



FINANCIAL SUPERVISION COMMISSION

**ANNUAL REPORT ON
THE ACTIVITY OF THE
FINANCIAL
SUPERVISION
COMMISSION FOR 2023**

List of abbreviations used

ABI – Association of Bulgarian Insurers
ABIRD – Association of Bulgarian Investor Relation Directors
AEPDS – Act of Established Public Debts to the State
AIF – Alternative Investment Fund
AIFM – Alternative Investment Fund Managers
APC – Administrative Procedure Code
BAAMC – Bulgarian Association of Asset Management Companies
BALIF – Bulgarian Association of Licensed Investment Firms
BASPSC – Bulgarian Association of Supplementary Pension Security Companies
BIA – Bulgarian Industrial Association
BICA – Bulgarian Industrial Capital Association
BNB – Bulgarian National Bank
BSE – Bulgarian Stock Exchange
CAM – Coercive Administrative Measure
CCPs – Central Counterparties
CIA – Credit Institutions Act
CIS – Collective Investment Schemes
CISOU CIA – Collective Investment Schemes and Other Undertakings for Collective Investments Act
CSD – Central Securities Depository
EBA – European Banking Authority
EC – European Commission
EC – European Community
EEA – European Economic Area
EIOPA – European Insurance and Occupational Pensions Authority
ESFS – European System of Financial Supervisors
ESMA – European Securities and Markets Authority
ESRB – European Systemic Risk Board
EU – European Union
FSC – Financial Supervision Commission
FSCA – Financial Supervision Commission Act
GDP – Gross Domestic Product
GF – Guarantee Fund
GMS – General Meeting of Shareholders
GS – Government Securities
HHI – Herfindahl-Hirschman index
IAU – Internal Audit Unit
IB – Insurance Broker
IC – Insurance Code
IC – Insurance Company
IC – Investment Company
ICF – Investor Compensation Fund
IF – Investment Firm
IMF – International Monetary Fund
IMMAFIA – Implementation of the Measures against Market Abuse with Financial Instruments Act
KRIB – Confederation of Employers and Industrialists in Bulgaria
MAFTA – Measures against the Financing of Terrorism Act
MAMLA – Measures against Money Laundering Act
MC – Management Company
MF – Mutual Fund
MFIA – Markets in Financial Instruments Act
MI – Ministry of Interior
NBBMI – National Bureau of Bulgarian Motor Insurers
NCGC – National Corporate Governance Committee
NIF – National investment fund
NRA – National Revenue Agency
PC – Public Company
PIC – Pension Insurance Company
POSA – Public Offering of Securities Act
PPF – Professional Pension Fund
PD – Penal decree
RRCIIFA – Recovery and Resolution of Credit Institutions and Investment Firms Act
SANS – State Agency for National Security
SEAV – Statement of Established Administrative Violations
SIC – Social Insurance Code
SMEs – Small and Medium-Sized Enterprises
SMPF – Supplementary Mandatory Pension Fund

SPF – Supplementary Pension Fund
 SPIC – Special Purpose Investment Company
 SPICSCA - Special Purpose Investment Companies and Securitization Companies Act
 SRM – Single Resolution Mechanism
 SVPF – Supplementary Voluntary Pension Fund
 UCITS – Undertakings for Collective Investment in Transferable Securities
 UPF – Universal Pension Fund
 VPF – Voluntary Pension Fund
 VPFOS – Voluntary Pension Fund with Occupational Schemes
 BALIIF – Bulgarian Association of Licensed Investment Intermediaries
 PEPP – Pan-European Personal Pension Product
 VPF PEPP - Voluntary Pension Fund for the Pan-European Personal Pension Product

Useful links

Association of Bulgarian Insurers
 Association of Bulgarian Investor Relation Directors
 Bulgarian Association of Asset Management Companies
 Bulgarian Association of Supplementary Pension Security Companies
 Bulgarian Investor Relations Association
 Bulgarian National Bank
 Bulgarian Stock Exchange AD
 Central Depository AD
 Commission for Protection of Competition
 Council of Ministers
 Council of the European Union
 European Banking Authority (EBA)
 European Central Bank
 European Commission, Directorate-General for the Internal Market
 European Insurance and Occupational Pensions Authority (EIOPA)
 European Parliament
 European Securities and Markets Authority (ESMA)
 European Systemic Risk Board (ESRB)
 Guarantee Fund
 International Association of Insurance Supervisors (IAIS)
 International Monetary Fund
 Single Resolution Board (SRB)

www.abz.bg
www.abird.info
www.baud.bg
www.assoc.pension.bg
www.birsgb.org
www.bnb.bg
www.bse-sofia.bg
www.cdad.bg
www.cpc.bg
www.government.bg
www.consilium.europa.eu
www.eba.europa.eu
www.ecb.int
http://ec.europa.eu/internal_market/index.htm
www.eiopa.europa.eu
www.europarl.europa.eu
www.esma.europa.eu
www.esrb.europa.eu
www.guarantefund.bg
www.iaisweb.org
www.imf.org
www.srb.europa.eu

International Organisation of Pension Supervisors (IOPS)
 International Organization of Securities Commissions (IOSCO)
 Investor Compensation Fund
 Ministry of Finance
 Ministry of Labour and Social Policy
 National Bureau of Bulgarian Motor Insurers
 National Social Security Institute
 National Statistical Institute
 Privatization Agency

www.iopsweb.org
www.iosco.org
www.sfund-bg.com
www.minfin.bg
www.mlsp.government.bg
www.nbbaz.bg
www.noi.bg
www.nsi.bg
www.priv.government.bg

CONTENTS:

ADDRESS OF THE CHAIR.....	7
I. FSC'S ACTIVITY IN 2023	16
1. Regulatory activities	16
1.1. Amendments to the regulatory framework.....	16
1.2. New aspects of EU policy	23
2. Licensing activity, authorization regimes, notifications and certification.....	29
2.1. Licensing activity and authorization regimes.....	29
2.2. Notifications	47
2.3. Certification.....	52
3. Supervisory activity	53
3.1. Off-site supervision	53
3.2. On-site inspections	73
3.3. Law enforcement.....	85
3.4. Market abuse	95
3.5. Specialized supervision of investment firms and management companies on the implementation AML/CTF measures	96
4. Activities of the FSC for resolution of investment firms	99
5. Protection of the consumers of non-bank financial services	100
5.1. Access to financial information	101
5.2. Complaints and inquiries by users of non-bank financial services	108
5.3. Policy for financial literacy	117
6. Financial Technology Monitoring Strategy.....	119
7. International activity and cooperation	120
7.1. European dimension	120
7.2. International cooperation, projects and initiatives	136
7.3. Cooperation with institutions in Bulgaria	140
8. Institutional development of FSC	147
8.1. New points in FSC's management and structure	147
8.2. Human resources management.....	147
8.3. Development of information technologies for supervisory needs.....	154
8.4. Report on the implementation of the budget of the Financial Supervision Commission for 2023 under the budget program "Improvement of the regulation and supervision of the non-bank financial sector"	155
8.4.1. Budget implementation report	156
8.4.1.1. Revenue.....	156
8.4.1.2. Expenses	157
8.4.1.3. Transfers, budget balance and budget financing.....	158
8.4.2. Statement of accounts for funds from the European Union.....	159
8.4.3. Report on operations and balances on accounts for foreign funds.	160
8.4.4. Budget changes	160
8.4.5. Maximum amount of expenditure commitments and maximum amount of new expenditure commitments.....	160
8.5. Activity Report on the Internal Audit at FSC for 2023	161
8.6. Report of the Inspectorate	162
8.7. Report of the Revenue Collection Unit	164
II. MARKET ANALYSIS OF THE NON-BANK FINANCIAL SECTOR	165
1. External environment and economic activity	165

1.1.	External environment	165
1.2.	Overview of economic activity in Bulgaria	171
2.	Overview of the non-bank financial sector in Bulgaria.....	180
2.1.	Review of risks and main market trends	185
2.2.	Analysis of the participants on the capital market	188
2.2.1.	Investment firms	188
2.2.2.	Collective investment undertakings	189
2.2.3.	Special Purpose Investment Companies	191
2.2.4.	Public companies and bond issuers.....	194
2.2.5.	Trading venues.....	196
2.2.6.	Central securities depository	199
2.2.7.	Investor Compensation Fund	200
2.3.	Insurance market	201
2.3.1.	Non-life insurance.....	202
2.3.2.	Life insurance.....	205
2.3.3.	Re-insurance	207
2.3.4.	Guarantee and compensation fund.....	207
2.4.	Social insurance market	208
2.4.1.	Pension insurance companies	208
2.4.2.	Supplementary pension funds	213
2.4.3.	Funds for benefit payment	217
III.	ORGANISATIONAL STRUCTURE OF FSC	219

ADDRESS OF THE CHAIR

Dear Ladies and Gentlemen,

I present to your attention the Annual Report for the Activity of the Financial Supervision Commission for 2023.

During the past year, as the FSC celebrated 20 years from its establishment, its efforts were focused on achieving one of its key strategic goals - integrating and implementing of new technologies and digital systems in the non-bank financial sector. The economic environment, geopolitical events and technological progress on a global scale gave rise to new initiatives, but in parallel with the implementation of innovative projects, the Commission continued to skilfully and effectively carry out its main functions, namely - ensuring the preservation of the security of the capital markets, mastering the new challenges to the insurance market, guaranteeing stability in the field of pension insurance, protecting users of financial services and implementing significant legislative changes. The FSC puts in intense effort to achieve synergy between the regulatory requirements and their implementation in a digital environment, adequately responding to the challenges of digitalization and its dynamic development.

The leadership team worked with a clear strategy and vision for the development of the supervisory body with a focus on continuous improvement of administrative services, increasing the protection of the interests of investors and insured persons, providing a stable infrastructure in the financial markets. I believe that the results achieved by the FSC's team in the past year are a very good basis for its work in a period of economic and social and international upheavals in world markets.

As part of the implementation of the Project "Building a Unified Information System (UIS) for the needs of the Financial Supervision Commission", carried out with the financial support of the Operational Program Good Governance, co-financed by the European Union through the European Social Fund, under a Grant Agreement No. BG05SFOP001-1.011-0001-C01/23.07.2020 with beneficiary Financial Supervision Commission, in the fall of 2023, the UIS and its functionalities were presented to companies and associations from the non-bank financial sector. From 1 November 2023, the system was available for re-registration by all persons supervised by the FSC, and from 1 January 2024, the FSC fully switched to electronic administration for submitting applications, notifications, periodic information, as well as other documents. In implementation of the National Strategy for the Development of E-government in the Republic of Bulgaria 2019-2025, the UIS of the FSC integrates key horizontal components of e-government, by upgrading all provided services which can be requested electronically, through the e- government portal, as well as through the FSC's website.

The UIS enabled the review, tracking, control, validation and analysis of the incoming and processed information, the possibility of automated data transfer, including from and to external systems at the national and international level; the electronic administrative services (EAS) provided by the FSC were upgraded, and the Commission's registers were improved. The eighteen information access registers have been reorganized and there is now 1 register – easy and convenient to work with. The administrative burden has been reduced, which is an up-to-date response to the ongoing green transformation; the achieved level of regulatory and supervisory standards has been upgraded, with guaranteed transparent, fast and secure digital supervision, which increases the competitiveness of Bulgaria as an investment destination.

The FSC took another step in its digital development by introducing its own mobile application for the most popular operating systems [Android](#) and [iOS](#) - FSC Mobile. FSC Mobile has innovations determined during the preliminary development of the project, so that the FSC can meet the expectations of users as much as possible. Report submission by supervised entities, deadlines for payment of fees to the FSC, tracking a complaint from the moment it is submitted to the moment it is sent to the stakeholder, as well as submission of an application form in the innovative center of for discussion of a Fintech project, all are part of the options in the application, where anyone can track the most current news from the activity of the FSC.

The Annual Report presents the activity of the FSC in terms of protection of consumers of non-bank financial services, as well as its role in informing market participants and the public.

In implementation of the Financial Innovation Monitoring Strategy and the National Strategy for Financial Literacy, the FSC organizes a number of initiatives to increase the financial competences of both adolescents and the general public. This is one of the Commission's priorities and a large part of its activity in 2023 was pointed in this direction. To implement this socially responsible cause, specially created communication tools were used - the updated website - www.fsc.bg, the user-oriented and educational site - www.tvoitefinansi.bg, the digital campaign #Invest safely and the mobile application FSC mobile.

In the field of continuing education, the FSC invariably follows its policy for professional development, both of the Commission's team, and the direction of creating competencies and skills in young people with a pronounced interest in the financial industry.

In order to improve the leadership and communication skills of its team, as well as to incentivise the FSC employees to achieve their strategic goals, its experts took part in a number of initiatives - national and international work seminars, meetings and trainings. The projects in which they actively participated improved their competencies, unlocked new potential and increased organizational efficiency in the conditions of rapid technological development and globalization.

In line with the EU's digital finance strategy and the trend towards an increasing number of innovative technologies and digital applications shaping the face of the non-bank financial sector, new expertise and knowledge was needed. In this regard, experts from the Commission were part of the training project of the Technical Support Instrument of the European Commission, DG REFORM - "Digital Academy".

In the summer of 2023, all FSC employees also participated in a motivational event, which developed leadership and communication skills, as well as reinforced stable team interactions and the achievement of higher team performance.

As an institution with a socially responsible role to increase the financial literacy of youth, one of the successful practices in 2023 was the organized internship "Regulation and Supervision of the Non-Bank Financial Industry", with the aim of building knowledge and skills for prudent use of non-bank financial products and services, awareness of the risks and benefits of their consumption and improving communication with young future investors and users of financial services. Students from the 11th grade of the National Commercial and Banking High School took

part in it. And in the past year, the FSC included students in its traditional internship program for the acquisition of practical experience, new professional skills and familiarization with the mission and goals of the regulator in its work to maintain stability and transparency of the non-bank financial system in Bulgaria. Within more than a month, 7 graduates, both of Bulgarian and foreign higher education institutions, among which the University of National and World Economy, the Faculty of Law of Sofia University, Bocconi University - Milan, University of Manchester - England, were part of the Commission's team and gained practical knowledge in the activities of International Cooperation, Investment Supervision, Regulatory Regimes of Insurance Supervision and the Legal Directorate.

The experts and management team had an active involvement in the traditional initiatives such as the one-week educational program for students, World Money Week, under the title “Plan your money, plant you future”, participation of speakers from the FSC and cooperation in academies and university events, as well as in the implementation of common initiatives. The FSC also continued its work on the digital campaign - #INVEST SAFELY.

In implementation of the Financial Technology (FinTech) Monitoring Strategy in the non-bank financial sector (2021 - 2024), in 2023 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.

The FSC also took part in the From Zero to Fintech 2023 hackathon. It is being held for the third year, and the event is organized in partnership between the Bulgarian Fintech Association and the Faculty of Economics and Business Administration of Sofia University St. Kliment Ohridski. Experts from the Supervision of Public Companies, Special Purpose Investment Companies and Other Issuers of Securities department of the FSC presented on the topic: “The Financial Supervision Commission and Fintech: Strategy for monitoring of financial innovation in the non-bank financial sector 2021-2024 and the four main priorities, namely: 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.

A number of changes in the legal framework regarding the non-bank financial sector were also undertaken, with the FSC presenting an active policy ensured with consistency in actions regarding the protection of both users of non-bank financial services and potential investors and new entrants to the capital markets.

In 2023, experts from the Financial Supervision Commission participated in working groups on the preparation of the following draft laws concerning public relations in the non-bank financial sector: Draft Act Amending and Supplementing the Markets in Financial Instruments Act; Draft Act Amending and Supplementing the Recovery and Resolution of Credit Institutions and Investment Firms Act; Draft Act Amending and Supplementing the Measures against Money Laundering Act, promulgated in the State Gazette, no. 60 of 2023; Draft Act Amending and Supplementing the Measures against Money Laundering Act, promulgated in State Gazette No. 82/2023.

In 2023, the working group, created by Order No. 3-97 of 15.03.2022 of the Chair of the Commission on a draft act to amend and supplement the Insurance Code in connection with the introduction of the adopted Directive (EU) 2021/2118 amending and supplementing Directive 2009/103/EC on mandatory third-party liability insurance for motorists, completed its work.

In 2023, the Financial Supervision Commission, in accordance with its regulatory activity program, adopted the following secondary legislation: Ordinance amending and supplementing Ordinance No. 7 of 27.05.2021 on the procedure for acquisition, recognition and revocation of legal capacity of financial instrument brokers and investment consultants; Ordinance amending 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 pursuant to Article 176(3) of the Social Insurance Code; Ordinance No. 75 of 06.04.2023 on the requirements for the activity of benchmark administrators; Ordinance amending and supplementing Ordinance No. 38 of 21.05.2020 on the requirements for the activity of investment firms; Ordinance No. 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 securities; 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 managers; Ordinance No. 50 of 30.03.2022 on capital adequacy, liquidity of investment firms and supervision of compliance thereof; Ordinance No. 73 of 28.07.2022 on the disclosure of market data; Ordinance No. 74 of 09.08.2022 on the activities of market operators; Ordinance amending and supplementing Ordinance No. 38 of 21.05.2020 on the requirements for the activity of investment firms; Ordinance 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 benefits.

In the past 2023, the following acts were published in the Official Journal of the European Union: Regulation (EU) 2023/1114 of the European Parliament and of the Council of 31 May 2023 on markets in crypto-assets, and amending Regulations (EU) No 1093/2010 and (EU) No 1095/2010 and Directives 2013/36/EU and (EU) 2019/1937; Regulation (EU) 2023/1113 of the European Parliament and of the Council of 31 May 2023 on information accompanying transfers of funds and certain crypto-assets and amending Directive (EU) 2015/849 ; Regulation (EU) 2023/2631 of the European Parliament and of the Council of 22 November 2023 on European Green Bonds and optional disclosures for bonds marketed as environmentally sustainable and for sustainability-linked bonds; Regulation (EU) 2023/606 of the European Parliament and of the Council of 15 March 2023 amending Regulation (EU) 2015/760 as regards the requirements pertaining to the investment policies and operating conditions of European long-term investment funds and the scope of eligible investment assets, the portfolio composition and diversification requirements and the borrowing of cash and other fund rules; Directive (EU) 2023/2673 of the European Parliament and of the Council of 22 November 2023 amending Directive 2011/83/EU as regards financial services contracts concluded at a distance and repealing Directive 2002/65/EC.

During the reporting period, in the Official Journal of the European Union, more than 40 delegated regulations were published. They complement the provisions of the EU regulations and directives, as the acts on the implementation of the regulations on environmentally sustainable economic activities were published during the year.

The legislative proposals in 2023 are as follows: Proposal for a Regulation of the European Parliament and of the Council on the transparency and integrity of Environmental, Social and

Governance (ESG) rating activities; Proposal for a Regulation of the European Parliament and of the Council on a framework for Financial Data Access and amending Regulations (EU) No 1093/2010, (EU) No 1094/2010, (EU) No 1095/2010 and (EU) 2022/2554; Strategy for Retail Investors Legislative Package; Proposal for a Regulation of the European Parliament and of the Council amending Regulations (EU) No 1092/2010, (EU) No 1093/2010, (EU) No 1094/2010, (EU) No 1095/2010 and (EU) 2021/523 as regards certain reporting requirements in the fields of financial services and investment support; Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 (the so-called Benchmark Regulation).

In the field of capital markets, in 2023, one proceeding for the issuance of a license to operate as an investment firm was terminated. During the year, the license of one investment firm was extended and one decision was made to revoke the license of an investment firm at their own request. Due to the above, at the end of 2023 the total number of investment firms is 53, incl. 19 banks and 34 non-bank investment firms.

In 2023, the first three applications for issuing a license to operate as a crowdfunding service provider were submitted, on the basis of which 3 licenses were issued at the end of the year.

During the reporting period 10 applications for approval of election of a member of a management or supervisory body of IFs were considered, there were no rejections. The FSC has reviewed 1 assessment procedure for acquisition of qualified holdings of the capital or the votes in the general assembly of an investment firm were examined, resulting in no acquisition ban.

Within 2023, 3 proceedings were considered in connection with the activities of the Bulgarian Stock Exchange AD and the Central Depository AD. Two of the proceedings were for the approval of changes in the Regulations for the Operation of the Bulgarian Stock Exchange AD, and the third is related to the issued authorization for the acquisition of participation pursuant to Article 18(3) 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 of Central Depository AD in another company.

In 2023, two licenses were issued to operate as a management company and two authorization were issued to a management company to organize and manage a mutual fund.

At the beginning of 2023, 7 authorizations were issued for the conversion of mutual funds, and 7 mutual funds were written off from the FSC register.

In 2023, 1 authorization was issued for the organization and management of a national investment fund - a open-end national mutual fund.

During the reporting period, no licenses were issued to operate as an alternative investment fund managers (AIFMs). 2 authorizations were issued for changes to documents of alternative investment funds managed by licensed AIFMs.

In 2023 there were 2 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. No new public companies were registered during the reporting period.

In the end of 2023, the licensed insurance companies based in the Republic of Bulgaria are 35, the non-life insurers are 24, life insurers are 10 , and 1 company is a reinsurer for non-life and life insurance. In 2023, the FSC issued an initial license to 1 insurance company and issued a decision to extend the scope of the license to 1 insurance company. In 2023, the FSC issued 5 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 2023 there were no applications for issue of licenses and authorizations or for transformation of pension insurance companies and/or supplementary pension funds and funds for benefit payment, for voluntary winding-up of existing companies, and the FSC did not establish grounds to withdraw issued pension licenses.

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-bank sector to the single European financial market and achieving a high degree of convergence of supervisory practices. The FSC is full member and participates in the meetings of the boards of the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA), supporting their activities through expert participation in the permanent committees and groups set up for them. In addition, the FSC participates as a non-voting member in meetings of the European Systemic Risk Board (ESRB) and cooperates with the European Banking Authority (EBA).

One of the main geopolitical priorities of the Republic of Bulgaria in 2023 continued to be membership in the Organization for Economic Cooperation and Development (OECD), with the 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 the OECD. During the year, accession reviews began for individual committees and the corresponding identification of areas for reforms based on the recommendations of the Organization, based on the reports and Chair's letters received from the Secretariat. Participants from the FSC attended all meetings of the committees and working groups in order to emphasize the country's commitment to the accession process. The FSC maintains ongoing communication with the OECD regarding the reviews for which the Bulgarian supervisory authority is among the competent institutions.

During the reporting period, the Financial Supervision Commission also gave significant importance to the preparation for the introduction of the euro in all its aspects, and took actions to support the non-bank financial sector in the transition to the single European currency. The FSC prioritizes, on the one hand, the effective and problem-free handling of the transition to the euro by companies from the insurance, pension and investment sectors, and on the other hand, the implementation of an effective information campaign aimed at users of financial services in the non-bank financial sector, including the practical aspects of the introduction of the euro and the role of the FSC in this process. The Financial Supervision Commission will provide an opportunity for non-bank financial sector undertakings to submit their reports in the new currency in sandbox mode before the date of its introduction, with the aim of ensuring a smooth transition to the

disclosure of financial information in EUR and timely addressing of any challenges which will arise in the process of replacing the Bulgarian lev with the new payment unit.

The FSC is among the institutions responsible for the review work in the Insurance and Private Pensions Committee (IPPC), the Financial Markets Committee (FMC) and the Corporate Governance Committee (CGC). The FSC is in charge, together with the Ministry of Finance, of the review by the IPCC, and a partner institution for the other two committees. The FSC also participates in the activities of the Regulatory Policy Committee, the Trade Committee, as well as the review for the OECD Global Forum on Transparency and Exchange of Information for Tax Purposes.

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

In 2023 the FSC signed two international cooperation and information-sharing agreements in an AML/CFT college on the basis of the Final Guidelines on cooperation and exchange of information for the purposes of Directive (EU) 2015/849 between competent authorities supervising credit and financial institutions (JC 2019 81), issued by the ESA. The first agreement governs the creation of a college of supervisors for Credit Agricole Group, with the French Prudential Supervision and Resolution Authority (Autorite de Controle Prudentiel et de Resolution – ACPR) as the lead. The second agreement provides for the creation of a college of supervisors for VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe, the latter being organized by the Austrian National Competent Authority (NCA) (Financial Market Authority) in its capacity as lead supervisory authority.

During the reporting year, the FSC also concluded a Coordination Agreement for additional supervision of a financial conglomerate - KBC Group NV with the European Central Bank and other NCAs supervising KBC Group NV companies.

In 2023, the FSC also joined the Memorandum of Understanding on the cooperation agreement for the T2S system - a modern, technological platform for the settlement of securities, together with the European Central Bank and other NCAs. The agreement aims to improve supervisory functions with regard to the T2S system and its participants.

In the second half of 2023, the FSC, together with 15 other member states and ESMA, joined the multinational project - “Proof-of-Concept for detecting potential cases of market abuse using artificial intelligence (AI) models “. The project contains the development of a proof of concept for AI analytical models in ESMA's or the contractor's environment, and a roadmap for their implementation, but not the actual implementation in the environment of individual NCAs.

In 2023, an Agreement on cooperation and information sharing was concluded between the Ministry of Finance and the Financial Supervision Commission in the area of the market of government securities and derivative instruments. The agreement concerns the transmission by the FSC to the Ministry of Finance of the available information received by the FSC pursuant to Article 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 in

relation to Commission Delegated Regulation (EU) 2017/590 of 28 July 2016 supplementing Regulation (EU) No 600/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the reporting of transactions to competent authorities, regarding transactions with government securities issued by the Minister of Finance on the internal market and those issued by the Republic of Bulgaria on the international capital markets, including instruments derived from them, as well as the transmission of information from the Ministry of Finance to the FSC, established and received, pursuant to Art. 36, para. 2 of the State Debt Act and its implementing acts, in connection with Art. 8 of the Implementation of Measures against Market Abuse of Financial Instruments.

During the reporting period, a Cooperation Agreement was concluded with the Chamber of Private Enforcement Agents regarding the assignment of forced collection of public and private claims by the FSC to private enforcement agents, members of the Chamber of Private Enforcement Agents, through the System for Allocation of Enforcement cases to Public Collectors.

The Financial Supervision Commission was actively cooperating with branch associations – the Bulgarian Association of Asset Management Companies (BAAMC), Bulgarian Association of Licensed Investment Firms (BALIF), Association of Bulgarian Investment Relations Directors (ABIRD), Bulgarian Industrial Capital Association (BICA), 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.

A draft instruction for interaction between the two institutions was developed between the SANS and the FSC, in order to comply with the requirements of the current legislation and in connection with the amendments and additions made to the Financial Supervision Commission Act and other branch legislation concerning the activities of the entities supervised by the FSC. With the adoption of the draft instruction, the timely and lawful performance of the legally assigned activities of the two institutions will be ensured with maximum efficiency, optimal use of available resources, improvement of the effectiveness of their control activity and coverage of a wide range of information sources.

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-bank financial sector and the second part of the report represents comprehensive market analysis of the non-bank financial sector in Bulgaria under the conditions of the global and European economic environment in 2023.

The role of the FSC in the era of digital transformation will be to ensure the synchronization between innovation and the interests of citizens, to strengthen the sustainability and resilience of the business model of all participants in the non-bank financial sector, while improving its regulatory and supervisory capabilities. Exploiting all the benefits of digitalization, while managing the risks at the same time, should benefit citizens and aim to preserve digital ethics, which we could continue to promote through financial and digital education.

The Financial Supervision Commission, as an institution complying 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-bank financial sector.

Thank you for your confidence!

I. FSC'S ACTIVITY IN 2023

1. Regulatory activities

1.1. Amendments to the regulatory framework

In 2023, experts from the Financial Supervision Commission participated in working groups on the preparation of the following draft laws concerning public relations in the non-bank financial sector:

Draft act amending and supplementing the Markets in Financial Instruments Act

The proposed draft act Amending and Supplementing the Markets Financial Instruments Act includes changes in national legislation arising from 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) 2022/858). Since the market infrastructures based on DLT are completely new market entities, accordingly there is a new regulation of the conditions under which entities can acquire a similar status and operate as such, Bulgarian companies should be provided with the opportunity to provide services as market infrastructures based on decentralized ledger technology, in compliance with the requirements of Regulation (EU) 2022/858. The above determines the need to introduce measures to implement the uniform European rules adopted by Regulation (EU) 2022/858 in the following regards: designation of a competent authority authorized to issue, amend and revoke the special authorizations with the exemptions specified in them under Regulation (EU) 2022/858, the authorizations and approvals under the same regulation, as well as to supervise the activity of market infrastructures based on decentralized ledger technology; designation of a competent authority to liaise with the competent authorities of the other member states and communicate with ESMA; introduction of specific supervisory powers and determination of coercive administrative measures and administrative criminal liability in order to ensure compliance with the requirements of the regulation.

The Act Amending and Supplementing the Markets in Financial Instruments Act was promulgated in State Gazette, issue 65/2023.

Draft Act Amending and Supplementing the Recovery and Resolution of Credit Institutions and Investment Firms Act

The proposed amendments and additions are mainly related to ensuring measures for the implementation of 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) 2022/2036)). Regulation (EU) 2022/2036 introduces amendments to Regulation (EU) No.

575/20131 (Article 1 of Regulation (EU) 2022/2036) and Directive 2014/59/EU2 (Article 2 of Regulation (EU) 2022) /2036) in relation to the so-called “chain structure approach”. With the proposed amendments and supplementations to the Recovery and Resolution of Credit Institutions and Investment Firms Act becoming effective, credit institutions and investment firms licensed in the Republic of Bulgaria operate under regulatory conditions that are harmonized with the conditions in other Member States of the European Union. This, in turn, is in the interest of legal security and the single market in the EU. In addition, the changes ensure full harmonization with European legislation. The adoption of the amendments to the Bank Insolvency Act proposed by the transitional and final provisions of the draft act achieves compliance of the legal framework in the field of bank insolvency with the Convention, thus guaranteeing the right of protection of a bank in insolvency proceedings. In addition, the independence of the Bank Deposit Guarantee Fund as a supervisory authority in bank insolvency proceedings is ensured and greater clarity is achieved regarding the competent authorities in bank insolvency proceedings.

The Act Amending and Supplementing the Recovery and Resolution of Credit Institutions and Investment Firms Act was promulgated in State Gazette, 85/2023.

Draft Act Amending and Supplementing the Measures against Money Laundering Act

With the proposed Draft act 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 Report of the Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL Committee). The draft act aims is to improve the effectiveness and achieve full compliance of the Bulgarian AML/CTF 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 Act amending and supplementing the Measures against Money Laundering Act is promulgated in State Gazette No. 60/2023.

Draft Act amending and supplementing the Measures against Money Laundering Act

By order of the Prime Minister of the Republic of Bulgaria, an interdepartmental working group was established, which was assigned to carry out a detailed review of the weaknesses in the preventive legislation against money laundering and the financing of terrorism identified by the MONEYVAL Committee, to carry out a review of the current legislation and to prepare a draft Act amending the Measures against Money Laundering Act to address these weaknesses and achieve a higher level of compliance with the FATF Recommendations. In fulfilling the first part

of its task, the working group carried out a detailed review of the weaknesses in the preventive legislation against money laundering and the financing of terrorism and in the existing legislation found in the report. As a result of the review, it was found that to address some of these weaknesses, it is necessary to adopt amendments and additions to the Measures against Money Laundering Act and the Measures Against the Financing of Terrorism Act, and to address the rest of the identified weaknesses - to propose amendments and additions to other regulatory acts, such as those regulating the powers of other supervisory bodies, acts introducing requirements for registration or licensing of certain categories of obliged entities under Art. 4 of the Measures against Money Laundering Act, etc. In fulfilment of the second part of its task, the working group has prepared texts to amend and supplement the Measures against Money Laundering Act and other relevant legal acts, through which to overcome the weaknesses in the preventive legislation against money laundering and the financing of terrorism established the 18.05.2022 Report on the Republic Bulgaria from the Fifth evaluation round of the MONEYVAL Committee. The draft act introduces the following main amendments: In Art. 4 of the current Measures against Money Laundering Act, new categories of obliged entities are included in order to achieve a higher level of compliance with the requirements of FATF Recommendations 10 and 15, namely persons who by occupation provide transfers or exchanges of virtual assets, storage of virtual assets and their management, enabling the implementation of control over the assets and services related to the public offering of virtual assets, persons who by occupation provide access to safety deposit boxes in public vaults, when they do not fall under the scope of Art. 4, item 1 of the Measures against Money Laundering Act, as well as the representatives under Art. 22 of the Postal Services of Licensed Postal Operators Providing Postal Money Transfers Act.

The introduction of the legislative changes proposed by the draft act helps to overcome the established partial compliances with the FATF Recommendations, contributes to the achievement of higher efficiency of actions to combat money laundering and terrorist financing, both by the competent supervisory authorities and other competent state authorities to which the Measures against Money Laundering Act has assigned specific functions, as well as by the entities obligated under the law. This will positively affect the effectiveness of the implementation of preventive legislation in general and contribute to achieving a higher level of compliance of preventive legislation against money laundering and terrorist financing with the requirements of the FATF Recommendations.

The Act amending and supplementing the Measures against Money Laundering Act is promulgated in State Gazette No. 84/2023.

Draft act amending and supplementing the Insurance Code

In 2023 ended the work of the working group created by Order No. 3-97 of 15.03.2022 of the Chair of the Commission on a draft act to amend and supplement the Insurance Code in connection with the introduction of the adopted Directive (EU) 2021/2118 amending and supplementing Directive 2009/103/EC on mandatory third-party liability insurance for motorists (Motor Directive), which requirements must be transposed into the legislation of EU Member States until 23 December 2023, and the necessity to add changes in order to solve problems that arose in the application of the Insurance Code.

Amendments in the by-laws and regulations

In 2023, the Financial Supervision Commission, in accordance with its regulatory activity program, adopted the following secondary legislation:

Ordinance amending and supplementing Ordinance No. 7 of 27.05.2021 on the procedure for acquisition, recognition and revocation of legal capacity of financial instrument brokers and investment consultants

The adopted changes contribute to maintaining predictability and providing clarity regarding the timing of the examinations for acquiring the right to operate as a broker of financial instruments or as an investment adviser, while providing flexibility in the scheduling of dates for conducting new exams within the current year.

Ordinance amending 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;

Within the framework of the coordinated measures of the Member States of the European Union to limit cooperation with Russia and Belarus in international organizations in connection with the situation in Ukraine, the Act Denouncing the Agreement on Establishing the International Investment Bank and the Agreement on the Organization and Activity of the International Bank For Economic Cooperation (pro., SG No. 14 of 2023) provides for the termination of the membership of the Republic of Bulgaria in the two international financial institutions. The adopted amendments achieve the suspension of the financing of the activities of the International Investment Bank and the International Bank for Economic Cooperation through investments in debt securities issued by the two institutions, and exemption from investments made in such instruments prior to the entry into force of the amendments in the regulation.

Ordinance No. 75 of 06.04.2023 on the requirements to the activities of benchmark administrators

Implementation of the ordinance by benchmark administrators will help ensure the accuracy, stability and credibility of benchmarks and the process for setting them. In this way, users are provided with an opportunity to understand how a given benchmark is set and to be able to assess its representativeness, its importance for individual users and its appropriateness for determining the value of financial instruments and contracts.

Ordinance amending and supplementing Ordinance No. 38 of 21.05.2020 on the requirements to the activities of investment firms

The adopted changes help to increase the quality of the services offered by investment firms and provide protection for investors.

The ordinance amending and supplementing Ordinance No. 38 of 21.05.2020 on the requirements to the activities of investment firms makes amendments and additions in:

- Ordinance No. 8 of 03.09.2020 on the requirements for the activities of the central securities depositories, the central register of securities and other persons carrying out activities related to the settlement of securities, which ensures compliance with the Guidelines on outsourcing to cloud service providers (ESMA 50-164-4285 BG) issued by ESMA;
- Ordinance No. 44 of 20.10.2011 on the requirements for the activity of collective investment schemes, management companies, national investment funds, alternative investment funds and alternative investment fund managers, which ensure compliance with the Guidelines on reporting obligations under Articles 3(3)(d) and 24(1), (2) and (4) of the Alternative Investment Fund Managers Directive (ESMA/2014/869 BG) and the Guidelines on outsourcing to cloud service providers (ESMA50-164-4285 BG), issued by ESMA;
- Ordinance No. 50 of 30.03.2022 on the capital adequacy, liquidity of investment firms and the supervision of their compliance, which ensures compliance with the 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), issued by the EBA;
- Ordinance No. 73 of 28.07.2022 on the disclosure of market data, which ensures compliance with the Guidelines for outsourcing to cloud service providers (ESMA50-164-4285 BG), issued by ESMA;
- Ordinance No. 74 of 09.08.2022 on the activities of market operators, which ensures compliance with the Guidelines for outsourcing to cloud service providers (EOCCP50-164-4285 BG), issued by ESMA.

Ordinance to amend and supplement Ordinance No. 38 of 21.05.2020 on the requirements to the activities of investment firms;

With the entry into force of the Guidance on certain aspects of the MiFID II suitability requirements(ESMA35-43-3172), the issued Guidance on certain aspects of the MiFID suitability requirements (ESMA35-43-1163) is repealed. The guidelines also introduce some new principles, mainly with a view to complying with the requirements for disclosure of information in connection with sustainability in the provision of financial services. Regulation No 38 has already introduced requirements on the suitability assessment arising from the Guidelines on certain aspects of the MiFID suitability requirements (ESMA35-43-1163) issued by the European Securities and Markets Authority (ESMA) for which the Financial Supervision Commission has decided to observe in its supervisory practice.

Ordinance amending and supplementing 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 managers.

The adopted amendments and additions are related to providing measures in national legislation for the requirements of Commission Delegated Directive (EU) 2021/1270 of 21 April 2021 amending Directive 2010/43/EU as regards the sustainability risks and sustainability factors to be taken into account for Undertakings for Collective Investment in Transferable Securities

(UCITS), (Delegated Directive (EU) 2021/1270). The planned executive measures in the national legislation, transposing the requirements of Delegated Directive (EU) 2021/1270, ensure a high level of protection for investors, by expanding the scope of cases of carrying out actions to assess sustainability risks and taking into account the main adverse impacts of investment decisions by the management companies.

Ordinance 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 benefits;

The adopted supplementation to Ordinance No. 58 achieves a complete and accurate transposition into the national legislation of the Republic of Bulgaria of the requirement of Article 10(2)(1) of Delegated Directive (EU) 2017/593, amended by Article 1(3)(a) of Delegated Directive (EU) 2021/1269, thus providing an opportunity for investment firms to offer financial instruments where sustainability factors are covered, including to client groups, for which the financial instrument is not suitable, given their needs, characteristics and objectives. In addition to fully transposing the requirements of Delegated Directive (EU) 2021/1269, the supplementation to Regulation No. 58 encourages investor demand for sustainable investments and contributes to the redirection of capital flows to investments in sustainable development, thus achieving sustainable and inclusive economic growth.

In 2023, drafts of the following secondary legislation were prepared:

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 benefits;

In Ordinance No. 58 of 28.02.2018 on the requirements for the protection of financial instruments and cash of clients, for product management and for providing or receiving remuneration, commissions, other monetary or non-monetary benefits, the requirements of The guidance on MiFID II product governance requirements (ESMA35-43-620) issued by the European Securities and Markets Authority. On 03.08.2023, the European Securities and Markets Authority published on its website Guidelines on MiFID II product governance requirements (ESMA35-43-3448), on the basis of Article 16(1) of 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 guidelines replace the Guidelines on MiFID II product governance requirements (ESMA35-43-620). The new items in the Guidance on MiFID II product governance requirements (ESMA35-43-3448) relate to the sustainability objectives with which the product is compliant. With Decision No. 888-N dated 28.09.2023, the Financial Supervision Commission has announced that it intends to comply with the Guidelines on MiFID II product governance requirements (ESMA35-43-3448) in its

supervisory practice. In connection with the above, there is a need to make amendments and supplementations to Ordinance No. 58. It is expected that the proposed amendments and supplementations to Ordinance No. 58 will contribute to ensuring a consistent and uniform application of product governance rules on the territory of the EU, as well as lead to an increase in the degree of protection of investors' interests.

Draft Ordinance No. 22 on the terms and conditions for registration and de-registration of public companies, other issuers of securities and issues of securities

The current Ordinance No. 22 of 29.07.2005 on the terms and conditions for registration and de-registration of public companies, other issuers of securities and issues of securities in the register of the Financial Supervision Commission was adopted on the basis of paragraph 16, para. 1 of the transitional and final provisions in connection with Art. 79a, para. 2, Art. 100 z, para. 4, Art. 110, para. 8 of the Public Offering of Securities Act. With the adoption of measures to implement Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC (OJ, L 168/12 of 30 June 2017), Art. 79a, para. 2, as well as the entire sections I and II of Chapter Six of the Public Offering of Securities Act are repealed. The new regulations adopted by the legislator completely change the concept regarding the public offering of securities and the disclosure of information regarding issuers under Art. 100k of the Public Offering of Securities Act. Given that the changes required in the current act are substantial and numerous, a new draft has been prepared of Ordinance No. 22 on the terms and conditions for registration and de-registration of public companies, other issuers of securities and issues of securities, and Ordinance No. 22 of 29.07.2005 on the terms and conditions for the registration and de-registration of public companies, other issuers of securities and issues of securities in the register of the Financial Supervision Commission is planned to be repealed.

Draft Ordinance amending and supplementing Ordinance No 50 of 30.03.2022 on capital adequacy, liquidity of investment firms and supervision of compliance thereof

The main purpose of the proposed draft ordinance amending and supplementing Ordinance No 50 of 30.03.2022 on capital adequacy, liquidity of investment firms and supervision of compliance thereof aims to ensure compliance with the Guidelines on certain aspects of the MIFID II remuneration requirements (ESMA35-43-3565) as well as reducing the administrative burden. In the draft ordinance amending and supplementing Ordinance No. 50, additional technical revisions are proposed in order to unify the national legislative framework with the European one.

In 2023, experts from the Financial Supervision Commission participated in working groups on the preparation of a draft amending and supplementing the Regulations for the Implementation of the Measures against Money Laundering Act. In § 64 of the Transitional and final provisions of the Act to amend and supplement the MAMLA, (SG, no. 84/2023) an obligation has been introduced for the Council of Ministers to adopt amendments and additions to the Regulations for Implementation of the Measures against Money Laundering Act within 6 months

from the entry into force of the act in order to bring the regulations into line with the provisions of the Measures against Money Laundering Act. With the adoption of the proposed amendments and additions, the effectiveness of the state in carrying out its functions of exercising control over the implementation of these measures will increase.

Draft Ordinance amending and supplementing Ordinance No. N-9 of 7 August 2020 on the terms and conditions for entry in the register of providers engaged in exchange services between virtual currencies and fiat currencies by occupation, and of the custodian wallet providers.

The draft ordinance amending and supplementing the Ordinance under Art. 9a of the Measures against Money Laundering Act has mainly the purpose of bringing the Ordinance into line with the latest amendments to the Measures against Money Laundering Act, as well as meeting the recommendations of the Financial Action Task Force (FATF).

1.2. New aspects of EU policy

Regulations and Directives of the European Union

In the past 2023, the following acts were published in the Official Journal of the European Union:

REGULATIONS

1. Regulation (EU) 2023/1114 of the European Parliament and of the Council of 31 May 2023 on markets in crypto-assets, and amending Regulations (EU) No 1093/2010 and (EU) No 1095/2010 and Directives 2013/36/EU and (EU) 2019/1937

The regulation introduces a specialized and harmonized framework for the regulation of crypto-asset markets, with the aim of supporting innovation, ensuring fair competition and a high level of protection for non-professional holders and the integrity and resilience of the markets in which crypto-assets are traded. The crypto-assets themselves are classified into three separate types, subject to different requirements depending on the risks they entail, respectively, different rules apply to persons seeking admission to trading with the corresponding type of cryptoassets.

The regulation also amends Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority); 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); Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms and Directive (EU) 2019/1937 of the European Parliament and of the Council of 23 October 2019 on the protection of persons who report breaches of Union law.

This Regulation enters into force on the twentieth day following that of its publication in the Official Journal of the European Union, and will apply from 30 December 2024.

Certain paragraphs apply by way of derogation from 29 June 2023 and 30 June 2024 respectively.

2. Regulation (EU) 2023/1113 of the European Parliament and of the Council of 31 May 2023 on information accompanying transfers of funds and certain crypto-assets and amending Directive (EU) 2015/849

The regulation lays down rules on the information on payers and payees accompanying transfers of funds, in any currency, and on the information on originators and beneficiaries accompanying transfers of crypto-assets, for the purposes of preventing, detecting and investigating money laundering and terrorist financing, where at least one of the payment service providers or crypto-asset service providers involved in the transfer of funds or transfer of crypto-assets is established or has its registered office, as applicable, in the Union. In addition, this Regulation lays down rules on internal policies, procedures and controls to ensure implementation of restrictive measures where at least one of the payment service providers or crypto-asset service providers involved in the transfer of funds or transfer of crypto-assets is established or has its registered office, as applicable, in the Union.

In order to ensure consistency with Regulation (EU) 2023/1114, this Regulation should also apply from the date of application of the above Regulation. By that date, Member States should also implement the amendments to Directive (EU) 2015/849 into their legislation.

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. It applies from 30 December 2024.

Regulation (EU) 2015/847 is repealed from the date of application of said regulation.

3. Regulation (EU) 2023/2631 of the European Parliament and of the Council of 22 November 2023 on European Green Bonds and optional disclosures for bonds marketed as environmentally sustainable and for sustainability-linked bonds

The regulation introduces a common legal framework that issuers of green bonds should comply with, regardless of whether they are based in or outside the EU, if they wish to offer their bonds labelled as “European Green Bonds” to investors in the EU. The standard to which such bonds need to comply, according to the regulation in question, includes the following specifics:

- link between the use of proceeds and the EU Taxonomy of Sustainable Activities;
- an optional disclosure regime for bonds that are offered in the EU as environmentally sustainable, as well as for sustainability-related bonds;
- a voluntary regime introducing a simplified disclosure regime for bonds traded as environmentally sustainable or sustainability-related;
- providing supervisory and sanctioning powers to national competent authorities.

Environmentally sustainable bonds are one of the main instruments for financing investments related to environmentally sustainable technologies, energy and resource efficiency, as well as environmentally sustainable transport and research infrastructure. Issuers of such bonds can be both financial and non-financial undertakings, but also non-corporate entities such as public entities.

This Regulation entered into force on the twentieth day following that of its publication in the Official Journal of the European Union, and will apply from 21 December 2024, and only some expressly indicated provisions will apply from 20 December 2023.

4. Regulation (EU) 2023/606 of the European Parliament and of the Council of 15 March 2023 amending Regulation (EU) 2015/760 as regards the requirements pertaining to the investment policies and operating conditions of European long-term investment funds and the scope of eligible investment assets, the portfolio composition and diversification requirements and the borrowing of cash and other fund rules

The purpose of this Regulation is to provide an effective legal framework for the operation of ELTIFs throughout the territory of the European Union and to promote long-term financing by raising and channelling capital to long-term investments in the real economy in line with the Union's objective of smart, sustainable and inclusive growth.

The adoption of the regulation introduces basic amendments to Regulation (EU) 2015/760 regarding: eligible investment assets; the prevention and cessation of conflicts of interest; portfolio composition and diversification; the requirement to rectify investment positions; concentration limits; the conditions for borrowing of cash; the prerequisites for redemption of ELTIF shares or units; the progress of the internal assessment process for ELTIFs that can be offered to non-professional investors; review of sustainability aspects of ELTIFs.

DIRECTIVES

Directive (EU) 2023/2673 of the European Parliament and of the Council of 22 November 2023 amending Directive 2011/83/EU as regards financial services contracts concluded at a distance and repealing Directive 2002/65/EC

The addressees of the directive are the Member States, which are charged with the obligation to create additional guarantees to protect the rights of users of financial services at a distance. In addition, a series of rights for consumers are introduced, which aim to facilitate the conclusion, withdrawal from and execution of contracts for the use of financial services at a distance in accordance with technological progress and achievements in the development of electronic technologies.

Said provisions will start to apply from 19 June 2026, on which date Directive 2002/65/EC of the European Parliament and of the Council of 23 September 2002 concerning the distance marketing of consumer financial services and amending Council Directive 90/619/EEC and Directives 97/7/EC and 98/27/EC.

The deadline for implementing the directive into the national legislation of the Member States is 19.12.2025.

DELEGATED REGULATIONS AND IMPLEMENTING REGULATIONS

In the past year 2023, over 40 delegated regulations were published in the Official Journal of the European Union: They complement the provisions of the EU regulations and directives, as the acts on the implementation of the regulations on environmentally sustainable economic activities were published during the year.

Legislative proposals

Proposal for a Regulation of the European Parliament and of the Council on the transparency and integrity of Environmental, Social and Governance (ESG) rating activities

The main objective of the proposal for a regulation is to ensure that ratings become a more reliable and transparent component of the sustainable finance value chain. This initiative is part of the measures proposed by the EC to contribute to the objectives of the European Green Deal by improving the flow and quality of information on which investors, companies and other stakeholders base their decisions. ESG ratings play an important and beneficial role in the proper functioning of the EU sustainable finance market by providing a basis for assessments that can be used by investors and financial institutions for investment strategies, risk management and internal analysis. They are also used by companies seeking to better understand the sustainability risks and opportunities associated with their activities or those of their partners.

The EC considers that the needs of consumers and rated companies in relation to ESG ratings are not met and confidence in the ratings is undermined. According to the EC's assessment, this problem has a number of aspects, mainly a lack of transparency regarding the methodologies and objectives of ESG ratings, and a lack of clarity regarding the management of potential conflicts of interest.

As the decisions of investors and businesses are decisive for the transition to a climate-neutral economy, measures need to be taken to promote trust in the activities of ESG rating providers by ensuring that the market functions properly and that providers of ESG ratings prevent and manage conflicts of interest.

Proposal for a Regulation of the European Parliament and of the Council on a framework for Financial Data Access and amending Regulations (EU) No 1093/2010, (EU) No 1094/2010, (EU) No 1095/2010 and (EU) 2022/2554

The proposal establishes a framework for open access to data of individual customers and companies in order to provide a wide range of financial services (the so-called "open finance"). It builds on the already existing "open banking" regulations, which regulate access to customer data held by payment service providers servicing accounts. The proposal follows a customer-centric approach. One of the key objectives of the proposed regulation is to ensure that all users have effective tools to control the use of their financial data. In this regard, additional tools have been provided to ensure the protection of personal data in accordance with the General Data Protection Regulation (GDPR) and to apply the general principles for sharing data between companies in accordance with the proposed Data Act.

The subject of the EC legislative proposal is customer data that financial institutions normally collect, store and process as part of their usual interaction with customers (individuals and legal entities), such as: customer data, the initiative covers loans, savings, investments, occupational and personal pensions and non-life insurance. The inputs collected for the purpose of assessing suitability and appropriateness as defined in Article 25(2) and Article 25(3) of Directive 2014/65/EU and input data collected for the purpose of assessing the creditworthiness of companies are also included in the scope.

Only an opportunity, not an obligation, is provided for customers to share their data with so-called “data users” (e.g. financial institutions or fintech companies) in machine-readable format to receive new, cheaper and better data-driven financial and information services. For this purpose there is an obligation for the so-called “data holders” (the financial institutions) to provide access to this data at the customer's request to other financial institutions (“data users”), for which all financial institutions should have implemented the necessary technical infrastructure. The proposal establishes requirements to ensure the responsible use and security of data, providing dashboards for access to financial data through which customers can monitor all permissions, grant new ones or revoke already given ones at their discretion. Additionally, measures have been arranged to ensure that there will be no discrimination or restrictions in access to services as a result of using the provided data.

Retail Investment Strategy Package

The purpose of the proposed amendments is to enable retail investors to make investment decisions that are consistent with their needs and preferences, while ensuring that investors are protected and treated fairly. This will increase the trust and confidence of retail investors to invest safely in the long term and take full advantage of the EU Capital Markets Union.

The changes that are envisaged are in the following acts:

- Directive amending the following directives: Directive 2014/65/EU (MIFID), Directive 2009/65/EU (UCITS), Directive 2011/61/EU (AIFMD), Directive 2009/138/EC (Solvency II) and Directive 2016/97/EU (IDD) ;

- Regulation amending Regulation 1286/2014 (PRIIPS).

The package includes wide-ranging measures to:

- Improving the way information is provided to retail investors about investment products and services in a more standardized and meaningful way by adapting disclosure rules to the digital age;

- Increase transparency and comparability of costs by requiring the use of standard presentation and terminology for costs. This will ensure that investment products bring real value to retail investors;

- Ensuring that all retail clients receive at least once a year a clear view of the investment performance of their portfolio;

- Resolving potential conflicts of interest in the distribution of investment products by prohibiting “execution-only” sales incentives (i.e. where no advice is provided) and ensuring that financial advice is best aligned with retail investors' interests. Stronger safeguards and transparency are introduced where incentives are permitted;

- Protecting retail investors from misleading marketing by ensuring that financial intermediaries take full responsibility for the use (and misuse) of their marketing communication, including when it is made via social media, celebrities or other third parties who reward or incentivize;
- Encouraging Member States to implement national measures that can support the financial literacy of citizens, regardless of their age, social and educational background;
- Reducing the administrative burden and improving the accessibility of products and services for experienced retail investors, making the eligibility criteria for a professional investor more proportionate;
- Strengthening supervisory cooperation to make it easier for national competent authorities and European supervisory authorities to ensure that the rules are applied correctly and effectively in a consistent way across the EU and to jointly fight fraud and abuse.

Proposal for a Regulation of the European Parliament and of the Council amending Regulations (EU) No 1092/2010, (EU) No 1093/2010, (EU) No 1094/2010, (EU) No 1095/2010 and (EU) 2021/523 as regards certain reporting requirements in the fields of financial services and investment support

The proposal is part of a first package of measures to streamline and rationalise reporting requirements - part of a process looking comprehensively at existing reporting requirements, with a view to assess their continued relevance and to make them more efficient. It builds on existing rules that already provide for information exchange between authorities in a given sector of financial services, by strengthening the legal basis for data sharing between authorities, including across sectors. This is to avoid duplicate data requests where multiple authorities have powers to collect certain data from financial institutions or other market participants (whether the authorities already collect them or not) but lack the express legal reason to share them with each other. The proposal is complemented by a mandate for the authorities to regularly review and remove reporting requirements that have become redundant or obsolete for instance due to enhanced information exchange. This will avoid that businesses have to report the same information twice. It also aims to facilitate access to clean or processed versions of such data.

The proposal should also increase the European Commission's capacity to obtain data for policy-making and to carry out impact assessments and general assessments in line with the EC's better regulation agenda, while avoiding costs (both for the EC, as well as to the entities providing the information) that would otherwise have been incurred in collecting the information by other means. Only the data that do not allow the identification of individual subjects will be accessible.

The proposal also aims to support the use of information for the purpose of research and innovation in financial services, by allowing, under strict measures for data protection, intellectual property rights and trade secrets, the sharing of information held by authorities with financial institutions, researchers, and other entities with a legitimate interest. This proposal thus complements Regulation (EU) 2022/868 (Data Governance Act) by creating a sector-specific provision in EU law that allows the re-use of data collected by authorities in relation to research and innovation activities.

Proposal for a Regulation of the European Parliament and of the Council amending EU Regulation 2016/1011 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 (so-called Benchmark Regulation)

The aim of the legislative proposal is to streamline the reporting obligation and reduce the administrative burden for benchmark administrators under the Benchmark Regulation. It is proposed that all administrators of benchmarks, which are not economically significant for the EU, be excluded from the scope of the regulation, and accordingly not be obliged to fulfil the requirements of the regulation. A review of the third-party regime is also proposed to provide a more relaxed approach for third-party benchmarks used in the EU, due to the strong dependence of EU benchmark users on third-party benchmarks.

2. Licensing activity, authorization regimes, notifications and certification

2.1. Licensing activity and authorization regimes

Investment firms, Tied agents, Central Securities Depository, Investor Compensation Fund, Trading venues and crowdfunding services providers

In the beginning of 2023, one procedure for issuing a license to operate as an investment firm (IF) was terminated. During the year, the license of one IF was extended (IF AVS Finance AD) and one decision was made to withdraw the license of an IF at its request (voluntary withdrawal of Aval in AD). At the end of the year, one application was submitted for issuing a license to provide investment activities and services, and the proceedings were completed in 2024. Additionally, in 2023, KBC Bank Bulgaria EAD merged with United Bulgarian Bank AD, which reduces the number of bank IFs.

Due to the above, at the end of 2023 the total number of investment firms is 53, incl. 19 banks¹ and 34 non-bank investment firms. The number of investment firms (banks and non-bank 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 14.

In 2023, the first three applications for issuing a license to operate as a crowdfunding service provider were submitted, on the basis of which 3 licenses were issued at the end of the year (Afranga EOOD, Patient Capital EOOD and Collective Financing AD). Two of the licenses cover both basic services under Art. 2, para. 1, letter “a” of Regulation (EU) of the European Parliament and of the Council of 7 October 2020 on European crowdfunding service providers for business, and amending Regulation (EU) 2017/1129 and Directive (EU) 2019/1937. The third license covers only the loan facilitation service, but also includes one additional service - servicing an information board.

¹The 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, CSDs, trading venues and crowdfunding service providers

	Number as at 31.12.2022	Licenses issued (no.)	Licenses revoked (no.)	Number as at 31.12.2023
Investment firms, including:	*55	0	2**	53
Non-bank institutions	35	0	1	34
Regulated market	1	0	0	1
Multilateral trading facility	2	0	0	2
Central securities depositories	1	0	0	1
Crowdfunding service providers	0	3	0	3

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-bank investment firms.

**The only license is for KBC Bank Bulgaria EAD which merged into United Bulgarian Bank AD.

In 2023, 10 applications for approval of election of a member of a management or supervisory body of IFs were considered, there were no rejections. A greater part of the operating IFs have brought their management in line with the applicable regulations by simultaneously applying the requirements of the MFIA and the CA, which has led to a decrease in the number of this type of proceedings.

In 2023 the FSC completed 1 assessment procedures for acquisition of qualified holdings of the capital or the votes in the general assembly of an investment firm were examined, resulting in no acquisition bans. During the year, no transfer of a qualified holding was considered insofar as the transferors in the acquisition proceedings held below the threshold for a qualified holding.

In 2023, 9 applications were considered for exemption under Art. 5, para. 1, item 10 of the MFIA.

Of the total number of administrative procedures completed in 2023 in respect of investment firms, 4 are related to proceedings for the issuance, extension or revocation of a license to operate as an investment firm, and 10 were related to approval of a member of a management or supervisory body of an investment firm, and 1 is related to assessment for acquisition of a qualified holding. At the end of the year, 3 proceedings related to the activity of IFs were under consideration.

Within 2023, 6 proceedings on applications for entry of a tied agent in the register kept by the FSC were considered, 5 of them ended with the entry of the tied agent, and 1 was terminated by request of the applicant.

Within 2023, 3 proceedings were considered in connection with the activities of the Bulgarian Stock Exchange AD and the Central Depository AD. Two of the proceedings were for the approval of changes in the Regulations for the Operation of the Bulgarian Stock Exchange AD, and the third is related to the issued authorization for the acquisition of participation pursuant to Article 18(3) 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 of Central Depository AD in another company. In 2023, no proceedings related to the Investor Compensation Fund (ICF) were considered.

Since the first licenses to operate as a crowdfunding service provider were issued in 2023, approvals of changes related to the activities of these providers were not considered within the year.

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

	Not concluded as at 31.12.2022 (no.)	Newly opened in 2023 (no.)	Concluded in 2023 (no.)	Not concluded as at 31.12.2023 (no.)
Investment firms	7	19	23	3
Tied agents	2	4	6	0
Regulated market	0	2	2	0
Multilateral trading facilities	0	0	0	0
Organized trading facilities	0	0	0	0
Central securities depository	0	1	1	0
Data reporting service providers	0	0	0	0
Investor Compensation Fund	0	0	0	0
Crowdfunding service providers	0	0	0	0
Other proceedings*	4	26	27	3

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, crowdfunding service providers and the CD.

Management companies, collective investment undertakings and alternative investment fund managers

In 2023, two licenses were issued to operate as a management company (Thracian Invest EAD and Bluesmart Investments AD). Within the year, an authorization was issued and a transformation was carried out by merging the management company KBC Investment Management EAD into KBC Asset Management N.V. (Belgium).

In 2023, two authorizations were issued to MCs to organize and manage MFs (MF Navigator Plus and MF Thracian Alternative Income). Two more such authorizations were requested to be issued during the year.

In the beginning of 2023, 7 authorizations for transformation of mutual funds were issued. 6 of these authorizations are related to the merger of the funds managed by MC KBC Investment Management EAD into 5 sub-funds of MF UBB ExpertEase and MF UBB Platinum Bulgaria,

managed by MC KBC Asset Management NV, Belgium. The sixth proceeding ended with permission for the merger of MF Astra Energy into MF Astra Cash Plus, managed by MC Astra Asset Management AD.

As a result of the mentioned proceedings, 7 MFs (MF Conservative Fund Bulgaria, MF Raiffeisen (Bulgaria) Active Protection in Euro, MF Raiffeisen (Bulgaria) Active Protection in BGN, MF Raiffeisen (Bulgaria) Global Balanced Fund, Raiffeisen (Bulgaria) Global Growth Fund, Raiffeisen (Bulgaria) Global Mix Fund and Astra Energy Fund) were removed from the FSC register.

