional, scientific and technical activities	13,5	12,3	49,0
Wholesale and retail trade, repair of motor	3,4	9,1	16,3
Mining and quarrying industry	0,8	0,7	3,3
Arts, entertainment and recreation	1,7	0,1	3,3
Transportation and storage	0,5	1,2	3,0
Accommodation and food service activities	0,7	0,1	3,0

Source: BSE.

The shareholder structure of public companies changed compared to the previous year in the direction of growth of the share of Bulgarian investors. At the end of 2022, Bulgarian residents hold 54.9% 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 -11.4 p.p. in 2022, their share remains significant in the shareholder structure of public companies (41.8%). Households and legal entities resident in the EU have a share of 2.6%, followed by individuals and legal entities from the USA (0.7%). The internal structure of the shares of the Bulgarian investors in the share capital of SPICs also changed compared to the previous year. The main Bulgarian shareholder remains joint-stock and holding companies with a share of 69.9% compared to 76.5% at the end of the previous year. Households increased their relative share to 14.8%, followed by insurance companies and pension funds with a share of 7.1%. The main contribution to the internal restructuring was the decrease in the shares in public companies held by joint stock and holding companies at the expense of increase in the share of shares held by other types of investors.

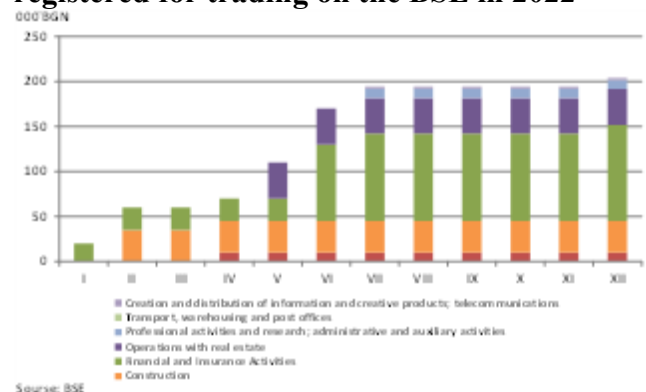
Table 64. Shareholders structure of PCs

	2021	2022
Households	12,0	14,2
Banks	1,9	3,0
Public sector (PF)	0,1	0,1
Financial intermediaries except for IC and PF	5,1	7,0
Shareholding and holding companies	2,6	3,7
Bulgaria	44,2	54,9
Households from the EU	0,2	0,2
Legal entities from the EU	1,9	2,4
EU	2,0	2,6
Households from third countries	0,4	0,4
Legal entities from third countries	52,8	41,4
Third countries	53,2	41,8
Households from the USA	0,0	0,0
Legal entities from the USA	0,6	0,7
USA	0,6	0,7
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: Central Depository, FSC.

In 2022, 11 issues of corporate bonds with a nominal value of BGN 204.1 million were listed for trading on a regulated market. Of them 6 issues with a nominal value of BGN 106.8 million were issued by the Financial and Insurance Activities sector, which accounts for 78.4% of the total corporate bond debt traded on the BSE. One issue was issued by a company from the Real Estate Activities sector with a nominal value of BGN 40.0 million, one issue from the Construction sector with a nominal value of BGN 35.0 million, one issue each issued by the Administrative and Support Services and Professional, Scientific and Technical Activities sectors with a nominal value of BGN 10 million and one issue from the Information and Communication sector with a nominal value of BGN 2.3 million.

Graph 50. Amount of cumulative bonds registered for trading on the BSE in 2022



2.2.5. Trading venues

In 2022, the total market capitalization of the markets organized by the Bulgarian Stock Exchange AD decreased by -1.97% compared to the end of 2021 and reached BGN 30.2 billion. The capitalization of the Main market decreased by -6.2% on an annual basis and reached BGN 10.9 billion, while the capitalization of the Alternative market recorded a minimum annual growth of 0.3% and reached BGN 18.9 billion at the end of the year. The market capitalization of the BEAM growth market (for small and medium enterprises), on which 10 share issues are traded, amounts to BGN 330.5 million. The capitalisation on the Premium equities trading segment on the Main market grew by BGN 66.1 million and recorded a growth of 4.3%, reaching BGN 1.6 billion at the end of the year. The contribution of this segment to the growth of the total market capitalization of BSE AD is 0.2 p.p. The Standard equities segment on the Main Market shrank by BGN 887.2 million to BGN 8.1 billion, reducing its market capitalization by -9.8%. The contribution of this segment to the total growth of the three markets was negative (-2.9 p.p.). The capitalization of the Equities segment of the Alternative Market increased by BGN 60.4 million, reaching BGN 18.6 billion at the end of the reporting period. The market capitalization of the special purpose investment companies segment on

the Main Market marked an annual growth of 9.5% (BGN 99.7 million) and reached BGN 1.1 billion. The capitalization of the segment for special purpose investment companies on the Alternative Market also recorded growth (1.25%), reaching BGN 339.2 million at the end of 2022.

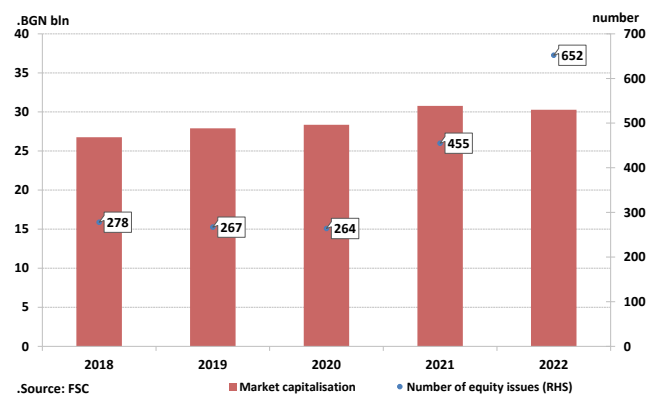
Table 48. Market capitalization

Market or segment	2018	2019	2020	2021	2022
Premium Equities Segment (BSE Main Market)	1 938,7	1 796,4	1 329,4	1 534,7	1 600,7
Standard Equities Segment (BSE Main Market)	6 138,3	6 314,9	6 672,0	9 025,6	8 138,4
Special Purpose Vehicles Segment (BSE Main Market)	611,2	786,0	783,3	1 045,0	1 144,8
Equities Segment (BaSE Alternative Market)	17 590,4	18 590,7	19 041,7	18 562,3	18 622,7
Market)	486,7	416,5	528,1	335,0	339,2
SME Growth Market beam				278,7	330,5
TOTAL	26 765,3	27 904,5	28 354,5	30 781,3	30 176,3

Note: Market capitalisation as of 31.12.2022.
Source: BSE.

The number of issues of financial instruments admitted to trading on the markets organized by the BSE in 2022 increased by 205 issues net and by the end of the year their number was 776.

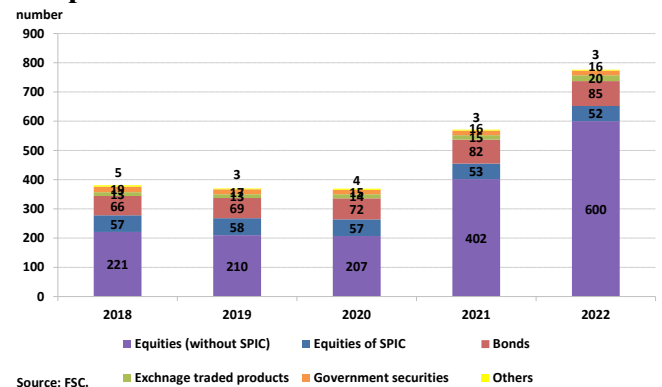
Graph 51. Market capitalization and number of share issues



On the stock market (without SPICs) the number of share issues increased to 600 in 2022 compared to 402 in 2021. In the segment of special purpose investment companies, the number of issues decreases by 1 compared to the end of 2021 and by the end of 2022 their number is 52. The issues of bonds registered on BSE AD increased by 3 in 2022 and by the end of the year their number reached 85. The issues of government securities traded on the segment of government securities trading on the Main market are 16. In the segment for exchange-traded products, 20 issues of funds are traded. The issues of other financial

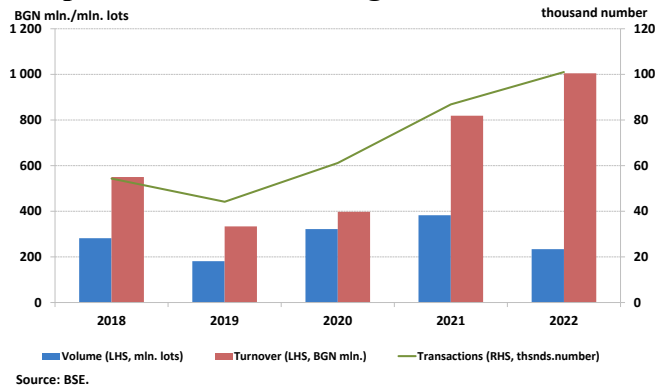
instruments, which include issues admitted to trading in the Compensatory Instruments Segment, are a total of three.

Graph 52. Structure of issues



In 2022, the number of traded transactions increased to 101 024 transactions compared to 86 863 transactions in 2021, or a growth of 16.3% on an annual basis. The total number of lots transferred in 2022 was 234.1 million lots, which is -38.8% less than the previous year. Trade on the BSE markets, measured by realized turnover, ends the year with a growth of 22.6%, exceeding BGN 1.0 billion, compared to BGN 819.0 million in 2021. The average daily turnover on the regulated market in 2022 is BGN 4.1 million, increasing by 22.6% compared to the previous year. The Standard equities segment on the Main market has a major contribution of 19.4 p.p., followed by the BEAM trading segment (14.1 p.p.), and the Alternative market equities market segment (4.0 p.p.) The remaining segments have a minimal or growth-limiting contribution to the growth of BSE AD's turnover.

