



ANNUAL REPORT 2021



BULGARIAN NATIONAL BANK



Bulgarian National Bank

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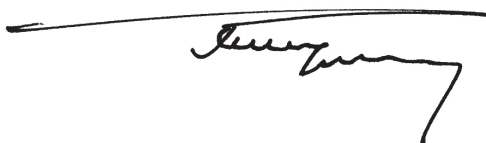
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Honourable Chair of the National Assembly,
Honourable People's Representatives,

Under the provisions of the Law on the Bulgarian National Bank
Article 1, paragraph 2 and Articles 50 and 51, I have the honour of
presenting the Bank's Annual Report for 2021.

A handwritten signature in black ink, consisting of a long horizontal line followed by a stylized, cursive script that ends in a sharp downward hook.

Dimitar Radev
Governor
of the Bulgarian National Bank



BNB Governing Council

Sitting from left to right: Lyudmila Elkova, Dimitar Radev, Elitsa Nikolova.

Standing from left to right: Kalin Hristov, Radoslav Milenkov, Nina Stoyanova, Nikolay Nenovsky.

BNB Governing Council

Dimitar Radev

Governor

Kalin Hristov

Deputy Governor

Issue Department

Nina Stoyanova

Deputy Governor

Banking Department

Radoslav Milenkov

Deputy Governor

Banking Supervision Department

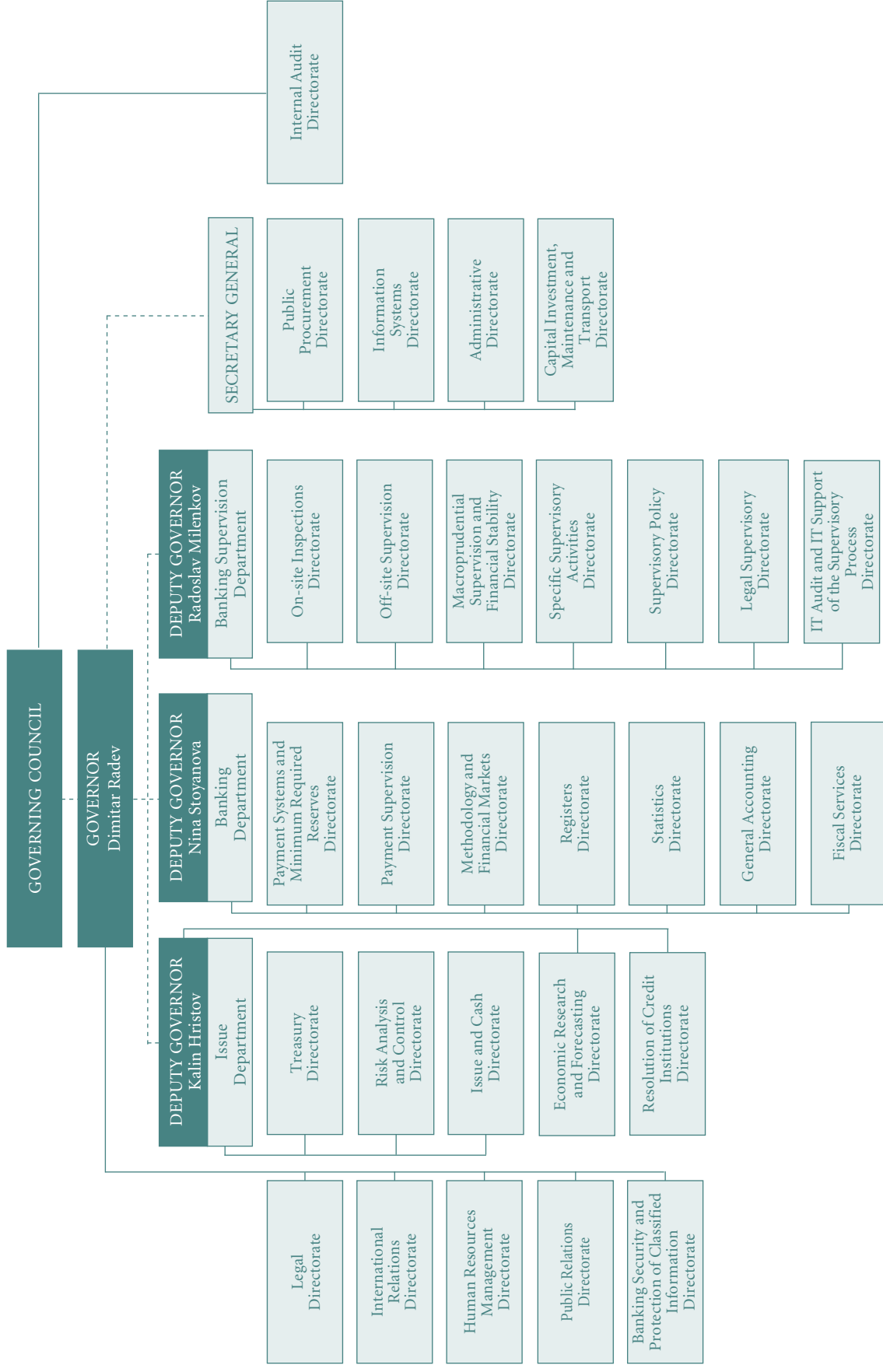
Elitsa Nikolova

Lyudmila Elkova

Nikolay Nenovsky

Organisational Structure of the BNB

(as of 31 December 2021)



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Abbreviations

ABB	Association of Banks in Bulgaria	IRB	internal ratings-based
ATM	Automated Teller Machine	IRT	Internal Resolution Teams
BDIF	Bulgarian Deposit Insurance Fund	ISIS	Integrated Statistical Information System
BIS	Bank for International Settlements	KRI	key risk indicators
BISERA	Bank Integrated System for Electronic Payments	KTB	Corporate Commercial Bank AD
BNB	Bulgarian National Bank	LBNB	Law on the BNB
BORICA	Bank Organisation for Payments Initiated by Cards	LCI	Law on Credit Institutions
BRF	Banks Resolution Fund	LCR	liquidity coverage ratio
CCR	Central Credit Register	LEONIA	an interest rate on real transactions in unsecured overnight deposits in BGN offered at the interbank market
CET1	Common Equity Tier 1	LPSPS	Law on Payment Services and Payment Systems
CFP	consolidated fiscal programme	LRELC	Law on Real Estate Loans for Consumers
CSDB	Centralised Securities Database	LRRCIIF	Law on the Recovery and Resolution of Credit Institutions and Investment Firms
DvP	delivery versus payment	LTROs	Longer-term refinancing operations
EBA	European Banking Authority	MF	Ministry of Finance
EC	European Commission	MREL	minimum requirement for own funds and eligible liabilities
ECB	European Central Bank	NSI	National Statistical Institute
Ecofin	Economic and Financial Affairs Council of the European Union comprising Member State economics and finance ministers	OECD	Organisation for Economic Co-operation and Development
EDIS	European Deposit Insurance Scheme	OPEC	Organization of Petroleum Exporting Countries
EONIA	Euro OverNight Index Average (registered trademark of the European Money Market Institute, EMMI)	PELTROs	pandemic emergency longer-term refinancing operations
ERM II	Exchange Rate Mechanism	PEPP	Pandemic Emergency Purchase Programme
ESA 2010	European System of National and Regional Accounts	POS	Point of sale/point of service: a retail trade terminal for credit and debit card transactions
ESCB	European System of Central Banks	PSPP	Public Sector Purchase Programme
ESRB	European Systemic Risk Board	RBASDB	Register of Bank Accounts and Safe Deposit Boxes
ESROT	Electronic System for Registering and Servicing Government Securities Trading	RIAD	Register of Institutions and Affiliates Database
€STR	Euro Short-Term Rate	RINGS	Real-time gross settlement system
EURIBOR	Euro InterBank Offered Rate (registered trademark of the European Money Market Institute, EMMI)	ROA	Return on Assets
FOMC	Federal Open Market Committee	ROE	Return on Equity
GDP	Gross Domestic Product	SDR	Special Drawing Rights
GSAS	System for Government Securities Sale and Repurchase Auctions	SEPA	Single Euro Payments Area
HICP	Harmonised Index of Consumer Prices	SRB	Single Resolution Board
IAS	International Accounting Standards	SREP	Supervisory Review and Evaluation Process
IASB	International Accounting Standards Board	SRF	Single Resolution Fund
IBAN	international bank account number	SRM	Single Resolution Mechanism
ICAAP	Internal Capital Adequacy Assessment Process	SSM	Single Supervisory Mechanism
IFRS	International Financial Reporting Standards	TARGET2	Trans-European Automated Real-time Gross settlement Express Transfer system for the euro
ILAAP	Internal Liquidity Adequacy Assessment Process	TARGET2-BNB	Bulgarian system component of TARGET 2
IMF	International Monetary Fund	TLTRO-III	Targeted longer-term refinancing operations
IOBFR	System for Budget and Fiscal Reserve Information Servicing	VaR	Value-at-Risk
		XAU	troy ounce gold
		XDR	currency code for special drawing rights

Summary

In 2021, the global economy continued to recover after the significant decline in 2020 caused by the unprecedented anti-epidemic measures to contain the COVID-19 pandemic. The economic recovery was uneven across regions and economic sectors, its rates being affected by a tightening and easing of anti-epidemic measures, accommodative fiscal and monetary policies and logistical bottlenecks in global supply chains. The anti-epidemic measures taken throughout the year were much more adapted and targeted compared to the more stringent and restrictive measures implemented in 2020. Global GDP in real terms (real GDP) grew by 4.4 per cent, reaching in the third quarter of 2021 its level of the fourth quarter of 2019. The global economic indicator (global PMI) reported a substantial increase in global economic activity in the second quarter of the year, reaching in May 2021 its highest value since 2006. In the second half of 2021, PMI indices declined in both services and manufacturing, remaining, however, at historically high levels. In 2021, US GDP grew by 5.7 per cent in real terms, which is the highest index growth since 1984. It was mainly driven by private consumption, underpinned by significant accommodative fiscal and monetary policy measures in the country. China's GDP rose unevenly by 8.1 per cent in 2021, recording a higher growth in the second and fourth quarters on a quarterly basis. The pace of economic activity in China slowed over the two remaining quarters of the year mostly due to COVID-19 containment measures introduced locally. Euro area real GDP rose by 5.3 per cent in 2021 and economic activity in Germany, the main trading partner of Bulgaria, increased by 2.9 per cent. Private consumption and net exports had the main contribution to the increased euro area economic activity in 2021. Labour market conditions in the euro area improved in 2021, with the unemployment rate coming down to 7.7 per cent, from 8.0 per cent in 2020.

In 2021, Brent crude rose significantly on an annual basis, reflecting the higher demand for energy products in the process of global economic recovery and the limited supply by OPEC+ countries. Metal and food prices also exhibited a hike. In 2021, global inflation rose significantly to 5.5 per cent year-on-year as of December 2021. At the end of 2021, US annual inflation measured by the personal consumption expenditure price index significantly exceeded the target of 2.0 per cent set by the Federal Open Market Committee (FOMC) reaching 5.8 per cent, its highest level since 1982. Annual euro area inflation also accelerated substantially to 5.0 per cent at end-2021, with higher prices of energy products such as transport fuels, electricity and natural gas, contributing most to euro area's consumer price growth. Significant increases in energy prices led to price rises in food and services.

In the first three quarters of 2021, amid heightened economic uncertainty as a result of the negative effects of the ongoing COVID-19 pandemic, the US and euro area central banks left their key interest rates and asset purchase programmes' parameters unchanged. Over that period the Federal Reserve and the European Central Bank (ECB) assessed the upward inflation dynamics as a transitory phenomenon, requiring no changes to their monetary policy stance. Over the last quarter of 2021, the US Federal Reserve System began to taper its quantitative easing policy after it was considered that the US inflation has remained for a sufficiently long period above the central bank's target level and a rapid progress toward the employment target has been achieved. In December the ECB also announced its intention to taper quantitative easing, though maintaining its opinion of the temporary nature of rising inflation in the euro area.

Following the decline in real GDP in 2020 as a result of the COVID-19 global anti-epidemic measures, Bulgaria's economic activity in 2021 began to recover, with overall growth for the year amounting to 4.2 per cent. Private consumption underpinned by the strong growth in nominal labour income, the significant increase in net fiscal transfers and strengthening consumer confidence had the main contribution. In 2021 labour market conditions started to improve, with both the number of man-hours worked and the number of employed growing. The improvement of the economic activity in the context of limited labour supply, upward dynamics of wages in the public sector and rises in the minimum wage contributed to the acceleration in the growth of compensation *per* employee to 9.5 per cent in 2021 (7.2 per cent in 2020).

Consumer price inflation tended to accelerate throughout 2021 to reach 6.6 per cent by December, with energy products contributing most to its dynamics. Accelerated food inflation reflected the appreciated food commodities in international markets and spill-over effects of higher prices of electricity, fuels and other products used by the sector for intermediate consumption. Core inflation acceleration was driven by the growth in final consumption expenditure of households, higher unit labour costs and emerging indirect effects of higher food and fuel prices.

In 2021 non-government sector's deposits continued to rise at high rates on an annual basis, with growth moderating from September to reach 9.1 per cent in December. Maintenance of very low rates coupled with accelerated inflation stimulated households to redirect a portion of their free funds from savings to consumption or to seek opportunities for investment or store of value as alternatives to deposits. The slowdown in deposit growth was further aggravated by the fees introduced by most banks for deposited cash above a certain amount. Annual growth of loans to non-financial corporations and households accelerated, driven mainly by growth in credit to households, which was particularly strong in housing loans. Persistently low lending rates coupled with accelerating inflation and a favourable housing market outlook have stimulated demand for credit. On the supply side, the significant volume and low cost of attracted funds, the competition and the high liquidity in the banking sector contributed to credit standards easing after their significant tightening in 2020.

In 2021 the budget balance on the consolidated fiscal programme was negative (-2.9 per cent of GDP). Fiscal reserve deposit funds rose by BGN 1211 million from the end of 2020, amounting to BGN 9736 million (7.3 per cent of GDP), of which BGN 9170 million of deposits with the Bulgarian National Bank (BNB). The year saw positive net financing of the budget by government securities on the domestic market and positive external debt financing.

In managing gross international reserves, the BNB maintained a conservative policy to ensure high security and liquidity. Owing to the continued uncertainty in 2021, mainly surrounding economic consequences of the spread of new variants of the SARS-CoV-2 virus, most of the additional investment restrictions introduced already in March 2020 remained in place. In early 2021 certain additional investment restrictions introduced in the previous year and related to investment limits for particular asset classes were relaxed to some extent. Some of the prohibitions on deposit acceptance by BNB counterparty banks were repealed. Following a significant improvement in the economic situation in major economic regions and the subsequent relative normalisation of financial markets in mid-year, the BNB made further changes to ease the investment restrictions introduced in 2020 by increasing investment limits for certain asset classes, and re-allowed exposure to some of the issuers and counterparties with lower credit risk. Nevertheless, at the end of 2021 all credit constraints remained more conservative than those in the pre-pandemic period.

By end-2021 the market value of gross international reserves was EUR 34,597.24 million: up EUR 3749.03 million or 12.15 per cent on end-2020. In the period under review the exposure to credit risk remained limited and by end-2021 approximately 72 per cent of international reserves were invested into assets with the highest AAA long-term credit rating. The share of securities for the review period averaged 48.43 per cent and the average share of deposits in the structure of assets rose to 32.17 per cent, while cash rose to 19.13 per cent. Net income from assets in euro is the sum of three components: 1. income from gross international reserves investment in the original currency; 2. currency imbalance income; and 3. liabilities expenditure/income. As a result of these three components, net earnings from BNB international reserve management came to EUR -38.44 million, or -0.16 per cent total profitability for 2021. BNB income from international reserve investment was negative at EUR -163.61 million or -0.61 per cent yield for the period. This reflected mainly strongly negative interest rates on deposits with first class foreign banks and negative yield on euro-denominated high credit quality bonds in which in line with the LBNB most BNB international reserves are invested. Currency imbalance income for the year was positive at EUR 75.09 million. This reflected primarily movements in the market price of monetary gold measured in euro. As a result of BNB interest rate policy the net financial result from liabilities for 2021 was positive at EUR 50.08 million corresponding to 0.20 per cent annual return.

Implementing, operating, and overseeing efficient payment systems are important central bank functions. National payment systems functioned effectively and provided payment flow continuity. In 2021 RINGS, a real-time gross settlement system, operated by the BNB, processed 85.6 per cent of non-cash lev payments in Bulgaria. RINGS payments numbered 1,148,925, up 13 per cent on 2020, their value reaching BGN 1,365,413 million (25 per cent growth on the previous year). Over the review period the national system component of the Trans-European Automated Real-time Gross settlement Express Transfer system for the euro run by the BNB – TARGET2-BNB – processed 244,741 payments (up 4.7 per cent on 2020) for EUR 828,351 million (up 28.5 per cent on 2020).

The Bank regulates and oversees payment system operators with settlement finality, payment service providers and electronic money issuers in Bulgaria. In 2021 the Bank completed two supervisory inspections of payment service providers and started one supervisory inspection of a payment service provider licensed by the BNB. The Bank inspected 13 institutions to find out whether they conduct operations without due licence or registration under the Law on Payment Services and Payment Systems. One thematic review of payment service providers in Bulgaria was brought to an end. One thematic review of a payment card scheme, which was initiated in 2020, was also completed. Over the reporting period the BNB granted two electronic money institution licences and terminated another payment institution licensing procedure.

The Bank has a monopoly on banknote and coin issue in Bulgaria. Its currency is mandatorily acceptable as legal tender at face value without restriction. BNB issue and cash operations include: banknote printing, coin minting, accepting, delivering, repaying, processing, authenticity and fitness checking of Bulgarian banknotes and coins and foreign currency, exchanging damaged Bulgarian banknotes and coins, and scrapping unfit Bulgarian banknotes and coins. By the close of 2021 circulating banknotes numbered 569.1 million (legal tender) worth BGN 24,137.9 million. In a year their number rose 21.4 million (3.9 per cent) and their value BGN 3386.1 million (16.3 per cent). As in recent years, faster growth in the number of high value banknotes (BGN 50 and 100) compared with other banknotes was sustained. In

late 2021, 2865.8 million coins (legal tender) worth BGN 517.8 million circulated. Over the year their number rose by 143.7 million (5.3 per cent), and their value by BGN 34.0 million (7.0 per cent). The upward trend in the number of circulating coins of all denominations continued. The share of retained non-genuine Bulgarian banknotes and coins remained at very low levels: 0.00022 per cent and 0.000023 per cent of the total number of circulating banknotes and coins (legal tender) by the end of 2021. The BNB tested sorting machines and customer operated machines in line with identification and fitness standards into 13 credit institutions, five service providers and seven representatives of machine producers under Ordinance No 18 on the Control over Quality of Banknotes and Coins in Cash Circulation.

The Bank regulates and supervises banks in Bulgaria to maintain banking system stability and protect depositors' interests. Banking Supervision focused on analyses and assessments of the financial position of the banking system and individual banks to identify potential risks and initiate remedial measures in due time.

Macroprudential supervision of the BNB over the review period focused on monitoring and studying developments in inherent risks affecting the banking system stability and also on the measures to safeguard its sustainability. Given the uncertainty related to economic effects of the COVID-19 spread and imposed containment measures, in January 2021 the BNB Governing Council took a decision on the macroprudential measure for capitalising entire banks' profits for 2020 and not distributing elements of own funds formed in previous periods. Over the reporting period the individual and aggregate limits on banks' foreign exposures set in March 2020 to limit credit risk and concentration risk on their balance sheets remained effective. With its May and June 2021 decisions the Governing Council maintained the countercyclical capital buffer rate applicable to credit risk exposures in Bulgaria at 0.5 per cent. In September 2021, given accelerating growth of lending activity, especially in the housing loan segment, as well as related preconditions for increasing indebtedness and accumulation of cyclical risks which may result in an increase in the volume of non-performing loans in case of an economic activity downturn, the BNB Governing Council decided to raise the countercyclical capital buffer rate to 1.0 per cent, in force as of 1 October 2022. In December 2021, taking into account accelerating growth of lending activity, especially in the housing loan segment, the BNB Governing Council decided to raise the countercyclical capital buffer rate to 1.5 per cent, in force as of 1 January 2023. Following the review of the systemic risk buffer (SRB), the BNB Governing Council confirmed the rate of 3 per cent, with the aim of maintaining banks' resilience to structural risks threatening the stability of Bulgaria's financial system.