In 2023, 1 authorization was issued for the organization and management of a national investment fund - an open-end national mutual fund Capman G-7 & Hong Kong. Within the year, 1 more application was submitted for the issuance of an authorization to organize and manage a national investment fund, which has not ended yet. In 2023, 1 authorization for the organization and management of a national investment fund was revoked by request of the managing MC (a closed-end national mutual fund Advance Alternative Fund.)

During 2023 no licenses were issued to operate as an alternative investment fund managers (AIFMs). 2 authorizations were issued for changes to documents of alternative investment funds managed by licensed AIFMs.

At the beginning of the year, 3 AIFMs were registered under Art. 214 et seq. of CISOU CIA (MC Smart Fund Asset Management EAD, MC Capman Asset Management AD and Alphastar Ventures AD). Alphastar Ventures AD is the first registered AIFM that manages a European venture capital fund (Alphastar Capital KDA). Within the year, the first change in the documents of Alphastar Capital KDA was reviewed. In 2023, one AIFM was deregistered under Art. 214 et seq. of CISOU CIA (Innovation Starter Box EOOD) and two new applications for registration of AIFMs have been submitted.

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

	Number as at 31.12.2022	Issued licenses/ authorizations/registrations(no.)	Revoked licenses/ Authorization (no.)	Number as at 31.12.2023
Management companies	30*	2	1**	31
Mutual funds	113	2	7***	108
National investment funds (NIFs)	14	1	1	14
Alternative Investment Fund Managers - license	4	0	0	4
Alternative Investment Fund Managers - registration	19	3	1	21

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

** As a result of the merger of MCs into another MC from the EU

** The revoked authorizations are a result of transformation of the MF.

In 2023, 21 proceedings were considered for approval of a new member of the management or supervisory body of management companies, no rejections were given. In the reporting period, 2 proceedings for issuing an authorization for a feeder scheme to continue investing in a transformed master scheme, 4 notifications regarding the intention to acquire a qualifying holding in a management company and 3 notifications regarding the intention to transfer such holding.

During 2023, 421 procedures under Art. 18 of CISOUCA for approval of changes in the documents of mutual funds were considered - 122 approvals for changes to the rules for under Art. 13, para. 2 of the CISOUCA for mutual funds, 102 approvals for changes of portfolio valuation rules and determination of the net asset value, 105 approvals for changes of risk assessment and management rules and 91 approvals for changes in the contracts for depository services and 1 approval for the replacement of a depository bank.

In 2023, 46 proceedings under Art. 179 of CISOUCA for approval of changes in rules and contracts for depository services of national investment funds were considered.

During the reporting period, 5 proceedings related to alternative investment fund managers were concluded and 7 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 31.12.2022 (no.)	Newly opened in 2023 (no.)	Concluded in 2023 (no.)	Not concluded as at 31.12.2023 (no.)
Management companies	2	33	33	2
Mutual funds	70	369	437	2
National investment funds	3	46	48	1
Alternative investment fund managers	2	5	5	2
Alternative investment funds	0	4	2	2
Other proceedings*	3	25	24	4

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 2023 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.

In 2023, there were no forcefully revoked licenses of special purpose investment companies.

In 2023 there were 2 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 -Invest Property SPIC (SPIC for real estate investment) and Luke SPIC (SPIC for real estate investment).

In 2023 there were no decisions to issue an authorization for termination of a special purpose investment companies, for revoking their licenses and for approvals of liquidators under Art. 33 of the SPICSCA.

In 2023 there were no decisions to issue an authorization for transformation of a special purpose investment company under Art. 32 of the SPICSCA.

As of the end of 2022, there are 51 companies licensed to operate as SPICs, and at the end of 2023 their number is 49. For comparison, a total of 81 companies have received a license to operate as a special purpose investment company, of which 33 SPICs have their licenses revoked as of 31.12.2023.

Table 5. Licensing activity with respect to SPICs

	Number as at 31.12.2022	Licenses issued in 2023 (no.)	Licenses revoked in 2023 (no.)	Number as at 31.12.2023
SPICs including:	51	0	2	49
SPICs investing in receivables	9	0	0	9
SPICs investing in real estate, including:	42	0	2	40
SPICs (agricultural land)	7	0	-	7

Irrespective of the public status of Special Purpose Investment Companies, given the exceptional nature of their objects, regarding special purpose investment companies, there are stricter regulatory requirements which require prior approval by the FSC for changes in their articles of association and other foundation acts of special purpose investment companies in connection with changing a depository bank, approval of third parties under Art. 27, para. 4 of SPICSCA, approval of amendments and supplementation to contracts with third parties under Art. 27, para. 4 of SPICSCA, and in the other statutory documents related to the replacement of the depository bank and the servicing company. In this sense, the main part of the administrative procedures regarding SPICs, apart from the procedures for issuing and revoking licenses, are related to requested approval procedures.

In relation to the activity of Special Purpose Investment Companies and the regulatory requirements for that activity according to the current SPICA in 2023 the FSC reviewed and issued decisions on a total of 66 proceedings, considered as follows:

- The FSC has issued 20 decisions for the approval of the planned changes in the Articles of Association or for the approval of new Articles of Association;
- The FSC has not issued any 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;

- The FSC has issued 16 decisions for the approval of persons as members of the Board of directors of special purpose investment companies;
- The FSC has issued 22 decisions for issuing approval for the assignment of activity to a third party under Art. 27, para. 4 of the SPICSCA regarding the activity of SPICs;
- The FSC has issued 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 a third-party as per Art. 17, 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 2023, the FSC received no applications and, accordingly, no licenses/decisions were issued related to proceedings regarding securitisation companies and STS compliance agents.

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 2023, no new public companies (without SPICs) were entered in the said register. In 2023, 6 new securities issuers (Bulgarian Financial House AD, KB Agro Industries EAD, Allianz Bank Bulgaria AD, Student Center AD, Finance Plus Management Holding AD and Elana Financial Holding AD) were added to the public register kept by the FSC.

During the period in questions, there are a total of 4² companies delisted from the register maintained by the FSC, of which 2 are public companies (Invest Property AD and Luke SPIC) and 2 issuers of securities (Elana Financial Holding AD and International Bank for Economic Cooperation).

It should be kept in mind that during the reporting year, 2 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 (Elpo AD and Stoyinvestholding AD).

During the reporting 2023, there were no rejections or terminated proceedings 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 2023 was 234.

² The total number of 4 deregistered companies (public companies and issuers of securities) does not include 2 companies, which during the period were deregistered as public companies ex officio.

Table 6. Public companies and other issuers of securities

	Number as at 31.12.2022	Registered companies (no.)	Deleted companies (no.)	Number as at 31.12.2023
Public companies and other issuers*	232	6****	4***	234**

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 4 deregistered companies (public companies and issuers of securities) does not include 2 companies, which during the period were deregistered as public companies ex officio.

**** The total number of 6 registered companies represents the newly registered issuers of securities in 2023 as a result of approved prospectuses for admission to trading on a regulated market of the bond issues issued by these companies.

Regarding the activity of public companies and issuers of securities, in 2023, in addition to the registration and de-registration proceedings of public companies and issuers, a total of 37 applications for approval of prospectuses and 1 supplement were submitted, and a total of 30 prospectuses were approved during the year and 1 supplement to a prospectus was approved, which in turn represents an increase of 58% compared to the previous period (2022), when a total of 19 prospectuses were approved

In 2023, 2 rejections for approval of prospectuses were issued.

The structure of the 30 prospectuses approved in 2023 is as follows:

- 8 prospectuses for the initial public offering of shares;
- 2 prospectuses for initial public offering of bonds;
- 2 prospectuses for initial public offering of warrants;
- 18 prospectuses for admission to trading on a regulated market of bond issues.

In 2023, there were no approved prospectuses for admission to trading on a regulated market of share issues, as well as no approved prospectuses for public offering and/or admission to securities issues on European markets.

During the year under review, no decisions were issued to terminate or suspend proceedings for the approval of a prospectus.

At the end of the year, there were 8 pending approval proceedings of various types of prospectuses, which were completed in the 1st quarter of 2024.

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 2023 a total of 38 issues of securities were entered in the FSC register, distributed as follows:

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

- 2 issues of bonds were registered as a result of successfully completed initial public offerings;
- 2 issues of warrants were registered as a result of successfully completed initial public offerings;

During the reporting year, a total of 10 issues of securities were deleted from the register of public companies and other issuers of securities, kept by the FSC, with structure as follows:

- a total of 4 share issues were deleted;
- 6 bond issues were deleted;

In 2023 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 2023, a total of 9 proceedings on registered tender offers and offers for redemption of shares were considered. With regard to the tender offers and redemption offers considered in 2023, the following decisions have been issued:

- 6 decisions to issue a temporary ban to publish the offers;
- 8 decisions by protocol for not issuing a final ban to publish the offer;
- 1 approved (tacit consent) offer for redemption of own shares;
- 1 decision to issue a final ban to publish a tender offer;

In 2023, no decisions were made to terminate proceedings for consideration of registered tender offers and redemption offers.

In 2023, 2 proceedings for consideration of tender offers, which started in December 2022, were also completed, respectively the information presented above about the decisions issued by the FSC in connection with the tender offers considered in 2023, includes the decisions on these 2 proceedings.

As of the end of 2023, there are no pending proceedings regarding consideration of tender offers.

In the reporting year 2023, a total of 4 proceedings were initiated for the approval of transformation documents with the participation of public companies under Art. 124, para. 1 of the POSA, and during the year 3 approvals of transformations with the participation of public companies were issued.

As of 31.12.2023, there is 1 pending transformation approval proceeding under Art. 124, para. 1 of the POSA, which ended in January 2024.

In 2023, 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 no refusals or terminated proceedings for approval of documents for transformation with participation of public companies.

In 2023, 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 31.12.2022 (no.)	Newly opened in 2023 (no.)	Concluded in 2023 (no.)	Not concluded as at 31.12.2023 (no.)
SPICs	0	0	0	0
PCs and issuers	4	90	85	9
Other proceedings*	0	36	36	0

Note: *The replies to inquiries, requests for opinions, interpretations of regulatory provisions, opinions on complaints and other issues related to the activities of public companies and issuers were reported as other proceedings in 2023.

Insurance and reinsurance

In the end of 2023, the licensed insurance companies based in the Republic of Bulgaria are 35, the non-life insurers are 24, life insurers are 10 , and 1 company is a reinsurer for non-life and life insurance.

In 2023, with Decision No. 180-O3 of 09.02.2023, the FSC issued an initial license to Insurance Company MFG INS EAD (in the process of establishment) with headquarters and address of management: city of Sofia, complex Lyulin 7, 28 Jawaharlal Nehru Blvd., ATC Silver Center, fl. 3 for carrying out insurance activities under the following classes of insurance, according to Appendix No. 1, Section II, Letter "A" of the Insurance Code:

- **item 1 Accident (including industrial accidents and occupational diseases):**
 - - fixed amounts of money;
 - - compensation;
 - a combination of the two;
 - personal injury to passengers.
- ❖ **item. 8 Fire and natural forces: any damage or loss to property (other than property included in classes 3, 4, 5, 6 and 7) as a result of:**
 - fire;
 - explosion;
 - storm;
 - natural disasters other than storms;
 - nuclear energy;
 - landslides.
- ❖ **item 16 Miscellaneous financial loss**
 - employment risks;
 - insufficient income (total);
 - bad weather;
 - lost profits;
 - long-term overheads;
 - unforeseen commercial costs;
 - loss of market value;
 - loss of rent or income;

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

❖ **item 18 Travel assistance: Assistance for persons who have fallen into difficulties while traveling when they are away from home or their habitual residence.**

With the decision the FSC determines the status of Insurance Company MFG INS EAD (in the process of establishment) with headquarters and address of management: city of Sofia, complex Lyulin 7, 28 Jawaharlal Nehru Blvd., ATC Silver Center, fl. 3 as an insurer with the right of access to the single market according to Art. 15, para. 1 of the Insurance Code, which should apply part two, title three of the Insurance Code.

As at the end of 2023, the FSC issued a decision to extend the scope of the license of European Insurance Company AD, with headquarters and address of management: city of Sofia, region Lozenets, 67A Tsanko Tserkovski Str., a 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, 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 Insurance Code;**

❖ **item 15 Suretyship:**

- direct suretyship;
- indirect suretyship.

The decision changes the status of European Insurance Company AD as an insurer with the right of access to the single market according to Art. 15, para. 1 of the Insurance Code, which should apply part two, title three of the Insurance Code.

At the end of the period, there are 10 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). There are 2 insurance branches established on the territory of the Republic of Bulgaria, which as of 31.12.2023 carry out non-life insurance activity, are a total of 8, while the branches carrying out life insurance activity.

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 BRANCH	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 31.12.2022	Licenses issued	Licenses revoked	Number as at 31.12.2023
Insurers and reinsurers including:	34	1	-	35
Non-life insurance	23	1	-	24
Life insurance	10	-	-	10
Non-life reinsurance companies	1*	-	-	1*
Life reinsurance companies	1	-	-	1
Branches of foreign insurers	10	-	-	10
Insurance brokers	339	9	4	344

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

In 2023 there were no applications for approval of the acquisition of qualifying holdings in insurance companies:

In 2023, the FSC issued 5 decisions on the application of the regulatory regimes under the Insurance Code to insurers with revoked licenses:

During the reporting period, the FSC 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. At a meeting of the FSC according to Minutes No. 2 of 10.01.2023, the FSC considered and adopted a proposal on the grounds of Art. 523, para. 4 of the Insurance Code, to approve 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. 32-4/22/12/2022, on the basis of the Arbitration decision of 13.10.2021 and the Convention of 1995.

2. At a meeting of the FSC according to Minutes No. 6 of 24.01.2023, the FSC adopted Decision No. 71 - O3 of 24.01.2023, which extends by one year the term for liquidation of "IC EUROAMERICAN AD determined by Decision No. 123 - O3 dated 11.03.2021 of the FSC, extended by decision No. 149-O3 dated 24.02.2022 of the FSC, effective from 10.01.2023.

3. At a meeting of the FSC according to Minutes No. 25 of 30.03.2023, reports and letters received by the FSC were considered regarding the activities and status of IC Nadezhda AD, whose license to operate as an insurer was revoked according to FSC Decision No. 1132- OZ from 17.08.2017, namely: application, ref. No. No. ПГ-10-82-13/12.01.2023 by Mr. Viktor Serov; report, ref. No. ПГ-10-82-13/20.01.2023, of the conservator of IC Nadezhda AD; report, ref. No. ПГ-10-82-1/06.02.2023, of the conservator of IC Nadezhda AD; letter, ref. No. ПГ-10-82-2/07.02.2023, of the conservator of IC Nadezhda AD; letter, ref. No. ПГ-10-82-13/22.02.2023 by Mr. Viktor Serov; opinion, ref. No. ПГ-10-82-2/27.02.2023, of the conservator of IC Nadezhda AD; report, ref. No. ПГ-10-82-13/14.03.2023, of the conservator of IC Nadezhda AD, appointed according to Decision of the FSC No. 1132-O3 of 17.08.2017; letter, int. No. ПГ-10-82-3/17.03.2023, of the conservator of IC Nadezhda AD; a decision was made:

- that a request be made to the competent court for the opening of bankruptcy proceedings of IC Nadezhda AD, for the appointment of the Guarantee Fund as the liquidator of the company and for the suspension of the bankruptcy proceedings pending the resolution of the administrative legal dispute regarding Decision No. 1132- O3 17.08.2017 for revocation of the license to operate as an insurer of Nadezhda AD;

- Pursuant to the decision of 11.04.2023, a request was filed in the Sofia City Court (ref. No. 34944) for the opening of bankruptcy proceedings for IC Nadezhda AD, in compliance with the decision made by the FSC on 30 March 2023 (item 7 of protocol-excerpt No. 25).

4. At a meeting of the FSC under Minutes No. 61 of 08.08.2023, the FSC adopted Decision No. 786 - ГФ of 08.08.2023, which: determined an amount for temporary use of funds from the fund under Art. 521, para. 1, item 2 of the IC, with which the Guarantee Fund will pay the principals of the claims accepted by the liquidators of IC Olympic, Republic of Cyprus, and make a request for reimbursement to the Cyprus Guarantee Fund of the payments made, according to the rules of the 1995 Convention.

5. At a meeting of the FSC under Minutes No. 100 of 21.12.2023, the FSC adopted Decision No. 1097 - ГФ of 21.12.2023, which: determined an amount for temporary use of funds from the fund under Art. 521, para. 1, item 2 of the IC, with which the Guarantee Fund will pay the principals of the claims accepted by the liquidators of IC Olympic, Republic of Cyprus, and

make a request for reimbursement to the Cyprus Guarantee Fund of the payments made, according to the rules of the 1995 Convention for the right to recourse between guarantee funds.

During the period, 3 decisions on application of regulatory regimes to the Guarantee Fund;

- ❖ With decision No. 946-ΓΦ dated 17.10.2023, the FSC terminated the proceedings initiated by application, ent. No. 23-1-23/18.04.2023, supplemented on 23.05.2023, 01.09.2023 and 29.09.2023, to amend the GF budget for 2023.

- ❖ With decision No. 947-ΓΦ dated 17.10.2023, the FSC approved the draft budget for the administrative maintenance and investments in assets for its own activity and other related expenses of the Guarantee Fund for 2024.

- ❖ By decision No. 1054-ΓΦ of 30.11.2023, the FSC determined:

- The amount of the contribution of the insurers offering in the Republic of Bulgaria compulsory Motor Third-Party Liability insurance under Art. 461, item 1 of the Insurance Code for 2024, at BGN 12.50 for each individual motor vehicle, in connection with the use of which MTPL insurance has been concluded, including border MTPL insurance.

- The contribution under item 1 to the Guarantee Fund should be recorded on a separate line in the insurance policy.

- The amount of the contribution of the insurers who offer in the Republic of Bulgaria compulsory Accident insurance for the passengers in public transport under Art. 461, item 2 of the Insurance Code remains BGN 0.15 for each seat, excluding the driver's seat, for which the compulsory insurance is concluded.

- Deadline for transferring the contributions under item 1 and item 3 to the Guarantee Fund account, as follows: monthly until the 10th day of the second month after the month of the conclusion of the insurance.

- In case of deferred payment of the premium for the compulsory insurances, the entire contribution due to the GF under item 1 and item 3 is charged and collected with the first instalment of the premium, according to Art. 555, para. 1 of the IC.

- The amount of the contribution under Art. 563, para. 2, item 3 of the IC of all insurers under Art. 520, para. 1 of the IC for 2024 regarding the financing of the Security Fund in connection with Art. 563, para. 1, item 1 of the IC: For each motor vehicle, in connection with which insurance was concluded under item 10.1, section II, letter “A” of appendix no. 1, for the relevant year - BGN 3.50 each.

- The contribution under item 6 shall be paid by the insurer together with the insurance premium or with the first instalment thereof and shall be indicated on a separate line in the insurance policy, according to Art. 563, para. 5 of the IC.

- Insurers transfer the annual contribution due under item 6 by May 31 of the year following the year to which the contribution relates, according to Art. 563, para. 3 of the IC.

During 2023 by decision of the FSC, 9 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 4 insurance brokers were deleted at their request.

The number of insurance intermediaries with headquarters in the Republic of Bulgaria as of 31.12.2023 is as follows:

- There are 344 insurance brokers, of which 150 carry out both non-life and life insurance activities, and 3 carry out reinsurance intermediation;
- The insurance agents as at 31.12.2023 were 6282, including – 2,331 legal entities, 157 – sole traders and 3,782 – individuals.
- As of 31.12.2023, there are 12 ancillary insurance intermediaries, including – 16 legal entities and 12 individual.

Table 10. Registration in the register of insurance agents

	Number as at 31.12.2022	Number as at 31.12.2023
Insurance agents* including:	6,511	6,282
- Legal entities	2,345	2,331
- Sole traders	170	157
- Natural persons	3,981	3,782
Ancillary insurance intermediaries	15	12

During the reporting period 82 individual administrative acts were issued in connection with the procedures for issuing licenses, authorizations or approvals;

- 1 decision for extending the scope of the license of insurance companies;
- 5 decisions for giving mandatory instructions to appointed conservators of insurers with revoked license;
- 3 decisions on application of regulatory regimes to the Guarantee Fund;
- 35 decisions on approvals of members of management and supervisory bodies of insurance and reinsurance companies and insurance holding companies and of persons performing key functions in insurance or reinsurance companies;
- 38 decisions for approval of auditors of insurance or reinsurance companies and insurance holdings;
-
- In 2023, 13 decisions were issued regarding the registration regime:
- 9 decisions for entry of insurance brokers in the register kept by the FSC;
- 4 decisions for deletion of insurance brokers from the register of the FSC at their request;

Table 11. Administrative procedures in respect of insurance and reinsurance

	Not concluded as at 31.12.2022 (no.)	Newly opened in 2023 (no.)	Concluded in 2023 (no.)	Incomplete as at 31.12.2023 (no.)
Insurance companies	26	180	200	6

Insurance intermediaries	14	50	40	24
Other proceedings	2	12	9	5
Total	42	242	249	35

Supplementary pension insurance

In 2023, nine official proceedings were initiated to determine a minimum required yield of the assets managed by the supplementary mandatory pension insurance funds, and to approve a technical interest rate and biometric mortality tables to be applied in the calculation of pension reserves by pension insurance companies, which manage a supplementary voluntary pension insurance fund. As a result, four decisions were issued to determine the minimum yield of universal pension funds, four decisions to determine the minimum yield of professional pension funds and a decision to approve a technical interest rate and biometric mortality tables to be applied when calculating the pension reserves as of 31.12.2023.

The legislative amendments to the Social Insurance Code (SIC), prom. State Gazette, no. 85 of 10 October 2023, ensure the implementation of Regulation (EU) 2019/1238 on the pan-European personal pension product (PEPP) by regulating the creation and registration of PEPPs, their distribution, as well as the overall supervision of these activities. A pension insurance company can only make a PEPP available to the public once it has received permission from the FSC to manage a VPF PEPP, and upon a decision taken by FSC to register the respective PEPP. In order to be granted authorization to manage a VPF PEPP, the pension insurance company must have a permit to manage a supplementary voluntary pension insurance fund and a supplementary voluntary pension insurance fund under occupational schemes. The VPF PEPP is an independent legal entity, which is supervised and subjected to independent reporting, and independent financial audit. As at 31 December 2023, no requests were received for the management of a VPF PEPP, and accordingly, no decisions were issued by the FSC for the registration of a PEPP.

During the reporting year, there were no applications for license issuance for or authorization of new PICs, or for the transformation of existing pension insurance companies, supplementary pension funds and funds for benefit payment. Furthermore, no voluntary winding-up of existing companies were registered, and the FSC did not see a reason to withdraw any pre-existing pension licenses.

In view of the above, the number of licensed pension insurance companies at the end of 2023 was ten. The number of supplementary pension funds was 32, including ten universal pension funds, ten occupational pension funds, ten voluntary pension funds and two voluntary pension funds under occupational schemes (one of them inactive as at 31.12.2023).

To ensure the payment of pensions and programmed withdrawals (in the case of acquired rights to an additional lifelong pension by insured persons in the universal pension funds on the basis of old age), by the end of 2023 a total of nineteen funds for benefit payments were established

and actively functioning, including ten funds for the payment of lifelong pensions and nine funds for programmed withdrawals.

The total number of entities for which the Social Insurance Supervision department carries out preliminary and ongoing supervision at the end of 2023 was 61.

Table 12. Licensing activity in relation to supplementary pension insurance

	Number as at 31.12.2022	Issued licenses/ authorizations/ decisions (no.)	Revoked licenses/ authorizations/ decisions (no.)	Number as at 31.12.2023
Pension insurance companies (PICs)	10			10
Supplementary pension funds (SPFs)	32			32
Funds for payment of lifelong pensions (FPLPs)	10			10
Funds for programmed withdrawals (FPDs)	9			9

Preliminary supervision efforts also included the authorization of the acquisition of a direct or indirect qualified capital holding of a pension insurance company, the approval of members of the management and control bodies of the pension insurance companies, as well as the approval of documents of fundamental importance for the activity of the pension insurance company and the supplementary pension insurance, and funds for benefit payment managed by them. During the reporting period, proceedings related to the authorization and approval regimes within the competence of the administrative authority were initiated at the request of the stakeholders, 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 2023, two decisions of the FSC were issued to approve amendments and additions to the regulations for the organization and operation of supplementary pension insurance funds, one of the decisions related to proceedings initiated at the end of 2022. The alterations to the regulations were stipulated by the need of their further development, and the changes in the applied price policies.

Pursuant to Art. 121e, para. 10 of the SIC, in 2023 the FSC issued a total of twelve decisions to approve members of the management and supervisory bodies of pension insurance companies.

During the reporting year, a total of ten proceedings were initiated for the preliminary selection of auditors that will audit and certify the 2023 annual financial statements of pension insurance companies and the funds they manage. As a result, the administrative authority issued decisions to agree on the choice of proposed auditors.

In 2023, two decisions of the FSC were issued, granting authorization for the acquisition of qualified holding in the capital of pension insurance companies.

Table 13. Administrative procedures regarding supplementary pension insurance

Object of the procedure	Not concluded as at 31.12.2022 (no.)	Newly opened in 2023 (no.)	Concluded in 2023 (no.)	Not concluded as at 31.12.2023 (no.)
Approval of Regulations for the organization and operation of a universal pension fund, professional pension fund, voluntary pension fund or voluntary pension fund under occupational schemes	1	1	2	-
Approval of a member of a management or control body in a pension insurance company	-	12	12	-
Coordinating the selection of auditors to audit and certify the annual financial statements of the pension insurance company and its managed pension funds and funds for benefit payment	-	10	10	-
Proceedings initiated ex officio		9	9	
Authorization to acquire a qualified holding in the capital of a pension insurance company	-	2	2	-

In the reporting year, an ongoing review was carried out on the other documents submitted by the companies and the custodian banks, which, although not subject to approval, are checked from the point of view of their legality. In the cases where discrepancies were found in the content, those were requested to be removed.

In 2023, 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 statistic was added:

Table 14. Register under Art. 30, para. 1, item 14 of the FSCA for social insurance intermediaries of pension insurance companies

Contracts concluded	2023	2022	Terminated contracts	2023	2022
Contracts concluded with social insurance intermediary – natural persons	2 486	1 770	Terminated contracts with social insurance intermediary – natural persons	3 959	1 874

Contracts concluded with social insurance intermediary - legal persons	163	191	Terminated contracts with social insurance intermediary - legal persons	72	129
Persons authorised by a legal-person social insurance intermediary	5 294	3 365	Revoked authorization	3 046	1 995
Total	7 943	5 326	Total	7 077	3 998

2.2. Notifications

Investment firms, Management companies, Investment funds

In 2023, 46 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. 32 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.

During the year under review, there were no notifications from an IF from another Member State to establish a branch on the territory of the Republic of Bulgaria, but one notification was reviewed for operating through a tied agent (Partners Investments OCP AS, Slovakia). The data for the branches of IFs from member states established on our territory have been officially reviewed and an update has been requested.

During the period, two notifications have been received for establishing measures to facilitate access to multilateral trading facilities (MTFs) or organized trading facilities (OTFs). One notification was 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 2023 was 2002 (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 162 classes of securities from 43 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 notifications were received for termination of the offering of a total of 172 classes of securities, of 15 sub-funds of collective investment schemes by Member States. Towards the end of 2023 the total number of the offered classes of securities of collective investment schemes from member states, which operate in our country, is 1965 classes of securities of 380 funds/sub-funds of collective investment schemes from Member States.

In 2023, 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, and 1 notification for the withdrawal of such notification. The total number of management companies from the EU providing services on the territory of Bulgaria is 30.

In 2023, 7 notifications were received from AIFMs 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 2023 was 35.

In 2023, 24 notifications were received in connection with the offering of 58 alternative investment funds (AIF), respectively sub-funds, from EU Member States on the territory of the Republic of Bulgaria. In addition, 10 alternative investment funds have terminated their passporting. The total number of AIF from Member States offered in Bulgaria at the end of 2023 to 208.

In 2023, notifications were received in connection with the offering of 39 European venture Capital Funds (EuVECA) from an EU Member State on the territory of the Republic of Bulgaria and notifications of termination of offering of 5 funds. The total number of EuVECA funds from Member States offered in Bulgaria at the end of 2023 is 149.

In 2023, there were 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 a central securities depository.

In 2023, 13 notifications were received for the provision of services on the territory of the Republic of Bulgaria from providers of crowdfunding services from Member States. The total number of this type of notifications by the end of 2023 is 17.

During the reporting year 2023, the FSC was notified through the notification portal created and maintained by the European Securities and Markets Authority (ESMA) under the Prospectus Regulation for a total of 87 notifications, of which 36 notifications for new prospectuses and 51 notifications for additions 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.

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

	As at 31.12.2022	New and concluded in 2023 (no.)	Terminated in 2023 (no.)	Number as at 31.12.2023
Investment firms	1985	49	32	2002
Management companies	29	2	1	30
Collective investment schemes (classes)	1975	162	172	1965
Alternative investment scheme managers	28	7	0	35
Alternative investment funds	160	58	10	208
European Venture Capital Funds (EuVECA)	115	39	5	149
European Social	1	0	0	1

Entrepreneurship Funds (EuSEF)				
Central securities depositories	4	0	0	4
Crowdfunding service providers	4	13	0	17
Prospectuses	302	87	0	389
Insurance companies				
Insurance intermediaries				
Institutions for occupational retirement provision				

In 2023, the notifications of 4 IFs licensed by the FSC were reviewed for updating the data in their notifications for under the terms of free provision of services, without opening a branch, on the territory of other Member States (IF Alarik Securities OOD, IF Ever Financial AD, IF European Brokerage OOD and IF Up Trend EOOD).

In 2023, no notifications for opening a branch of a Bulgarian IF were considered. A notification was submitted by IF Intercapital Markets AD regarding the suspension of the activity of the branch of the IP established on the territory of the Republic of Poland and a notification under Art. 43, para. 1 of the MFIA for free provision of services on the territory of the same Member State, the examination of which was not completed during the reporting year.

In 2023, 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 notifications for the provision of services in other Member States in its capacity as a central securities depository licensed by the FSC.

In 2023, there were no notifications from FSC-licensed data reporting service providers on the provision of services on the territory of other Member States.

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

	As at 31.12.2022	Considered in 2023 (no.)	Terminated in 2023 (no.)	As at 31.12.2023
Investment firms	324	0	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				
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Insurance and reinsurance

In the end of 2023, a total of 223 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.

For 2023, 96 notifications were received regarding the intention of 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 28 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 2023 stands at 2,180.

For 2023, 16 notifications were received regarding the intentions insurance companies from EU Member States to operate as insurers 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 4 notifications regarding insurance companies who requested suspension of their insurance activity.

In view of the above, the total number of insurance companies from Member States who have the right to operate as insurers 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 2023 stands at 430.

In 2023, 3 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 2023, 11 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 2023, 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 430. 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 20.

At the end of 2023, the number of insurance intermediaries from Member States that have stated their intentions to operate as insurance intermediaries on the territory of the Republic of

Bulgaria under the terms of the freedom to provide services and right of establishment (through a branch), is 2180. 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 67 intermediaries.

Table 17. Notifications of foreign companies intending to operate on the territory of the Republic of Bulgaria

	Number as at 31.12.2022	New and concluded in 2023 (no.)	Terminated in 2023 (no.)	Number as at 31.12.2023
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	16 (declared intention to operate)	4 (declared intention to cease operations)	430
Insurance intermediaries	2,112	96 (declared intention to operate)	28 (declared intention to cease operations)	2180
Institutions for occupational retirement provision				

As of the end of 2023, no notifications have been received from insurers with headquarters in the Republic of Bulgaria, who have declared their intention to operate under the right of establishment on the territory of another country.

Supplementary pension insurance

In 2023, no notifications were received by institutions regarding occupational retirement provision from EU Member States and institutions - PEPP providers intending to operate on the territory of the Republic of Bulgaria. Similarly, there were no notifications of local pension insurance companies intending to operate in the territory of the EU, including to provide PEPP to PEPP-insured persons.

Table 18. Notifications of Bulgarian companies intending to operate on the territory of other Member States

	Number as at 31.12.2022	Considered in 2023 (no.)	Terminated in 2023 (no.)	Number as at 31.12.2023
Institutions for occupational retirement provision	0	0	0	0

2.3. Certification

Investment firms

In 2023 one examination session was held for acquiring the right to take up and pursue activity as a broker of financial instruments (on 13 May 2023) and as an investment adviser (on 14 May 2023).. A total of 44 persons were admitted to the examination, of which 18 candidates were admitted to acquire the right to exercise activity as a broker of financial instruments, and 26 candidates to become an investment adviser. A total of 27 people passed the examinations (17 for brokers and 10 for investment adviser). Certificates for the right to operate were issued to the 27 persons who passed the examination.

In addition, in 2023, 10 certificates were issued as a result of a recognised capacity to operate, and all 10 certificates were for operating as an investment adviser.

In the reporting 2023 no refusals was issued to recognise the acquired qualification to operate as a broker of financial instruments or an investment consultant.

In the reporting year 2023, there were no terminated proceedings for the recognition of acquired qualifications, and no decisions were issued to revoke the right to operate as a broker of financial instruments or an investment adviser at the initiative of the supervisory authority.

In 2023, 1 decision was issued to revoke the right of an entity to operate as a broker of financial instruments, after the voluntary withdrawal by the holder of the certificate.

Table 19. Dynamics of certified persons (no.)

	2018	2019	2020	2021	2022	2023
Investment consultants	14 (9)	23 (13)	2 (0)	21 (17)	18 (10)	20 (10)
Brokers of financial instruments	(45)	(17)	(0)	16 (15)	18 (17)	(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 authorizations for carrying out activity issued and revoked during the reporting period.

During the reporting year, there were no submitted applications in the Social Insurance Supervision department for recognition of legal capacity of a responsible actuary.

Table 20. Dynamics of certified persons (no.)

	2019	2020	2021	2022	2023
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 systems. Investor Compensation Fund.

The analysis of the information regularly received by the FSC ensures monitoring and periodic assessment of the condition of the supervised entities and the results of their activities. The goal is constant monitoring of compliance with the regulations by investment firms. This monitoring affects both the financial status and capital adequacy of each investment firm, as well as their activities. The reception and review of the information allows the supervisory body 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, 14,633 inspections were carried out, including:

- 138 inspections on the financial conditions of investment firms in accordance with the requirements of Art. 43, para. 1 of Ordinance No. 50;
- 12,367 inspections of concluded transactions with financial instruments admitted to trading on a regulated market;
- 154 inspections for compliance with the requirements for capital adequacy and liquidity of investment firms on a separate and consolidated basis under Art. 42 of Ordinance No. 50;
- 56 inspections of reports on the results of the performed monitoring of the risks according to the requirements of Art. 52 of Ordinance № 38 on the requirements for the activity of investment firms.
- 69 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.

- 612 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.

- 92 inspections of submitted reports in accordance with the requirements of Art. 55 of Ordinance No. 38 of 21.05.2020 on the requirements for the activity of investment firms (Ordinance No. 38) regarding received customer complaints and results of their processing, as well as lawsuits related to the activity of the IF, respectively against members of the management body and its control body and against its contractual employees, as well as for the decisions made on the pending cases, if any;

- 136 inspections of submitted reports in accordance with the requirements of Art. 56 of Ordinance No. 38 on transactions and activities with financial instruments for own account and for the account of clients in third countries;

- 77 inspections of received notifications with minutes of meetings of the Board of Directors of the Bulgarian Stock Exchange AD (BSE) in accordance with the BSE Rules of Procedure;

- 864 inspection on notifications, received under Art. 19 of Regulation (EU) No. 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse.

- 35 inspections of annual financial statements for 2022 were inspected, which were received by the FSC in connection with the requirement of Art. 128, para. 4 of the MFIA.

- 3 inspections of consolidated annual financial statements of the PE;

- 11 inspections of received reports from settlement internalisers for the aggregated volume and value of all transactions with securities for which settlement is carried out outside the securities settlement systems in accordance with the requirement 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 (Regulation (EU) No. 909/2014);

- 12 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.

- 12 inspections of monthly reports for reporting failed settlement under Delegated Commission Delegated Regulation (EU) 2018/1229 of 25 May 2018 supplementing Regulation (EU) No 909/2014 of the European Parliament and of the Council with regard to regulatory technical standards on settlement discipline.

154 inspections due to complaints, reports and inquiries from natural persons, legal entities and government authorities were carried out. The majority of the cited complaints 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 2023, the list of companies providing investment services and activities without the required license will be regularly updated on the FSC website.

Orders have been prepared for entering 495 circumstances regarding the activity of investment firms, investment advisers and brokers of financial instruments.

During the reporting period, 5 inquiries related to the interpretation and application of the relevant legislation were received. During the same period, 7 responses to inquiries related to the interpretation and application of the relevant legislation were prepared.

In 2023, 9 opinions were prepared regarding recovery plans provided by investment firms.

4 reports were prepared on trading in financial instruments, for which the FSC is the competent authority.

In 2023, in accordance with the methodology presented by ESMA for joint supervisory action regarding the activity of investment firms, letters were sent to 6 investment firms and banks acting as investment firms. The purpose of the supervisory action is to establish compliance with MIFID II requirements relating to marketing communications (including advertisements). The results of the conducted supervisory action were analysed and reported to ESMA.

During the reporting period, as a result of provided access to the information system of Central Depository AD, 107 requests for providing information electronically were submitted.

A total of 9 circular letters were sent during the reporting period: 5 circular letters to investment firms and banks - investment firms in connection with providing information on restrictive measures and sanctions introduced by the European Union against the Russian Federation, Belarus, Syria and Iran; one circular letter to credit institutions in the Republic of Bulgaria for disclosure of bank secrecy at the request of the Polish supervisory authority; one to all investment firms in order to obtain information about financial instruments owned by an individual; one circular letter to investment firms and banks - investment firms in connection with the provision of information regarding the existence of a trust management contract of a specific natural person; one circular with information on published results of the 2019 Anti-Money Laundering and Countering the Financing of Terrorism National Risk Assessment and the Virtual Currency Money Laundering and Terrorism Financing Sector Risk Assessment.

In 2023, a risk profile of investment firms and bank investment firms was prepared, taking into account areas such as prudential risk, conduct risk, findings in remote supervision, period of last inspection and administrative measures.

In 2023, in order to verify and establish compliance with requirements for reporting transactions under Art. 20 and Art. 21 of Regulation (EU) No. 600/2014, 32 letters were sent to investment firms and bank investment firms. After submission of the requested information by the supervised entities and analysis, the information is sent to ESMA.

During the reporting period, the implementation of the budget for administrative expenses of the ICF for 2023, as well as the budget for the administrative expenses of the ICF for 2024 were approved.

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 CISs and MCs regularly submitted to the FSC, the six-month financial statements and the monthly balance sheets for CISs, and quarterly reports for MCs according to a template, set by the Deputy Chair in charge of the Investment Activity Supervision

Division. During the reporting period, an **inspection of the documents of 158 annual, 122 six-month and 119 quarterly financial reports**, as well as **1460 monthly balance sheets** of the management companies of CISs were performed.

790 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 323 prospectuses, 8 KIID and 459 KID of CISs in compliance with the obligation for their submission to the regulatory authority, and these inspections also monitored the performance of the obligation to publish the information on the MC's webpage.

In accordance with the regulatory requirements, AIFMs present summarized information on the defined issue values and redemption prices of the units of the CISs managed by them. In order to comply with these obligations, during 2023 the FSC has received and accordingly checked 1490 reports with summarized information for the determined issue values and redemption prices of the units in CISs.

Within the scope of remote supervision in relation to MCs performing additional portfolio management services at their own discretion without special orders from the client, in order to comply with the provisions of Art. 77n of the POSA in connection with Art. 89 of the CISOUCA during the period 69 inquiries received under Art. 77n of the POSA were verified.

With regard to the information submitted regularly (twice a year) by MCs, during the year, 58 inspections were carried out of the lists of persons with direct or indirect qualifying holdings (10% or more than 10% of the voting rights at the general meeting of the shareholders of the MC), as well as of the data about their votes in the general meeting of company shareholders.

Regarding the supervision of the compliance with the investment restrictions by the MC in the managed CIS portfolios, 135 inspections were carried out during the reporting period based on notifications received by the Commission for violations of investment restrictions due to reasons beyond the control of the MC.

In fulfilment of the requirement of Art. 9, para. 1 and para. 2 of the CISOUCA during the reporting period, 13 notifications from CISs were received and considered accordingly, whose average monthly net asset value for six consecutive months was below the minimum required amount of BGN 500 thousand.

In connection with the remote supervision of MCs and the CISs managed by them, as well as in view of identified discrepancies in the activity or deficiencies in documents and information submitted to the FSC, during the reporting period a total of 392 letters were prepared and sent to the supervised entities with a request to remove identified weaknesses, as well as to present additional information.

During the reporting year 2023, 10 notifications were received for the suspension and resumption of the issuance and redemption of shares of CISs, and the circumstances were entered on the account of the relevant supervised entities in the register kept by the FSC under Art. 30, para. 1, item 4 of the FSAC.

Inspections were carried out on a total of 6 complaints and reports received, three of which are related to the offering of CIS units, and the rest refer to activities carried out by third parties on behalf of companies that do not hold a license to carry out transactions in financial instruments. In the course of the inspections, documents and information were requested, and the same were

analysed and the necessary supervisory actions were taken. Regarding some of the complaints/reports, the inspections continue in the next reporting period. During the reporting period, 2 notifications were received under Art. 197 of Ordinance No. 44 by a MC in connection with complaints submitted to the company by two natural persons. As far as the counter-inspections carried out by the FSC did not reveal any violations, and given the fact that the relevant person did not file a complaint with the Commission, no replies were sent to the natural persons.

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.

Alternative investment funds and alternative investment fund managers

The regularly submitted annual financial reports of NIFs, six-monthly reports of AIFs, quarterly financial reports of closed-type NIFs and licensed AIFMs, and monthly balance sheets of open-end and closed-end NIFs are subject to the remote supervision carried out by the FSC in 2023. During the reporting period, document checks were carried out on the following documents submitted to the FSC through the e-Register unified system for providing information electronically, implemented and maintained by the FSC - 14 annual, 10 six-monthly and 14 quarterly financial reports, as well as 113 monthly balance sheets of closed-end NIFs and open-end NIFs. In 2023, a review was carried out of reports received through the E-AIFMD system for providing information electronically, implemented by the FSC from licensed and registered AIFMs and the AIFs managed by them. A total of 122 document inspections were carried out, and by the end of the reporting period, all companies had successfully reported the required information to ESMA through the designated platform.

54 inspections of documents received by the FSC were carried out during the year, including through the unified system for providing information electronically, established and maintained by the FSC - e-Register, were carried out on 23 prospectuses and 31 KID of NIFs in compliance with the obligation for their submission to the regulatory authority, and these inspections also monitored the performance of the obligation to publish the information on the AIFM's webpage.

In order to comply with the requirements for the submission of monthly summary information on the determined issue values and redemption prices of the shares of the open-end NIFs, during the reporting period, 114 inspections were carried out on the reports received by the FSC with summary information on the determined issue values and prices of redemption of the shares of the open-end NIFs.

With regard to the information submitted regularly (twice a year) by licensed AIFMs which do not hold a license to operate as a MC, during the year, 2 inspection were 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 disclosure of shareholding in the capital of a closed-end NIFs, during the reporting period inspections were carried out on 12 notifications for disclosure of shareholding pursuant to Article 145 of the POSA, presented by the obliged persons, and the relevant circumstances are entered in the register of the FSC under the account of the specific companies.

In connection with the convening and holding of general meetings of the shareholders of closed-end NIFs in 2023, 4 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 respective decisions.

Regarding the supervision of the compliance with the investment restrictions by the AIFMs in the managed NIFs, 7 inspections were carried out during the reporting period based on notifications received by the FSC for violations of investment restrictions due to reasons beyond the control of the AIFM, from 2 closed-end NIFs and 5 open-end NIFs.

In connection with the remote supervision of AIFMs, as well as in view of identified discrepancies in the activity or deficiencies in documents and information submitted to the FSC, during the reporting period a total of 38 letters were prepared and sent to the supervised entities with a request to remove identified discrepancies or deficiencies, as well as to present additional information.

During the reporting year 2023, 2 notifications were received for the suspension and resumption of the issuance and redemption of shares of open-end NIFs, and the circumstances were entered on the account of the relevant supervised entities in the register kept by the FSC under Art. 30, para. 1, item 6 of the FSCA.

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

Other activities related to collective investment undertakings

In the course of the off-site supervision 8 inquiries and requests for opinions were examined regarding collective investment undertakings from legal entities, incl. supervised entities, foreign persons, as well as from natural persons, as each of them has been analysed and actions have been taken to collate the information. As a result of the performed analyses and checks, answers were sent to the supervised entities in questions.

As a result of the documentary inspections during the off-site supervision of undertakings for collective investment based on 77 orders of the Deputy Chair of the FSC in charge of the Investment Activity Supervision Division, a total of 883 entries of circumstances were made in the public register kept by the FSC regarding these entities.

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, 385 applications for the updating of the webpage of the FSC were prepared during the reporting period, based on which a

total of 8192 documents were published, which were mainly prospectuses, documents with key information regarding investors and financial statements.

Separately from the above, 9 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 upcoming obligations for MCs and AIFMs to provide current information, update the lists of MCs and AIFMs, as well as with a confirmed new report No. 9, representing part of the sample reports for financial reporting of the management companies.

In connection with the performed supervisory activity, during the reporting period a total of 17 circular letters were sent to MCs, AIFMs and BAAMC, namely:

2 circular letters have been sent to all MCs and AIFMs, as well as to BAAMC, with instructions regarding the new obligations arising from Delegated Regulation (EU) 2022/1288.

In connection with the obligation of undertakings for collective investment which are offered to non-professional investors and are open-ended, and for which, as of 01.01.2023, there is an obligation to compile and publish on their websites KID with form and content according to the requirements of Regulation (EU) No. 1286/2014 and Delegated Regulation (EU) 2017/653, in order to ensure predictability and awareness of the following regulatory practice, 1 circular letter was sent to all MCs, as well as to BAAMC. In connection with established inconsistencies in the content of the KIDs submitted to the FSC and published on the websites of the companies with the requirements of the mentioned regulations, 1 circular letter was sent to all MCs, as well as to BAAMC.

1 circular letter was sent to all MCs and AIFMs, as well as to BAAMC, regarding the results of the common supervisory action on asset valuation carried out in 2022 by ESMA. Additionally, on the same topic, 1 request for updating the FSC website was prepared in order to inform the widest possible range of users about the results of the conducted supervisory action.

4 circular letters were sent to the AIFMs regarding the quality of the data reported in the system for providing information electronically, created by the FSC - E-AIFMD.

In connection with the restrictive measures against Syria introduced by Regulation (EU) No. 36/2012 and Decision 2013/255/CFSP, as well as with the implementation of the restrictive measures against Iran introduced by the United Nations (UN), 4 circular letters to request information regarding established business relationships with clients, in their capacity as unitholders/shareholders and/or under trust portfolio management contracts, included in the lists of persons, entities and bodies to which restrictive measures are applied. The responses received have been analysed, and no need to take further supervisory actions has been identified.

On the occasion of the obligation to conduct liquidity stress tests of collective investment undertakings, 1 circular letter was sent to MCs and AIFMs with instructions regarding the periodicity of their conduct.

In 2023, 1 circular letter was sent to AIFMs in connection with the application of Art. 242 of CISOUCA and the categorization of investors in AIFs.

In connection with the use of the term “savings plan” in relation to investments in units of collective investment undertakings by means of regular monthly contributions, 1 circular letter was sent to BAAMC, and the analysis of the relevant information continues in the next reporting period.

During the reporting period, 1 circular letter with information on published results of the 2019 Anti-Money Laundering and Countering the Financing of Terrorism National Risk Assessment (NRA) and Virtual Currency Money Laundering and Terrorism Financing Sector Risk Assessment.

The results of the document inspections of financial statements and other regulated information concerning the activities of MCs, AIFMs and the collective investment undertakings managed by them, carried out during the reporting year, are recorded in special supervisory reports, and in 2023 a total of 26 reports were prepared in connection with the supervision of the supervised entities. 1 report note was also prepared in connection with an off-site inspection carried out regarding the exercise of AIF management activity and the initiation of subsequent supervisory actions against AIFMs.

During the reporting period, 7 applications were received under Art. 46, para. 3 of Ordinance No. 38, and the review of 6 of them was completed in the current year and accordingly 6 report memos were prepared, and the relevant companies were notified of the results of the analysis of the presented information. The review of one of the received applications under Art. 46, para. 3 of Ordinance No. 38 continues in the next reporting period.

Given the regulatory obligation of MCs and AIFMs to periodically disclose and update the information necessary for investors to make a reasoned and informed investment decision, in 2023 the regular inspections of the web pages of the respective entities continued, and 42 statements of findings were prepared in relation to the identified non-conformities, and appropriate supervisory actions were taken.

In the first quarter of 2023, the deadline for bringing the activities of MCs and AIFMs in line with the new requirements, provided for by the Ordinance amending and supplementing Ordinance No. 44 of 2022, expired, and in this regard inspections were carried out for timely updating of internal documents of the companies. Given the changes in Ordinance No. 44, related to the obligation to conduct at least once a year stress tests of the liquidity of CIS and AIF, in 2023 inspections were also carried out for compliance with the stated obligation by MCs and AIFMs.

In connection with the measures taken by the FSC in 2020, related to the spread of COVID-19 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.

In connection with the sanctions against the Russian Federation and the Republic of Belarus imposed by the Council of the European Union and the three packages of sanctions adopted in 2023, during the reporting period the monitoring of the investments of collective investment undertakings in blacklisted companies continued, with a regular check of the portfolio structure of CISs, MCs and open- and closed-end NIFs.

On 06.07.2023, the fourth consecutive common supervisory action jointly carried out with ESMA regarding collective investment undertakings was launched, which takes place in 2023 and 2024. The subject of the ongoing supervisory investigation is the risks to sustainability and the

disclosure of non-financial information , its purpose being to establish whether the legal framework regulating the requirements regarding the integration of sustainability risks and sustainability-related disclosures is being followed. The first stage of the current supervisory action started in July 2023 and ends in the next reporting period.

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

Off-site supervision of public companies, special purpose investment companies (SPICs) and other issuers of securities covers verification of the financial statements provided by the FSC and the public, through the media, individual annual, half-year 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 2023 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 2023 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 2023 document inspections were performed on 3,921 financial statements. As a result of ongoing supervision 104 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 in accordance with Order No. Ж-127/13.05.2021 “Methodology for the selection of the review of the financial statements of public companies, other issuers of securities and companies with a special investment purpose, based on a mixed model , which introduces a risk-based supervision approach combined with a sampling and rotation approach”, 48 companies were identified. During the reporting period, the annual financial statements for 2022 (individual and consolidated) of these companies were reviewed for compliance with the “Common European Priorities of the European Securities and Markets Authority (ESMA) for implementation for the annual financial statements for 2022.” (the

Priorities) and the extent to which the disclosures made in the financial statements prepared in accordance with International Financial Reporting Standards (IFRS) correspond to the Priorities.

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 2023, 1,250 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. 30 inspections were also carried out in connection with the request for additional information on administrative proceedings related to submitted tender proposals and capital increase proposals.

In 2023 on the disclosure of a significant holding in the capital of a public company or the change in such a circumstance, 14 inspections were carried out of the information regularly received from CD and the notifications submitted to the Commission.

In 2023, 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 2021 from the CIS., according to Art. 29 of the SPICSCA. 178 inspections were 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 2,228 disclosures using electronic forms for disclosure of inside information in 2023 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, proceedings for convening and holding a GMS, as well as in connection with the final cessation of transactions with shares of public companies, pertaining to their subsequent removal from the register kept by the FSC, during the reporting period, 18 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 jeopardizing investment interests, **15 decisions were issued** obliging the supervised entities to bring their activity in compliance with the legal requirements, through observance of specific actions and measures.

During the period, 134 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, as well as a request for the provision of documents concerning general meetings of shareholders. Some of the letters concern a request for information regarding the transposition of 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 in national legislation.

In the course of the current supervision, during the reporting period they are 5,917 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, 206 orders were issued on paper for a total 978 entries in 2023.

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 3,846 applications for registration/deletion, title forms and reports were processed in 2023.

In 2023, a total of 140 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 112 responses to the individuals were prepared, opinions were prepared for of them 28 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.

Insurance and reinsurance

The supervision of Insurance Supervision Division over the activity of the supervised entities, consists in controlling their activity in compliance with the requirements of the Insurance Code (IC), the acts for its implementation, as well as the acts of the European Commission implementing Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II).

Off-site supervision in 2023 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 connection with the International Financial Reporting Standard 17 - Insurance Contracts becoming effective from 01.01.2023, which is mandatory for insurers and reinsurers with headquarters in the Republic of Bulgaria, amendments were adopted to Ordinance No. 53 of 23.12.2016 for the reporting requirements, the assessment of assets and liabilities and the formation of technical reserves of insurers, reinsurers and the Guarantee Fund. In this regard, a new structure, form and content of supervisory reporting was adopted according to Order No. 988/16.12.2022. In addition, at the beginning of 2023, Appendix B of the General Manual for Remote Supervision was updated, namely the Manual for Remote Supervision of Insurers and Reinsurers, adopted by Order No. Ж-76/22.03.2023 of the Chair of the FSC.

As a consequence of the observed significantly higher levels of inflation compared to those in recent years and the opinion of EIOPA on inflation of 19.12.2022, (re)insurers are required to ensure an adequate level of technical reserves, asset valuation and responsible and reasonable pricing. In addition to the stress tests applied by (re)insurers for sensitivity analysis, which should be part of the performed own risk and solvency assessment, in 2023 it was required that ones common to all macroeconomic scenarios and market shocks be applied, the results of which are to be presented to the FSC as part of the supervisory report on the performed own risk assessment for 2023. During the reporting period, actions were taken to request and verify the information provided about the methods used by insurance companies to assess inflationary processes and correct of the submitted data if necessary.

With regard to insurers and reinsurers applying the Solvency II regime, in the course of the ongoing remote supervision, the information in the received supervisory reports on the insurers' own assessment of risk and solvency, as well as its compliance with the provisions of the Delegated Regulation 2015/35 and the Guidelines of the European Insurance and Occupational Pensions Authority, was requested and analysed. In this regard, during the period letters were sent requesting additional information, necessary corrections, as well as recommendations were made to improve the quality of supervisory reports.

In respect of insurers without the right to access the single market in 2023, an inspection was carried out on the adequacy of the amount of own funds to cover the guaranteed capital and compliance with the solvency requirements at the end of each 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 insurance and reinsurance companies 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.

In 2023, after a remote inspection of the data in the periodic reports and reports received under Order No. 988/16.12.2022 and Solvency II from the insurers and reinsurers and performing a quantitative and qualitative analysis, supervisory reports were prepared for the relevant reporting periods. If necessary, data corrections in references and reports are requested, as well as additional information regarding:

- nature and qualitative analysis of individual categories of assets and liabilities from the Solvency II balance sheet and from the Statement of financial position pursuant to Order No. 988/16.12.2022;

- presence of discrepancies and consistency between the information submitted in the individual statements;

- discrepancies in the 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.

The internal policies, procedures and rules of the insurers were received and examined, in accordance with the requirements of Ordinance No. 71 on the requirements for the system of governance. 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, in 2023, the calculations and assumptions presented by the insurers were verified, opinions were drawn up regarding the justified requests of the insurers to set aside a reserve for incurred but reported claims in accordance with Article 92(1) of Ordinance No. 53 and accordingly issued decisions for the approval of a method for forming a reserve for incurred but unreported claims.

In addition, the following statements were prepared:

- summarized data for the non-life insurance, life insurance and reinsurance market based on inquiries and reports under Order No. 988/16.12.2022 and under the Solvency II Directive at the end of 2022 and the corresponding quarters of 2023;

- summary data per quarter for the maximum amount of the technical interest for calculation of the premiums and the redemption value according to Article 86(11) of Ordinance No. 53 of 23.12.2016;

- summary data and reference by risk group and share of insurers for the relevant period of 2023 for MTPL insurance according to data from the Guarantee Fund, as well as summarized and published market information on the amount and number of paid and submitted claims under MTPL insurance;

- prepared and published statistical data for the non-life insurance, life insurance and reinsurance market based on the submitted annual audited reports and reports under Ordinance 53 and Regulation (EU) 2015/2450.

The draft annual budget for 2024 and accompanying documents submitted by the Guarantee Fund for approval by the FSC were examined. A proposal was prepared for the approval of the draft annual budget of the GF for 2024.

Documents were reviewed regarding a proposal by the GF to determine the amount of contributions to the Guarantee Fund under Art. 554, item 1 of the IC in the Uninsured Vehicle Fund and the contribution under Art. 563, para. 2, item 3 of the IC in the Security Fund in 2024,

as well as the deadlines for their implementation. A proposal for approval of the proposed amount of instalments has been prepared.

The monthly reports received by the FSC from the conservators of TUMICO, whose license to carry out insurance activity was revoked in 2017, were reviewed. An opinion was drawn up regarding the applicability of IFRS 17 by the cooperative.

In 2023, employees of the Insurance Supervision Directorate took part in the preparation of proposals on received requests for issuing a license to carry out insurance activity to two new companies, obtaining an additional license for individual classes of insurance, as well as the request to change the status of insurers without the right to access the single market into insurers with the right to access the single market. During the period, a number of analyses and opinions were prepared and accordingly included in the proposals for the meeting of the Financial Supervision Commission regarding notifications received from insurance companies with their headquarters in the Republic of Bulgaria regarding their intention to carry out activities on the territory of other EU Member States, under the conditions of the freedom to provide services, including the Republic of Italy, the Republic of France, the Kingdom of Spain, the Federal Republic of Germany, the Republic of Croatia, etc., as well as the expansion of insurance activity in relation to individual classes of insurance.

Documents on the received application for the acquisition of an indirect qualified holding in the capital of two insurance companies were examined, after the relevant analysis of the received information, a proposal was made to the members of the Financial Supervision Commission.

During the period, on the basis of established violations of the regulations and detected violations by employees through off-site supervision, 21 statements of established administrative violation were drawn up and handed over, issuing 11 decisions on coercive administrative measure and delivered 25 SEAVs.

During the reporting period, administrative proceedings were opened on the issuance of an individual administrative act for the application of coercive administrative measures to two insurance companies with the main requirement of restructuring the investment portfolio.

Regarding the performance of risk-based supervision on the basis of Solvency II Risk Assessment Framework approved by the FSC, a quantitative and qualitative analysis of each insurance and reinsurance company was performed in 2023 in order to prepare an individual risk assessment according to the Manual for risk-based supervision of insurance and reinsurance undertakings. In order to carry out a more detailed assessment additional documents were requested and analysed - internal documents of the insurers, reports of the actuarial function according to Article 272 of Delegated Regulation (EU) 2015/35, plan for future management actions, etc. As a result of the analyses performed, evaluations were prepared, and each insurer and reinsurer was 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 2024, which consists of all measures planned for each insurer and reinsurer based on a risk-based review.

In 2023, the supervisory actions on the activity of insurance companies under Guarantee insurance continued. Regular submission of content-specific information was required in order to

carry out the ongoing supervision of this class of insurance, perform analysis and prepare reports on a quarterly basis.

Regarding participation in supervisory colleges - in connection with the exchange of information between supervisory authorities and participation in supervisory colleges of insurance groups and supervised entities, in 2023 employees of the Insurance Supervision Directorate participated in the meetings held during the year of the supervisory authorities of international insurance groups in which FSC participates. Participation was by invitation on site or in the form of conference calls. In addition, the regular exchange of information between the supervisory authorities and the Financial Supervision Commission was carried out. In addition, a number of meetings were held on an EIOPA-organized platform for cooperation between supervisory authorities in order to exchange information on the activity and financial position of a company that is part of an insurance group for which the FSC is the group supervisor.

Insurance intermediaries

During the year, a total 705 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 Unified information system of the FSC:

According to Article 311(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. 3-5 of the Deputy Chair in charge of the Insurance Supervision Department dated 12.01.2024. According to the regulations, during the calendar year 2023 682 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 2023.

According to the most recently submitted annual statements and reports, 23 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 31.03.2023, all of them have provided annual financial statements (AFS) for the previous year 2022, pursuant to Art. 311, para. 3, item 3 of the IC. As a result of an off-site inspection, it was found that the 23 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.

Actions taken for updating the information in the forms for the submission of periodic statements by insurance brokers:

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.

Corrections to the information in the Register of Insurance Agents kept by the FSC:

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 10 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.

Performed remote inspections in connection with received complaints and reports:

During the reporting period, 2 remote inspections were carried out in connection with complaints received by the FSC, containing allegations of insurance intermediation in breach of the requirements of the IC and the acts on its implementation.

As a result of the performed inspections, the following was established:

- An entity without registration as an insurance intermediary has published on the company's website that they perform insurance intermediation, in violation of Article 298 of the IC, for which a SEAV was drawn up.
- The company was ordered to remove the wording used related to insurance intermediation in the advertised insurance opportunity. This was carried out within the given time frame.
- From the review of the provided information and documents, in connection with a unit-linked life insurance contract concluded, for which the complainant indicates that before the conclusion of the insurance contract the intermediary did not provide the required pre-contractual information, it was established that the contract was signed personally and from both parties to which the complete required pre-contractual insurance information is attached.

Follow-up actions taken as a result of on-site inspections of insurance intermediaries:

As a result of the established violations of the provisions of the IC during the on-site inspections, two insurance brokers were placed under monitoring for a period of three months in 2023, with the following instructions:

- to submit every month to the FSC a detailed monthly statement from the client account, certifying the fulfilment of the provisions of Art. 306, para. 1, item 2 of the IC;

- to submit every month to the FSC a complete and correct statement of concluded policies under compulsory MTPL insurance, certifying the fulfilment of Art. 337, para. 2, of the IC for transferring to the insurer the received payment of a premium or contribution under insurance within the statutory terms, 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.