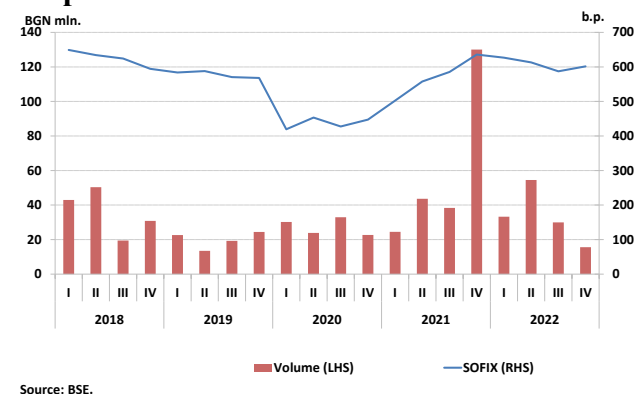
Graph 53. Trade on the regulated market



After the recovery at the end of 2021 from the impact of the COVID-19 pandemic, the dynamics of BSE indices varies, and two of them remain below the levels of the end of 2021. The sectoral BGREIT which is usually an exception to the general trend due to the nature 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 decreased significantly in all market indices except BGREIT, whose turnover increased during the year.

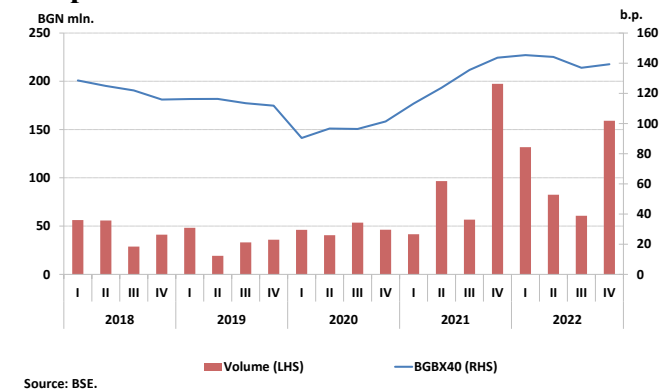
In 2022, the main stock exchange index SOFIX reported a decline of -5.4% on an annual basis, reaching 601.49 points at the end of the year. The market capitalization of the companies included in the index dropped to BGN 3.6 billion, which is a 12.0% share of the BSE's total capitalization.

Graph 54. SOFIX market index



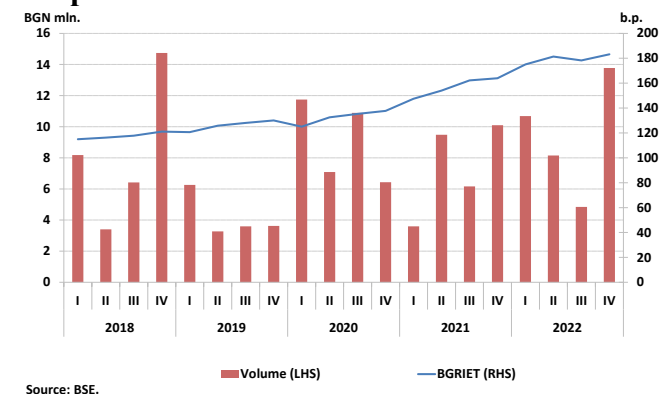
In 2022, the broad stock index BGBX40 reported a decrease of -3.1%, ending the year at 139.28 points. The market capitalization of the companies included in the index decreased to BGN 8.7 billion, representing a share of 28.7% of the total market capitalization of the BSE at the end of the year.

Graph 55. BGBX40 market index



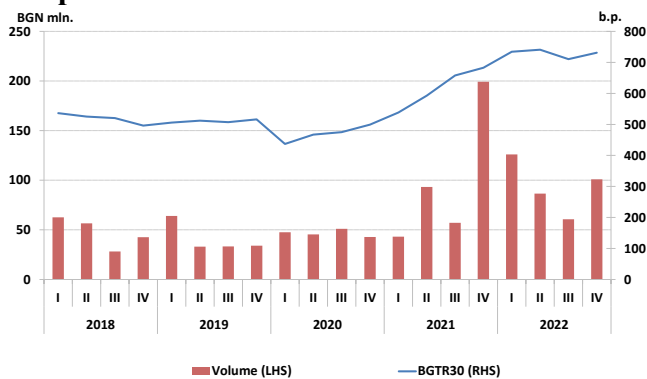
The BGREIT sector index slowed its growth rate from the previous year. In 2022 it reported an increase of 11.7% on an annual basis ending the year at 183.17 points. Its sectoral profiling and the scale of the represented sector lead to a limited share of the total market capitalization by the end of 2022, due to which its dynamics is not fully indicative of the general trends and dynamics of the SPIC segment. The market capitalization of the companies included in the index grew to BGN 687.7 million by the end of 2022. The SPIC sector represents a 2.3% share of the BSE's total market capitalization.

Graph 56. BGREIT market index



The weighted index BGTR30 increased by 7.1% on an annual basis and by the end of 2022 its value reached 731.20 points. The market capitalization of the companies included in the index, which decreased to BGN 6.0 billion, is 20.0% of the total market capitalization of the BSE at the end of the year.

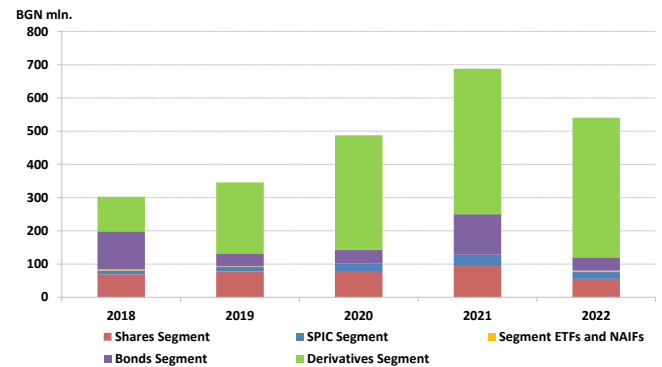
Graph 57. BGTR30 market index



Source: BSE.

In 2022 trading on the Multilateral Trading Facility - Sofia (MTF) decreased by -21.4% and marks a turnover of BGN 540.7 million. The largest contribution (-11.9 p.p.) to this decline was made by the Bonds segment, which had a turnover of BGN 40.0 million compared to BGN 121.8 million in 2021. The turnover of the Derivatives and SPICs segments decreased respectively by -4.1% and -40.3%, reaching BGN 420.4 million and BGN 20.3 million, respectively. Their contribution to the total decrease in turnover of -21.4% is a total of -4.6 p.p.

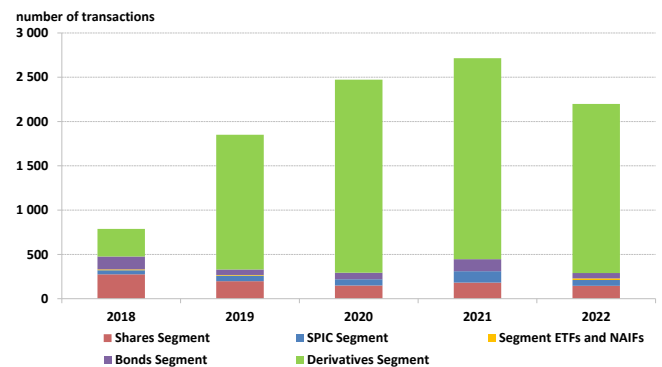
Graph 58. Dynamics of the turnover of MTF-Sofia



Source: MTS - Sofia.

The number of transactions marked an annual decrease of -19.0% and reached 2 199. The main contribution to this decrease (-13.3 p.p.) is the Derivatives segment, on which 1 909 transactions were concluded during the year.

Graph 59. Number of traded transactions of MTF-Sofia

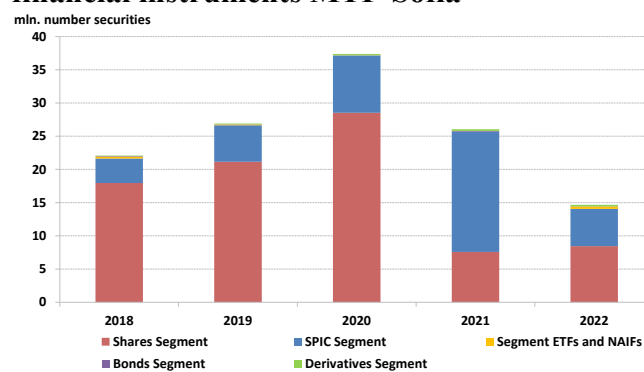


Source: MTS - Sofia.

In 2022, 14.7 million financial instruments were sold compared to 26.1 million in the previous year 2021, which is a decrease of -43.7%. The main contribution to this decrease was made by the SPICs segment, in which 5.6 million instruments were traded during the year and contributed by -48.0 p.p. in the annual decline. The Equities and ETF and NIF trading segment recorded an increase in the number of traded instruments and limited the decline by 4.7 p.p. positive contribution. The number of traded financial instruments of the other

segments also decreased during the year, but they had a limited contribution to the total decline in the number of traded financial instruments.

Graph 60. Dynamics of the traded number of financial instruments MTF-Sofia



Source: MTS - Sofia.

Key:

2.2.6. Central securities depository

The total value of the assets of Central Depository AD amounts to BGN 9.6 million. by the end of 2022

For 2022, the total number of completed transactions increased by 16.0% (a total of 102,195 transfers for 2022, of which 98.8% were executed on the stock exchange). The main contribution of 16.3 p.p. for the growth in the annual rate of change is of the stock exchange transactions, which increase from 86,861 in 2021 to 101,023 in 2022. The number of transferred securities decreased by 38.7% on an annual basis (from 372 million to 228.2 million), and transactions with the object of trading compensatory instruments decreased by 29.4% on an annual basis (from 707 in 2021 to 499 transactions in 2022). The registered payments with compensatory instruments to state institutions decreased by 27.1% on an annual basis to 43 transactions. Inheritance transfers decreased to 1,849 transfers in 2022. Duplicate depository receipts issued increased from 830 in 2021 to 943 in 2022. During the year the number of rights transactions decreased from 1,199 in 2021 to 581 in 2022, while the transferred rights decrease from 188.1 million rights in 2021 to 47.6 million rights in 2022.

In 2022, through the system of Central Depository AD, dividends were paid to 65 companies worth BGN 142 million and 338 payments of interest and principal on bond issues were made with a total amount of BGN 222 million. During the reporting period, 83 companies registered new issues of dematerialized financial instruments (67 companies for 2021), of which 43 issues of shares, 21 issues of bonds and 10 issues of units of mutual funds. Applications for change in the register were submitted by 112 companies. Applications for a change in the capital with the issuance of new shares were submitted by 109 companies, of which 9 issues of rights. Capital increase by changing the nominal value of the shares was registered by 3 companies. During the year, 215 issues of shares of foreign companies traded on BSE International were listed in the register. The number of applications to obtain extracts from the shareholders' books decreased from 3,123 in 2022 to 3,301 in 2021. In 2022, 742 entries were registered in the register of special pledges. Of these, 36 entries on a special pledge, 400 arrests and 284 entries on other circumstances. There are 22 entries in the register of financial collateral agreements in 2022.