In 2021 off-site supervision remained focused on current monitoring of credit institutions financial position and assessment of their risk profile. Key risk indicators, the scope of which was updated according to the applied methodology within the Single Supervisory Mechanism (SSM), continued to be monitored. Supervisors carried out an annual review of banks' Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) reports for 2020. Within the Supervisory Review and Evaluation Process (SREP), risk assessments as of 31 December 2020 were prepared for the five subsidiary banks of EU banking groups under the ECB direct supervision, as well as joint decisions on the capital and liquidity of these groups. Based on the annual plan of on-site inspections of so-called less significant institutions, which were subject to BNB direct supervision, in 2021 simultaneous 'horizontal' inspections were performed in 12 banks. Over the review period the supervisory inspections for compliance with the requirements of the Law on Measures against Money Laundering (LMML), the Law on Measures

against Financing of Terrorism (LMFT), as well as the European Banking Authority Guidelines in this area were conducted in seven banks. Over the review period BNB supervisory information service included preparation of risk assessments in information and communication technologies (ICT) used by banks, development of practices regarding information services of the supervisory process and implementation of the requirements arising from the process of full integration of the information exchange and processing of supervisory information into the SSM system. As regards the regulatory framework, in early year the BNB participated in technical meetings related to the drafting of the Law on Amendment of the Law on Credit Institutions (LCI), which was adopted by the National Assembly on 3 February 2021 and published in the *Darjaven Vestnik* on 12 February 2021. The amendments transposed into Bulgarian legislation Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures. In 2021 the BNB Governing Council adopted Ordinances on Amendment of Ordinances Nos 2, 4, 7 and 20, as well as new BNB Ordinance No 8 on Capital Buffers, the Combined Buffer Requirement, Restrictions on Distributions and the Guidance on Additional Own Funds, repealing BNB Ordinance No 8 of 2014. The synchronisation of supervisory practices between the BNB and the SSM continued to be a priority of banking supervision activities.

In 2021 the banking system in Bulgaria operated in an environment of gradually recovering economic activity amid continuing uncertainty caused by the changing epidemic situation in Bulgaria and globally. The BNB policy aimed at building-up capital buffers in the banking system, the macroprudential measures in force during the period and improving the economic situation combined with the sustainable growth of non-government sector's deposits contributed to the retention of capital and liquidity indicators of the banking system at high levels. Liquidity coverage ratios (LCR) and the net stable funding ratio (NSFR), effective from 28 June 2021 exceeded significantly the minimum regulatory requirements for both the banking system and individual banks. Over the period the volume of non-performing loans and advances and their share in total loans and advances fell, reflecting loan sales and write-offs. The improved economic environment and the non-legislative moratorium on loan repayments also had a favourable effect on credit portfolio quality indicators. In 2021 banks' retained profits picked up on an annual basis under the influence of increased income, largely from fees and commissions, and decreased charges of credit institutions.

The Law on the Recovery and Resolution of Credit Institutions and Investment Firms (LRRCIIF) tasks the Bank with resolution of credit institutions and other legal entities, which are subject to supervision or consolidated supervision by the BNB. The BNB performs the function of a resolution authority within the framework of the Single Supervisory Mechanism (SSM). The BNB as a resolution authority has carried out fully the management of the Banks Resolution Fund (BRF). In 2021 the BNB as a resolution authority and national resolution authority focused primarily on preparing, reviewing and updating resolution plans of credit institutions and setting a minimum requirement for own funds and eligible liabilities (MREL). In view of the accession to the SRM, in early 2021 work on updating the BNB internal regulatory framework related to the resolution function continued. With entry into force of the amendments to the LRRCIIF of 12 February 2021 transposing into Bulgarian legislation the provisions of Directive (EU) 2019/8791, the internal methodological framework for setting the minimum requirement for own funds and eligible liabilities (MREL) of credit

institutions that are within the scope of BNB direct powers was revised. In 2021 the BNB Governing Council adopted resolution plans for six credit institutions on an individual basis and resolution plans for four credit institutions on a consolidated basis (group level). The BNB set MREL for the relevant credit institutions along with the development and maintenance of the resolution plans. In the course of reviewing and revising resolution plans of the five credit institutions falling within the direct powers of the Single Resolution Board (SRB), in 2021 the BNB Governing Council adopted decision-voting positions of the SRB Extended Executive Session for 2020 resolution plans of five cross-border groups with subsidiaries licensed in Bulgaria along with setting MREL, supporting SRB draft decisions on two cross-border groups and not supporting on three groups. In line with the function of BRF management, in the first half of 2021 the BNB Governing Council adopted Ordinance No 41 on Determining the Amount of the Individual Annual Contributions by Branches of Third-country Credit Institutions to the Bank Resolution Fund. In accordance with the allocation of powers between the SRB and the BNB in April 2021 the BNB Governing Council determined 2021 annual contributions of branches of third-country credit institutions to the BRF at total of BGN 72.6 thousand. In April 2021 the SRB determined the contributions for 2021 to be raised from the credit institutions licensed in the Republic of Bulgaria and transferred from the BNB to the Single Resolution Fund (SRF) at a total amount of EUR 15,289 thousand. In view of the funds available in the BRF sub-fund and the possibility to use them provided for in the LRRCIIF, the BNB Governing Council decided contributions due by credit institutions to the SRF for 2021 to be deducted from the funds available in the relevant sub-fund. As of 31 December 2021 funds in the BRF sub-fund established to raise and transfer contributions of credit institutions to the SRF came to BGN 506,939 thousand and funds in the sub-fund established to raise contributions from branches of third-country credit institutions amounted to BGN 683 thousand.

By participating in the committees and working groups of the European System of Central Banks (ESCB), the European Commission, the EU Council, the European Systemic Risk Board (ESRB), the European Banking Authority (EBA), and the national Council for European Affairs, the BNB contributed to formulating Bulgarian standpoints on economic governance areas and the financial sector. During the review period the BNB consulted the ECB in writing on the draft laws amending the LCI, the Law on the BNB (LBNB) and the Law on Combating Corruption and Withdrawal of Illegally Acquired Property in line with the implementation of recommendations in the 2020 Convergence Report of the ECB and EC.

In 2021 the BNB continued to collect, process and disseminate the official monetary and interest statistics, external statistics, statistics of quarterly financial accounts of all institutional sectors, statistics of non-bank financial institutions, including leasing companies and investment funds, specialised lenders and insurance and reinsurance undertakings. In line with the newly introduced reporting requirements for monetary and interest statistics and on the grounds of Ordinance on amendment of BNB Ordinance No 17, in February 2021 the BNB significantly broadened the scope of the published information on monetary and interest rate statistics and on deposits and loans broken down by quantitative categories and business. In 2021 the BNB introduced the latest International Monetary Fund (IMF) methodological requirements for gross external debt data, thus synchronising all areas of external sector statistics.

The Bulgarian National Bank maintains the Central Credit Register (CCR): an information system (IS) on customer debt to banks, financial institutions, payment institutions and electronic money institutions extending loans under Article 21 of the Law on Payment Services and Payment Systems (LPSPS) (institutions within the meaning

of Article 56, paragraph 1 of the LCI). As of 31 December 2021 the CCR listed 6172 thousand loans, with their balance sheet value amounting to BGN 94,445 million. Over 2021 institutions and bodies entitled to Register access under Article 56, paragraphs 1 and 3 of the LCI conducted searches on 8664 thousand individuals. In 2021 there were 15,816 paper applications for CCR statements: 15,464 by individuals and 352 by legal entities. Over the review period, 2726 natural persons obtained electronic statements on CCR information.

The BNB maintains the Register of Bank Accounts and Safe Deposit Boxes (RBASDB): an electronic information system on bank and payment account numbers, holders and attorneys, beneficial owners of the account holders, data on account preservation orders, bank deposit box holders and attorneys. In 2021 the Register logged 14.81 million active bank accounts and 485 thousand payment accounts kept by payment institutions and electronic money institutions along with 31.52 thousand safe deposit box hires, including records of 3.06 million new accounts and 3.20 million closed accounts. In 2021 bodies and institutions entitled to Register's access conducted searches on total 649,604 individuals. In 2021, there were 5177 applications for RBASDB paper statements: 4956 by individuals and 221 by legal entities. Over the review period, 352 individuals obtained electronic statements from the RBASDB.

Acting as fiscal agent and depository, the BNB maintains, develops and improves electronic systems for budget and fiscal reserve information servicing, auctions, settlement and securities trade servicing and keeps the Register of Special Pledges. In 2021 eleven auctions for domestic government securities were organised *via* the Government Securities Auction System (GSAS). The total nominal value of domestic government securities offered for sale was BGN 4000 million and government securities sales volume was BGN 3800 million, with over 78.6 per cent of all sold government bonds bought by banks.

Economic research and projections support the Bank's management in making decisions and delivering economic policy stance. Implementing the BNB Research Plan for 2021–2022, factors behind the dynamics of money in circulation in Bulgaria, the labour productivity, profitability and financial performance of companies in Bulgaria and other EU Member States were studied in 2021. The first edition of the BNB Conference Papers series was published, including research, speeches and discussions from the Conference on the 140th Anniversary of the Bank, held in July 2019.

Over the first half of 2021 main priorities in the field of human resource management related to ensuring and maintaining a safe work environment at the BNB by timely designing and implementing COVID-19 containment measures and maintaining the established organisation of the working processes necessary for the smooth fulfilment of the BNB objectives, functions and tasks in the context of a pandemic. In 2021 the number of employees rose by 1.5 per cent from 2020, reaching 908 as of 31 December 2021 from 895 as of 31 December 2020. Over the reporting period staff turnover increased by 1.3 percentage points from 2020 to 6.2 per cent. In the age structure, the share of employees aged over 51 rose by 1.2 percentage points to 40.6 per cent, followed by the 41 to 50 year olds (31.3 per cent), 31 to 40 year olds (20.5 per cent) and to 30 year olds (7.6 per cent).

BNB internal audit conforms to the International Standards for the Professional Practice of Internal Auditing, the Code of Ethics of Internal Auditors, ESCB Internal Auditor Committee Rules, and Audit Rules approved by the BNB Governing Council. In 2021 there were ten audits of which six under the annual Internal Audit Directorate Programme approved by the BNB Governing Council and four under the ESCB Internal Auditors Committee Programme. Audits sought assurance of adequate and

effective control, corporate governance, and risk management for effective attainment of objectives and tasks; reliability and integrity of financial and operational information; effective and efficient operations and programmes; asset safeguarding; legal, regulatory, internal rule, policy, procedure and contractual observance.

The BNB budget underpins Bank performance. In 2021 the BNB spent BGN 112,848 thousand or 85.6 per cent of approved annual budget, including currency circulation costs of BGN 33,246 thousand. Expenditure on the Bank's investment programme was BGN 9942 thousand or 34.4 per cent of annual budgeted funds for this item.

I. Economic Development in 2021

The External Environment

In 2021, the global economy continued to recover after the recession in 2020 caused by the unprecedented anti-epidemic measures to contain the COVID-19 pandemic. The economic recovery was uneven across regions and economic sectors, its rates being affected by a tightening and easing of anti-epidemic measures, accommodative fiscal and monetary policies and logistical bottlenecks in global supply chains. The anti-epidemic measures taken throughout the year were better adapted and targeted compared to the more stringent and restrictive measures implemented in 2020. Global GDP¹ in real terms grew by 4.4 per cent (-3.7 per cent in 2020), marking the highest growth of the global economy since 2000 and reaching in the third quarter of 2021 its level of the fourth quarter of 2019. The global economic indicator (global PMI) reported a substantial increase in global economic activity in the second quarter of the year, reaching in May 2021 its highest value since 2006. Across economic sectors, economic indicators over that period showed stronger recovery in activity in the sector of services, which were most affected by the containment measures in 2020. Data suggest more moderate rate of recovery in manufacturing, with a significantly increased time of delivery due to bottlenecks in global supply chains of commodities and raw materials. In the second half of 2021, PMI indices declined in both services and manufacturing, remaining, however, at historically high levels.

Globally, industrial output and trade increased by 4.7 per cent and 7.1 per cent on an annual basis in 2021², driven by the strong demand for industrial goods and equipment following the significant decline in production and supplies in 2020, when more stringent anti-epidemic measures were in place. Industrial output in developed economies picked up 4.8 per cent on an annual basis, while that in emerging market economies stood at 4.4 per cent.

In 2021, US GDP grew by 5.7 per cent in real terms, which is the highest index growth since 1984. It was mainly driven by private consumption (5.3 percentage points), underpinned by significant accommodative fiscal and monetary policy measures in the country. To mitigate economic fallout from the pandemic, in early 2021 the USA adopted a sizeable package of fiscal policy measures worth USD 1.9 trillion³, which included, among other things, a direct financial support to households and small enterprises. In the second half of the year a USD 1 trillion Infrastructure Investment and Jobs Act was adopted. China's GDP rose unevenly by 8.1 per cent in 2021, recording a stronger growth in the second and fourth quarters on a quarterly basis. The pace of economic activity in China slowed over the two remaining quarters of the year due to COVID-19 containment measures introduced locally, disruptions in supply chains, power shortages in certain large industrial areas and regulatory restrictions in the real estate sector.

¹ Based on World Bank data as of 11 March 2022.

² Based on CPB Netherlands Bureau for Economic Policy Analysis data as of 11 March 2022.

³ Referred to as the US dollar below.

Major Macroeconomic Indicators

(per cent)

	Average annual real GDP growth			Inflation (end of year)			Unemployment rate (average annual)		
	2019	2020	2021	2019	2020	2021	2019	2020	2021
USA	2.3	-3.4	5.7	1.7	1.3	5.8	3.7	8.1	5.3
China	6.0	2.2	8.1	4.5	0.2	1.5	3.6	4.0	4.0
Europe									
EU	1.8	-5.9	5.3	1.6	0.2	5.3	6.8	7.2	7.0
Euro Area	1.6	-6.4	5.3	1.3	-0.3	5.0	7.6	8.0	7.7
United Kingdom	1.7	-9.4	7.5	1.4	0.8	4.8	3.8	4.5	4.5

Notes: The EU group currently consists of 27 Member States of the European Union, excluding the United Kingdom, which is not part of the EU as from 1 February 2020. Non-seasonally adjusted data on unemployment. The unemployment rate for the UK for all years is calculated on the basis of quarterly data. Data published on 11 March 2022 are used. Inflation for China, EU and euro area is calculated based on consumer price indices. The US inflation is measured by the personal consumption expenditure price index and the UK inflation by consumer price indices, including owner-occupiers' housing costs.

Sources: Eurostat, Bureau of Economic Analysis (the USA), Bureau of Labor Statistics (the USA), Office of National Statistics (the UK), the National Bureau of Statistics of China, BNB computations.

Euro area real GDP increased by 5.3 per cent in 2021. The recovery of economic activity in the euro area countries was most pronounced in the second and third quarters of the year following the gradual easing of COVID-19 containment measures. Growth moderated in the last quarter due to a new tightening of anti-epidemic measures. By final consumption expenditure, private consumption and net exports made the major contribution to the economic activity growth in the euro area in 2021. Until June 2021, economic indicators showed a significant recovery of economic activity, with the composite PMI for the euro area reaching in this month its highest value since 2006 (60.2 points). Over the following months of the year economic activity growth slowed due to the continuing bottlenecks in supply chains, price hikes in raw materials and uncertainty surrounding the measures to curb the spread of the new coronavirus variants. Economic indicators declined in all sectors, however, in particular in services. During the year in Germany, the main trading partner of Bulgaria, real GDP rose by 2.9 per cent on an annual basis in 2021, while in Italy, the other Bulgaria's major trading partner, growth rate was higher: 6.6 per cent. Labour market conditions in the euro area improved in 2021, with the unemployment rate coming down to 7.7 per cent from 8.0 per cent in 2020.

In 2021, Brent crude rose significantly on an annual basis in both US dollars (by 50.2 per cent) and euro (by 61.2 per cent). Oil price rises reflected the higher demand for energy products in the process of global economic recovery and the limited supply as a result of the compliance with agreed production quotas by OPEC+ countries. Episodes of increased geopolitical tensions in key oil exporting countries were additional factor behind oil price hike. Throughout 2021, metal and food prices rose on an annual basis in dollars and euro, with the main driving forces being global demand growth, the effects of higher energy prices, and production and logistic difficulties.

In 2021, global inflation rose significantly to 5.5 per cent⁴ year-on-year as of December 2021, reaching its highest rate since 2008. The major factors behind inflation acceleration worldwide included strong consumer demand for goods and services following last year's restrictions, higher energy product prices coupled with bottlenecks in global supply chains of commodities and raw materials as well as the effects of accommodative policy of governments and central banks. At the end of 2021, US annual inflation measured by the personal consumption expenditure price

⁴ Based on seasonally adjusted World Bank data as of 11 March 2022.

index significantly exceeded the target of 2.0 per cent set by the Federal Open Market Committee (FOMC) reaching 5.8 per cent (1.3 per cent at the end of 2020), its highest level since 1982. Annual euro area inflation also accelerated substantially to 5.0 per cent at end-2021 (0.3 per cent in December 2020) and core inflation (excluding food, energy, alcohol and tobacco products) picked up to 2.6 per cent (from 0.2 per cent in December 2020). Higher prices of energy products such as transport fuels, electricity and natural gas, contributed most to euro area's inflation surge. Significant increases in energy prices had an impact on prices of food, clothing, air tickets as well as of restaurant and hotel services. The base effect of the temporary reduction of certain VAT rates in Germany in the second half of 2020 contributed to inflation acceleration in the euro area over that period.

In the first three quarters of 2021, amid heightened economic uncertainty as a result of the negative effects of the ongoing COVID-19 pandemic, the US and euro area central banks left their key interest rates and asset purchase programmes' parameters unchanged. Over that period the Federal Reserve and the ECB assessed the upward inflation dynamics as a transitory phenomenon, requiring no changes to their monetary policy stance. Over the last quarter of 2021, the US Federal Reserve System began to taper its quantitative easing policy after it was considered that the US inflation has remained for a sufficiently long period above the central bank's target level and a rapid progress toward the employment target has been achieved. In December the ECB also announced its intention to taper quantitative easing, though maintaining its opinion of the temporary nature of rising inflation in the euro area⁵.

The Bulgarian Economy

Following the reported decline in real GDP in 2020, triggered by the spread of the COVID-19 pandemic and global anti-epidemic measures, the economic activity in Bulgaria in 2021 followed a trend of gradual recovery, with overall growth for the year amounting to 4.2 per cent. Economic activity acceleration was supported by the improved business and household sentiment, fiscal stimulus measures, as well as the ECB's ongoing accommodative monetary policy stance coupled with maintained negative interest rates, which weigh on interest rates in Bulgaria due to currency board arrangements. In addition, the higher number of employed and man-hours worked *per* employee along with the accelerated wage growth in 2021 in Bulgaria had positive effects on households' consumption. Broken by final consumption expenditure component, the increase in real GDP in 2021 was mainly driven by private consumption growth. The change in inventories and government consumption were other components contributing positively to the dynamics of economic activity, while investment in fixed capital and net exports contributed negatively.

Private consumption rose by 8.0 per cent in real terms in 2021, underpinned by the strong growth in nominal labour income, the significant increase in net fiscal transfers to households⁶, strengthening consumer confidence and lower savings rate.⁷ The increase in labour income in the economy reflected the accelerating growth of remunerations in both private and public sectors, including as a result of the minimum wage rise since early 2021.⁸ Enhanced demand for labour amid limited supply was another factor behind wage dynamics in the private sector.

⁵ For more information, see Central Banks' policies section of Chapter II.

⁶ Substantially increased pension costs were the main driver for the rise in net fiscal transfers to households in 2021.

⁷ To assess the household savings rate, the analysis employs data from the regular NSI Household Budget Survey.

⁸ From the beginning of 2021 minimum wage was raised from BGN 610 to BGN 650.