The brokers have fulfilled the instructions as of the date of this report and have regularly submitted the required reports for the period to which they refer, and after checking the reports, no non-compliance with the legal provisions was found.

Actions taken in relation to the published warning and expectations of EIOPA in relation to the distribution of insurance products:

In connection with the warning issued by the European Insurance and Occupational Pensions Authority (EIOPA) to insurers and banks (acting as insurance distributors) regarding identified potential market risks related to the distribution of insurance products for credit protection, in 2023 off-site inspection have commenced to all insurers and banks distributing in the Republic of Bulgaria credit protection insurance products (CPI), sold through banks (acting as insurance intermediaries).

Based on the letters received from insurers and banks, regarding their assessment of the CPI market situation at national level, as well as the actions taken/planned in relation to the EIOPA Warning to insurers and banks (acting as insurance distributors) for overcoming the high remuneration and conflicts of interest issues of selling credit protection insurance.

As a result of the analysis of the data covering 8 insurance companies and 9 banks, a thematic report was prepared with a proposal for the implementation of follow-up actions for monitoring the Bulgarian market of CPI products, given the need to carry out an additional evaluation of the indicators: value for money, low levels of the loss ratio and high values of the commission fees.

Also during the reporting period, a thematic study was carried out in relation to the supervisory statement on exclusions in insurance products related to risks arising from systemic events - EIOPA-22/419 of 26 August 2022.

The study and subsequent assessment aims to determine whether the applicable exclusions from coverage under the insurance offered on the Bulgarian market are accurate and clear, both for potential and existing customers, taking into account the characteristics of the target market and their level of understanding of insurance products and their level of financial literacy. Also, if risks arising from a systemic event become uninsurable or there is limited clarity as to whether or not those risks are covered, insurance product manufacturers shall assess the terms and scope of coverage, taking into account the needs, objectives and characteristics of the identified target market.

Taking into account that the structure of the insurance market in Bulgaria is dominated by motor insurance with a share of 66%, followed by fire and natural catastrophe and other property

damage insurance with 13.4%, an excerpt was made from insurance companies accounting for 80% of the total premium income for fire and natural catastrophe and other property damage insurance. Insurance covers/excludes risks related to pandemics, climate change phenomena or cyber-attacks that have the potential to be systemic events, according to the supervisory statement.

The results of the review of the general and special conditions and the main information documents of the covered/excluded risks of the fire and natural catastrophe and other property damage insurance offered on the Bulgarian market, related to the systemic events covered in the supervisory statement, where attention was paid to the complexity of the product and the unclear wording in the insurance contracts, are presented in a report.

As a follow-up, it is envisaged that during the supervisory activity carried out by the FSC, periodic monitoring will be carried out, both on property insurances and on other insurance products, insofar as they include in their coverage/exclusions risks having the nature of systemic events. In line with the inspections of insurance companies and insurance intermediaries, product distribution policies and the interaction between participants, as well as the behaviour of insurance intermediaries when offering products to users of insurance services, will be monitored.

Actions taken on enforced removal of insurance intermediaries as a result of off-site inspections:

As a result of inspections of insurance intermediaries, grounds were established for removal of 3 insurance brokers from the register. The grounds are as follows:

- lack of information on the maintenance of mandatory Professional Liability insurance;
- when they have ceased to operate for more than 6 months;
- non-payment of due and liquid monetary liabilities to the FSC in connection with the activity as an insurance broker.

In view of the above-mentioned grounds, the Commission proposed to make a decision to open administrative proceedings for removal of insurance brokers from the register.

Supplementary pension insurance

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

Daily supervision is carried out on the basis of the daily reports received from PICs on the activity of supplementary pension funds (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 2023, 12,400 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 one unit. Regarding the payment funds, 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 and annual financial reports and statements on the activity of PICs and the supplementary pension insurance funds (SPF) managed by them. In 2023, a total of 780 inspections were carried out, including 130 inspections of the submitted financial statements and reports on the activities of PICs and 650 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 SPFs and from the SPFs under occupations scheme, management fee from the insurance contributions of SPFs and SPFs 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, pensioners and persons receiving programmed withdrawals and investments in FBP are analysed monthly. The overall financial indicators are calculated and analysed year-on-year. 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 only).

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.

During 2023 inspections 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 which did not show any evidence of SIC violations.

During the year a report was prepared summarizing the opinions expressed in the reports of the joint auditors of the financial statements of the PICs and the managed funds for the year ending on 31.12.2022 and their findings, according to the reports issued by them for factual findings in connection with the audit. the order of Article 187(3)((2) of the SIC. Based on the findings of the auditors and the additional checks, a letter was sent to the two audit companies, which carried out an inspection and certification of the AFS, to 1 PIC in connection with mistakes and missing findings. A report was also prepared summarizing the findings of the PIC auditors, according to the reports issued by them for agreed procedures 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. Based on the findings of the auditors, it was not necessary to take supervisory actions.

In the reporting year 2023, the implementation of enhanced monitoring continued on three 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, 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 2023, 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 performed analyses, reports were prepared on compliance with the requirements of Art. 10 of Ordinance № 9 of 19.11.2003 of the FSC, and no violations were established during the year.

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 2023, six companies fall within the low-risk profile range, and the remaining four companies fall into the range of medium-risk profile, including risk premium for systemic significance. If the risk premium for systemic significance is not taken into account, by the end of the year nine PICs are defined as low risk and only one company remains with a medium risk profile.

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.

3.2. On-site inspections

Investment firms

During the past reporting period, in view of the need to prepare a plan for carrying out on-site inspections of investment firms and bank investment firms, a risk assessment was made to determine a risk rating of investment firms and bank investment firms holding a license to provide investment services and carry out investment activities. In relation to the impact assessment in the risk assessment, a distinction is made between investment firms, bank investment firms and their branches, and in terms of expected impact on the investment services market and in accordance with the competences of the FSC, the assumption is made that the entities in the categories of branches of investment firms and branches of bank investment firms will not be assigned a risk rating and accordingly will not be included in the planning of on-site inspections in 2023. For the purpose of carrying out the risk assessment, specific information has been requested from investment firms and bank investment firms by sending a letter with a different questionnaire for investment firms and bank investment firm.

In order to determine the value of the inherent risk, the following aspects of the investment firm were analysed, and each of them was assigned a certain relative weight for the specific risks: prudential risk; conduct risk; remote supervision; period of last inspection; administrative measures. With regard to bank investment firms, the aspects are the following, and again they have a certain relative weight: conduct risk; remote supervision; period of last inspection; administrative measures.

In the formation of relative shares for determining the share of the different aspects, respectively the individual ratios, the strategic goals of the European Securities and Markets Authority and relevant supervisory actions have been taken into account. In each of the aspects, explicitly stated factors have been taken into account, to which a relative weight has been assigned. As a result of the calculations by factors and aspects, a final total ratio was formed, giving a numerical expression of the degree of risk of each supervised entity in a certain group. Based on this numerical risk indicator, the annual inspection plan is drawn up.

In 2023, 5 general scheduled on-site inspections of investment firms opened in the previous period were concluded. As part of the inspections carried out, statements 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 2023 4 inspections of supervised entities were initiated. In view of the manner of planning the inspections, they are differentiated into 3 scheduled and 1 unscheduled ones, and depending on the scope of the inspections - into 3 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 the provisions of Art. 82, para. 5, 6, 12 and 13 of the Markets in Financial Instruments Act and Art. 19, para. 2 and 3 and Art. 43 of Ordinance No. 50 of 30.03.2022 on the capital adequacy and liquidity of investment firms.

In the course of the inspections carried out, 73 requests for the provision of information on the inspections and 18 letters for the disclosure of bank information were sent.

As a result of the on-site inspections and the recommendations made to the supervised entities, follow-up monitoring and analysis of the implementation of these recommendations is carried out.

Collective investment undertakings

The purpose of inspections of 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 full 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. 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, to remedy identified deficiencies and weaknesses, as well as requiring specific information to be provided to the supervisor over a specified period of time. In the course of the general scheduled 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.

In 2023, the 3 inspections opened in 2022, of which 1 unscheduled thematic and 2 scheduled inspections. were completed with the handing over of statements of findings.

In 2023, a total of 5 on-site inspections were opened, of which 2 general scheduled of MCs and the CISs managed by them and 3 thematic inspections. Two of the thematic inspections were unscheduled. With the handing over of statements of findings in 2023, 2 of the thematic inspections opened during the reporting period were closed. With regard to the third thematic inspection and the two general inspections carried out, 3 reports have been prepared on their results. In the next reporting period, 3 of the inspections opened during the reporting year are to be completed.

As a result of the findings during the on-site inspections, a total of 40 recommendations and 2 emphasis of matter were made. 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 of actions taken with regard to recommendations made, 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 2023. 5 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.

In 2023, work continues on two general planned inspections of SPICs that were opened in previous years.

Insurance and reinsurance

In 2023, a total of 12 on-site inspections were opened, as follows:

- 3 general inspections on the activities of non-life insurance companies for compliance with the provisions of the Insurance Code, 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 was completed during the reporting period. As a result of the general on-site inspection of an insurer, some of the following recommendations and instructions have been made:

- 1 general inspection of an insurer, as a result of which an administrative measure was implemented to bring the activities of the key managers of the insurer in line with the regulatory requirements and update all internal documents in accordance with the regulatory requirements established in the Insurance Code, Ordinance no. 71 of 22 July 2021 and Delegated Regulation (EU) 2015/35 of the Commission of 10.10.2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking up and pursuit of insurance and reinsurance business (Solvency II). Additionally, recommendations and instructions have been made regarding the amendment of the General and Special Terms and Conditions and the supervisory reporting in accordance with the regulatory requirements.

- 5 thematic inspections on the activities of non-life insurance companies for compliance with the provisions of the Insurance Code, 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 was completed during the reporting period. As a result of the general on-site inspection of an insurer, some of the following recommendations and instructions have been made:

- 1 thematic examination of an insurer with regard to investments, reinsurance and technical reserves under motor third party liability insurance, in order to establish compliance with the provisions of the Insurance Code, its implementing acts as well as the acts of the European Commission implementing Directive 2009/138/EC. As a result of the inspection, the following recommendation was made:

- to update the company's risk appetite and amend its investment policy, including specific parameters for investments in related parties, as well as quantitative restrictions for them;

- to take the necessary actions to restructure its investment portfolio to be brought into line with the amended investment risk management policy, as well as to fulfil the requirements of Art. 124 of the IC regarding the prudent investor rule;

- to take actions to significantly increase the share/percentage of provisions for liabilities other than technical reserves;

- to correctly fill out the Solvency II quantitative reporting templates, observing the instructions of Implementing Regulation (EU) 2015/2450;

- to update the lending policy, which should ensure compliance with the requirements of Regulation 2015/35 and Ordinance No. 71 of 22.07.2021;

- to revise in general the principles of impairment of assets according to the Methodology for the application of IFRS 9, since they are based on an internal rating according to which transactions from related parties have the lowest impairment. In addition, the company should review the percentage of expected credit losses, according to the time structure of the claims, applying the most conservative approach;

- to adapt its model for calculating the best estimate of the premium reserve;

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

- 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 establish a methodology and procedure for determining whether a reinsurance contract transfers insurance risk in substance by providing a risk transfer standard/criterion that is sufficiently reliable and robust to serve as a reliable assessment of whether a reinsurance contract also transfers insurance risk and not just financial risk;

- 1 thematic inspection of an insurer with regard to investments and market risk in the Solvency Capital Requirement, technical provisions and reinsurance activity under motor third party liability insurance, for the purposes of Solvency II requirements, and internal policies, rules and procedures, as well as the practical process concerning the settlement of insurance claims in the Republic of Poland, in order to comply with the provisions of the IC, its implementing acts, as well as the implementing acts of the European Commission on the implementation of 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. As a result of the inspection some of the following recommendations were made:

- to update the risk appetite and amend its investment policy, including specific parameters for investments in related parties, as well as quantitative restrictions for them;
- to take the necessary actions to restructure its investment portfolio to be brought into line with the amended investment risk management policy, as well as to fulfil the requirements of Art. 124 of the IC regarding the prudent investor rule;
- to update the lending policy, which should ensure compliance with the requirements of Regulation 2015/35 and Ordinance No. 71 of 22.07.2021; to revise in general the principles of impairment of assets according to the Methodology for the application of IFRS 9, since they are based on an internal rating according to which transactions from related parties have the lowest impairment;
- to correctly fill out the Solvency II quantitative reporting templates, observing the instructions of Implementing Regulation (EU) 2015/2450;
- to comply with the requirements of Art. 165 - 167 of Delegated Regulation (EU) 2015/35 in connection with the calculation of the interest risk sub-module;
- to stress all assets that are included in the calculation of the market concentration risk submodule, as the risk factors applied to them must be in accordance with the requirements of Articles 185-187 of Delegated Regulation (EU) 2015/35;
- to perform a calculation of the effect of future commissions as part of future premiums for the motor third-party liability business line using an alternative method that reflects the actual arrangements and conditions of the existing reinsurance contracts, as well as all cash flows. The same approach should be applied to other business lines;
- to carry out regular back-testing of assumptions (including share of reinsurers in premium reserves) against experience (practical results) according to the Art. 264 of Delegated Regulation 2015/35 and, if necessary, to adapt the assumptions and models used so that they reflect the experience of the company;
- to use the terms of the reinsurance contracts currently in force covering the modelled future liabilities to model the reinsurance recoveries in the future cash flows of premiums and claims;
- to consider reinsurance recoveries on a cash flow basis to take into account “all possible future outcomes” that may affect the reinsurance valuation;
- the responsible actuary should prepare a proposal to the Board of Directors (BoD) of the insurer regarding the procedures that will be carried out to increase the quality of the data used and available;
- 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 establish a methodology and procedure for determining whether a reinsurance contract transfers insurance risk in substance by providing a risk transfer standard/criterion that is

sufficiently reliable and robust to serve as a reliable assessment of whether a reinsurance contract also transfers insurance risk and not just financial risk;

- to provide in the Procedure for work in the International Claims Settlement Department of the Non-Life Insurance Claims Settlement Directorate as well as the separate stages in the proceedings for the settlement of claims presented on the basis of contracts concluded by the company on the territory of Poland, as well as the specific deadlines for their implementation;

- to foresee and require that the "Varyon" information system contains accurate and up-to-date data, and when re-opening a claim and allocating a reserve for it, the relevant evidence that caused the need to renew the work on the relevant claim must be attached.

- 1 thematic examination of an insurance holding regarding its system of governance and solvency, in order to establish compliance with the provisions of the Insurance Code, its implementing acts as well as the acts of the European Commission implementing Directive 2009/138/EC. As a result of the inspection, the following recommendations are made:

- to take actions to update the names of the companies whose shares are contributed to the capital of Euroins Insurance Group AD entered in the Commercial Register and Register of Non-Profit Entities;

- to carry out an extraordinary assessment regarding the compliance with the fit and proper requirements, and to limit the conflict of interests in relation to the persons who perform key functions according to Art. 20, para. 4 of Ordinance No. 71;

- to submit information under Art. 9, para. 2 of Ordinance No. 71, in what way it will guarantee the avoidance of a conflict of interest that could arise from the reconciliation of different positions and functions by the same persons, as well as information under Art. 16, paragraph 1, item 5 of Ordinance No. 71 on risk mitigation measures for the proper and reasonable management of the activity;

- to adopt a management and organizational structure in accordance with the requirements of Art. 77, para. 1, item 1 of the IC and Art. 6 of Ordinance No. 71;

- to update the organizational chart in accordance with the requirements of Article 268(1) of Delegated Regulation (EU) 2015/35 and Art. 9, para. 3 of Ordinance No. 71;

- to comply with the requirements of Art. 30, para. 2 of Ordinance No. 71, therefore it should perform regular stress tests and tests for the transferability of funds in the various enterprises within the group;

- to present results from the detailed review and additional formalization of setting up appropriate mechanisms to control whether each enterprise within the group complies with all the requirements related to it in terms of internal management;

- to provide for guarantees that each enterprise within the group receives sufficient information about the group's common objectives and risks, including by providing for a more detailed order for communicating the common risks at group level determined by the competent authorities of the company;

- to receive timely information on the risks arising from the structure of the group, including information on the factors determining the risks, including by providing and requiring

the preparation of reports assessing the overall structure of the group, the activities of individual entities within the group and compliance with their side of the approved strategy;

- to present the results of the detailed mapping of all risks and the improvement of the general structure for risk management at Group level and subsidiary level, which also reflects the requirements of Art. 79 and Art. 81 of Ordinance No. 71;

- to take actions to change and improve the system of governance at the group level, including requiring the actuarial function at the group level to provide the information in Art. 53, para. 3 of Ordinance No. 71;

- to adopt an information and communication security (ICT) strategy, an information security policy, including information security procedures and measures, an ICT continuity policy;

- to adopt its own policies for liquidity risk management, risk related to the underwriting activity and the allocation of technical provisions, operational control policy, including rules and procedures for the performance and reporting of activities, internal control policy, policy for the prevention of conflicts of interest, outsourcing policy, remuneration policy, policy on fit and proper requirements, internal audit policy for persons complying with the requirements of Ordinance No 71;

- to prepare a detailed analysis of the recognition and assessment of deferred tax assets pursuant to Article 15 of the Delegated Regulation (EU) 2015/35, of the effect on group SCR, as well as of the effective availability to cover the group solvency capital requirement according to Article 330 of the Delegated Regulation (EU) 2015/35;

- to submit to the FSC the recalculation of the SCR of the market risk, complying with all the requirements of Delegated Regulation (EU) 2015/35;

- to include all relevant asset exposures that are subject to shock in the calculation of interest rate risk;

- to include all relevant exposures of liabilities that are subject to shock in the calculation of interest rate risk;

- to submit to the FSC the recalculation of the interest risk submodule, complying with all the requirements of Article 165-167 of Delegated Regulation (EU) 2015/35;

- to include in the property risk calculation and stress only those exposures that are sensitive to the level or volatility of real estate market prices;

- to include in the calculation the risk associated with the interest rate spread and stress only those exposures of assets and financial instruments (acquired by the company) that are sensitive to changes in the level or volatility of credit spreads over a risk-free interest rate term structure;

- to include in the market concentration risk calculation and stress only those asset exposures and financial instruments (acquired by the company) that are relevant only to that submodule;

- to submit the recalculation of the counterparty default risk module, taking into account all the requirements of Article 189(2) and (3) of Delegated Regulation (EU) 2015/35;

- to provide a recalculated underwriting risk module in non-life insurance, taking into account the requirements of Delegated Regulation (EU) 2015/35;

- to submit to the FSC a written justification of how the termination risk sub-module is formed in non-life insurance;
- to submit an adjusted underwriting risk for the non-life health insurance underwriting risk in accordance with Article 150 of Delegated Regulation 2015/35;
- To submit to the FSC recalculated operational risk taking into account any relevant instructions and recommendations on the other modules of the SCR;
- to submit a fully recalculated SCR, taking into account all instructions and recommendations;
- to carry out an analysis on the application of Guideline 21 Minimum consolidated group solvency capital requirement (floor to the group solvency capital requirement) of the EIOPA Guidelines on group solvency (EIOPA-BoS-14/181).
- 1 joint thematic inspection of an insurer, carried out at the request of a Supervisory Authority from an EU member state regarding the processing of insurance claims of the activity under the conditions of the freedom to provide services.
- 4 general inspections of life insurance companies for compliance with the requirements of the Measures against Money Laundering Act and the Regulations for the Implementation of the Measures against Money Laundering Act, of which 2 were completed during the reporting period; No recommendations or instructions were issued to the companies, but after the completion of one, a statement establishing administrative violation was issued on the basis of Art. 106, para. 5 of MAMLA.

In 2023, 3 inspections opened in the previous year were completed, of which 2 general and one thematic inspection under the Insurance Code, the Measures against Money Laundering Act and the Regulations for the Implementation of the Measures against Money Laundering Act. As a result of the completed inspections some of the following recommendations and instructions have been made:

Regarding the inspections of insurers under the Insurance Code

- 1 general inspection of an insurer for 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). The following recommendation was addressed to the insurer:
 - to align the organizational chart with the management and organizational structure of the company and to include in it the names of the persons holding managerial positions;
 - to provide for adequate mechanisms guaranteeing the reliable application of measures for disclosure and avoidance of conflicts of interest, resp. the implementation of Art. 146, para. 3 of the IC within the specified period;
 - to take corrective measures and decisions regarding the effectiveness of the system of governance, such as, for example, hiring more staff, transferring staff within the company,

outsourcing, etc., with a view to fulfilling the powers and obligations laid down in the IC and Ordinance No 71;

- to take action to amend all general and special conditions so that they are in accordance with the regulatory requirements;
- for the purposes of adequately determining the necessary technical reserves and for the purposes of their reasonable evaluation, i.e. not underestimating and not overestimating, the company should comply with the requirements of the legislation in the area;
- to assess the appropriateness of the approach used for the assessment of premium reserves by comparing it with other possible assessment methods, and the choice of the appropriate method should be justified;
- in the calculation of the best estimate of the premium reserve and the claims reserve, to include in the calculation the amount of investment management costs, according to Article 31(1)(b) of Delegated Regulation (EU) 2015/35;
- to perform a thorough analysis through the GSM indicator (“general safety margin”) of the assessment of legal reserves at the reporting date and its adequacy, including by analysing the evolution of this indicator over time, atypical deviations and/or analysing its volatility for material business lines;
- improve the validation process of the input parameters in the calculation of the risk premium;
- produce detailed information and documentation showing the backtesting of the best estimate assumptions for the premium and claims experience reserve;
- to establish a methodology and procedure for determining whether a reinsurance contract transfers insurance risk in substance by providing a risk transfer standard/criterion that is sufficiently reliable and robust to serve as a reliable assessment of whether a reinsurance contract also transfers insurance risk and not just financial risk;
- to comply with Article 189 of Delegated Regulation (EU) 2015/35 as for the purposes of calculating the risk of counterparty default to take into account the true determination of type 2 exposures;
- 1 thematic inspection of an insurer with regard to general and special conditions, claims settlement activity, complaints management activity, market conduct, investments and technical provisions, in order to establish compliance with the provisions of the Insurance Code, its implementing acts, as well as the acts of the European Commission implementing Directive 2009/138/EC. The following recommendation was addressed to the insurer:
 - to take action to amend the general, special and technical conditions for specific types of insurance, individual risk insurance, as well as the internal rules for the settlement of claims under insurance contracts so that they comply with the regulatory requirements and do not infringe on the rights of users of insurance services;
 - to modify and revise the products at group level in order to correct the risks and bring them to the necessary limits so that they continue to meet the interests, objectives and characteristics of the target market;

- to take action to review the credit protection products and to ensure that the products offer value to the target market, including by balancing the benefits to both the intermediary and the insurance product creator with the benefits to the target market;
- to provide a document, “Pre-contractual information for the distribution of insurance products”, containing the information required by Articles 324 and 326 of the Insurance Code, prior to the conclusion of each insurance contract;
- to provide detailed information on what yield is transferred to the customer, a breakdown of what costs are deducted and also whether the customer is reimbursed for the deduction of fees and commissions, in accordance with the insurer's regulatory compliance rules;
- 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 prepare and implement a methodology for assessing the risk of termination in health insurance, other than life insurance, and apply it for the purposes of establishing technical provisions under Solvency II;
- to review an insurance product - group annuity life insurance and to make changes to it so that it meets the requirements of Art. 349, para. 1 of the IC;
- to correctly fill out the Solvency II quantitative reporting templates, observing the instructions of Implementing Regulation (EU) 2015/2450.

Regarding on-site inspections in relation to the MAMLA:

1 inspection of an insurer to whom the following is addressed:

- to observe 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;
- to enclose a report from the relevant register which shows the data entered in the client's account about the beneficial owners - natural persons (entries on the grounds of Art. 63, para. 1 and 4 of the MAMLA), as well as the contradictory information shall be established in an indisputable manner from the available documents, in case such is established.

As a result of what the on-site inspections of insurance companies carried out during the year, 11 acts were issued for a total of 21 administrative violations, the most common violations being failure to rule on claims for insurance compensation within the statutory time limits.

Insurance intermediaries

In 2023, a total of 35 on-site inspections of insurance intermediaries were carried out, of which 25 were carried out in implementation of the annual plan for 2023 confirmed by report memo No. Д3-157/ 08.03.2023 for on-site inspections of insurance intermediaries for compliance with the IC and the by-laws on its implementation, 7 of the inspections were carried out in implementation of the annual plan confirmed with report memo Д3-369/04.05.2023 for on-site

inspections of insurance brokers for compliance with the requirements of the MAMLA, MAFTA and RIMAMLA, and 3 unplanned inspections on received complaints and reports.

The 25 full scheduled inspections of the activity of insurance intermediaries include monitoring the compliance with the requirements of the Insurance Code 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.

As a result of the inspections, 7 of them ended with established violations, for which a total of 12 SPICs for established 20 administrative violations were drawn up, as follows:

- 4 SPICs for 4 established administrative violations of Art. 301, para. 2 of the IC;
- 3 SPICs for 6 established administrative violations of Art. 325, para. 1 and 2 of the IC;
- 4 SPICs for 9 established administrative violations of Article 337, para. 2, sentence one of the IC;
- 1 SPIC for 1 established administrative violation against a third party, for violation of Art. 296, para. 4 in connection with para. 1, Art. 294, para. 1 and Art. 286, para. 3 of the IC.

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

- to correct or supplement the pre-contractual information about the distributor of insurance services under Art. 325 of the IC;
- 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 distribution, so that they fulfil their tasks and obligations adequately;
- 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 provided marketing messages on the website of the insurance broker related to the professional knowledge and experience, with the current data about the company, so that the information is true, clear and not misleading;
- to provide detailed written explanations and information as to whether the required pre-contractual information prior to the conclusion of the insurance contract will be sent by email to each insurance offer made through a submitted request for offer via the website or will be published on the site, as well as in what time frame;
- to comply with the provision of art. 325a, para. 7 of the IC before the conclusion of any insurance contract under Section II of Annex No. 1 of the IC;
- 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, para. 1, item 4 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 insurance agents:

- to be entered in the register maintained by the FSC on the basis of Art. 30, para. 1, item 12 of the FSCA by the insurer under the account of an insurance agent in the chosen way to guarantee the activity of the company according to the concluded contract for insurance agency;
- to make the necessary corrections in the register maintained by the FSC, by correcting the insurance classes entered in the register maintained by the FSC on the basis of Art. 30, para. 1, item 12 of the FSCA, for which the insurance agent does not have the right to mediate;
- to provide all the required pre-contractual information on the insurance agent's website, when offering to conclude online insurance.

In the case of 7 of the planned inspections carried out, the scope of the inspections is compliance with the provisions in the Measures against Money Laundering Act, in the acts on its implementation and in the Measures Against the Financing of Terrorism Act, and the Regulations for Implementation of the Measures against Money Laundering Act. The performed inspections were completed without statements of established administrative violations.

As a result of the 3 unscheduled inspections carried out in connection with the received complaints and reports, 8 SEAVs were drawn up for 12 administrative violations of the provisions of the IC, as follows:

In relation to possible unregulated use by the insurance broker of the insurer's letterheads and leakage of commercial information, the insurer's attention has been drawn to the fact that it should have an effective internal control system covering the processes indicated in the signal.

As a result of the inspection and the established findings, 4 statements were drawn up against the insurance broker for 6 established violations:

- of the provisions of art. 301, para. 2 of the IC, due to the lack of contract governing the relationship between the user of insurance services and the insurance broker;
- of the provisions of art. 325, para. 1 of the IC and Art. 325, para. 2 of the IC, due to the failure to provide the required pre-contractual information about the insurance broker to the users of insurance services before the conclusion of an insurance contract and, if necessary, upon its amendment or renewal, the insurance intermediary;
- of Art. 337, para. 2, of the IC due to failure to transfer to the insurer the received payment of a premium or contribution under insurance within the statutory terms, 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;
- for two violations of Art. 304, para. 4 of the IC, due to the performance of insurance product distribution activities by employees of the insurance broker without having received training from a professional organization under Art. 304, para. 5 of the IC;

- in connection with a complaint received regarding the performance of insurance intermediation by an insurance broker in violation of the requirements of the Insurance Code and its implementing acts, 3 SEAVs were drawn up for 5 violations:

- of the provisions of art. 301, para. 2 of the IC, due to the lack of contract governing the relationship between the user of insurance services and the insurance broker;

- of the provisions of Art. 325a, para. 1, par. 1 of the Insurance Code, for failure to comply with the requirement to ask questions to the user of insurance services and, on the basis of the information provided by him, to determine his requirements and needs, as well as to provide him with objective information on the insurance product in an understandable form so as to enable him to make an informed decision;

- for 3 violations of the provision of Art. 306, para.1, item 2 of the Insurance Code, for using the insurance broker's established client account not only to transfer insurance premiums to the insurer and insurance benefits or amounts to the user of insurance service

Supplementary pension insurance

In implementation of the Annual Program for carrying out on-site inspections in pension insurance companies and custodian banks in 2023 (for compliance with legislation in the field of supplementary pension insurance), 3 full on-site inspections were opened, one of those began at the end of the year and is not yet complete. 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.

In the beginning of the reporting year the finding protocol of the thematic on-site inspection completed at the end of 2022 was handed over. No violations were found during the inspection. In connection with the inspection, the company was given 26 recommendations to improve the activity.

During the 2 general inspections carried out in 2023 in PICs for compliance with legislation in the field of supplementary pension insurance, no violations were found. In the statements of findings from the inspections of the management of 1 PIC were given 7 recommendations for improving the activity, and the other was given 12 recommendation.

For on-site inspections in PICs for AML/CFT compliance, the Social Insurance Directorate opened 1 general on-site inspection in 2023. These inspections monitored compliance with the requirements of the regulations governing measures against money laundering and terrorist financing.

in 2023 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

In 2023, no penal decrees were issued by the Chair of the FSC.

In the reporting 2023, 1 penal decree has become effective, issued by the Chair of the FSC in 2021, for BGN 10,000.

In the reporting 2023, no penal decrees issued by the Chair of the FSC were revoked.

The total value of the sanctions imposed with PDs issued by the Chair of the FSC in previous years (until 2020), which at the end of 2023 are in the appeal phase, amounts to BGN 24,000.

Table 21. Law enforcement in 2023 (Chair of the FSC)

	Composed SEAVs (no.)	Issued PDs (no.)	Value of effective PDs (BGN)	Proceedin gs opened under CAM (no.)	Decisions for implementat ion of CAM (no.)
Investment firms, Central Depository, BSE and other persons					
CIS, MC, SPIC, PC and other issuers			10,000		
Non-life insurance companies					
Life insurance companies					
Insurance brokers					
Insurance agents/persons operating as insurance agents, without being entered in the FSC register					
Guarantee Fund, NBBMI					
Pension insurance companies/their representatives					
Other legal entities and natural persons					

Investment activity

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 regulations, and by directly applicable European legislation.

In 2023 the officials of the of Investment Activity Supervision Division have drafted and delivered 205 statements initiating proceedings in connection with 263 administrative violations, the proceedings are within the competence of the Deputy Chair in charge of the Investment Activity Supervision Division.

In 37 of the cases initiated in 2023, concerning 42 violations, the proceedings were terminated, and 48 of the proceedings, concerning 62 violations, were concluded with settlement agreements with the offenders for a total amount of BGN 226 450.

In the same period, 85 PDs were issued*, amounting to BGN 659 000, in relation to 97 violations.

Table 22. Enforcement in 2023

	Identified violations (no.)	Penalties imposed (no.)	Effective administrative penalties (No.*)
Investment firms	99	56	110
CIS, MC, SPIC, PC and other issuers, as well as their representatives	150	95	170
Other legal entities and natural persons	14	8	30

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

The above mentioned summarised information will be examined in detail in the following statement, depending on the supervised persons, indicating the actions taken and the conclusion of the initiated administrative criminal proceedings:

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 2023. Violations of the provisions of the MFIA, MAMLA, Ordinance No. 23 and Ordinance No. 38 were established. The identified breaches of European legislation include Regulation (EU) 596/2014, Regulation (EU) 600/2014, and Delegated Regulation (EU) 2017/565.

In 2023, regarding investment firms, 45 statements establishing administrative violations (SEAVs) were composed in connection with 99 committed acts, the administrative criminal proceedings of which are in the competence of the Deputy Chair in charge of the Investment Activity Supervision .

In 2023, 25 PDs were issued by the Deputy Chair, in charge of the Investment Activity Supervision Division, taking into account the 6-month term under Art. 34, para. 3 of the AVPA, whereas part of these PDs refer to proceedings initiated in the previous year. Pecuniary sanctions and fines in the total amount of BGN 228,000 were thus imposed, concerning 37 committed administrative violations .

The value of PDs, issued during the reporting period and effective as of 20.03.2024, amounts to BGN 11,000, and as of the same date, there are no court proceedings that have ended with annulment decisions in connection with administrative criminal proceedings initiated against investment firms.

As of 20.03.2024, 21 of the penal decrees issued in 2023 in connection with 31 committed violations are under appeal, with a total value of administrative penalties amounting to BGN 216,000.

During the reporting period, 6 agreements concerning 19 committed administrative violations were concluded with investment firms. Thus, with the consequences of an effective penal decree, administrative penalties in the amount of BGN 23,450 were imposed, which were promptly paid by the offenders.

In 2023, 20 of the initiated administrative criminal proceedings in relation to IFs were terminated. In 13 of them the offenders were warned that in the case of repeated violations of the same type, representing a minor case, the offenders will be penalized. The remaining 7 proceedings were terminated on the basis of Art. 54 of AVPA.

During the reporting period, violations of various types of legislative acts - ordinances, laws and regulations - were found. A major part of the violations committed concern the failure to submit a complete and accurate report to the FSC regarding a concluded transaction or the submission of such after the required period, in violation of Art. 26, § 1 of Regulation 600/2014. Meanwhile, 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 breaches of MFIA, Regulation (EU) 596/2014 and Delegated Regulation 2017/565, as well as Ordinance No. 23 and Ordinance No. 38, are also reported.

Table 23. Most frequent violations by IFs in 2023*

Type and basis of the violation	Identified violations (no.)	Penalties imposed (no.)
Failure to submit a complete and accurate report on concluded transactions (Art. 26, § 1 of Regulation 600/2014)	25	7
Violations regarding the identification of customers and their beneficial owners, as well as verification of their identity according to the requirements of the MAMLA	11	15

(Art. 54, 55 and 60 of the MAMLA)		
Incorrect assessment of client assets and units of CIS in relation to the requirements of Ordinance No. 23 (Art. 4 and 6 of Ordinance No. 23)	12	7

*Note: The number of established violations does not correspond to the number of penalties imposed, since the legal deadline for the completion of the initiated administrative criminal proceedings is 6 months, according to Art. 34, para. 3 of the Administrative Violations and Penalties Act.

During the reporting period in respect of BSE AD and Central Depository AD no SEAVs were composed, and no administrative penalties were imposed.

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

In 2023, a total of 119 SEAVs were drawn up against public companies, special purpose investment companies and other issuers of securities, as well as individuals representing them, establishing a total of 121 violations.

During the reporting period, 52 penal decrees were issued by the Deputy Chair in charge of the Investment Activity Supervision Division, taking into account the six month deadline under Art. 34, para. 3 of the AVPA, some of these PDs were issued based on SEAVs composed in the previous year. With the indicated PDs, pecuniary sanctions and fines in the total amount of BGN 375,000 were imposed.

Some of the issued penal decrees, namely - 27% of them (14), were appealed by their addressees in court. The reduced number of court proceedings can be attributed to the broad amendments to the AVPA, effective from the end of 2021, which enable the offender to pay the fine or pecuniary sanction in a reduced amount, namely 80%, with which the issued penal decree enters into force. The other 38 of the PDs issued in 2023, which imposed administrative penalties in the amount of BGN 262,000, became effective without being appealed by the offenders. As of 20.03.2024, 1 PD issued in the reporting period has been revoked after appeal, the value of the administrative penalty being BGN 2,000.

The value of PDs issued during the reporting period and in the process of judicial appeal as of 20.03.2024 amounts to a total of BGN 111,000 and pertains to 13 violations.

During the reporting period, 36 settlement agreements concerning 36 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. Thus, with the consequences of an effective penal decree, administrative penalties in the amount of BGN 152,600 were imposed and were promptly paid by the offenders.

In 2023, 44 of the administrative criminal proceedings initiated in relation to this category of supervised entities were terminated, and in 33 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. The remaining 11 proceedings were terminated on the basis of Art. 54 of AVPA.

The SEAVs composed and delivered in 2023 mainly establish violations of the POSA. The violations relate to the obligations to disclose 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, six-month financial statements on an individual or consolidated basis and public notification on an individual or consolidated basis for the financial state of the company.

Table 24. Most frequent violations by PCs, SPICs and other issuers of securities in 2023*

Type and basis of the violation	Identified violations (no.)	Penalties imposed (no.)
Failure to submit regulated information on an annual and quarterly individual and consolidated basis (Art. 100b, para.8, Art. 100e, 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)	75	49
Failure to submit a declaration of property and business interests within the deadline (Article 20 of the SPICSCA)	10	8
Failure to declare legally defined circumstances on time after election of a member of a management or supervisory body in a PC (Article 114b of the POSA)	7	13

*Note: The number of established violations does not correspond to the number of penalties imposed, since the legal deadline for the completion of the initiated administrative criminal proceedings is 6 months, according to Art. 34, para. 3 of the Administrative Violations and Penalties Act.

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

In 2023, 29 SEAVs were composed in connection with the same number of violations committed by MCs. During the past year, no violations by natural persons representing the mentioned companies were established. There is a decrease in the number of detected violations compared to the previous reporting period.

A significant number of the committed violations concern the performance of activities outside the scope of a license, as well as lack of required details in confirmation of the execution of an order. Violations related to failure to maintain minimum liquid funds in a certain amount, lack of required information in six-monthly reports of CISs, etc. were also found.

During the reporting period, a total of 7 PDs were issued by the Deputy Chair in charge of the Investment Activity Supervision Division, some of which refer to SEAVs from the previous year due to the 6-month deadline under Art. 34, para. 3 of the AVPA. With the issued PDs, pecuniary sanctions in the total amount of BGN 51,000 were imposed. All the cited PDs became effective in accordance with Art. 64, letter "b" of AVPA, given that as of 20.03.2024 there are no revoked PDs or any in the process of judicial appeal.

During the reporting period, no settlement agreements were concluded with the supervised entities of this category.

In connection with 4 of the SEAVs composed in the previous year, the proceedings were terminated in 2023 on the basis of Art. 28 of AVPA, and in the reporting period no resolutions were issued for termination on the basis of Art. 54 of AVPA.

Table 25. Most frequent violations by MCs and MCs in the capacity of CIS managers in 2023

Type and basis of the violation	Identified violations SEAV (no.)	Administrative penalties imposed (no.)
Operating outside the scope of the license held (Art. 86, Para. 6 of CISOUCIA, as amended by SG No. 85 of 2023)	8	1
Lack of details in confirmation of the execution of an order (Art. 66, para. 7 of Ordinance No. 44)	10	given the six-month deadline under Art. 34, para. 3 of the AVPA, during the reporting period no PDs were issued
Violations related to failure to maintain minimum liquid funds in a certain amount (Art. 153, Para. 2 of Ordinance 44)	5	given the six-month deadline under Art. 34, para. 3 of the AVPA, during the reporting period no PDs were issued

*Note: The number of established violations does not correspond to the number of penalties imposed, since the legal deadline for the completion of the initiated administrative criminal proceedings is 6 months, according to Art. 34, para. 3 of the Administrative Violations and Penalties Act.

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

In 2023 12 SEAVs were composed in connection with 14 violations, the administrative criminal proceedings of which are in the competence of the Deputy Chair in charge of the Investment Activity Supervision.

Different types of violations were found, from which a conclusion can be drawn that there is no permanence observed in the behaviour of the entities, but rather it is an accidental failure to fulfil stipulated legal obligations. Violations of Art. 114b, Art. 145 and Art. 166 of the POSA, Art. 40, para. 4 of the MFIA, as well as several market manipulations according to Article 15 of Regulation (EU) 596/2014 were established.

During the reporting period, 1 PD was issued in connection with an administrative violation of Art. 145, para. 1 of the POSA, imposing a pecuniary sanction in the amount of BGN 5,000. The penal decree was not appealed by the offender and became effective.

During the reporting period, 6 settlement agreements concerning 7 committed administrative violations were concluded with entities from this category. Thus, with the consequences of an effective penal decree, administrative penalties in the amount of BGN 50,400 were imposed, which were promptly paid by the offenders.

In 2023, 3 warnings were issued on the basis of Art. 28 of the AVPA and 2 administrative criminal proceedings were terminated on the basis of Art. 54 of the AVPA.

Table 26. Results of the administrative penal activity in 2023 (total for the three divisions)

	Value of issued PDs (BGN)	Value of PDs			Value of concluded agreements	Value of effective agreements
		Value of effective PDs ¹ (BGN)	Value of revoked PDs ² (BGN)	Value of PDs under appeal ³ (BGN)		
Investment firms, CSDs and BSE	228,000	419,000	214,000	289,000	23,450	23,450
CIS, MC, SPIC, PC and other issuers	426,000	857,500	94,000	369,000	152,600	152,600
Non-life insurance companies	255,500	392,500	57,000	164,000	11,200	11,200
Life insurance companies	278,500	244,000	0	51,000	4,200	4,200
Insurance brokers	5,000	18,000	0	0	9,100	9,100
Insurance agents	1,000	0	0	1,000	0	0
Pension insurance companies	5,000	84,000	20,000	40,000		
Guarantee Fund, NBBMI	0	0	0	0	700	700
Other legal entities and natural persons	2,000	30,000	56,000	23,000	53,200	52,500

¹ became effective in 2023, regardless of the year of issue

² revoked in 2023, regardless of the year of issue

³ data as of 20.03.2024, regardless of the year of issue

Table 27. Enforcement in 2023 (total for all three divisions)

	Identified violations (no.)	Penalties imposed with PDs* (no.)	Penalties imposed with agreements (no.)	Proceedings opened under CAM (no.)	Decisions for implementation of CAM** (no.)
Investment firms, CSDs and BSE	99	37	19	0	0
CISs, MCs, AIFs, AIFMs, SPICs, PCs and other issuers	150	59	36	18	15
Non-life insurance companies	211	133	16	27	20
Life insurance companies	25	162	3	10	6
Insurance brokers	32	5	13	3	3
Insurance agents / persons operating as insurance agents, without being entered in the FSC register	2	2	0	0	0
Pension insurance companies	8	1			2
Guarantee Fund, NBBMI	1	0	1	0	0
Other legal entities and natural persons	17	0	12	0	0

Notes: *The number of penalties imposed with PDs for the reporting year includes both PDs issued on the basis of SEAV from the same year and PDs issued on the basis of SEAV from the previous year. This is due to the fact that the deadline for issuance of a PD is six months after the date of issue of an SEAVs according to Article 34, para. 3 of the Administrative Offenses and Penalties Act. ** 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 stakeholders do not apply.

In 2023, 213 statements establishing administrative violations of persons under the supervision of the Insurance Supervision Division were issued. A total of 275 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 complaints, reports and inquiries received from users of insurance services in 2023 was 769, which shows a decrease compared to the 871 complaints received in 2022. It should be noted that over the past three 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 2023

Type and basis of the violation	Identified violations	Imposed sanctions
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	104	204
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	23	13
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	18	31
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	14	9
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	12	4
Art. 337, para. 2 of the IC- non-transfer of the received insurance premium from an insurance intermediary to an insurer	12	10
Art. 290, para. 2 of the Insurance Code - failure to submit a response to a complaint from a user of insurance services	3	4
Art. 126, para. 1 of the Insurance Code - failure to submit thematic financial statements and reports by insurers within the statutory period	24	22

Notes: *The number of sanctions imposed for the reporting year includes both sanctions issued on the basis of established violations of the same year and sanctions imposed on the basis of established violations during the previous year. This is due to the fact that the deadline for issuance of a PDs is six months after the date of issue of an SEAVs according to Article 34, Paragraph 3 of the Administrative Offenses and Penalties Act.

The main violations committed by insurance companies in 2023 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. The total number of established violations of this type is 136.

Despite the fact that in 2023 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 2023 the number of established violations of this type remains low.

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 entities and, to a greater extent, compliance of their activities with legal requirements.

The total value of the PDs that entered into force in 2023 amounts to BGN 656,500 , 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 non-life insurance companies is engaged.

Supplementary pension insurance

In 2023, 6 statements for establishing administrative violations were issued for established 7 violations of the provisions of the SIC. During the year, no penal decrees were issued, and no agreements were concluded.

During the reporting year 2 coercive administrative measures have been applied against two pension insurance companies. With one of the applied CAMs, a pension insurance company is obliged to pay to a person funds accumulated on their individual insurance account in the SPF, from personal and employer contributions. With the second CAM, a pension insurance company is obliged to transfer funds to an insured person according to their will expressed in an application for a change of participation. The coercive administrative measures have been implemented by the pension insurance companies within the set deadlines.

In 2023, 18 penal decrees became effective with a total value of BGN 85,000 became effective all of which were issued in the previous year, 2022. In the reporting year, 19 penal decrees were revoked, all of them issued in previous years, with total value BGN 74,000. The total value of the fines and sanctions imposed with PDs issued in previous years, which at the end of 2023 are in the appeal phase, amounts to BGN 58,000.

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 2023 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.

During the reporting period, 1 inspection was carried out on a notification of intent to delay disclosure of inside information, 4 alerts were processed for violations of Regulation (EU) No 596/2014 and 29 inspections were carried out on reports of suspicious transactions constituting insider dealing, market manipulation or attempted insider dealing or market manipulation.

In 2023, information was exchanged with the Ministry of Finance, as well as supervisory authorities of other countries.

In the reporting period, a total of 14 SEAVs were composed for 24 violations of Regulation (EU) 596/2014. In contrast to the previous year, when most of the violations concerned non-compliance with Article 17, § 1 of Regulation (EU) 596/2014 in relation to the disclosure of inside information, in 2023 the predominant violations were market manipulations - Articles 15 and 16 of the Regulation.

In 2023, 1 penal decree was issued for violation of Regulation (EU) 596/2014, namely Article 17, § 4 thereof, imposing a pecuniary sanction of BGN 5 000. As of 20.03.2024 the cited PW is in the process of judicial appeal.

In the same period, 6 settlement agreements were concluded with the offenders in relation to non-compliance with the provisions of the Regulation, and financial penalties were imposed for a total amount of BGN 50,400, which were paid in due time.

In connection with 3 of the SEAVs the proceedings were terminated in 2023 on the basis of Art. 28 of AVPA, and in the reporting period 1 resolution for termination was issued on the basis of Art. 54 of AVPA.

3.5. Specialized supervision of investment firms and management companies on the implementation AML/CTF measures

On-site inspections

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 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 Measures against the Financing of Terrorism Act (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.

Thematic inspections target the highest risk areas identified in the risk assessment at national, branch 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 2023 covering the following topics:

1. With respect to investment firms:

- 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-bank investment firms- 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 clients 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 clients 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 to carry out identification and verification of the identification of clients - legal entities and other legal bodies, as well as 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 of transactions, operations and clients - including review of the procedures introduced by the investment firm in accordance with the established risks for monitoring the clients 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, and tracking 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 others employees who have functions for the fulfilment of the company's obligations under the MAMLA, RIMAMLA and MAFTA.

2. 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 to carry out identification and verification of the identification of clients - legal entities and other legal bodies, as well as to establish, identify and verify the identification of the natural persons who are the beneficial owners of such customers;

- 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 others employees who have functions for the fulfilment of the company's obligations under the MAMLA, RIMAMLA and MAFTA.

In relation to the prepared and updated annual general supervisory plan in the area of AML/CFT measures for 2023 and the individual plans for each of the supervised entities - non-bank investment firms, management companies and AIFMs, in 2023 the FSC opened 9 on-site inspections in the Investment Activities sector for compliance with the requirements of the MAMLA and MAFTA and their implementing acts, including 6 inspections of non-bank investment firms, 1 inspection of a management company and 2 inspections of AIFMs. In terms of the scope of the on-site inspections carried out, there were 6 full inspections (4 inspections of investment firms and 2 inspections of AIFMs), 3 thematic inspections (2 inspections of investment firms and 1 inspection of a management company) targeting the highest risk areas identified in the risk assessment at country, sector and individual level.

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

As the competent authority for anti-money laundering and terrorist financing, the FSC develops, implements, reviews and refines the risk-based supervision model in accordance with the "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" pursuant to Article 48(10) of Directive (EU) 2015/849, amending Joint Guidelines ESAs/2016/72 (Guidelines on risk-based supervision)" and pursuant to Art. 114 and Article 115 of the MAMLA. Off-site supervision, in relation to supervised entities in the Investment Activity sector, includes the collection of 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.

For the purpose of the AML/CFT risk assessment, information has been collected from the entities supervised by the Commission, which are obliged entities under Article 4, items 8-10 of the MAMLA from the Investment activity sector, by means of the self-assessment questionnaires and statistical information forms.

At the beginning of the reporting period, on the basis of the information provided in 2022, the Financial Supervision Commission carried out a money laundering and terrorist financing risk assessment and determined the risk profiles of each of the following supervised entities:

- 34 non-bank investment firms
- 29 management companies and branches of foreign management companies.
- 13 alternative investment fund managers.

Based on the results of the AML/CFT risk assessment and the risk profile of the supervised entities in the Investment Activities sector, an overall annual supervisory plan in the field of AML/CFT measures for 2023 has been prepared, as well as individual plans for each of the supervised entities - non-bank IFs, MCs and AIFMs according to the identified risk.

In the middle of the reporting period, on the basis of the information provided in 2023, an AML/CFT risk assessment was carried out and the risk profile of the supervised entities in the Investment Activities sector was determined (obliged persons under Art. 8 - 10 of the MAMLA) in accordance with the Single methodology of SAD Financial Intelligence- SANS and the FSC for assessment of money laundering and terrorist financing risk in the Investment Activity, Life Insurance Activity and Voluntary Pension Insurance sectors. The single methodology, based on the Guidelines for Risk-Based Supervision, introduces the following risk levels: Less significant;

- Moderately significant;
- Significant, and
- Very significant risk.

In order to take timely supervisory actions in line with the identified risk, following an analysis of the results of the risk assessments of each of the supervised entities - non-bank IFs, MCs and AIFMs, within the reporting period, an update of the overall annual supervisory plan in the area of AML/CFT measures for 2023, and of the individual plans for each of the supervised entities in the investment activities sector which are obliged persons under Article 4, items 8-10 of the MAMLA was prepared

4. Activities of the FSC for resolution of investment firms

The scope of RRCIIFA includes investment firms that carry out transactions for own account with financial instruments and underwriting 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 Financial Supervision Commission, 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 2023, in accordance with Commission Delegated Regulation (EU) 2015/63 of 21.10.2014,³ 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 (BGN equivalent of BGN 1955.83).

Pursuant to Art. 3 of the RRCIIFA, a review of 21 IF recovery plans covered by the RRCIIFA was carried out. Recommendations have been made to modify the plans to identify obstacles and actions that may adversely affect the resolvability.

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 2023, 17 plans for resolution of IFs have been prepared and adopted.

In 2023, simplified requirements were set for IFs and institutions under Art. 1, para. 1, item 3 - item 9 of the RRCIIFA in the preparation of the recovery/resolution plans, and were adopted by the FSC.

Communication with the Single Restructuring Mechanism (SRM) continued in 2023, 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.

In 2023, the resolution unit of the FSC continued its active participation in the work on establishing a framework for recovery and resolution of insurance and reinsurance companies.

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

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

- The protection of users of non-bank 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;

³ 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

- by providing accurate and comprehensive information about the non-bank sector and the actions of the institution through various communication channels.

In 2023, the FSC made timely changes in the regulatory framework and supervisory activities, in line with European requirements and the specifics of the national market, with an emphasis on good business practices and with a view to equal treatment of supervised entities. The focus of the Commission's activity during the year was providing accurate and comprehensive information about the non-bank sector and the actions of the institution through various communication channels. This process, together with the implementation of a series of educational initiatives, helps to increase the financial culture and create preconditions for awareness in the choice of financial services by consumers.

5.1. Access to financial information

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

- publications on the Commission's three public websites: <https://www.fsc.bg/bg/>, <http://www.tvoitefinansii.bg/> и <https://investsafely.fsc.bg/>;
- posts on the Commission's communication channels on LinkedIn and Youtube;
- the Commission's mobile application – FSC Mobile;
- 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 center 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 the FSC – www.fsc.bg.

The FSC website 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.

The 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, pension insurance and capital market processes.

In the Regulations section, the codes, laws and regulations have been updated after their promulgation in the State Gazette.

In 2023, 2 programs for regulatory activity, 10 public consultations and 18 announcements were published.

Over 1,000 warnings received by the Commission's European partners in the calendar year 2023 are published in the already supported existing rubric "For the user" - "Warnings for consumers" - "From the European regulatory and supervisory authorities".

In 2023, more than 1500 materials were published on the institutional website of the FSC, of which: 225 news, 849 decisions, 49 statistics and 419 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 year-on-year rate of return of the supplementary pension funds, the results of the changes in the holding and the transfer of insured persons' funds from one pension fund to another, materials for the funds accumulated in the supplementary pension funds.

In the field of insurance, periodic updated were carried out of the lists of Bulgarian and foreign insurers and insurance brokers, the insurers and insurance intermediaries from the EU Member States that had informed the FSC they wish to carry out activity on the territory of the Republic of Bulgaria, as well as the lists of Bulgarian insurers and reinsurers intending to carry out insurance activities on the territory of the EU.

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

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

In order to implement the project "Development of a Unified Information System for the needs of the Financial Supervision Commission", the process of re-registration of supervised entities in the new Unified Information System of the FSC was launched in November 2023.

Proof of the good online communication during the year is the large number of visitors to the FSC website. For the period 01.01.2023 - 31.12.2023 the site www.fsc.bg was visited by 82,000 users. Of those visiting the site in 2022, 81,057 were visiting it for the first time.

Online channels of the FSC

The website "Your Finances" (<http://www.tvoitefinansii.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 visitors on various cases is also published. The materials have an educational focus, and for this purpose a test has been developed that takes into account the level of financial literacy, as well as a financial dictionary.

The FSC #Invest safely campaign was part of the "World Money Week" with a lecture to the students of the First English High School.

In 2023, the Financial Supervision Commission positioned itself very successfully in the LinkedIn professional network. The total number of visitors for the past year was 2989. Compared to 2022, there was an increase of 653 visits. The majority of visitors are from the financial services, banking, IT and insurance sectors. The total number of followers is 867, with 348 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 entities in the form of videos. As of 31.12.2023, 28 videos have been published. The channel of the FSC has 85 subscribers. The video "FSC participates in a conference "Bulgaria on the European Fintech Map"" attracted the most interest - 494 views.

The Financial Supervision Commission also has a business profile that allows monitoring the interaction with users or how many people specifically searched for the Financial Supervision Commission or similar institutions, how many called directly after the search 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. The searches of the FSC total 35 741.

In 2023, the FSC Mobile app was downloaded 170 times from the Google play store (for Android) and 148 times from the App store (for iOS). The information is updated in a timely manner when there are changes in the lists of supervised entities, the supervisory calendar, as well as when news related to the activities of the FSC are published.

Information Center

In 2023, the Information Center of the FSC received a total of 3789 calls from citizens and supervised entities, divided by supervision: social insurance supervision - 69, insurance supervision - 1286 and investment supervision – 1420 calls, the rest of the calls concern administrative issues. In percentage terms, the largest number of inquiries are related to the Investment Activity Supervision Division- 39%, followed by Insurance Supervision with 35% and Social Insurance Supervision with 2%. There were 853 calls from citizens and supervised entities related to administrative issues. There were 77 on-site visits by citizens. By month, telephone inquiries are as follows: 435 in January, 401 in February, 430 in March, 244 in April, 236 in May, 252 in June, 358 in July, 202 in August, 189 in September, 231 in October, 445 in November and 205 in December.

The trend for the most calls in the month of January changed compared to 2022 when the most calls were about the filing of annual reports and statements as at 31.01.2022, as well as payment of fees for general financial supervision by the entities supervised by the FSC. In 2023, the month with the most calls was November, when supervised entities started their re-registration in the FSC's Unified Information System.

The most frequently asked questions by citizens to the FSC Information Center 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 investment firms, 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 Center remains high in 2023. Given the above data, it can be concluded that the FSC Information Center retains its popularity both for citizens and non-bank participants.

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

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

In the beginning of 2023 the Deputy Chair in charge of the Investment Activity Supervision Division, Maria Filipova, was a special guest at the XXII award ceremony for investment firms and banks that achieved the highest results in 2022.

On 20 January 2023 Maria Filipova was an official guest of a webinar organized by Central Depository AD (CD) on SPOTLIGHT ON T2S”.

At the end of March, the Chair of the FSC Boyko Atanasov opened the Capital Forum - "Fintech and Insurtech Summit", he spoke about the main challenges, including clarity on the functioning and implementation of innovation in the fintech sector, balance of the risks of innovation versus the benefits for consumers, balance between promoting innovation and maintaining the levels of protection of customers and businesses against potential adverse events, assessment and adjustment of the regulatory framework to the changes or entirely new business models and the resulting potential risks.

In the framework of the discussion on “The role of organized civil society in the process of Bulgaria's accession to the euro area”, initiated by the Economic and Social Council (ESC), Ms Maria Filipova - Deputy Chair in charge of the Investment Activity Supervision Division, commented on the priorities of the FSC in relation to Bulgaria's accession to the euro area. On the one hand, the effective and problem-free handling of the transition to the new currency by companies from the insurance, pension and investment sectors, and on the other hand, the implementation of an effective information campaign aimed at users of financial services in the non-bank financial sector, including the practical aspects of the introduction of the euro and the role of the Financial Supervision Commission in this process.

On May 19, 2023, for the fifteenth 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 2022, 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 "Life Insurance". Ms. Diana Yordanova, Deputy Chair of the FSC in charge of the Social Insurance Supervision Department presented the Pension Insurance Company of the Year 2022 award in the category Supplementary Mandatory Pension Insurance. The Insurance Broker of the Year award in the Non-Life Insurance category, and the Insurer of the Year - Most Synergetic Developing Company, were presented by Mr. Vladimir Savov, Deputy Chair of the FSC, in charge of the Insurance Supervision department.

The Chair of the FSC - Mr. Boyko Atanasov, was among the official guests of the 12th edition of the national audit competition "Young Auditor", which was held on 22 June. Mr. Atanasov presented the award to the student who won the first place in the competition. He addressed all participants saying: "Be strong, be courageous, do not be satisfied with what you have achieved today and remember that without extra effort success is not possible. Good luck!"

On 7 July, the National Corporate Governance Committee (NCGC), together with the Association of Bulgarian Investment Relations Directors (ABIRD) and the Industrial Capital Association in Bulgaria, held the international conference "Corporate Governance and Decarbonisation". Dr. Neda Mujo, Head of the Supervision of Public Companies, Securities Issuers and SPIC Department at the FSC, took special part in the panel discussion "Follow the Rules and Compete Successfully", focusing on the role of the regulatory framework for sustainability.

On 3 October, the insurance sector celebrated Day of the Insurer. The Financial Supervision Commission was represented at the event by the Chair of the Commission - Mr. Boyko Atanasov, Mr. Vladimir Savov - Deputy Chair of the FSC in charge of the Insurance Supervision Department and Ms. Diana Yordanova - Deputy Chair of the FSC, in charge of the Social Insurance Supervision Department. Mr. Atanasov, together with the chairs of the Association of Bulgarian Insurers and the Bulgarian Association of Insurance Brokers - Mr. Yuri Kopach and Mr. Nikolay Zdravkov, offered their congratulations to all those working in the insurance sector.

Ms Diana Yordanova - Deputy Chair in charge of the Social Insurance Supervision Department of the Financial Supervision Commission, participated in the international conference - Pensions Europe CEEC Forum 2023 - Outlook and Opportunities for CEEC Pension Markets, which took place on 10 October. On behalf of the Chair of the Financial Supervision Commission - Mr. Boyko Atanasov, Ms. Yordanova welcomed the professional audience and kicked off the first panel of the conference.

On 7 November, Mr. Boyko Atanasov - Chair of the Financial Supervision Commission (FSC), officially opened the annual meeting of the financial and investment community in the region - Investor Finance Forum 2023 (IFF). It is organized for the 12th consecutive year by the economic website Investor.bg. All the topics presented were evidence of the importance of partnership, innovation and sharing of knowledge in shaping the future financial ecosystem in which the Financial Supervision Commission, as regulator of the non-bank financial sector, continues to play a multi-faceted role in creating a favourable business environment in Bulgaria.

On 14 November, Ms Diana Yordanova, Deputy Chair of the Financial Supervision Commission in charge of the Social Insurance Supervision Department, took part in a roundtable discussion on „General purpose financial and accounting reporting of pension funds from the second and third pillar of the pension system in Bulgaria. Draft for a National Accounting Standard”, organized by the Bulgarian Association of Supplementary Pension Security Companies (BABSPC).

Ms Diana Yordanova - Deputy Chair in charge of the Social Insurance Supervision Department of the Financial Supervision Commission, also participated in a working discussion held on 16 November on the topic “The Pension Insurance System: conditions, problems, vision for development”, organized by the Bulgarian Industrial Association (BIA).