2.2.7. Investor Compensation Fund

In 2022, the activity of the Investor Compensation Fund is mainly aimed at collecting the contributions due from the participants within the term established by law; management of the funds of the Fund; collection and analysis of data on client assets managed by scheme participants; assessment of the Fund's exposure; improvement of the regulations related to its activity; international activity, etc.

As at 31.12.2022 the active participants in the Fund are a total of 55, of which 35 IFs, 17 bank investment firms (B-IF) and 3 MCs (out of a total of 31), which hold client assets protected by the Fund. In the past year, one participant (Capital Markets AD) dropped from the scheme for compensation of investors, who voluntarily returned their license to operate as an IF.

As of 31.12.2022, the participants in the Fund manage client assets subject to compensation worth BGN 5.11 billion, of which cash assets (CA) are BGN 113 million, and financial instruments (FI) – BGN 4.99 billion. Compared to the end of 2021, client assets subject to compensation showed a minimal growth of 0.7%, or BGN 35 million in absolute terms. B-IFs continue to manage the most compensable client assets, even though they only declare their clients' FIs. As at 31.12.2022 B IFs hold the 72% of compensable client assets, which in absolute value amounts BGN 3.67 billion. Investment firms hold 25% of the compensable client assets and MCs - 3%.

Non-compensable client assets as of 31.12.2022 are BGN 39.1 billion, of which 99.9% are FI. Compared to the end of 2021, client assets not subject to compensation reported a growth of 2.38%, with the increase mainly due to FIs held by IFs and B-IFs, which are respectively BGN 707 million and BGN 263 million more on an annual basis. The share of compensable client assets in the total amount of all assets (BGN 44.2 billion) managed by the participants is 12%.

In 2022, on average per month, the participants in the Fund hold reimbursable FIs of clients worth BGN 5.2 billion compared to BGN 4.24 billion in 2021. The average monthly amount of compensable cash assets in 2022 is BGN 149 million compared to BGN 134 million in 2021.

As of 31.12.2022, the total number of clients who are subject to compensation, for all participants in the Fund (IFs, B-IFs and MCs), is 191,495, or by 3,318 more compared to 31.12.2021, and the estimated exposure of the Fund to the clients of all participants is in the amount of BGN 1.34 billion compared to BGN 1.32 billion as of 31.12.2021.

During the year the amendments proposed by the Fund to the Regulations for the structure and activity of the Investor Compensation Fund were adopted. The proposed amendments include changes in the organizational structure of the Fund, a change in the method of financing the administrative costs of the Fund, etc.

The funds collected in the Fund as of 31.12.2022 amount to BGN 20.92 million, of which 97% are invested in government securities, and the rest are held in the BNB. The funds of the Fund are formed from initial and annual contributions of IFs, B-IFs and MCs, as well as from income from investments. The proceeds from insurance from annual and entrance fees of the participants in the Fund in 2022 amount to BGN 1.567 million.

At the end of 2022, the Board of Directors of the Fund decided to reduce the amount of the FI contribution for 2023 to 0.025% (compared to 0.03% in 2022), and the amount of the CA contribution for 2023 was reduced to 0.20% (compared to 0.25% in previous years). The main reasons for the reduction of the amount of contribution under both FI and CA are the significant amount of the Fund's resources reached, historically low compensation payments and the high degree of coverage of the Fund's resources in case of payment of compensation.

During the year, proposals for changes in the legislation of the Fund were finalized and submitted for discussion to the FSC. It was proposed to create a new Compensation of Investors Act, and the proposed bill takes into account most of the provisions of the POSA, which currently regulates this matter, but at the same time provides for changes in the amount of compensation provided, the method of calculating the annual contributions to the Fund, the targeted level of available funds, the financing of the Fund, etc.

The MC of the ICF is also responsible for the management of the IFRF which was established in 2017 with the main purpose of financing the implementation of the instruments for rescue and restructuring of problematic IFs. 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. The total amount of individual annual contributions for 2022 determined by the FSC of the IFTRF participants is BGN 35.2 thousand. In addition to the annual installments, a source of funds of IFRF is also the income from investing the funds raised in the IFRF and the interest on overdue receivables.

As of 31.12.2022, IFRF assets amount to BGN 217 thousand, of which 82% are invested in debt instruments in EUR issued by foreign countries that have one of the three highest credit ratings awarded simultaneously by two credit rating agencies. The rest of the funds are held on a current account at the BNB in its capacity as a depository of IFRF funds. This current account is in the name of the ICF, as the IFRF is not an independent legal entity.

2.3. Insurance market

As of the end of 2022, the total number of licensed (re) insurers based in the Republic of Bulgaria is 34, including 23 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. Thirty (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 4 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 2022, which included the data for all insurers with headquarters in the Republic of Bulgaria:

- the gross premium income as at 31.12.2022 amounted to BGN 3,613 million, recording an increase of 11% on an annual basis;
- the Bulgarian insurance market (life and non-life insurance) was allocated in an 83% to 17% ratio for the benefit of the premiums written by non-life insurers;

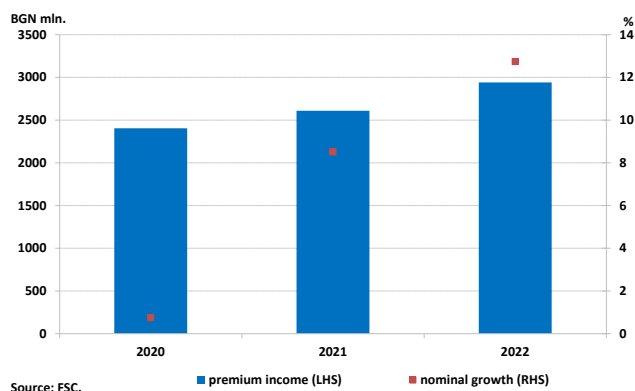
- insurance penetration, calculated on the basis of gross premium income as a percentage of GDP,⁴³ is estimated at 2.18% at the end of 2022 compared to 2.34% at the end of the previous year.

- the financial result realized by the insurers at the end of 2022 amounts to BGN 244 million, compared to BGN 235 million at the end of 2021. Non-life insurers report a financial result in the total amount of BGN 178 million, compared to BGN 180 million at the end of 2021. Life insurers also reported a positive financial result of BGN 66 million, compared to a result of BGN 55 million at the end of 2021.

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 market⁴⁴, at the end of 2022 amounts to BGN 2,942 million, incl. BGN 2,917 million on direct insurance and BGN 25 million on active reinsurance. On an annual basis, a growth in gross premium income of 13% is reported, which is mainly due to the growth of premium income under insurance "Other insurance in connection with motor vehicles" ("Auto Casco"), "Assistance", "Credit and guarantee insurance" and premium income under insurance "Property insurance against fire and other disasters".

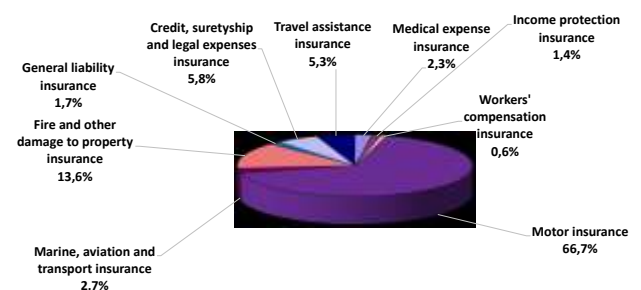
Graph 61. Gross premium income in non-life insurance



In 2022, in the structure of the portfolio of non-life insurance companies, the major share of

67% was held by motor insurances, with motor third-party liability insurance accounting for 39%, and the share of other motor insurance (Casco) insurances was 28%, respectively.

Graph 62. Structure of gross premium income by type of activity for non-life insurance payables in 2022



Source: FSC.

The realized premium income on motor third-party liability insurance for 2022 decreased by 2% on an annual basis (BGN 26 million in absolute terms) and amounted to BGN 1,136 million.

For the period January-December 2022, the recorded premium income under Motor Casco insurance amounted to BGN 826 million, accounting for an increase of 16% on an annual basis.

At the end of 2022, property insurances against fire and other disasters in Bulgaria accounted for a share of 13.5% of the gross premium income compared to 12.9% at the end of 2021. The realized premium income for these insurances amounted to BGN 399 million, a

⁴³ According to NSI data, the GDP in 2022 amounted to BGN 165,384 million.

⁴⁴ The analysis for the insurance market was based on the quarterly reports for the fourth quarter of 2022 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 2021 are based on the audited annual reports according to Implementing Regulation (EU) 2015/2450.

minimum growth of 18% on an annual basis being reported.

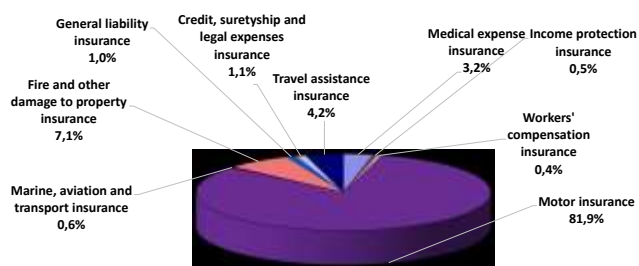
Medical expenses insurance, income protection insurance and workers' compensation insurance occupied a 4.2% share in the structure of gross premium income realized by non-life insurers at the end of 2022. Premium income on these insurances in 2022 amounted to BGN 124.9 million compared to BGN 107.4million in 2021, as a result of greater demand during the reporting year.

In 2022, there is an increase in insurance premiums written by insurers for Assistance Insurance from BGN 72.2 million at the end of 2021 to BGN 155.7million at the end of 2022. Growth is also observed in credit and guarantee insurance of BGN 89.8 million at the end of 2021 to BGN 153.3 million at the end of 2022.

The premiums ceded to reinsurers for non-life insurance for 2022 were in the amount of BGN 1,025 million, representing 35% of the gross written premium generated in the sector. Self-retention coefficient was calculated at 0.65.

The claims arising for non-life insurance at the end of 2022 amounted to BGN 1314 million, with an increase of 12.1% on an annual basis.