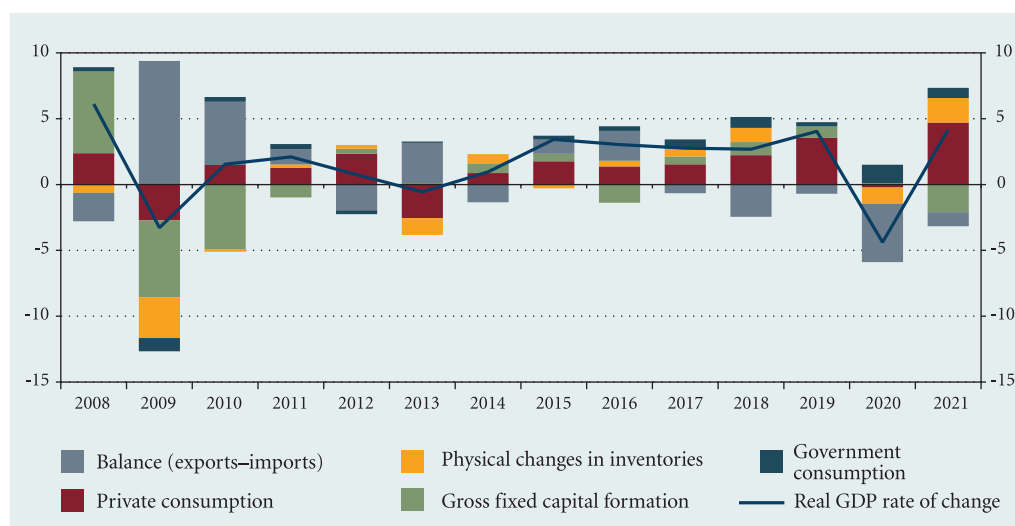
In 2021, government consumption rose by 4.0 per cent in real terms, driven by increased health spending due to additional measures launched to address the implications of the COVID-19 pandemic, as well as to increases in public sector staff and operating spending expenditure.

Investment in fixed capital decreased (-11.0 per cent in real terms) both public and private investment contributing to this effect according to BNB estimates⁹. While managers' sentiment regarding the future production activity improved, investment activity of firms remained weak over the year, reflecting the increased uncertainty in the economic environment and available spare capacity. The political cycle in Bulgaria, which resulted in a delay in the implementation of large infrastructure projects funded from the national budget and of capital expenditure financed with EU funds, contributed to the decline in general government investment. Potential factors for the increase in inventories in the economy were the low level in 2020 and accumulation of stocks (including in the form of work in progress) in line with the gradual recovery of domestic economic activity.

Net exports made a negative contribution to the change in GDP in 2021, entirely driven by the trade in goods and partially reflecting an effect of the 2020 low basis. Concurrently, the significant rise in final household consumption expenditure, which is characterised by a high import component, also boosted the strong growth in imports of goods. By commodity group, growth of imports was broad-based in 2021, reflecting the increase in both raw materials and foods and industrial goods (consumer and investment goods). The dynamics of exports of goods followed the recovery of external demand for Bulgarian goods and services. Trade in services contributed positively to the growth of economic activity, mainly due to the partial recovery of travel and transport services of which Bulgaria is a net exporter.

GDP Change in Real Terms and Contribution by Component of Final Use

(per cent, percentage points on previous year, non-seasonally adjusted data)



Sources: the NSI, BNB calculations.

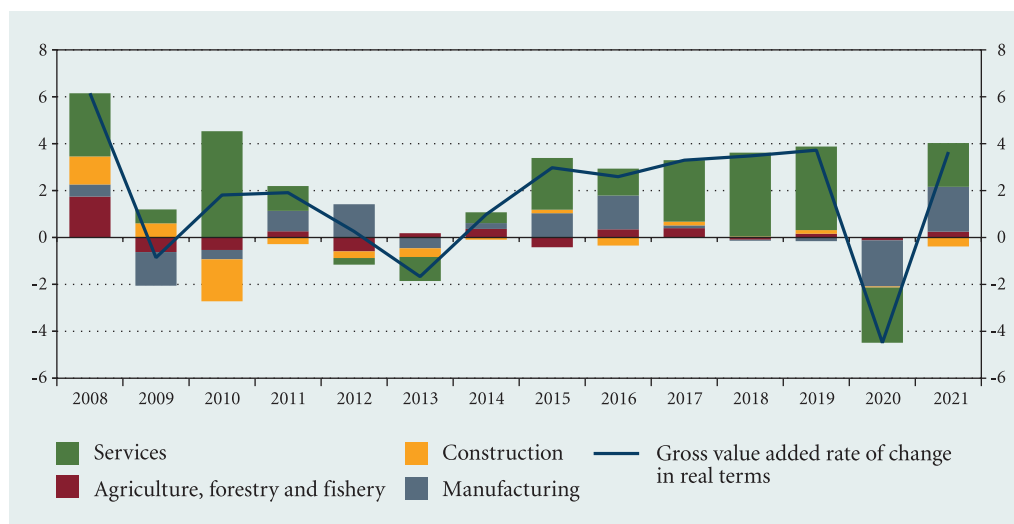
As regards developments across economic industries, the gross value added in 2021 rose by 3.6 per cent (a fall of -4.5 per cent in 2020), with improvements in economic

⁹ Private and government investment is estimated using published national accounts data on overall investment in the economy and general government investment data for 2021 included in the Updated medium-term budget forecast for 2022–2024 (published on 10 March 2022).

activity reported in all major sectors: industry, services and agriculture. The increase in value added in industry was driven by the manufacturing sub-sector and was in line with growth in exports of goods and domestic demand, while in the construction sub-sector value added fell on the previous year. Value added growth in services covered most of the sub-sectors, with a fall reported only in services related to trade, transport, accommodation and food service activities¹⁰, which remained adversely affected by the pandemic. The increase in value added in the agricultural sector was in tune with the better agricultural harvest reported over the year.¹¹

Gross Value Added Change in Real Terms and Contribution by Industry

(per cent, percentage points on previous year, non-seasonally adjusted data)



Sources: the NSI, BNB calculations.

In 2021 labour market conditions started to improve, underpinned by the gradual recovery of economic activity in the country and the continuous effect of the measures introduced in 2020 to maintain employment. Both number of man-hours worked and number of employed in the economy grew by 1.1 per cent and 0.2 per cent, respectively. Services and, to a lesser extent, manufacturing and construction contributed most to the growth of employed, while the decline in self-employed in agriculture limited the increase in the total number of employed for the year. Employment Agency data point to a drop in the rate of registered unemployment to 5.5 per cent in 2021 (7.4 per cent in 2020). At the same time, the NSI Labour Force Survey data show a slight increase in unemployment rate of the 15–64 age group to 5.3 per cent. The decrease in the labour force as a result of unfavourable demographic developments in Bulgaria and the continuous exit of some active persons from labour market translated into a fall of 72.0 per cent¹² in the labour force participation rate of the 15–64 age group for the second consecutive year.

The improvement of the economic activity in the country in the context of limited labour supply, upward dynamics of wages in the public sector and rises in the

¹⁰ It should read wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage and mail services; accommodation and food service activities under the Classification of Economic Activities.

¹¹ According to the second NSI estimates from the Economic Accounts for Agriculture the volume of agricultural output in 2021 rose by 17.5 per cent in real terms compared with 2020.

¹² When reporting data on unemployment and economic activity rates, changes in the methodology of the Labour Force Survey introduced in early 2021 on definitions of employed and unemployed persons should be taken into account. These changes are not reflected in data for previous years. As a result, data for 2021 are not directly comparable to those for 2020.

minimum wage contributed to the acceleration in the growth of compensation *per* employee to 9.5 per cent in 2021 (7.2 per cent in 2020). The growth rate of compensation *per* employee in real terms¹³ stood at 6.5 per cent (5.9 per cent in 2020).

In 2021 labour productivity¹⁴ in the total economy increased by 4.0 per cent with only construction and wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities and information and communication sub-sectors reporting a decline. As a consequence of the recovery of labour productivity growth, the increase in nominal unit labour costs decelerated to 5.4 per cent (9.5 per cent in 2020), with manufacturing, services and agriculture contributing to the slower growth. Real unit labour costs in the total economy fell by 0.8 per cent year on year.

Unit Labour Costs

(moving average, 2015 = 100)



Sources: the NSI, BNB calculations.

The gross operating surplus at current prices in the overall economy increased by 9.4 per cent in 2021. Financial performance of companies in manufacturing and services improved, while the gross operating surplus in construction and agriculture posted a decline compared with 2020.

In 2021 the GDP deflator rose by 6.2 per cent on an annual basis. Growth in deflators year on year was reported in all main final use components, in particular in exports of goods and services (14.7 per cent) and imports of goods and services (13.5 per cent). Government and private consumption deflators rose by 9.2 per cent and 3.6 per cent, respectively, while the deflator of fixed capital investment increased by 7.5 per cent from 2020.

Consumer price inflation tended to accelerate throughout 2021 to reach 6.6 per cent at the close of the year (0.0 per cent at end-2020)¹⁵. The upward dynamics of inflation was driven by external and internal factors on both demand and supply side. These factors can be broken down into four main groups: 1) a strong rise in international prices of energy products (oil, natural gas and electricity) and food; 2) price hike in

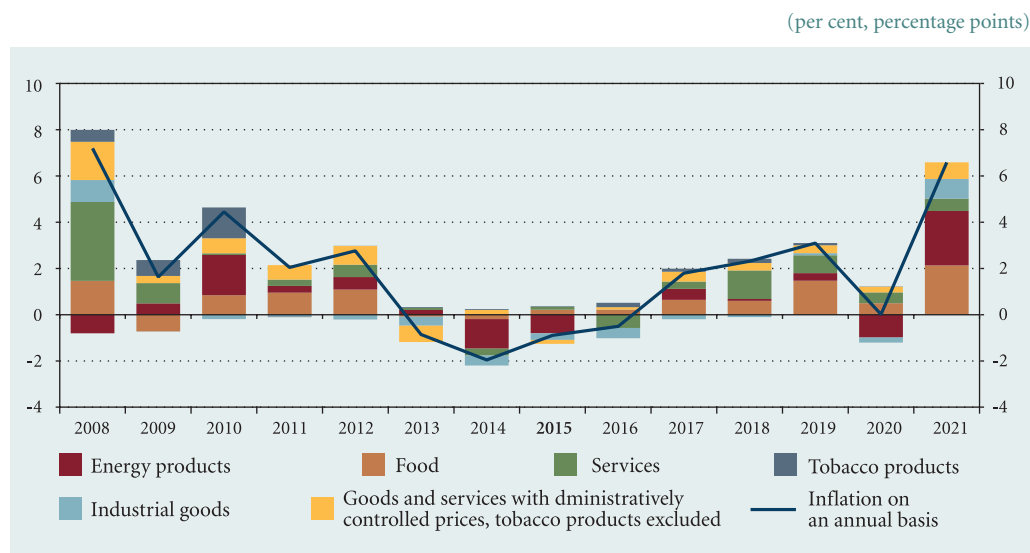
¹³ Real compensation *per* employee is obtained after the nominal compensation *per* employee is deflated by the Harmonised Index of Consumer Prices (HICP).

¹⁴ Real GDP measures labour productivity in the total economy. Sector labour productivity is calculated based on sector value added in real terms.

¹⁵ The analysis employs HICP data.

international transport of goods and in some final consumer goods due to bottlenecks in global supply chains; 3) an increase in unit labour costs; and 4) strong growth in private consumption in Bulgaria.

Annual Rate of Inflation and Contributions by Major Group of Goods and Services



Note: This structure corresponds to the Eurostat classification; tobacco products and goods and services with administratively controlled prices are presented separately. The index of goods and services with administratively controlled prices is calculated by weighing the relevant elementary aggregates of the consumer basket. Sources: the NSI, BNB calculations.

By HICP component, prices of energy products (excluding those with administratively controlled prices) contributed to the rise in inflation. At the end of the year they increased by 35.0 per cent in line with the growth in international Brent crude oil prices. Accelerated headline inflation by the end of 2021 reflected also the rise in food inflation as a result of both strong price rises in food commodities in international markets and spill-over effects of higher prices of electricity, fuels, fertilizers and other products used by the sector for intermediate consumption. Core inflation accelerated to 3.2 per cent (0.5 per cent at end-2020), which was mainly attributable to higher inflation in non-food goods, whereas the upward price dynamics in services was relatively less pronounced. Price movements in core HICP components reflected growth in final consumption expenditure of households, higher unit labour costs and emerging indirect effects of higher food and fuel prices. Year-on-year increases in regulated prices of heating and natural gas contributed most to the accelerated inflation in administratively controlled prices (including tobacco products).

Preliminary data on Bulgaria's balance of payments show that in 2021 the current account deficit amounted to EUR 1380.7 million (-2.0 per cent of GDP), which is an increase compared to the 2020 deficit (-0.3 per cent of GDP). The negative balance growth was mainly driven by higher deficit on trade balance and net primary income. The increased surplus in services trade limited partially the current account deficit.

The increased trade balance deficit reflected the strong growth of goods imports in real terms on an annual basis (11.6 per cent), which could be partly explained by the low base of 2020 and the enhanced private consumption. Concurrently, real volume of goods exports posted a lower growth (6.3 per cent) than that of imports. Despite significant price rises in natural gas and oil, of which the country is a net importer, the terms of trade for Bulgaria throughout the year were favourable, thus contributing to reduce the trade balance deficit.

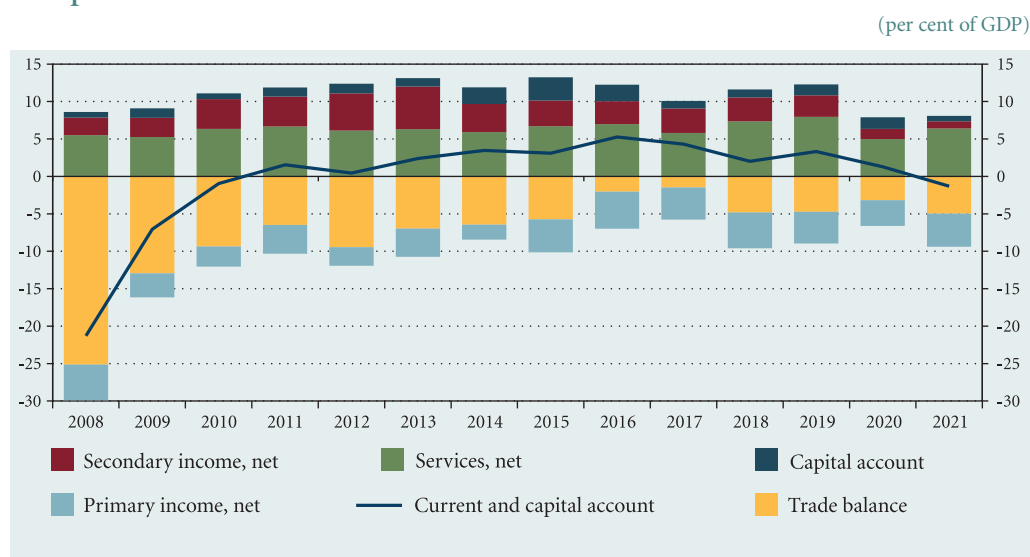
In 2021, net primary income deficit increased on an annual basis, mainly as a result of higher outflows from Bulgaria on investment income sub-item. Reinvested profits outside Bulgaria under this sub-item reported growth. Outflows on investment income sub-item were additionally influenced by the increase in distributed dividends, which was entirely due to other sectors¹⁶.

Balance of payments data indicate that the increase in the surplus on the net services trade item reflected the higher annual growth rate of services exports (24.2 per cent) compared to that of services imports (11.0 per cent). Telecommunications, computer and information services coupled with travel services were the main contributors to services exports growth. Transport services and higher costs of Bulgarian residents' travel abroad considerably added to the increase in services imports. Non-seasonally adjusted national account GDP data for 2021 show that the dynamics of real volumes and price components had a positive effect on the increase in the surplus on net services trade item compared to 2020.

BOP capital account surplus declined on an annual basis largely reflecting higher outflow under gross acquisition /disposal of non-produced non-financial assets, net sub-item.

Reflecting the above developments in current and capital account flows as of December 2021 a total negative balance was reported on both accounts at -1.3 per cent of GDP (against a surplus of 1.3 per cent of GDP for 2020).

Current and Capital Account Flow Dynamics and Contributions of Individual Components



Sources: the BNB, the NSI, BNB calculations.

A net inflow on BOP financial account amounting to EUR 518.5 million was reported in 2021. The negative balance on the financial account was mainly driven by the increased foreign liabilities of Bulgarian residents, reflecting the additional 859 million special drawing rights (SDR) allocated to Bulgaria on 24 August 2021 and the growth of banks' and non-bank private sector's foreign liabilities. At the same time, the net inflow of funds on the financial account was limited by the increase in other sectors' foreign assets mostly in the form of portfolio investment. Preliminary balance

¹⁶ It should read sectors other than banks. In 2021, like in 2020, banks did not distribute dividends, in line with the BNB decision of January 2021 on the macroprudential measure to capitalise entire banking system profits for 2020.

of payments data put direct investment liabilities (reporting direct investment into Bulgaria) at EUR 1522.8 million, down EUR 2383.5 million from 2020.

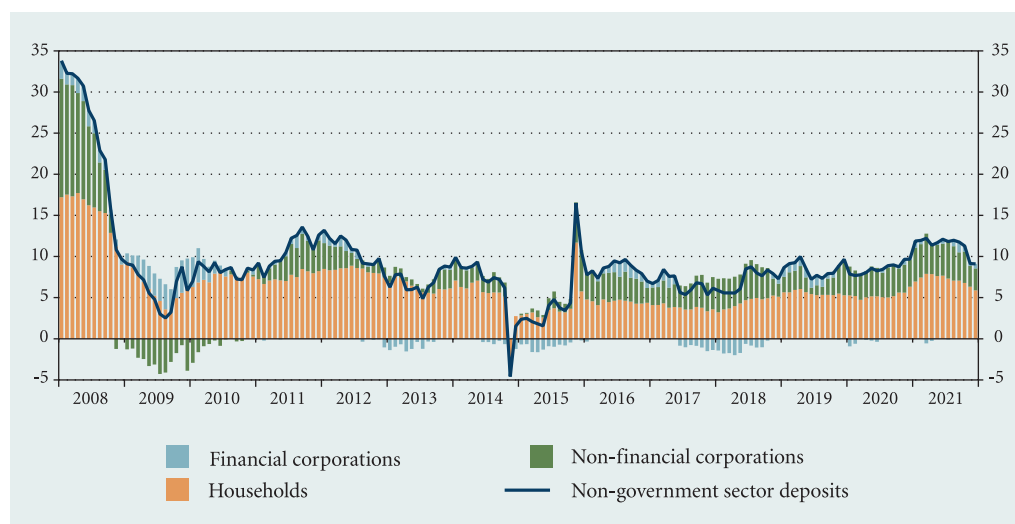
Owing to net current, capital, and financial account flows, the BNB international reserves increased by EUR 3606.3 million for 2021 according to the balance of payments data (valuation adjustments and revaluations excluded), driven also by the additionally allocated SDR. After taking into account changes in international reserves on the BNB Issue Department balance sheet, including valuation adjustments and price revaluations, by end-December 2021 they grew by EUR 3749.0 million from the end of 2020.

In December 2021, Bulgaria's gross external debt came to EUR 41.5 billion (61.2 per cent of GDP), up EUR 1902.0 million from end-2020. The increase reflected mainly the SDR received, which according to the new methodological requirements, applied as from July 2021 in producing gross external debt statistics, are to be reported as liabilities of the central bank.

Over the first eight months of 2021, annual growth of non-government sector's deposits accelerated from December 2020, slowing down since September and ending at 9.1 per cent on an annual basis at year-end. Lower growth rates were reported in both households and non-financial corporations. Maintenance of very low deposit rates coupled with accelerated inflation stimulated households to redirect a portion of their free funds from savings to consumption or to seek opportunities for investment or store of value as alternatives to deposits. The slowdown in deposit growth was further aggravated by the fees introduced by most banks for deposited cash above a certain amount and negative nominal interest rates on new corporate deposits.

Annual Growth of Non-government Sector Deposits and Contribution by Sector

(per cent, percentage points)



Note: The annual growth rate of non-government sector deposits in November 2015 reflects the exhausted base effect of KTB removal as a reporting unit from the monetary statistics in November 2014.

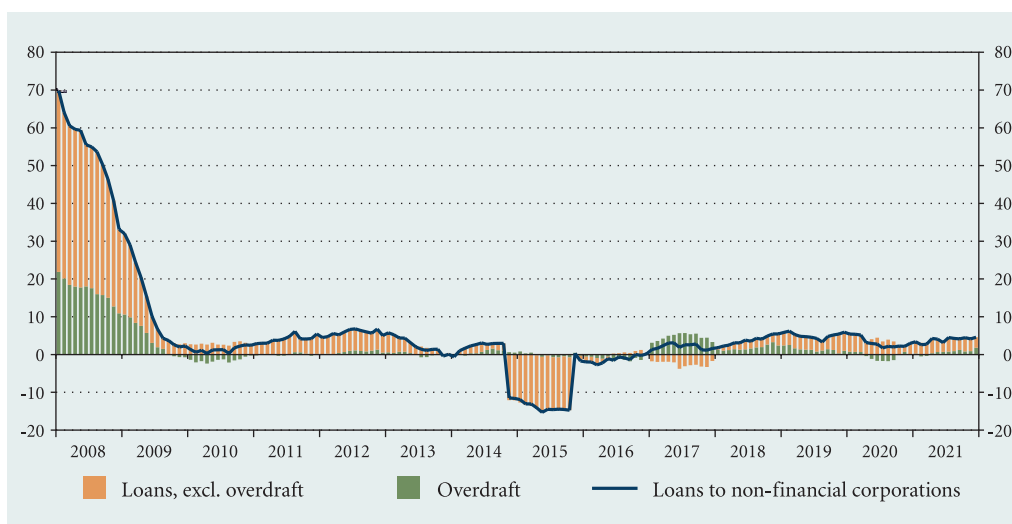
Source: the BNB.