The Chair of the Financial Supervision Commission - Mr. Boyko Atanasov, officially opened the Annual Meeting of the Bulgarian Association of Licensed Investment Firms (BALIF) on 2 December 2023. Mr. Atanasov was also among the official guests during the lecture of the Swedish economist and futurist - Shel Nordström, who presented his forecast of global financial trends.

At the end of 2023, Ms. Maria Filipova - Deputy Chair of the FSC in charge of the Investment Activity Supervision, was a special guest at the largest event organized by the Association of Bulgarian Investment Relations Directors (ABIRD) - IR AWARDS 2023. It was held for the ninth consecutive year and honoured the best investor relations directors and their companies, and for the fifth consecutive year, certificates were awarded to students who participated in the IR Junior Class 2023 program - ABIRD's training program for young people.

Media communications

During the past 2023, the Financial Supervision Commission carried out active communication with the media, using various channels in order to inform consumers of financial services and increase public confidence in the activities of the Commission.

During the year, 225 news items were published on the website and 24 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 January 2023 Chief Assistant Dr. Yosif Yosifov, an actuary at the FSC, commented on the profitability of the supplementary pension funds in the programme “Your Day” on Nova TV.

At the end of February Mr. Vladimir Savov - Deputy Chair of the Financial Supervision Commission, was a special guest in the studio of Money.bg on Bulgaria On Air TV. In it he discussed the state of the insurance market and trends in the prices of compulsory motor third party liability insurance.

The Deputy Chair of the FSC - Mr. Vladimir Savov gave a special interview to the newspaper 24 hours, in which he commented on the prices of insurance policies, the bonus-malus system, as well as the signals received by the FSC from users of insurance services.

In March 2023, Ms. Anka Kostova, Director of Public Relations and Protocol at the Financial Supervision Commission participated in the "Business Start" program on Bloomberg

TV. The FSC plans to go fully digital in the autumn with the launch of its single information system. The FSC is also launching a new FSC Mobile app to inform and assist consumers when it comes to choosing licensed intermediaries.

During World Money Week, on 23 March 2023, Anka Kostova, Director of Public Relations and Protocol at the Financial Supervision Commission, talked about what is being done for the financial literacy of young people in Bulgaria in the programme “Our Day” on BNR.

In May 2023, Ms. Anka Kostova, Director of Public Relations and Protocol, talked about the digital campaign for financial literacy #investsafely, in the program “100% awake” on BNT.

A special episode of “Press F1” on BNT 2 was dedicated to the digital campaign of the FSC #investsafely. In the programme, Dr. Neda Mujo, Head of the Supervision of Public Companies, Securities Issuers and SPIC Department spoke in detail about the different types of fraudulent investment schemes and the ways we could protect ourselves from them. Anka Kostova, Director of Public Relations and Protocol, drew attention to the right steps we should go through to invest safely and how the FSC facilitates this activity.

At the end of June, Dragomir Gochev, Director of the Social Insurance Supervision Directorate at the Financial Supervision Commission, commented on the topic of the accumulated funds in the second pillar of the supplementary pension insurance.

On 26 July on BNR Shumen, Maria Sidova - chief expert at the FSC, talked about the insurance rights of users of insurance services. She drew attention to the time limits for making a decision on insurance claims in the event of a road traffic accident.

On 19 October the Deputy Chair of the Financial Supervision Commission in charge of the Insurance Supervision Department - Mr. Vladimir Savov, took part in the “Your Day” program on Nova News. In the interview, he drew attention to the draft act amending and supplementing the Insurance Code, in relation to the amendments in the formation of the insurance premium for motor third-party liability insurance.

Vladimir Savov - Deputy Chair of the FSC, gave an interview to the Banker newspaper. He commented on the proposed changes to the Insurance Code, digitalization in insurance and trends in the insurance market.

On 8 December the Chair of the Financial Supervision Commission - Mr. Boyko Atanasov gave a special interview to Banker Special. The publication provides an overview of key aspects of the work of the Financial Supervision Commission and the development of the Bulgarian regulator in line with digitalization and innovation.

In 2023, the activity of the FSC was actively covered in the media with a total of 3822 publications, and in the media channels they are distributed as follows: press - 240, television - 15, internet - 3564, radio - 3.

In 2023, the Financial Supervision Commission prepared two issues – a monthly Newsletter published on the FSC website and the Annual Report of the Financial Supervision Commission for 2022 summarizing the activities of the supervisory institution and reflecting the state of the non-banking sector in Bulgaria in 2022.

The FSC's monthly newsletter offers summarized information on the activities of the FSC by months - regulatory and supervisory, it provides information for all decisions of the FSC, the decisions of the Members of the FSC and all the entries during the month. The newsletter is issued

in electronic form in the middle of each month, summarizing information for the previous month, and is published on the 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 535 monitoring reviews were prepared for 2023, 4 of which were related to extraordinary news and topics.

5.2. Complaints and inquiries by users of non-bank 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 the 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-bank 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 received complaint is inspected, in case of established administrative violations acts are issued, recommendations are made to the supervised entities, coercive measures are imposed, actions and measures are taken within the legal powers of the FSC bodies.

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

Complaints were also a channel for market feedback about the satisfaction of users of financial services and products from the actions of the regulator resulting from the inspections performed and measures undertaken. 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-bank financial sector.

In 2023, the FSC received 970⁴ complaints and inquiries related to the activity of persons supervised by the FSC. Within 69 complaints, there is a decrease compared to 2022, when there were 1039. 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 2019 they decreased to 1 638 from the previous year. The trend remained in 2020 and 2021, when there were 1,204 complaints each, and for 2022 there were 1,221 complaints. In 2023 they reached 1 202 again.

The presented analysis of the complaints for 2023 is based on 828 received⁵ complaints on which the institution is competent to rule.

With respect to the complaints within competence for the period 2019 - 2023, there is a trend towards decrease. A significant decrease is reported in 2019 compared to the previous two years, reaching 1492. A decrease is also observed in 2020, reaching 993, in 2021 it remains at 990 complaints, for 2022 it is 841, and for 2023 it reaches 970 complaints on which the FSC is competent to rule.

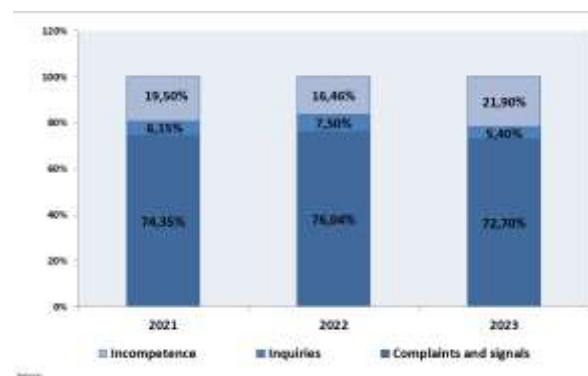
In addition to complaints, the FSC also receives numerous inquiries on which the

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 2023, only 57 inquiries were registered in this database.

The 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. This may be one of the reasons for the increased number of such complaints - in case the complainant does not know to whom to direct their complaint, they submit it so that it can reach the right institution for consideration.

The statistics analyses from 2019 to 2023 show a gradual increase in the number of complaints outside competence - 146 in 2019, rising to 191 in 2020, peaking at 260 in 2021, falling to 182 in 2022 and rising again to 232 in 2023.

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



Complaints over which the institution is competent account for 72.7% of complaints

the specialized departments, and for some of them there are ongoing checks and a response is forthcoming.

⁵ Addressed to the Analyses, Complaints and Resolution Directorate (and processed by it opinions on complaints).

⁴ The indicated 970 complaints are calculated by excluding from 1,202 (total received) files, the complaints and inquiries, which are not against actions of persons supervised by the FSC. The value of 970 represents received complaints and inquiries within competence in 2023, 142 of them were processed by

and inquiries received in 2023, down from 76.04% in 2022.

For comparison, in the period 2019 - 2021 this share is relatively constant, over 80%. In 2021, a slight decline to 74.4% is recorded compared to 2020. By comparison, the proportion of complaints within competence is in the following range: from 87.9% in 2019 to 83.4% in 2020 and 74.4% in 2021, respectively.

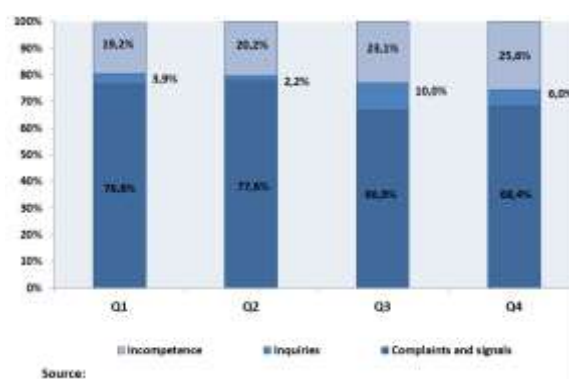
For the last 5 years, the share of inquiries varies between 7.5% and 0.6%. In 2023, there was a decline of 5.4% compared to 2022 (7.5%). In 2019, it declined to 1.3% and in 2020 it fell to 0.6%. For 2021 it reached 6.2%.

The share of complaints for which the institution is not competent increased during the considered five-year period. In 2019 they represent 10.8%, in 2020 – 16.1%, and in 2021 - 19.1% of the total share of received complaints and inquiries. In 2022, they declined slightly and reached 16.5% of the total, rising again to 21.9% in 2023.

In 2023, the ratio between complaints, inquiries and alerts for which the institution is not competent is maintained by quarters. Complaints within the competence of the FSC represent 76.6% of all complaints received in the first quarter of 2023. In the second quarter their share was 77.6%. In the third quarter it decreased to 66.9%, and in the fourth quarter it was 68.4%.

The dynamics of the number of complaints of incompetence during the year showed a clear trend towards growth. In the first quarter of 2023 they had the lowest share, namely 19.2% of all received complaints, in the second and fourth quarter they increased to 23.1%, and in the third quarter they had the highest share of 25.6%.

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



Of the 771 complaints received in 2023, for which the institution is competent, most were complaints against actions on the insurance market - 741. The number of complaints related to the services offered on the social insurance market is insignificant, only 45. There are also 45 complaints against actions of persons operating on the investment market.

In 2023 compared to 2022 there is a decrease by 60 in complaints concerning the insurance market. For the 5-year period under review, there is a general trend towards an increase in complaints on the social insurance market. In 2019 they were 13, and in 2020 - 14 complaints. For 2021, they marked a slight increase, namely 23, and in 2022 they increased to 35. For 2023, they reached 45.

For the period 2019-2023, there was an increase for the first two years, followed by a decrease in the following 3 years, in the number of complaints received in relation to the services and products offered in the investment market. In 2019 they increased to 209, in 2020 they decreased to 154, for 2021 they were 144, and in 2022 there was a sharp decrease to 65 complaints. A total of 45 complaints were received and processed for 2023. The last decrease is a result of a drop in the number of complaints against actions of

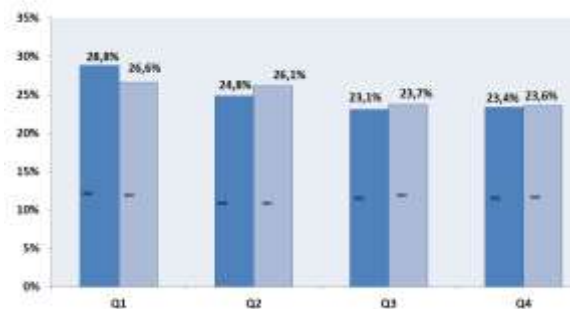
persons without a license to perform activities for the provision of investment services.

Graph 3. Dynamics of complaints at the FSC by markets



Within 2023, 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 2023, they made up 26.6% of the complaints within the competence of the FSC for the year, which is less compared to the same period of 2022 – 28.8%. In the second quarter of 2023, they made up 26.18% of the total number of complaints within the competence of the FSC for the year, and compared to the same period of 2022 there was a small growth. In the third quarter of 2023 they are 23.7% compared to 23.1% in the third quarter of 2022. In the fourth quarter of 2023, complaints within competence accounted for 23.6% of complaints. For comparison, in the fourth quarter of 2022 the share was 23.4%.

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



Complaints related to the insurance market represent the largest share of received complaints within competence in 2023 - 88.3%. For the period 2019 - 2023 this level remained over 80.0%. For comparison, the share of this type of complaints during the period is as follows: in 2019 – 81.3%, in 2020 - 83.1%, in 2021 - 81.3% and in 2022 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 2023 they represent 5.84% of all received complaints within the competence of the FSC, which is a slight growth compared to 4.2% in 2022 . In 2021 in was 2.3%, in 2020 it was 1.4%, in 2019- 1.1%.

Complaints against persons operating on the investment market decreased in 2023 and reached a level of 5.8%, in 2022 they accounted for 7.7% of all complaints received and slightly decreases compared to 2021 when they were 14.6%. For 2020, their share was 15.5%. For 2019, they were significantly less – 6.3% respectively.

The 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 providing their funds to persons other than their contractual partner. Complaints are often submitted to the FSC by foreign persons due to some connection of the electronic platforms to Bulgaria.

The distribution of complaints by sectors is maintained by quarters in 2023. In the first quarter of 2023 the share of complaints related to the insurance sector was 27.9%, in the second quarter - 27.6%, in the third quarter - 21.6%, and in the fourth quarter - their relative share is 22.9%. The proportion of complaints against pension insurance companies in the 2023 quarters ranges from 22-31%. Capital market-related complaints had the highest relative share in the first quarter of 2023 at 37.8% and the lowest in the fourth quarter of 2023 at 8.8%.

Table 29. Dynamics of the structure of complaints by market segments

	2020			2023				
	2020	2021	2022	Q1	Q2	Q3	Q4	2023
Insurance market	83,1%	83,1%	88,1%	27,9%	27,6%	21,6%	22,9%	88,3%
Investment market	15,5%	14,6%	7,7%	37,8%	28,9%	24,5%	8,8%	5,8%
Social insurance market	1,4%	2,3%	4,2%	22,2%	31,1%	22,2%	24,5%	5,8%

Source: FSC

The largest share of complaints a falling outside the competence of the FSC in 2023 are those related to credit products - 25.5%, most of which were provided by non-bank credit institutions. In second place are the complaints related to remittances - 10.7%. Complaints related to mobile services account for a minimal relative share of 0.4%, and others - 63.4% of the total.

Table 30. Structure of complaints outside FSC's competence

	2022	2023
Credit products	27,5%	25,5%
Money transfer	3,3%	10,7%
Savings products	0,0%	0,0%
Mobile services	2,2%	0,4%
Taxes	1,1%	0,0%
Others	65,9%	63,4%
	100,0%	100,0%

Source: FSC

In 2023 the Financial Supervisions Commission continues the established practice to forward complaints outside its competence to the institutions in whose competence they are.

In 2023, the FSC received complaints outside its competence, which are mainly within the competence of another institution in the country. Most complaints are within the competence of the Bulgarian National Bank (BNB), and their share is 56%. For 42.2% of the complaints outside the competence of the FSC, the competent body is the CPC, CRC, Court, Prosecutor's Office, SANS and others. A minimal share of 1.7% are complaints within the competence of the NRA.

Table 31. Structure of complaints by competent institutions other than the FSC in 2023

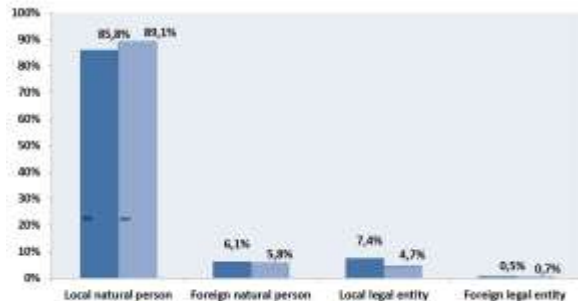
	2022	2023
Bulgarian National Bank	62,1%	56,0%
National Revenue Agency	2,2%	1,7%
CRC, CPC, Court, Prosecutor's Office, complete incompe	35,7%	42,2%
	100,0%	100,0%

Source: FSC

Analysing consumer complaints in by legal subject, it can be said that complaints and inquiries submitted by local individuals in 2023 have a share of 89.1% compared to 85.5% in 2022. Those of local legal entities have a share of 4.7 %, compared to 7.4% for 2022. Complaints by foreign individuals

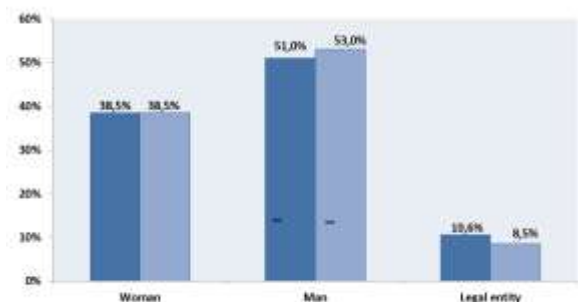
have a share of 5.8%, and foreign legal entities - 0.7%.

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



The analysis of the complaints in terms of activity of the complainants in seeking their consumer rights shows that men are prevalent over women - 53% to 38.5%. There is no significant change compared to 2022, as again men are more active - with a share of 51% and women with a share of 38.5%. The complainants that are legal entities accounted for 8.5% of all complaints and inquiries in 2023.

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

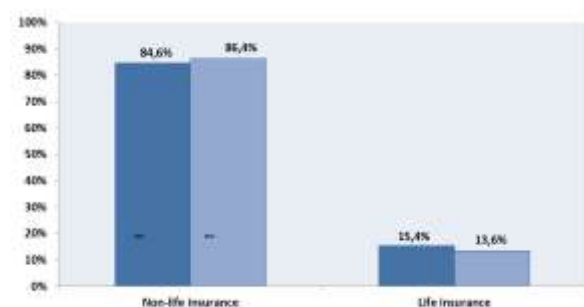


Insurance market

The trend for the complaints relating to the insurance market to have the highest relative share remained in 2023. Complaints against services and products offered by the non-life insurance companies continue to

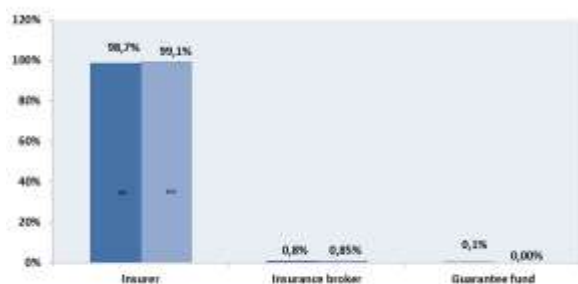
occupy a major part of the complaints concerning the insurance segment, and their share is 86.4% in 2023, compared to 86.4% in 2022. The higher share was due to the higher number of non-life insurance contracts. The proportion of complaints relating to products and services offered by life insurance companies falls slightly to 13.6% in 2023 from 15.4% in 2022.

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



The analysis of complaints in the life insurance sector in terms of the entity against which they were filed showed that usually the complainants expressed grievance over the insurers' actions - in 99.1%. The share of these complaints in 2023 is close to the one in 2022, when it was 98.7%. During the year, the complainants also complained about the actions of insurance brokers and the Guarantee Fund, however their share was insignificant.

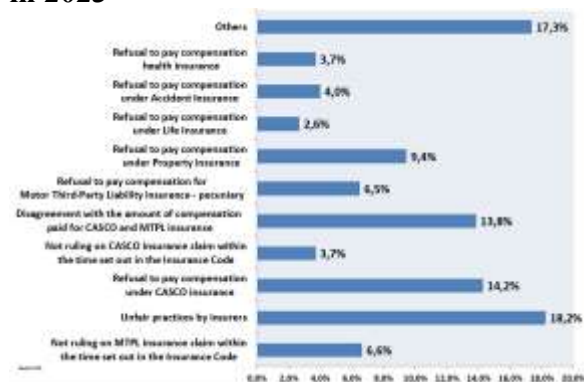
Graph 8. Dynamics of complaints in terms of supervised entities operating on the insurance market



Most often, in 18.2% of complaints related to the insurance sector, the reasons were related to unfair practices by insurers. Secondly, the complainants complained against the refusal to be paid compensations under Casco insurances (14.2%). In the third place, with 13.8%, were complaints in which applicants objected to the amount of compensation under CASCO or Motor Third-Party Liability insurance.

For comparison, in 2022 as well, the most frequent subject of the complaints related to the insurance sector was the amount of compensation under CASCO or Motor Third-Party Liability insurance.

Graph 9. Distribution of complaints in the insurance market by subject of complaint in 2023



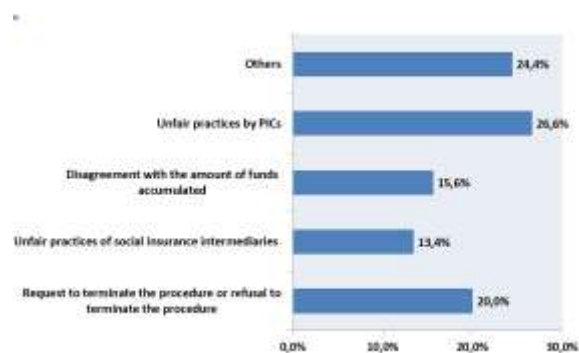
Social insurance market

Unfair practices by pension insurance companies is the most common subject of complaints related to the social insurance market in 2023. Their share is 26.6% of all complaints received in connection with the

social insurance market. Secondly, 20% of the complaints contain a request for termination of the procedure or refusal to terminate the procedure for transferring the accumulated funds on the account from one pension fund to another, and in third place with 15.6% are the complaints concerning disagreement with the amount of accumulated funds on the account.

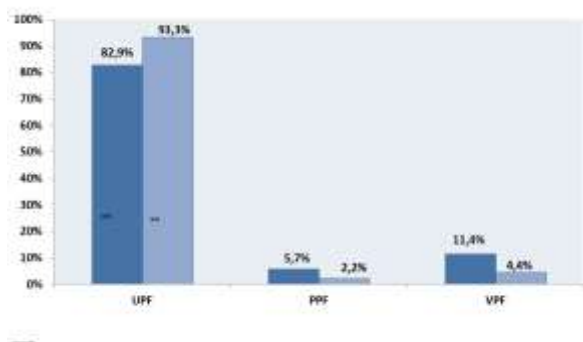
For comparison, in 2022 the most common subject of complaints related to the social insurance market were improper practices by social insurance intermediaries.

Graph 10. Distribution of complaints in the social insurance market by subject of the complaint in 2023



The trend of complaints related to the social insurance market and concerning mainly universal pension funds (UPFs) remained unchanged in 2023. Their share was 93.3% 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 2023 there are two appeals concerning SPF and one concerning the PPF.

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



Investment market

A significant number of the complaints concerning the investment market 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.

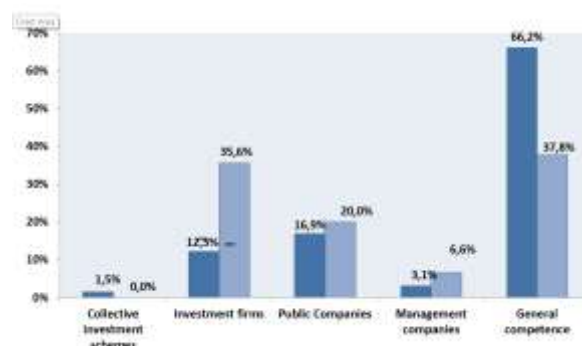
The analysis of the complaints received shows increased activity in the remote sale of investment products – on the telephone or via electronic platforms, as well as of complex financial instruments that were difficult for retail users to understand and for which, according to the legal requirements, an assessment of the pertinence and appropriateness of the financial service.

In 2023, most complaints from the investment market are against actions of unlicensed companies, most of them are not based in Bulgaria. Their share stands at 37.8% and drops compared to 66.2% in 2022.

Complaints against investment firms or persons providing investment services and products are in second place (35.6%) and public companies are in third place at 20%. The share of complaints against management companies is only 6.6% of the total.

In 2023, complaints related to public companies increased to 20.0% compared to 16.9% in 2022. The main subject of these complaints is related to tender offers, in particular against the tender offer price. Growth is reported in complaints against the activity of investment firms - they reached 35.6% in 2023 from 12.3% in 2022.

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



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

The Financial Supervision Commission registered and reviewed every complaint, signal or inquiry received by the institution. A detailed investigation is carried out in each case, and explanations and relevant documents are requested from the persons against whom the complaint has been lodged, as well as additional documents if 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.

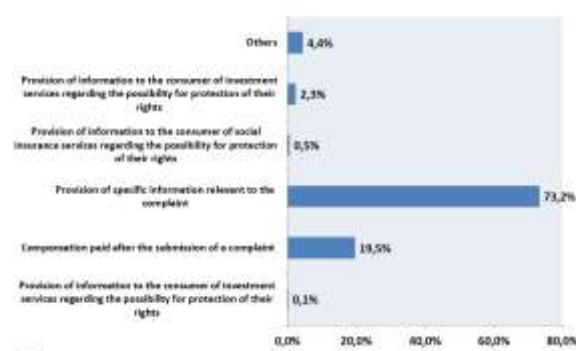
In response to complaints, the FSC regularly informed the complainants that they had the possibility of extrajudicial settlement of disputes thus informing the consumers about the possibility for faster dispute settlement without any costs.

In 2023, 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 FSC in carrying out its function of protecting consumers of investment, insurance and insurance services.

In cases where violations of statutory provisions were found during a complaint

examination, the FSC took action to hold the regulated entities responsible under the administrative regulations by drawing up statements for established administrative violations and issuing and also by implementing coercive administrative measures. The Financial Supervision Commission also approached the law enforcement authorities as necessary.

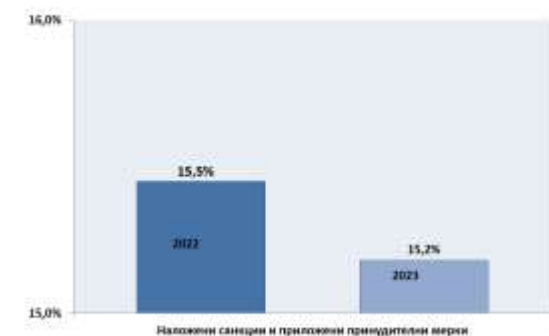
Graph 13. Structure of the actions undertaken in response to complaints, inquiries and signals received by the FSC in 2018



As a result of inspections performed in 2023, there was a decrease in the number of cases where penalties and coercive administrative measures were imposed to supervised entities, their percentage decreasing to 15.2% of all complaints within the FSC's competence, compared to 15.5 % in 2022.

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

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

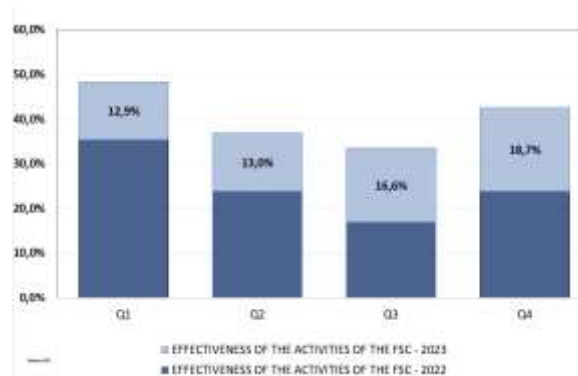


For 15.2% of the complaints and inquiries in 2023, a positive effect was shown due to the FSC's actions when reviewing the received complaints, which was part of the activities to protect the interests of consumers of non-bank financial services.

In 2023, the highest proportion of the positive effect was recorded in the fourth

quarter of the year – 18.7%, and the lowest in the first quarter of the year - 12.9%.

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



5.3. Policy for financial literacy

During 2023, the Financial Supervision Commission 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.

In 2023 the Financial Supervision Commission conducted the XIX edition of the educational program: The Non-Bank 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. In 2023, the format of the program returned to the original initiative and the event was held in person from 16 to 20 October. Extremely interesting presentations from the three areas of the non-banking financial sector - capital, insurance and pension market, were presented by experts of the FSC, as well as by external speakers in the face of the Association of Bulgarian Insurers (ABI) and the Bulgarian Stock Exchange (BSE). The training covered the topics of the three-pillar model of pension insurance, fintech business models, types of insurance, crypto-assets, the introduction of the new European regulations - MICA and DORA, security of investments in the online space, financial instruments on the capital market and trading on the BSE. In the interactive part of the program, the students visited and got acquainted with the activities of a pension insurance company, an insurance company, an investment firm and the Bulgarian Stock Exchange. They had the opportunity to be part of the work process, to participate in discussions, financial simulations, to make hypothetical financial decisions, to ask questions and to solve real cases, under the guidance of experienced mentors from the visited companies and institutions. The XXI edition of the

educational program was attended by 12 students from the upper classes of the Professional High School of Light Industry and Economics “Atanas Burov” - Gorna Oryahovitsa, National High School of Trade - Plovdiv, National High School of Finance and Accounting - Sofia, National High School of Trade and Banking - Sofia, High School of Finance and Accounting “Atanas Burov” - Haskovo, High School of Commerce “Knyaz Simeon Tarnovski” - Stara Zagora, Nevrokop Professional High School “Dimitar Talev” - Gotse Delchev, Professional high School of Economics “Karl Marx” - Smolyan, Professional School of Economics, Administration and Service “Atanas Burov” - Silistra, Professional School of Economics and Management “Elias Canetti” - Ruse, Varna Trade School “G.C. Rakovski” - Varna and State High School of Economics and Finance “Intellect” - Pleven. 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-bank 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 2023, the Financial Supervision Commission conducted an internship for students from the 11B class of the National Commercial Banking School under the title “Regulation and Supervision of the Non-Bank Financial Sector”. In line with the Consumer Protection Programme, the FSC Strategy and in support of the National Financial Literacy Strategy (Priority 3: Enhancing Financial Literacy of School and University Students), the FSC works and takes actions to enhance the financial literacy of students on market participants in the insurance, social insurance and investment sectors. The main objective of the internship is to build knowledge and skills for the prudent use of non-bank financial products and services, awareness of the risks and benefits of their consumption and improve communication with adolescent future investors and consumers of financial services.

In the summer of 2023, students from leading universities in the country and abroad participated in the traditional internship program of the Financial Supervision Commission. The FSC welcomed 7 students, graduates of both Bulgarian and foreign universities, including the University of National and World Economy, the Faculty of Law of Sofia University, Bocconi University - Milan, University of Manchester - England. For more than a month, the students were part of the Commission's team and gained practical knowledge in the activities of the International Cooperation, Investment Activity Supervision, Insurance Regulatory Regimes and Legal Directorate.

For the second consecutive year, the Financial Supervision Commission launched the initiative “The Superpower of the Young Investor”. In 2023, the FSC’s education project was coordinated with the Ministry of Education and Science, setting in motion a larger initiative. Thus, on 06.06.2023, an online seminar was held for high school students of specialized economic schools across the country, in which more than 20 specialized schools participated.

The Financial Supervision Commission dedicated a series of educational initiatives to Global Money Week, which took place from March 20 to 26. In order to familiarize the teenagers with important concepts in the field of regulation and to introduce them to the world of investments, experts of the FSC presented the digital field of safe investing to the upper grades of the First English Language School. Nearly 70 students from 9th, 11th and 12th grades of the high school gained knowledge about capital markets and their functioning. The presentations also focused on the regulator's mission, goals, innovation and digital finance. To show its commitment to the week dedicated to money, the FSC also took part in the From Zero to Fintech 2023 Hackathon. It is being held for the third year, and the event is organized in partnership between the Bulgarian Fintech Association and the Faculty of Economics and Business Administration of Sofia University St. Kliment Ohridski.

The Financial Supervision Commission took part in the Fintech Career Day on 5 December organized by the Bulgarian Fintech Organization and the Faculty of Economics and Business Administration at Sofia University St. Kliment Ohridski.

The Financial Supervision Commission also supported the campaign launched by the European Commission in Bulgaria on the common European currency: „#Euro in a nutshell: the answers we seek”, which was held in cooperation with the Bulgarian National Bank and the Ministry of Finance. The series of 10 informative videos aims to provide understandable and practical information on the benefits of the country's accession to the euro area, both for the Bulgarian economy and for citizens and businesses.

In November 2023, the Chair of the FSC - Mr. Boyko Atanasov presented the Commission's conceptual project for the development of a smart and desktop application for digital financial literacy. The proposed project, with the working title FinLit Adventures - an interactive simulation game, is based on the Financial Competence Framework developed by the European Commission and the OECD (Organisation for Economic Co-operation and Development), which aims to further support EU Member States in addressing the challenges posed by digitalisation in financial services.

6. Financial Technology Monitoring Strategy

In implementation of the Financial Technology (FinTech) Monitoring Strategy in the non-bank financial sector (2021 - 2024), in 2023 the Financial Supervision Commission 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 2023, Digitalk 2023 annual conference; ESMA Crypto assets Task Force workshop; Green Centre training on sustainable finance and implementation of the Taxonomy and Disclosure Regulation by financial and non-financial institutions; European Forum of Innovative Facilitators (EFIF) workshops; introduction to the European Blockchain Regulatory Sandbox workshop for regulators in partnership with Bird & Bird; Insurance Task Force (ITF) meetings at Insure Tech; MISC (Market Integrity Standing Committee), PTSC (Post-Trading Standing Committee) and SMSC (Small and Medium Enterprise Committee) sessions at ESMA for DLT (Distributed ledger technology) pilot; Cyber Contact Group

meetings; Training on EU Market in Crypto Assets Regulation (MiCA) course: Current trends, legislative and regulatory responses in the EU; workshop on the Artificial Intelligence Act; meeting of the High-Level Group on Digital Operational Resilience Act (DORA) Oversight (DORA HLGO); Digital Financial Academy training; workshops of the Joint Committee Sub-Committee on Consumer Protection and Financial Innovation (JC SC CPFI).

In support of this activity, information materials have been prepared and published on the website of the FSC for: the possibility for fintech companies to participate in the first cohort organised by the European Blockchain Sandbox; the introduction of Regulation (EU) 2022/858 on market infrastructures based on decentralised ledger technology (DLT); updating the Innovation Hub section of the FSC website; preparing videos for the FSC website on DLT and MICA.

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.

FSC experts prepared answers and opinions on numerous questionnaires of the European supervisory authorities ESMA and EIOPA concerning financial innovation.

In 2023, for the second consecutive year, the Super Power of the Young Investor initiative was held, which involved 229 students from the lower secondary classes of 19 schools with an economic profile. The initiative aims to increase the awareness of adolescents and prevention of risk when using investment products, combining simultaneously part of the activities of the Action Plan for the FSC 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. The initiative took place online on 06.06.2023.

In 2023, within the framework of the established mechanism for cooperation with business - Innovation hub, the FSC promptly considered the received inquiries from Bulgarian and foreign companies about the regulatory framework and applicable law, and met representatives of these companies for more precise analysis of the specific cases.

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-bank sector to the single European financial market and achieving a high degree of convergence of supervisory practices. The FSC is full member and participates in the meetings of the boards of the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA), supporting their activities through expert participation in the permanent committees and groups set up for them. In addition, the FSC participates as a non-voting member in meetings of the European Systemic Risk Board (ESRB) and cooperates with the European Banking Authority (EBA).

Key aspects of ESMA's work

In 2022, ESMA published its new strategy paper for the next five-year period 2023-2028. The strategy builds on ESMA's successful development since its launch in 2011, on the implementation of significant legislative changes, on the substantial progress in the convergence of supervisory practices between Member States and on ESMA's exercise of new supervisory powers following the amendments to the legal framework establishing the European Supervisory Authorities (ESAs) introduced from 2020. The strategy sets out ESMA's long-term focus and objectives and has been developed against a challenging economic and political backdrop (the effects of COVID, the war in Ukraine and rising inflation).

ESMA fulfils its mission by focusing on its three strategic priorities and guided by the two defined thematic drivers, while taking into account market developments and emerging risks, as well as new powers and available resources both in ESMA and in the national competent authorities (NCAs):

STRATEGIC PRIORITIES:

❖ Promoting efficient markets and financial stability:

- Fair and orderly markets - ESMA protects the integrity of the EU single market by setting high standards of conduct and ensuring transparency to support efficient markets and investor confidence;

- Contributing to strengthening the stability of the financial system - ESMA identifies and assesses threats to financial stability by cooperating with the ESRB, EBA, EIOPA and NCAs;

- Developing the EU single market - ESMA contributes to the development of an efficient, liquid and accessible EU single market for financial services by developing uniform rules and exercising consistent supervision;

- The EU's voice in the global market - ESMA promotes global standards and supports closer integration of international markets and the continued openness of the EU single market. ESMA also acts as the voice of the supervisory community in European financial markets through its active participation in various international forums, including the International Organization of Securities Commissions (IOSCO) and the Financial Stability Board (FSB).

❖ Strengthening supervision of EU financial markets:

- Improving the common EU supervisory culture - developing and strengthening shared supervisory principles between ESMA and NCAs;

- Improved risk prioritisation and outcome-based supervision - use of an EU-wide risk map for supervisory convergence, stress testing, stakeholder consultation and prioritisation of supervisory activities;

- ESMA's approach to convergence of supervisory practices - shifting the focus of its supervisory convergence activities towards effective coordinated supervision, where applicable, in addition to its efforts to ensure consistent understanding and application of the European regulatory framework;

- Supervision by ESMA - promoting a common supervisory culture, approach and methodology across all its direct supervisory mandates, while adapting the supervisory strategy for each mandate to its specificity and level of maturity.

❖ Improving retail investor protection:

- Investor protection - together with NCAs, ESMA ensures that retail investors in the EU are effectively and equally protected, including from emerging risks arising from new distribution channels or innovative products;

- Retail investor engagement - ESMA engages with retail investors through coordinated communication with NCAs, use of new communication tools and platforms;

- Information/disclosure - ensuring that retail investors receive clear, reliable and understandable information about financial products;

- Retail participation in capital markets - by contributing to the development of the EU regulatory framework, ESMA focuses on ensuring long-term direct and indirect retail participation in EU capital markets.

THEMATIC DRIVERS:

❖ Sustainable finance - by incorporating environmental, social and governance (ESG) factors into regulation and supervisory practices, ESMA enables investors to make informed investment decisions and participate in the transition to a sustainable climate:

- implementing the priorities set out in ESMA's 2022-2024 Roadmap for Sustainable Finance;

- contributing to financing the EU's transition to a more sustainable economy, while preserving market integrity and financial stability and a high level of investor protection.

❖ Facilitating technological innovation and effective use of data - technology and data serve as a means to achieve ESMA's mission through its strategic priorities:

- adapting to the digitalisation of financial markets by strengthening the regulatory framework and promoting supervisory convergence;

- promoting convergence in the regulatory and supervisory treatment of new or innovative financial activities and technological innovations;

- improving access to and quality of data and information by stakeholders by strengthening ESMA's role as a data hub.

In June 2023, ESMA published its Data Strategy 2023-2028. Over the next five years ESMA intends:

- to become an advanced data centre, focusing on improved data and information availability, interoperability and usability, and achieving economies of scale;

- to provide access to public interest data - contributing to the provision of easily accessible and usable information to market participants, including retail investors, in a machine-readable format and through user-friendly search and analysis interfaces;

- to promote data-driven surveillance through joint developments and the use of new technologies;

- to lead to increased data collaboration - achieving better data standardisation, quality and re-use and encouraging the adoption of innovative technologies;

- to create effective data policies - reducing the administrative burden on reporting entities by reducing duplicative and inconsistent requirements, streamlining reporting flows, sharing data effectively and efficiently and using emerging technologies;
- to facilitate the systematic use of data - creating processes, methodologies and tools to enable the systematic use of data for evidence-based policy development, surveillance and risk assessment.

ESMA's general supervisory priorities:

According to the amendments to the ESMA Regulation, which became effective in 2020, the authority is obliged to prepare up to two Union-wide priorities within one year, which guide and coordinate the actions of national competent authorities. The priorities have been selected through ESMA's risk-based approach to supervisory convergence, which aims to foster a common understanding between ESMA and NCAs of the most critical supervisory risks and issues that merit prioritisation through supervisory convergence activities. NCAs 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 investment firms, and thus ESMA and NCAs address the risk of greenwashing.

Within the context of the second supervisory priority, namely the quality of market data, ESMA has already developed and implemented common methodologies and thematic reviews. Both ESMA and the NCAs (including the FSC) have continued to engage in increasingly focused and coordinated supervisory work on the subject.

In 2023, ESMA launched a common supervisory action (CSA) with national competent authorities (NCAs) on the application of the MiFID II disclosure rules to marketing communications across the EU. As part of the CSA, NCAs have carried out investigations whether marketing communications (including advertisements) are fair, clear and not misleading and how investment firms and credit institutions have selected the target audience for marketing messages, particularly in the case of riskier and more complex investment products. ESMA is aware that younger, less experienced investors are particularly vulnerable when acting online. For this reason, the CSA has also closely examined marketing and advertising through all distribution channels, including apps, websites, social media and collaboration with influencers. Additionally, during the surveillance action, information was collected on possible greenwashing practices observed in marketing communications and advertisements.

Another common supervisory action that ESMA launched in the reporting year is on the disclosure of sustainability-related information and the integration of sustainability risks by fund management companies. The aim is to assess their compliance with the relevant provisions in the

Sustainable Funding Disclosure Regulation (SFDR), the Taxonomy Regulation and the relevant implementing measures, including the relevant provisions in the UCITSD and AIFMD implementing acts on the integration of sustainability risks.

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 2023, task forces were formed in the FSC to review a total of 10 ESMA guidelines, as a result of which the FSC declared before ESMA compliance with the following Guidelines:

Guidelines on standard forms, formats and templates to apply for permission to operate a DLT market infrastructure (ESMA70-460-213)

The guidelines apply to competent authorities as defined in Article 2(21) of Regulation (EU) 2022/858 and to applicants for specific permissions to operate DLT (distributed ledger technology) market infrastructures as defined in Article 2(5) of Regulation (EU) 2022/858.

The objectives of the guidelines are to establish consistent, efficient and effective supervisory practices within the European System of Financial Supervision and to ensure the common, uniform and consistent application of Articles 8(4), 9(4) and 10(4) of Regulation (EU) 2022/858. In particular, they aim at establishing standard forms, formats and templates to apply for specific permissions to operate DLT market infrastructures.

Guidelines on MiFID II product governance requirements (ESMA35-43-3448)

The guidelines apply to investment firms and NCAs.

The objectives of these guidelines are to establish consistent, efficient and effective supervisory practices within the ESFS and to ensure the common, uniform and consistent application of the MiFID II requirements on product governance. In complying with these guidelines, ESMA anticipates a corresponding strengthening of investor protection.

Guidelines on the consistent application of the triggers for the use of Early Intervention Measures (Article 18(8) of CCPRRR) (ESMA91-372-1700)

The guidelines apply to competent authorities designated under Article 22 of EMIR that supervise central counterparties authorised under Article 14 of EMIR.

The objectives of these Guidelines are to establish consistent, efficient and effective supervisory practices within the ESFS and to ensure the common, uniform and consistent application of Article 18(1) of CCPRRR, in particular, to provide competent authorities with guidance on the situations under which they should consider the application of early intervention measures to CCPs.

Guidelines further specifying the circumstances for temporary restrictions in the case of a significant non-default event in accordance with Article 45a of EMIR (ESMA91-372-1704)

These Guidelines apply to competent authorities designated pursuant to Article 22 of EMIR.

These Guidelines apply in relation to Article 45a of EMIR, which mandates ESMA to draft guidelines further specifying the circumstances in which the competent authority may require the CCP to refrain from undertaking any of the restricted actions referred to in Article 45a(1) of EMIR, for a period specified by the competent authority, that cannot exceed five years.

Guidelines on the methodology to be used by the resolution authority for determining the valuation of contracts prior to their termination as referred to in Article 29(1) of CCPRRR (ESMA91-372-206)

The Guidelines apply to Resolution Authorities.

The goal is to further specify the methodology to be used by the resolution authority for determining the valuation of contracts prior to their termination as referred to in Article 29(1) of CCPRRR. This is expected to promote the convergence of supervisory and resolution practices regarding the methodology to be used by the resolution authority for determining the valuation of contracts prior to their termination as referred to in Article 29(1) of CCPRRR.

Guidelines on the application of the circumstances under which a central counterparty is deemed to be failing or likely to fail (Article 22(6) of Regulation (EU) 2021/23 of the European Parliament and of the Council of 16 December 2020 on a framework for the recovery and resolution of central counterparties) (ESMA91-372-2070)

These Guidelines will apply to competent authorities, as defined in Article 22 of EMIR, and to resolution authorities, as defined in Article 2(3) of CCPRRR, when they determine whether a central counterparty is failing or likely to fail

The objective of the Guidelines is to promote the convergence of supervisory and resolution practices regarding the application of the circumstances under which a CCP is deemed to be failing or likely to fail.

Guidelines on central counterparties recovery plan scenarios (Article 9(12) of CCPRRR) (ESMA91-372-1701)

These Guidelines apply to competent authorities as defined in point (7) of Article 2 of CCPRRR and to CCPs authorised under Article 14 of EMIR.

The objectives of these Guidelines are to establish consistent, efficient and effective supervisory practices within the ESFS and to ensure the common, uniform and consistent application of Article 9(1) of CCPRRR. They aim at specifying the range of recovery plan scenarios to be considered by central counterparties when drawing up and maintaining their recovery plans and by competent authorities when assessing those recovery plans. The objective of preparing the range of scenarios in recovery plans is to identify a range of forward-looking events of severe distress, a central counterparty could possibly face, against which the effectiveness of recovery measures and the adequacy of indicators contained in the central counterparty recovery plan can be tested.

Guidelines on certain aspects of the MiFID II suitability requirements (ESMA35-43-3172)

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

The purpose of the guidelines is to clarify the application of certain aspects of the MiFID II suitability requirements in order to ensure the common, uniform and consistent application of Article 25(2) of MiFID II and of Articles 54 and 55 of the MiFID II Delegated Regulation.

Guidelines on certain aspects of the MiFID II remuneration requirements (ESMA35-43-3565)

The guidelines are addressed to competent authorities and investment firms.

The purpose of these guidelines is to ensure the common, uniform and consistent application of the MiFID II remuneration requirements set out in Article 27 of the MiFID II Delegated Regulation as well as, on the one hand, the conflicts of interest requirements set out in Articles 16(3) and 23 of MiFID II and Article 34 of the MiFID II Delegated Regulation in the area of remuneration; and on the other hand, the conduct of business rules set out in Article 24(1) and (10) of MiFID II. In addition, these guidelines clarify the application of the governance requirements in the area of remuneration under Article 9(3) of MiFID II.

Guidelines on stress test scenarios under the MMF Regulation (ESMA50-164-6583)

These Guidelines apply to competent authorities, money market funds and managers of money market funds as defined in the MMF Regulation.

The purpose of these Guidelines is to ensure common, uniform and consistent application of the provisions in Article 28 of the MMF Regulation. In particular, and as specified in Article 28(7) of the MMF Regulation, they establish common reference parameters of the stress test scenarios to be included in the stress tests taking into account the following factors specified in Article 28(1) of the MMF Regulation:

- hypothetical changes in the level of liquidity of the assets held in the portfolio of the MMF;
- hypothetical changes in the level of credit risk of the assets held in the portfolio of the MMF, including credit events and rating events
 - hypothetical movements of the interest rates and exchange rates
 - hypothetical levels of redemption
 - hypothetical widening or narrowing of spreads among indexes to which interest rates of portfolio securities are tied
- hypothetical macro systemic shocks affecting the economy as a whole

Procedure for updating FSC forms to comply with guidelines

In 2023, 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 guideline forms, declaring full compliance:

- Guidelines on CCP recovery plan indicators (Article 9(5) CCPRRR)(ESMA91-372-1702), after amendment of Art. 1916, para. 2 of MFIA;
- Guidelines on CCP recovery plan scenarios (Article 9(12) of CCPRRR) (ESMA91-372-1701), following an amendment to Article 191b(2) MFIA;

- Guidelines on methodology oversight function and record keeping requirements under the Benchmarks Regulation (ESMA81-393-288), after amendment in Ordinance No 75 of 06.04.2023 on the requirements for the activities of benchmark administrators;
- Guidelines on certain aspects of the MiFID II appropriateness and execution-only requirements (ESMA35-43-3006), as amended by Ordinance No. 38 of 21.05.2020 on requirements for the activities of investment firms;
- Guidelines on common procedures and methodologies on supervisory review and evaluation process of CCPs under Article 21 of EMIR (ESMA70-151-3374), after amendments of Art. 191b, para.2 of MFIA;
- Guidelines on written agreements between members of CCP colleges (ESMA70-151-3431), following an amendment to Art. 191b, para. 2 of MFIA;
- Guidelines On outsourcing to cloud service providers (ESMA50-164-4285), following amendments to Ordinance No. 38 of 21.05.2020 on requirements to the activity of investment firms and Ordinance No. 75 of 06.04.2023 on requirements to the activity of benchmark administrators;
- Guidelines on non-significant benchmarks under the Benchmarks Regulation (ESMA70-145-1209), after amendment in Ordinance No 75 of 06.04.2023 on the requirements for the activities of benchmark administrators;
- Guidelines on EMIR anti-procyclicality margin measures for central counterparties, according to the European Market Infrastructure Regulation (ESMA70-151-1496), as amended by Article 191b, para. 2 of MFIA;
- Guidelines on CCP conflict of interest management (ESMA70-151-1439), following an amendment to Art. 191b, para. 2 of MFIA;

EBA Guidelines

In 2023, the FSC reviewed a total of 3 EBA guidelines, as a result of which the FSC declared full compliance with the following ones:

Guidelines on the use of Remote Customer Onboarding Solutions under Article 13(1) of Directive (EU) 2015/849C (EBA/GL/2021/15)

The guidelines are addressed to competent authorities as defined in Article 4(2) of Regulation (EU) No 1093/2010, as well as to financial sector operators as defined in Article 4(1a) of that Regulation, which are credit and financial institutions as defined in Article 3(1) and 3(2) of Directive (EU) 2015/849.

These guidelines set out the steps credit and financial institutions should take when adopting or reviewing solutions to comply with their obligations under Article 13(1) points (a), (b) and (c) of Directive (EU) 2015/849 to onboard new customers remotely.

Guidelines on policies and controls for the effective management of money laundering and terrorist financing (ML/TF) risks when providing access to financial services (EBA/GL/2023/04)

The guidelines are addressed to credit and financial institutions as defined in Article 3(1) and 3(2) of Directive (EU) 2015/849, which are financial sector operators as defined in Article 4(1a) of Regulation (EU) No 1093/2010, as well as to competent authorities as defined in Article 4(2) point (iii) of Regulation (EU) No 1093/2010.

The guidelines complement the EBA's Guidelines on ML/TF risk factors (EBA/GL/2021/02) and specify further the policies, procedures and controls credit and financial institutions should have in place to mitigate and effectively manage ML/TF risks in accordance with Article 8(3) of Directive (EU) 2015/849, including measures with respect to the provision of a basic payment account in accordance with Article 16 of Directive (EU) 2014/922.

Guidelines on policies and procedures in relation to compliance management and the role and responsibilities of the AML/CFT Compliance Officer under Article 8 and Chapter VI of Directive (EU) 2015/849 (EBA/GL/2022/05)

The guidelines are addressed to competent authorities as defined in Article 4(2) (iii) of Regulation (EU) No 1093/2010. They are also addressed to credit or financial institutions as defined in Article 3(1) and 3(2) of Directive (EU) 2015/849, which are financial sector operators referred to in Article 4(1a) of Regulation (EU) No 1093/2010.

These guidelines specify the role, tasks and responsibilities of the anti-money laundering and countering the financing of terrorism (AML/CFT) compliance officer, the management body and senior manager in charge of AML/CFT compliance as well as internal policies, controls and procedures, as referred to in Article 8, and Article 45 and Article 46 of Directive (EU) 2015/849.

Procedure for updating FSC forms to comply with guidelines

In 2023, the FSC took action to ensure full compliance with 1 guideline for which it had declared an intention to comply, due to the need to take additional measures, resulting in the FSA updating the EBA form for the Guidelines on Internal Governance under Directive (EU) 2019/2034 (EBA/GL/2021/14), following an amendment to Regulation No 38 of 21.05.2020 on requirements for the activities of investment firms.

Peer reviews

The peer review plan is part of ESMA's work programme for 2023, 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, as well as from the adopted Multiannual Strategy 2023-2028, which is available at the following web address: https://www.esma.europa.eu/sites/default/files/library/esma22-439-1055_2023_annual_work_programme.pdf.

Peer review of central counterparties with regard to due diligence of clearing members

The review assesses the overall functioning of CCP colleges and provides information regarding the supervisory activities of national competent authorities of CCPs in relation to EMIR requirements related to the due diligence of clearing members.

The focus of the examination is on the supervision that the relevant NCAs exercise over central counterparties to establish regulatory compliance in four key areas: (1) due diligence of clearing members; (2) due diligence of non-financial counterparties acting as clearing members; (3) due diligence of general clearing members; and (iv) termination of clearing member access and additional obligations.

There is currently no registered central counterparty on the territory of the Republic of Bulgaria and, accordingly, the FSC is not among the authorities selected for verification.

Key aspects of EIOPA's work

In 2023, the focus areas for EIOPA remained on EU legislative initiatives, market developments, including activities related to digital transformation. In 2023, the European supervisory authority deepened its work in general on the following topics, on which it has been actively working in the previous year:

- 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.

In 2023, EIOPA continues its efforts to protect the public interest by contributing to the EU in the short, medium and long term in terms of ensuring the stability, efficiency and sustainability of the financial system.

EIOPA's main activities that contribute to financial stability include:

- ❖ Developing tools to support analysis and promote climate action in non-life insurance practices.
- ❖ Developing pension tracking systems to provide consumers with information to help them make better decisions about their long-term savings, and working on publicly available data.
- ❖ Improving cyber resilience, an important part of which is the drafting of regulatory technical standards to implement the Digital Operational Resilience in the Financial Sector Regulation (DORA).
- ❖ Regular publication of risk management information, which allows tracking the evolution over time of risk indicators for the insured sector.

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.

In relation to the integration of sustainable finance considerations into all areas of work, in 2023 EIOPA has focused its work on its prudential analysis of assets, and activities significantly related to environmental or social objectives or significantly related to the impairment of such objectives. The focus over the past year has been on achieving assurance on the integration of sustainability into all pillars of the prudential frameworks. Work was also underway towards coordinated cross-sectoral initiatives to stress test climate change. On this topic there is also a focus on transparent communication on sustainability in 2023, with EIOPA committing to provide further guidance on sustainability-related disclosure and reporting. In addition, EIOPA continued its efforts to monitor the supply of sustainable products.

In terms of supporting the market and the supervisory community through digital transformation, EIOPA continued to take action to develop and implement a digital transformation strategy. EIOPA focuses on areas where it can add value, with a focus on building the right

foundations for an appropriate regulatory framework in the longer term and ensuring that supervisors have the right tools to identify and address new emerging risks.

In this context, in line with EIOPA's Digital Transformation Strategy, in 2023 the significant activities were those related to:

- ❖ leveraging the development of a robust European data system: EIOPA is collaborating with the EC on the development of financial data spaces, including in areas such as sustainable finance tracking systems and pension data;

- ❖ EIOPA's ambition to play a central role in the digital transformation of the insurance and pensions market and to ensure the use of robust artificial intelligence systems;

- ❖ EIOPA's work to assess the prudential framework in the light of digital transformation, seeking to ensure continued financial stability;

- ❖ EIOPA's efforts to support the development of the single market in times of transformation, and to facilitate cross-border and cross-sectoral cooperation, addressing opportunities and challenges;

- ❖ EIOPA's and the national competent authorities' drive to become digital, consumer-focused to meet their strategic objectives effectively and efficiently.

The implementation of DORA remains a priority in 2023 and the possibility of further centralizing incident reporting through the establishment of a single EU center is being assessed.

In relation to the objective of enhancing the quality and effectiveness of supervision, in 2023 EIOPA continued its work on:

- common benchmarks for supervisory practices with a key focus on the revision of supervisory convergence material related to the Solvency II review;

- thematic reviews and peer reviews to assess the supervisory practices of national supervisors as well as the adequacy of supervisory resources and the degree of independence of competent authorities.

Cross-border cooperation platforms continue to serve as a tool to coordinate the supervisory response to address potential failures of firms operating across borders. EIOPA's role in the colleges of supervisors has focused on increasing support to group supervisors, ensuring that relevant risks are raised for discussion to ensure follow-up action where necessary.

EIOPA's general supervisory priorities

From 1 January 2020, specific amendments to the European Supervisory Authorities Regulations were made and they introduced an obligation for EIOPA to define, at least every three years, up to two priorities of EU-wide relevance that reflect future developments and trends. NCAs shall take these priorities into account when drawing up their work programmes. The two Union-wide priorities in 2023 set by EIOPA are:

- ❖ Sustainability of the business model;
- ❖ Adequate product design, including through strict monitoring of product oversight and governance (POG).

Regarding the reporting of activity on these two priorities, EIOPA concluded that all NCAs have taken into account Priority 1 in their supervisory activity in 2023.

Priority 2 remains a clear priority area in 2023 for the majority of NCAs. Many regulators have integrated EIOPA's methodology into their supervisory approach and some have introduced their own specific requirements.

For the period 2024-2026, an update of the Union's surveillance priorities is foreseen.

EIOPA Guidelines

In 2023, task forces were formed in the FSC to review a total of 2 EIOPA guidelines, as a result of which the FSC declared compliance with the following Guidelines:

❖ Revised Guidelines on Valuation of Technical Provisions (EIOPA-BoS-22-393)

The revised guidelines on the valuation of technical provisions aim to bring the necessary clarity to certain elements that should be taken into account in the process of calculation and validation of technical reserves.

The revised guidelines on the valuation of technical provisions introduce new guidelines and amend current Guidelines on valuation of technical provisions ((EIOPA-BoS-14/166) on topics that are relevant for:

- the determination of the best estimate, including the use of future management actions and expert judgement;
- the modelling of expenses and the valuation of options and guarantees by economic scenarios generators;
- the modelling of policyholder behaviour;
- calculation of expected profits in future premiums.

❖ Revised Guidelines on Contract Boundaries (EIOPA-BoS-22-394)

The guidelines are addressed to all insurers with the right to access the single market and reinsurers, including at group level, and do not contain any explicit obligations to the FSC. The FSC is required to incorporate the Revised Guidelines appropriately into its regulatory and supervisory framework.

The revised guidelines on contract boundaries aim 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. The revised guidelines on the valuation of technical provisions introduce new guidelines and amend current Guidelines on Contract Boundaries (EIOPA-BoS-14-165) on topics that are relevant for the determination of contract boundaries, in particular regarding the assessment whether a cover or financial guarantee has a discernible effect on the economics of the contract and the identification of the contracts which can be unbundled.

Procedure for updating FSC forms to comply with guidelines

In 2023, 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 19 EIOPA guidelines:

- Guidelines on supervisory review process (EIOPA-BoS-14/179);
- Guidelines on group solvency (EIOPA-BoS-14/181);
- Guidelines on the use of internal models (EIOPA-BoS-14/180);
- Guidelines on undertaking-specific parameters (EIOPA-BoS-14/178);
- Guidelines on the loss-absorbing capacity of technical provisions and deferred taxes (EIOPA-BoS-14/177);
- Guidelines on health catastrophe risk sub-module (EIOPA-BoS-14/176);
- Guidelines on application of the life underwriting risk module (EIOPA-BoS-14/175);
- Guidelines on the treatment of market and counterparty risk exposures in the standard formula (EIOPA-BoS-14/174);
- Guidelines on the application of outwards reinsurance arrangements to the underwriting risk sub-module in general insurance (EIOPA-BoS-14/173);
- Guidelines on look-through approach (EIOPA-BoS-14/171);
- Guidelines on treatment of related undertakings, including participations (EIOPA-BoS-14/170);
- Guidelines ring-fenced funds (EIOPA - BoS-14/169);
- Guidelines on Classification of Own Funds (EIOPA-BoS-14/168);
- Guidelines on ancillary own funds (EIOPA-BoS-14/167);
- Guidelines on the methods for determining the market shares for reporting (EIOPA-BoS-15/106);
- Guidelines on reporting and public disclosure (EIOPA-BoS-15/109);
- Guidelines on recognition and valuation of assets and liabilities other than technical provisions (EIOPA-BoS-15/113);
- Guidelines on the implementation of the long-term guarantee measures (EIOPA-BoS-15/111);
- Guidelines on Complaints Handling by Insurance Intermediaries (EIOPA-BoS-13/164)

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/system/files/2022-07/eiopa-bos-22-345_peer_review_work_plan_2023-2024.pdf

In 2023, the FSC continued its activities on several peer reviews of EIOPA, such as:

❖ Peer review on supervisory practices related to certain aspects of the prudent investor rule in insurance.

The purpose of the review is to analyse the supervision of certain aspects of the prudent investor principle in insurance, given that it is often compliance with the requirements arising from this principle that national competent authorities identify as challenging.

In addition, monitoring investment strategies used in a risk-based approach, where capital requirements are closely linked to the type of investment, is key, including helping to identify trends in investment strategies.

Given the broad scope of the prudent investor principle, the review focuses on aspects of investments in non-traditional or more complex assets, including derivatives.

EIOPA's report on this peer review has not yet been published.

❖ Peer review of product oversight and governance requirements

In previous years, this peer review began by going through various phases - a self-assessment during which the FSC completed a questionnaire on the topic, participated in conference calls, and then answered additional questions during the course of 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 life cycle, 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.

In 2023, the FSC continued to provide EIOPA with further information on this review.