Graph 63. Structure of claims incurred by type of activity for non-life insurance payables in 2022



Source: FSC.

Similarly, to the structure of gross premium income, in the structure of claims arising by types of activity for non-life insurance payables, the largest relative share of 82% was held by car

insurances, followed by real estate insurance holding a share of 7%.

An increase of the claims on an annual basis in the amount of BGN 141.7 million is reported. The largest increase compared to the previous year was reported for motor insurance, as "Other insurance related to motor vehicles" ("Motor casco") reported an increase of BGN 50.1 million, and "Motor third-party liability (MTPL)" increased by BGN 42.1 million compared to the previous year. The next place is for Assistance insurance, under which the claims increased by BGN 25.9 million compared to the previous year, as well as the Property insurance against fire and other disasters and Medical expenses insurance, which report an increase of BGN 22.0 million and BGN 15.1 million, respectively. The opposite dynamics characterizes the claims incurred under "Workers' compensation insurance", "Marine, aviation and transport insurance" and "Miscellaneous financial losses", which respectively decrease by 8.8 million BGN, 6.1 million BGN and 4.2 million BGN compared to 2021.

The gross loss ratio at the end of 2022 in general for the market is 0.47, the same as a year earlier.

Table 49. Gross loss ratio

	2021	2022*
Medical expense insurance	0,51	0,68
Income protection insurance	0,22	0,18
Workers' compensation insurance	0,96	0,30
Motor vehicle liability insurance	0,60	0,62
Other motor insurance	0,45	0,47
Marine, aviation and transport insurance	0,30	0,11
Fire and other damage to property insurance	0,22	0,26
General liability insurance	0,25	0,30
Credit and suretyship insurance	0,14	0,14
Legal expenses insurance	0,13	0,03
Assistance	0,45	0,36
Miscellaneous financial loss	0,14	0,00
TOTAL	0,47	0,47

Note: * Data for 2022 are preliminary.
Source: FSC.

The expenses incurred for the non-life insurance companies (all technical expenses

incurred by the companies during the reporting period) increased by 15% on an annual basis and at the end of 2022 amounted to BGN 724 million. They were 26% of the gross premium income generated by the sector.

Table 50. Gross expense ratio

	2021	2022*
Medical expense insurance	0,31	0,33
Income protection insurance	0,43	0,45
Workers' compensation insurance	0,41	0,40
Motor vehicle liability insurance	0,14	0,16
Other motor insurance	0,38	0,37
Marine, aviation and transport insurance	0,17	0,25
Fire and other damage to property insurance	0,31	0,36
General liability insurance	0,32	0,30
Credit and suretyship insurance	0,37	0,34
Legal expenses insurance	0,31	0,37
Assistance	0,16	0,03
Miscellaneous financial loss	0,54	0,52
TOTAL	0,25	0,26

Note: * Data for 2022 are preliminary.
Source: FSC.

At the end of 2022, the gross combined ratio is 0.73 and increases compared to the previous year when it was 0.72. The highest gross combined ratio, above 1, is calculated for medical expenses insurance (1.01).

Table 51. Gross combined ratio

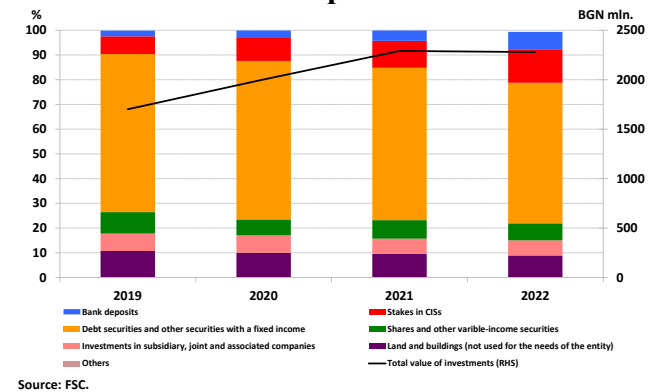
	2021	2022*
Medical expense insurance	0,82	1,01
Income protection insurance	0,64	0,63
Workers' compensation insurance	1,37	0,70
Motor vehicle liability insurance	0,75	0,78
Other motor insurance	0,83	0,83
Marine, aviation and transport insurance	0,47	0,35
Fire and other damage to property insurance	0,53	0,62
General liability insurance	0,57	0,59
Credit and suretyship insurance	0,51	0,48
Legal expenses insurance	0,45	0,39
Assistance	0,61	0,38
Miscellaneous financial loss	0,67	0,52
TOTAL	0,72	0,73

Note: * Data for 2022 are preliminary.
Source: FSC.

At the end of the reporting period, the total assets of non-life insurance companies amounted to BGN 4489 million increasing by 3% on an annual basis. The value of investments of these companies decreased slightly by 0.5% at the end of 2022 and amounted to BGN 2280 million, occupying a share of 51% of total assets. In the structure of the aggregate investment portfolio of

non-life insurance companies, government bonds occupy a major share (46%), followed by investment in collective investment schemes (14%) and corporate bonds (11%).

Graph 64. Structure of investment portfolio of non-life insurance companies



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 decreased from 11% to 9%. The share of investments in shareholdings in affiliated enterprises remained within 7% -6%. The share of investments in bonds, incl. Government securities, decreased from 62% at the end of 2021 to 57% at the end of 2022. The relative share of investments in collective investment schemes and in deposits in banks follows the opposite dynamic, increasing to 14% (from 11%) and 7% (4%) respectively at the end of 2022.

By the end of 2022, the total amount of the liabilities of the non-life insurers amounted to BGN 3156 million and increased by 5% on an annual basis. Technical reserves set aside by non-life insurance companies accounted for 86% of the liabilities of non-life insurers.

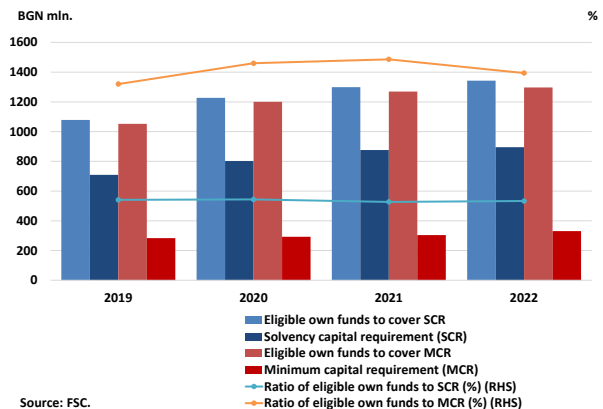
At the end of 2022 the technical reserves set by non-life insurance companies increased by 5% reaching BGN 2711 million.

The excess of the assets over the liabilities of the non-life insurers at the end of 2022 was estimated at BGN 1334 million compared to an excess of BGN 1,358 million at the end of 2021

The eligible own funds to cover the solvency capital requirement of non-life insurers as at 31.12.2022 amounted to BGN 1,343 million and the SCR amounted to BGN 895 million. Eligible tier 1 own funds - unlimited, occupy 95% of the total eligible own funds. The coverage of the MCR with eligible own funds at the end of 2022 was estimated at 150%.

The eligible own funds to cover the minimum capital requirement of non-life insurers as at 31.12.2022 amounted to BGN 1297 million, and the minimum capital requirement (MCR) amounted to BGN 331 million. Respectively, the coverage of the MCR with eligible own funds at the end of 2022 was estimated at 392%.

Graph 65. Capital requirements of non-life insurance companies

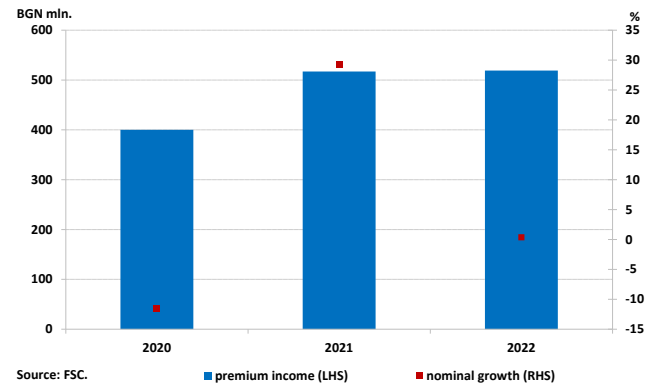


2.3.2. Life insurance

The gross premium income recorded by life insurers ⁴⁵at the end of 2022 reported a minimal increase of 4% on an annual basis and at the end of 2022 amounted to BGN 519 million.

⁴⁵ It also includes income from non-life medical expenses insurance income protection insurance and workers' compensation insurance, recorded by life insurers.

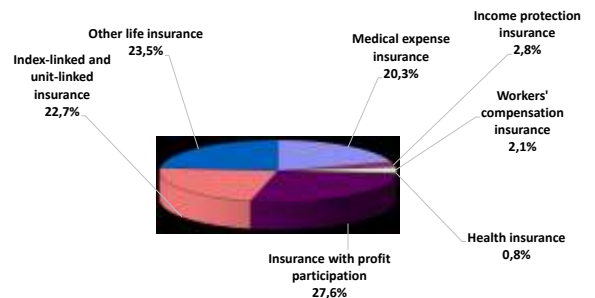
Graph 66. Gross premium income of life insurance



Key:
МЛН. ЛВ. – BGN million

Regarding the structure of the portfolio of life insurers by classes of insurance at the end of 2022, the following dynamics is observed: the main share in the structure again belongs to Profit share insurance (28%, compared to 27% for the previous year), the share of Index-linked and unit-linked insurance has decreased (13% compared to 31% for the previous year), the share of Other life insurance has increased (24%, compared to 19% for the previous year), as well as the share of Medical expenses insurance (20% compared to 15% for the previous year).

Graph 67. Portfolio structure by type of activity for life insurance payables in 2022



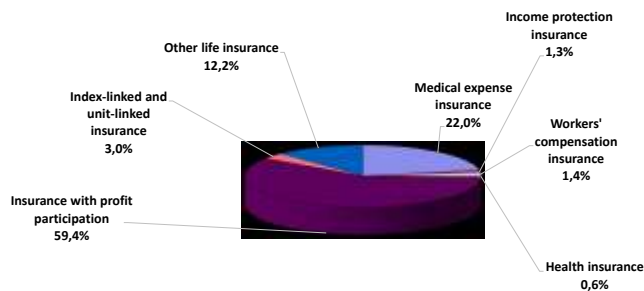
Source: FSC.