Following the slowdown registered in 2020, annual growth in credit to non-financial corporations and households accelerated to reach 8.3 per cent at the end of the year (4.5 per cent in December 2020). The upward trend was driven by the growth in credit to households, which was particularly strong in housing loans. Historically low nominal lending rates coupled with accelerating inflation and a favourable housing market outlook have stimulated demand for credit. Negative real deposit rates boosted further the increasing demand for real estate. On the supply side, the

significant volume and low cost of attracted funds, competition and high liquidity in the banking sector have contributed to credit standard relaxation (in particular in mortgage lending) after significant tightening in 2020. The annual growth rate of credit to non-financial corporations accelerated more smoothly, reaching 4.6 per cent (3.0 per cent in December 2020).

Annual Non-financial Corporation Credit Growth and Contributions by Loan Type

(per cent, percentage points)

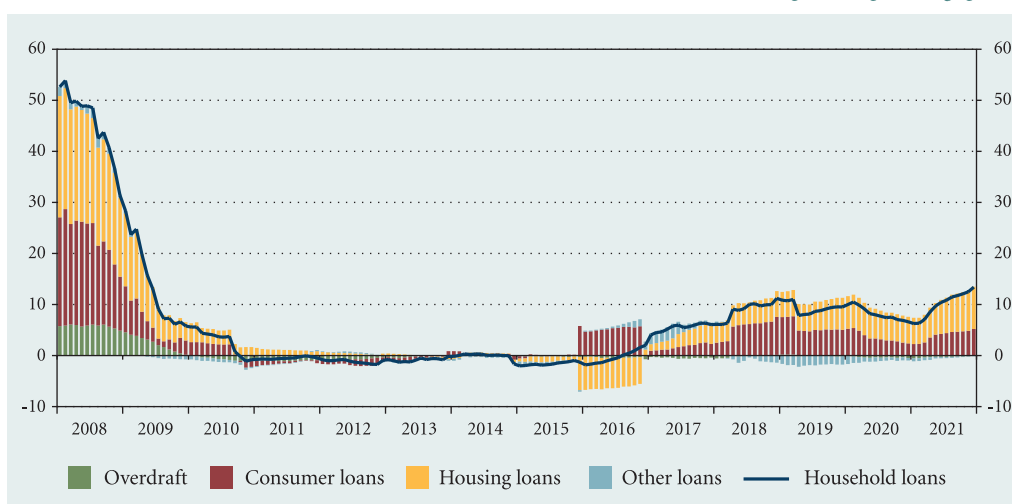


Note: The annual growth rate of loans to non-financial corporations in November 2015 reflects the exhausted base effect of KTB removal as a reporting unit from the monetary statistics in November 2014.

Source: the BNB.

Annual Household Credit Growth and Contributions by Loan Type

(per cent, percentage points)



Note: Based on additional information received from reporting units, a revision of household loans was carried out according to their purpose of use in December 2015–August 2019.

Source: the BNB.

BNB quarterly lending survey shows higher corporations' and households' demand for credit in 2021, and especially for household loans. According to banks' responses, stronger demand for household loans was supported by housing market prospects, interest rates, needs of funds for purchasing first and especially additional residence,

including goods intended for current consumption and durable goods. Another factor behind the increased demand for consumer loans was households' desire to finance their consumer expenditure by loans secured by real estate. Higher demand for bank resources required for working capital and, to a lesser extent, for inventories was the main contributor to the stronger demand for corporate loans.

On the supply side, banks reported easing in corporate and household credit standards following the significant tightening in 2020. Results from Bank Lending Survey show that easing of credit conditions in both sectors refers mainly to interest rates and credit maximum amount. Strong competition, high banking system liquidity along with significant volume and low cost of attracted funds were the main drivers behind easing of bank credit policies over the year.

In 2021, the banking system retained high levels of liquidity reflecting progressively rising attracted funds from residents and measures aimed to strengthen bank capital and liquidity, which the BNB launched in March 2020 and maintained in force throughout 2021. Liquidity coverage ratio (LCR)¹⁷ accounted for 274.1 per cent in December (against 278.9 per cent by close 2020).

As regards bank asset dynamics, in 2021 the highest growth was reported in claims on non-government sector and, to a lesser extent, in Bulgarian government bond portfolios. Banks' net foreign assets declined by BGN 0.4 billion as a result of stronger increase in foreign liabilities (by BGN 1.7 billion) compared to the rise in banks' foreign assets (by BGN 1.3 billion). Following the substantial increase in bank reserves in 2020, they rose by BGN 0.5 billion in 2021, with the upward trend reflecting mainly the minimum required reserves and the rising deposit base. Concurrently, banks' excess reserves declined from December 2020 levels.¹⁸

Banks' transactions with the BNB in reserve currency (euro) are their main instrument for lev liquidity management under Bulgaria's currency board. This takes advantage of the main function of the currency board: buying and selling levs for euro at the fixed exchange rate set by the Law on the Bulgarian National Bank. In 2021, the BNB purchased EUR 200 million net from banks.

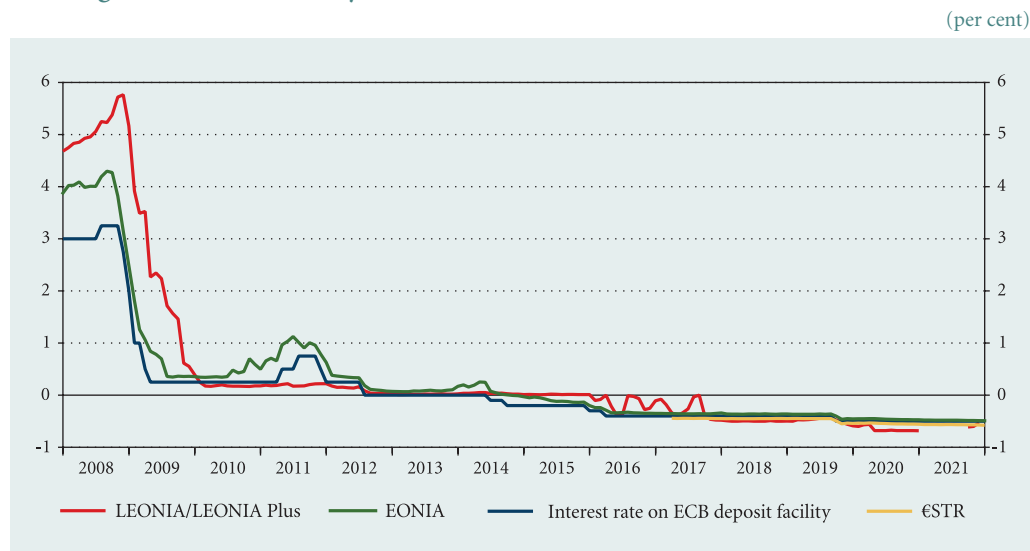
In 2021, interbank money market activity remained weak, driven by the high liquidity of the banking sector, which did not encourage banks to trade in this market. Interbank money market transactions amounted to a total of BGN 4.2 billion, down 80.4 per cent from the 2020 volume of transactions.

In 2021, unsecured overnight deposit transactions in levs were concluded in July, September, October and November. Over the year LEONIA Plus increased slightly to -0.53 per cent in November from its historically lowest level of -0.68 per cent in 2020. In November the spread between LEONIA Plus and €STR was 4 basis points (-13 basis points in December 2020).

¹⁷ The liquidity coverage ratio for the banking system is calculated as the ratio of liquidity buffer to net liquidity outflows.

¹⁸ For more information on banks' reserves with the BNB, see Chapter IV.

Overnight Interbank Money Market Rates



Notes: LEONIA Plus replaced LEONIA on 1 July 2017. LEONIA Plus monthly values are calculated as an arithmetic average for days when overnight unsecured lending transactions are concluded in the interbank market in levs. €STR (Euro Short-Term Rate) replaced EONIA with effect from 2 October 2019. EONIA (euro overnight index average) continued to be computed and published until the end of 2021 by applying a fixed spread to €STR.

Sources: the BNB, the ECB.

In 2021 the budget balance on the consolidated fiscal programme was negative at BGN -3910 million (-2.9 per cent of GDP)¹⁹. The realised deficit reflected the measures intended to mitigate the health and economic fallout from COVID-19 (5.0 per cent of GDP according to MF estimates)²⁰, and the funds recorded as expenditure on account of tax revenue overperformance on allowances to pensions for the first six months of 2022 and on compensation for high electricity and natural gas prices of non-household end users in the first quarter of 2022.²¹

Total CFP revenue and grants in 2021 accounted for 18.1 per cent on an annual basis driven mainly by tax and non-tax revenue. VAT revenue and social and health contributions were the main contributors to tax revenue growth. VAT revenue growth reflected increased private consumption and significantly higher oil, natural gas and electricity prices, which strongly raised producer prices and accelerated consumer price inflation. Non-tax revenue growth reflected the concession payment for Sofia airport received in April and higher receipts from auctioning of greenhouse gas emission allowances as a result of the noticeable rise in emission allowance prices.

The annual growth of total CFP expenditure was 17.6 per cent in 2021, largely due to increased social, subsidy and staff expenditure. The payment of monthly allowances to the pensions of all pensioners in the amount of BGN 50 in the first nine months of 2021 and of BGN 120 in the last three months of 2021, the funds amounting to BGN 750 million for monthly allowances of BGN 60 to pensions of all pensioners in the first six months of 2022 along with health insurance expenditure related to the COVID-19 pandemic contributed to the upward dynamics of social payments. Growth of subsidy expenditure was ascribable to the funds for compensation of end non-domestic electricity customers (including the funds of BGN 450 million provided

¹⁹ Based on monthly reports on the cash implementation of budget, published on the Ministry of Finance website.

²⁰ The estimated amount of government's discretionary measures related to COVID-19 is based on the updated medium-term budget forecast for the 2022-2024 period of 10 March 2022.

²¹ MF data show that the funds reported as expenditures, but unpaid in 2021, earmarked for allowances to pensions and energy subsidies in 2022 amount to a total of BGN 1.2 billion.

for payment of compensations in the first quarter of 2022) and the expenses of the Security of the Electricity System Fund, while funds paid under subsidised employment programmes contributed to a lesser extent.

By the end of December 2021 the total amount of the fiscal reserve, including claims on EU funds over certified expenses, advance and other payments reached BGN 10,750 million. Fiscal reserve deposit funds rose by BGN 1211 million from the end of 2020, amounting to BGN 9736 million (7.3 per cent of GDP), of which BGN 9170 million of deposits with the BNB. Proceeds from government securities issued in the domestic market over the year (with a nominal value of BGN 3800 million) were higher than payments on matured bonds, resulting in positive net budget financing of BGN 2959 million.²² Positive external debt financing in 2021 was primarily ascribable to EUR 511 million of funds under the Loan Agreement between the EU and Bulgaria under the European instrument for temporary support to mitigate unemployment risks in an emergency (SURE) following the COVID-19 outbreak.

At the end of 2021 Bulgarian Eurobond yields issued in international capital markets posted an increase from the end of 2020 in the medium and long-term maturity sectors, most pronounced in securities maturing in 2035 (43 basis points), while the yields on securities maturing in 2022 and 2023 decreased. The yields on government securities in euro area countries also tended to increase.²³ The political cycle in Bulgaria is an internal factor likely to have pushed up Bulgarian government bond yields. By end-2021 the spread between Bulgarian and German government securities maturing in 2022 narrowed and so did the spread of government securities maturing in 2023, 2030 and 2050, albeit the contraction was less pronounced in the short end of the yield curve. The spread widened by between 11 and 13 basis points in the other maturities.

²² For more information on government securities domestic market, see Chapter XII.

²³ For more information on government securities yields in euro area countries, see Chapter II.

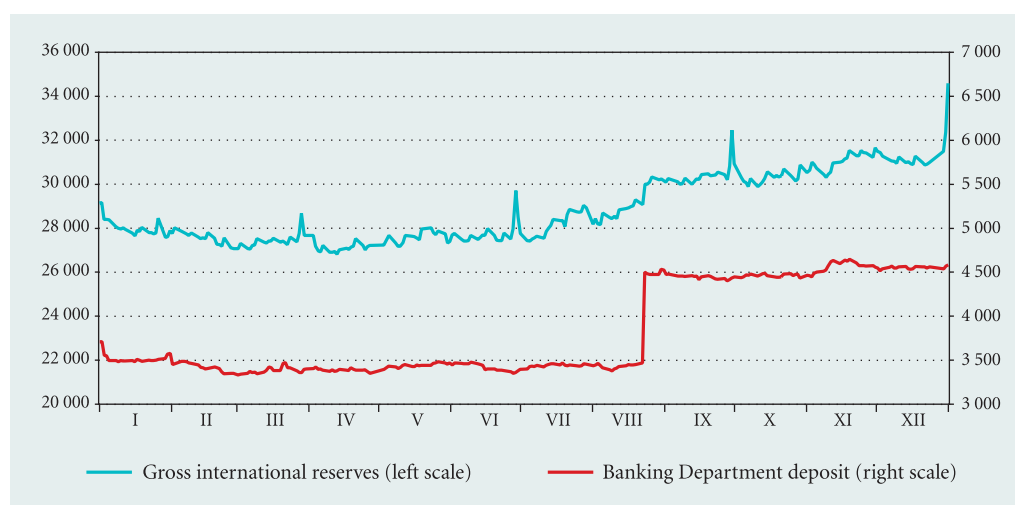
II. Gross International Reserves

The BNB manages its gross international reserves in line with the Law on the Bulgarian National Bank (LBNB),²⁴ investment constraints, business procedures and methodologies, and opportunities offered by international financial markets. Gross international reserves comprise the assets on the Issue Department's balance sheet. Their role is to provide complete cover for monetary liabilities under the fixed exchange rate of the lev to the euro provided for by the Law on the Bulgarian National Bank²⁵. The excess of gross international reserves over monetary liabilities forms the Banking Department Deposit item or the net value in the Issue Department's balance sheet²⁶.

Gross International Reserves and Banking Department Deposit in 2021

(EUR million)

(EUR million)



Note: The chart shows daily movements of the Issue Department balance sheet figure and the Banking Department deposit in the Issue Department balance sheet. On 24 August 2021 Bulgaria received a tranche in the amount of SDR 859.06 million (equivalent to around BGN 2 billion), following the last allocation of IMF quota.

Source: the BNB.

²⁴ There were no Law on the BNB amendments concerning the regulatory framework for gross international reserve management.

²⁵ The Law on the BNB Article 28, paragraph 2 defines the Bank's monetary obligations as all circulating banknotes and coins issued by the BNB, and all balances of other entities' BNB accounts, except the IMF. Article 28, paragraph 3 defines what assets may comprise gross international reserves: monetary gold; Special Drawing Rights; banknotes and coins in freely convertible foreign currency; funds in freely convertible foreign currency held by the BNB on accounts with foreign central banks or other financial institutions or international financial organisations with one of the two highest ratings by two internationally recognised credit rating agencies; securities issued by foreign countries, central banks, other foreign financial institutions, or international financial organisations assigned one of the two highest ratings by two internationally recognised credit rating agencies; the balance on accounts receivable and payable on BNB forward or repo agreements with (or guaranteed by) foreign central banks, public international financial organisations or other foreign financial institutions with one of the two highest ratings from two internationally recognised credit agencies; and BNB futures and options which bind non-residents and which are payable in freely convertible foreign currency. The Law on the BNB stipulates that these assets are estimated at market value.

²⁶ According to the Law on the BNB Article 28, paragraph 1, 'the aggregate amount of BNB monetary liabilities shall not exceed the lev equivalent of gross international reserves,' with the lev equivalent determined on the basis of the fixed exchange rate.

The Amount and Structure of Gross International Reserves

By the end of 2021 the balance sheet value of gross international reserves was EUR 34,597.24 million: up EUR 3749.03 million²⁷ on end-2020 or 12.15 per cent as a share of BNB foreign currency assets. Major factors affecting the market value of assets include income from asset management, income from foreign currency revaluation, and external cash flow effects.

External Cash Flows in Foreign Currency

(EUR million)

	2020	2021
I. Euro purchases and sales		
At tills	-267	-287
With banks	-2,149	750
purchases from banks	45,452	49,157
sales to banks	-47,601	-48,407
Subtotal I	-2,416	462
II. Currency flows with banks, the MF, etc.		
Bank reserves (including minimum required reserves)	3,625	-131
Government and other depositors	4,009	2,339
Subtotal II	7,633	2,208
Total I+II	5,217	2,671

Source: the BNB.

External foreign currency flows, amounting to EUR 2671 million net, made the largest contribution to the international reserve increase in 2021. Of this, receipts into government and other budget organisations' currency accounts were EUR 2339 million. Most of the receipts are transfers under different EU programmes for Bulgaria, to European Commission's account with the BNB in the net amount of EUR 1506 million. Net purchases of reserve currency by commercial banks worth EUR 750 million made a positive contribution to the change in external foreign currency flows, while net reserve currency sales at tills and repayments from banks' BNB accounts on the basis of which minimum required reserves and excess reserves are reported, formed net foreign currency outflows amounting to EUR 287 million and EUR 131 million.

Over the reporting period there were no major changes in the currency structure of gross international reserves compared to 2020.

Currency Structure of Gross International Reserves

(per cent)

Currency	Issue Department balance sheet assets	
	2020	2021
EUR	91.44	92.06
USD	0.16	0.13
XAU	7.91	7.33
SDR	0.48	0.47
CHF	0.00	0.00

Note: Average values calculated on a daily basis for the period. The sum may differ from 100 per cent due to rounding.

Source: the BNB.

²⁷ The remaining part of the analysis of changes in BNB gross international reserves in this chapter of the report does not include balances in banks' TARGET2 national system component accounts worth some EUR 1035 million at the end of 2021, and the tranches of SDR 611 million disbursed in August and September 2009 upon general SDR allocation by the IMF and around SDR 859 million disbursed in August 2021. For further details, see BNB Annual Report for 2009, p. 26.

The share of securities decreased in the structure of reserves by financial instrument reflecting the increased share of deposits and to a lesser extent of cash.

Structure of Gross International Reserves by Financial Instrument

(per cent)

Financial instruments	2020	2021
Vault cash*	16.30	19.13
Deposits**	27.22	32.17
Securities**	56.48	48.43

Note: Average values calculated on a daily basis for the period. The sum may differ from 100 per cent due to rounding.

* Account balances, payments and monetary gold.

** Including instruments in foreign currency and gold.

Source: the BNB.

In 2021 most assets in the structure of international reserves by residual term to maturity remained in the maturity sector of up to a year (current accounts, short-term deposits in foreign currency and gold, and short-term securities). Their share averaged 80.84 per cent, up 3.14 percentage points from 2020. Over the same period investment into securities with a residual term to maturity from one to three years, from three to five years and from five to ten years fell by 2.16, 1.11 and 0.17 percentage points from 2020.

Structure of Gross International Reserves by Residual Term to Maturity

(per cent)

Maturity sectors	2020	2021
Up to a year	77.70	80.84
One to three years	15.49	13.33
Three to five years	5.08	3.97
Five to ten years	1.73	1.56
Over ten years	0.00	0.03

Note: Average values calculated on a daily basis for the period. The sum may differ from 100 per cent due to rounding.

Source: the BNB.

Gross International Reserves Risk and Return

The Market Environment

In 2021, the market environment improved in line with accelerating economic activity in the major regions with developed financial markets. The easing of anti-epidemic measures, the gradual adaptation of economic agents to them and the strong accommodative fiscal and monetary policy measures contributed to the substantial increase in consumption against the background of continuing bottlenecks in global supply chains of commodities and raw materials. Along with higher energy product prices over the period, this reinforced inflationary processes worldwide, while market participants' expectations of further acceleration of global inflation increased. As a result, prices of financial instruments reflected expectations of a sooner tightening of central banks' monetary policy.