The peer review report can be found at the following link:
https://www.eiopa.europa.eu/system/files/2023-07/Peer%20Review%20on%20Product%20Oversight%20and%20Governance%20%28POG%29_1.pdf

Follow up of the implementation of recommendations from completed peer reviews:

❖ **Peer review on supervisory practices regarding the application of the prudent investor rule for Institutions for Occupational Retirement Provision**

This peer review was published in April 2019 and resulted in 27 recommended actions by 19 national competent authorities, primarily in the context of the frequency and granularity of data collected, the way regulators conduct their supervisory assessment, supervisory practices regarding the governance of institutions for occupational retirement provision, and the frequency of on-site inspections.

In 2023, the FSC sent answers to follow-up questions, and there are no recommendations for Bulgaria in the final report prepared by EIOPA. The report can be accessed at the following link:

https://www.eiopa.europa.eu/document/download/bee9071-17ed-4ef0-8940-80926c10eec0_en?filename=Follow-

❖ **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. Meanwhile, Article 49(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 EIOPA providing answers to questions raised, and following conference calls, an EIOPA report on the Peer review on outsourcing was published in 2022 and a follow-up exercise requesting further information on the topic took place in 2023, preceding the implementation follow-up.

❖ **Peer review on the propriety assessment 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 will publish its report in 2022 assessing how national authorities have implemented the recommended actions following the peer review. A monitoring exercise was conducted in 2023 requesting further information on the subject, and it preceded a follow-up exercise.

❖ **Peer review on EIOPA's Decision on the collaboration of insurance supervisory authorities**

This peer review, published in December 2020, resulted in 60 recommended actions for 26 national competent authorities in the following areas: effective implementation of the Decision, authorization, notification, supervision of the continuous basis and data storage. In addition to monitoring recommended actions to each regulator, the topic of best practices is also addressed. Data collection on performance tracking started at the end of 2023 and will continue in 2024.

Key aspects of ESRB's work

Risks to the financial stability of the financial system in 2023 have increased due to rising geopolitical tensions to a level not seen in many years due to the two wars, one in Ukraine and the other in the Middle East, leading to suffering and uncertainty. In 2023, risks to financial stability in the EU have coalesced around interest rate risk and the transition to an era of “higher for longer” interest rates. Inflation reached levels many knew only from books and interest rates rose with an

unprecedented speed, while the outlook for economic growth is overshadowed by poor demographics and winding back of globalisation. The rapid pace of monetary constriction since 2022 has led to increased funding costs and mark-to-market losses for investors holding longer-dated assets. A key place in the work of the ESRB's bodies and structures in 2023 continues to be devoted to the assessment of risks to financial stability in the EU, with regular input from the ECB monitoring and evaluation work, members' views (in particular through the bottom-up survey), market information, the ESRB Risk Dashboard, and the ESRB Risk Assessment and Policy Priorities.

In the beginning of the year, the ESRB issued Recommendation ESRB/2022/9 on vulnerabilities in the commercial real estate sector in the European Economic Area (EEA), which recommends that European Union and national authorities improve the monitoring of systemic risks stemming from the commercial real estate sector. Monitoring the vulnerabilities related to this sector is key to identifying potential risks to financial stability and to assessing possible responses. Further details of the ESRB's assessment in this regard are included in an ESRB report entitled “Vulnerabilities in the EEA Commercial Real Estate Sector”, which has also been published at the time and includes all EU Member States and also Iceland, Liechtenstein and Norway. The vulnerability assessment is based on available data and covers mainly developments up to mid-2022. With the publication of the recommendation and the report, the ESRB concludes its third regular vulnerability assessment of the commercial real estate sector, and the ESRB has undertaken this monitoring on an ongoing basis due to the importance of the sector for financial and macroeconomic stability. The ESRB published the EU Non-Bank Financial Intermediation Risk Monitor 2023 (NBFi Monitor), which is the eighth annual monitoring of systemic risks and vulnerabilities related to investment funds and other financial institutions. For the first time, this edition extends monitoring to crypto-assets and related intermediaries (namely stablecoins, centralised financial platforms and decentralised financial protocols), as they provide financial intermediation and may be exposed to the same vulnerabilities and financial risks as the traditional financial sector.

A report on crypto assets and decentralised finance has been published, outlining the systemic uses of crypto markets and proposing policy options to address the risks arising from crypto assets and decentralised finance (DeFi).

The ESRB has published an issues note with policy options to address risks in corporate debt and real estate investment funds, describing how the EU regulatory framework for investment funds, which is currently under review, can improve the prevention and mitigation of systemic risks. The note focuses on investment funds with large exposures to corporate debt and real estate. This reflects the priority areas for enhanced scrutiny from a financial stability perspective that the ESRB identified during the COVID-19 pandemic.

A report aimed at advancing macroprudential tools for cyber resilience was also prepared and published during the year. The report, produced in a geopolitical environment with heightened cyber risk, highlights the need to enhance cyber resilience and builds on previous ESRB work to prevent and mitigate risks to financial stability in the event of a cyber incident. This includes the ESRB 2022 Recommendation to establish a pan-European systemic framework for coordinating cyber incidents.

At the end of the year, the ESRB published a report “Towards Macroprudential Frameworks for Managing Climate Risk”, which proposes three frameworks for relating climate risks to financial stability - addressing risk surveillance, macroprudential policy and broader risks to nature.

The first framework covers financial stability risk surveillance, takes stock of advances in measuring and modelling the impacts of climate risk, and proposes a list of indicators for regular financial stability risk monitoring. The second framework details macroprudential policy options and outlines both the features of a robust strategy as well as an initial operational design based on existing instruments, which can be scaled up as further information and more tailored policy options emerge. The third framework takes a first look at prospective financial stability impacts stemming from nature degradation.

7.2. International cooperation, projects and initiatives

7.2.1. FOCUS TOPIC: Bulgaria's accession process to the Organization for Economic Cooperation and Development (OECD)

One of the main geopolitical priorities of the Republic of Bulgaria in 2023 continued to be membership in the Organization for Economic Cooperation and Development (OECD), with the 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 the OECD. During the year, accession reviews began for individual committees and the corresponding identification of areas for reforms based on the recommendations of the Organization, based on the reports and Chair's letters received from the Secretariat.

Participants from the FSC attended all meetings of the committees and working groups in order to emphasize the country's commitment to the accession process. The FSC maintains ongoing communication with the OECD regarding the reviews for which the Bulgarian supervisory authority is among the competent institutions.

In 2023, representatives of the FSC participated in several additional OECD missions where the FSC has a supporting role, such as the Global Forum on Transparency and Exchange of Information for Tax Purposes in May and the OECD Trade Committee visit in September.

The Financial Supervision Commission 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. The meetings discuss the participation of the Bulgarian institutions in the meetings of the committees, budgetary issues, the implementation of the Roadmap, etc. In April 2023 a meeting of the ICM was held, attended by representatives from the OECD, who gave advice to the Bulgarian institutions for the successful completion of the reviews by the committees.

The Financial Supervision Commission is among the institutions responsible for the review work in the Insurance and Private Pensions Committee (IPPC), the Financial Markets Committee (FMC) and the Corporate Governance Committee (CGC). The FSC is in charge, together with the MoF, of the review by the IPCC, and a partner institution. for the other two committees. The FSC also participates in the activities of the Regulatory Policy Committee, the

Trade Committee, as well as the review for the OECD Global Forum on Transparency and Exchange of Information for Tax Purposes.

❖ **Corporate Governance Committee (CGC)**

The FSC actively participates in this Committee with regard to the implementation of the OECD Principles of Corporate Governance, for which we are the competent institution. In June 2023, the first OECD technical mission took place in Bulgaria, with the FSC actively participating. In July, the FSC organised a bilateral meeting in Sofia with the OECD representative in charge of Bulgaria's review to discuss the accession process and the next steps.

In November, a regular meeting of the CGC was held in Paris, where the Bulgarian institutions were invited to make a presentation on the implementation of the OECD Principles of Corporate Governance as revised in 2023. The meeting was attended by representatives of the FSC and the MoF. In December, Bulgaria received a joint statement from the Chair of the CGC and the Working Group on State-Owned Enterprises, setting out the conclusions of the first hearing and making recommendations.

❖ **Insurance and Private Pensions Committee (IPPC)**

Following the completion of a number of questionnaires by Bulgarian institutions, the first OECD fact-finding mission on this Committee was held in Sofia in November 2023 to review the Bulgarian insurance sector. The mission took place at the Ministry of Finance, with the participation of representatives of the FSC and other institutions. The following month, the Committee held a regular meeting in Paris, where the Bulgarian delegation made a presentation on the insurance sector in the country and answered questions from delegates from other member states.

With regard to the pension review, a regular meeting of the WPPP (Working Party on Private Pensions) of the IPPC was held in Paris in June 2023, at which Bulgaria made a brief initial presentation of the self-assessments prepared under the IPPC legal instruments in the area of private pensions.

❖ **Financial Markets Committee (FMC)**

In September 2023, a thematic fact-finding mission of the Financial Consumer Protection Working Group and the International Financial Education Network of this Committee was held in Sofia. In October, Bulgaria was invited to present a review of the country's financial system at a regular meeting of the FFC in Paris. At the end of October of the same year, an OECD fact-finding mission took place in Sofia, during which a review of the Bulgarian financial system was carried out. The Bulgarian supervisory authority actively assisted the Ministry of Finance, both with regard to the overall review carried out by the FMC, as well as for the examinations in the area of consumer protection of financial services and with regard to the review of financial literacy.

The FSC's cooperation with international organizations and financial institutions is a significant aspect of the regulator's activity which becomes even more important in the context of globalized financial markets. The Commission is member in the three international organizations which issue standards in the sector of securities, insurance and pension insurance, namely the

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

IAIS and IOSCO peer reviews and thematic 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.

The FSC participated in an IAIS peer review of compliance with Principle 16, Enterprise Risk Management for Solvency Purposes, of the IAIS Insurance Core Principles.

IOSCO's thematic reviews are a frequent tool for identifying current or potential future challenges related to the financial sector, where the organisation collects thematic information from NCAs on a voluntary basis and, following an analysis, proposes steps or guidelines to address the issues identified. In 2023, the FSC participated in an IOSCO thematic review on “Technological Challenges to Effective Market Control”. A report of the review has not yet been published.

Exchange of information

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. More than 50 requests for assistance received from foreign supervisors have been granted in accordance with the MoUs of IOSCO, IAIS, ESMA, etc. For its part, the FSC has sent over 80 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 the FSC signed the multilateral 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 the FSC as one of the six members of the Assessment Group for the implementation of the administrative arrangement with a five-year term, the Bulgarian active participation continued in 2023.

Memorandums

In 2023 the FSC signed two 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 ESA. The first agreement governs the creation of a college of supervisors for Credit Agricole Group, with the French Prudential Supervision and Resolution Authority (Autorite de Controle Prudentiel et de Resolution – ACPR) as the lead. The second agreement provides for the creation of a college of supervisors for VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe, the latter

being organized by the Austrian NCA (Financial Market Authority) in its capacity as lead supervisory authority.

During the reporting year, the FSC also concluded a Coordination Agreement for additional supervision of a financial conglomerate - KBC Group NV with the European Central Bank and other NCAs supervising KBC Group NV companies.

The Financial Supervision Commission also joined in 2023 the Memorandum of Understanding on the T2S cooperation agreement, together with the ECB and other NCAs. The agreement aims to improve supervisory functions with regard to the T2S system and its participants.

At the beginning of 2022, the three European Supervisory Authorities ESMA, EIOPA and EBA started the implementation of a project to create 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 the FSC, received an invitation to participate in the work.

The system is being developed pursuant to Article 31a of Regulation (EU) No 1093/2010, Regulation (EU) No 1094/2010 and Regulation (EU) No 1095/2010, which mandate 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 ESA 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 evaluation-related information.

The Financial Supervision Commission 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 is expected to be finalized in the last quarter of 2024 with the launch of the exchange platform under development.

In 2023, the FSC was approved as a beneficiary of three projects under the Technical Assistance Facility of the European Commission's GD Reform.

❖ “ESG risk management framework for the financial sector”

The project is multinational and aims to improve the capacity of national competent authorities to monitor, mitigate and address ESG risks in the financial sector, as well as to raise consumer and investor awareness of the impact of individual financial decisions on sustainability.

The project will run from 2023 to 2026 and is made up of several main modules, namely:

- Regulatory mapping of all requirements stemming from the EU ESG regulatory framework with a view to understanding its impact on the supervisory powers of NCAs;
- Data sources and analysis - improving access to and use of data and information needed for effective supervision;
- Provide methodologies, tools and supervisory guidance to enable monitoring and oversight of ESG risks and regulatory requirements;
- Building capacity and awareness;

- Action against greenwashing - developing methodologies and a supporting analytical tool to enable NCAs to extract, analyse and process relevant reports and information on financial products, and to detect potential greenwashing practices by supervised financial institutions.

❖ **“European Supervisory Digital Financial Academy” (EU-SDFA)**

The participation of the FSC in the project was approved in early 2023. The project aims to support financial supervisors in addressing the risks and opportunities offered by innovative technologies in the financial sector. The three European Supervisory Authorities (ESMA, EIOPA and EBA) and the Florence School of Banking and Finance of the European University Institute will launch the Digital Academy in October 2022 and the project will run until October 2025.

The Academy provides participants with the opportunity to combine basic knowledge with more advanced, sector-specific subjects, as well as to support the policy-making process of the EC and the work of the European Supervisory Authorities, following a learning approach that will combine on-site and remote training. The list of topics will be updated annually to reflect the changing landscape of the digital finance sector. So far we have covered topics related to the evolving digitalization of the financial sector such as Cyber Risk, SupTech, Big Data, AML, Blockchain, as well as the new regulatory European framework - DLT, MiCA, DORA, AI Act.

❖ **“Proof-of-Concept for detecting potential cases of market abuse using artificial intelligence (AI) models”**

In the second half of 2023, the FSC joined this multinational project, together with 15 other Member States and ESMA. The project contains the development of a proof of concept for AI analytical models in ESMA's or the contractor's environment, and a roadmap for their implementation, but not the actual implementation in the environment of individual NCAs. The AI models will identify patterns indicating possible instances of market abuse, with a focus on six specific scenarios divided into three categories of datasets. The datasets cover scenarios related to transaction data, order data and those related to public data.

In relation to the activities of insurance undertakings in the territory of other Member States under the conditions of the right of establishment and the freedom to provide services, information has been provided and forwarded under remote supervision in response to inquiries from the competent insurance supervisory authorities in Italy (IVASS), Romania (ASF), Poland (KNF) and other Member States.

In 2023, staff of the Insurance Supervision Directorate participated in numerous meetings and conference calls in the performance of various tasks related to the FSC participation in EIOPAs expert networks (ENW), committees and project groups. They also participated in projects at EU level, including the ESG regulatory mapping/ESG Risk Management Framework, funded through the EC Technical Assistance Programme, and cooperation with the International Association of Insurance Supervisors (IAIS).

7.3. Cooperation with institutions in Bulgaria

In 2023, an Agreement on cooperation and information sharing was concluded between the Ministry of Finance and the Financial Supervision Commission in the area of the market of

government securities and derivative instruments. The agreement concerns the transmission by the FSC to the Ministry of Finance of the available information received by the FSC pursuant to Article 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 in relation to Commission Delegated Regulation (EU) 2017/590 of 28 July 2016 supplementing Regulation (EU) No 600/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the reporting of transactions to competent authorities, regarding transactions with government securities issued by the Minister of Finance on the internal market and those issued by the Republic of Bulgaria on the international capital markets, including instruments derived from them, as well as the transmission of information from the Ministry of Finance to the FSC, established and received, pursuant to Art. 36, para. 2 of the State Debt Act and its implementing acts, in connection with Art. 8 of the Implementation of Measures against Market Abuse of Financial Instruments.

Cooperation Agreement with the Chamber of Private Enforcement Agents

In 2023 a Cooperation Agreement was concluded with the Chamber of Private Enforcement Agents regarding the assignment of forced collection of public and private claims by the FSC to private enforcement agents, members of the Chamber of Private Enforcement Agents, through the System for Allocation of Executive cases for public collectors.

Draft Instruction for interaction and exchange of information between the State Agency National Security and the Financial Supervision Commission

The draft instruction was developed between the SANS and the FSC, in order to comply with the requirements of the current legislation and in connection with the amendments and additions made to the Financial Supervision Commission Act and other sectoral legislation concerning the activities of the entities supervised by the FSC. With the adoption of the draft instruction, the timely and lawful performance of the legally assigned activities of the two institutions will be ensured with maximum efficiency, optimal use of available resources, improvement of the effectiveness of their control activity and coverage of a wide range of information sources.

The Financial Supervision Commission was actively cooperating with branch associations – the Bulgarian Association of Asset Management Companies (BAAMC), Bulgarian Association of Licensed Investment Firms (BALIF), Association of Bulgarian Investment Relations Directors (ABIRD), Bulgarian Industrial Capital Association (BICA), 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.

❖ Employees of the Insurance Supervision Department participated in a meeting of a working group established by Order No. 8121h-385 of 08.03.2023 of the Minister of Interior. The task of the working group is to study and prepare an assessment and detailed analysis, on the proposals prepared with the report No. 3286p-39321/09.08.2022 of Chief Directorate National

Police to the Minister of the Interior, for the removal of the letter code appearing on vehicle registration plates indicating the region and its replacement with a new letter code, uniform throughout the country, and allowing the use of a combination of four identical digits in sequence with the digit zero (**0000**) on vehicle registration plates.

❖ In 2019, based on the EIOPA Guidelines on facilitating an effective dialogue between competent authorities supervising insurance undertakings and statutory auditors and the audit firms carrying out the statutory audit of those undertakings (EIOPA16/858), a number of working meetings were held via conference calls with some of the audit firms approved to verify and certify the annual financial statements for 2022. During the meetings a number of issues were discussed to be taken into account by the audit firms when performing the annual audit of insurance and reinsurance undertakings.

❖ During the reporting period, the work of the working group on amending and supplementing the Insurance Code, established by Order of the Chair of the FSC No. H-97 of 15 March 2022, continued. A series of meetings of the working group were held, as well as meetings with representatives of the General Directorate National Police, the Minister of Finance, ABI, NBBMI and GF. As a result of the work carried out, a working draft of the Act to amend and supplement the Insurance Code has been prepared, integrating all proposals, both on the implementation of Directive (EU) 2021/2118 and in other areas where the need for changes has been identified. Alongside this, a working draft table has been produced to reflect Directive (EU) 2021/2118 and a concept paper has been produced to present the changes made. At the same time, work on the draft explanatory memorandum and the partial preliminary impact assessment was completed and sent to the Ministry of Finance together with the draft act on 01.08.2023.

During the period 16.10-15.11.2023 the Ministry of Finance held a public consultation on the draft of the amended Act to amend and supplement the Insurance Code. The Insurance Supervision Department joined the work on reflecting the comments received in the public consultation, and on 15.12.2023. The Deputy Chair in charge of the Insurance Supervision Department has sent by e-mail the management's contribution to the tables for the reflection of the comments received in the public consultation.

❖ Employees of the Insurance Supervision Department participated in a meeting with ICPA representatives which aimed to discuss possible changes in the Instructions on the certification under Art. 126, para. 3 of the Insurance Code of the annual reports under Art. 2, para. 1, items 1 and 2 of Ordinance № 53 of 23.12.2016 and of the model forms with annual quantitative data under Art. 304(1)(d) of Regulation (EU) 2015/35 (the Instructions).

❖ On 23.08.2023, employees of the Insurance Supervision Department took part in a meeting with the administration of the Council of Ministers in connection with the systematization of efforts to improve the regulatory policy of the Republic of Bulgaria.

❖ On 19.07.2023, the Deputy Chair of the FSC in charge of the Insurance Supervision Department, participated in a meeting of the Economic Policy and Innovation Committee of the National Assembly in connection with the presentation, discussion and vote on the Draft Act to Supplement the Insurance Code, No. 49-302-01-45, submitted by the Council of Ministers on 6 July 2023 -- *for first vote*

❖ On 23.08.2023 representatives of the Insurance Supervision Department took part in a meeting held at the Administration of the Council of Ministers (ACM) in connection with the Systematization of Efforts to Improve the Regulatory Policy of the Republic of Bulgaria. The meeting discussed the proposals of the Directorate for Modernization of Administration for reducing the administrative burden.

❖ During the reporting period, information was prepared on the expected number of insurance undertakings required to report information on corporate sustainability in accordance with the requirement of Directive (EU) 2022/2464 in relation to a letter received from the CPORA (05-2-1/03.11.2023).

❖ According to the approved by Order No. H-298/27.10.2022 Internal Rules (Rules) for the functioning of the Innovation Center for communication with stakeholders on financial innovation in the non-banking financial sector of the FSC, on 21.12.2023 a meeting was held between the representatives of the Working Group (WG) “FinTech”, officials from the Insurance Supervision Department and Lyubomir Grigorov, entrepreneur and insurance broker, in connection with his project called "3 p Assistance", presented at the Innovation Hub of the FSC.

In 2023, with a view to improving the regulatory framework and in connection with upcoming legislative changes, a number of meetings were held between officials from the Social Insurance Supervision Department and representatives of the Bulgarian Association of Supplementary Pension Insurance Companies (BABSPC), and the following main topics were discussed:

- Implementation of European Union restrictive measures and the Global Magnitsky Act;
- Enforcement over the funds in the funds managed by pension insurance companies;
- Ensuring a minimum rate of return in the management of the assets of supplementary mandatory pension funds;
- Update on pension payments;
- Introducing portfolios with different investment and risk profiles;
- Alignment of secondary legislation with adopted amendments and supplements to the Social Insurance Code, promulgated in the State Gazette, no. 85 of 10.10.2023 on the implementation of measures to apply Regulation (EU) 2019/1238 of the European Parliament and of the Council of 20 June 2019 on a pan-European personal pension product (PEPP).
- Proposals for changes in the regulatory framework related to the identified need to improve the procedures for the approval of auditors with the draft Act amending and supplementing the Insurance Code and the introduction of a national accounting standard for the funds managed by pension insurance companies with the draft Act amending and supplementing the Accounting Act;
- Issues related to changes to the Measures against Money Laundering Act;
- Formation of focus groups with representatives of the Bulgarian Association of Supplementary Pension Security Companies (BASPC) and the FSC to review and prepare proposals for changes in the regulatory framework in the context of the ongoing review of the pension sector by the Insurance and Private Pensions Committee (IPPC) of the Organisation for Economic Co-

operation and Development (OECD), related to the candidacy of the Republic of Bulgaria for membership in the organisation, and the need to prepare a subsequent impact assessment pursuant to § 114 of the Transitional and Final Provision of the Act amending and supplementing the Social Insurance Code (SG, No. 19 /2021)

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 procedures of coordination and public consultations, the Regulatory Regimes of Insurance Supervision Directorate has promptly reviewed and provided opinions, comments and/or proposals on:

- Draft Act amending and supplementing the Social Insurance Code with signature 48-354-01-25 of 30.01.2023 to introduce a national accounting standard for the preparation of the annual financial statements of supplementary pension funds and funds for benefit payment;
- Draft Act amending and supplementing the Tax and Social Insurance Procedure Code;
- Draft Decrees of the Council of Ministers on the coordination of the implementation of the restrictive measures of the European Union;
- Draft Ordinance supplementing Ordinance No. 32 of 1997 on the official archives of notaries and notarial offices;
- Draft of Council of Ministers Decree to amend and supplement the Regulations for Implementation of the Foreigners in the Republic of Bulgaria Act;
- draft of Recovery and Resolution of Credit Institutions and Investment Firms Act;
- Draft of Act amending and supplementing the Payment Services and Payment Systems Act;
- draft of Council of Ministers Decree amending and supplementing the Regulations for Implementation of the Measures against Money Laundering Act;
- Draft of Act amending and supplementing the Measures against Money Laundering Act;
- Draft Act amending and supplementing the Financial Collateral Agreements Act;

The Regulatory Regimes of Insurance Supervision Directorate is involved in the updating of the Instruction for interaction and exchange of information between the State Agency for National Security and the FSC.

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 meetings and initiatives held with representatives of supervised entities and other bodies and organizations, including:

- round table on “The pension and social security system: conditions, problems, vision for development”, organized by the Bulgarian Industrial Association. The discussion was attended by the Deputy Minister of Labour and Social Policy, MPs, representatives of the National Social Security Institute, the FSC, BASPSC, the Bulgarian Association of Labour Law and Social Insurance, academics, experts and social partners. The aim of the meeting was to outline the problems and identify possible solutions to ensure the sustainability of the pension and insurance system. The long-term trends of population ageing, the emergence of new forms of employment, the impact of technology and digitalisation on the labour market, etc. were discussed;

- a round table organized by BASPSC on “Financial and accounting reporting of pension funds from the second and third pillar of the pension system in Bulgaria. Draft national accounting standard”. The purpose of the event was to discuss different aspects of the draft national accounting standard and possible solutions;
- conducting the 21st 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;
- seminars organized by the Bulgarian Actuarial Society with main topic “Investment and asset management in the field of pensions and insurance”;
- online training on “Integrating ESG into business management”, organised by the European Bank for Reconstruction and Development, in partnership with the Executive Agency for the Promotion of Small and Medium-sized Enterprises and the Green Centre for Sustainable Finance and Energy, 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.

In the reporting year 2023, representatives of the FSC worked together with the Ministry of Finance within the framework of the Non-Bank Financial Sector working group at the Coordination Council for Preparation of the Republic of Bulgaria for Euro Area Membership. An update of the National Plan for the introduction of the euro in the Republic of Bulgaria and the Action Plan to the Plan for the introduction of the euro in the Republic of Bulgaria has been carried out. The progress, upcoming actions and emerging issues related to the implementation of the National Plan for the introduction of the euro in the Republic of Bulgaria and its Action Plan were regularly discussed. In the framework of the Euro Act Working Group with the MoF as the lead institution, in 2023 several coordination procedures were carried out on the draft act on the introduction of the euro in the Republic of Bulgaria, and proposals for edits and comments were sent to the MoF, taking into account the opinions of the industry organizations. For the purposes of the Comprehensive Preliminary Impact Assessment Report on the Introduction of Euro Act in the Republic of Bulgaria (IEA), the MoF has been provided with up-to-date information on the effects on the FSC and its supervised entities of the implementation of the provisions of the IEA.

A representative of the Regulatory Regimes of Social Insurance Supervision Department took part in the procedure for 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 distribution is carried out four times a year by a Commission created with the National Revenue Agency which included one authorized representative of each NRA, FSC and the BASPSC.

In terms of interaction with domestic institutions and on the basis of the EIOPA Guidelines on facilitating an effective dialogue between competent authorities and statutory auditors and the audit firms carrying out the statutory audit of undertakings of public interest (EIOPA16/858), a

number of workshops were held. During these meetings with some of the audit firms approved to audit and certify the annual financial statements of insurers and reinsurers for 2022, a number of issues were discussed for consideration by the audit firms in their audit of insurance and reinsurance companies.

Once again a presentation on “Off-site supervision of the activities of insurance and reinsurance companies” was prepared and presented in connection with a joint initiative of the FSC, the Ministry of Education and Science and the Atanas Burov Foundation - the XXI Edition of the educational program for students “The non-bank financial sector in Bulgaria”.

8. Institutional development of FSC

8.1. New points in FSC's management and structure

During the reporting calendar year 2023, two changes were made to the organizational structure of the Financial Supervision Commission.

8.2. Human resources management

Financial Supervision Commission's structure and functions are defined by the FSCA, the Rules of Structure and Activity of the Financial Supervision Commission and its Administration (RSAFSCA), the special acts and regulations that govern the investment, insurance and social insurance activity. The approved number of employees working at FSC as at the end of 2023 was 265 (five members and 260 persons working in administration). According to the distribution of functions, the Commission's administration consisted of general and specialized administration and units and positions directly subordinate to the 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 2023, the following administrative units comprised the general administration:

- Legal Directorate – 19 permanent posts;
- International Cooperation Directorate – nine permanent posts;
- Revenue Collection Unit - 4 permanent posts;
- Records and Administrative Services Directorate – seven permanent posts;
- Financial and Economic Activities Directorate – 19 permanent posts;
- Information Technologies Directorate – seven permanent posts;
- Public Relations and Protocol Directorate – 9 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 structures, and is comprised of the following directorates:

- Regulatory Regimes of Investment Activity Directorate – 24 permanent posts;
- Supervision of Investment Activity Directorate – 63 permanent posts;
- Regulatory Regimes of Insurance Supervision Directorate – 16 permanent posts;
- Insurance Supervision Directorate – 30 permanent posts;
- Regulatory Regimes of Social Insurance Supervision Directorate – 12 permanent posts;
- Social Insurance Supervision Directorate – 18 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.

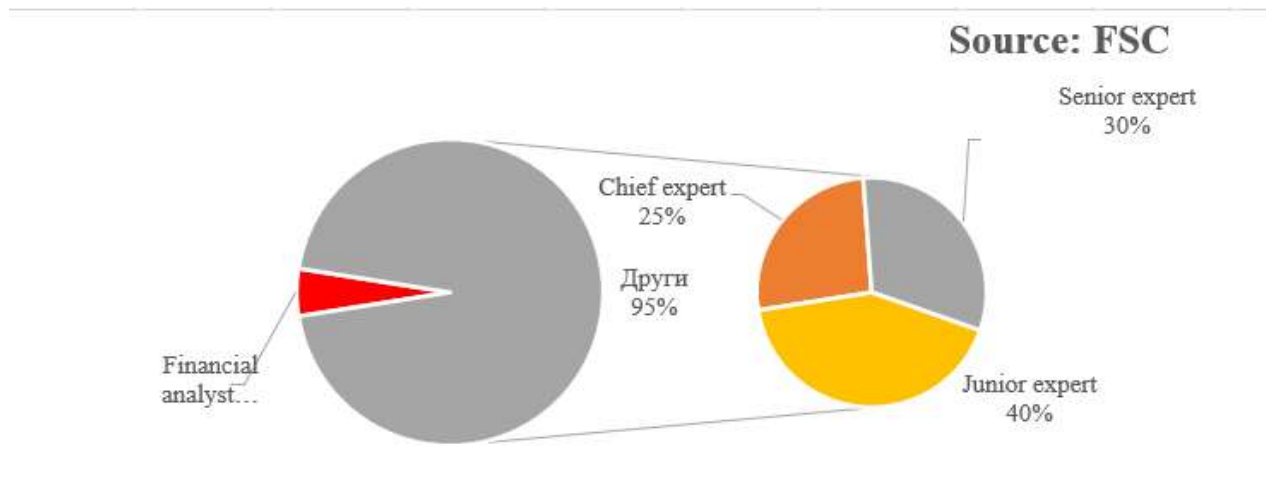
As a result of the actions taken to attract experts with the necessary professional qualities and qualifications, the number of staff employed in the Commission at the end of 2023 is 239, and the employment rate amounts to 90.2% of the total,

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-bank 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 2023, a total of 20 new employees were appointed, via the Procedure for recruitment, selection and appointment of employees in the Financial Supervision Commission. 95% of all the appointments are 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 junior expert - 8 or 40% of the newly appointed, followed by the position of senior expert - 6 persons (30%), and 5 employees were appointed in the position of chief expert (25%). The position of Financial Analyst has been filled with 1 employee or 5% of the 2023 Commission hires. In general, the staff recruited are young professionals, with little or no professional experience, who have the appropriate education and development potential.

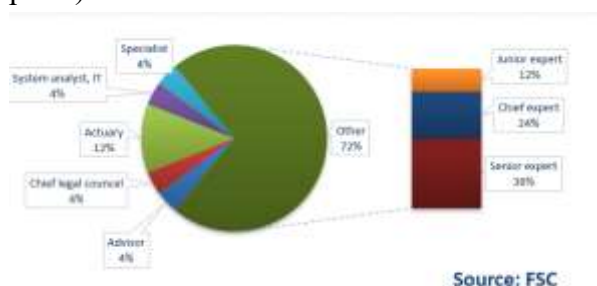
Graph 16. Newly appointed employees (by posts) in 2023.



There are 25 employees who left the administration of the Commission in 2023, and in this category the largest share (72%) is distributed among the three expert positions - chief expert, senior expert and junior expert - 24% of those who held the position of chief expert, 36% - senior expert and 12% - junior expert.

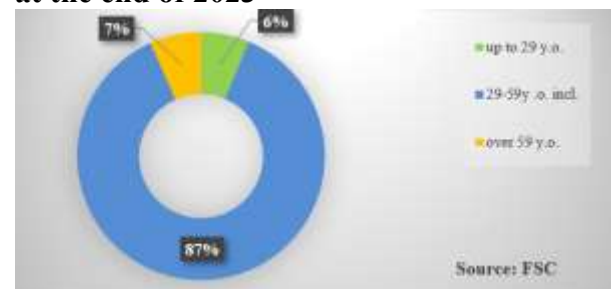
The remaining employees whose employment was terminated in 2023 are an actuary systems analyst, information technology, counsel, general counsel and specialist.

Graph 17. Terminated employees (by posts) in 2023.



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 - 87% of all staff. 7% 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 2023

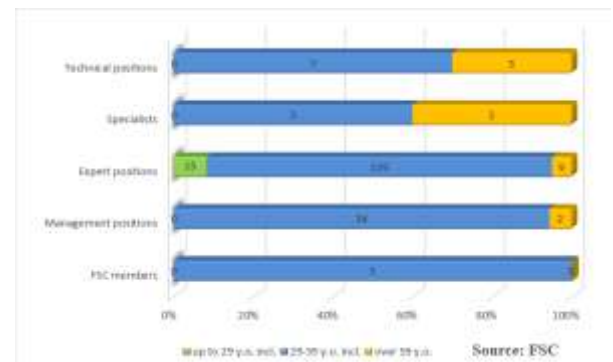


In schedule No. 19, together with the age category, one more criteria has been added - position category, with the separate categories of positions being members of the FSC, management positions, expert positions, technical positions and specialists. All members of the FSC fall into the age category 30-59 years. 94% of the remaining management staff of the Financial Supervision Commission fall into the same age category, and 6% 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. – 87%, employees over 60 years – 5%.

In the “specialist” staff category, employees in the 30-59 age group accounted

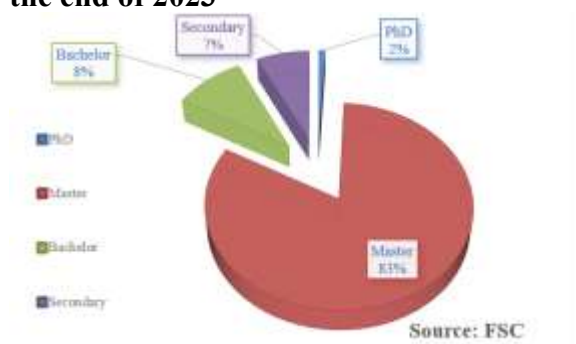
for 60% and those in the 59+ age category 40%. 70% of employees holding technical positions are aged between 30 and 59, and 30% are over 59.

Graph 19. Distribution of appointed employees by age and position category as at the end of 2023



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 2023, including those with an educational and scientific degree "Doctor" - two people (2%), an educational-qualification degree "Master" - 197 employees (83%), and 23 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.

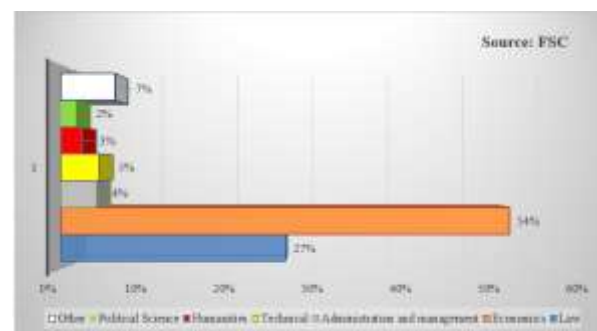
Graph 20. Distribution by education as at the end of 2023



The distribution of FSC employees by areas of higher education is as follows: the highest percentage - 54%, are employees with higher education in the field of economic sciences, 27% - in the field of legal sciences,

3% - 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 FSC's effective regulatory and supervisory activity, maintaining and raising the high 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.

During the past year, the successful implementation of the mentoring method for new recruits to the FSC has continued, which has provided sustainable and lasting support to help new recruits settle into both the specialist work and the organisational culture of 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 the past year, 31 new hires have been mentored or are in the process of being mentored, with some starting in 2022.

In order to maintain and increase the necessary theoretical training, as well as the acquisition of new knowledge and skills, during 2023 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 realization of the trainings 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 (SPF), the Institute of Internal Auditors in Bulgaria (IIAB), the Diplomatic Institute at the Ministry of Foreign Affairs, the State Agency National Security (SANS), the Chamber of Independent Appraisers in Bulgaria, the Central Depository, as well as foreign institutions such as the European Insurance and Occupational Pensions Authority (EIOPA), European Securities and Markets Authority (ESMA), European Banking Authority (EBA), Joint Vienna Institute (JVI) 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:

- A total of 239 trainings were organized and conducted by the Institute of Public Administration (IPA) on 65 topics and 124 staff members were trained, with one staff member participating in more than one training topic. The trainings are in the field of digital competence, innovation in the public sector, sustainable finance, standard setting and law enforcement, public policies, regulatory policies, impact assessment, crisis and change management, etc. The largest share of the trainings delivered are part of the Public Sector Innovation programme - 20%, the Law-making and Enforcement programme - 17%, the Regulatory Policy programme - 13%, the Digital Competence programme - 12%, the Public Policies programme approximately 10%. The topics included in the other programmes occupy a smaller relative share of the courses conducted by the Institute of Public Administration;

- 86 training sessions were held to improve the professional qualification of the employees, organized by training institutions in Bulgaria (School of Public Finance, Institute of Internal Auditors in Bulgaria, State Agency National Security, Chamber of Independent Appraisers in Bulgaria, Central Depository, Diplomatic Institute, Green Finance & Energy Centre, etc.) on a total of 30 topics, with the participation of 60 employees, one employee participated in more than one training topic. The main themes of the courses were in the field of legislative process, internal audit, investment and asset management in the field of pensions and insurance, regulatory requirements and market trends for the disclosure of non-financial information, network and information security, financial and accounting topics, as well as familiarization with changes in various regulations concerning the Commission's activities, etc.;

- In the trainings organized by foreign organizations - EIOPA, ESMA, European Banking Authority (EBA), Joint Vienna Institute (JVI), European Bank for Reconstruction and Development, European Commission - 65 training sessions were held on 30 topics, the number of participating employees was 69, and again one employee participated in more than one training topic. Most of the trainings conducted by foreign organizations were remote;

- During the period October-December 2023, a training programme organised by the European Commission - European Supervisory Financial Digital Academy was implemented, seven Commission staff participated in Module I - Digital Academy. The project continues in the current year;

- Following an invitation from the Institute of Public Administration, two employees took part in and completed 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 and in 2023, four staff members participated in training on Protocol and Etiquette organized by the Institute;

- Successful completion of advanced training courses for two staff members, one of them in the program “European Union Law” at the International Master's Programme of the Sofia University Kliment Ohridski and another through participation in the PR and Reputation Management training programme at the London School of Public Relations;

- In 2023, the 20th anniversary of the Financial Supervision Commission was celebrated with a team building event for the entire Commission team, with the aim of increasing teamwork and trust among employees, boosting motivation. The event included adventure games to stimulate creativity and the desire to win in teams. During the event a motivational lecture was held, delivered by the famous Bulgarian gymnast Yordan Yovchev;

- During the year, a business simulation “Leadership Skills” was organized and conducted, with a total of 23 Commission staff members, including FSC members, directors, heads of units and the Information Security Officer, participating in the event.

In 2023, the Financial Supervision Commission continued its participation in the Program for Student Internships in the State Administration and provided the opportunity to Bulgarian students studying in the country and abroad, to have full practical internships. Through the internship, students gain initial practical experience, professional skills and, last but not least, become familiar with the structure and specialised functions of the Commission.

During the reporting period, 7 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 conducted their internship.

The participation of the FSC in the internship programme and the provision of a fruitful working atmosphere during the internship itself, creates, on the one hand, usefulness and support for the students by complementing their theoretical knowledge with real practical skills and, on the

other hand, contributes to achieving a higher visibility of the Financial Supervision Commission among Bulgarian students.

Table 32. Student Internship Programme.

Directorate	Number of interns
Legal Directorate	3
Investment Activity Supervision Directorate	1
Insurance Supervision Directorate	2
International Cooperation Directorate	1
Source: FSC	

8.3. Development of information technologies for supervisory needs

In 2023, in order to maintain and develop the established information infrastructure of the FSC, as well as to ensure the normal operation of the information systems and hardware resources, the contracts for maintenance of the individual components of the IT infrastructure, as well as the right to use the software products not owned by the FSC, were renewed in stages.

In 2023, the development, acceptance testing and production release of a software system was completed that enables XML messages generated in the Transaction Records Access (TRACE) system to be converted into a readable format and the data therein to be queried.

As a result of a number of meetings held in 2022 with the e-Government Infrastructure Executive Agency and the commencement of activities related to the possibility of providing the FSC with virtual resources from the State Hybrid Private Cloud (SHPC), the service was finalised in 2023 and the resources provided began to be used to backup and archive information from critical FSC data and systems.

In 2023, 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 carried out and in accordance with the agreed linear timetable for the implementation of the development, in the second half of 2023 the preparation for the implementation of the UIS in the production environment as well as the training of experts from the FSC to work with the UIS began.

In this period, after joint efforts of experts from the FSC and the system developer, the preparation of the pre-production environment was finalized and the production environment of the UIS was prepared.

In October 2023, the data were finally extracted, transformed, validated and loaded into the UIS database, and the system software packages and integration adapters for connecting the UIS to the envisaged internal and external information systems were installed and configured in a production environment.

During the period, a detailed check of the migrated data with the corresponding corrections was carried out, and in the same period the system was stabilized by making adjustments in the configurations, monitoring the logs related to the behaviour of the system.

Following an analysis of the current state of the UIS, it was decided by the management of the FSC to launch the UIS in real operation in its service for external users, through which supervised entities (external users of the system) could register for access to specific services related to the performance of their obligations to the regulator and respectively obtain permission or refusal, given the authorization regime for the use of these services, and the launch of the UIS with its full functionality was scheduled for 02.02.2024.

A technical specification was developed for the hardware provisioning of the UIS, a procedure under the Public Procurement Act was carried out and subsequently a contract was awarded for “Expansion of the disk storage array”.

In connection with the licensing of the UIS, procedures were prepared and carried out in accordance with the Public Procurement Act with subject - “Supply of software products and licenses for them and technical and product support of Oracle licenses for the needs of the Financial Supervision Commission” in two lots and a procedure with subject - “Renewal of existing and purchase of new licenses for the right to use software products for the needs of the Financial Supervision Commission” in 3 lots.

On the basis of the PPA, a procedure was held and a contract was concluded for the provision of the right of use and a 12-month subscription for a software solution for validation and generation of Excel files on the Taxonomy for Insurance and Pension Companies to the European Insurance and Occupational Pensions Authority, for a software solution for the validation of the Taxonomy for Public Companies to the European Securities and Markets Authority, for a software solution for the validation of information submitted to the European Banking Authority and for a software solution for export of data to an external database.

On the basis of procedures conducted under the Public Procurement Act, contracts were concluded for the supply and activation of licenses for Oracle software products, Veeam Backup & Replication and BI tool Qlick Sense, necessary for the full functioning of the UIS, as well as ensuring reliable storage and management of the system’s data sets.

On the basis of concluded contracts, the right to use certification services for functionalities developed in the UIS was ensured, providing the possibility to sign documents with a valid qualified electronic signature (QES) in the WEB space, as well as the application of a qualified electronic time stamp (QETS).

8.4. Report on the implementation of the budget of the Financial Supervision Commission for 2023 under the budget program “Improvement of the regulation and supervision of the non-bank financial sector”

The Financial Supervision Commission is a legal entity supported by the budget, according to Art. 2, para. 3 of the Financial Supervision Commission Act. The President of the Commission is the primary authorizing officer. The budget of the Commission is compiled, implemented and reported in accordance with the Public Finance Act (PFA). Revenues and expenses are reported according to the Unified Budget Classification(UBC) for 2023.

The FSC organizes its reporting in three separate reporting groups, with reports prepared for 2023:

- 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 2023 reported a total income in the amount of BGN 22,562,173. The annual plan is implemented at 105.53%.

The revenue part of the budget receives non-tax revenues from fees, according to Art. 27, para. 1 of the Financial Supervision Commission Act (FSCA), fines, pecuniary sanctions and penalty interest. The proceeds from imposed fines and pecuniary 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.

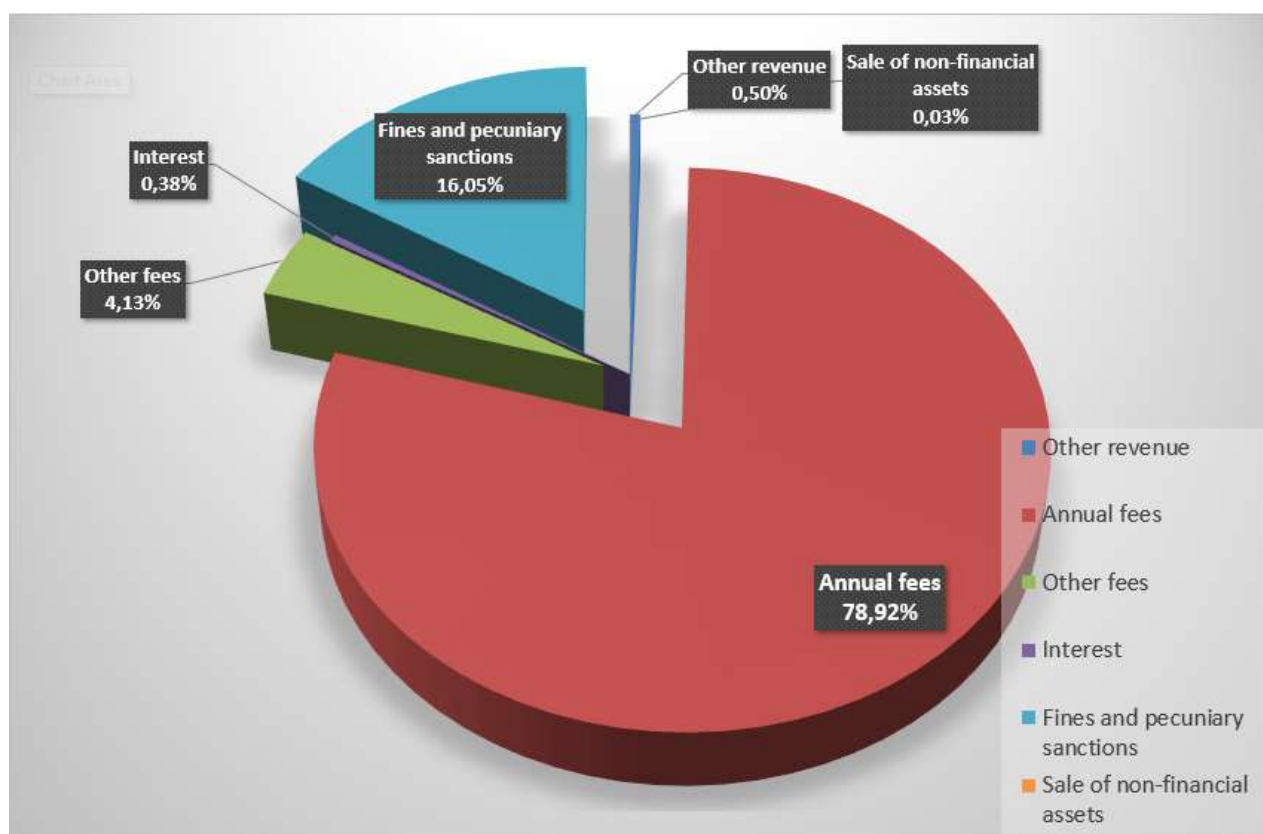
The structure of revenues for 2023 was as follows:

- **revenues from state fees - BGN 18,764,982**, 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 18,737,306, and BGN 27,676 were reflected on the basis of received inquiries and orders for amounts collected by the National Revenue Agency (NRA). The largest relative share (95.04%) in the reported fees has the annual fee for general financial supervision - BGN 17,833,790. The fees for issuing licenses and authorizations for carrying out activities and other permits and approvals amount to BGN 931,192; revenue from fines, pecuniary sanctions and interest - BGN 4,471,534., of which BGN 3,620,350 are fines and pecuniary sanctions under penal decrees and warrants under Art. 287 of APC that have entered into force, BGN 86,185 are interest for late payment of the annual fees for general financial supervision and penal decrees not paid within the statutory term and BGN 48,790 – contractual penalty. Amounts collected by the National Revenue Agency are also reflected on the basis of received inquiries and orders for BGN 716,209;

- other non-tax revenues (- BGN 680,519). - amount received from insurance compensation BGN 1,053, received amounts from refunded legal counsel fees BGN 56,298, revenue from sales of inventories GN 6,215 and public receivables of the FSC collected by the NRA (- BGN 743,885), which according to instructions given by the Ministry of Finance, are also reflected with a “minus” sign in the cash report A negative exchange rate difference (- BGN 200) is also recorded;

- revenue from the sale of non-financial assets - BGN 6 176 from the sale of business inventory

Graph 22. Structure of FSC revenues in 2023



8.4.1.2. Expenses

The statement on cash amounts in FSC's budget for 2023 reported total **expenses** in the amount of **BGN 21,763,182**, distributed as follows:

- staff expenses – BGN 15,559,779, 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, 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 2023 amount to BGN 13,329,498;
- current operating costs - BGN 2,143,679. 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.
- expenses for taxes and fees – BGN 40,938. for payment of state fees for promulgation of FSC decisions in the State Gazette, tax on official cars, municipal and state taxes and fees;

- expenses for membership fees and participation in non-profit organizations and activities - BGN 3,585,264. The expense is for annual membership fees in connection with the participation of the Financial Supervision Commission in European supervisory bodies - European Securities and Markets Authority (ESMA), European Insurance and Occupational Pensions Authority (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 expenditure– BGN 433,522, BGN 83,964 of which were for the expansion of the disk storage array, BGN 1,680 for other facilities and BGN 347,878 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 99.56% 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 01.01.2023 - 31.12.2023, a total of BGN 1 021 746 has been accounted for expenditure in the field of e-government and information and communication technologies used, of which BGN 589 904 are current expenditure and BGN 431 842 capital expenditure. The expenses are for software maintenance, maintenance and repair of hardware, subscription for information systems, acquisition of software and licenses, and hardware.

8.4.1.3. Transfers, budget balance and budget financing

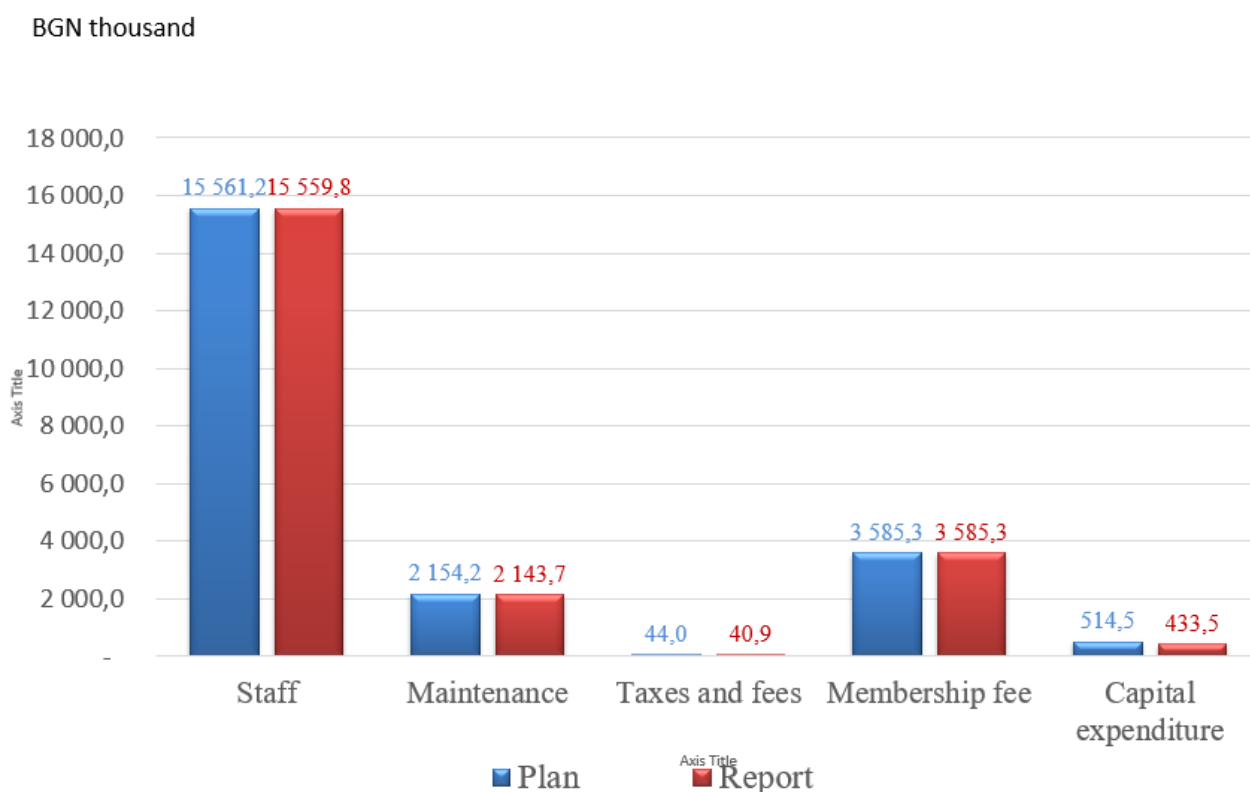
In the statement for the period as at 31.12.2023, on the line for the budgetary relationship with the central budget, the amount of BGN (-) 79 690 is reflected, which is the result of the following:

- transfer from the Central Bank (+) BGN 2 955 369 - fulfilment vs. the plan 84.94%.
- contribution to the central budget pursuant to Art. 28, para. 4 of the FSC Act (-) BGN 3 755 325 - fulfilment vs. the plan 125.18%.
- reimbursed expenditure from the OPGG in 2023 for the transfer from the FSC budget to SES in 2021 in connection with the implementation of the project BG05SFOP001-1.011-0001 for the establishment of the Unified Information System - BGN (-) 143 970;
- funds allocated in 2023 under item 27 of VAT 6/04/04/2008 in connection with the implementation of project BG05SFOP001-1.011-0001 for the establishment of a Unified Information System, accounted for in 2022 under item 4 of the Minister of Finance's Instructions - VAT 01/26/01/2015 - (+) BGN 864 236.

There is a surplus of BGN 863,271, and financing in the budget balance in the same amount with a minus sign, as a result of reported amounts under subparagraph 88-03 "Funds collected and payments made from/to EU accounts" - (-BGN 864,236), the difference between available and transferred balance on a foreign currency budget amount (BGN 110) and the difference between the available and transferred foreign funds (BGN 855).

Graph 23.

Structure of FSC budget expenditures in 2023 – planned and reported



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 31.12.2023, the reported expenditure in the SES area amounts to BGN 3 583 982 and is distributed as follows:

- personnel costs - BGN 100 276, which include remuneration paid for project work and compulsory employer contributions;
- costs of current maintenance - BGN 177 459, which include the production of communication and other materials, training for the use of the Unified Information System, as well as costs for external services related to ensuring publicity of the project
- capital expenditure - BGN 3 306 247, which includes payments for the final construction of the Unified Information System of the FSC, as well as for the supply of licenses necessary to ensure the efficiency, security and data protection of the Unified Information System.

For the expenses incurred under the UIS project, funding was received from the OPGG, including a temporary interest-free loan of BGN 988 596.

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 31.12.2023 is BGN 39,179.

8.4.4. Budget changes

For the period from 01.01.2023 to 31.12.2023, changes were made to the budget of the FSC as follows:

❖ Pursuant to Art. 110, para. 3 and 10 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 2023 and the Decision of the General Assembly of the FSC employees on spending funds for social, domestic and cultural services on 04.12.2023, the expenses under the indicator “Maintenance and other current expenses” were reduced and the expenses under the “Staff” indicator were increased by BGN 263,000. The “Maximum amount of spending commitments that can be made in 2023” and “Maximum amount of new obligations that can be accrued in 2023” indicators have been reduced by the same amount.

❖ Pursuant to Art. 3, para. 1, item 3 of the Compulsory Orders for the Prior Reconciliation of the Expenditure of the Administrative Authorities in the Field of e-Government and the Information and Communication Technologies Used by Them, the Minister for e-Government has agreed to amend on 28.12.2023 the approved e-Government earmarked and current expenditure, reducing the current expenditure by BGN 246 300.

❖ Pursuant to Art. 20 of the Internal rules for the organization of the budget process in the FSC, two internally compensated changes were made which do not change the indicators under the budget of the FSC within the meaning of the Public Finances Act, as follows:

- within the indicators “Staff” and “Capital expenditure” on 03.10.2023.
- within the indicators “Staff” and “Maintenance and other current expenditure” on 28.12.2023.

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 2023” is in the amount of BGN 6,644,000, and the one reported as at 31.12.2023 – BGN 6,024,973. A change was made to the indicator in connection with Decision of the General Meeting 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 2023” according to a specified plan is in the amount of BGN 6,254,000 A change was made to the indicator in connection with Decision of the General Meeting on spending funds for social, household and cultural services. According to reporting data as of

31.12.2023, the new liabilities for expenses for the FSC are in the amount of BGN 6,163,789, of which BGN 5,730,267 for current expenditure and BGN 433,522 for capital expenditure.

On the accounts for the EU funds - information as of 31.12.2023 for the commitments incurred for the period in the amount of BGN 1 084 201 is reflected. The realised commitments and new commitments for expenditure as of 31.12.2023 amount to BGN 3 483 706 under project BG05SFOP001-1.011-0001 for the establishment of a Unified Information System (UIS), of which BGN 177 459 for current expenditure and BGN 3 306 247 for capital expenditure.

8.5. Activity Report on the Internal Audit at FSC for 2023

The activity of the IAU in 2023 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 2022-2024 and the Annual Plan for the Audit Annual Schedule of Audits for 2023 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 2023 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 of 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 authority of the non-bank financial sector and development of internal control.

Assurance audit engagements have been made during the period, with the aim to evaluate:

- SIAD's supervisory practices and procedures for the implementation of the SPICSCA - establishing the legality and adequacy of internal rules, organization of operations, administrative proceedings under regulatory regimes, ongoing supervision and on-site inspections of SPICs in 2021-2022;
- SIAD's supervisory practices and procedures regarding the organisation of the MCs activities - it covers the analysis of the regulatory framework, reviews on the legality and adequacy of internal rules, organisation of activities, preliminary and ongoing supervision, on-site inspections of the MCs during the period 01.01.2023 -30.06.2023;
- administrative penal activity of the FSC - it covered analysis of the regulatory framework, reviews on the legality, adequacy and effectiveness of internal rules and procedures, administrative penal activity of the three directorates, legal representation, accounting and collection of revenues from fines, penalties, interest and attorney's fees during the period 01.01.-31.03.2023.

In 2023, an unscheduled audit engagement was carried out to advise on an EIOPA professional secrecy letter and request for information on alleged unauthorised disclosure of "sensitive" information.

As a result of the internal audits, 29 recommendations were given. There is a lasting tendency for the recommendations of the IAU to be accepted by the management of the FSC. In addition, a high rate of implementation is reported (almost 94%, including recommendations from previous periods). This is an indicator of the capacity of internal audit 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 providing assistance and taking corrective actions on identified weaknesses, including during the engagements and within the set deadlines.

During the reporting period, a total of 5 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, mid-term strategic priorities, and determining and reporting of annual activities to achieve the goals.
- risk management is an integral part of the overall management process in the Commission, based on prescribed rules and procedures.
- adequate rules and procedures in the area of FMCS are applied. Furthermore, in conjunction with the Public Sector Financial Management and Control Act and the applicable methodology in the field, measures taken to develop new procedures related to subsequent performance evaluations should be successfully finalised;
- the control arrangements and procedures for the specialised activities audited are appropriate to the risks and generally ensure legality and effectiveness. The issues and inconsistencies identified were the result of specific supervisory case studies and isolated gaps in first line of defence controls;
- rules and procedures were put in place to ensure the reliability, comprehensiveness and protection of financial and operational information.
- continuous efforts are being made to improve communication and information exchange systems - examples include progress in information and network security, and the project to build a single information system for the FSC;
- there is ongoing monitoring of activities, resulting in changes and corrective actions, where necessary - development is needed for timeliness of changes.

8.6. Report of the Inspectorate

In 2023, the Inspectorate of the FSC in accordance with the provisions of the Regulations on the structure and activities of the FSC and its administration and 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 2023 was 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 assisted the Chair of the FSC in carrying out his control functions regarding the activity of the administration in the Commission, the FSC Act, the Administration Act, the Anti-Corruption and Detection of Conflicts of Interest Act/ Counter-Corruption Act.

In 2023, the FSC Inspectorate has set the following goals:

- Assisting the FSC to ensure by legal, administrative and informational means the stability and transparency of the non-bank 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-bank 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;

To achieve the goals, the activity of the FSC Inspectorate in 2023 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;

- Carrying out inspections at the request of the Counter-Corruption and Unlawfully Acquired Assets Forfeiture Commission/Counter-Corruption Commission and the Prosecutor's Office of the Republic of Bulgaria;

- Performing inspections based on signals and proposals against illegal or improper actions or inactions by FSC administration officials;

- Performing inspections for analysis of the activity of the units and organization of the work in the FSC administration;

- Performing joint inspections with other units of the FSC at the request of European and international authorities and institutions.

- Monitoring for compliance with the recommendations and suggestions made during the inspections.

- Survey and assessment of training needs in the field of administrative control so as to achieve higher quality and professionalism of control functions.