On an annual basis, growth is reported in Other insurance, Medical expenses insurance and Profit-share insurance, which increase by BGN 27 million, BGN 26 million and BGN 7 million, respectively. With opposite dynamics are "Index- and unit-linked insurance" and "Protection of income insurance", which decreased by BGN 43 million and BGN 18 million.

The gross claims incurred in 2022 for life insurance amount to BGN 239 million. On an annual basis, an increase of claims arising during the year by 15% is reported.

In the overall structure of the incurred claims, the largest share was the share of profit-sharing insurance (59%), followed by medical expenses insurance (22%) and other life insurance (12%).

Graph 68. Structure of incurred claims by type of activity for life insurance payables in 2022



..Source: FSC

The expenses incurred by life insurers in connection with their operation decreased by 9% annually and at the end of 2022 amounted to a total of BGN 151 million, representing 35% of the premiums earned for the period.

The total amount of the assets in the life insurance sector decreased by 10% on an annual basis and at the end of 2022 amounted to BGN 2234 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 2095 million at the end of 2022, representing

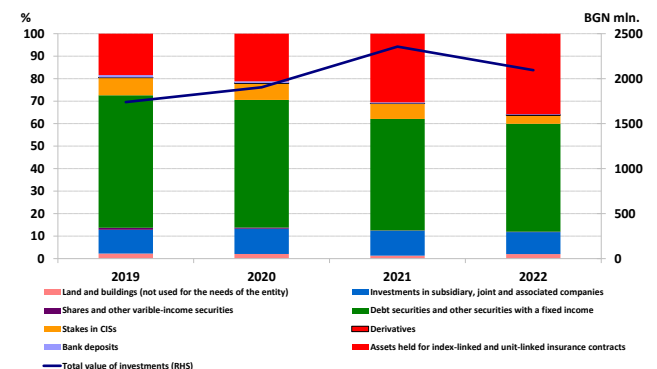
94% of the total assets in the sector. Their value decreases by 11% on an annual basis.

A major share in the value of life insurers' investments at the end of 2022 is occupied by the value of bonds (48%), the relative share of which decreased by 2 pp. compared to the previous year.

The value of the assets held for index-linked and unit-linked contracts increased by 4% on an annual basis reaching BGN 749 million at the end of 2022, and the relative share in the total amount of investments in the life insurance sector increased to 36% from 31% at the end of 2021.

The relative shares of shareholdings in related enterprises, including participations, and of investments in collective investment schemes decreased compared to the previous year to 10% (from 10%) and 4% (from 7%) respectively. A decrease in absolute value on an annual basis is recorded both in the value of shareholdings in related enterprises, including participations (BGN 57 million), and in collective investment schemes (BGN 80 million). In 2022 there was a decrease by BGN 3.7 million on an annual basis in the value of deposits other than cash equivalents, whose relative share decreased from 0.5% in 2021 to 0.4% in 2022.

Graph 69. Structure of the investment portfolio of life insurers



Source: FSC.

The technical reserves allocated by the life insurers (excluding technical reserves under index-linked and unit-linked shares) in 2022

decreased by 22% and at the end of the year amounted to BGN 863 million.

Technical reserves under index-linked and unit-linked contracts set aside at the end of 2022 decreased by 3% on an annual basis and amounted to BGN 686 million at the end of the year.

The excess of the assets over the liabilities of the life insurers at the end of 2022 was estimated at BGN 611 million compared to an excess of BGN 602 million at the end of 2021

The eligible own funds to cover the solvency capital requirement of life insurers as at 31.12.2022 amounted to BGN 548 million and the SCR amounted to BGN 235 million. Eligible tier 1 own funds - unlimited, occupy a share of 99% of the total eligible own funds. The coverage of the MCR with eligible own funds at the end of 2022 was estimated at 233%.

The eligible own funds to cover the minimum capital requirement of life insurers as at 31.12.2022 amounted to BGN 545 million, and the MCR amounted to BGN 101 million. Respectively, the coverage of the MCR with eligible own funds at the end of 2022 was estimated at 541%.

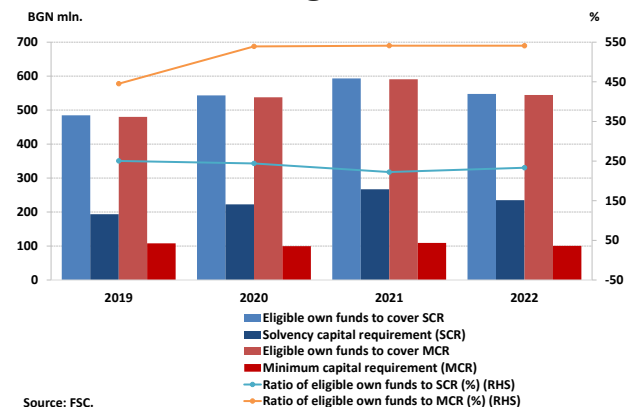
2.3.4. *Guarantee and compensation fund*

The Guarantee Fund is a legal entity with its seat in the city of Sofia, which pays out compensation to injured persons with regard to mandatory “Motor Third-Party Liability” and “Accident” insurances to the passengers in public transport vehicles, reimburses amounts paid by an EU Member State compensation body, guarantees insurance receivables in cases of insurer insolvency.

GF established and managed the following separate accounts:

- Fund guaranteeing the claims of injured persons from uninsured and unidentified motor vehicles
- Fund for uninsured motor vehicles;

Graph 70. Capital requirements for life insurance undertakings



Source: FSC.

Compared to 2021, there is a decrease in eligible own funds to cover the solvency capital requirement, as well as the solvency capital requirement.

2.3.3. *Re-insurance*

The premium income realized by companies from their active reinsurance operations during the year amounts to BGN 2142 million compared to BGN 2008 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.

Claims incurred to assignors amount to BGN 988 million. In the structure of the claims incurred the largest share is occupied by motor insurances.

- Fund guaranteeing the claims in case of an insurer's insolvency under Article 519, Items 2 and 3 of IC – Compensation Fund.

In 2022 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 40.8 million, compared to BGN 39.3 million in the previous year.

At the end of 2022, the funds available in the Fund for uninsured motor vehicles, according to Art. 556, para. 1 of the IC, amounted to BGN 118 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 2022 amounted to BGN 10.4 million and grew by 3% on an annual basis.

In 2022, the GF (from the funds of the Security Fund) began paying the principals of the undisputed benefits, determined and confirmed by court order under insurance contracts concluded through the Bulgarian branch of the insurance company Olympic, which is in liquidation. The payments were made in accordance with the list and information provided to the GF by the liquidators of IC Olympic. In this regard, the Cyprus Guarantee Fund has made a partial refund of the payments made by the Bulgarian GF.

As at 31 December 2022, the funds of the Security Fund amount to BGN 87 million.

2.4. Social insurance market

The net assets of SPFs in 2022 decreased, reaching BGN 19,215.1 million at the end of the year. The decrease is due to the result of the funds invested by PICs, which in turn is determined by the general trends of the world financial markets during the year. By the end of 2022, a total of 4,923,254 people is insured in SPFs. The upward trend in insured persons is maintained despite the right granted to change the social insurance from the supplementary mandatory pension funds (SMPF) to the State Social Insurance and the beginning of the payout phase for persons insured in universal pension funds.

2.4.1. Pension insurance companies

As at 31.12.2022, 10 licensed PICs operated, with the total number of the pension funds managed by them being 32, including 10

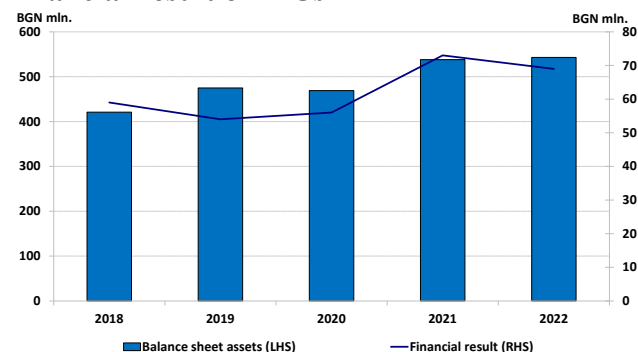
universal, 10 professional, 10 voluntary and two voluntary pension funds with occupational schemes (VPFOS).⁴⁶ At the end of 2022, 19 funds for benefits payment to persons insured in universal pension funds were established, including 10 funds for payment of lifelong pensions (FPLPs) and 9 funds for programmed withdrawals (FPWs) have been established.

Four of the companies operating on the pension insurance market are part of international financial groups - PAC Doverie AD - Vienna Insurance Group AG WienerVersicherung Gruppe, PIC DSK - Rodina AD - OTP BANK NYRT, PIC Allianz Bulgaria AD - ALLIANZ SE and PIC UBB EAD - KBC Group N.V.

In 3 of the licensed companies there were shareholders directly holding more than 90% of the capital.⁴⁷

The balance sheet assets of PICs as at 31.12.2022 are BGN 542.6 million, marking an increase 0.8% compared to 2021. In the total net financial result of PICs, which for 2022 amounted to BGN 68.7 million there was a decrease by BGN 4.3 million or 5.9% compared to the total net financial result for 2021.

Graph 71. Balance sheet assets and net financial result of PICs



Source: FSC.

⁴⁶There were no insured persons yet in one of the VPFOS as at 31.2.2022.

⁴⁷ BANK DSK EAD directly owns 99.85% of PIC DSK - Rodina AD, DZI EAD directly owns 100% of PIC UBB EAD, Insurance

The average unweighted value of the own funds to solvency limit indicator at the end of 2022 of all 10 licensed pension insurance companies is 325.3%%, which significantly exceeds the legally defined minimum amount of 100%. There is a decrease in the value of the indicator by 22.6 p.p. compared to 2021, when it was 347.9%. The indicator for individual companies varies widely - between 101.2% and 710.6%.

The liquid resources of PICs, SPFs and the Funds for benefits payment (FBPs) as at 31.12.2022 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 rate of return in UPFs and in PPFs, set aside with own funds of PICs, as at 31.12.2022, amount to BGN 114 million, and their amount complies with the statutory provisions. At the end of the reporting year, the reserves for guaranteeing the gross contributions to the UPF, set aside with the funds of the PIC, amount to BGN 83 million, and their amount complies with the statutory provisions. The investments made with the funds securing the reserves, as well as the valuation of these investments, are in accordance with the regulatory requirements.