While the US central bank left the accommodative monetary policy measures unchanged in the first half of 2021, it reconsidered its views on accelerating inflation in the second half of the year and took steps to reduce its quantitative easing,

signalling a possible tightening of monetary policy in 2022. In December 2021 the ECB also announced its intention to reduce its quantitative easing, though confirming its view about the temporary nature of rising inflation in the euro area. Gradual decrease in the uncertainty surrounding the health crisis development, improved prospects of economic growth and accommodative monetary policies of the central banks increased significantly the risk appetite of market participants, with stock indices rising and fixed income securities prices declining somewhat. At end-2021, most leading stock indices reached historical highs. A strong price increase was reported over the year in a broad spectrum of financial and non-financial assets, such as raw materials, food and houses. The cyclically adjusted price/earnings ratio of the companies included in the S&P 500 index increased significantly over the year, reaching in November 2021 its highest value since November 2000. For most of the year, stock exchange volatility indices retained their downward trend which started in the second half of March 2020. Volatility reflected expectations of forthcoming tightening of Federal Reserve monetary policy and new waves of COVID-19 spread.

Central banks' policies

In 2021, the US Federal Open Market Committee (FOMC) maintained its target range for the federal funds rate at 0.00 to 0.25 per cent.

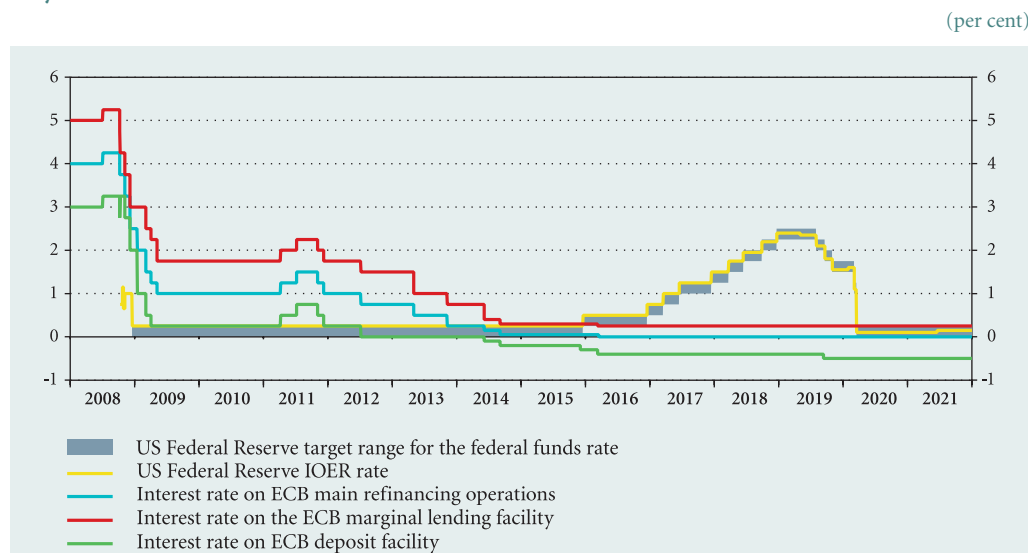
At its March 2021 meeting FOMC decided to increase the per-counterparty limit in the overnight reverse repurchase agreement operations from the current level of USD 30 billion *per day* to USD 80 billion, with the aim to absorb a part of excess liquidity in the banking system. In June the Committee initiated discussions on future asset purchase programme tapering. In addition, at the June meeting it was decided to raise the interest rates on required reserves and banks' excess reserves by 5 basis points to 0.15 per cent²⁸ and on reverse repurchase transactions from 0.00 to 0.05 per cent. In June the FOMC published its decision to extend until 31 December 2021 the term of temporary reciprocal currency arrangements (swap lines) introduced in March 2020 with nine central banks to provide dollar liquidity. On 28 July 2021 FOMC announced the establishment of two standing repurchase agreement (repo) facilities: a domestic standing repo facility (SRF) and a repo facility for foreign and international monetary authorities (FIMA repo facility). In September 2021 it issued guidance on the expected start and pace of tapering asset purchases. At the same meeting FOMC decided to double the counterparty limit in overnight reverse repurchase agreements to USD 160 billion, from USD 80 billion. In line with market expectations at its November meeting the Committee stated that it would begin reducing the pace of its monthly asset purchases. It was announced that monthly purchases of US treasury securities and mortgage-backed securities would be reduced by USD 10 billion and USD 5 billion monthly, respectively and, unless there are changes in the economic outlook, the monthly pace of reducing asset purchases would remain unchanged until June 2022. In view of the improving labour market conditions and US inflation acceleration, at its December 2021 meeting the Committee decided to faster the pace of tapering asset purchases and announced that starting January 2022 securities and mortgage-backed securities purchased monthly would be decreased by USD 20 billion and USD 10 billion a month. Considering the above, the asset purchase programme will be concluded until the end of the first quarter of 2022. In December the passage of the standard press releases reflecting FOMC members' intention expressed at ten consecutive meetings to maintain for a certain period of time inflation above its

²⁸ On 29 July 2021 the Federal Reserve replaced both interest rates on required reserves and bank's excess reserves by an interest rate on banks' reserve balances. This was justified by the reduction in banks' reserve requirement ratio to 0 per cent, which took place on 24 March 2020, thus removing in practice banks' reserve requirement.

2 per cent target was removed and replaced by an assessment that the inflation has already stayed long enough above the target level. Concurrently, the median of FOMC members' individual forecasts about the federal funds rate showed expectations of an increase by 75 basis points in 2022 and 2023 and by another 50 basis points in 2024.

In 2021 total assets in the US Federal Reserve System balance sheet rose by USD 1.39 trillion: from USD 7.36 trillion (35.2 per cent of GDP in 2020) as of 30 December 2020 to USD 8.76 trillion (38.1 per cent of GDP in 2021) as of 29 December 2021.

Key ECB and US Federal Reserve Interest Rates



Sources: the ECB; the Federal Reserve System.

In 2021, the ECB Governing Council left the key interest rates unchanged in the euro area.

In the first half of 2021, the ECB Governing Council kept the benchmark interest rates and the forward guidance for their future path unchanged. On 8 July the ECB Governing Council announced the results of its monetary policy strategy review. In the new strategy the quantitative definition of price stability measured by HICP was changed from medium-term target for inflation close to, but below 2 per cent to symmetric 2 per cent inflation target in the medium term, meaning positive and negative deviations from the target would be equally undesirable. In addition to the symmetric 2 per cent inflation target, the ECB presented a new definition of forward guidance on the likely change in the key interest rates in future. According to the new forward guidance key interest rates will remain unchanged or will be lower as long as it is not established that inflation in the euro area reached 2 per cent well before the end of the forecast period and remained stable at this level until the end of this period. The Governing Council of the ECB should also ensure that the dynamics of base prices leads to a stabilisation of inflation at 2 per cent in the medium term. It confirmed that HICP remains the appropriate measure for assessing price stability, recommending however the inclusion of the costs related to owner-occupied housing in the HICP, which would improve inflation rate measurement. In the meantime, the ECB Governing Council in its monetary policy assessments will take into account inflation measures that include initial estimates of costs as part of a broader set of additional inflation indicators. The ECB Governing Council announced also an action plan to better account for climate change considerations within its monetary policy framework. The design of these measures will be consistent with the price stability objective. The redefinition of the forward guidance on interest rates was used for the first time at the 22 July 2021 meeting and did not change until the end of the year.

The main parameters of the Eurosystem public and private sector asset purchase programmes remained unchanged until December 2021: net purchases under the Asset Purchase Programme (APP) continued at a monthly pace of around EUR 20 billion, while purchases under the Pandemic Emergency Purchase Programme (PEPP) increased temporarily in the second quarter compared to the other quarters. In December 2021 the ECB Governing Council announced that the volume of PEPP net purchases in the first quarter of 2022 will be lower than in the fourth quarter of 2021 and confirmed that it will discontinue the purchases at the end of March 2022. Concurrently, net purchases under the APP will be increased in the second quarter of 2022 to EUR 40 billion, and reduced in the next two quarters to EUR 30 billion and EUR 20 billion. The time-limit for reinvestment of maturing principal payments from securities purchased under the PEPP was extended from 2023 to 2024, while reinvestment of maturing principal payments from securities purchased under the APP will continue in full for an extended period of time past the date when the Governing Council will start raising the key ECB interest rates. In addition, it was decided that net asset purchases under the PEPP could also be resumed, if necessary.

The ECB Governing Council left unchanged the conditions and schedule of the four 2021 targeted longer-term refinancing operations (TLTRO-III) to support bank lending to corporations and households, along with the four Pandemic emergency longer-term refinancing operations (PELTRO). The ECB Governing Council announced that it would continue to monitor bank funding conditions and confirmed that the special conditions applicable under the targeted longer-term refinancing operations will end in June 2022.

As a result of ECB's large-scale monetary policy measures in 2021, Eurosystem balance sheet figure rose by EUR 1589 billion to EUR 8566 billion (69.9 per cent of euro area GDP in 2021). Compared to the end of 2020, the amount of assets in the ECB balance sheet under APP rose by EUR 215 billion to EUR 3123 billion by end-2021 and the amount of assets under the temporary PEPP grew by EUR 827 billion to EUR 1581 billion. As a consequence of asset purchases and funds allotted in longer-term refinancing operations, worth net EUR 409 billion²⁹, the excess liquidity in the banking system rose by EUR 793 billion to EUR 4136 billion.

The increased excess of liquidity in the banking system of the euro area was the main factor behind the decline in money market rates. In 2021 the average value of the euro unsecured overnight rate, €STR, declined to -0.57 per cent from -0.55 per cent in 2020. Deposit rates in the interbank money market in the euro area (EURIBOR) decreased, with the average three-month deposit interest rate in 2021 falling to -0.55 per cent (from -0.43 per cent in 2020) and the average six- and twelve-month rates to -0.52 per cent and -0.49 per cent (from -0.36 per cent and -0.30 per cent in 2020).

Euro Area and US Sovereign Bond Yield Curve

In 2021, US government bond yield rose strongly across all maturities. Two-year bond yields grew by 61 basis points to 0.73 per cent, with ten-year yields rising by 60 basis points to 1.51 per cent. By close 2021 the slope of US sovereign bond yield curve measured by ten- and two-year bond yield differences dropped by 1 basis point on the end of 2020 to 78 basis points. In the first half of 2021, US government bond yield dynamics was mainly driven by the fiscal policy of the new president's administration, the COVID-19 pandemic development and statements by Federal Reserve System officials. Progress in adopting additional fiscal stimuli over the first quarter of 2021 had an essential effect on market participants' expectations of a more rapid recovery of the US economy which in turn boosted US government bond yields. Yield rises were further underpinned by increasing inflationary expectations over the period. Concurrently, the second quarter of 2021 saw an increase in market participants' sentiment that the

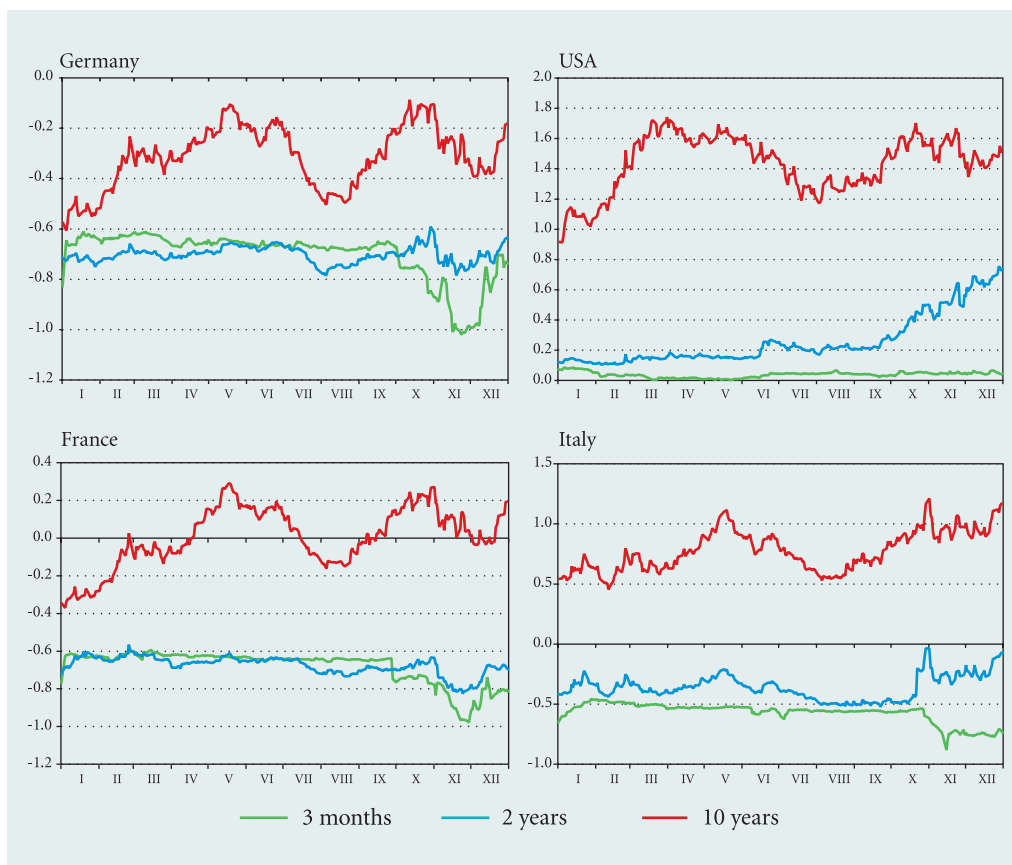
²⁹ The bulk of targeted longer-term refinancing operations involved TLTRO III, net of EUR 433 billion, while due to the fact that most of the Pandemic emergency longer-term refinancing operations (PELTROs) matured in the third quarter of 2021, their net change was negative at EUR 23 billion.

reported inflation acceleration could be ascribable largely to temporary factors which pushed down yields in the medium and long-term maturity sectors. The increase in US government bond yields in the second half of the year was largely driven by accelerating inflation and the associated change in Federal Reserve policy towards gradual tapering of monthly asset purchases and discussions within FOMC about future tightening of US monetary policy. In the fourth quarter of 2021, yields declined somewhat reflecting political discord over US debt ceiling and the emergence of a more transmissible variant of the SARS-CoV-2 virus at the end of November. Additional factors behind US government bond yield dynamics in the second half of the year included the uncertainty surrounding the re-election of Jerome Powell as Chair of the Federal Reserve System at end-November, political risks associated with Russia and financial risks in the Chinese construction industry.

In 2021, German government bond yields rose across all maturity sectors, more pronounced in long-term government securities. Compared to the end of 2020, German government bond yields with a two-year residual term increased by 8 basis points to -0.62 per cent, with ten-year yields rising by 39 basis points to -0.18 per cent. These developments led to an increase in the yield curve slope measured by the difference between ten- and two-year yields, by 31 basis points to 44 basis points. A key factor behind the rise in German government bond yields in 2021 was the higher inflation and increased inflation expectations in the euro area, which reinforced market participants' expectations of a forthcoming tightening of the ECB's monetary policy. Over the year German long-term government bond price dynamics was mainly driven by the changing demand for low-risk assets, reflecting market participants' growing and diminishing concerns about the economic consequences of the spread of new variants of the SARS CoV-2 virus. Though depreciating, by end-December 2021 all German government bonds of up to ten-year maturity continued to trade at negative annual yields.

Government Bond Yields in 2021

(per cent)



Spreads between yields on euro area government securities and German bonds widened in 2021. In the first four months this was due to the negative economic effects of tightening of containment measures as a result of the rise in the number of new cases of COVID-19 in the euro area countries. In May and June anti-epidemic measures in most euro area countries were gradually relaxed, alleviating the uncertainty about future economic activity in this region and causing broad-based contraction of spreads. A successfully completed procedure on ratifications of the Decision of the EU Council on the system of own resources by all EU Member States and the start of bond issues under the NextGenerationEU instrument (NGEU) had an additional effect on spread narrowing in mid-year. Having stabilised somewhat in the third quarter of 2021, spreads tended to widen again in the fourth quarter, reflecting the increasing uncertainty about tightening of anti-epidemic measures in many euro area countries due to the emergence of new variants of the SARS CoV-2 virus. Market participants' expectations that the end of the ECB's Pandemic Emergency Purchase Programme (PEPP) in March 2022 would not be fully offset by additional purchases under the APP, which could potentially result in a falling demand for and liquidity of government securities of some countries in the so-called euro area periphery, had an additional effect on the widening of spreads over this period. The 10-year government bond spreads of both core and periphery euro area countries widened from 4 to 30 basis points. Spreads widened more significantly on 10-year bonds of Greece and Italy by 30 and 24 basis points, respectively. In the case of Italy, this was related to the eventual election of the prime-minister Draghi as president of the country at the upcoming elections in 2022 which would increase the likelihood of political instability ahead Italian general elections in 2023. Greek spread widening was ascribable to the expected end of net purchases by the ECB of Greek bonds in March 2022 in view of the end of PEPP.

Gold and Exchange Rates

In 2021, the US dollar appreciated by 7.0 per cent against the euro recording a gradual and steady upward trend throughout the year. The USD/EUR exchange rate varied between USD 1.12 and 1.23 (EUR 0.81 to 0.89 *per* USD 1). US dollar appreciation was largely driven by higher US government bond yields compared to German yields. This trend was reversed for a while only in the second quarter, reflecting statements of the Federal Reserve officials that the increasing US inflation is a temporary phenomenon that would not cause early increases in federal funds rate target range. By end-June 2021, the USD depreciation against the euro was also driven by published economic data on the US showing certain slowdown in the rate of recovery of economic activity. In the second half of the year the US dollar appreciation trend resumed, after FOMC changed its stance towards a gradual tapering of quantitative easing policy as a result of rising US inflation. In November US dollar appreciation against the euro accelerated due to the change in FOMC' view on inflation which was no longer considered to be a temporary phenomenon. Market participants perceived it as a signal of a forthcoming tightening of US monetary policy, prompting US dollar appreciation.

In 2021 the spot price of gold measured in US dollars decreased by 3.4 per cent to USD 1829.2 *per* troy ounce, while in euro it rose by 3.8 *per* cent to EUR 1608.8 *per* troy ounce. It moved within a range that was narrower than that in 2020: from USD 1681 to USD 1950 and EUR 1418 to EUR 1648 *per* troy ounce. Over the reporting period gold price dynamics did not show a clear trend and followed the change in real yield of US government bonds for most of the period.

The USD/EUR Exchange Rate in 2021



Troy Ounce Gold Price in US Dollars in 2021



Troy Ounce Gold Price in Euro in 2021



Major Types of Risk

Annual net value risk in the Issue Department balance sheet in 2021 measured by the standard deviation of net return was 8.19 per cent.

International reserve interest risk throughout the year, measured by reserves' average modified duration was 0.71 years. The duration maintained was 0.03 years shorter than the average for 2020. The relative interest risk limit of investment portfolios was set on the basis of a tracking error at not more than 0.30 per cent standard deviation of relative yield.

Gross international reserve currency risk was constrained by the Law on the BNB stipulation that the sum of the absolute values of open foreign currency positions³⁰ in currencies other than euro, SDR, and monetary gold, should not exceed 2 per cent of the market value of monetary liabilities in these currencies. There were minimal open positions in foreign currencies other than euro in the reporting period, with the open position in gold posing the main currency risk.

The BNB continued managing gross international reserve investment credit risk conservatively. Owing to the continued uncertainty in 2021, mainly surrounding economic consequences of the spread of new variants of the SARS-CoV-2 virus, most of the additional investment restrictions introduced already in March 2020 remained in place. In early 2021 certain additional investment restrictions introduced in the previous year and related to investment limits for particular asset classes were relaxed to some extent. Some of the prohibitions on deposit acceptance by BNB counterparty banks were repealed. Following a significant improvement in the economic situation in major economic regions and the subsequent relative normalisation of financial markets in mid-year, the BNB made further changes to ease the investment restrictions introduced in 2020 by increasing investment limits for certain asset classes, and re-allowed exposure to some of the issuers and counterparties with lower credit risk. Nevertheless, at the end of 2021 all credit constraints remained more conservative than in the pre-pandemic period.

To achieve its main objectives of very high international reserve security and liquidity, the BNB continued investing the main share of assets into euro area core country government bonds and government guaranteed debt, and into short term deposits with first class foreign central or commercial banks.

By end-2021 the exposure to credit risk remained limited and approximately 72 per cent of international reserves were invested into assets with the highest AAA long-term credit rating.

Operational risk is managed in strict observance and control of investment constraints and the relevant business procedures for international reserve management.