- When implementing its control functions, the Inspectorate performed the following 22 (twenty-two) scheduled and ad hoc inspections:

- for evaluation of the efficiency of the activity - 2;
- 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 CCUAAFA/CCA /- 15.;
- for corruption and inefficient work - 1.;
- for illegal or improper actions or omissions of administration officials - 1;
- follow-up inspections– 1;
- incomplete inspections - 1;

Participation of the Inspectorate in joint inspections with other control structures (Public Financial Inspection Agency - PFIA, SANS, Specialized Inspectorate, IAU) - 1;

The FSC Inspectorate initiated 2(two) 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 2023 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 CCUAAFA /CCA 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.

8.7. Report of the Revenue Collection Unit

The collection of the FSC's receivables is carried out by the Revenue Collection Unit, in accordance with the provisions of the Regulations on the Structure and Activities of the FSC and its Administration, in compliance with the applicable legislation and internal rules

In connection with the streamlining of the processes and activities for the collection of the FSC's receivables, during the reporting period, new Internal Rules for the administration of the FSC's revenues were approved by order of the Chair of the FSC.

In 2023, the Cooperation Agreement between the FSC and the Chamber of Private Enforcement Agents was updated, which regulates the procedure and manner for the assignment of the enforcement of public and private receivables of the FSC to private enforcement agents. From November 2023, the FSC also uses the web-based application "Electronic System for Allocation of Enforcement Cases to Public Collectors" when assigning claims for enforcement by enforcement agents.

In pursuance of the strategic objectives and their implementation through the implementation of specific sub-objectives, the Revenue Collection Unit carried out constant monitoring and communication with the entities supervised by the FSC during the reporting period. As a result of the increased application of measures to encourage voluntary compliance with obligations, by sending e-mails, letters and/or telephone calls to notify supervised entities to pay their public and private debts, a lasting change in their behaviour is reported. The amount of debts that are paid within the statutory period is increased, respectively the amount of debts that are not paid within the statutory period is decreased.

During the reporting period, the Revenue Collection Unit carried out the planned activities for the collection of the FSC's receivables, thus achieving the set objectives. Timely measures have been taken to

collect the fees for general financial supervision set out in Annex Article 27, par. 1 of the FSCA, actions under the Administrative Offenses and Penalties Act and the Tax and Social Security Procedure Code for voluntary collection of fines and pecuniary penalties under sanction acts that have become effective, statutory interest and court costs awarded in favour of the FSC, as well as actions for submission of overdue public and private claims for enforcement by public executors at the NRA and/or private enforcement agents. During the period, actions were organized and carried out for the initiation, follow-up and termination of administrative proceedings for the issuance of acts for the establishment of public state claims for overdue fees for the implementation of general financial supervision under Art. 1 of the FSC Act and statutory interest thereon, considered requests for reimbursement and/or set-off of overpaid and erroneously paid fees, fines and pecuniary sanctions and drafted orders, opinions and letters on received inquiries, objections and signals related to the FSC's debt collection activities. In connection with unpaid liabilities for fines, financial penalties, statutory interest and court costs awarded in favour of the FSC, the Revenue Collection Unit issued and sent 155 invitations for voluntary execution to obliged persons, as a result of which 2/3 of the liabilities were paid voluntarily and the remaining were submitted to the NRA for taking enforcement action.

Actions have been taken against supervised entities who deliberately avoid paying their obligations to the FSC by initiating administrative proceedings to establish the public claims, obtaining writs of execution and submitting the claims for enforcement by public and/or private enforcement agents.

In 2023, 164 administrative proceedings were initiated for the issuance of individual administrative acts for the establishment of public debts for annual fees due for the implementation of general financial supervision, 17 of which were terminated due to the payment of the obligations within the deadline for voluntary implementation. 45 of the open administrative proceedings have resulted in the issuance of acts for the establishment of public claims, and of the acts that have entered into force, they have been submitted to the NRA for taking enforcement action for the collection of public claims.

II. MARKET ANALYSIS OF THE NON-BANK FINANCIAL SECTOR

1. External environment and economic activity

1.1. External environment

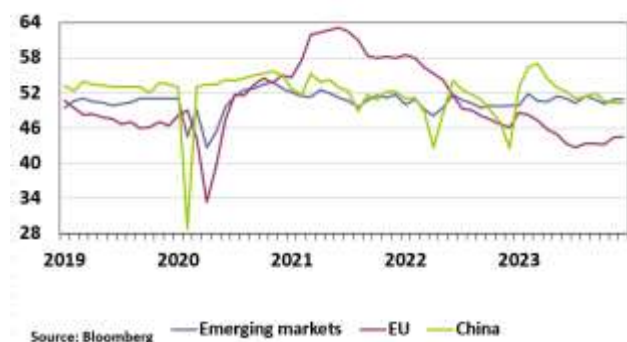
The world economy has different dynamics in 2023. GDP growth in the EU slows to 0.6% in 2023, from 3.6% in 2022, while in emerging markets and developing economies in Europe it accelerates to 3.2%, from 1.2% over the same period. The main factors having a negative impact are the residual effect of the COVID-19 pandemic on the global economy, the war in Ukraine, the energy crisis, etc.

Developments in the global economy influenced by COVID-19 and the war in Ukraine affect the Purchase Manager Index (PMI) for new orders in 2023. In the second half of the year, the manufacturing PMI has different dynamics. In the EU, it fell to 44.5 points in December 2023 from

46.1 points at the end of 2022. In China and emerging markets, it rose to 50.3 and 50.9 points in December from 42.6 and 49.8 points in December 2022, respectively. Only in the EU does the index remain below the 50-point benchmark

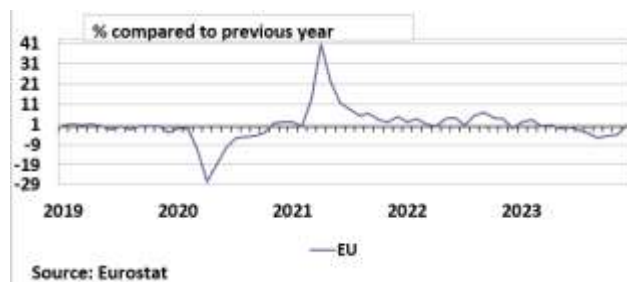
that separates economic expansion from contraction.

Graph 24. PMI in manufacturing



Industrial production in the EU in 2023, despite dropping for most of the year, reached 0.6% in the month of December 2023, compared to -1.2% at the end of 2022. The slowdown in global activity, disruptions in commodity supply chains and others are the reasons for the decline in industrial production.

Graph 25. Industrial production (excluding construction)



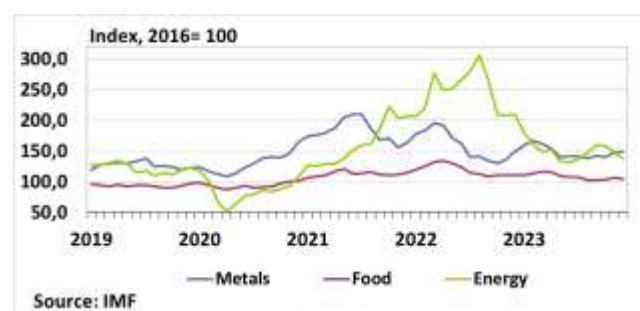
The price of the index of metals in 2023 fluctuates as the price decline in the second half of the year is due to the slow recovery of the world economy. The price of iron ore is rising due to record steel production in China, the price of uranium is rising due to supply disruptions from major producers, a potential ban on Russian exports and better prospects for nuclear power generation to combat climate change. In December 2023, the index increased to 149.5

points, compared to 149.1 points at the end of 2022.

The decline in oil prices, despite production cuts by the Organization of the Petroleum Exporting Countries (OPEC+) during the year, was influenced by factors such as lower demand and production growth in non-OPEC+ countries such as the US, Brazil and Guyana. At the end of 2023, the energy index reached 137.2 points, compared to 209.2 points at the end of 2022.

The price index of agricultural products traded on international markets increased in the first half of 2023. The decrease in the stocks of basic foods in the main exporting countries, in the last two years, due to the pandemic and the war in Ukraine, affects the supply and demand, which increases food prices. Coffee prices, especially those for robusta, have been rising following attacks on maritime shipping by the Houthis in the Red Sea, prompting some consumer countries to switch from Asian imports to Brazil. Rubber prices are rising after global production declined in 2023 due to the outbreak of a new leaf disease in Asia. In the second half, the food index declined to 104.8 points in December 2023, from 110.4 points at the end of 2022.

Graph 26. Dynamics of prices of food, energy resources and metals

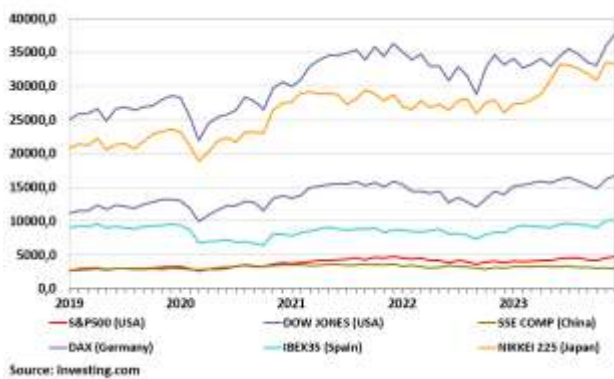


Most capital markets globally are reporting growth in 2023, driven by slowing inflation and expectations of a future decline in interest rates. In

the euro area, the German DAX rose by 10.7% and the Spanish IBEX35 by 11.8%.

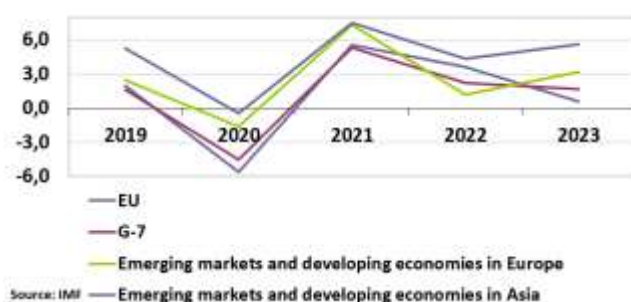
The US indices S&P500 and Dow Jones grew by 17% and 10.6% respectively in 2023. Stock market movements in Asia in 2023 have mixed dynamics, with Japan's NIKKEI225 increasing by 22.5%, and China's SSE COMP decreasing by -8.6% due to significant issues in the property sector, additional government regulations in the technology sector, etc.

Graph 27. Capital markets in developed economies



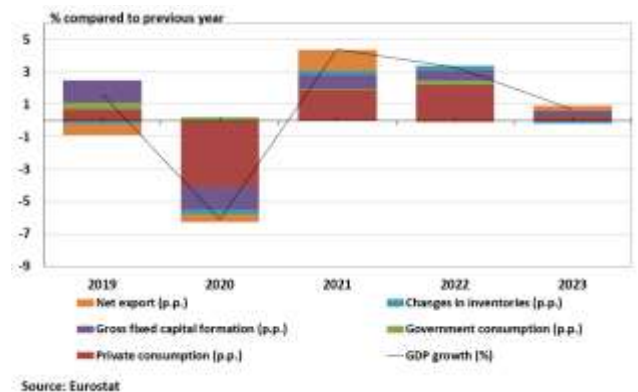
EU economic growth in 2023 slows to 0.6% from 3.6% in 2022. The economies of the seven most developed countries (G7) slow to 1.7% from 2.2% over the same period. Economic growth in emerging markets and developing economies in Europe and Asia, respectively, accelerates to 3.2% and 5.6% in 2023 from 1.2% and 4.4% in 2022. The slowdown in the recovery, the war in Ukraine, etc., have a negative impact.

Graph 28. GDP growth, annual rate of change



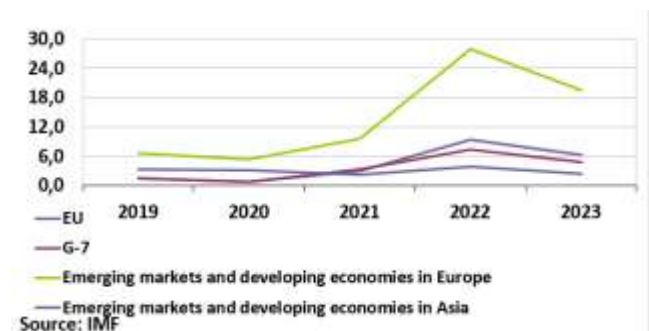
Eurozone real GDP growth slows to 0.7% in 2023 from 3.3% in 2022 due to the moderate recovery of global economy, the war in Ukraine, supply chain disruptions and more. The contribution of private consumption decreases to 0.3 p.p. in 2023 from 2.2 p.p. in 2022, followed by investment, which lowers its contribution to 0.3 p.p. Net export contributes 0.3 p.p. due to the decrease of international trade. Inventories decline slightly to -0.2 p.p. in 2023 from 0.3 p.p. in 2022. The share of government consumption declines.

Graph 29. GDP growth in the euro area



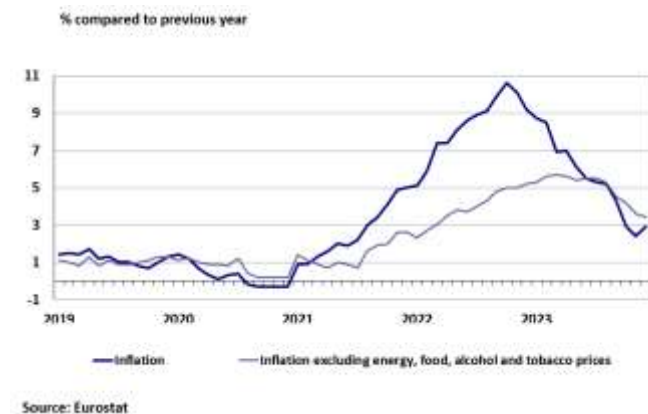
In 2023, the inflation slows down. In the G-7, inflation drops to 4.7% at the end of 2023 from 7.3% in December 2022. EU inflation declines to 6.3% from 9.3% over the same period. The reasons for the decline are central bank policies and rising interest rates, but it is still far from the 2% target.

Graph 30. Inflation



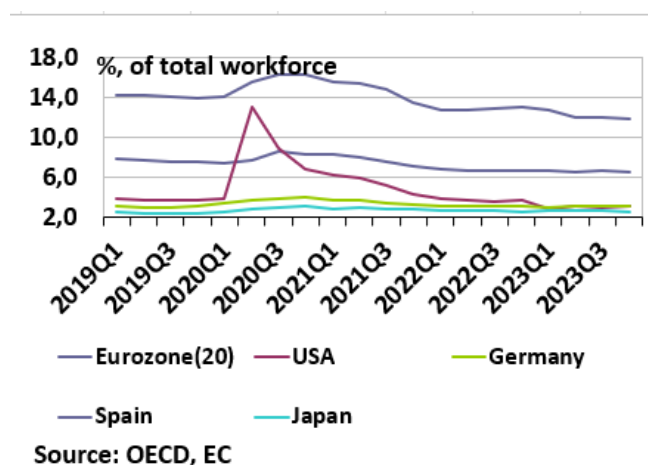
Euro area core inflation decreases to 2.9% in 2022, compared to 9.2% in 2022. Inflation, measured excluding energy, food, alcohol and tobacco prices, decreases to 3.4% from 5.2 for the same period.

Graph 31. Inflation in the euro area



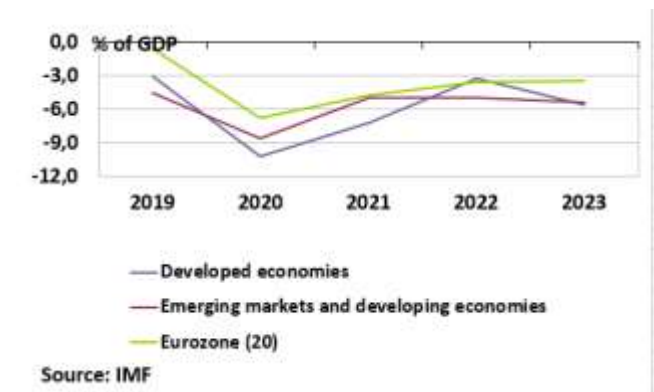
In 2023, unemployment has mixed dynamics. The euro area unemployment rate falls to 6.5% at the end of 2023 from 6.7% at the end of 2022. US unemployment also falls, reaching 3.1% in December 2023, compared to 3.6% in the last quarter of 2022. Unemployment in Germany increases barely to 3.1%, and in Japan it remained unchanged at 2.5%.

Graph 32. Unemployment dynamics on a global scale



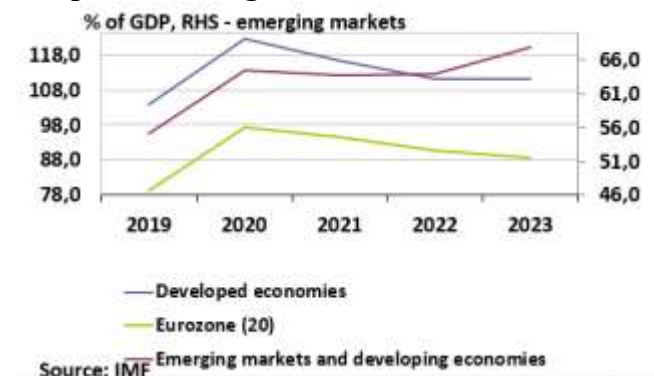
In 2023, the budget deficit worldwide increased. The budget balance in developed economies reached -5.6% in 2023 from -3.2% in 2022. The budget deficit in the EU reached to -3.4% for 2023 compared to -3.5% for 2022. The budget deficit in emerging markets and emerging economies remains unchanged at -5.2% in 2023.

Graph 33. Budget balance



The total government debt of the EU countries (20) as a percentage of GDP drops to 88.6% in 2023 compared to 90.8% in 2022. The public debt of advanced economies falls to 111% compared to 111.2% for the same period. Sovereign debt of emerging market and developing economies rises slightly to 68% in 2023 from 64.1% in 2022.

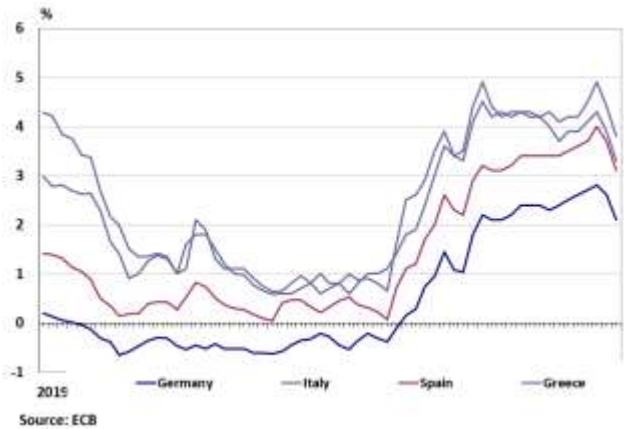
Graph 34. Total government debt



The long-term interest rate for convergence purposes has different dynamics in 2023. The average annual interest rate on Greek and Italian

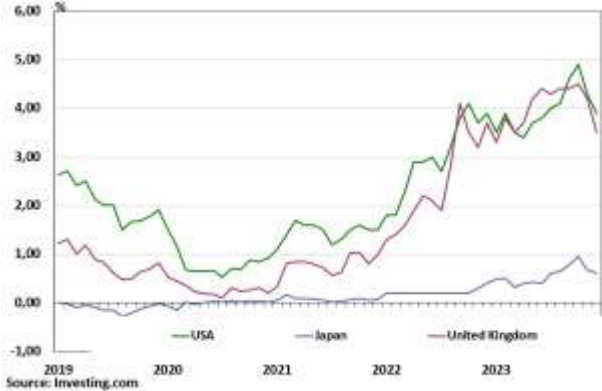
government securities decreases to 3.8% and 3.3% respectively, compared to 4.3% and 4.2% in 2022. The average annual interest rate on German and Spanish government securities remains unchanged in 2023, at 2.1% and 3.1% respectively.

Graph 35. Long-term interest rate for the convergence of Germany, Italy, Spain and Greece



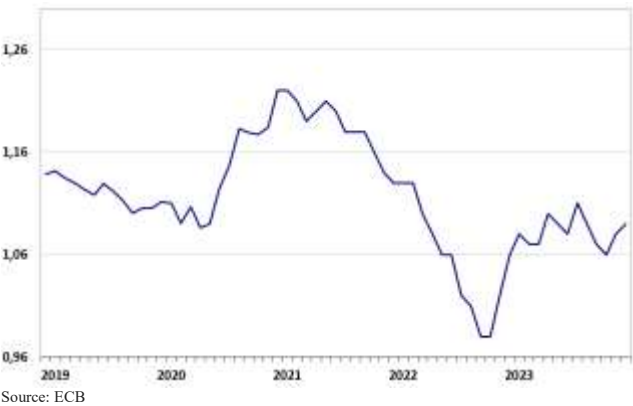
In 2023, the average annual interest rate on 10-year US government securities, despite its mixed performance over the period, remains unchanged from December 2022 at 3.9%. The average annual interest rate on Japan's 10-year government bonds rises slightly to 0.6%. The increase in interest rates on government securities is a consequence of the general expand in interest rates. UK government bonds decrease their average annual interest rate in 2023 to 0.9%. The rise in interest rates on government securities has 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



In 2023, the euro appreciates against the dollar, reaching an average annual rate of USD 1.09 per euro, compared to USD 1.06 in 2022. It had a positive effect the improvement in the European economy and the ECB's interest rate hikes.

Graph 37. USD/EUR Exchange Rate



In 2023, Central and Eastern European (CEE) countries report slowing of GDP growth due to a moderate recovery of the global economy and decreased external demand. Turkey reports the highest growth among CEE countries (4.6%). The Czech and Hungarian economies in 2023 shrink by -0.4% and -0.9%, respectively, compared to 2.3% and 4.6% in 2022. GDP growth in the Polish and Romanian economies is 0.2% and 2.1% respectively from respectively 5.3% and 4.6%.

Table 35. Real GDP growth in CEE

	2022	2023
Czech Republic	2,3	-0,4
Hungary	4,6	-0,9
Poland	5,3	0,2
Romania	4,6	2,1
Turkey	5,5	4,6

Note: Change from previous year (%).

Source: IMF, national statistics

In 2023, inflation in CEE countries is declining as a result of the policy of raising interest rates by central banks. The highest inflation is in Turkey, which reaches 53.9% in 2023 compared to 72.3% in 2022. The Turkish central bank is switching back to orthodox monetary policy after several years of applying unconventional methods. Inflation in Poland and the Czech Republic drops to 11.7% and 10.7% respectively in 2023, compared to 14.4% and 15.1% respectively in 2022. Inflation in Hungary increases to 17.1% from 14.6% for the same period. Inflation in Romania fell to 10.4% in 2023 from 13.8% in the previous year.

Table 34. Inflation in CEE

	2022	2023
Czech Republic	15,1	10,7
Hungary	14,6	17,1
Poland	14,4	11,4
Romania	13,8	10,4
Turkey	72,3	53,9

Note: Change from previous year (%).

Source: IMF, national statistics

In the CEE countries, unemployment rates have mixed dynamics. Unemployment in Turkey falls to 10.1% in 2023 from 10.6% in 2022. Unemployment in Poland and the Czech Republic increases slightly to 3% and 2.4% respectively. Unemployment in Hungary grows to 4.1% in 2023 from 3.6% in 2022. Unemployment in Romania decreases slightly to 5.4%.

Table 35. Unemployment rate in CEE

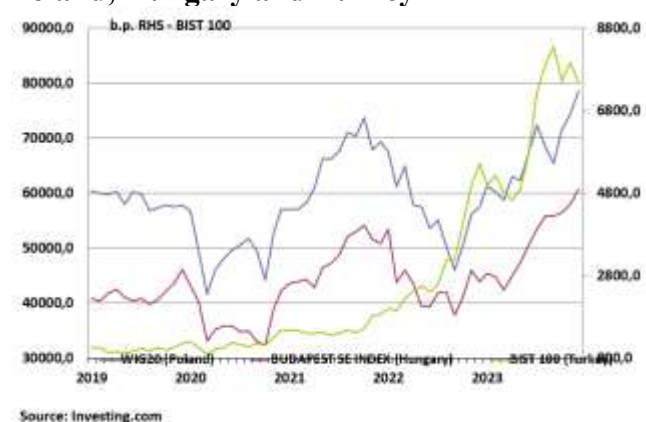
	2022	2023
Czech Republic	2,2	2,4
Hungary	3,6	4,1
Poland	2,9	3
Romania	5,6	5,4
Turkey	10,6	10,1

Note: Unemployment rate (%). * The data are arithmetic averages

Source: IMF, national statistics

In 2023 stock indices in CEE countries have a positive dynamics. During the year, the Turkish BIST100 expands the most, by 50.1%, the reason being an increase in investor confidence after a return to conventional monetary policy by the central bank. The Czech PX-PRAGUE SE and the Hungarian BUDAPEST SE INDEX grows by 6.3% and 33.7%. Croatia's CROBEX, Poland's WIG and Romania's BET INDEX expands by 20%, 28% and 26.6% respectively. It had a positive effect the slowdown in inflation and expectations of interest rate cuts by central banks.

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 2023, the Bulgarian economy reported growth of 0.8%. Despite economic fluctuations related to the war in Ukraine and Israel, inflation in the country is declining. According to preliminary data for 2023, GDP amounts to 183.7 billion BGN.⁶ The main factor of economic growth is domestic demand, which contributes 3.0 p.p. Investments made a negative contribution of -4.2 p.p. Net exports grew in real terms, contributing 3.0 p.p. to GDP growth. Trade, repair of motor vehicles and motorcycles; transport, storage and post; hotels and restaurants; and electricity generation and distribution all grew, contributing 0.6 p.p. to the growth of the Bulgarian economy and accounting for 78% of it. Household spending in 2023 grows at a slower rate relative to their income, consumer confidence in the year rises relative to 2022, but still remains at low levels at the end of 2023. Supporting the indicator are consumers' unemployment expectations, which are highly elevated.

⁶ According to preliminary data of the National Statistical Institute, the GDP in 2023 was BGN 183,743 million.

The volume of foreign direct investment in Bulgaria amounts to EUR 3619.1 million, which is EUR 988.0 million more than the previous year. In 2023, the country's gross external debt increased by 2.6% year-on-year, reaching EUR 45.4 billion at the end of the year or 48.3% of GDP. Banks' credit exposures to the private non-financial sector are growing, with households growing at an average annual rate of 11.1% compared to 12.2% in 2022. After reaching 13% in 2022, the average annual value of consumer price inflation is at 8.7% in 2023, reaching 5.0% year-on-year as of December. In 2023, house price and rent increases are rising at a slower rate compared to the previous year. The housing price index increased its rate of change year-on-year, from 6.4% on average for 2022, it reached 8.4% in 2023. The trend in rental prices follows the same dynamic, the index increased to 6.4% in 2023 compared to 6.0% for 2022

According to preliminary data for 2023, the total current and capital account balance amounts to EUR 1,556.8 million, compared to EUR -405.7 million at the end of 2022. For the period January-December 2023, the current account surplus of the balance of payments reaches EUR 273.7 million. The main positive contributor to the surplus is the “Trade balance” item, whose balance increased significantly compared to the same period last year. As a result of the higher amount of capital transfers, the capital account surplus reached EUR 1 283 million.

The balance of the financial account for the year is negative (-EUR 1 850.2 million). According to the balance of payments data, the country's international foreign exchange reserves increased by EUR 3 279.7 million. After accounting for exchange rate differences and price revaluations, the foreign exchange reserves in the BNB balance sheet increased by EUR 5498.1 million (BGN 10.8

billion), as the assets of the Issue Department amounted to BGN 82.0 billion at the end of 2023

Graph 40. Dynamics of main accounts of the balance of payment



At the end of 2023, the current account surplus of EUR 273.6 million compared to the deficit (EUR -1199.5 million) of the previous year, mainly due to the growth of the trade balance with EUR .4 million compared to the end of 2022, reaching a value of EUR -3551 million. The main factor for this is the low growth rate of the import⁷ of goods in real terms year-on-year compared to the increase of real exports.

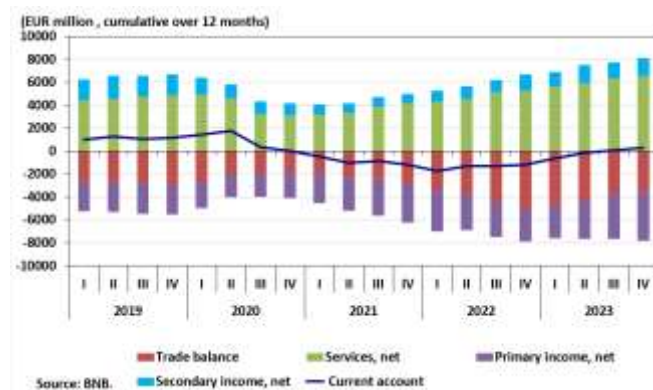
The item “primary net income” limits the current account balance, marking a drop of EUR -1489.7 million compared to the end of December 2022 and reaching a value of EUR -4276.6 million at the end of 2022. Main factor for this dynamics is

⁷ The review has been prepared based on publicly available data as of 05.04.2023.

the lower amount of outflows under item “income from share capital” related to direct investments.

The item “secondary net income” contributes to the current account balance, marking EUR 131.9 million more compared to the same period last year and reaching a value of EUR 1543.4 million at the end of 2023. The main reason for this is the lower amount of transfers to the “Government” sector.

Graph 41. Current account and its components



For the period January - December 2023, the balance on the financial account amounts to EUR -1850.2 million, which is EUR -1419 million less than reported for the same period of 2022 and is due to decrease in the foreign assets of Bulgarian residents compared to that of foreign liabilities. For the decrease of foreign assets, their decrease in the "Central Bank" sector is of primary importance. The drop is due to the lower amount of the banks' short-term assets in the form of "Currency and deposits". In “other sectors”, a decrease 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 2023 in the amount of EUR 2.23 million.

The component of the financial account that contributes mainly to the deficit at the end of 2023 is the balance on “Direct investment, net” of EUR -2902 million and the reported negative growth of EUR -803.6 million. “Other investments, net” also had a negative balance of EUR -204.9 million at

the end of the last quarter of 2023 and a decline for the year of EUR 807.2 million.

Graph 42. Financial account and its components



For the period January - December 2023, the flow of foreign direct investment (FDI) in the country amounted to EUR 3619.1 million which is with EUR 988.0 million more than the previous year. The majority of FDI in our country is in the form of reinvested profit (EUR 3308.9 million) and equity capital other than reinvested profit (EUR 622.9 million). Despite both components having a positive value during the year, reinvested profit recorded an inflow of FDI of EUR 1558.8 million, while equity investments decreased by EUR -58.2 million compared to 2022. The flow of FDI in the form of debt instruments was also negative, amounting to EUR -312.7 million, marking an outflow of EUR -512.6 million.

Table 36. FDI dynamics in Bulgaria by type of investment

	2019	2020	2021	2022	2023
Total	1639,4	2974,2	1517,0	2631,1	3619,1
Share capital other than reinvested profit	-156,5	498,3	-277,1	681,1	622,9
Reinvested profit	1158,6	1221,1	2467,7	1750,1	3308,9
Debt instruments	637,3	1254,8	-673,6	199,9	-312,7

Note: The data are for the volume of FDI in the country (in EUR million).
Source: BNB.

The distribution of FDI by sector in the country in 2023 is similar to the previous year, excluding two sectors where the flow is in the opposite direction. The Trade, Repair of Cars and Motorcycles sector, which in 2022 increased some of its volume, reports an outflow of FDI amounting to EUR -217.3 million. The FDI volume for 2023

in the amount of 338.7 million EUR is reported by the “Manufacturing” sector, and the largest outflow is observed in the “Production and distribution of electricity, heat and gaseous fuels” sector, which decreased its volume by EUR-159.6 million and reached EUR -40.4 million. The “Creation and distribution of information and creative products; telecommunications” sector has an increase of EUR 128.1 million compared to the reported FDI outflow of EUR -201.8 million for 2022.

A significant positive difference in the volume of FDI at the end of 2023 is recorded by the Financial and Insurance Activities sector, which reports an FDI inflow of EUR 507.8 million, compared to EUR 54.6 million in 2022.

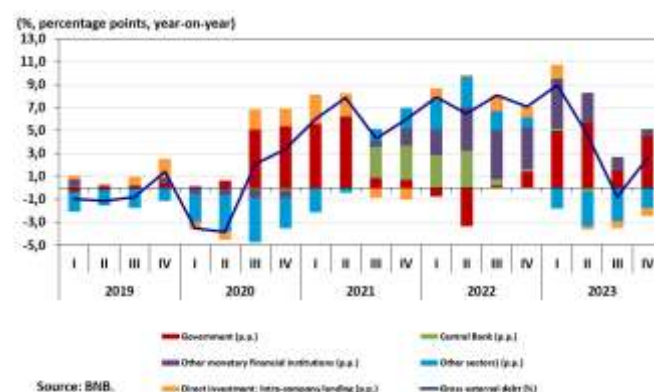
Table 37. FDI structure in Bulgaria by economic activity

	2019	2020	2021	2022	2023
Mining industry	-13,6	47,5	15,7	22,1	70,3
Manufacturing	301,4	203,7	-122,1	984,7	1323,4
Production and distribution of heat, energy and gaseous fuels					
Construction	-14,9	-4,6	92,1	119,2	-40,4
Trade, repair of motor vehicles and motorcycles	63,2	216,0	-28,6	-31,0	30,7
Transport, storage and postal services	807,4	-9,4	122,7	403,6	186,3
hospitality and restaurant services	16,2	229,8	-12,3	43,7	25,6
Creation and Distribution of Information and Creative Products, Telecommunications	-36,4	-76,6	-73,9	1,7	15,4
Financial and insurance activities	39,5	167,2	301,7	99,9	228
Real estate transactions	145,6	705,2	952,6	1007,2	1515
	185,3	67,7	61,2	186,6	142,4

Note: Data is in million EUR. The structure covers ten leading economic sectors. Data for the periods indicated are from the annual statistics.
Source: BNB.

In 2023, the country's gross external debt increased by 2.6% year-on-year, reaching EUR 45.4 billion at the end of the year or 48.3% of GDP. The largest contributor to the increase was general government debt, which made a positive contribution of 4.5 p.p. A smaller contribution of 0.6 p.p. was made by foreign liabilities of other monetary financial institutions. The debts of the “Other sectors” and the “Direct investment, Domestic lending” sector limited the growth of gross external debt by -1.7 p.p. and -0.7 p.p., respectively, while the “Central bank” sector remained unchanged.

Graph 43. Dynamics of gross external debt by institutional sectors



In line with the overall dynamics of gross external debt in 2023, its short-term component without intercompany lending decreased by 5.8% on and represented 26.2% of total external debt at the end of the year. Long-term debt increased by 9.3% and reached a share of 73.8% of the country's external debt at the end of year

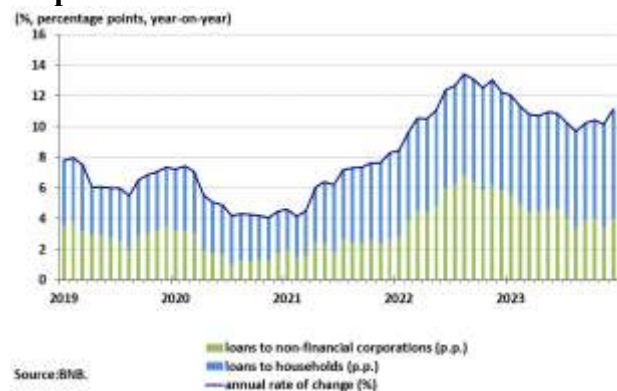
Graph 44. Dynamics of gross external debt by maturity structure



In 2023 there was a noted decrease 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 11.1% compared to 12.2% at the end of 2022. Loans to households grew at a faster pace (15.9%), contributing 7.1 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 7.3% at the end of the year, contributing 4.0 p.p. to the general dynamics.

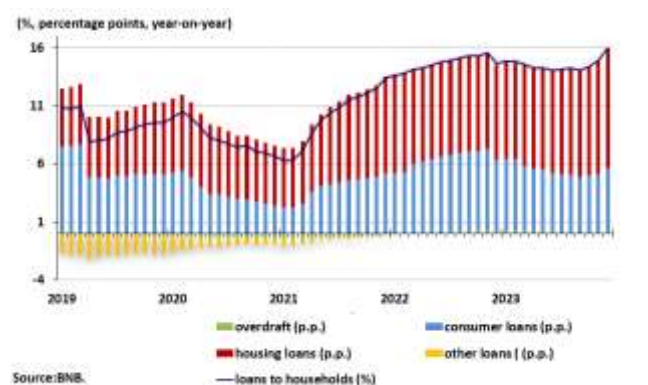
Graph 45. Dynamics of loans to non-financial corporations and households



The growth of loans to households in 2023 is mainly due to the increase in housing loans by 20.6% at, which contributes by 10.5 p.p. to the total growth of loans to households. At the end of 2023, consumer loans increased by 12.2% more than 2022 and contributed by 5.5 p.p. Loans other than consumer and housing, as well as overdrafts, contribute to the overall growth by 5.4 p.p.

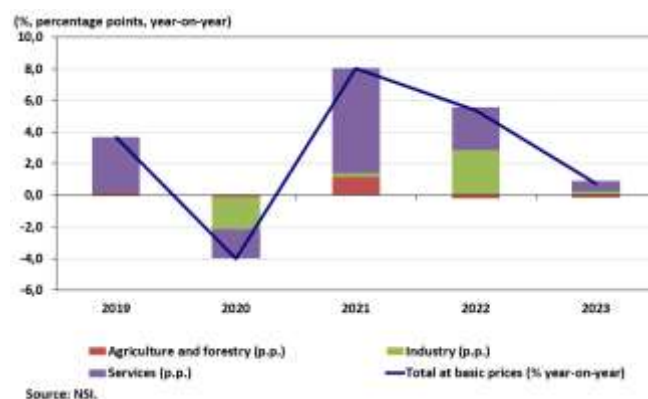
At the end of December 2023, the total amount of the balance sheet assets of the banking system was BGN 172.1 billion, and earnings reached BGN 3.4 billion. The trend of improving the quality of the loan portfolio has broken, and at the end of 2023 the gross amount of non-performing loans and advances in the banking system amounted to BGN 3.9 billion compared to 3.1 billion in the end of 2022, and their share in the total amount of gross loans and advances remains 3.6%. The net value of non-performing loans and advances, after deducting the impairment inherent in this classification category, amounts to BGN 1.95 billion at the end of 2023 or 1.9 % of the total net value of loans and advances.

Graph 46. Dynamics of loans to households



Total value added in the economy grows marginally in real terms by 0.8% in 2023 compared to 5.3% in 2022, with the services sector contributing the most (0.7 p.p.), followed by industry (0.3 p.p.), while the agriculture and forestry sector makes a negative contribution (-0.2 p.p.).

Graph 47. 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 2023 was reported by the sectors: “Trade, repair of motor vehicles and motorcycles; transportation, storage, and mailing; accommodation and food services” (0.4 p.p.), followed by “Public administration; education; human health and social work” (0.2p.p.) and “Mining; manufacturing; electricity, heat, and gas distribution; water supply; sewerage, waste management, and remediation” (0.2 p.p.). There are two sectors that contribute the

same 0.1 p.p. - “Financial and insurance activities” and “Real estate transactions”. The following are without contribution to the growth of added value: “Construction”, “Information and creative product creation and distribution; telecommunications”, “Professional activities and research; administrative and support activities” and “Culture, sport and leisure; other service activities”. The only sector with a negative contribution of -0.2 p.p. to value added by sector is agriculture, forestry and fishing.

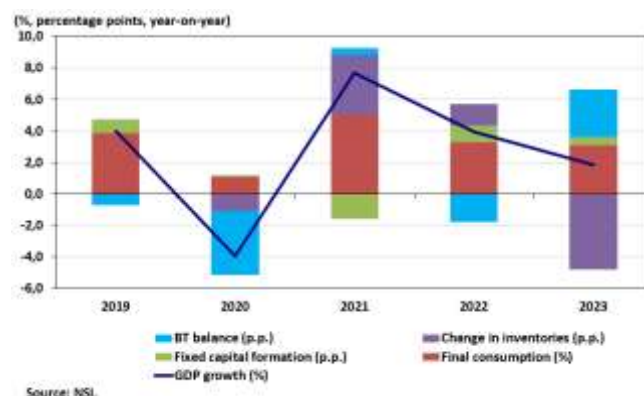
Table 38. Dynamics of Value Added by sectors

	2019	2020	2021	2022	2023
Total for the economy (%)	3,7	-4,0	8,0	5,3	0,8
Contribution (p.p.)					
Agriculture, forestry and fisheries	0,2	-0,1	1,2	-0,2	-0,2
Mining and quarrying sector; manufacturing industry; production and distribution of electricity and heat and gaseous fuels; water supply; sewerage, waste management and Construction	-0,2	-2,0	1,1	2,6	0,2
Trade, repair of cars and motorcycles; transport, storage and mail; hospitality and restaurant industry	0,2	0,0	-0,8	0,2	0,0
Creation and Distribution of Information and Creative Products, Telecommunications	0,9	-1,5	3,1	0,2	0,4
Financial and insurance activities	0,9	0,3	0,5	0,1	0,0
Real estate transactions	0,1	0,5	1,4	0,5	0,1
Professional activities and research; administrative and auxiliary service activities	0,5	-0,7	0,8	0,4	0,1
Public administration; education; human health and social work	0,9	-0,3	0,7	0,3	0,0
Culture, sport and entertainment; other activities	0,1	0,4	0,1	1,1	0,2
Culture, sport and entertainment; other activities	0,1	-0,6	0,0	0,0	0,0

Note: Data for 2023 are preliminary
Source: NSI.

According to preliminary data, real GDP growth in 2023 amounts to 1.8% year-on-year. The main factor of economic growth is domestic demand, which contributes 3.0 p.p. Among the components of internal demand, final consumption is the strongest (3.1 p.p.). Investments have a contribution of -4.2p.p. and among them the dynamics of the change in stocks and the formation of fixed capital are in the opposite direction, respectively -4.8 p.p. and 0.6 p.p. Net exports grew in real terms, contributing 3.0 p.p. to GDP growth.

Graph 48. GDP growth and contribution of components of final expenditures



Source: NSI.

Exports of Bulgarian goods and services in 2023 amounted to EUR 44.2 billion, a decrease of -6.49% compared to the previous year. The largest negative contribution to the total weight is the export of energy resources (-5.3 p.p.), followed by the export of raw materials and materials (-2.9 p.p.) and investment goods (-1.3 p.p.) Only investment goods contributed 2.5 p.p. to limit the decline.

Table 39. Contribution of main groups of goods to the exports' dynamics

	2019	2020	2021	2022	2023
Export (% year-on-year)	-7,0	-6,3	24,9	35,8	-6,9
Contribution (p.p.)					
Consumer goods	2,0	0,2	2,9	6,6	-1,3
Raw materials	-0,4	0,0	12,2	10,7	-2,9
Investment goods	-4,0	-1,3	5,5	7,8	2,5
Energy resources	-4,3	-5,3	4,3	11,0	-5,3

Source: BNB.

Imports of goods and services shrunk at a larger nominal rate than exports in 2023 (-10.2%), amounting to EUR 49.5 billion. The biggest negative contribution to this dynamic is the import of energy resources (-7.8 p.p.), followed by raw materials and materials (-5.5 p.p.), and the import of investment goods and consumer goods contribute respectively with 2.1 p.p. and 0.9 p.p.

Table 40. Contribution of main groups of goods to the import's dynamics

	2019	2020	2021	2022	2023
Import (% year-on-year)	5,0	-8,9	27,6	40,6	-10,2
Contribution (p.p.)					
Consumer goods	2,3	-0,4	4,2	6,6	0,9
Raw materials	-0,2	-0,3	10,5	12,2	-5,5
Investment goods	1,7	-2,1	6,1	9,0	2,1
Energy resources	1,1	-6,2	6,7	13,4	-7,8

The real growth of final consumption slowed from 4.2% in 2022 to 4.0% in 2023. The main driver for the reported dynamics is the individual consumption of households (4.4 p.p.), and the individual consumption of the government contributes by 0.3 p.p. Collective consumption, which measures the government's final expenditure on collective services provided to society as a whole, limits by -0.4 p.p. to real growth in total end consumption.

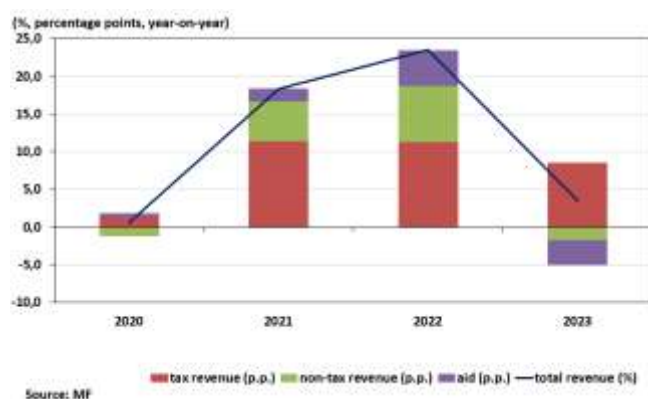
Table 41. Growth of final consumption expenditure and contributions of its components

	2019	2020	2021	2022	2023
Final consumption (%)	5,1	1,4	6,5	4,2	4,0
individual consumption (p.p.)	5,0	0,6	6,9	3,5	4,4
household consumption (p.p.)	4,6	-0,4	6,4	2,9	4,1
individual consumption of the government (p.p.)	0,3	1,1	0,5	0,6	0,3
collective consumption (p.p.)	0,1	0,8	-0,4	0,8	-0,4

Note: Data for 2023 are preliminary
Source: NSI.

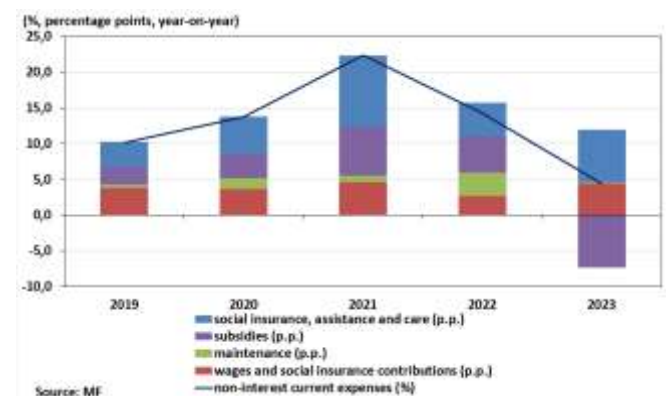
The budget balance under the Consolidated Fiscal Program (CFP) in 2023, according to official data, is negative in the amount of BGN -5.6 billion, which represents a deficit of -3.4% of GDP. Revenues recorded a growth of only 3.5%, mainly due to the tax on social and health insurance contributions (2.9 p.p.), other taxes (1.8 p.p.), personal income tax (1.5 p.p.) and value added tax (1.4 p.p.). Non-tax revenues and aids limit the growth by -1.7 pp and -3.4 pp, respectively. Customs duties and fees tax (0.7 p.p.) made the only contribution to the growth of budget revenues.

Graph 49. Contribution of components to the dynamics of budget revenue



Budget expenditure for 2023 is 9.9% below its 2022 level, with current expenditure making the largest positive contribution (4.4 pp). Of these, social security, assistance and care expenditure is the largest contributor at 7.3 pp. Capital expenditure and the growth of the government reserve contributed 5.3 p.p. Expenditure on subsidies to non-financial corporations and non-profit organisations decreased significantly, by -41.%, and recorded a negative contribution of -7.3 p.p., which is mainly due to unspent funds provided to municipalities in previous years and is the main reason for the lower value of budgetary expenditure. The expenditure for contribution to the general EU budget in 2023 increased slightly by 8.5% compared to 1.4% in 2022, and does not contribute to the general growth of budget expenditures (0.2).

Graph 50. Contribution of components to the dynamics of non-interest current expenditure



In 2023, employment in Bulgaria decreased by -0.3%% year-on-year, and the number of employees aged 15 and over is 2.9 million. This dynamics is mainly due to a decline in employment among men (-0.5%). For women, employment remains unchanged. They are non-contributors, while -0.3 p.p. is the negative contribution to male employment dynamics in 2023. Lower employment is only pronounced for those in the 25-34 and 35-44 age groups (-1.1 p.p.).

The number of persons in paid employment decreased by -2.7% year-on-year to 2.2 million

people. This is fully due to a decline in employees in the private sector (-3.7 percentage points). By economic activities, there was a decrease of the number of employees in all sectors, but mainly in the “Hospitality and Catering” sector (-0.5 p.p.) and in the Construction sector (-0.4 p.p.) and in the Transport, storage and mail sector (-0.4 p.p.). The public sector offsets the number of employees with a positive contribution of 0.5 p.p. in 2023.

The income of employees measured by compensation of employees, representing gross income that also included changes in social insurance contributions, increased by 14.9% in 2023 compared to an increase of 114.6% in the previous year. The unemployment rate increased slightly, reaching 4.3% of the workforce in 2023.

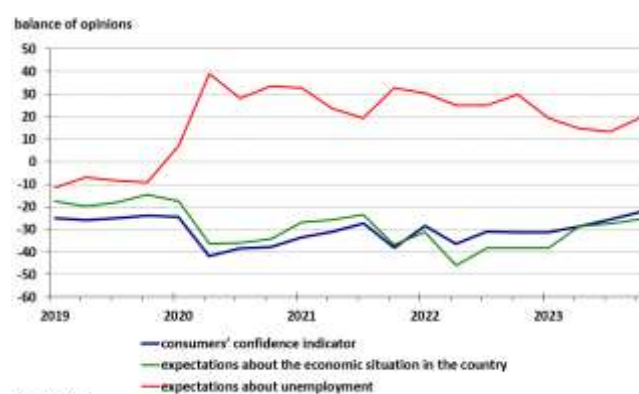
Table 42. Employment and income dynamics

	2019	2020	2021	2022	2023
Employed persons	2,6	-3,4	-1,4	-4,4	-0,3
Hired persons	0,1	-4,8	1,7	1,3	-2,7
Compensation of employees	8,6	4,2	12,4	14,6	14,9
Unemployment*	4,2	5,1	5,3	4,1	4,3

Note: The dynamics data show a change compared to the previous year (%), data for 2023 are preliminary; * unemployment rate on average (% of labour force); Compensation of employees * preliminary data
Sources: NSI, Infostat.

Consumer confidence during the year increased compared to 2022, but still remained at low levels, recording a value of -22.2 at the end of 2023. The indicator is supported by consumer expectations of unemployment, which are highly elevated in 2023 as well. The improvement of consumer confidence is influenced by higher expectations of a better economic situation in the country.

Graph 51. Consumers' confidence indicator



Note: Unemployment expectations are taken with the opposite sign. An increase in the indicator means that consumers have optimistic expectations and vice versa.

Household incomes in 2023 accelerated their growth to 17.0% on an annual basis, to which salaries (10.3 p.p.) and pensions (3.5 p.p.) had the sole contribution. A smaller contribution of 0.4 p.p. compared to 2022 to income growth is accounted for by withdrawn savings, which decrease their annual rate of change to 9.3% in 2023. Limitation on the growth of household incomes during the year is provided by income from unemployment benefits (-8.2%) and loans and credits received (-2.6%).

Table 43. Dynamics of household incomes

	2019	2020	2021	2022	2023
Total income	6,8	5,1	6,8	15,1	17,0
Salary	8,9	4,1	8,2	9,1	19,0
Withdrawn savings	-3,5	-9,2	23,3	33,2	9,3
Loans and credits	-25,9	-20,6	-23,1	4,5	-2,6

Note: The data are year-on-year(%).
Source: NSI.

Household expenditures in 2023 grow slowly depending on their income. They note a growth of 16.4% compared to 17.3% in 2022. Significant growth of 27.2% and a contribution of 1.37 p.p. compared to the previous year is reported by tax expenditures Consumer spending slows down to 14.6% and contributes the most with 12.11 p.p. in total household spending. Of these, expenditure on food and leisure, cultural recreation and education, transport, miscellaneous goods and services contributed significantly, at 4.46 p.p., 1.93 p.p. and

1.30 p.p. respectively. In 2023, all household expenditures except for water, electricity and fuels increase, with the largest increases, beyond those described above, in expenditures on housing and home maintenance (21.8%), clothing and footwear (20.0%). Household expenditure on social contributions increased by 30.3%, contributing 2.16 p.p. In 2023 households' tendency to save grew, and their deposit expenses show growth of barely 4.1%%, and the funds earmarked for debt repayment or lending increased 39.2%.

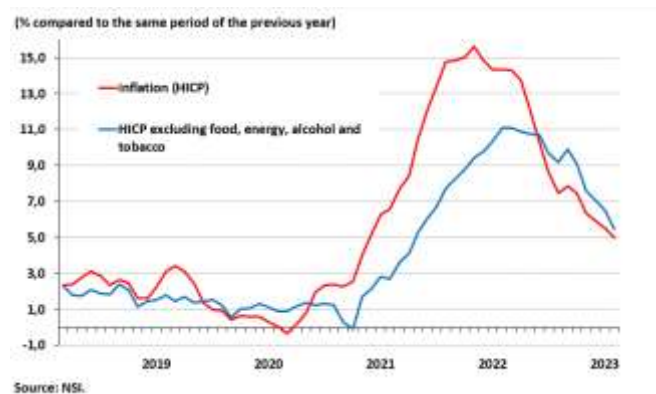
Table 44. Dynamics of households' expenditures

	2019	2020	2021	2022	2023
Total expenses	4,9	-1,0	9,9	17,3	16,4
Total consumer expenses	5,2	-1,3	11,2	18,6	14,6
Taxes	6,6	2,1	6,5	5,7	27,2
Deposit	22,6	31,3	1,6	20,0	4,1
Debt paid and loan granted	-0,3	-2,3	1,4	-1,7	39,2

Note: The data are year-on-year(%).
Source: NSI.

In 2023, inflation was positive, with its average annual value (8.7%) being lower than last year's (13.0%), and as of December it decreased to 5.0%. Basic inflation has a higher rate of change, rising relative to 2022 (7.6%) and reaching the annual average of 9.0%.

Graph 52. Inflation



The biggest contributors to the inflation accumulated during the year are: services (1.8 p.p.), food (4.8 p.p.) and industrial goods (1.4 p.p.), which actually generate a total of 89% of inflation at the end of December 2023 compared to the same

period of the previous year. Among services, the biggest contribution to overall inflation is the prices of catering (0.5 p.p.), followed by transport (0.2 p.p.) and telecommunications services (0.2 p.p.). Energy and heating prices marginally limit the overall growth by -0.1 p.p., and administrative prices contributed -0.9 p.p.

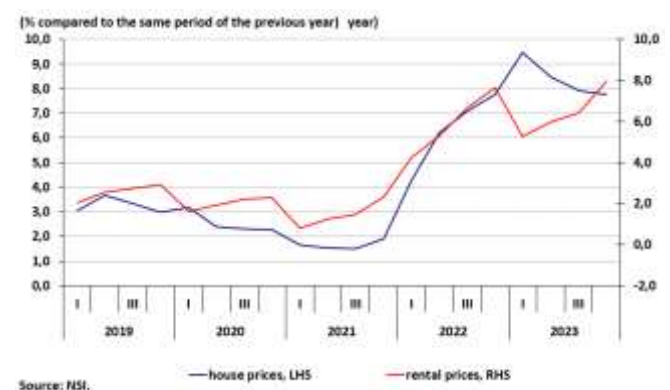
Table 45. Contribution of main groups of goods to inflation

Inflation (% compared to Dec. previous year)	3,1	0,0	6,6	14,3	5,0
Contributions (p.p.)					
Foodstuffs	1,4	0,4	1,9	5,6	1,2
Unprocessed foods	0,5	-0,1	0,4	1,3	0,5
Processed foods	0,8	0,6	1,5	4,3	0,7
Services (all excluding goods)	0,9	0,7	0,7	3,3	1,8
Catering	0,3	0,2	0,3	1,0	0,5
Transport services	0,0	0,1	0,2	0,7	0,2
Telecommunications	-0,1	0,0	-0,3	0,4	0,2
Energy and heating for the home	0,1	0,0	1,1	1,5	-0,1
Liquid and transport fuels	0,3	-1,0	1,9	0,2	0,2
Industrial goods	0,6	-1,2	3,8	4,8	1,4
Administrative prices	0,4	0,2	0,7	1,3	0,9

Source: Eurostat

In 2023, the growth of housing prices in our country remains at similar level as last year, its rate, reporting annual growth of 8.4% compared to 6.3% in 2022. 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 insignificantly, reaching 6.4% on an average annual basis compared to 6.0% in 2022.

Graph 53. Dynamics of housing prices and rents



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

In 2023, the assets of the participants in the non-bank financial sector grew by 14.2% and at the end of the year exceeded BGN 54 billion, with the change in the various segments having a positive dynamic. The largest contribution of 8.0 p.p. came from pension fund assets, followed by growth in assets of non-bank investment firms (3.7 p.p.), a major part of which were client assets, growth in assets managed by management companies and alternative investment fund managers, (1.6 p.p.), from the change in assets of collective investment schemes and alternative investment funds (0.8 p.p.) and the corresponding increase in assets of special purpose investment companies (0.3 p.p.). With a negative contribution of -0.1 p.p. for the first year is the change in the value of the assets of insurance and reinsurance companies. As a result of the prevailing upward dynamics, the role of non-bank financial sector companies in the structure of financial intermediation is growing, with the assets of the participants in the sector supervised by the FSC reaching 23.9% of the assets of the financial sector in the country.

As a share of GDP, the assets of the participants of the non-bank financial sector increased in 2023, reaching 29.5% by the end of the year. The depth of financial intermediation in the non-bank financial sector measured through market capitalization on the stock exchange decreased to 8.4% at the end of 2023 compared to 18.2% of GDP at the end of 2022.

Table 46. Relative structure of the assets of non-bank financial sector participants (% of the assets of the banking and non-bank financial sector in Bulgaria)

Indicators	2019	2020	2021	2022	2023
Non-bank investment firms	12.5	11.1	4.5	4.2	4.5
Management companies /AIFMs	1.4	1.4	1.7	1.6	1.7
CIS and AIF*	1.0	1.0	1.5	1.4	1.4
SPICs	1.1	1.1	1.0	1.0	1.0
(Re)insurance companies	9.8	5.7	6.2	5.7	5.1
SPFs	9.5	9.8	10.8	9.5	10.2
Participants in the non-bank financial sector	31.0	30.0	25.8	23.4	23.9

Notes: * Includes balance sheet assets of CISs, AIFs, NIFs and NICs.

Source: FSC

The assets of non-bank investment firms (IF) increased by 20.6% in 2023 and at the end of the year reached BGN 10.2 billion. The reason for this dynamic is an increase in the assets of IFs with a full license and contribution by 13.6%, while the assets of non-bank IFs with a partial license contribute 7.0% year-on-year to the reported growth.

Assets of management companies and alternative investment fund managers increased in absolute amount by BGN 737.6 million, which is an annual growth of 23.3%. At the end of 2023, assets under management amount to BGN 3.9 billion. Of these,

BGN 2.5 billion are assets managed by collective investment schemes and BGN 1.0 billion are managed assets of clients under portfolio management.

The assets of mutual funds and exchange-traded funds (ETFs) grew by a total of 8.7% compared to the previous year and reached BGN 2.5 billion at the end of 2023. The assets of the alternative investment funds grew by 33.3% year-on-year and reached BGN 617.0 million at the end of the year. In the structure of financial intermediation, collective investment schemes

occupy a share of 1.4%, which is preserved compared to the previous year 2022.

The assets of special purpose investment companies (SPICs) increased by 7.5% year-on-year and by the end of the year their amount reached BGN 2.2 billion. The biggest contribution to this growth is the assets of SPICs investing in real estate and agricultural land (6.4 p.p.), while SPICs investing in receivables contribute 1.1 p.p. in the annual growth of assets in the sector. In relative terms, by the end of 2023, 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 decreased by -0.3% in 2023 compared to 1.9% in 2022, and their share in the structure of financial intermediation decreased compared to the previous year and amounts to 5.1%. The largest negative contribution of -0.7 p.p. for the change of assets of the (re)insurance market lies with the decrease of non-life insurance companies' assets (-5.9%),

while the assets of life insurance companies increased by 4.3%, and have a positive contribution of 0.2 p.p. The assets of the only reinsurance company in Bulgaria increased by 5.4% year-on-year and had a positive contribution of 0.4 p.p. to the change in the insurance market assets.

An intense growth of 19.6% in balance sheet assets is reported by pension companies in 2023 compared to a drop of -1.4% in 2022. The increase in the value of assets is entirely due to the reported positive income from investing the funds of all SPFs compared to the previous year. 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 23.2 billion. Their relative share in the structure of financial intermediation at the end of the year amounted to 12.6%.

Table 47. Market capitalization of the stock exchange and assets of non-bank financial sector participants (% of the GDP)

	2019	2020	2021	2022	2023
Market capitalization of the stock exchange market	23.2	23.5	22.1	18.2	8.4
Non-banking investment firms	17.2	16.4	5.9	5.1	5.6
Management companies /AIFMs	1.9	2.0	2.3	1.9	2.1
CIS and AIF*	1.4	1.5	2.0	1.7	1.7
SPICs	1.5	1.5	1.4	1.3	1.2
(Re)insurance companies	7.7	8.2	8.2	7.0	6.3
SPFs	13.1	14.4	14.1	11.7	12.6
Participants in the non-banking financial sector	42.7	44.1	33.8	28.7	29.5

Notes: * Includes balance sheet assets of CISs, AIFs, NIFs and NICs.