Table 52. Ratio of the own funds of the PICs to the solvency and liquidity limit of the PICs and funds

	2021	2022
Capital adequacy of PIC (%)	347,9	325,3
Liquidity of PIC (coef.)	19,4	14,5
Liquidity of UPF (coef.)	196,4	175,7
Liquidity of PPF (coef.)	150,3	187,5
Liquidity of VPF (coef.)	177,7	590,4
Liquidity of VPFOS (coef.)	61,2	2784,5
Liquidity of LPPF (coef.) under Article 9, paragraph 4, point 1 of Ordinance 10	5,6	10,1
Liquidity of LPPF (coef.) under Article 9, paragraph 4, point 2 of Ordinance 10	97,4	40,9
Liquidity of TPF (coef.) under Article 9, paragraph 4, point 1 of Ordinance 10	1,2	1,8
Liquidity of TPF (coef.) under Article 9, paragraph 4, point 2 of Ordinance 10	12,7	7,2

Note: The indicators are calculated as an arithmetic mean of the values of individual PIC/SPF.
Source: FSC.

Company DallBogg : Life and Health AD directly owns 100% of PIC DallBogg: Life and Health EAD.

* the newly licensed PIC and/or the funds managed by it are not included in the average value of the indicator for previous year

The degree of coverage of the registered capital varies widely between 72.8% and 530.7%. The average unweighted value of the indicator at the end of 2022 is 304.1% compared to 298.3% for 2021, i.e., a decrease by 5.8 p.p. In the case of 6 companies, the value of the indicator increased, and this is due to an increase in the equity capital and preservation of the amount of the registered capital. In 4 PICs, the value of the indicator decreases, and in 2 this is due to the faster rate of growth of the registered capital compared to the growth of equity, and in the remaining 2 PICs it is due to a decrease in the equity and preservation of the amount of the registered capital. During the reporting year, 2 PICs increased their registered capital, one of them several times.

The reported return on equity at the end of 2022 was 13.4% on average for the sector, and compared to 2021, when it was 19.7%, there was a decrease of 6.3 p.p. The range of return on equity for individual PICs is broad, its lowest value is (-45.9%) and the highest is 53.4%. In seven companies, the indicator decreased, and in two companies this is due to the faster rate of decrease in profit compared to the decrease in equity, in three companies - to an increase in equity and a decrease in the financial result (as in one in 2021 a profit was reported and in 2022 it reported a loss), in 1 PIC the equity capital increased at a faster rate than the increase in profit, and in 1 PIC it was due to an increase in equity capital at a slower rate than the increase in loss. The value of the indicator increases for 3 PICs, and this is due to the increase in profit outpacing the increase in equity. For the year, 2 licensed companies reported a loss, as a result their indicator has a negative value.

Table 70. Analysis of PICs equity

	2021	2022
Level of coverage of registered capital	298,3	304,1
Profitability of equity	19,7	13,4

Note: Data are in %, unless stated otherwise. The indicators are calculated as an arithmetic mean of the values of individual PIC.
Source: FSC.

The degree of coverage of the assets of managed funds (SPF and FPB) is in the range between 2.0% and 5.3% except one PIC for which the value of the indicator is 35.0%. The average unweighted value of the indicator at the end of 2022 is 6.5% compared to 3.3% at the end of 2021, i.e., growth by 3.2 p.p., which is mainly due to the index of the PIC licensed in 2021. The value of the indicator for individual companies remains almost unchanged.

The average unweighted value of the indicator returns on assets of PICs at the end of 2022 is 5.2% compared to 10.3% for 2021, i.e., a decrease by 5.1 p.p., which is mainly due to the index of the PIC licensed in 2021. In 6 companies, the indicator decreases, for 3 of them this is due to an increase in assets and a decrease in profit, for 2 companies - to a decrease in profit at a faster rate than the decrease in assets, and for 1 PIC it is due to an increase in loss at a much faster rate than the increase in assets. The value of the indicator increased for four PICs due to the growth of profit outpacing the growth of assets. The range of return on assets for individual PICs is broad, its lowest value is (-43.6%) and the highest is 25.3%. For the year, two licensed companies reported a loss, as a result their indicator has a negative value.

For 2022, 8 companies have a positive value of the asset growth indicator, and 2 companies have a negative value. The unweighted average value of the indicator decreases significantly from 25.8% for 2021 to 1.9% for 2022, i.e., during the year, there was a much slower rate of asset growth of PICs. For individual companies the asset growth indicator is in the range between (-3.5%) and 8.3%.

* the newly licensed PIC and/or the funds managed by it are not included in the average value of the indicator for previous year

Table 71. Analysis of PIC assets

	2021	2022
Level of coverage of SPFs' assets	3,3	6,5
Profitability of PIC assets	10,3	5,2
Growth of PIC assets	25,8	1,9

Note: Data are in %, unless stated otherwise. The indicators are calculated as an arithmetic mean of the values of individual PIC/SPF.
Source: FSC.

The average unweighted value of the PIC performance indicator in 2022 is 117.7% compared to 114.9% in 2021, i.e., there is an increase of 2.8 p.p. For 6 PICs, the value of the indicator has increased and for 5 this is due to the decrease in expenses outpacing the decrease in revenues, and for 1 POD, the growth in revenues is outpacing expenses. For 4 companies, the value of the indicator decreases, and for 2 this is due to a decrease in revenues and an increase in expenses, for 1 PIC expenses are increasing at a faster pace than revenues and in 1 company this is due to a decrease in revenues at a faster pace than the decrease in expenses. The value of the indicator for individual companies varies between 30.9% and 169.1% and

Table 53. Analysis of PIC income and expenses

	2021	2022
Efficiency of PIC activities	114,9	117,7

Note: Data are in %, unless stated otherwise. The indicators are calculated as an arithmetic mean of the values of individual PIC.
Source: FSC.

The average unweighted value of the indicator Fees and deductions per one participant in the funds for 2022 amounts to BGN 40.00 compared to BGN 40.07 for the previous year, i.e., a decrease by BGN 0.07. The value of the indicator decreased for 2 PICs, and for 1 of them this is due to decrease in revenues from fees and deductions outpacing the decrease in participants, and for the other - a decrease in income and increase in participants. In 7 PICs, the value of the indicator is increasing, and in 4 of them this is due to an increase in revenues at a faster rate than the increase in participants, in 2 the revenues from fees and deductions are increasing, and the participants are decreasing, and in 1 - to a decrease in participants at a faster rate than the decrease in

revenues. The value of the indicator for individual companies is between BGN 30.02 and BGN 51.88

The expenses for the activity of PICs per 1 participant in the managed funds increased by BGN 46.58 in the reporting year 2022, and by the end of the year they amounted to BGN 99.05 compared to BGN 52.47 in 2021. The significant growth in the value of the indicator is due mainly to the indicator of the company licensed in 2021. The value of the indicator for 3 PICs has increased, for 2 of them this is due to the growth of revenues and decrease of participants, and for 1 - to expenses increasing at a faster rate than the increase in participants. For 6 PICs the value of the indicator decreased, for 4 of them this is due to a decrease in expenses and an increase in expenses, and for the other 2 PICs -to decrease in revenues outpacing the decrease in participants. The value of the indicator for individual companies is between BGN 29.04 and BGN 83.49, with the exception of 1 PIC, where the value of the indicator is BGN 565.58.

Table 54. Fees, deductions and operating expenses per participant in funds

	2021	2022
Fees and deductions per participant in SPFs	40,1	40,0
Operating expenses per participant in SPFs	52,5	99,1

Note: Data are in BGN, unless stated otherwise. The indicators are calculated as an arithmetic mean of the values of individual SPF.
Source: FSC.

The revenues from fees and deductions per BGN 100 of assets of the funds as at the end of 2022 were between BGN 1.04 and BGN 1.36, with the average non-weighted value of the indicator amounting to BGN 1.18 compared to BGN 1.13 in 2021, or growth of BGN 0.05. The value of the indicator for 7 PICs is increasing, and for 3 this is due to the faster rate of growth of revenues from fees and deductions compared to the growth of the balance sheet assets of the funds, for 2 - to an increase in revenues and a decrease in assets, and for the remaining 2 - to a decrease in the assets of the funds at a faster rate than the decrease in income. In the case of two PICs the

* the newly licensed PIC and/or the funds managed by it are not included in the average value of the indicator for previous year

value of the indicator decreased, for 1 of which this is due to the decrease in revenues from fees and deductions outpacing the decrease of balance sheet assets of funds, and for the other - to asset growth outpacing the increase of revenue from fees and deductions.

The costs per BGN 100 of assets of the funds for 2022 varied between BGN 0.72 and BGN 2.14, excluding 1 PIC for which the value of the indicator is BGN 22.07. The average unweighted value of the indicator for 2022 amounts to BGN 3.45 compared to BGN 1.49 at the end of 2021, marking an increase of BGN 1.96, which is mainly due to the value of the indicator of the company licensed in 2021. The value of the indicator for 3 PICs increased, for 2 of them this is due to the faster rate of growth of operating expenses compared to the growth of the balance sheet assets of the funds, and for the third one - to an increase in costs, and a decrease in assets. In 6 PICs, the value of the indicator decreased, and for 4 of them this is due to a decrease in operating expenses at a faster pace than the decrease in the balance sheet assets of the funds, and for the remaining 2 - to a decrease in expenses and an increase in assets.

Table 55. Fees, deductions and operating costs per BGN 100 of fund assets

	2021	2022
Fees and deductions per BGN 100 of SPFs assets	1,1	1,2
Operating expenses per BGN 100 of SPFs assets	1,5	3,4

Note: Data are in BGN, unless stated otherwise. The indicators are calculated as an arithmetic mean of the values of individual SPF.
Source: FSC.

In the supervision of PICs' operations with regard to the management of funds in 2022, no deviations from the statutory requirements were identified in terms of the amount of the mandatory fees and deductions paid to PICs.

In 2022, 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. Two PICs adopted a lower amount of the deduction from each insurance contribution for the SMPF managed by it, with one without additional conditions, and the other adopted a differentiated approach depending on the person's insurance period, namely a reduction of their amount after a certain period of time. In addition, 1 PIC has adopted a lower amount of deduction from each insurance contribution for the UPF it manages and has also adopted a differentiated approach depending on the person's insurance period.