Return and Efficiency

Net income from assets in euro is the sum of three components: 1. income from gross international reserves investment in the original currency; 2. currency imbalance income³¹; and 3. liabilities expenditure/income. BNB income from international reserve investment was negative at EUR -163.61 million or -0.61 per cent yield for the period. This reflected mainly strongly negative interest rates on deposits with first class foreign banks and negative yield on euro-denominated high credit quality bonds in which most BNB international reserves are invested.

³⁰ An open foreign currency position is the difference between the value of assets and liabilities in any currency other than euro.

³¹ Currency imbalance income is a result of the exchange rate movements on assets' and liabilities' open foreign currency positions.

Currency imbalance income for the year was positive at EUR 75.09 million. This reflected primarily movements in the market price of monetary gold measured in euro. As a result of BNB interest rate policy the net financial result from liabilities for 2021 was positive at EUR 50.08 million corresponding to 0.20 per cent annual return. These three components brought net earnings from BNB international reserve management to EUR -38.44 million: -0.16 per cent of total 2021 return³².

International Reserves Income and Return* in 2021

Period	Net income (EUR million)	Net return (per cent)	Income (EUR million)	Return (per cent)	Income (EUR million)	Return (per cent)	Expenditure (EUR million)	Return (per cent)
			on assets		on currency revaluation of assets and liabilities		on liabilities	
	(1)+(2)+(3)		(1)		(2)		(3)	
First quarter	-163.64	-0.63	-49.58	-0.19	-126.29	-0.49	12.22	0.05
Second quarter	22.74	0.09	-36.39	-0.14	47.98	0.18	11.14	0.05
Third quarter	15.21	0.07	-30.95	-0.11	33.58	0.13	12.59	0.05
Fourth quarter	87.26	0.32	-46.70	-0.17	119.82	0.44	14.13	0.05
Total	-38.44	-0.16	-163.61	-0.61	75.09	0.26	50.08	0.20

* Return between time T_0 and time T_N is calculated by chain linked returns for this period. It is calculated using the following formula: $R(T_0 T_N) = (1+r_1)(1+r_2)...(1+r_N)-1$. This formula complies with Global Investment Performance Standards (GIPS).

Source: the BNB.

For operational management purposes, international reserves are split into portfolios by currency and investment goal, each with a benchmark, investment goals, and investment limits. The table below shows major BNB portfolios and the results from their management.

Portfolio Return and Risk in 2021

Portfolio	Return		Volatility (risk)		Information ratio ³
	Absolute (per cent)	Relative ¹ (basis points)	Absolute (basis points)	Relative ² (basis points)	
Investment 1, EUR	-0.74	8	19	6	1.44
Investment 2, EUR	-0.77	6	19	5	1.10
External manager A, EUR	-1.06	4	75	11	0.39
External manager B, EUR	-1.17	-7	78	6	-1.16
Liquid, EUR	-0.62	3	0	0	-
Liquid, XAU	0.02	-	1	-	-
Liquid, USD	0.15	12	8	8	-

¹ A portfolio's positive relative return is attained profit against benchmark return. Relative returns with a negative sign are interpreted as opportunity cost in portfolio management.

² Relative volatility (relative risk) against benchmark indicates the degree of deviation of portfolio risk characteristics from benchmark through active portfolio management. The risk is on an annual basis.

³ Information ratio is the ratio between relative portfolio return and relative portfolio risk on an annual basis.

Source: the BNB.

To diversify management styles and cut operational risk, most euro-denominated assets continued being split into two investment portfolios with identical benchmarks and investment limits, managed by different BNB teams. By the end of December 2021, 2.5 per cent of gross international reserves was managed by external managers that were international financial institutions. The benchmark of the portfolios managed by external managers was set by the BNB. Beside additional diversification, using external managers helped exchange expertise in international market investment management. Liquid portfolios were intended mainly to assist liquidity management objectives and BNB foreign currency payment needs.

³² Total return is obtained as a product, rather than simple sum, of the return of the relevant components.

III. Payment Systems and Payment Oversight

The Law on the Bulgarian National Bank tasks the Bank with payment system organisation, support, and development by assisting the implementation, operation, and oversight of efficient payment mechanisms. The Bank's major goals are curbing systemic risk and integrating Bulgarian payment systems into the European payment infrastructure.

Bulgaria's lev payment systems are: RINGS, a real-time gross settlement system operated by the BNB, and RINGS transaction settlement ancillary systems:

- BISERA6, a system for servicing customer transfers in levs up to BGN 100,000, operated by BORICA AD;
- BORICA, a system for servicing bank card payments in Bulgaria, operated by BORICA AD.

Bulgaria's euro payment systems are: the TARGET2 national system component, TARGET2-BNB, run by the BNB, and the TARGET2-BNB settlement ancillary system:

- BISERA7-EUR, a system for servicing customer transfers to be settled at a designated time, operated by BORICA AD.

Bulgaria's securities settlement systems, where the cash leg is settled in payment systems run by the BNB, are: the book-entry government securities settlement system, run by the BNB, and the book-entry securities registration and servicing system, run by the Central Depository AD.

Lev Payment Systems

In 2021 the RINGS real-time gross settlement system processed most lev payments in Bulgaria. As of 31 December 2021, the BNB and 24 banks participated in RINGS.

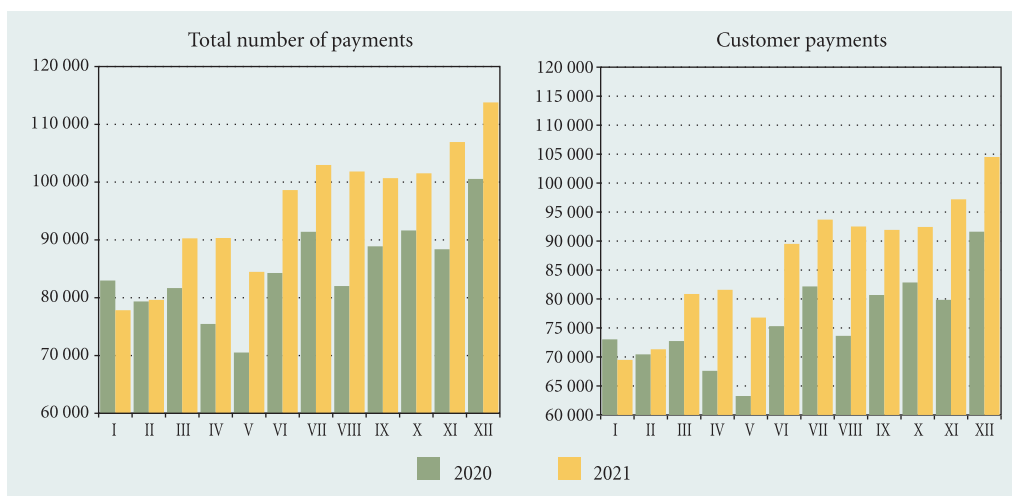
In 2021 RINGS processed payments worth BGN 1,365,413 million, up 25 per cent on the last year, their number reaching 1,148,925 or a 12.9 per cent rise on 2020. There were 1,041,885 customer payments accounting for 91 per cent of the total for BGN 308,960 million (23 per cent of the total).

The daily average value of payments *via* the system was BGN 5483 million and their daily average number was 4614. The daily value peak of payments was BGN 938,798 million, with a daily number peak of 8534.

In 2021, 72.3 per cent of payments by value were processed by noon and 88.5 per cent by 2:30 pm. The balance of 11.5 per cent went through by 5:30 pm. As regards system traffic, 83.5 per cent of RINGS payments were effected by 2:30 pm. RINGS offered 100 per cent availability³³ in the period under review.

³³ The ratio of time when the system is operational to scheduled operating time.

RINGS Payment Number in 2020 and 2021

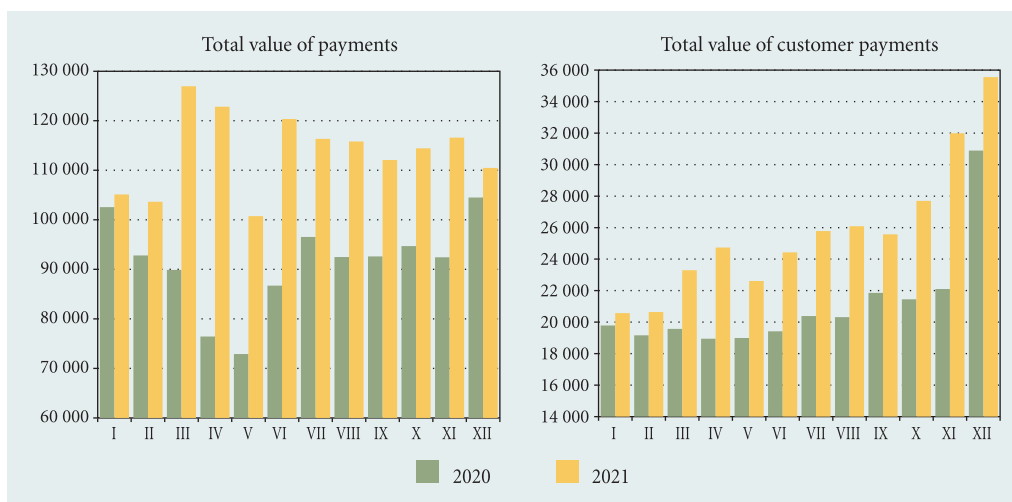


Source: the BNB.

RINGS Payment Value in 2020 and 2021

(BGN million)

(BGN million)



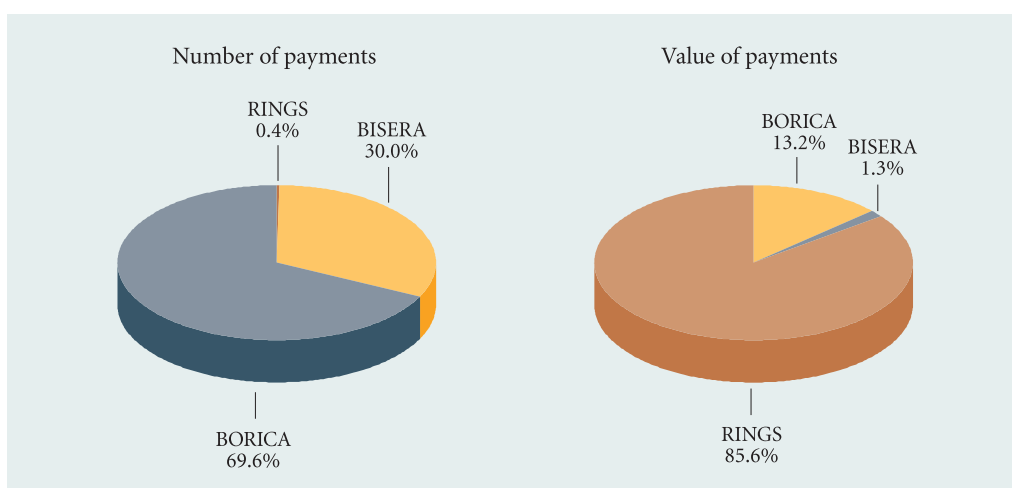
Source: the BNB.

Lev payment distribution in Bulgaria by payment system saw no changes from 2020. Over the period under review RINGS processed 85.6 per cent of the payments effected in Bulgaria. Values around 80 per cent are deemed optimal for the operation of real-time gross settlement systems. RINGS also processed 0.4 per cent of the total number of lev non-cash payments in Bulgaria.

In 2021 BORICA processed 218.6 million of ATM and POS terminal payments, totalling BGN 19,965.5 million: a 18.4 per cent numerical and 14.9 per cent value rise on 2020.

In 2021 BISERA6 processed 94.3 million of payments totalling BGN 210,600 million. Compared with 2020, processed payments rose 9.6 per cent in number and 17.3 per cent in value.

Distribution of Lev Payments in Bulgaria by Payment System in 2021



Source: the BNB.

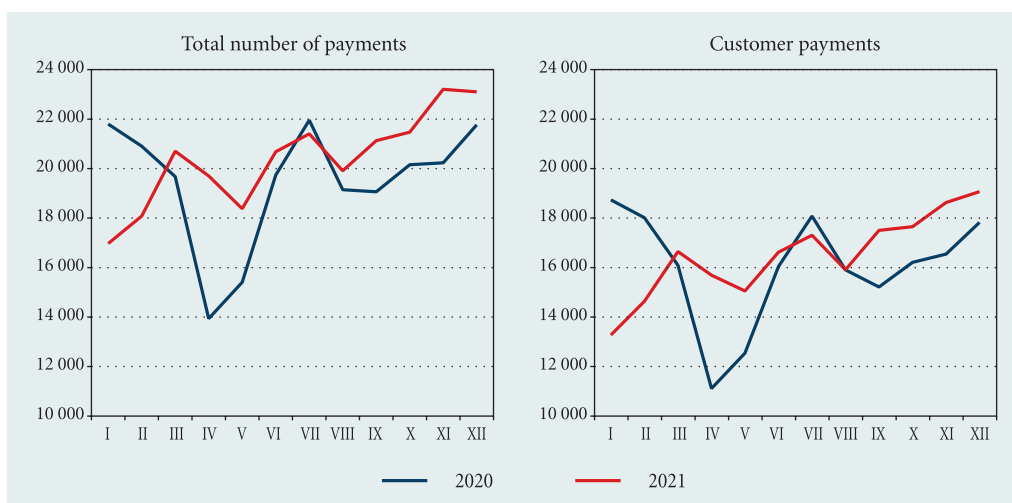
Euro Payment Systems

TARGET2 provides real-time gross settlement for payments in euro, with settlement in central bank money. It is a Single Shared Platform (SSP) system, each participating and connected central bank responsible for its system component. The BNB has operated the TARGET2-BNB national system component since 1 February 2010 and has controlled participants' business relations and coordination with the European Central Bank and participating central banks.

By 31 December 2021 the TARGET2 system included the BNB, 18 direct participant banks, four addressable BIC holders and three ancillary systems: BISSERA7-EUR for settling customer transfers in euro at a designated time, the BNBGSSS for government securities settlement operated by the BNB, and the securities settlement system run by the Central Depository AD.

In 2021 TARGET2-BNB processed 244,741 payments for EUR 828,351 million, including 197,670 customer payments for EUR 15,441 million. Data show a rise of 28.5 per cent in total value and 4.7 per cent in total number of processed payments on 2020.

TARGET2-BNB Payment Number in 2020 and 2021

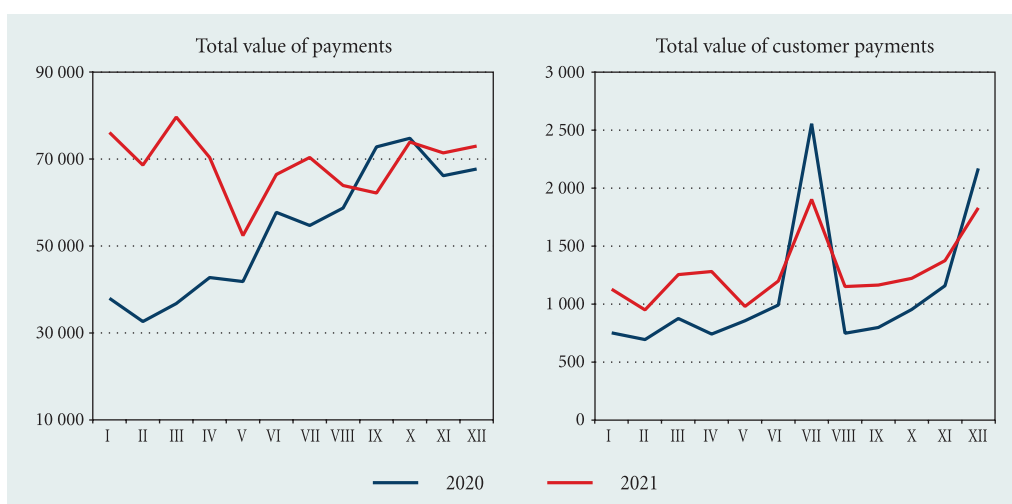


Source: the BNB.

TARGET2-BNB Payment Value in 2020 and 2021

(EUR million)

(EUR million)



Source: the BNB.

The value and number of other system component payments to banks comprised 47 and 89 per cent of payments processed through the national component. There were 949 daily average TARGET2-BNB payments, worth EUR 3211 million. The daily value peak was EUR 8756 million, with a daily number peak of 1733.

The BISERA7-EUR ancillary system processes designated time customer euro transfers. As of 31 December 2021 it processed 37,169 payments for EUR 288.2 million, up 34.6 per cent in value and 42.1 per cent in number on 2020.

To meet the requirements of Regulation (EU) No 260/2012 of the European Parliament and of the Council, the BISERA7-EUR payment system for small payments in euro processes SEPA payments and offers interoperability with the SEPA Clearer, Equens and EuroELIXIR, allowing SEPA credit transfers between banks in Bulgaria and other EU Member States.

Bulgarian Payment and Settlement System Development

In 2021 the technical preparation of the project for the introduction of instant payments in national currency was completed and the use of the new service started. The project was developed by BISERA6 – BORICA AD, the operator of the payment system for small payments, with the assistance of the BNB as an operator of the RINGS national real-time gross settlement system. Changes ensuring the execution of instant payments have been made to the national legal framework and to the RINGS and BISERA6 payment systems. The license of BORICA AD as an operator of the BISERA6 payment system was upgraded enabling the system to process instant payments to the amount of BGN 100,000. Instant payments are based on the SEPA instant credit transfer (SCT Inst) scheme. They can be made 24 hours a day, 365 days a year, within up to ten seconds from debiting the payer's account to crediting the payee's account and receiving confirmation from the payer. So-called pre-funding model is applied to their settlement. To that effect, a special account has been opened at the central bank on which banks will provide funds in advance for the settlement of payments in levs based on the pan-European SEPA schemes.

Developing the Payment Services and Payment Systems Regulatory Framework

Over the review period amendments to the Law on Payment Services and Payment Systems (LPSPS)³⁴ were adopted, which regulates the settlement of instant payments in BGN with funds provided in advance by the banks on a special account at the central bank.

In 2021 the BNB amended Ordinance No 3 of 18 April 2018 on the Terms and Procedure for Opening Payment Accounts, Executing Payment Transactions and Using Payment Instruments, and Ordinance No 16 of 29 March 2018 on Granting Licenses and Approvals, Entry into the Register under Article 19 of the Law on Payment Services and Payment Systems, and Requirements for the Activity of Operators of Payment Systems with Settlement Finality. Changes related primarily to the harmonisation of certain provisions of both ordinances with the LPSPS and applicable European legislation, the improvement of the framework of payment and prepaid cards with regard to technological developments, changes to the arrangements of the RINGS payment system in the light of the forthcoming implementation of instant payments in levs, as well as the regulation of the reporting procedure for payment system operators with settlement finality, payment service providers and electronic money issuers for the purposes of payment oversight and statistics.

Over the review period the BNB Governing Council decided to implement, as from 1 January 2022, Revised Guidelines on major incident reporting under Directive (EU) 2015/2366 on payment services in the internal market (EBA/GL/2021/03), issued by the European Banking Authority (EBA). These guidelines set out the criteria for the classification of major operational or security incidents by payment service providers, as well as the format and procedures they should follow when reporting such incidents.

³⁴ Published in the Darjaven Vestnik, issue 12 of 2021.

Payment Systems Oversight

In line with the LBNB and the LPSPS, the Bank regulates and oversees payment system operators with settlement finality, payment service providers and electronic money issuers in Bulgaria. The BNB grants licences and oversees compliance with national and European statutory requirements and relevant international principles, standards, and recommendations.

Over the review period the BNB completed two inspections of electronic money institutions to establish whether their operations comply with the requirements of the Law on Measures against Money Laundering (LMML). The electronic money institutions were issued administrative infringement notices and subsequently penalty orders.

In 2021 the BNB started an inspection of a payment service provider licensed by the BNB to establish whether operations of the provider of payment services and electronic money issuance comply with the requirements of the LPSPS, its implementing acts, the European legal framework, as well as with the requirements of the LMML and the Law on Measures against Financing of Terrorism (LMFT) and Regulation (EU) 2015/847³⁵.

In 2021 a thematic supervisory review of the payment institutions and electronic money companies licensed by BNB was launched to establish compliance with the requirement to prepare own risk assessments of money laundering and terrorist financing under Article 98, paragraph 1 of the LMML.

The Bank inspected 13 institutions to find out whether they provided payment services and/or issued electronic money without due licence or registration.