Source: FSC, BSE, NSI.

The depth of financial intermediation of the non-bank financial sector, measured by the market capitalization of Bulgarian Stock Exchange AD as a share of GDP, decreased to 8.4% compared to 18.2% at the end of 2022. The market capitalization of BSE AD marked a decline of

-48.6% year-on-year and at the end of the year reached BGN 15.5 billion. The market capitalization of the Main Market, which increases to BGN 12.0 billion by the end of 2023, limits the reported decline by 3.8 p.p., while the market capitalization of the Alternative Market, which

decreases to BGN 3.0 billion by the end of the year, contributes -52.7 p.p. The reason for this is the terminated registration of an issue of shares on the Alternative Market, issued by Capital Concept Limited AD, in connection with a decision of the FSC to apply a compulsory administrative measure against BSE AD. The market capitalization of the BEAM growth market, which at the end of 2023 reached BGN 436.4 million, contributes 0.4 p.p. in the general change of market capitalisation.

In 2023, all stock market indices are up. As at 31.12.2023, the main SOFIX index marked growth of 27.2% compared to its level at the end of 2022, reaching 765.12 points. The broad BGBX40 index is up 13.4% year-on-year to

In 2023, the development of the non-bank financial sector maintained the market environment in individual segments. Non-life insurance companies and SPICs are characterized by strong competition, while a moderate competitive environment is observed in pension insurance companies and the segment of services provided by non-bank investment firms. 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 investment firms, measured on the basis of client assets, is characterized by moderate concentration. By the end of 2023, the largest four investment firms held 60.2% of the total amount of all client assets,⁸ the share of the first investment firm being 23.0%. For the remaining investment firms the average share of the client assets held was 2.3%.

The Herfindahl-Hirschman Index (HHI)⁹ on the market of non-bank investment firms, calculated on the basis of client assets, decreased in 2023 with 20 units to 1,130 units, which sets the market environment for services provided by non-

157.87 points. The equal-weighted BGTR30 increased by 9.3% over the year to 799.44 points, while the sector index BGREIT, which generally makes an exception to the general trend due to the type of companies included in the index, recorded a 3.9% year-on-year increase to 190.30 points.

Expressed as share of the GDP, the assets of participants in the non-bank financial sector amounted to 29.5%, the largest share being the assets of supplementary pension insurance funds (12.6%), followed by assets of the (re)insurance segment (6.3%) and assets of non-bank IFs which were 5.6% of GDP. Assets managed by MCs /AIFMs amounted to 2.1% of GDP, and those of the CISs and NIFs, and SPICs— respectively 1.7% and 1.2% of GDP, respectively.

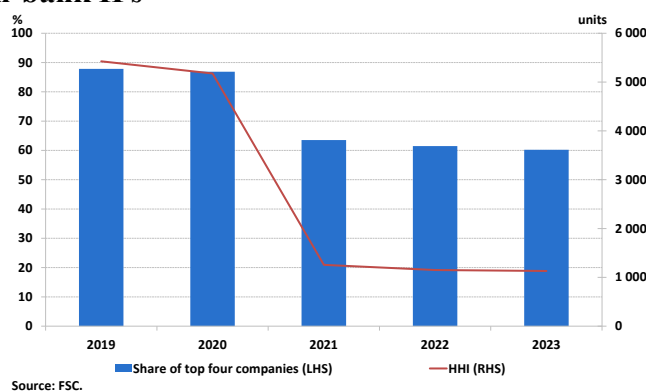
bank investment firms as moderately concentrated.

⁸IF Elana Trading AD, IF First Financial Brokerage House EOOD, IF Euro-Finance AD and IF Sofia International Securities AD.

⁹ The Herfindahl-Hirschman Index (HHI) is calculated as the sum of the squares of the market share of each market participant, with its value varying between 0 and 10,000.

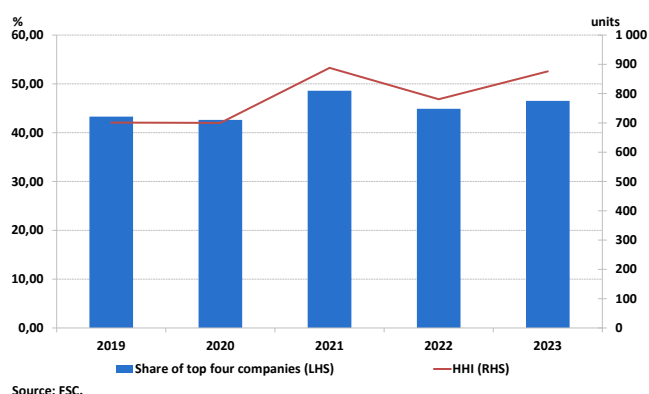
For a value of less than 1000 units, the market is defined as highly competitive, between 1000 and 1800 units – as moderately competitive environment, and more than 1800 units – the market is characterized by strong concentration.

Graph 54. Concentration on the market of non-bank IFs



The market concentration of the services offered by the management companies in 2023 is increasing compared to the previous year. The four management companies with the largest relative share in the managed assets hold 46.5% of the total amount¹⁰. The value of the Herfindahl-Hirschman Index (HHI) on the market of management companies, calculated on the basis of managed assets, increases by 95 units to the level of 876 units in the direction of increasing concentration in the sector. The market segment continues to be characterized as highly competitive.

Graph 55. Concentration on the market of MCs

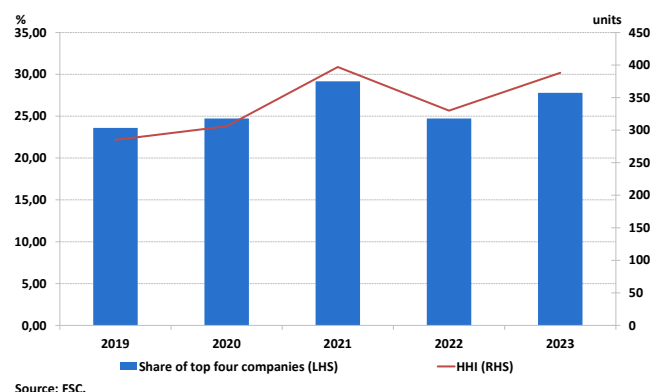


¹⁰KBC Asset management NV, MC Compass Invest AD, MC Concord Asset Management EAD and MC Expat Asset Management EAD.

¹¹MF UBB Platinum Bulgaria, MF UBB ExpertEase Defensive Balanced (EUR) , MF DSK Standard and MF Conconrd fund -2 units.

The market for collective investment schemes is defined as highly competitive. The trend of gradual increase of the concentration in the segment picked up in 2023, and an increase is observed both in relation to the Herfindahl-Hirschman index (HHI) and in the share of the first four funds in the total assets. The change in the Herfindahl-Hirschman Index (HHI) is 58 units, increasing to 388 units at the end of 2023 compared to 330 units at the end of 2022. The share of the first four funds¹¹ calculated on the basis of balance sheet assets increases respectively to 27.8% at the end of 2023, from 24.7% at the end of 2022.

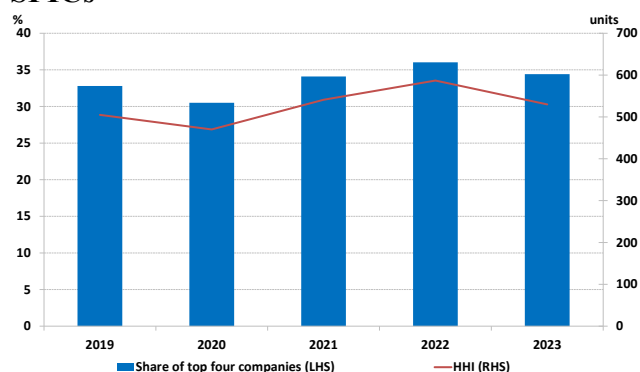
Graph 56. Concentration on the market of CIFS (MF and ETF)



The segment of special purpose investment companies remained highly competitive at a Herfindal-Hirschman index (HHI) of 530 units, which was 57 units under the value of the 2022 indicator. Similar dynamics was observed in the change in the share of the first four companies¹², which decreased to 34.4% from 36.0% at the end of 2022, and the market environment of special purpose investment companies remains highly competitive.

¹² Advance Terrafund SPIC, Real Estate Fund Bulgaria SPIC, Fairplay Properties SPIC and Balkan and Sea Properties SPIC.

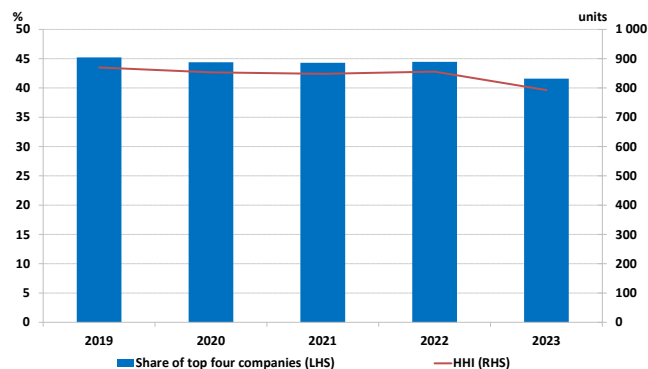
Graph 57. Concentration on the market of SPICs



Source: FSC.

The market of non-life insurance was determined as highly competitive, with the HHI index value decreasing by 63 units in 2023 compared to the previous year and by the end of December 2023 reached 793 units, which is an indicator for decreased concentration. The market share of top four non-life insurance companies, measured in terms of assets,¹³ decreased to 41.6% at the end of 2023 from 44.5% at the end of 2022.

Graph 58. Concentration on the non-life insurance market



Source: FSC.

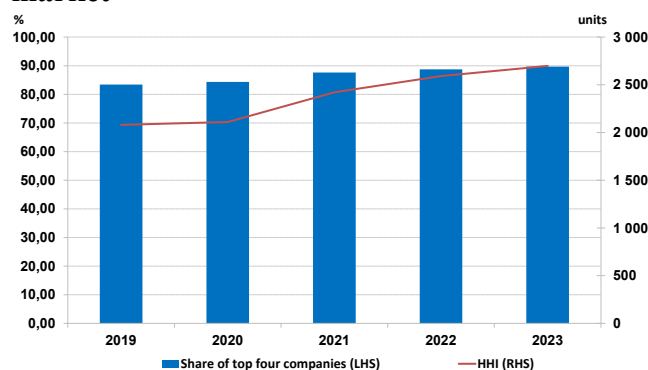
In 2023, the life insurance services market continues to be characterized by a highly concentrated competitive environment that is deepening. At the end of 2023, the curve of the Herfindahl-Hirschman index (HHI) marks 2,698 units, which is 106 units difference compared to

¹³These are Bulstrad Vienna Insurance Group AD, Euroins AD, DZI - General Insurance and Lev Ins AD.

¹⁴DZI-Life Insurance EAD, IC Allianz Bulgaria-Life AD, Grave Bulgaria Life Insurance EAD and IC Bulstrad Vienna Insurance Group AD.

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 assets¹⁴ reaches a historically highest level and at the end of the fourth quarter of 2023 reaches a level of 89.7%.

Graph 59. Concentration on the life insurance market



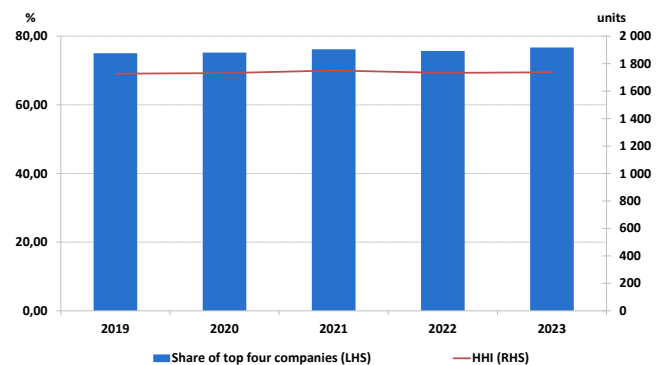
Source: FSC.

In end of 2023, the share of the first four companies¹⁵ on the market of pension insurance services, according to their balance sheet assets, increased by 1.0 p.p. to 76.71%, compared to 75.69% for the previous year. Among the first four PICs, an increase of 0.90 p.p. was reported by the fourth most significant company PIC DSK - RODINA AD, whose share reached 20.2%, followed by the fourth most significant PIC UBB, which increased its share to 11.37%. The companies with the largest decline by the end of 2023, respectively of -0.7 p.p. and -0.6 p.p., are PIC Saglasie AD and PIC Allianz" AD. Their shares reached 0.09% and 20.5%, respectively. As a consequence of this result, the shares of PIC Allianz and PIC DSK-Rodina AD are almost equal. At the end of 2023, the HHI index reported a growth, reaching a value of 1,737 units, compared to 1,733 at the end of 2022, indicating a slightly higher concentration over the past twelve

¹⁵PIC Doverie AD, PIC Allianz Bulgaria AD, PIC DSK – Rodina AD and PIC UBB AD.

months. Nevertheless, the market for pension insurance services continues to be characterized as moderately competitive.

Graph 60. Concentration of the social insurance market



2.1. Review of risks and main market trends

The world economy has multidirectional dynamics in 2023. GDP growth in EU slows to 0.6% in 2023, from 3.6% in 2022, while in emerging markets and developing economies in Europe accelerates to 3.2%, from 1.2% over the same period. The main factors having a negative impact are the residual effect of the COVID-19 pandemic on the global economy, the war in Ukraine, the energy crisis, etc.

Most capital markets globally are reporting growth in 2023, driven by slowing inflation and expectations of a future decline in interest rates. Stock market movements in Asia have mixed dynamics, with Japan's NIKKEI225 increasing by 22.5%, and China's SSE COMP decreasing by -8.6% due to significant issues in the property sector, additional government regulations in the technology sector, etc.

In 2023, Bulgarian economy reported growth of only 0.8%. Despite economic fluctuations related to the war in Ukraine and Israel, inflation in the country is declining. According to preliminary data for 2023, GDP amounts to 183.7 billion BGN. The main factor of economic growth is domestic demand, which contributes 3.0 p.p. Investments made a negative contribution of -4.2 p.p. Net exports grew in real terms, contributing 3.0 p.p. to GDP growth. Trade, repair of motor vehicles and motorcycles; transport, storage and post; hotels and restaurants; and electricity generation and distribution all grew, contributing a total of 0.6 p.p. to the growth of the Bulgarian economy and accounting for 78% of the total growth. Household spending in 2023 grows at a slower rate relative to their income, consumer confidence in the year rises relative to 2022, but still remains at low levels at the end of 2023. Supporting the indicator are consumers' unemployment expectations, which are highly elevated.

The volume of foreign direct investment in Bulgaria amounts to EUR 3 619.1 million, which is EUR 988.0 million more than the previous year. In 2023, the country's gross external debt increased by 2.6% year-on-year, reaching EUR 45.4 billion at the end of the year or 48.3% of GDP. Banks' credit exposures to the private non-financial sector are growing, with households growing at an average annual rate of 11.1% compared to 12.2% in 2022. After reaching 13% in 2022, the average annual value of consumer price inflation is at 8.7% in 2023, reaching 5.0% year-on-year as of December. In 2023, house price and rent increases are rising at a slower rate compared to the previous year. The housing price index increased its rate of change year-on-year, and reaches 8.4% on average for 2023, compared to 6.4 for 2022. The trend in rental prices follows the same dynamic, the index increased to 6.4% in 2023 compared to 6.0% for 2022.

The segment of management companies/alternative investment fund managers¹⁶, reports 2023 with assets under management in the amount of BGN 3.9 billion and 23.3% growth year-on-year. The weighted average return for the last 12 months of most fund categories is positive, ranging from 3.6% to 11.7%. 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 fire sales. Should credit risk materialize, the stress in the funds sector could spill over broadly to other parts of the financial system and the wider economy, but given the sector's low relative share of financial sector assets (1.4%), the effect would be limited.

The dynamics of market indices in 2023 are characterised by a steady rise amid global growth concerns, strong inflationary pressures and restrictive monetary policy. The leading index SOFIX grew by 27.2% to 765.12 points and the broader BGBX40 rose by 13.3% to 157.87 points. The weighted BGTR30 ended the year up 9.3% to 799.44 points, and the sectoral BGREIT posted an annual growth of 3.9% and ended the year at 190.30 points. The turnover of all markets of BSE AD¹⁷ marked an annual decline of -21.9% or BGN 220.1 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 34.8% of the total turnover during the year. The market capitalization of the stock exchange decreased by -48.6% year-on-year, the contribution of the Alternative market was -52.7 p.p., while the Main market and the Beam growth market limited the decrease with 3.8 and 0.4 p.p. each.

Risks to financial stability in the insurance sector remain high in 2023 due to a challenging macroeconomic environment, significant financial market volatility and high geopolitical uncertainty. Weak economic growth prospects, high inflation in combination with higher interest rates have a generally dampening impact on investment and household consumption decisions. Moreover, the war in Ukraine and the rise of tensions in the Middle East in the second half of 2023 have further increased geopolitical uncertainty. A further escalation of geopolitical tensions could act as a trigger, potentially exposing vulnerabilities and risks to financial stability.

It is hard to overstate the importance of the changing interest rate environment for insurers, especially life insurers. Insurers are large holders of fixed income instruments. In the longer term, higher interest rates are positive for them as funds can be invested with higher returns. In the meantime, insurers need to cover significant losses on their existing fixed income investments.

The changing interest rate environment also affects the competitive position of traditional life insurance business. New customers may decide to buy non-insurance investment products instead of life insurers' offerings with their existing portfolios of low yielding bonds. Existing policyholders can surrender their contracts.

The second large shift in 2023 is the return of inflation. After a long period of moderate price increases, it has reached levels not seen in decades. Higher prices mean increased costs for claims as well as for insurers' operations. The 24.1% increase in gross written non-life insurance premiums in 2023 could not offset the growth in claims and expenses, so the gross combined ratio increases.

Lower growth prospects and higher interest rates also affect the value of risky assets like equities, real estate and corporate bonds. A bright spot in all the uncertainty is insurers' solvency positions which

¹⁶ This amount includes the assets managed by MCs/AIFMs of clients under trust management of portfolios and managed assets of CIS.

¹⁷ Includes turnover on Main Market, Alternative Market, BEAM Growth Market and BSE International.

allow them to take loss. Solvency remained stable and increased compared to 2022. Life insurers improved their Solvency Capital Requirement (SCR) ratio in the whole year, with the average increasing from 232% in the first quarter of 2023 to 254% in the end of the year.

In these conditions the investments of all insurers in the Republic of Bulgaria (based on the quarterly reports for the fourth quarter of 2023 received by the Financial Supervision Commission (FSC) in accordance with Commission Implementing Regulation 2023/894 (Solvency II) and included data on insurers with headquarters in the Republic of Bulgaria which have the right to access the single market) grow on an annual basis. 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 54.8%, and life insurers to up to 42.4%. The trend of recent years for a decrease in exposures in bank deposits in life insurers is deepening, as their share decreases to 0.1% of their investments, while in non-life insurance companies they increase their share and reach 9.1% of investments. Investments in real estate (other than for own use) of non-life insurers declined, while life insurers maintained their share.

For insurers, the risks associated with digitization are also heightened, with cyber security the predominant concern. Geopolitical instability and uncertainty, along with the increased use of digitization, increase the vulnerability of the insurance sector to these risks. Furthermore, there is a growing awareness that new technologies used by insurers to enhance underwriting, claims and operational management make insurers increasingly dependent on a functioning information system. Insurers that are unable to keep up with digital transformation could lose premium income and market share. The main objective of pension fund asset management in the long run was to increase the value of their assets by achieving return on their investment, in observance of 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 2023, 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 increased its growth rate and at the end of 2023 amounted to 57.9% of the total investment portfolio of SPFs. The share of investments in bonds other than government securities also decreased slightly compared to the previous year and decreased to the level of 8.2% of the total investment portfolio. Due to the lower yield, the value of pension funds' investments in shares, rights and units decreased to 331.16.3% of the total value of their investment portfolio. In an environment of increasing interest rates, investments in bank deposits grew to 1.5% of all investments at the end of the year. The partial stabilization of foreign markets last year, despite the war in Ukraine and in Israel, led to a slight growth in the share of pension funds' investments in financial instruments issued by issuers outside the Republic of Bulgaria, respectively, to 71.7% of their investment portfolio at the end of 2023 compared to 75.0% at the end of 2022. Investments in the country increased to 28.3%. From the beginning of 2023, the annual yield of all types of SPFs began to rise, the trend remained throughout the year, and at the end of 2023, their yield increased several times.

2.2. Analysis of the participants on the capital market

The market capitalization of the Bulgarian Stock Exchange AD dropped by 48.6% in 2023 and amounted to BGN 15.5 billion at the end of the year, which represents 8.4% of GDP ¹⁸(compared to 18.2% in 2022). Financial and insurance activities took first place in terms of turnover during the year with BGN 273.2 million. The assets of non-bank investment firms domiciled in Republic of Bulgaria reported an increase of 20.6% year-on-year and at the end of 2023 amounted to BGN 10.2 billion. In 2023, the assets of special purpose investment companies increased by 7.5% year-on-year and reached BGN 2.2 billion. The assets of collective investment schemes increased by 8.7% compared to the previous year, and at the end of 2023 their assets reached BGN 2.5 billion. Total assets managed by management companies/alternative investment fund managers grew by 23.3% and reached BGN 3.9 billion by the end of the year.

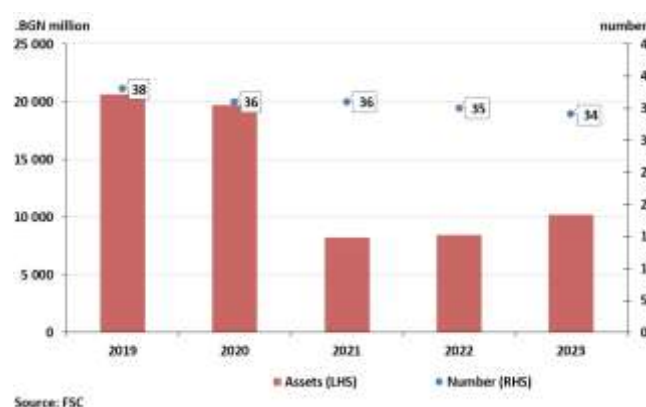
2.2.1. Investment firms¹⁹

By the end of 2023, the number of IFs operating on the territory of the Republic of Bulgaria is 56, of which 19 are banks and 37 are non-bank investment firms. The number of bank investment firms operating on the territory of the country through a branch is 3, and the number of non-bank investment firms operating on the territory of the country through a branch is 3 at the end of 2023.

Depending on the authorizations issued, non-bank IFs were divided into three groups: (1) IFs with full license²⁰, for which the required starting capital is BGN 1,500,000, (2) IFs with a partial license²¹, for which the required starting capital is BGN 250,000 and (3) IFs with a small license²², for which the required starting capital is BGN 100,000. At the end of 2023, 20 IFs with a full license and 14 companies with a partial license were listed in the register of the FSC. In 2023, the license to carry out activities of one non-bank investment firm was

revoked at the request of the company and one change was made to a license to operate as an investment firm of another company.

Graph 61. Dynamics in the number and assets of non-banking IFs



As at the end of 2023, the balance sheet assets²³ of non-bank investment firms was BGN 8.5 billion, which is an increase of 20.6% compared to the end of 2022. Of these, client assets amounted to BGN 10 billion. Client assets grew by 20.9% year-on-year, with the contribution of non-

¹⁸ As of 31.12.2023, according to preliminary data GDP is BGN 183,743 million.

¹⁹ The analysis covers non-banking investment firms based in the Republic of Bulgaria, unless explicitly stated otherwise.

²⁰ They may carry out all the investment services and activities listed in Art. 6, para. 2 of the Markets in Financial Instruments Act (MFIA).

²¹ 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.

²² 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.

²³ The amount of the balance sheet assets included the amount of the contingent assets.

bank investment firms with a full license being 11.5 p.p., and those with a partial license being 9.4 p.p. In 2023, the number of non-bank investment firms with EU direct foreign participation increases by 1, there are no new EU indirect foreign participations in our IFs. In terms of indirect participation from third countries, where is 1 IF with direct participation and 2 IFs with indirect foreign participation from third countries.

Table 48. Number of IFs with foreign ownership

	2022		2022	
	Direct	Indirect	Direct	Indirect
EU ownership	2	3	3	3
Third countries' ownership	1	2	1	2

Source: FSC.

The book value of assets of non-bank investment firms with a full license increased by 20.3% year-on-year to BGN 6.83 billion at the end of 2023 compared to BGN 5.68 billion at the end of 2022, while the assets of non-bank investment firms with a partial license increased by 21.3% during the year to BGN 3.4 billion, compared to BGN 2.8 billion at the end of 2022.

Table 49. Assets, capital stock and equity of non-bank IFs

	2019	2020	2021	2022	2023
IFs with a small licence					
assets	0,3	0,2	0,0	0	0
initial capital	0,1	0,1	0,0	0	0
equity	0,3	0,2	0,0	0	0
IFs with a partial licence					
assets	16 682,9	15 564,0	2 561,2	2 783,9	3 376,6
initial capital	18,6	13,0	13,0	14,3	11,6
equity	28,2	23,6	25,7	26,9	21,3
IFs with a full licence					
assets	3 967,9	4 175,5	5 683,4	5 676,6	6 828,1
initial capital	56,8	53,1	53,6	53,6	56,8
equity	143,2	119,4	156,3	149,5	146,1
Total IFs					
assets	20 651,1	19 739,6	8 244,6	8 460,5	10 204,7
initial capital	75,4	66,2	66,6	67,9	68,4
equity	171,7	143,2	182,0	176,3	167,4

Note: Data are in million BGN,
Source: FSC.

The capital stock of non-bank investment firms increased by 0.8% year-on-year to BGN 68.4 million by the end of 2023. The equity of the

investment firms decreased by -5.0 % year-on-year to BGN 167.4 million at the end of 2023. The main contribution to the annual rate of change in equity is the lower financial result reported by non-bank investment firms during the year.

The market value of the trade and investment portfolio of non-bank investment firms at the end of 2023 is BGN 116.7 million. 12 non-bank investment firms with a market value of BGN 87.4 million have formed a trading portfolio. By the end of the same period 26 investment firms have formed an investment portfolio with a market value of BGN 29.3 million.

As of the end of 2023, 13 non-bank investment firms provide trust portfolio management. The market value of the securities provided for trust management was BGN 48.5 million, and the cash at the end of the period was BGN 2.3 million.

The number of transactions concluded by investment firms in 2023 on all BSE AD markets decreased by -31.0% year-on-year to 65.6 thousand transactions,²⁴ and the traded lots decreased by -11.4% for the same period to 207.0 million lots. The trading activity of the stock exchange members on the markets organized by the BSE, measured by the turnover, marked a drop by -20.8% during the year to BGN 746.0 million at the end of 2023. The first four investment firms by commercial activity have a share of 83.6% of the total turnover realized on all BSE markets during the year.

Table 50. Number of transactions, turnover and volume (lots) of IFs (bank and non-bank) on BSE's regulated market

	2019	2020	2021	2022	2023
Number of transactions	44 167	61 173	85 991	95 072	65 632
Turnover (BGN million)	334	397	814	942	746
Volume (million lots)	181	322	382	234	207

Source: BNB, FSC.

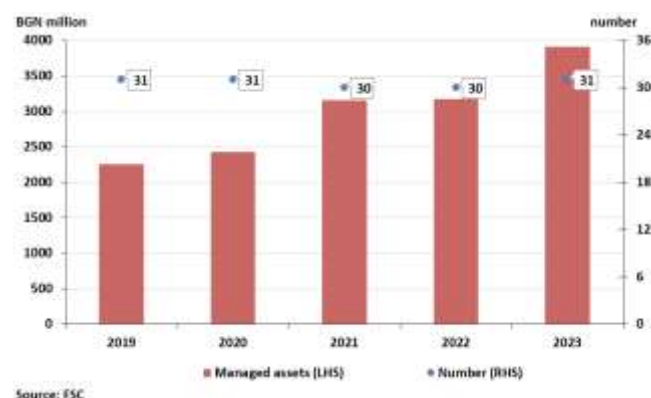
2.2.2. Collective investment undertakings

²⁴ Data on the commercial activity of investment firm TradeGate AD Berlin are not included, since it is not supervised by the FSC.

As of the end of 2023, the number of management companies (MCs) is 30, of which 11 are also alternative investment fund managers (AIFM) well and 1 branch of a MC.²⁵ The total number of registered AIFMs is 25, 11 of them are also management companies. The number of the undertakings for collective investment is 140 at the end of the year. Of these, 108 are mutual funds, one of which manages 16 sub-funds; 13 exchange-traded funds (ETF) and 32 alternative investment funds (AIF), of which 14 are national investment funds (NIFs) and 2 exchange-traded NIFs.

The amount of assets managed by management companies increased in absolute terms by BGN 737.6 million and by the end of the year it reached BGN 3.9 billion,²⁶ which is 23.3% annual growth. Of them, BGN 1.0 billion are the managed assets of clients in trust portfolio management and BGN 2.5 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 2023, 23 AIFs are registered in the FSC registers, of which 2 are exchange-traded NIF, and 14 national investment funds, whose assets amount to BGN 617.0 million.

As of 31.12.2023, the number of collective investment schemes (CIS) is 108, and the amount

of their balance sheet assets reached BGN 2.531 billion. (ofwhich net assets are BGN 2.526 billion), or the increase of balance sheet assets is 8.7% compared to the previous year.

Graph 63. Dynamics in the number and assets of non-bank IFs



In 2023, the number of mutual funds of foreign collective investment schemes increased by 6 and at the end of 2023 they were 62.

Table 51. Dynamics of the number of foreign CISs

	2019	2020	2021	2022	2023
Mutual funds - foreign CISs	46	49	56	56	62

Source: FSC.

The value of the assets accumulated by CIS in 2023 reached BGN 2.5 billion, marking a growth of 8.7%. The largest contribution to the increase of assets is the Financial assets and instruments balance sheet item, which grew 9.9% year-on-year and reached BGN 2.4 billion. The balance sheet item Cash decreased to BGN 79.0 million for the year and has -1.7 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.

²⁵Branch of KBC Asset Management NV, Belgium.

²⁶ This amount includes the assets managed by the branch of KBC Asset Management NV, Belgium.

Table 52 of the CISs' assets

	#	2019	2020	2021	2022	2023
Cash	#	209,6	171,7	148,8	119,0	79,0
Time deposits	#	96,9	58,6	36,5	31,1	25,6
Financial instruments incl.	#	1 465,3	1 562,6	2 296,3	2 195,8	2 413,4
Shares	#	704,7	774,3	1 429,9	1 410,3	1 734,4
Rights	#	0,0	0,0	0,0	0,0	0,0
Debt	#	587,4	611,8	603,8	524,0	510,4
Others	#	10,8	10,6	17,8	35,4	39,5
Money market instruments	#	0,0	0,0	0,0	0,0	0,0
CIS units	#	159,1	163,4	241,3	223,8	126,1
Derivatives	#	0,5	0,3	0,7	0,4	2,3
Other financial instruments	#	2,9	2,0	2,7	1,9	0,7
Non-financial assets (receivables)	#	14,2	16,2	8,9	9,1	24,7
Others	#	0,0	0,0	0,1	4,4	13,8
TOTAL	#	1 689,2	1 750,5	2 454,0	2 328,2	2 531,0

Note: Data is in BGN million, unless stated otherwise

Source: FSC.

In 2023, the relative share of the Cash balance sheet item in the total structure of assets continued to decline, reaching 3.1% 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 95.4% from 94.3% at the end of the previous year. Of this group of assets, the balance sheet item Equities increased its share to 68.5% at the end of the year on account of a decrease in the shares of the items Debt securities and CIS units. The Non-financial assets item, most of which are receivables, increased both in absolute and relative terms and in the general structure of CIS assets.

Table 53 structure of CISs' assets

	#	2019	2020	2021	2022	2023
Cash		12,4	9,8	6,1	5,1	3,1
Time deposits		5,7	3,3	1,5	1,3	1,0
Financial assets and instruments incl.		86,7	89,3	93,6	94,3	95,4
Shares		41,7	44,2	58,3	60,6	68,5
Rights		0,0	0,0	0,0	0,0	0,0
Debt		34,8	35,0	24,6	22,5	20,2
Others			0,6	0,7	1,5	1,6
CIS units		9,4	9,3	9,8	9,6	5,0
Money market instruments		0,0	0,0	0,0	0,0	0,0
Derivatives		0,0	0,0	0,0	0,0	0,1
Other financial instruments		0,2	0,1	0,1	0,1	0,0
Non-financial assets (receivables)		0,8	0,9	0,4	0,4	1,0
Others		0,0	0,0	0,0	0,2	0,5
TOTAL		100,0	100,0	100,0	100,0	100,0

Note: Data is in%, unless stated otherwise

Source: FSC.

Collective investment schemes are the preferred investment alternative in the context of global uncertainty and in the search for higher yield

²⁷The return is weighted by the value of the net assets of the individual CISs with the same risk profile.

²⁸ 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.

by investors. For the last 12 months the weighted return average ²⁷ realized from groups of risk profiles from 2 to 5 is positive. At end of the year the highest weighted return average for the previous 12 months was realized by the risk profile 4 funds (11.7%) (scale from 1 to 7),²⁸ followed by the funds in category profile 3 (5.8%). Mutual funds with risk profiles of categories 2 and 5 report 5.6% and 5.8% returns, respectively, for the last 12 months. The realized return by CISs with risk profile 6 and 7 is negative for the last twelve months.²⁹

Graph 64. Weighted average yield of CISs

2.2.3. Special Purpose Investment Companies

At the end of 2023, the total number of licensed special investment purpose companies (SPICs) is 49³⁰, of which 40 invest in real estate and agricultural land, and the remaining 9 invest in receivables. The total value of the assets of all special purpose vehicles increased by 7.5% compared to the previous year 2022. The amount of assets of these companies at the end of 2023 amounted to BGN 2.2 billion or 1.2% of GDP. The contribution of the two categories of SPICs in the total growth of assets is positive, as for the

²⁹ There is only one mutual fund in category 7.

³⁰ The number of SPICs presented did not include companies the license of which had been revoked as at 31.12.2023.

investors in real estate it is 6.4 p.p., and that of SPICs for securitization of debt claims is 1.1 p.p.

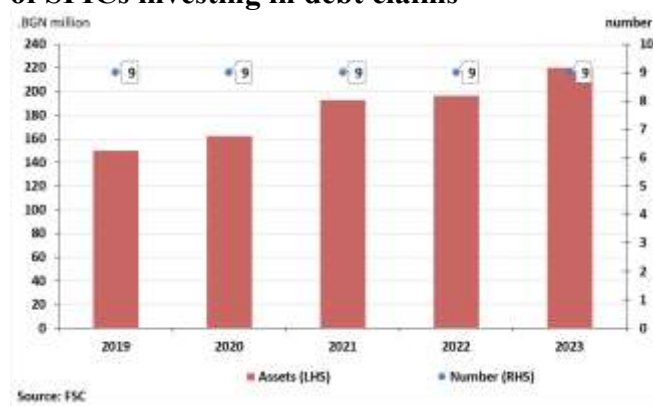
The amount of assets of SPICs investing in real estate and agricultural land increased by 7.0% in 2023 and by the end of the year reached BGN 2.0 billion. At the same time, the number of companies in the segment decreased to 40 SPICs compared to the previous year.

Graph 65. Dynamics in the number and assets of SPICs investing of real estate and agricultural land



In 2023, the amount of accumulated assets of SPICs investing in debt claims increased by 11.9% compared to 2022 and by the end of the year reached BGN 219.7 million. The number of companies in the segment remains at 9 SPICs.

Graph 66. 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 133.2 million in absolute value. The change in the main item “Investment properties” was 5.4%, and their book value reached BGN 1.5 billion with a contribution of 3.9 p.p. in the change in assets. The

book value of the “Financial assets” item increased to BGN 107.5 million and contributed by 2.1 p.p. in the change in assets. The balance sheet item “Receivables” increased marginally to BGN 226.9 million at the end of 2023. Assets classified as “Other” increased to BGN 169.6 million during the year and contributed 2.2 p.p. to the total change in assets. An opposite dynamic is observed in “Cash”, which at the end of the year decreased to BGN 61.6 million and limited asset growth by a total of -1.3 p.p.

Table 54 of SPICs investing in real estates and agricultural land

	#	2019	2020	2021	2022	2023
Investment properties	#	1 227,6	1 236,6	1 203,3	1 384,1	1 458,2
Financial assets	#	7,6	77,6	52,0	67,0	107,5
Cash balances	#	74,3	82,2	96,5	86,6	61,6
Receivables	#	191,4	181,8	174,8	224,4	226,9
Others	#	146,8	123,4	187,9	128,5	169,6
TOTAL	#	1 647,6	1 701,6	1 714,5	1 890,5	2 023,7

Note: Data is in BGN million, unless stated otherwise

Source: FSC.

In 2023, 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 shrunk to 72.1% at the end of 2023 from 73.2% at the end of 2022. The share of the balance sheet item Financial assets grew to 5.3% in the total structure of assets compared to 3.5% at the end of the previous year. A decline was observed in the relative share of cash, which decreased to 3.0% in the relative asset structure. The share of receivables shrinks marginally to 11.2% and the share of assets classified as “Other” increases to 8.4% by the end of 2023.

Table 55. Relative structure of the assets of SPICs, investing in real estates and agricultural land

	#	2019	2020	2021	2022	2023
Investment properties	#	74,5	72,7	70,2	73,2	72,1
Financial assets	#	0,5	4,5	3,0	3,5	5,3
Cash balances	#	4,5	4,8	5,6	4,6	3,0
Receivables	#	11,6	10,7	10,2	11,9	11,2
Others	#	8,9	7,3	11,0	6,8	8,4
TOTAL	#	100,0	100,0	100,0	100,0	100,0

Note: Data is in%, unless stated otherwise

Source: FSC.

The assets of SPICs investing in debt claims increased by 11.9% in 2023, reaching BGN 219.7 million at the end of the year. The balance sheet

value of the main item Receivables (up to 1 year) increased, reaching BGN 146.8 million, compared to BGN 113.2 million at the end of the previous year. The balance sheet value of the Receivables (over 1 year) item increased during the period, reaching BGN 12.7 million. The decrease in financial assets had a limiting contribution to the change in assets of the companies from the segment, their book value dropping to 54.4 million at the end of the year..

Table 56. Assets of SPICs performing securitization of receivables

	#	2019	2020	2021	2022	2023
Financial assets	#	6,2	12,4	74,4	75,0	54,4
Cash balances	#	1,9	2,2	3,8	1,5	1,0
Receivables (up to 1 year)	#	117,9	134,5	106,8	113,2	146,8
Receivables (Over 1 year)	#	24,0	12,7	7,3	6,2	12,7
Others	#	0,0	0,5	0,4	0,3	4,8
TOTAL	#	150,0	162,3	192,7	196,2	219,7

Note: Data is in BGN million, unless stated otherwise
Source: FSC.

In 2023, the relative asset structure of SPICs investing in receivables is unchanged from the previous year, with the share of receivables (up to 1 year and over 1 year) increasing to 66.8% and 5.8%, respectively, at the expense of a decrease in the share of financial assets.

Table 57. Relative structure of the assets of SPICs investing in debt claims

	#	2019	2020	2021	2022	2023
Financial assets	#	4,2	7,6	38,6	38,2	24,8
Cash balances	#	1,3	1,4	2,0	0,8	0,5
Receivables (up to 1 year)	#	78,6	82,9	55,4	57,7	66,8
Receivables (Over 1 year)	#	16,0	7,8	3,8	3,1	5,8
Others	#	0,0	0,3	0,2	0,2	2,2
TOTAL	#	100,0	100,0	100,0	100,0	100,0

Note: Data is in%, unless stated otherwise
Source: FSC.

As of 31.12.2023, the SPICs core capital amounted to BGN 555.4 million, which represents growth of 1.0% compared to the previous year. The main reason for the growth was the capital increase realized during the year by two real estate investment companies through the exercise of warrants and rights. The amount of the registered 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 1.4 billion.

Table 58. SPICs registered capital and equity

	Fixed capital		Equity	
	2022	2023	2022	2023
SPICs investing in real estate, including agricultural land	536,5	542,3	1 237,9	1 300,1
SPICs investing in receivables	13,1	13,1	82,4	85,9
TOTAL for SPICs	549,7	555,4	1 320,3	1 386,0
<i>Change (%)</i>		1,0		5,0

Note: Data is in BGN million, 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, 94.4% at the end of the year, calculated on the basis of the nominal value of the shares. The relative share of the Equity and Holding Companies sector shrinks to 40.0%, but remains the largest investor in SPICs by the end of 2023. Bulgarian households hold 25.7% of the share capital of all SPICs, followed by insurance companies and pension funds, whose share increased by 1.2 p.p. overall over the year to 15.2%. Financial intermediaries and bank institutions hold respectively 9.3% and 4.1% of the nominal value of the share capital of SPICs.

Legal and natural persons from the EU that own shares in SPICs keep their relative share compared to 2022 at 3.3%.

The shares of SPIC shares held by individuals and legal entities from third countries also retained their share at the end of 2023, which is 2.2%.

The relative share of US investors in the share capital of Bulgarian SPICs, remained at 0.1% at the end of 2023.

Table 59. Shareholders structure of SPICs

	2022	2023
Households	24,4	25,7
Banks	3,8	4,1
Public sector	0,1	0,1
Insurance companies and pension funds	14,0	15,2
Financial intermediaries excluding ICs and PFs	8,6	9,3
Joint stock and holding companies	43,5	40,0
Bulgaria	94,4	94,4
EU households	0,8	0,8
EU Legal entities	2,5	2,5
EU	3,3	3,3
Third country households	0,1	0,1
Third country legal entities	2,1	2,1
Third countries	2,2	2,2
US households	0,0	0,0
US Legal entities	0,1	0,1
USA	0,1	0,1
TOTAL	100,0	100,0

Note: Data is in %, unless stated otherwise The relative shareholding of the shareholder groups has been calculated based on the nominal value of the shares.

2.2.4. Public companies and bond issuers

The number of public companies and issuers at the end of 2023 is 234, with a net increase of 2 companies each during the year.

The examined prospectuses for initial public offering in 2023 are 12, of which 6 were of public companies other than SPICs, 2 shares of SPICs, 2 warrant issues and 2 bond issues. The total value of the approved issues is BGN 276.2 million. (of which the actual amount collected is BGN 89.5 million), which is a growth of 70.8% year-on-year. The prospectuses for admission to trading on a regulated market confirmed in 2023 are 19 issues of bonds, with an issue value of the confirmed issues of BGN 488.7 million.

The considered tender offers with a decision not to issue a final ban on publication in 2023 are 7, decreasing by 5 compared to the previous year. There is a significant decrease in turnover, amounting to BGN 32.1 million. (compared to BGN 192.8 million in the previous year). The number of considered tender offers without a final ban is a total of 7, of which the shares acquired as a result of the tender offers are worth BGN 289.4 million.

Table 60. Reviewed prospectuses and tender offers

	2019	2020	2021	2022	2023
Prospectuses for initial public offering (no.)	20	19	21	6	12
Issue amount (million BGN)*	306,0	420,6	311,5	161,7	276,2
Decisions to refuse to issue a final ban to publish a tender offer (no.)	9	6	13	12	7
Turnover**	4,5	8,7	762,0	192,8	32,1

Note: Data is in BGN million, unless stated otherwise * The issue amount is the value of the approved issues as per the prospectuses reviewed for the relevant year. ** Turnover includes the proposed number of units in tender offers that have not been permanently banned or terminated.

Source: FSC.

The market capitalization of the first ten companies on the Main Market drew by BGN 1.4 billion in 2023, and their relative share represents 41.2% 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 11.0% compared to the previous year, as the company has a 9.7% relative share of the total market capitalization on the BFB. Sopharma AD maintains its second place as the market capitalization of the company increases by 64.2% and has a 6.4% relative share of the total market capitalization. Shelly Group AD had the highest reported annual growth in market capitalization, which increased by 129.3%, moving the company to third position in the ranking of the top ten public companies. Despite the reported growth of 33.3% in the market capitalization of Speedy AD, the company drops from third to fourth position, with a relative share of 4,7% of the total market capitalization of the stock exchange. The market capitalization of M+C Hydraulic AD increased by 28.5% during the year, and the company took fifth place in the ranking. Eurohold Bulgaria AD moved from fourth to sixth position due to decrease of the company's market capitalization by -5.6% during the year. In 2023, the market capitalization of TB First Investment Bank AD increased by 47.6% and the company moved from ninth to seventh place. In the ranking of the leading companies on the BSE, Gradus AD is in eighth place, with market capitalization that grew by 3.4% during the year. Velgraf Asset

Management reports a growth in market capitalization by 2.7%, but the company moves down one position to ninth place. In 2023, Holding Varna AD, whose market capitalization grew by 0.9% year-on-year, is again in the tenth position. The difference between the first and the last public company by market capitalization is BGN 1.2 billion.

Table 61. Top 10 public companies by market capitalization on the main market

	2022		2023
Tchaikapharma High Quality Medicines AD	1 360,5	Tchaikapharma High Quality Medicines AD	1 509,6
Sopharma AD	601,2	Sopharma AD	987,2
Speedy AD	548,5	Shelly Group EAD	850,2
Eurohold Bulgaria AD	468,9	Speedy AD	731,4
Shelly Group EAD	370,8	M+S Hydraulics AD	453,6
Gradus AD	353,2	Eurohold Bulgaria AD	442,9
M+S Hydraulics AD	353,0	First Investment Bank AD	435,3
Velgraf Asset Management AD	311,8	Gradus AD	365,4
First Investment Bank AD	296,7	Velgraf Asset Management AD	320,1
Holding Varna AD	281,5	Holding Varna AD	284,1
	4 946,1		6 379,7

Note: Data is in BGN million, unless stated otherwise
Source: BSE.

In the structure of trade of the first ten leading sectors of Bulgarian Stock Exchange AD for 2023, Financial and Insurance Activities occupied the first place with a turnover of BGN 273.2 million and a relative share in the total turnover of 60.2%. The next sector is Real estate operations, which reports BGN 61.8 million and has a 13.6% relative share. Professional activities and research generated a turnover of 52.5 million BGN and had a relative share of 11.6%. The Processing Industry sector has an annual turnover of BGN 42.9 million and 9.5% share in the structure of trade on the main market of BSE AD.

Table 62. Trade structure by Top 10 sectors on BSE in 2023

Sector	Transactions (thousands)	Volume (million lots)	Turnover (BGN million)
Financial and insurance activities	33,3	65,2	273,2
Real estate transactions	1,5	13,0	61,8
Professional activities and research	7,4	12,4	52,5
Manufacturing	13,0	8,4	42,9
Creation and Distribution of Information and Creative Products, Telecommunications	0,5	1,1	8,4
Trade, repair of motor vehicles and motorcycles	2,2	3,2	7,0
Production and distribution of heat, energy and gaseous fuels	0,1	1,4	3,9
Culture, sport and entertainment	1,1	0,1	1,9
Transport, storage and postal services	0,4	0,1	1,0
Construction	0,2	0,2	0,9

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 2023, Bulgarian residents hold 91.6% of the share capital of public companies, calculated on the basis of issued equity instruments at nominal value. The share of third-country households and legal entities shrinks to 1.2% in 2023, from 41.8% at the end of the previous year. Households and legal entities resident in the EU have a share of 6.0%, while the share of individuals and legal entities from the USA is 1.2%.

The internal structure of the shares of the Bulgarian investors in the share capital of public companies also changed compared to the previous year. The main Bulgarian shareholder remains joint-stock and holding companies with a share of 48.7% compared to 26.9% at the end of the previous year. Households increased their relative share to 18.9%, followed by insurance companies and pension funds with a share of 11.0%. The share of banks as an institutional investor in public companies increased to 6.3% by the end of 2023.

Table 63. Shareholders structure of PCs

	2022	2023
Households	14,2	18,9
Banks	3,0	6,3
Public sector	0,1	0,2
Insurance companies and pension funds	7,0	11,0
Financial intermediaries excluding ICs and PFs	3,7	6,5
Joint stock and holding companies	26,9	48,7
Bulgaria	54,9	91,6
EU households	0,2	0,4
EU Legal entities	2,4	5,6
EU	2,6	6,0
Third country households	0,4	0,1
Third country legal entities	41,4	1,1
Third countries	41,8	1,2
US households	0,0	0,0
US Legal entities	0,7	1,2
USA	0,7	1,2
TOTAL	100,0	100,0

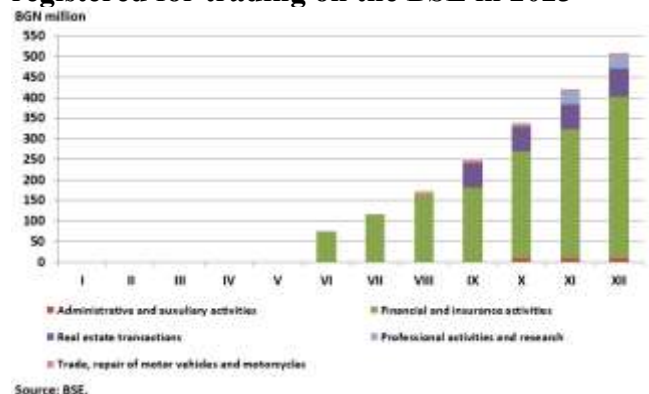
Note: Data is in%, unless stated otherwise The relative shareholding of the shareholder groups has been calculated based on the nominal value of the shares.

Source: CD, FSC

In 2023, 19 issues of corporate bonds with a nominal value of BGN 508.3 million were listed for trading on a regulated market. Of them 13 issues with a nominal value of BGN 391.9 million

were issued by the Financial and Insurance Activities sector, which accounts for 78.2% of the total corporate bond debt traded on the BSE. Three issues with a nominal value of BGN 68.6 million were issued by companies from the Real Estate Operations industry. One issue each of bonds issued by the "Professional activities and research" sector with a nominal value of BGN 28 million, "Trade; repair of motor vehicles and motorcycles" with a nominal value of BGN 9.8 million and "Administrative and support activities" with a nominal value of BGN 10.0 million.

Graph 67. Amount of cumulative bonds registered for trading on the BSE in 2023



2.2.5. Trading venues

In 2023, the total market capitalization of the markets organized by the Bulgarian Stock Exchange AD decreased by -48.6% compared to the end of 2022 and reached BGN 15.5 billion at the end of the year. The reason for this is the terminated registration of an issue of shares on the Alternative Market, issued by Capital Concept Limited AD, in connection with a decision of the FSC to apply a compulsory administrative measure against BSE AD. The capitalization of the Main market increased by 10.4% year-on-year and reached BGN 12.0 billion, while the Alternative market recorded an annual drop of -83.9% and reached BGN 3.0 billion at the end of the year. The market capitalization of the BEAM growth market (for small and medium enterprises), on which 16 share issues are traded, amounts to BGN 436.4

million. The capitalisation on the Premium equities trading segment on the Main market grew by BGN 1.5 billion and recorded a growth of 92.6%, reaching BGN 3.1 billion at the end of the year. The contribution of this segment to the change of the total market capitalization of BSE AD is 4.9 p.p. The market capitalization of the Standard equities segment on the Main Market shrank by BGN 392.4 million to BGN 7.7 billion, reducing its market capitalization by -4.8%. The contribution of this segment to the total decline of the three markets was negative -1.3 p.p. The capitalization of the Equities segment of the Alternative Market decreased by BGN 15,994 million, reaching BGN 2.6 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 4.1% (BGN 46.4 million) and reached BGN 1.2 billion. The capitalization of the segment for special purpose investment companies on the Alternative Market also recorded growth (22.7%), reaching BGN 416.2 million at the end of 2023.

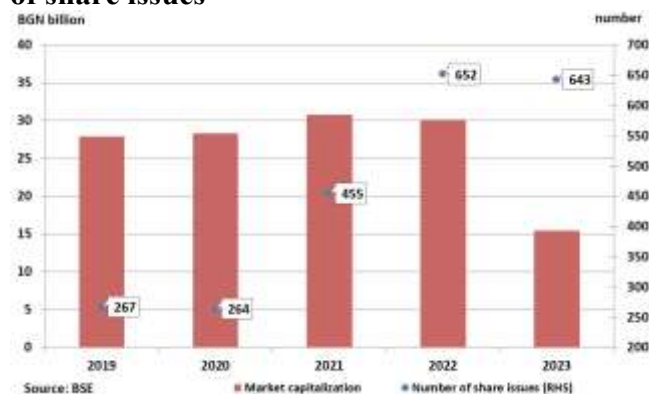
Table 64. Market capitalization

Market or segment	2019	2020	2021	2022	2023
Premium equities segment (Main Market)	1 796,4	1 329,4	1 534,7	1 600,7	3 083,1
Standard equities segment (Main Market)	6 314,9	6 672,0	9 025,6	8 138,4	7 745,9
SPIC segment (Main Market)	786,0	783,3	1 045,0	1 144,8	1 191,2
Equities segment (Alternative Market)	18 590,7	19 041,7	18 562,3	18 622,7	2 628,1
SPIC segment (Alternative Market)	416,5	528,1	335,0	339,2	416,2
BEAM growth market			278,7	330,5	436,4
TOTAL	27 904,5	28 354,5	30 781,3	30 176,3	15 501,0

Note: Market capitalisation is as at the end of the relevant year.
Source: BSE.

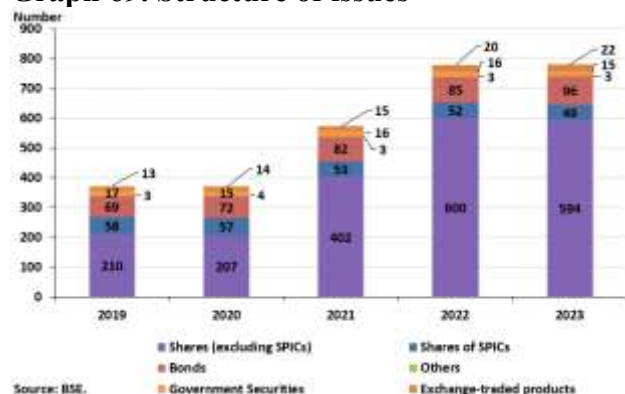
The number of issues of financial instruments admitted to trading on the markets organized by the BSE in 2023 increased by 4 issues net and by the end of the year their number was 779.

Graph 68. Market capitalization and number of share issues



On the stock market (without SPICs) the number of share issues decreased to 594 in 2023 compared to 600 in 2022. In the segment of special purpose investment companies, the number of issues decreases by 3 compared to the end of 2022 and by the end of 2023 their number is 49. The issues of bonds registered on BSE AD increased by 11 in 2023 and by the end of the year their number reached 96. The issues of government securities traded on the segment of government securities trading on the Main market are 15. In the segment for exchange-traded products, 22 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.

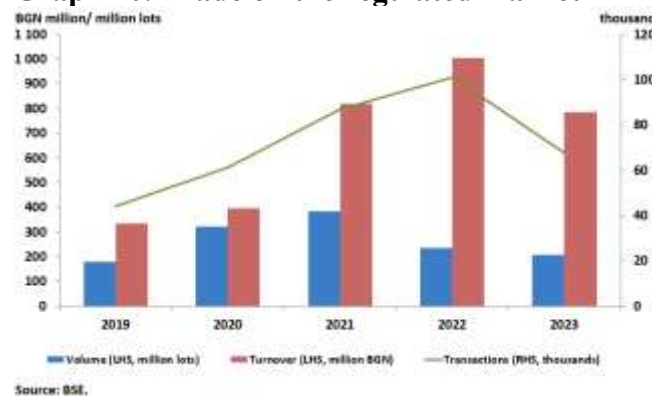
Graph 69. Structure of issues



In 2023, the number of transactions decreased to 67,641 transactions compared to 101,024 transactions in 2022, or a decrease of 33.0% year-on-year. The total number of lots transferred in 2023 was 207.4 million lots, which is -11.4% less than the previous year. Trade on the BSE markets,

measured by realized turnover, ends the year with a drop of -21.9% to BGN 784.2, compared to BGN 1.0 billion in 2022. The average daily turnover on the regulated market in 2023 is BGN 3.2 million, decreasing by -21.9% compared to the previous year. The Standard equities segment on the Main market has a major contribution of -22.7 p.p., followed by the Alternative market equities segment (-5.9 p.p.), the SME BEAM segment (-4.9 p.p.), and the main market SPIC units segment (-2.4 p.p.). The remaining segments have a minimal or growth-limiting contribution to the change of BSE AD's turnover.

Graph 70. Trade on the regulated market



In 2023, all indices of the BSE grew, with the main stock index SOFIX recording a 27.2% increase and reaching 765.12 points at the end of the year. The market capitalization of the companies included in the index grew to BGN 4.7 billion, which is a 31.4% growth year-on-year.

Graph 71. SOFIX market index



Note: The value of indices is the last value for the respective period.

In 2023, the broad stock index BGBX40 reported a growth of 13.3%, ending the year at 157.87 points. The market capitalization of the companies included in the index dropped to BGN 8.4 billion and the annual turnover dropped to BGN 70.3 million from BGN 159.2 million in 2022.

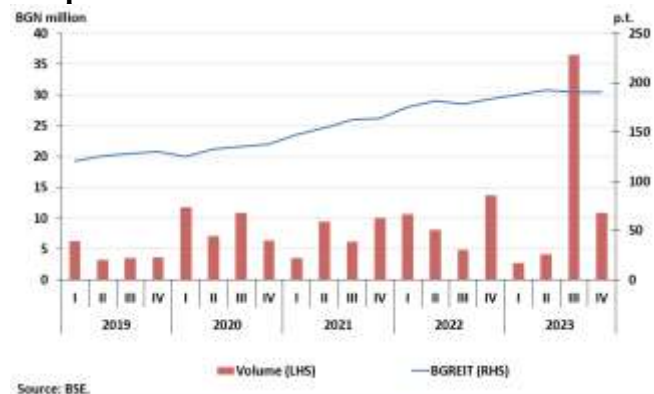
Graph 72. BGBX40 market index



Note: The value of indices is the last value for the respective period.

The BGREIT sector index slowed its growth rate from the previous year. In 2023, it reported an increase of 3.9%, ending the year at 190.30 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 2023, 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 increases to BGN 776.3 million by the end of 2023.

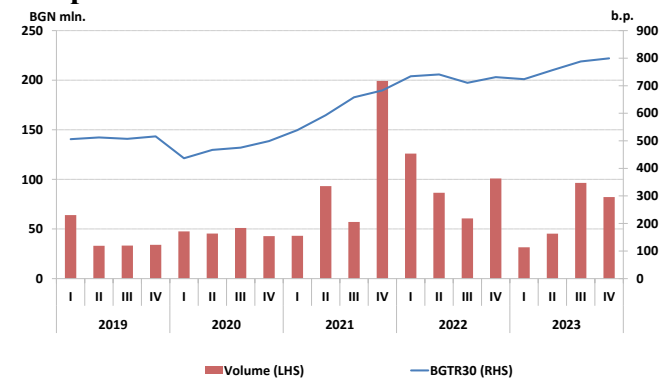
Graph73. BGREIT market index



Note: The value of indices is the last value for the respective period.

The weighted index BGTR30 increased by 9.3% year-on-year and by the end of 2023 it reached 799.44 points. The market capitalization of the companies included in the index grew to BGN 6.6 billion, with decrease in turnover year-on-year.

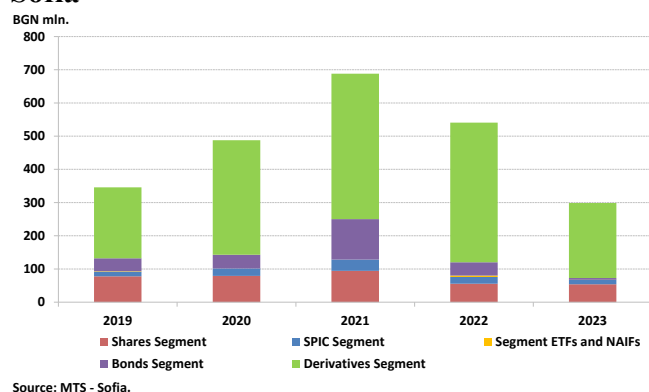
Graph 74. BGTR30 market index



Note: The value of indices is the last value for the respective period.

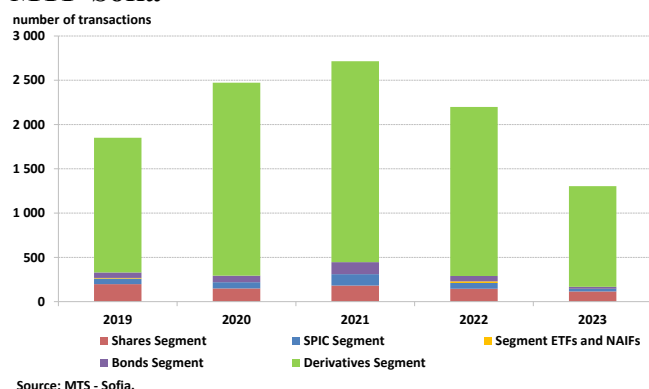
In 2023, the turnover of multilateral trading facility - Sofia (MTF) marked a decline of -44.7%, and instruments worth BGN 298.8 million were traded. The largest contribution (-36.0 p.p.) to this decline was made by the Derivatives segment, which had a turnover of BGN 226.0 million compared to BGN 420.4 million in 2022. It was followed by the Bonds segment, which recorded a turnover of BGN 5.3 million compared to BGN 40.1 million in the previous year 2022. The turnover of the Equities and SPICs segments decreased respectively by -2.8% and -33.8%, reaching BGN 54.1 million and BGN 13.4 million, respectively. Their contribution to the total decrease in turnover of -44.7% is a total of -1.5 p.p.