Almost all PICs maintain the maximum allowable amount of the fee according to the SIC, calculated on the value of the FPB's net assets, depending on the period during which they were managed - 0.5%. Only 1 company withholds a lower fee for the fund for payment of lifelong pensions (FPLP) and fund for programmed withdrawal (FPW) managed by it, and another, by decision of the governing bodies, has decided not to withhold a fee from the FPW managed by it until 30.09.2022.

Fees and deductions for management of the SVPF, collected by the PIC, are lower than the statutory ones. The average amount of deduction from each social security contribution in VPF in 2022 and in 2021 is 2.7%, and in VPFOS it is 0.9% in 2022 compared to 2.4 in 2021. The statutory maximum amount of deduction from each social security contribution in SVPF is 7.0%.

Table 75. Investment fee and social insurance contributions' fee to SVPFs

	2021	2022
Deducted investment fee of VPF	8,8	8,0
Deducted investment fee of VPFOS	10,0	0,0
Average amount of social insurance contributions' fee in VPF	2,7	2,7
Average amount of social insurance contributions' fee in VPFOS	2,4	0,9

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.

As at 31.12.2022 a positive investment income was reported only by 2 VPFs and an

* the newly licensed PIC and/or the funds managed by it are not included in the average value of the indicator for previous year

investment fee was deducted for the management companies. No investment fee was deducted from the other VPFs, due to reported negative income. For comparison, as at 31.12.2021 a positive investment income was reported by all VPFs and as a result investment fee was deducted for the management companies. As at 31.12.2022, VPFOS also negative investment revenue, as a result of which no investment fee was deducted for the management company, while as at 31.12.2021 investment fee was deducted due to reported positive investment income.

2.4.2. Supplementary pension funds

In 2022, the total balance sheet assets of SPFs decreased by - 1.7%, in contrast to the previous year, when a growth of 12.7% was reported.

The rate of change of assets varies by fund type. A decrease of - 1.2% was observed in UPF, and in PPF and VPF - a decrease of - 3.6% and 6.7%, respectively. A more significant decrease in assets compared to the other funds was recorded by VPFOS – by - 14.2%.

Table 76. Increase of SPFs' assets

Table 65. Increase of SPFs' assets		
	2021	2022
UPF	13,0	-1,2
PPF	9,8	-3,6
VPF	12,4	-6,7
VPFOS	1,3	-14,2

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.

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 24.7% of the managed balance sheet assets. The pension insurance company, which was licensed in 2021 and started

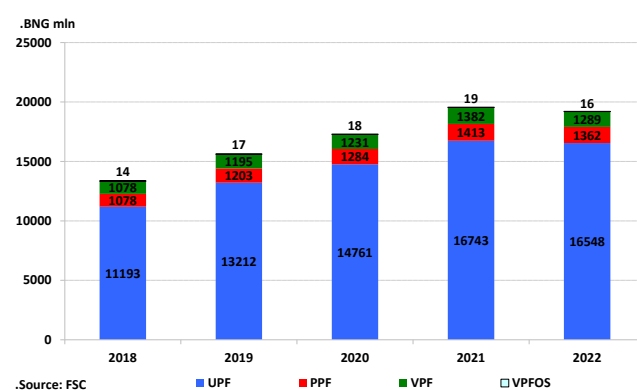
managing pension funds in 2022, logically has the smallest market share of 0.1%.

The structure of balance sheet assets by type of fund is strongly dominated by UPF. As at the end of 2022, the relative share of this type of funds in the total balance sheet assets of SPFs is 86.1%. Compared to 2021, the relative share of UPF expands by 0.5 pp. at the expense of the relative shares of PPF and VPF. As of the end of 2022, the balance sheet assets of PPF, VPF and VPFOS occupy shares of 7.1%, 6.7% and 0.1%, respectively.

The observed trends in balance sheet assets are also reported for net assets. In 2022, the net assets of SPFs decreased by - 1.7% on an annual basis.

As at the end of 2022, the net assets of SPFs amount to BGN 19,215.1 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 2022 amount to 11.6% of the volume of GDP⁴⁸ of the country.

Graph 72. Net assets of the SPFs



The rate of change of net assets by types of funds is identical to that of balance sheet assets, with the decrease in UPF being -1.2%, and in PPF, VPF and VPFOS - respectively 3.6%, 6.7%

⁴⁸ GDP for 2022 was BGN 165384165384165384165384165384165384165,384 million according to preliminary NSI data.

* the newly licensed PIC and/or the funds managed by it are not included in the average value of the indicator for previous year

and 14.2%. The structure of net assets by types of pension funds at the end of 2022 does not differ significantly from that of balance sheet assets.

The average non-weighted amount of managed assets per participant in 2022 in UPFs was BGN 3,718.12 compared to BGN 3,838.90 in 2021, in PPFs – BGN 3,848.67 for 2022 compared to BGN 4,019.56 in 2021, in VPFs – BGN 1,873.33 for 2022 compared to BGN 1,981.23 in 2021, and in VPFOS – BGN 1,594.46 for 2022 compared to BGN 1,853.37 for 2021. For all funds there was a decrease in assets managed per one participant. In terms of companies, there were different deviations from the average levels – in UPFs the managed assets per participant were between BGN 2,269.02 and 5,026.26, in PPFs – between 2,439.30 and BGN 4,931.91 and in VPFs – between BGN 591.00 and BGN 4,023.68 The average values of the indicator for individual PICs were between BGN 2,167.36 and BGN 4,318.30

Table 56. Assets managed per participant in SPFs

	2018	2019	2020	2021	2022
UPF	2 714,7	3 123,0	3 427,0	3 838,9	3 718,1
PPF	3 225,7	3 536,6	3 716,0	4 019,6	3 848,7
VPF	1 697,2	1 774,9	1 804,3	1 981,2	1 873,3
VPFOS	1 743,1	1 916,2	1 809,4	1 853,4	1 594,5

Note: Data are in BGN, unless stated otherwise. The indicators are calculated as an arithmetic mean of the values of individual SPF.
Source: FSC.

Gross proceeds from social insurance contributions in SPFs in 2022 increased by 9.3% compared to proceeds in 2021, reaching BGN 2,232.8 million. The increase in proceeds from insurance contributions was the largest in absolute terms in UPFs – BGN 217.0 million, which represents a growth of 12.5%. In PPFs, the increase is smaller - by BGN 10.8 million, or by 8.0%. In VPF and VPFOS, however, a decrease in income from insurance contributions was observed, respectively by - BGN 36.7 million and BGN 0.3 million, compared to the previous year.

Table 57. Gross proceeds from social insurance contributions

Table 67. Gross proceeds from social insurance contribution

	2018	2019	2020	2021	2022
UPF	1 285,0	1 451,5	1 523,8	1 735,0	1 952,0
PPF	110,2	120,5	120,8	135,0	145,8
VPF	144,7	133,7	115,0	170,9	134,2
VPFOS	1,6	1,7	2,1	1,1	0,8
Total	1 541,5	1 707,4	1 761,7	2 042,0	2 232,8

Note: Data are in BGN million, unless stated otherwise.
Source: FSC.

The amounts accrued and paid out by the SPFs in 2022 remain approximately at the levels of the previous year. 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 66.0% on average for the last five years. In the last two years, however, there has been a significant increase in the amounts charged and paid out by the UPF and PPF.

Table 58. Accrued and paid amounts

	2018	2019	2020	2021	2022
UPF	20,4	24,1	30,6	52,7	51,1
PPF	6,3	6,7	8,0	10,8	11,2
VPF	66,8	85,7	102,4	92,0	92,6
VPFOS	0,4	0,8	0,8	1,6	0,8
Total	93,9	117,3	141,8	157,1	155,7

Note: Data are in BGN million, unless stated otherwise.
Source: FSC.

The average value of the return ratio on managed assets in 2022 for PPFs and VPFs is (-0.05), for UPFs it is (-0.06) and for VPFOS it is (-0.15). In 2022, the average value of indicator for PPFs, VPFs and VPFOS was 0.05, and for UPFs it was 0.04. Compared to the previous year, the indicator decreased for all types of funds, which was significantly affected by the impact on financial markets caused by the COVID-19 pandemic, the war in Ukraine, rising inflation and the increase in interest rates by central banks. The average values of the indicator for individual PICs in 2022 were between (-0,15) and 0.01.

* the newly licensed PIC and/or the funds managed by it are not included in the average value of the indicator for previous year

Table 0. Return on managed assets

Table 69. Return on managed assets

	2018	2019	2020	2021	2022
UPF	-0,02	0,06	0,02	0,04	-0,06
PPF	-0,03	0,06	0,02	0,05	-0,05
VPF	-0,03	0,05	0,02	0,05	-0,05
VPFOS	-0,06	0,09	0,03	0,05	-0,15

Note: Data are in coefficients. The indicators are calculated as an arithmetic mean of the values of individual SPF.

Source: FSC.

In 2022, participants in SMPFs are increasing, while in SVPFs they are decreasing. In 2021, participants in UPF, PPF and VPF are increasing, and in VPFOS they are decreasing. The total increase in participants in 2022 was 1.51%, and on 2021 – 0.63%. The growth of the participants during the year by funds is as follows: for universal funds - growth of 1.8% (compared to growth of 0.7% in 2021), for professional funds the growth is 1.5% in 2022 (compared to 1.3% in 2021), for voluntary funds there is a decrease of (-0.4%) compared to growth of 0.1 % in 2021, and the only operating VPFOS reports a decrease in participants of (-0.4%) in 2022 compared to (-1.1%) in 2021. The PIC with the largest market share in terms of the number of participants in its managed SPFs retains its position with 25.4%, and the company with the smallest market share occupies 0.2% of the market.

Table 81. Increase in the number of participants

Table 70. Growth in the number of participants

	2021	2022
UPF	0,7	1,8
PPF	1,3	1,5
VPF	0,1	-0,4
VPFOS	-1,1	-0,4

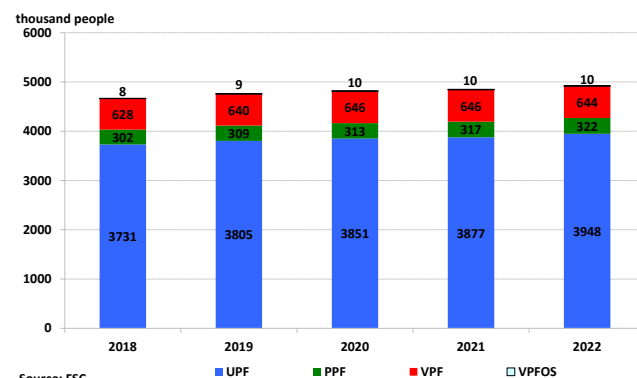
Note: Data are in %, unless stated otherwise. Indicators are calculated as a ratio between the change for the year and their condition in the beginning of the year.