In 2021 the thematic supervisory inspection of payment service providers in Bulgaria, intended to establish the compliance with the requirements of EBA Opinion on the deadline for the migration to strong customer authentication for e-commerce card-based payment transactions (EBA-Op-2019-11), was completed. The payment service providers have implemented measures to remedy the non-compliances identified in the supervisory review. In 2021 a thematic supervisory inspection started to establish compliance by payment service providers in Bulgaria with the requirement to apply a strong customer authentication pursuant to Article 100 of the LPSPS and Commission Delegated Regulation (EU) 2018/389³⁶.

Over the review period work continued on the thematic supervisory inspection of payment institutions and electronic money institutions licensed elsewhere in the EU and eligible to operate on the territory of the Republic of Bulgaria through a branch or an agent to establish the existence of central contact points under Article 9 of the LMML, the compliance of operations on providing payment services and issuing, distributing and redeeming electronic money with the requirements of the LMML, LMFT, as well as of Chapters Four and Five of the LPSPS on information requirements and the rights and obligations in relation to the provision and use of services through a branch or an agent on the territory of the Republic of Bulgaria.

With regard to the Opinion of the EBA on obstacles under Article 32(3) of the regulatory technical standards on strong customer authentication and common and secure communication (EBA/OP/2020/10) and the Opinion of EBA on supervisory actions to ensure the removal of obstacles to account access under the Payment Services

³⁵ Regulation (EU) No 2015/847 of the European Parliament and of the Council on information accompanying transfers of funds.

³⁶ Commission Delegated Regulation (EU) 2018/389 of 27 November 2017 supplementing Directive (EU) No 2015/2366 of the European Parliament and of the Council on regulatory technical standards for strong customer authentication and common and secure open standards of communication.

Directive II (EBA/OP/2021/02), communication with the payment service providers that have put in place a dedicated interface for access to payment accounts serviced by them continued. Payment service providers have taken action to remove the identified obstacles in the dedicated access interfaces they have put in place.

In 2021 a thematic supervisory inspection was completed to establish compliance with the requirement for separation of payment card scheme and processing entities under Article 7 of Regulation (EU) 2015/751³⁷ and Commission Delegated Regulation (EU) 2018/72³⁸. With regard to some inconsistencies, the relevant company proposed an action plan that was implemented, as scheduled.

Over the review period the BNB Governing Council decided to license Tenen Payments AD to operate as an electronic money institution, providing in addition payment services under Article 4, item 3(a) and (c), items 7 and 8 of the LPSPS, and Econt Financial Services EOOD to operate as an electronic money institution, providing in addition payment services under Article, 4, item 3(c) of the LPSPS. One payment institution licensing procedure was terminated at the applicant's request. In 2021 one company was refused to be entered as an account information service provider into the Register under Article 19 of the LPSPS and two companies were refused a licence to operate as an electronic money company.

By the end of 2021 five payment institutions and eight electronic money institutions were licensed by the BNB.

Over the review period the license for conducting activities as an operator of payment systems with settlement finality to BORICA AD was amended regarding the BISERA6 payment system, including the option to process customer transfer orders in leva based on SEPA schemes of the European Payments Council, including instant and credit transfers up to BGN 100,000.

In 2021 the BNB Governing Council decided on five applications filed under Article 14, paragraphs 1 and 2 of the LPSPS for acquisition/increase of qualifying holding in the capital of payment institutions licensed by the BNB; of these, one application for acquiring a direct qualifying holding in the capital of a payment institution licensed by the BNB, three applications for acquiring an indirect qualifying holding in the capital of payment institutions licensed by the BNB and one application for an increase in the indirect qualifying holding in the capital of a payment institution licensed by the BNB.

With regard to established infringements related to failure to submit in due time applications for prior approvals under Article 14, paragraphs 1 and 2 of the LPSPS for acquisition/increase of indirect qualifying holding, as well as for failure to submit notifications under Article 14, paragraph 11 and under Article 14, paragraph 12 in connection with Article 13, paragraph 1 of the LPSPS, four administrative infringement notices and subsequently penalty orders were issued.

Over the review period, pursuant to the requirements of the LPSPS, the Governing Council considered one notification filed by a service provider under Article 2, paragraph 3 of the LPSPS regarding offered payment instruments that can be only used in a restrictive manner.

³⁷ Regulation (EU) No 2015/751 of the European Parliament and of the Council of 29 April 2015 on interchange fees for card-based payment transactions.

³⁸ Commission Delegated Regulation (EU) 2018/72 of 4 October 2017 supplementing Regulation (EU) 2015/751 of the European Parliament and of the Council on interchange fees for card-based payment transactions with regard to regulatory technical standards establishing the requirements to be complied with by payment card schemes and processing entities to ensure the application of independence requirements in terms of accounting, organisation and decision-making process.

In respect of the activities of the payment institutions and electronic money institutions licensed by the BNB in 2021, the following entries and deletions were made in the registers kept by the BNB:

- 321 agents were listed in and 149 agents were delisted from the public register of licensed payment institutions and electronic money institutions operating in Bulgaria;
- one agent was listed in and five agents were delisted from the public register of licensed payment institutions and electronic money institutions operating elsewhere in the EU.

The last year saw EU member competent authorities notifications of the following payment institutions, electronic money institutions and account information service providers licensed elsewhere in the EU and eligible to operating in Bulgaria:

- for listing 63 payment institutions, electronic money institutions and account information service providers licensed elsewhere in the EU and eligible to directly operate in Bulgaria and for delisting 444³⁹ payment institutions, electronic money institutions and account information service providers operate directly in Bulgaria;
- for listing 224 agents and delisting 67 agents of payment institutions and electronic money institutions licensed elsewhere in the EU and eligible to operate in Bulgaria;
- for listing one branch of an electronic money institution licensed elsewhere in the EU and eligible to operate in Bulgaria;
- for delisting one branch of an electronic money institution licensed elsewhere in the EU and eligible to operate in Bulgaria;

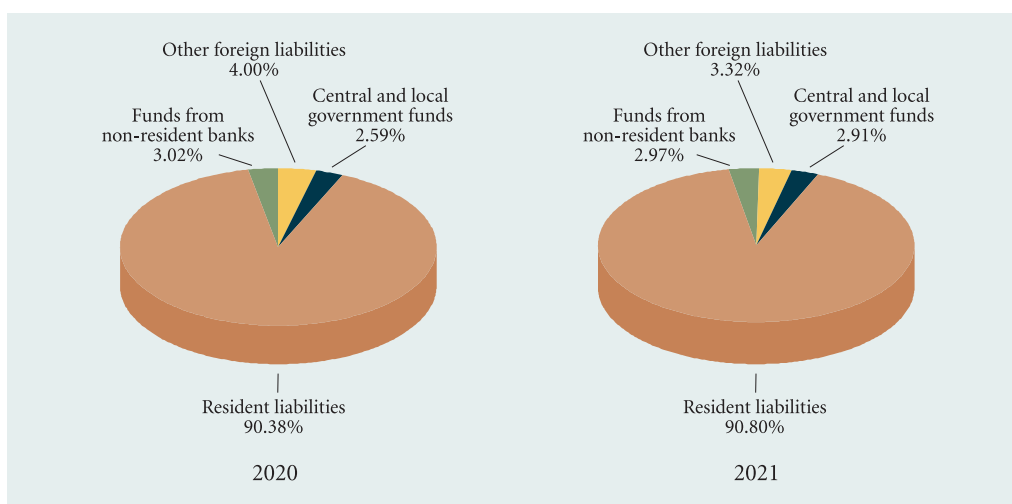
In 2021 the BNB enquired into 367 complaints submitted by members of the public and corporate payment service users. In 26 of them, the Bank issued instructions. The other cases involved no breaches of the Law on Payment Services and Payment Systems and its statutory instruments, or were resolved in favour of payment service users through correspondence.

³⁹ Most of the deletions related to the Brexit.

IV. Banks' Reserves at the BNB

In 2021 the average daily value of banks' attracted funds for minimum reserve calculation purposes (excluding central and local government budget accounts) rose by 10.8 per cent from a year earlier. The average daily value of funds attracted from residents (excluding central and local government budget funds) grew by 11.6 per cent, and those from non-residents by 0.4 per cent, funds attracted from non-resident banks increasing by 9.3 per cent. Over the review period funds attracted from central and local government budgets increased by 24.7 per cent. The effective implicit ratio of minimum reserve requirements remained unchanged from the previous year at 9.4 per cent.⁴⁰ Reserve assets covering this ratio include funds in banks' BNB accounts (8.3 per cent) and half of cash balances designated as reserves (1.1 per cent).

Structure of Attracted Funds in the Banking System*



* Average daily value of attracted funds for reserve calculation purposes.

Note: The sum may differ from 100 per cent due to rounding.

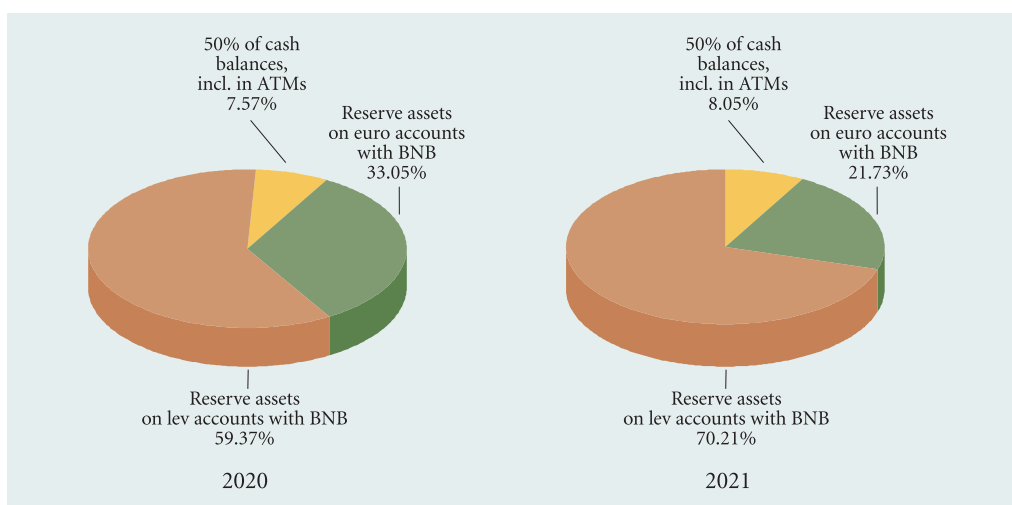
Source: the BNB.

Banks keep reserves in own assets in BNB lev and euro accounts and half the vault cash, including ATMs, is deemed part of them.⁴¹ The share of lev-denominated reserve assets was 70.2 per cent on an average daily basis, from 59.4 per cent a year earlier, while the share of euro reserve assets fell to 21.7 per cent, from 33.1 per cent in 2020. The share of cash balances designated as reserve assets, including in ATMs, rose from 7.6 per cent in 2020 to 8.1 per cent in 2021.

⁴⁰ BNB Ordinance No 21 on the Minimum Required Reserves Maintained with the BNB by Banks has left reserves on funds attracted from residents at 10 per cent of the reserve base, those from non-residents at 5 per cent, and those from central and local government budgets at nil since 4 January 2016.

⁴¹ According to Article 4 of Ordinance No 21 of the BNB.

Banks' Reserve Asset Structure under Article 4 of BNB Ordinance No 21

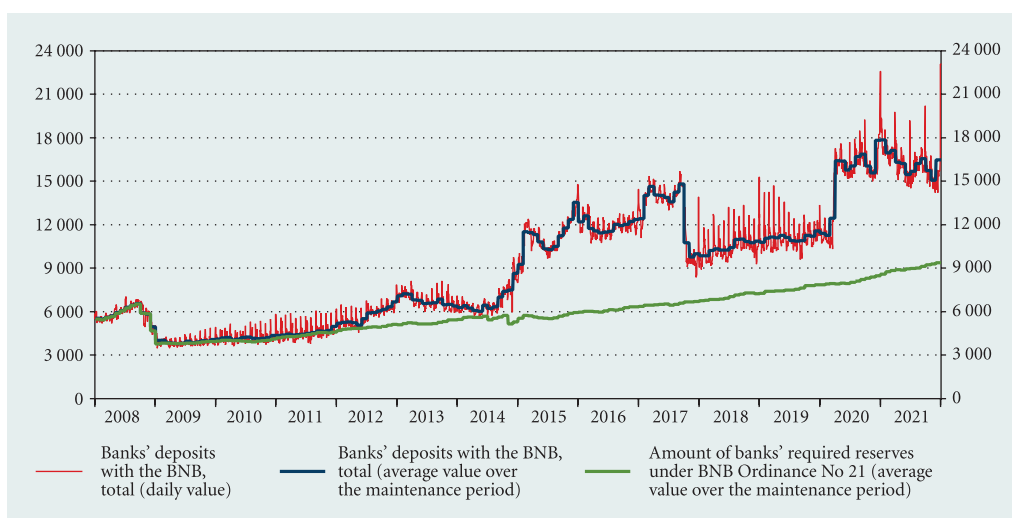


Source: the BNB.

Excess reserve interest⁴² under BNB Ordinance No 21 remained at -0.70 per cent.⁴³ In 2021 the average daily amount of banks' excess reserves declined by BGN 229.2 million on 2020. Funds in banks' BNB Ordinance No 21 accounts exceeded minima by 51.4 per cent on an average daily basis, from 62.4 per cent a year earlier.

Banks' Reserves at the BNB

(BGN million)



Source: the BNB.

⁴² Ordinance No 21 Article 5, paragraph 1, in force as of 4 January 2016, defines excess reserves as the excess of the holdings in reserve assets by more than 5 per cent over the required amount of minimum required reserves. The amendments in Ordinance No 21, in force since 4 June 2021, changed the definition of excess reserves as the excess of the holdings in reserve assets over the required amount of minimum required reserves.

⁴³ According to the interest methodology for BNB accounts effective since 4 October 2017, banks' excess reserves attract the lower of: 0 per cent or the ECB deposit facility rate reduced by 20 basis points.

V. Currency in Circulation

The Bank has a monopoly on banknote and coin issue in Bulgaria. Banknotes and coins issued by the Bank are legal tender in Bulgaria and are mandatorily acceptable as payment at full face value without restriction⁴⁴. The Bank prints banknotes, mints coins, and keeps and scraps uncirculated or withdrawn currency.

Pursuant to LBNB Article 26, the BNB Governing Council decided to withdraw from circulation the banknotes of BGN 2 nominal value, issued in 1999 and 2005, which ceased to be legal tender as of 1 January 2021. They may be exchanged at BNB tills at face value with no limit to amounts, fees, or limits in time.

By Resolution No 19 of 28 January 2021, the BNB Governing Council withdrew from circulation the commemorative coins issued in 2015 which ceased to be legal tender as of 8 February 2021. Commemorative coins issued in 2015 will be exchangeable at BNB tills at nominal value with no limits to amounts and free of charge until 31 December 2022.

Banknotes and Coins in Circulation (Outside BNB Vaults)⁴⁵

At the end of 2021 circulating currency reached BGN 24,696.7 million, up BGN 3455.7 million, or 16.3 per cent on the end of 2020. In 2020 the annual growth rate of currency in circulation was slower both as a share (11.2 per cent) and as an absolute value (BGN 2136.1 million). As of 31 December 2021 the share of banknotes, circulating coins and commemorative coins in the total value of currency in circulation amounted to 97.89, 2.10 and 0.01 per cent respectively. Over the review period the share of banknotes rose by 0.18 percentage points at the expense of the share of circulating coins which decreased by the same amount.

Circulating Cash outside BNB Vaults



Source: the BNB.

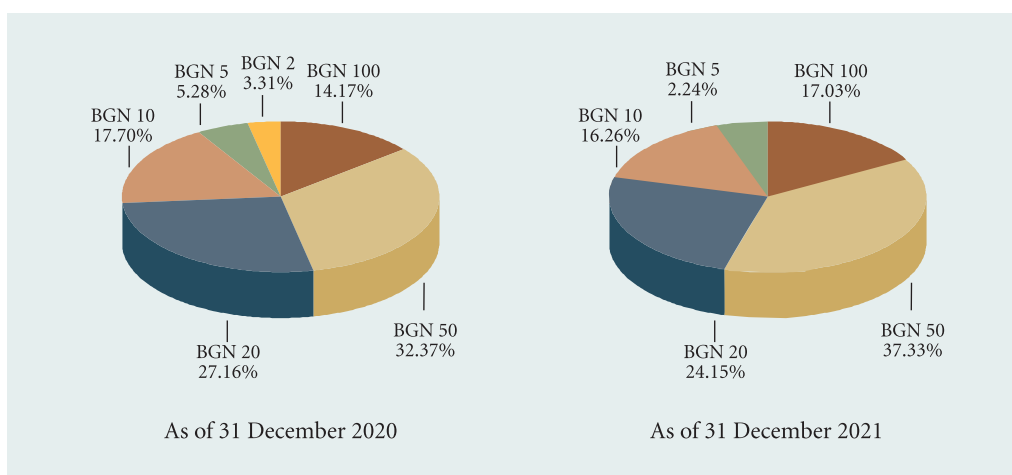
⁴⁴ Article 2, paragraph 5 and Article 25 of the LBNB.

⁴⁵ Banknotes and circulating coins issued after 5 July 1999, including those withdrawn from circulation with no time restriction on exchange, and commemorative coins issued after 5 July 1999, including those withdrawn from circulation, whose term of exchange has not expired yet.

Banknotes and Coins in Circulation⁴⁶

By the close of 2021 circulating banknotes numbered 569.1 million worth BGN 24,137.9 million. In a year their number rose 21.4 million (3.9 per cent) and their value BGN 3386.1 million (16.3 per cent). As in recent years higher growth in the number of high value banknotes (BGN 50 and 100) compared with other banknotes was sustained. The number of BGN 50 banknotes increased 35.1 million or 19.8 per cent and that of BGN 100 banknotes by 19.3 million or 24.9 per cent compared with end-2020. These two denominations accounted for the major share in the annual increase in the currency in circulation. By the close of 2021 the number of BGN 5 banknotes increased 3.0 per cent compared with end-2020 while the number of BGN 10 and 20 banknotes fell 4.6 and 7.6 per cent.

Individual Denomination Shares in the Total Number of Circulating Banknotes



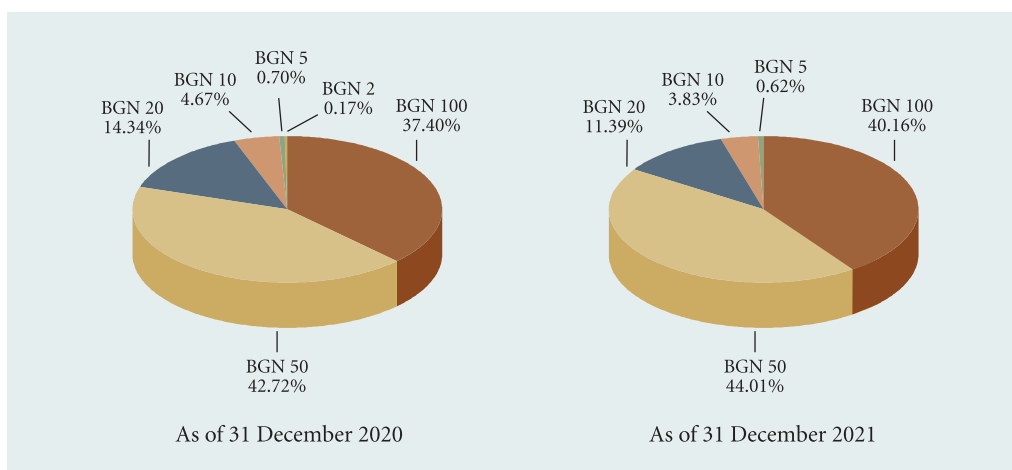
Source: the BNB.

The BGN 50 banknote holds the largest share in the total number of circulating banknotes at end-2021. The prior years' trend toward an increase in the shares of the highest value banknotes (in number) was sustained. In 2021 the shares of BGN 50 and 100 banknotes rose by 4.96 and 2.86 percentage points, respectively, whereas the shares of all other banknote denominations fell substantially, that of BGN 20 dropping most strongly.

By the end of 2021 the BGN 50 and BGN 100 banknotes held the largest shares in the structure of circulating banknotes: 44.01 and 40.16 per cent. These are the only denominations recording an increase in their shares (in value) on end-2020 accounting for 1.29 and 2.76 percentage points. The shares of all other banknote denominations fell, that of the BGN 20 dropping most strongly year on year.

⁴⁶ Banknotes with nominal values of BGN 5, 10, 20, 50 and 100, issued after 5 July 1999, and circulating coins with nominal value of BGN 0.01, 0.02, 0.05, 0.10, 0.20 and 0.50, and BGN 1 and 2, issued after 5 July 1999, which are legal tender.