Graph 75. Dynamics of the turnover of MTF-Sofia



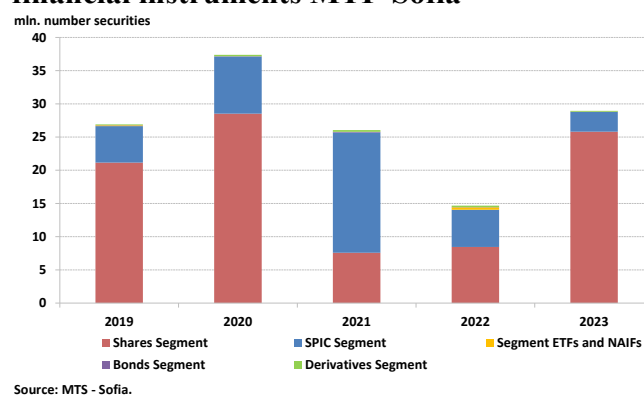
The number of transactions marked an annual decrease of -40.7% and reached 1,304, and the main contribution to this decrease (-35.1 p.p.) is the Derivatives segment, on which 1,137 transactions were concluded during the year.

Graph 76. Number of traded transactions of MTF-Sofia



In 2023, 28.9 million financial instruments were sold compared to 14.7.1 million in the previous year 2022, which is an increase of 97.2%. The main contribution to this increase was made by the Equities segment, in which 25.8 million instruments were traded during the year and contributed by 118.3 p.p. in the annual growth. The remaining trading segments saw a decline in the number of instruments traded and limited the overall growth by -21.1 p.p. in the total growth in the number of financial instruments traded.

Graph 77. Dynamics of the traded number of financial instruments MTF-Sofia



2.2.6. Central securities depository

The total value of the assets of Central Depository AD amounts to BGN 9.4 million by the end of 2023.

For 2023, the total number of completed transactions decreased by 33.0% (a total of 68,485 transfers for 2023, of which 98.8% were executed on the stock exchange). The main contribution of 32.7 p.p. for the drop in the annual rate of change is of the stock exchange transactions, which decrease from 101,023 in 2022 to 67,641 in 2023. The number of transferred securities decreased by 10.7% year-on-year (from 228.2 million to 203.7 million), and transactions with the object of trading compensatory instruments decreased by 14.6% year-on-year (from 499 in 2022 to 426 transactions in 2023). The registered payments with compensatory instruments to state institutions decreased by 9.3% year-on-year to 39 transactions. Inheritance transfers decreased to 1,703 transfers in 2023. Duplicate depository receipts issued increased from 943 in 2022 to 1,660 in 2023. During the year the number of rights transactions decreased from 581 in 2022 to 67 in 2023, while the transferred rights decreases from 47.6 million rights in 2022 to 8.6 million rights in 2023.

In 2023, through the system of Central Depository AD, dividends were paid to 71 companies worth BGN 363 million and 356 payments of interest and principal on bond issues were made with a total amount of BGN 341 million. During the reporting period, 95 companies registered new issues of dematerialized financial instruments (83 companies for 2022), of which 37 issues of shares, 45 issues of bonds, 7 issues of rights and 6 issues of units of mutual funds. Applications for change in the register were submitted by 121 companies. Applications for a change in the capital with the issuance of new shares were submitted by 112 companies, of which 7 issues of rights. Capital increase by changing the nominal value of the shares was registered by 2 companies. The number of applications to obtain extracts from the shareholders' books increased to 3,231 in 2023 from 3,123 in 2022. In 2023, 365 entries were registered in the register of special pledges. Of these, 34 entries on a special pledge, 72 arrests and 257 entries on other circumstances. The entries in the register of financial collateral agreements are 2 in 2023.

2.2.7. Investor Compensation Fund

The main activity of the Investor Compensation Fund (the Fund, ICF) is to protect investors in financial instruments by providing compensation in the event that the investment firm with which they have a contractual relationship is unable to recover their clients' money or financial instruments. The compensation provided by the Fund is 90% of the value of the assets belonging to the investor, but not more than BGN 40 000. In 2023, no circumstances requiring compensation arose from the Fund. Therefore the activity of the Fund during the year was 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; international activity, etc.

As at 31.12.2023 the Fund protects the clients of 34 investment firms (IFs), 16 bank investment firm (B-IFs) and 4 management companies (out of a total of 32), which hold client assets protected by the Fund. In the past year, two participants dropped out of the investor compensation scheme - Aval In, which voluntarily returned its license to operate as an investment firm as of 29.06.2023, and KBC Bank Bulgaria EAD, which reorganized and merged into United Bulgarian Bank AD as of 10.04.2023.

As of 31.12.2023, the participants in the Fund manage client assets subject to compensation worth BGN 6.66 billion, of which cash assets (CA) are BGN 129 million, and financial instruments (FI) – BGN 6.53 billion. Compared to the end of 2022, client assets subject to compensation showed a significant growth of 30,37%, or BGN 1.55 billion in absolute terms. B-IFs continue to manage the most compensable client assets, even though they only declare their clients' FIs.³¹ As at 31.12.2023 B-IFs hold the 74% of compensable client assets, which in absolute value amounts BGN 4.94 billion. Investment firms hold 24% of the compensable client assets and MCs - 2%.

Non-compensable client assets as of 31.12.2023 are BGN 50.3 billion, of which 99.8% are FI. Compared to the end of 2022, client assets not subject to compensation reported a growth of 28.6%, with the increase mainly due to FIs held by IFs and B-IFs, which are respectively BGN 9.4 million and BGN 1.3 billion more year-on-year. The share of compensable client assets in the total amount of all assets (BGN 56.99 billion) managed by the participants is 12%.

³¹ Banks do not provide data on CA to the Fund as they are treated as deposits and fall under the protection of the Bulgarian Deposit Insurance Fund.

In 2023, on average, the Fund's participants hold compensable client FIs worth BGN 5.84 billion per month, up from BGN 5.2 billion in 2022, the highest level since the Fund's inception. The average monthly amount of CAs subject to compensation in 2023 is 142 million BGN, compared to 149 million BGN in 2022.

As of 31.12.2023, the total number of clients who are subject to compensation, for all participants in the Fund (IFs, B-IFs and MCs), is 214,052, or by 22,557 more compared to 31.12.2022, and the estimated exposure of the Fund to the clients of all participants is in the amount of BGN 1.58 billion compared to BGN 1.34 billion as of 31.12.2022.

The funds collected in the Fund as of 31.12.2023 amount to BGN 22.23 million,³² of which 99.7% are invested in government securities, and the rest are held in current accounts, mainly 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 2023 amount to BGN 1.61 million.

At the end of 2023, the Board of Directors of the Fund decided to reduce the amount of the FI contribution for 2024 to 0.020% (compared to 0.025% in 2023), and the amount of the CA contribution for 2024 was preserved at 0.20%. The main motivations for reducing the amount of the FI contribution are, on the one hand, the significant size of the Fund's resources and the low historical frequency of compensation payments, as well as the fact that the Fund's resources would be sufficient to compensate the clients of 90% of its participants.

The MC of the ICF is also responsible for the management of the Investment Firms Resolution Fund (IFRF), which was established in 2017 with the main purpose of financing the implementation of the instruments for rescue and restructuring of problematic investment firms. The funds of IFRF are formed mainly by annual contributions from the investment firms, the amount of which is determined each year by the FSC in its capacity of a resolution body. The total amount of individual annual contributions for 2023 determined by the FSC of the IFTRF participants is BGN 37 thousand. In addition to the annual instalments, 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 31.12.2023, IFRF assets amount to BGN 258 thousand,³³ of which 68% 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 2023, the total number of licensed (re) insurers based in the Republic of Bulgaria is 35, including 24 non-life insurers, 10 life insurance insurers and 1 reinsurer, whose license entitles the company to operate in reinsurance in non-life insurance and in life insurance. Thirty-three(33) companies

³² The amount includes government securities at amortised cost with accrued interest, current account balances and cash on hand.

³³ The amount includes all assets, including government securities reported at amortized cost, accrued coupons, cash on current accounts.

apply Solvency II and are entitled to market access to the European Union and the European Economic Area (Single Market), while the other 2 insurers operate without a single market access.

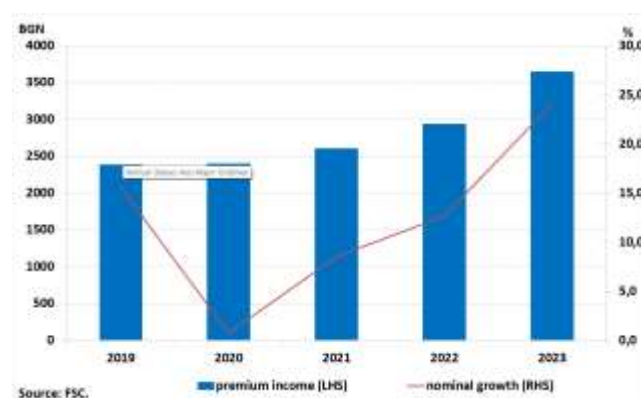
On the basis of the information from the quarterly reports at the end of the fourth quarter of 2023, which included the data for all insurers with headquarters in the Republic of Bulgaria and right to access the single market:³⁴

- the gross premium income as at 31.12.2023 amounted to BGN 4,369 million, recording an increase of 26% year-on-year;
- the Bulgarian insurance market (life and non-life insurance) was allocated in a 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,³⁵ is estimated at 2.38% at the end of 2023 compared to 2.06% at the end of the previous year.
- the insurance density calculated as gross premium income per capita³⁶, increases to BGN 536 at the end of 2022 to BGN 678 at the end of 2023;

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 market, at the end of 2023 amounts to BGN 3,648 million, incl. BGN 3,440 million on direct insurance and BGN 208 million on active reinsurance. The year-on-year increase in gross premium income of 24.1% was mainly attributable to the contribution of premium income from motor insurance, credit and surety insurance, miscellaneous financial loss and legal expenses insurance, medical expenses insurance and premium income from fire and other catastrophe insurance.

Graph 78. Gross premium income in non-life insurance



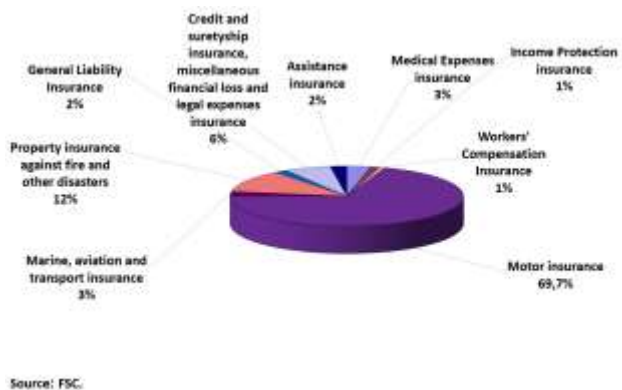
In 2023, in the structure of the portfolio of non-life insurance companies, the major share of 7% was held by motor insurances, with motor third-party liability insurance accounting for 42.2%, and the share of other motor insurance (Motor Casco) insurances was 27.5%, respectively.

³⁴ The analysis for the insurance market was based on the quarterly reports for the fourth quarter of 2023 received by the Financial Supervision Commission (FSC) in accordance with Commission Implementing Regulation 2023/894 (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 2022 are based on the audited annual reports according to Implementing Regulation (EU) 2015/2450.

³⁵ According to NSI data, the GDP in 2023 amounted to BGN 183,743 million.

³⁶ According to NSI data, the population in 2023 amounted to 6,445,481 people.

Graph 79. Structure of gross premium income by type of activity for non-life insurance payables in 2023.



The realized premium income on motor third-party liability insurance for 2023 increased by 35.5% year-on-year (BGN 403 million in absolute terms) and amounted to BGN 1,539 million.

For the period January-December 2023, the recorded premium income under Other motor insurance (Auto Casco) amounted to BGN 1,002 million, accounting for an increase of 21.4% year-on-year.

At the end of 2023, property insurances against fire and other disasters in Bulgaria accounted for a share of 12.0% of the gross premium income compared to 13.6% at the end of 2022. The realized premium income for these insurances amounted to BGN 438 million, a minimum growth of 9.8% year-on-year being reported.

Medical expenses insurance, income protection insurance and workers' compensation insurance occupied a 5.2% share in the structure of gross premium income realized by non-life insurers at the end of 2023. Premium income on these insurances in 2023 amounted to BGN 189 million compared to BGN 124 million in 2022, as a result of greater demand during the reporting year.

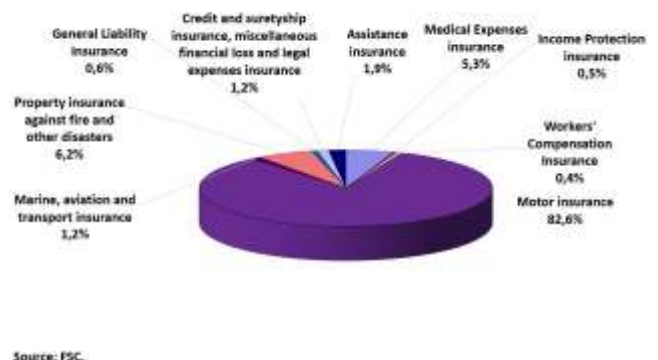
In 2023, there is a decrease in insurance premiums written by insurers for Assistance Insurance from BGN 155 million at the end of 2022 to BGN 83 million at the end of 2023.

Growth is observed in credit and guarantee insurance, miscellaneous financial losses insurance and legal expenses insurance from BGN 169 million at the end of 2022 to BGN 234 million at the end of 2023.

The premiums ceded to reinsurers for non-life insurance for 2023 were in the amount of BGN 962 million, representing 26% of the gross written premium generated in the sector. Self-retention coefficient was calculated at 0.74.

The claims arising for non-life insurance at the end of 2023 amounted to BGN 1555 million, with an increase of 17.7% year-on-year.

Graph 80. Structure of claims incurred by type of activity for non-life insurance payables in 2022



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 83% was held by car insurances, followed by real estate insurance holding a share of 6%.

An increase of the year-on-year claims in the amount of BGN 234 million is reported. Other insurance related to motor vehicles ("Motor casco") reported an increase of BGN 53.5 million, and Motor third-party liability insurance increased by BGN 97.4 million compared to the previous year. Claims incurred under medical expenses insurance increased by BGN 37.7 million compared to the previous year, while claims incurred under credit and surety insurance,

miscellaneous financial losses and legal expenses insurance and workers' compensation insurance increased by BGN 4.9 million and BGN 1.9 million, respectively. Claims arising under Assistance, General Liability, Property insurance against fire and other disasters, and Income Protection insurance are characterized by the opposite dynamics, decreasing year-on-year by 29.4 million, BGN 4.3 million, BGN 1.7 million and BGN 0.2 million, respectively.

The gross loss ratio for the insurance portfolio of non-life insurance companies decreased insignificantly from 0.47 in 2022 to 0.46 at the end of 2023.

Table 65. Gross loss ratio

	2022	2023*
Medical Expenses insurance	0,67	0,73
Income Protection insurance	0,20	0,16
Workers' Compensation Insurance	0,25	0,35
Motor Third-Party Liability insurance	0,63	0,58
Other motor insurance	0,46	0,45
Marine, aviation and transport insurance	0,10	0,19
Property insurance against fire and other disasters	0,26	0,22
General Liability Insurance	0,29	0,15
Credit and Suretyship insurance	0,13	0,10
Legal expenses insurance	0,03	0,06
Assistance insurance	0,38	0,32
Miscellaneous Financial Loss insurance	0,00	0,00
TOTAL	0,47	0,46

Note: *Data for 2023 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 36% year-on-year and at the end of 2023 amounted to BGN 992 million. They were 30% of the gross premium income generated by the sector.

Table 66. Gross expense ratio

	2022	2023*
Medical Expenses insurance	0,33	0,31
Income Protection insurance	0,45	0,45
Workers' Compensation Insurance	0,40	0,37
Motor Third-Party Liability insurance	0,15	0,22
Other motor insurance	0,37	0,38
Marine, aviation and transport insurance	0,20	0,27
Property insurance against fire and other disasters	0,35	0,35
General Liability Insurance	0,34	0,27
Credit and Suretyship insurance	0,33	0,26
Legal expenses insurance	0,30	0,35
Assistance insurance	0,09	0,30
Miscellaneous Financial Loss insurance	0,60	0,46
TOTAL	0,26	0,30

Note: *Data for 2023 are preliminary
Source: FSC.

At the end of 2023, the gross combined ratio is 0.763 and increases compared to the previous year when it was 0.73. The highest gross combined ratio, above 1, is calculated for medical expenses insurance (1.04).

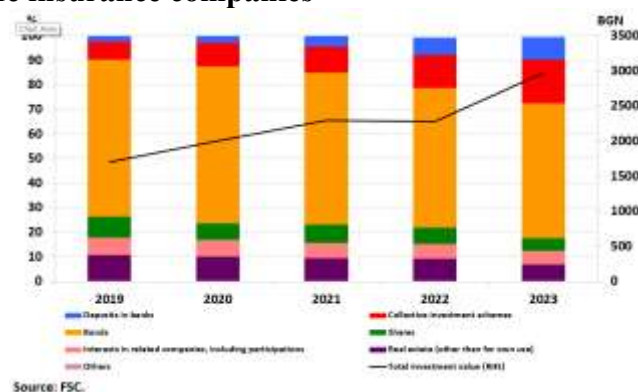
Table 67. Gross combined ratio

	2022	2023*
Medical Expenses insurance	1,00	1,04
Income Protection insurance	0,65	0,61
Workers' Compensation Insurance	0,65	0,72
Motor Third-Party Liability insurance	0,78	0,80
Other motor insurance	0,83	0,83
Marine, aviation and transport insurance	0,30	0,47
Property insurance against fire and other disasters	0,61	0,57
General Liability Insurance	0,63	0,42
Credit and Suretyship insurance	0,46	0,36
Legal expenses insurance	0,33	0,41
Assistance insurance	0,47	0,62
Miscellaneous Financial Loss insurance	0,60	0,46
TOTAL	0,73	0,76

Note: *Data for 2023 are preliminary
Source: FSC.

At the end of the reporting period, the total assets of non-life insurance companies amounted to BGN 5318 million increasing by 19% year-on-year. The value of investments of these companies increased by 30% at the end of 2023 and amounted to BGN 2927 million, occupying a share of 56% of total assets. In the structure of the aggregate investment portfolio of non-life insurance companies, bonds occupy a major share (55%), followed by investment in collective investment schemes (18%) and bank deposits (9%).

Graph 81. 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 continues to decrease, reaching 7% at the end of 2023. The

share of investments in shareholdings in affiliated enterprises remained at 6%. The share of investments in bonds, incl. government bonds decreased from 57% at the end of 2022 to 55% at the end of 2023. The share of equity investments also declined in 2023 from 7% to 5%. The relative share of investments in collective investment schemes and in deposits in banks follows the opposite dynamic, increasing to 18% (from 14%) and 9% (from 7%) respectively at the end of 2023.

By the end of 2023, the total amount of the liabilities of the non-life insurers amounted to BGN 3668 million and increased by 16% year-on-year. Technical reserves set aside by non-life insurance companies accounted for 79% of the liabilities of non-life insurers.

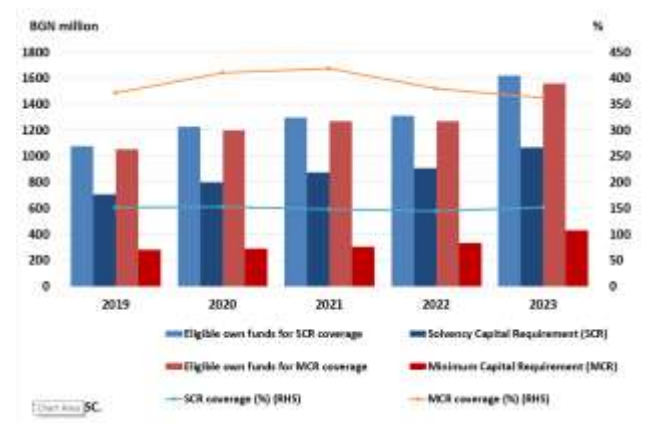
At the end of 2023 the technical reserves set by non-life insurance companies increased by 7% reaching BGN 2918 million.

The excess of the assets over the liabilities of the non-life insurers at the end of 2023 was estimated at BGN 1630 million compared to an excess of BGN 1,305 million at the end of 2022

The eligible own funds to cover the solvency capital requirement of non-life insurers as at 31.12.2023 amounted to BGN 1620 million and the solvency capital requirement (SCR) amounted to BGN 1,067 million. The coverage of the MCR with eligible own funds at the end of 2023 was estimated at 152%.

The eligible own funds to cover the minimum capital requirement of non-life insurers as at 31.12.2023 amounted to BGN 1559 million, and the minimum capital requirement (MCR) amounted to BGN 430 million. Respectively, the coverage of the MCR with eligible own funds at the end of 2023 was estimated at 363%.

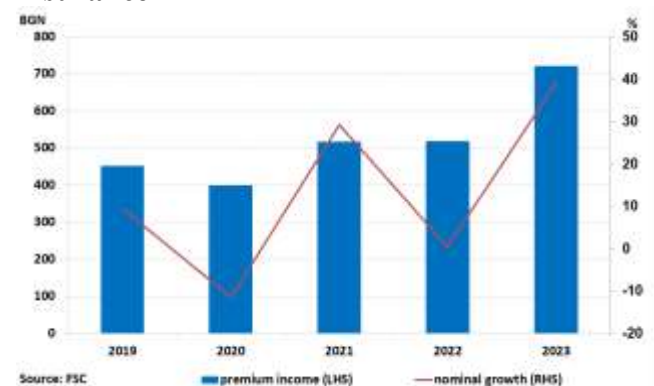
Graph 82. Capital requirements of non-life insurance companies



2.3.2. Life insurance

The gross premium income recorded by life insurers ³⁷ at the end of 2023 reported a growth of 39% year-on-year and at the end of 2023 amounted to BGN 722 million.

Graph 83. Gross premium income on life insurance



Regarding the structure of the portfolio of life insurers by classes of insurance at the end of 2023, the following dynamics is observed: the share of index-linked and unit-linked insurance increased significantly, taking the top position with 41% (compared to 23% in the previous year) at the expense of the share of profit-sharing insurance, which decreased from 28% to 20%. All other types of insurance recorded a decrease in share:

³⁷ It also includes income from non-life insurance in connection with medical expenses, income protection and workers' compensation, recorded by life insurers.

“Other Life Insurance” (from 24% to 17%), “Medical Expense Insurance” (from 20% to 18%), “Income Protection Insurance” (from 3% to 2%), “Workers' Compensation Insurance” (from 2.1% to 1.6%) and “Health Insurance” (from 0.8% to 0.6%).

Graph 84. Portfolio structure by type of activity for life insurance payables in 2023.

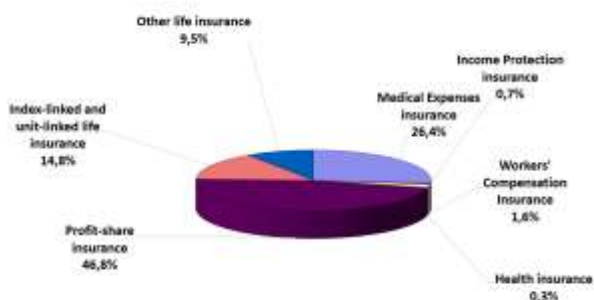


Source: FSC.

The gross claims incurred in 2023 for life insurance amount to BGN 302 million. On an annual basis, an increase of claims arising during the year by 26% is reported.

In the overall structure of the incurred claims, the largest share was the share of profit-sharing insurance (47%), followed by medical expenses insurance (26%) and unit-linked and index-linked insurance (15%).

Graph 85. Structure of incurred claims by type of activity for life insurance payables in 2023.



Source: FSC.

The expenses incurred by life insurers in connection with their operation decreased by 0.4% annually and at the end of 2023 amounted to a total

of BGN 157 million, representing 25% of the premiums earned for the period.

The total amount of the assets in the life insurance sector increased by 16% year-on-year and at the end of 2023 amounted to BGN 2600 million.

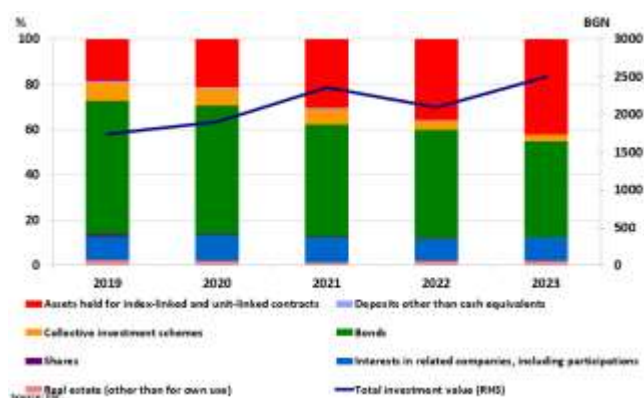
The value of the investments of the life insurers (including the value of the contractual investments linked to an index and with investment fund shares) was BGN 2496 million at the end of 2023, representing 96% of the total assets in the sector. Their value increases by 19% year-on-year.

A major share in the value of life insurers' investments at the end of 2023 is occupied by the value of bonds (42%), the relative share of which decreased by 6 pp. compared to the previous year.

The value of the assets held for index-linked and unit-linked contracts increased by 40% year-on-year reaching BGN 1,051 million at the end of 2023, and the relative share in the total amount of investments in the life insurance sector increased from 36% to 42% in 2023.

The relative share of shareholdings in related companies, including participations, remains at the level of 10%, while the share of real estate (other than for own use) is maintained at 2%. The relative share of investments in collective investment schemes decreased from 4% to 3%. In 2023 there was a decrease by BGN 5.9 million year-on-year in the value of deposits other than cash equivalents. whose relative share decreased from 0.4% in 2022 to 0.1% in 2023.

Graph 86. Structure of the investment portfolio of life insurers



The technical reserves allocated by the life insurers (excluding technical reserves under index-linked and unit-linked shares) in 2023 increased by 2% and at the end of the year amounted to BGN 883 million.

Technical reserves under index-linked and unit-linked contracts set aside at the end of 2023 increased by 40% year-on-year and amounted to BGN 961 million at the end of the year.

The excess of the assets over the liabilities of the life insurers at the end of 2023 was estimated at BGN 676 million compared to an excess of BGN 609 million at the end of 2022

The eligible own funds to cover the solvency capital requirement of life insurers as at 31.12.2023 amounted to BGN 645 million and the solvency capital requirement (SCR) amounted to BGN 254 million. The coverage of the MCR with eligible own funds at the end of 2023 was estimated at 254%.

The eligible own funds to cover the minimum capital requirement of life insurers as at 31.12.2023 amounted to BGN 643 million, and the minimum capital requirement (MCR) amounted to BGN 109 million. Respectively, the coverage of

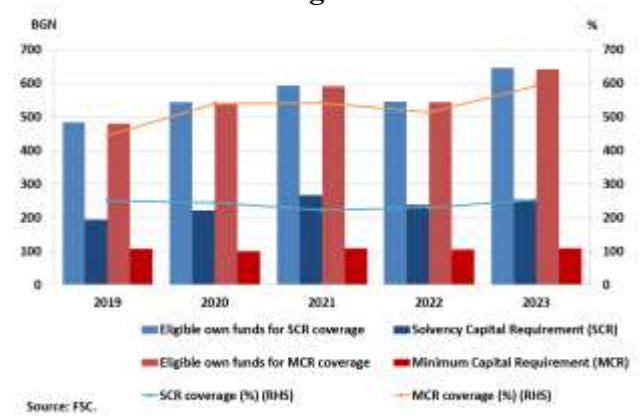
2.3.4. *Guarantee and compensation fund*

The Guarantee Fund (GF / the Fund) is a legal entity with its seat in the city of Sofia, which pays out compensation to injured persons with regard to mandatory “Motor Third-Party Liability” and “Accident” insurances to the passengers in public transport vehicles, reimburses amounts paid by an EU Member State compensation body, guarantees insurance receivables in cases of insurer insolvency.

GF established and manages the following separate accounts:

the MCR with eligible own funds at the end of 2023 was estimated at 592%.

Graph 87. Capital requirements for life insurance undertakings



Compared to 2022, there is a growth in eligible own funds to cover the solvency capital requirement, as well as the solvency capital requirement.

2.3.3. *Re-insurance*

The premium income realized by companies from their active reinsurance operations during the year amounts to BGN 2421 million compared to BGN 2143 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 motor third-party liability insurance.

Claims incurred to assignors amount to BGN 1,348 million. In the structure of the claims incurred the largest share is occupied by motor insurances.

- Fund guaranteeing the claims of injured persons from uninsured and unidentified motor vehicles – Fund for uninsured motor vehicles;
- Fund guaranteeing the claims in case of an insurer's insolvency under Article 519, Items 2 and 3 of IC – Compensation Fund.

In 2023, 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 48.5 million, compared to BGN 40.8 million in the previous year.

At the end of 2023, the funds available in the Fund for uninsured motor vehicles, according to Art. 556, para. 1 of the IC, amounted to BGN 165 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 2023 amounted to BGN 10.8 million and grew by 4% year-on-year.

In 2023, the Guarantee Fund (from the funds of the Security Fund) began paying the principals of the undisputed benefits concluded through the Bulgarian branch of the insurance company Olympic, which is in liquidation. In this regard, the Cyprus Guarantee Fund has made a partial refund of the payments made by the Bulgarian Guarantee Fund.

As at 31 December 2023, the funds of the Security Fund amount to BGN 102 million.

2.4. Social insurance market

The net assets of the supplementary pension funds (SPF) increased in 2023, reaching BGN 22,931.1 million by the end of the year. The positive change in value during 2023 was due to the incoming proceeds of contributions and the result of invested funds by the pension insurance companies (PICs), which in turn was driven by general trends in the global financial markets. By the end of 2023, 5,000,945 people were insured in SPFs. The upward trend in socially insured persons was maintained despite the granted right to change the insurance from the supplementary mandatory pension insurance funds (SMPFs) to the State Social Insurance (SSI), and the unfolding pay-out phase for persons insured in universal pension funds.

2.4.1. Pension insurance companies

As at 31.12.2023, ten licensed PICs operated, that managed a total of 32 pension funds, including ten universal funds (UPFs), ten professional funds (PPFs), ten voluntary funds (VPF) and two voluntary pension funds with occupational schemes (VPFOS).³⁸ As at the end

of 2023, a total of nineteen funds were established to proceed payments to persons insured in universal pension funds including ten funds for payment of lifelong pensions (FPLP) and nine funds for programmed withdrawals.

Four of the companies operating on the pension insurance market are part of international

³⁸There were no socially insured persons yet in one of the VPFOS as at 31.12.2023.

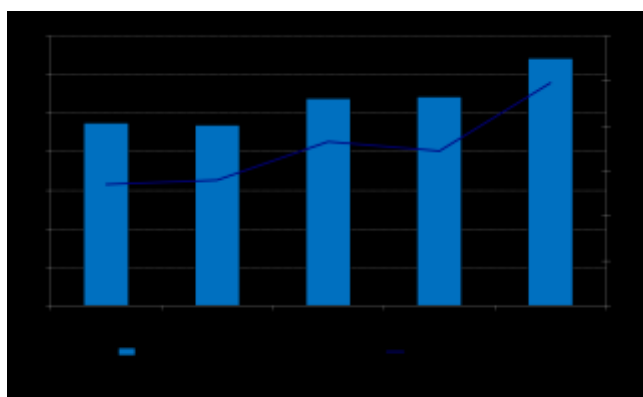
29 BANK DSK EAD directly owns 99.85% of PIC DSK - Rodina AD, DZI EAD directly owns 100% of PIC UBB EAD, Insurance Company DallBogg : Life and Health AD directly owns 100% of PIC DallBogg: Life and Health EAD.

financial groups: PAC Doverie A.D. - Vienna Insurance Group A.G. WienerVersicherung Gruppe, PIC DSK - Rodina A.D. - OTP BANK NYRT, PIC Allianz Bulgaria A.D. - ALLIANZ S.E., and PIC UBB EAD - KBC Group N.V.

Three of the licensed companies have shareholders directly holding more than 90% of the capital.³⁹

The aggregate balance sheet assets of PICs as at 31.12.2023 were BGN 624.7 million, marking an increase of 15.13% compared to 2022. The total net financial result of the PICs for 2023 amounted to BGN 99.2 million, increasing by BGN 30.6 million, or 44.54% compared to the total net financial result for 2022.

Graph 88. Balance sheet assets and net financial result of PICs



For all ten licensed pension insurance companies, the aggregate average unweighted value of the own funds to solvency limit indicator at the end of 2023 was 350.1%, which significantly exceeds the legally defined minimum amount of 100%. There is a 24.8p.p. increase in the aggregate indicator's value compared to 2022 when it was 325.3%. For individual companies, the indicator varied widely between 105.9% and 785.2%.

The liquid resources of PICs, SPFs and the funds for benefit payment (FBPs) as of 31.12.2023 were higher than the statutory minimal amount, hence all companies and the funds they managed were able to cover their current liabilities.

The reserves for the minimum return guarantee in UPFs and PPFs, set aside with own funds of PICs, amount to BGN 140 million as at 31.12.2023, and are in line with the statutory provisions. As at the end of the reporting year, the reserves for gross contributions guarantee to the UPF, set aside with the funds owned by the PIC, amount to BGN 100 million, and are in line with the statutory provisions. The investments made with the funds that secure the reserves and the valuation of these investments are in accordance with the regulatory requirements.

Table 68. Ratio of the own funds of the PICs to the solvency and liquidity limit of the PICs and funds

	2022	2023
Ratio of the own funds of the PICs to the solvency and liquidity limit (%)	325,3	350,1
Liquidity of PIC (coef.)	14,5	14,6
Liquidity of UPF (coef.)	175,7	214,2
Liquidity of PPF (coef.)	187,5	171,6
Liquidity of VPF (coef.)	590,4	149,1
Liquidity of VPFOS (coef.)	2784,5	254,6
Liquidity of FPLP* (coef.)	10,1	9,9
Liquidity of FPLP** (coef.)	40,9	32,7
Liquidity of FPW* (coef.)	1,8	1,8
Liquidity of FPW** (coef.)*	7,2	5,4
Note: The indicators are calculated as an arithmetic mean of the		
* under Article 9(4)(1) of Ordinance №10		
** under Article 9(4)(2) of Ordinance №10		
Source: FSC		

The degree of coverage of the registered capital ranges widely between 72.9% and 618.0%. The average unweighted value of the indicator at the end of 2023 is 339.8%, signifying an increase

³⁹ BANK DSK EAD directly owns 99.85% of PIC DSK - Rodina AD, DZI EAD directly owns 100% of PIC UBB

EAD, Insurance Company DallBogg: Life and Health AD directly owns 100% of PIC DallBogg: Life and Health EAD.

of 35.7 p.p. compared to 304.1% at the end of 2022. For nine companies, the value of the indicator increased during the period – in eight of them this was due to an increase in equity whilst maintaining the amount of registered capital, and in one due to the growth of equity and registered capital. In contrast, there was one PIC where the value of the indicator decreased as a result of a net decrease in equity and unchanged amount of the registered capital.

The reported return on equity at the end of 2023 was 21.8% on average for the sector - an increase of 8.4 p.p. compared to 13.4% in 2022. The range of return on equity for individual PICs was broad with a. lowest value at (-4.9%), and highest at 59.8%. For eight companies, the indicator rose – in six due to a faster pace of profit increase relative to the increase in equity, in one due to an increase in equity and a recorded profit for the year compared to a loss for the previous year, and in another one due to an increase in equity and reduced loss.

The indicator's value declined for two PICs – in one due to lower profit despite an increase in equity, and in the other due to a rapid decline in profit relative decline in equity. During the year, only one company reported a net loss, which resulted in its indicator having a negative value.

Table 69. Analysis of PICs equity

	2022	2023
Level of coverage of registered capital	304,1	339,8
Profitability of equity	13,4	21,8
Note: Data are in %, unless stated otherwise. The indicators are calculated as an arithmetic mean of the values of individual PICs. Source: FSC		

The degree of coverage of the assets of the majority of the managed funds (SPFs and FBP) varied between 2.0% and 5.0%, with one exception where the value of the indicator was 17.4% for one PIC. The average unweighted value of the indicator at the end of 2023 was 4.6%

compared to 6.5% at the end of 2022, marking a decrease of 1.9 p.p.. The change can be mainly attributed to the decline in the index value of the PIC licensed in 2021, with the value of the indicator for the rest of the companies remaining almost unchanged.

The average unweighted value of the return on assets indicator of PICs at the end of 2023 was 11.3% compared to 5.2% for 2022, indicating a growth of 6.1 p.p. For a total of eight companies, the indicator increased – in six was due to higher profit growth relative to the asset growth, in one due to an increase in assets and a reduced loss, and in another one due to an increase in assets and a reported profit (compared to a net loss for the previous year). For two PICs the net value of the indicator fell due to smaller profit and asset growth. The range of return on assets for individual PICs is broad - its lowest value is (-4.6%) and the highest is 28.9%. During the year, only one company reported a loss, which resulted in its indicator having a negative value.

For the reporting year, the asset growth indicator of all companies showed a positive value. The unweighted average increased significantly from 1.9% for 2022 to 12.7% for 2023, indicating a significantly faster asset growth of PICs. For individual companies the range between 4.9% and 21.3%.

Table70. Analysis of PIC assets

	2022	2023
Level of coverage of SPF assets	6,5	4,6
Profitability of PIC assets	5,2	11,3
Growth of PIC assets	1,9	12,7
Note: Data are in %, unless stated otherwise. The indicators are calculated as an arithmetic mean of the values of individual PICs. Source: FSC		

The average unweighted value of the PIC performance indicator as of the end of 2023 is 135.7% compared to 117.7% in 2022, illustrating 18 p.p. growth. For a total of nine PICs, the value of the indicator increased – in five of those, this

was due to higher revenues and lower expenses; in other three PICs expenses decreased at a faster rate than revenue; in one company, the total revenue growth exceeded expenses growth. In contrast, for one PIC the value of the indicator fell due to decrease in income and increase of expenses. The value of the indicator for individual companies varied between 84.9% and 201.1%.

Table 71. Analysis of PIC income and expenses

	2022	2023
Efficiency of PIC activities	117,7	135,7
Note: Data are in %, unless stated otherwise. The indicators are calculated as an arithmetic mean of the values of individual		
Source: FSC		

The average unweighted value of the fees and deductions indicator per one participant in the funds for 2023 amounted to BGN 45.68 compared to BGN 40.00 for the previous year, marking an increase of BGN 5.68. During the period, the value of the indicator increased in all PICs. Respectively, in eight of the companies the positive change was due to revenue increasing at a faster rate than the increase in participants. In the remaining two PICs, fee and deduction revenue increased and participants decreased. The value of the indicator for individual PICs for the period was between BGN 33.34 and BGN 61.21.

During 2023, expenses for the activity of PICs per one participant in the managed funds decreased by BGN 46.51, and by the end of the year they fell to BGN 52.54, compared to BGN 99.05 in 2022. The notably lower value of the indicator is an aggregate result of the decrease for most of the PICs, as well as the significant decrease for the company licensed in 2021. In eight PICs the value of the indicator increased – seven of them, this is due to lower expenses and an increase of participants, and in the one due to the increase in participants outpacing the increase in expenses. For two PICs the value of the indicator has increased – in one of them this is due

to an increase in expenses and a decrease in participants, in the other one, a decrease in participants outpaces the decrease in expenses. The value of the indicator for individual companies is between BGN 26.91 and BGN 73.10, with the exception of one PIC, where the value of the indicator is BGN 143.17.

Table 72. Fees, deductions and operating expenses per participant in funds

	2022	2023
Fees and deductions per participant in funds	40,0	45,7
Operating expenses per participant in funds	99,1	52,5
Note: Data are in BGN, unless stated otherwise.		
Source: FSC		

The revenues from fees and deductions per BGN 100 of fund assets funds as at the end of 2023 were between BGN 1.05 and BGN 1.44, with the average unweighted value of the indicator amounting to BGN 1.16. This indicates a decline of BGN 0.02 compared to BGN 1.18 in 2022. Out of the ten PICs, in eight the decline can be attributed to the faster growth rate in fund assets compared to the growth in fees and deductions. In the other two PICs, the value of the indicator increased due to the increase in fees and deductions outpacing the increase in balance sheet assets of the funds.

The costs per BGN 100 of assets of the PICs for 2023 varied between BGN 0.58 and BGN 1.56, excluding one PIC for which the value of the indicator was BGN 5.26. The average unweighted value of the indicator for 2023 amounted to BGN 1.48 compared to BGN 3.45 at the end of 2022. The decrease of BGN 1.97 over the period can be attributed to the value of the indicator of all PICs, but mainly due to the one licensed in 2021. The value of the indicator in eight of the PICs fell as a result of a decline in operating expenses and an increase in the funds' balance sheet assets, while in the remaining two PICs the increase in the

funds' assets outpaced the increase in operating expenses.

Table 73. Fees, deductions and operating costs per BGN 100 of fund assets

	2022	2023
Fees and deductions per BGN 100 of fund assets	1,2	1,2
Operating expenses per BGN 100 of fund assets	3,4	1,5
Note: Data are in BGN, unless stated otherwise. Indicators are calculated as averages of the individual SPFs		
Source: FSC		

During the PICs' supervision related to funds management in 2023, no deviations from the statutory requirements were identified in terms of the amount of the mandatory fees and deductions paid to PICs.

In 2023, according to the SIC, almost all PICs maintained the maximum allowable amounts of fees and deductions collected by an SMPF – a 3.75% deduction from each social security contribution, and an 0.75% investment fee per annum calculated on the value of the fund's net assets depending on the period during which they were managed. In terms of deductions, one PIC adopted a lower deduction amount from each social insurance contribution for the SMPF. To calculate the deduction amount, the PIC uses a differentiated approach depending on the person's social insurance period, namely a reduction of their amount after a certain period of time. Furthermore, two PICs opted for a lower deduction rate. One of these two companies applied lower deduction rates for the UPF it manages (using a differentiated approach depending on the person's period of social insurance), and the other company – the PPF it manages (not applying additional conditions).

Almost all PICs maintain the maximum allowable amount of the fee according to the SIC, calculated on the value of the FBP net assets, depending on the period during which they were managed – 0.5%. One company opted to only

collect a lower fee for the lifelong pensions payment fund (FPLP) and the fund for programmed withdrawals (FPD) managed by it. Another PIC, by decision of the governing bodies, decided not to charge a fee for the FPLP and FWP it manages.

During the reporting period, fees and deductions for management of the supplementary voluntary pension funds (SVPF) collected by the PIC were lower in amounts than the statutory ones. The average amount of deduction from each social security contribution in VPFs in both 2023 and 2022 is 2.7%, In VPFOs, it is 0.8% in 2023 compared to 0.9% in 2022. The statutory maximum amount of deduction from each social security contribution in SVPF is 7.0%.

Table 74. Investment fee and social insurance contributions' fee to SVPFs

	2022	2023
Average amount of social insurance contributions' fee in VPF	8,0	8,6
Average amount of social insurance contributions' fee in VPFOs	0,0	10,0
Average size of a fee from social security contributions of the VPF	2,7	2,7
Average size of a fee from social security contributions of the VPFOs	0,9	0,8
Note: Data are in %, unless stated otherwise. Indicators are calculated as the average value of the individual VPFs and VPFOs.		
Source: FSC		

As at 31.12.2023, all VPFs reported positive investment income, and as a result investment fee was deducted for the management companies. For comparison, as at 31.12.2022 positive investment income had been reported only by two VPFs, and an investment fee was deducted for the management companies. No investment fee had been deducted from the other VPFs due to reported negative income. As at 31.12.2023, the VPFOs reported a positive investment income, an investment fee was deducted, while as at 31.12.2022, no investment income had been reported and no investment fee had been deducted for its management company.

2.4.2. Supplementary pension funds

In 2023, the total balance sheet assets of SPFs increased by 19.4%, in contrast to the previous year, when a decrease of 1.7% was recorded.

The rate of change of assets varied by fund type. There was an increase of 20.5% in UPF, 14.9% in PPF, and 10.2% and 10.1% in VPF and VPFOS, respectively.

Table 75. Increase of SPFs' assets

	2022	2023
UPF	-1,2	20,5
PPF	-3,6	14,9
VPF	-6,7	10,2
VPFOS	-14,2	10,1
Note: Data are in %, unless stated otherwise.		
Source: FSC		

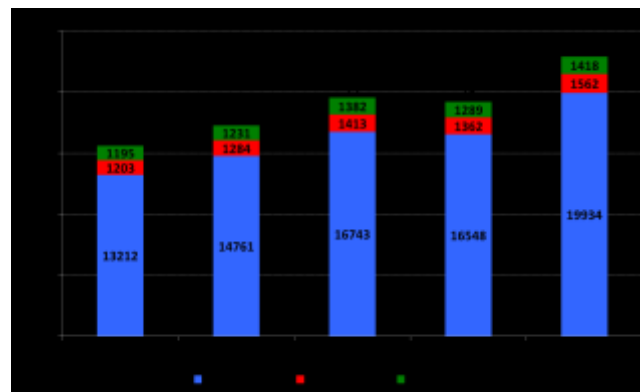
The market shares of the individual companies based on the amount of the managed balance sheet assets of the pension funds did not change significantly during the past year. The pension insurance company with the largest market share occupied 24.5% of the managed balance sheet assets. The pension insurance company licensed in 2021 that started managing pension funds in 2022 had the smallest market share of 0.2%.

UPF strongly dominated the structure of the balance sheet assets by type of fund. As at the end of 2023, the relative share of this type of funds in the total balance sheet assets of SPFs was 86.9%. Compared to 2022, the relative share of UPF expanded by 0.8 p.p. at the expense of the relative shares of PPF. As of the end of 2023, the balance sheet assets of PPF, VPF and VPFOS held shares of 6.2%, 6.8% and 0.1% respectively.

The observed trends in balance sheet assets are also reported for net assets. In 2023, the net assets of SPFs increased by 19.3% year on year.

As at the end of 2023, the net assets of SPFs amounted to BGN 22,931.1 million. They show the total value of liabilities to socially insured persons, and are a key indicator of the state of the supplementary pension insurance system. The net assets accumulated at the end of 2023 amounted to 12.5% of the volume of GDP⁴⁰ of the country.

Graph89. Net assets of the SPFs



The rate of change of net assets by type of funds is identical to that of balance sheet assets, with the increase in UPF being 20.5%, and in PPF, VPF, and VPFOS – respectively 14.7%, 9.9% and 9.8%. The structure of net assets by type of pension funds at the end of 2023 did not differ significantly from that of balance sheet assets.

The average unweighted amount of managed assets per participant in 2023 in UPFs was BGN 4,293.41 compared to BGN 3,718.12 in 2022, in PPFs – BGN 4,313.15 for 2023 compared to BGN 3,848.67 in 2022, in VPFs – BGN 2,117.00 for 2023 compared to BGN 1,873.33 in 2022, and in VPFOS – BGN 1,768.19 for 2023 compared to BGN 1,594.46 for 2022. For all funds, there was an increase in managed assets 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 2,678.74 and 6,037.99, in PPFs - between

⁴⁰ GDP for 2023 was BGN 183743 million according to preliminary NSI data.

BGN 2,728.42 and BGN 5,445.57, and in VPFs - between BGN 994.19 and BGN 4,563.27. The average values of the indicator for individual PICs were between BGN 2,533.07 and BGN 5,088.72.

Table 76. Assets managed per participant in SPFs

	2019*	2020*	2021*	2022	2023
UPF	3123,0	3427,0	3838,9	3718,1	4293,4
PPF	3536,6	3716,0	4019,6	3848,7	4313,1
VPF	1774,9	1804,3	1981,2	1873,3	2117,0
VPFOS	1916,2	1809,4	1853,4	1594,5	1768,2
Note: Data are in BGN, unless stated otherwise. Indicators are calculated as averages of the individual SPFs					
Source: FSC					

Gross proceeds from social security contributions in SPFs in 2023 increased by 13.8% compared to 2022, reaching BGN 2,541.4 million. The increase in proceeds from social insurance contributions was the largest in absolute terms in UPFs - BGN 313.9 million, which represents a growth of 16.1%. In PPFs, the increase is smaller - by BGN 19.9 million, or by 13.6%. In VPF and VPFOS, however, a decrease in income from insurance contributions was observed, respectively, by BGN 18.7 million and BGN 0.2 million, compared to the previous year.

Table 77. Gross proceeds from social insurance contributions

	2019	2020	2021	2022	2023
UPF	1451,5	1523,8	1735,0	1952,0	2265,9
PPF	120,5	120,8	135,0	145,8	165,7
VPF	133,7	115,0	170,9	134,2	109,1
VPFOS	1,7	2,1	1,1	0,8	0,8
Total	1707,4	1761,7	2042,0	2232,8	2541,4
Note: Data are in BGN million, unless stated otherwise					
Source: FSC					

The amounts accrued and paid out by the SPFs in 2023 remain approximately at the levels of the previous year. SPFs, whose share in the total value is 64.3% on average for the last five years, have main contribution to the dynamics of the accrued and paid amounts. 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 78. Accrued and paid amounts

	2019	2020	2021	2022	2023
UPF	24,1	30,6	52,7	51,1	53,4
PPF	6,7	8,0	10,8	11,2	11,1
VPF	85,7	102,4	92	92,6	90,1
VPFOS	0,8	0,8	1,6	0,8	0,7
Total	117,3	141,8	157,1	155,7	155,3
Note: Data are in BGN million, unless stated otherwise					
Source: FSC					

The average unweighted value of the return ratio on managed assets in 2023 is 0.09 for UPFs and VPFs 0.08 for PPFs and 0.10 for VPFOS. The average value of the indicator in 2022 is (-0.05) for PPFs and VPFs, (-0.06) for UPFs and (-0.15) for VPFOS. Compared to the previous year, the indicator increased for all types of funds, which was due to the recovery in financial markets. The average values of the indicator for individual PICs in 2023 were between 0.05 and 0.12.

Table 79. Return on managed assets

	2019*	2020*	2021*	2022	2023
UPF	0,06	0,02	0,04	-0,06	0,09
PPF	0,06	0,02	0,05	-0,05	0,08
VPF	0,05	0,02	0,05	-0,05	0,09
VPFOS	0,09	0,03	0,05	-0,15	0,10
Note: Data are ratios, unless stated otherwise. Indicators are calculated as averages of the individual SPFs					
Source: FSC					

In 2023, participants in SMPFs were increasing, while in SVPFs - decreasing. This continued the trend seen in 2022. The total increase in participants in 2023 was 1.73%, compared to 2022 when it was 1.51%. The increase of the participants in 2023 by funds was as follows: for universal funds growth of 1.9%, compared to growth of 1.8% in 2022. For professional funds the increase was 1.7% compared to 1.5% in 2022. For voluntary funds there was a decrease of (-0.2%) compared to

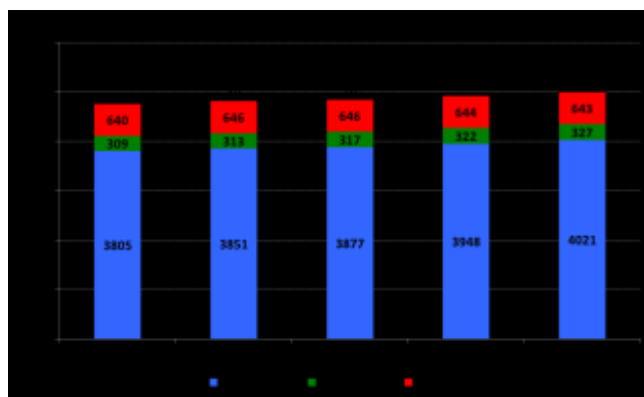
decrease of (-0.4) % in 2022. The only operating VPFOs reported an increase in participants of 0.7% in 2023, compared to a decrease of (-0.4%) in 2022. The PIC with the largest market share in terms of the number of participants in its managed SPFs retained its position with 25.0%, and the company with the smallest market share occupied 0.4% of the market.

Table 80. Increase in the number of participants

	2022	2023
UPF	1,8	1,9
PPF	1,5	1,7
VPF	-0,4	-0,2
VPFOs	-0,4	0,7
Note: Data are in %, unless stated otherwise.		
Source: FSC		

Regarding the distribution structure of insured persons between SPFs, no significant differences were observed compared to the previous year. At the end of 2023, the largest share of insured persons was concentrated in the universal pension funds (80.4%). The persons insured in the voluntary and occupational pension funds occupied, respectively, a share of 12.8% and 6.6% in the structure of distribution of the socially insured persons. The share of the insured in VPFOs remained the smallest (only 0.2%).

Graph 90. Number of socially insured persons



In 2023, most of the people who start their first job and should be insured in SMPF still did not exercise their right to choose a pension fund.

The submitted individual applications for participation in UPF and PPF during the year were 10,642 and 2,190 respectively. The predominant part of the persons who are subject to insurance in SMPF and have not made their choice, are distributed ex officio among the funds. In 2023, these were 90,411 persons, or 89.5% of the total number of persons admitted to UPFs, and respectively 10,642 persons, or 82.5% of the total number of persons admitted to PPFs.

During the year, a total of 343,330 people exercised their right to change their participation from one to another respective SMPF. Compared to the previous 2022, their number decreased by 4.7%.

Funds transferred from the individual accounts of persons who changed their participation in supplementary pension funds in 2023 increased by a total of 1.5% compared to 2022 and amounted to BGN 1,488.8 million.

The dynamics of resources transferred depends both on the number of persons that took action to change their participation in SPFs during the year, and on the amount of resources in their individual accounts.

The increase was due to the funds transferred to UPF, the amount of which is BGN 46.5 million or 3.5% higher than the previous year. PPFs and VPFOs reported a decrease in transferred funds, but in general, the amount of transfers was lower in these funds. In 2023, 9.5 million BGN less were transferred between individual PPFs compared to 2022, which represents a decrease of 8.1%. The funds transferred to VPFOs decreased by BGN 14.7 million, or by 67.6%.

Table 81. Amounts transferred from individual accounts

	2019	2020	2021	2022	2023
UPF	651,7	739,2	1114,9	1328,0	1374,5
PPF	65,4	70,5	105,8	116,7	107,2
VPF	5,2	3,5	9,6	21,8	7,0
Total	722,3	813,2	1230,3	1466,5	1488,8
Note: Data are in BGN million, unless stated otherwise					
Source: FSC					

The absolute value of invested resources of SPFs at the end of 2023 was BGN 21.5 billion, representing 93.2% of their balance sheet assets. SPF investments in 2023 marked an increase of 24.3% following the downward trend of SPF assets. In the total volume of invested funds of SPF in 2023, as well as in 2022, the highest share was occupied by UPF (86.9%), followed by PPF (6.8%), VPF (6.2%) and VPFOS (0.1%).

Between 2019 and 2023, 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 dominated the portfolios of SPFs and reached their highest value at the end of 2019 (61.2% of the investments). After that, the share of government securities in the portfolios of SPFs followed a downward trend, and by the end of 2022 it was 52.7%, followed by recovery at the end of 2023 to 57.8% of investments. Compared to the beginning of the five-year period, the relative share of government securities decreased by 3.4 p.p.

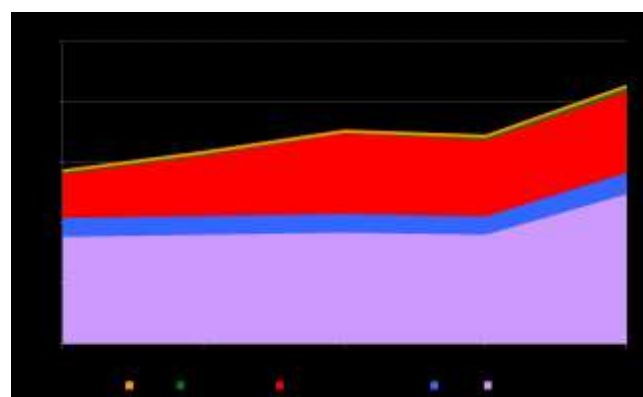
Second place in the aggregated portfolio of SPFs was occupied by investments in shares, rights and units. For the period 2019 – 2023, the relative share of these investments expanded by 5.2 p.p. The dynamics of this indicator observed

during the period were opposite to the trend reported for the relative share of government securities. From 24.9% in 2019, the part of the shares, rights and units at the end of 2021 increased to 37.4% of the invested funds of SPFs. After 2021, there was a slight decrease in interest in variable income investments, which reach 31.2% by the end of 2023.

From the end of 2019 to the end of 2023, the share of bank deposits grew by 0.6 p.p. to 1.5% of the invested funds of SPFs. During the 2019-2021 period, the relative share of bank deposits dropped below 1.0%, with the lowest value recorded in 2021 - 0.3% of invested funds.

At the end of 2023, the relative shares of the other two categories of investment instruments in the portfolios of SPFs were lower than at the beginning of the period under review. The most significant was the decrease in the relative share of funds invested in bonds (corporate and municipal). From 11.1 % in 2019 at the end of the five-year period, this share shrunk to 8.2% of the invested funds. The reported decrease for the period 2019 - 2023 is 2.9 percentage points. A decrease was also observed in the relative shares of other investments (investment properties) in the aggregated portfolio of SPFs. By the end of 2023, they represented 1.3% of all SPFs funds invested.

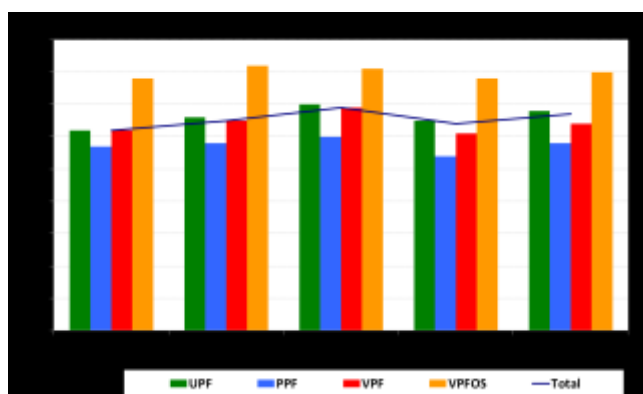
Graph 91. Structure of the aggregate investment portfolio



The funds invested by SPFs in financial instruments issued by issuers outside the Republic of Bulgaria at the end of 2023 reached 66.8% 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 3.0 percentage points.

As of the end of 2023, the structure of investments in financial instruments issued by issuers outside the country is dominated by government securities with a share of 63.7%. Variable income securities form 29.8% of investments in financial instruments issued by issuers outside the country, and the remaining 6.5% are invested in corporate debt securities.

Graph 92. 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 negative returns in the previous year in a volatile and challenging environment, in 2023 SPFs reported a positive weighted average return on asset management.

Table 82. Weighted average rate of return

	2019	2020	2021	2022	2023
UPF	6,5	1,5	4,5	-10,8	8,3
PPF	5,8	1,7	4,9	-8,8	7,7
VPF	6,5	2,2	6,3	-9,0	8,4
VPFOS	8,8	2,9	4,7	-13,8	8,6

Note: Data are in %, unless stated otherwise.
Source: FSC

2.4.3. Funds for benefit payment

The funds in the individual accounts of persons who were insured in UPF and were granted lifelong pensions and deferred payments 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 2023, all PICs have established FPLPs that pay lifelong pensions. In 2023, a total of 1454 pension contracts were concluded for the payment of an additional lifelong pension for old age, and the number of pensioners in the FPLPs reached 2632 people by the end of the year.

Table 83. Number of pensioners by types of pensions at the end of the year

	2021	2022	2023
Pensioners - total	270	1184	2632
incl. by types			
pension without additional conditions	8	24	65
pension with a guaranteed payment period	59	171	342
pension, including programmed withdrawal	203	989	2225

Note: number of persons
Source: FSC

BGN 29.9 million have been transferred to make payments to FPLPs in 2023 from the individual lots of persons with concluded pension contracts and BGN 0.1 million of deceased insured persons in UPFs, without heirs. FPLP accumulated net assets as of 31.12.2023 are BGN

48.0 million, growing more than 2.3 times during the year. The total amount of lifelong pensions paid by FPLPs for 2023 is BGN 4.8 million, and the average amount of pensions paid is BGN 230.50.

Table 84. Average amount of pensions paid

	2021	2022	2023
Average amount - total	187,7	210,9	230,5
incl. by types:			
-pension without additional conditions	56,0	68,8	85,9
-pension with a guaranteed payment period	58,8	64,6	74,6
-pension., including programmed withdrawal	224,5	244,7	258,2
Note: data is in BGN, unless stated otherwise			
Source: FSC			

By the end of 2023, payments were made by 9 funds for programmed withdrawals. Only one PIC established a FPD in early 2024. Socially insured persons receiving such payments as of

31.12.2023 totalled 18,024. During the year, contracts for programmed withdrawal of funds from FPDs were concluded with 16,365 persons, and those who stopped receiving payments due to their contract expiring were 9955.

In 2023, a total of BGN 99.5 million was transferred to FPDs from the individual lots of the persons who entered into programmed withdrawal contracts. The accumulated net assets of FPDs as at 31.12.2023 reached BGN 81.9 million, growing more than 2.6 times during the year. In the form of programmed withdrawal of funds by insured persons in 2023, a total of BGN 69.8 million was paid by FPDs, and BGN 0.2 million were paid to heirs of socially insured persons who received such payments. The average amount of programmed withdrawals for the period was BGN 416.55.

III. ORGANISATIONAL STRUCTURE OF FSC