Source: FSC.

Regarding the structure of distribution of insured persons between SPFs, no significant differences are observed compared to the previous year. At the end of 2022, the largest share of insured persons was concentrated in the universal pension funds (80.2%). The persons insured in the voluntary and professional pension funds occupy

respectively a share of 13.1% 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 73. Number of insured persons



Source: FSC

In 2022, 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 PPF during the year are 8,851 and 1,375 respectively. The predominant part of the persons, who are subject to insurance in SMPF and have not made their choice, therefore they are distributed ex officio among the funds. In 2022, these are 85,926 persons, or 90.7% of the total number of persons admitted to UPFs, and respectively 10,507 persons, or 88.4% of the total number of persons admitted to PPFs.

During the year, a total of 360,347 people exercised their right to change their participation from one to another respective SPF. Compared to the previous 2021, their number increased by 18.2%.

Funds transferred from the individual accounts of persons who changed their participation in supplementary pension funds in 2022 increased by a total of 19.2% compared to 2021 and amounted to BGN 1,466.5 million.

The dynamics of resources transferred depends both on the number of persons that took action to change their participation in SPFs during

* the newly licensed PIC and/or the funds managed by it are not included in the average value of the indicator for previous year

the year, and on the amount of resources in their individual accounts.

The increase is mainly due to the funds transferred to UPF, the amount of which is BGN 213.1 million or 19.1% higher than the previous year. PPFs and VPFs also reported an increase in transferred funds, but in general, the amount of transfers was lower in these funds. In 2022, 10.9 million BGN more were transferred between individual PPFs compared to 2021, which represents an increase of 10.3%. The funds transferred to VPFs increased by BGN 12.2 million, or by 127.1%.

Table 59. Amounts transferred from individual accounts

Table 71. Amounts transferred from individual accounts

	2018	2019	2020	2021	2022
UPF	478,1	651,7	739,2	1 114,9	1 328,0
PPF	54,6	65,4	70,5	105,8	116,7
VPF	4,2	5,2	3,5	9,6	21,8
Total	536,9	722,3	813,2	1 230,3	1 466,5

Note: Data are in BGN million, unless stated otherwise.
Source: FSC.

The absolute value of invested resources of SPFs at the end of 2022 was BGN 17.3 billion, representing 89.8% of their balance sheet assets. SPFs' investments in 2022 marked a slight decrease, following the downward trend of SPF assets. In the total volume of invested funds of SPF in 2022, as well as in 2021, the highest share is occupied by UPF (85.9%), followed by PPF (7.1%), VPF (6.9%) and VPFOS (0.1%).

Between 2018 and 2022, the SPFs' investment portfolios were developing, following the dynamics of asset accumulation in the sector, the accumulated investment experience and the capital market trends. The crises caused by COVID-19 and the war in Ukraine also affected the investment and profitability of SPFs during the period.

For the five-year period under review investments in government securities dominate in the portfolios of SPFs, which reached its highest value at the end of 2019 (61.2% of investments).

After that, the share of government securities in the portfolios of SPFs followed a downward trend and by the end of 2020 was 56.7%, and by the end of 2022 – 52.2% of investments. Compared to the beginning of the five-year period, the relative share of government securities increased by 0.5 p.p.

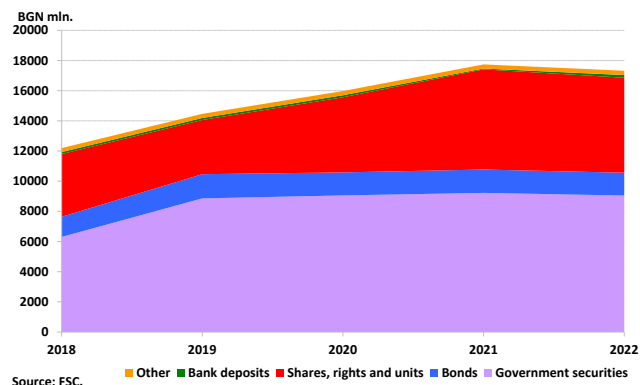
Second place in the aggregated portfolio of SPFs is occupied by investments in shares, rights and units. For the period 2018 – 2022, the relative share of these investments expanded by 2.3 p.p. The dynamics of the indicator observed during the period is opposite to the trend reported for the relative share of government securities. From 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. After 2019, there is again an increased interest in investments with variable income, which reach 36.4% at the end of 2022. The highest share belongs to these investments in the aggregate portfolio of SPFs at the end of 2021 - 37.4%.

At the end of 2022, as well as at the end of 2018, bank deposits made up 1.0% of the SPFs' invested funds. In the period 2019-2021, the relative share of bank deposits is below 1.0%, with the lowest value recorded in 2021 – 0.3% of invested funds.

At the end of 2022, the relative shares of the other 2 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 11.0 % in 2018 at the end of the five-year period this share shrunk to 8.8% of the invested funds. The reported decrease for the period 2018 - 2022 is 2.2 p.p. The same trend was also observed in the relative shares of other investments (investment properties) in the aggregated portfolio of SPFs. By the end of 2022, they represent 1.6% of all invested funds of SPFs.

* the newly licensed PIC and/or the funds managed by it are not included in the average value of the indicator for previous year

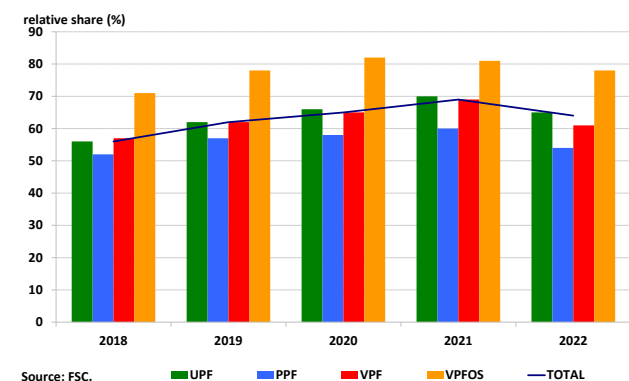
Graph 74. Structure of the aggregate investment portfolio



The funds invested by SPFs in financial instruments issued by issuers outside the Republic of Bulgaria at the end of 2022 reached 63.8% of their balance sheet assets. Compared to the end of the previous year, there was a decrease in the relative share of these investments by 5.3 p.p.

As of the end of 2022, the portfolio structure of the financial instruments issued by issuers outside the country is dominated by government securities with a share of 57.3%. Variable income securities form 35.6% of investments in financial instruments issued by issuers outside the country, and the remaining 7.1% are invested in corporate debt securities.

Graph 75. Investments abroad as a percentage of SPFs' balance sheet assets



PICs manage the assets of the pension funds with the aim of achieving profitability from their investment and growth in the long-term

perspective of their value. The rate of return of the SPFs' asset management was influenced by the capital market trends in which the assets were invested, which was why temporary declines in the indicator values were possible. After achieving positive returns in the previous few years in a volatile and challenging environment, in 2022 SPFs report a negative weighted average return on asset management.

Table 60. Weighted average rate of return

Table 72. Weighted average rate of return*

	2018	2019	2020	2021	2022
UPF	-4,2	6,5	1,5	4,5	-10,8
PPF	-3,6	5,8	1,7	4,9	-8,8
VPF	-4,6	6,5	2,2	6,3	-9,0
VPFOS	-5,9	8,8	2,9	4,7	-13,8

Note: Data are in %, unless stated otherwise. *Weighted by the value of the net assets of individual funds.
Source: FSC.

2.4.3. Funds for benefits payment

The funds in the individual accounts of persons who were insured in UPF and were granted lifelong pensions and programmed withdrawals go to funds for payment of lifelong pensions and funds for programmed withdrawals, from where the respective payments will be made. The first persons insured in the universal pension funds reached retirement age in September 2021, and then the payout phase of UPFs began.

By the end of 2022, all PICs have established FPLPs that pay lifetime pensions. In 2022, a total of 916 pension contracts were concluded for the payment of supplementary lifelong pensions for old age, and the number of pensioners in the FPLPFs reached 1,184 people by the end of the year.

* the newly licensed PIC and/or the funds managed by it are not included in the average value of the indicator for previous year

Table 84. Number of pensioners by types of pensions at the end of the year

	2021	2022
Pensioners - total incl. by types	270	1184
-pension without additional conditions	8	24
-pension with a guaranteed payment period pension., including deferred payment	59	171
	203	989
Note: number of persons		
Source: FSC		

BGN 17.2 million have been transferred to make payments to FPLPs in 2022 from the individual accounts of persons with concluded pension contracts and BGN 0.2 million of deceased insured persons in UPFs, without heirs. FPLPs' accumulated net assets as of 31.12.2022 are BGN 20.8 million, growing more than 3.6 times during the year. The total amount of lifelong pensions paid by FPLPs for 2022 is BGN 1.7 million, and the average amount of pensions paid is BGN 210.93

Table 61. Average amount of pensions paid

	2021	2022
Average amount - total incl. by types	187,7	210,9
-pension without additional conditions	56,0	68,8
-pension with a guaranteed payment period -pension., including deferred payment	58,8	64,6
	224,5	244,7
Note: data is in BGN, unless stated otherwise.		
*the newly licensed PIC and/or the funds managed by it are not included in the average value of the indicator for previous year		
Source: FSC.		

By the end of 2022, payments are made from 9 funds for programmed withdrawals. Only 1 PIC has not yet created a FPW. During the year, contracts for the programmed withdrawal of funds from FPWs were concluded with 11,600 persons, and the insured persons receiving such payments as of 31.12.2022 are a total of 11,678.

In 2022, a total of BGN 63.9 million was transferred to FPWs from the individual accounts of the persons who entered into deferred payment contracts. The accumulated net assets of FPWs as of 31.12.2022 reached BGN 48.5 million, growing more than 5 times during the year. In the form of programmed withdrawal of funds to insured persons in 2022, a total of BGN 24.2 million was paid by FPWs, and BGN 0.1 million was paid to survivors of insured persons who received such payments. The average amount of programmed withdrawals for the period is BGN 352.25.

III. Organisational structure of FSC