Individual Denomination Shares in the Total Value of Circulating Banknotes



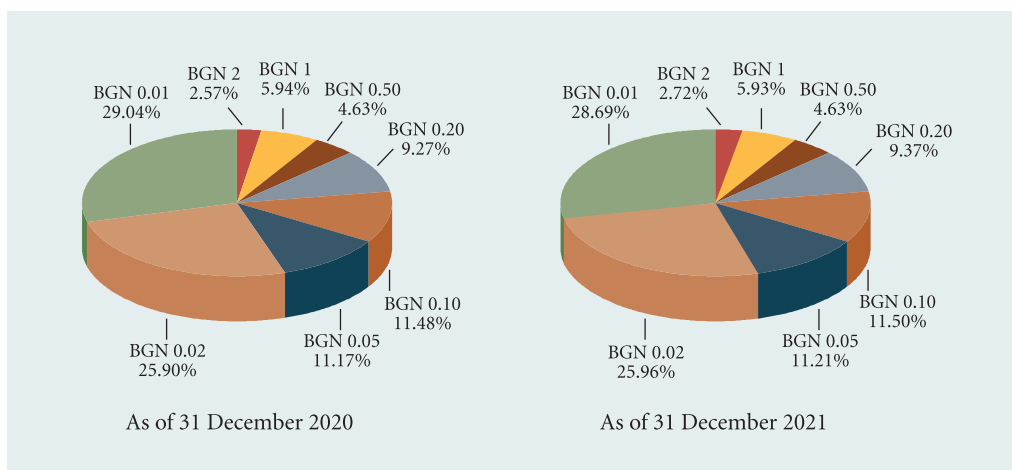
Source: the BNB.

The average banknote circulating at the end of 2021 was worth BGN 42.41. In a year its value rose BGN 4.52 or 11.9 per cent, reflecting significantly stronger growth in the number of BGN 50 and 100 banknotes compared with other banknotes.

In late 2021, 2865.8 million coins worth BGN 517.8 million nominal value were in circulation. Year on year their number rose by 143.7 million (5.3 per cent), and their value by BGN 34.0 million (7.0 per cent). The upward trend in the number of circulating coins of all denominations was sustained. In 2021 the number of BGN 0.01 and 0.02 coins rose most: by 31.8 million (4.0 per cent) and 38.7 million (5.5 per cent). BGN 2 coins continued to grow at the highest rate in the currency in circulation. In 2021 the number of BGN 2 coins rose 11.2 per cent, reaching 77.9 million at the close of the year. The number of coins of BGN 0.05, BGN 0.10, BGN 0.20, BGN 0.50 and BGN 1 rose from BGN 6.6 million to BGN 17.3 million (from 5.0 per cent to 6.4 per cent).

BGN 0.01 coins had the largest share of 28.69 per cent of total circulating coins at the end of the 2021, with 822.3 million coins of this nominal value outside BNB vaults by 31 December. The BGN 2 coins held the smallest share at 2.72 per cent. The numerical shares of BGN 0.02, 0.05, 0.10, 0.20 and BGN 2 coins rose on the end of 2020. Over the same period the shares of BGN 0.01 and BGN 1 coins decreased. Coins of BGN 0.50 matched its end-2020 share of 4.63 per cent.

Individual Nominal Value Shares in the Total Number of Circulating Coins



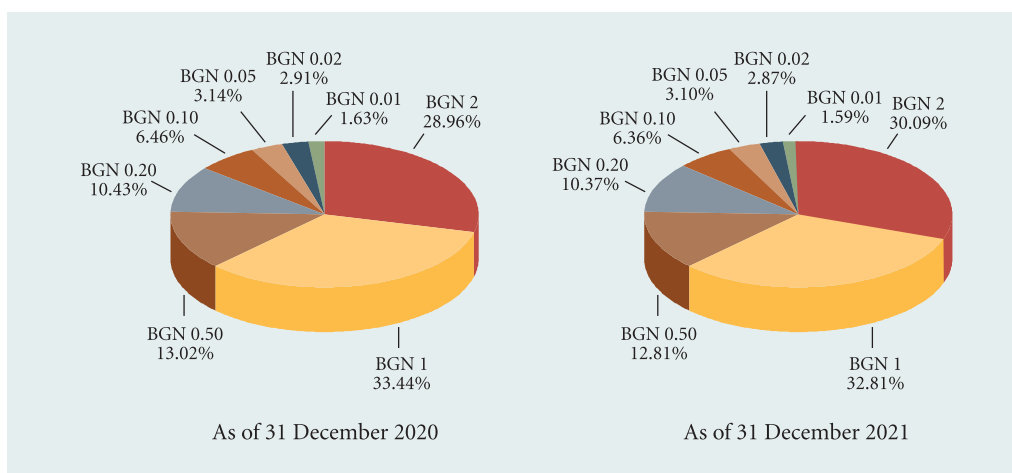
Source: the BNB.

By end-2021 the total value of BGN 1 coins in circulation was BGN 169.9 million, occupying the largest share (32.81 per cent) of circulating coins. The value of BGN 0.01 coin held the smallest share at 1.59 per cent.

Structural changes in the nominal composition of circulating coins by value were mainly attributable to the continued rise of BGN 2, the coin with the largest nominal value in the currency circulation. It is the only one whose value posted an increase in the share (by 1.13 percentage points) in 2021. Shares of other coins recorded a decline on end-2020, with the value of BGN 1 falling most strongly (by 0.63 percentage points).

At the end of 2021 the average circulating coin matched its late 2020 level at BGN 0.18.

Individual Nominal Value Shares in the Value of Circulating Coins



Source: the BNB.

Non-genuine Banknotes and Circulating Coins

In 2021 the BNB National Analysis Centre (NAC) retained 1252 non-genuine Bulgarian banknotes, 883 after entering into circulation: up 409 compared with non-genuine banknotes retained in 2020. The share of retained non-genuine Bulgarian banknotes in the total number of circulating banknotes by end-2020 was 0.000022 per cent.

The BGN 50 banknote had the largest share of retained non-genuine banknotes at 51.36 per cent, followed by the BGN 20 and 100 at 28.35 and 11.42 per cent. Non-genuine BGN 10, 5 and 2 banknotes' shares were 6.71, 2.00 and 0.16 per cent.

The retained non-genuine Bulgarian coins numbered 658; all of these had entered into circulation. The share of retained circulating non-genuine Bulgarian coins was also very low at 0.000023 per cent of the total number of circulating coins by the end of 2021.

Evaluating suspect foreign banknotes and coins, in 2021 the BNB National Analysis Centre retained 5686 euro banknotes (including 551 which had entered into circulation), 28,700 US dollar banknotes (including 292 which had entered into circulation) and 355 other banknotes (including 44 which had entered into circulation).

BNB Issue and Cash Operations

BNB issue and cash operations include: banknote and coin production, accepting, delivering, repaying, processing, authenticity and fitness checking of Bulgarian banknotes and coins and foreign currency, exchanging damaged Bulgarian banknotes and coins, and scrapping unfit Bulgarian banknotes and coins.

In 2021 producers supplied 153.2 million new banknotes and 159.0 million new coins worth BGN 8317.0 million. The BNB launched five commemorative coins as provisioned in the Law on the BNB Article 25 paragraph 1 and the 2021 Minting Programme.⁴⁷

In 2021 banks deposited BGN 18,446.5 million of cash, up BGN 712.3 million or 4.0 per cent on 2020. Over the same period Bulgarian banknotes and coins worth BGN 21,902.4 million were withdrawn from the BNB: up BGN 2026.3 million or 10.2 per cent in a year.

In 2021 banknotes recirculated through BNB tills an average of 1.4 times. Highest and lowest value banknotes returned less often, from 0.3 to 1.0 times; BGN 10 and BGN 20 banknotes returned more often at 3.0 and 2.2 times.

In 2021 banknote processing machines tested 753.6 million banknotes and 61.9 million coins. The number of processed banknotes and coins fell 4.9 and 0.6 per cent on this time last year. BGN 20 and 10 had the largest nominal value shares at 39.98 and 33.85 per cent, and coins of BGN 0.20, 0.50 and BGN 1 accounted for 14.29, 16.07 and 23.79 per cent.

Cash quality and integrity checks identified some 34.5 million banknotes as unfit for circulation, down 0.6 million on 2020. BGN 10 and 20 had the largest shares of unfit banknotes at 37.30 and 39.49 per cent. The share of unfit banknotes processed in 2021 was 4.58 per cent. There were 1.1 million unfit coins after the machine processing. The share of unfit coins processed over the review period was 1.78 per cent.

The BNB purchased EUR 9.2 million of reserve currency from budget organisations and individuals. At the same time, the Bank sold EUR 296.6 million of reserve currency.

The BNB conducted three checks into credit institutions to ensure compliance with Ordinance No 18 on the Control over Quality of Currency in Circulation and the instructions on its implementation. The BNB tested 178 sorting machines and customer operated machines in line with identification and fitness standards into 13 credit institutions, five service providers and seven representatives of machine producers under Ordinance No 18.

⁴⁷ See the BNB website for new banknote and circulating and commemorative coin issues.

VI. Maintaining Banking System Stability and Protecting Depositor Interests

Assessment of the State of the Banking System⁴⁸

In 2021 the banking system in Bulgaria operated in an environment of gradually recovering economic activity amid continuing uncertainty caused by the changing epidemic situation in Bulgaria and globally. Over the review year BNB's macroprudential measures for capitalising entire banks' profits, including for 2020⁴⁹, and not-distributing elements of own funds formed in previous periods remained in place. The individual and aggregate limits on banks' foreign exposures set in March 2020 to limit credit risk and concentration risk on their balance sheets remained effective. With its March and June 2021 decisions the Governing Council maintained the countercyclical capital buffer rate applicable to credit risk exposures in the Republic of Bulgaria at 0.5 per cent. The BNB measures and improved economic environment over the reporting period contributed to maintaining the high levels of capital and liquidity indicators of the banking system that remained significantly above minimum requirements. The strong capital position and high liquidity in the banking sector coupled with low cost of attracted funds were among the main factors in terms of supply, which contributed to credit standard easing and gradually accelerated growth of the credit to the private sector throughout the year. Growth was particularly pronounced in the segment of housing loans, reflecting historically low nominal lending rates and coupled with accelerating inflation and a favourable housing market outlook. Taking into account these trends, in September and December 2021 the BNB Governing Council decided to raise the countercyclical buffer rate to 1.0 per cent with effect from 1 October 2022 and to 1.5 per cent from 1 January 2023. The latter decision took into account the fact that banks' policy to maintain credit activity in the sectors of housing construction and loans secured by commercial and real estate, though justified as individual credit decisions and covered by the existing capital and liquidity buffers, has implications of systemic nature, which necessitates continuation of the proactive stand to build a buffer capacity against cyclical risks.

Over the review period the volume of non-performing loans and advances and their share in total loans and advances continued falling, reflecting banks' sales and write-offs and an expansion of the credit portfolio. The moratorium⁵⁰ within the meaning of the European Banking Authority Guidelines EBA/GL/2020/02, which expired by the end of December 2021, also contributed to it.

The capital position of the banking system remained stable in the context of the growth reported in the activity and risk-weighted assets. The increase in regulatory capital and the decline in net non-performing loans and advances in 2021 ensured additional coverage of the items in banks' portfolios appearing to be a potential source of residual credit risk in bank balance sheets. At the end of 2021 the capital

⁴⁸ Based on individual supervisory statements as of end-December 2021, submitted by 17 February 2022 and as of end-December 2020, updated by 24 February 2022.

⁴⁹ Resolution No 11 of the BNB Governing Council of 28 January 2021.

⁵⁰ Procedure for Deferral and Settlement of Liabilities Payable to Banks and Their Subsidiaries – Financial Institutions. At the end of March 2021 the deadline to submit and approve the requests for rescheduling expired, and according to the maximum deferral period – up to nine months, the deadline of the Procedure for Deferral and Settlement of Liabilities Payable to Banks and Their Subsidiaries – Financial Institutions ended on 31 December 2021.

indicators of all banks in Bulgaria remained at levels significantly above regulatory requirements. All credit institutions complied with the leverage ratio requirement of 3 per cent, effective as of 28 June 2021, with the levels reported by individual banks and the whole banking system showing a high capital coverage.

The liquidity position of the banking sector remained sound, with liquidity coverage ratios (LCR) and the net stable funding ratio (NSFR), effective from 28 June 2021, exceeding significantly the minimum regulatory requirements for both the banking system and individual banks. Growth in non-government sector's deposits and BNB measures contributed most to maintain high banking system liquidity.

In 2021 banking system assets increased by BGN 11.6 billion (9.3 per cent), amounting to BGN 135.4 billion at the end of December, with a higher growth rate than that in 2020 (8.4 per cent or BGN 9.6 billion). Over the period the amount of loans and advances grew due to the growth in credit portfolio, with their share in banking system assets dropping from 58.9 to 58.1 per cent in a year. The share of the most liquid item of cash, cash balances at central banks and other demand deposits in the banking balance sheet figure fell from 21.9 to 21.0 per cent at the end of the period. Over the year the amount of debt securities also recorded an increase: by BGN 4.4 billion (24.8 per cent) mainly in the government sector (by BGN 3.7 billion or 23.7 per cent), with their share in total assets reaching 16.3 per cent at the end of 2021 (against 14.2 per cent in late December 2020).

Assets of banks which are subject of direct supervision by the ECB since 1 October 2020 accounted for 66.6 per cent of banking system's total assets by the end of December 2021, while those of less significant institutions comprised 30.4 per cent.

Domestic and Foreign Bank Market Shares by Asset Size and According to the ECB's Significance Criteria



Source: the BNB.

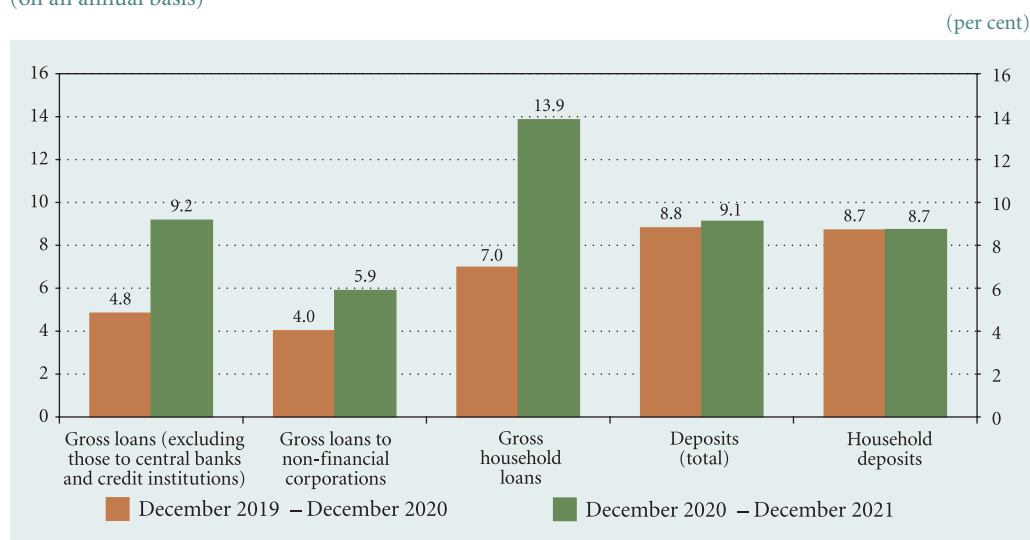
By end-December 2021 the gross credit portfolio of the banking system (covering the sectors of non-financial corporations, households, other financial corporations and the general government) reached BGN 75.9 billion according to supervisory reports. Over the year it grew by BGN 6.4 billion (9.2 per cent), which was higher than the increase of BGN 3.2 billion (4.8 per cent) reported in 2020. In its structure, loans to households rose most significantly in absolute terms: by BGN 3.6 billion (13.9 per cent), their share rising from 37.2 per cent to 38.8 per cent. Loans to non-financial corporations went up BGN 2.2 billion (5.9 per cent), their share in the credit portfolio

falling to 53.1 per cent at end of the period (from 54.7 per cent a year earlier). Loans secured on residential property grew by BGN 2.1 billion or 15.0 per cent (1.3 per cent or 10.1 per cent for 2020), accounting for 32.4 per cent of credit portfolio's annual growth (39.5 per cent for 2020). Annual growth in consumer loans was BGN 1.4 billion (11.0 per cent), their contribution to portfolio growth rising from 14.2 to 22.3 per cent. Claims on other financial corporations also went up by BGN 472 million (1.9 per cent) and those on the general government sector by BGN 73 million (3.8 per cent).

The share of gross loans and advances in levs remained the largest at 63.0 per cent and that denominated in euro fell to 33.6 per cent at the end of the year, from 60.3 and 36.6 per cent by end-December 2020. The share of claims in other currencies comprised 3.4 per cent (3.1 per cent at the end of 2020). The share of resident gross loans and advances rose from 89.4 to 90.2 per cent within the resident structure, while the share of claims on non-residents dropped from 10.6 to 9.8 per cent.

Dynamics of Selected Balance Sheet Indicators

(on an annual basis)



Source: the BNB.

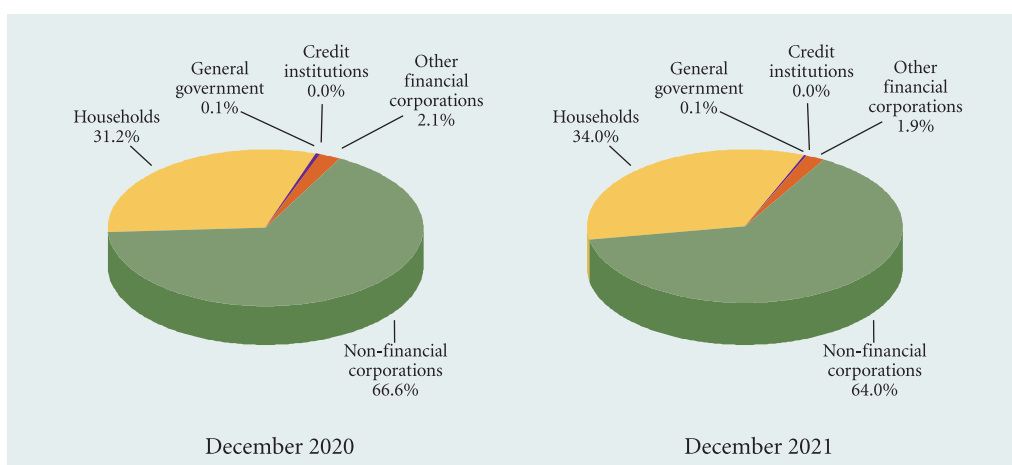
In 2021 gross non-performing loans and advances decreased by BGN 809 million (14.2 per cent) to BGN 4.89 billion at the end of the year. Gross non-performing exposures⁵¹ amounted to BGN 4.90 billion or 3.8 per cent (against BGN 5.70 billion or 4.8 per cent on 31 December 2020). The ratios of non-performing loans decreased in all major segments of credit portfolio. This reflected the combined effect of sales and write-offs of non-performing loans, the increase in the gross credit portfolio amid the recovery of the economic environment and the ongoing non-legislative moratorium on loan repayments. The moratorium allowed to avoid dramatic changes in banks' asset quality indicators in line with the economic shock caused by the containment measures against the COVID-19 pandemic. According to the narrow scope (applied from June 2020 by an EU Regulation⁵²) gross loans and advances in the banking

⁵¹ Non-performing exposures are based on the broadest definition under the EBA methodology including both gross loans and advances, along with cash balances at central banks and other demand deposits, and debt securities other than those held for trading.

⁵² These changes were made in compliance with Commission Implementing Regulation (EU) 2020/429 of 14 February 2020 amending Implementing Regulation (EU) 680/2014 laying down implementing technical standards with regard to supervisory reporting of institutions. Unlike the June 2015–March 2020 period, according to the changes cash, cash balances at central banks and other demand deposits should not be included in the scope of gross loans and advances but rather reported separately.

system increased by BGN 5.6 billion (7.3 per cent) to BGN 82.3 billion by end-December and the ratio of non-performing loans calculated on this basis decreased to 5.9 per cent (against 7.4 per cent a year earlier). According to the broad scope⁵³, which also includes cash balances at central banks and other demand deposits, the total amount of gross loans and advances grew by BGN 6.7 billion. (6.6 per cent) to BGN 107.8 billion by end-2021. The ratio of non-performing loans calculated on the basis of the broad scope fell to 4.5 per cent by end-2021 (against 6 per cent by end-December 2020).

Non-performing Loans and Advances by Sector



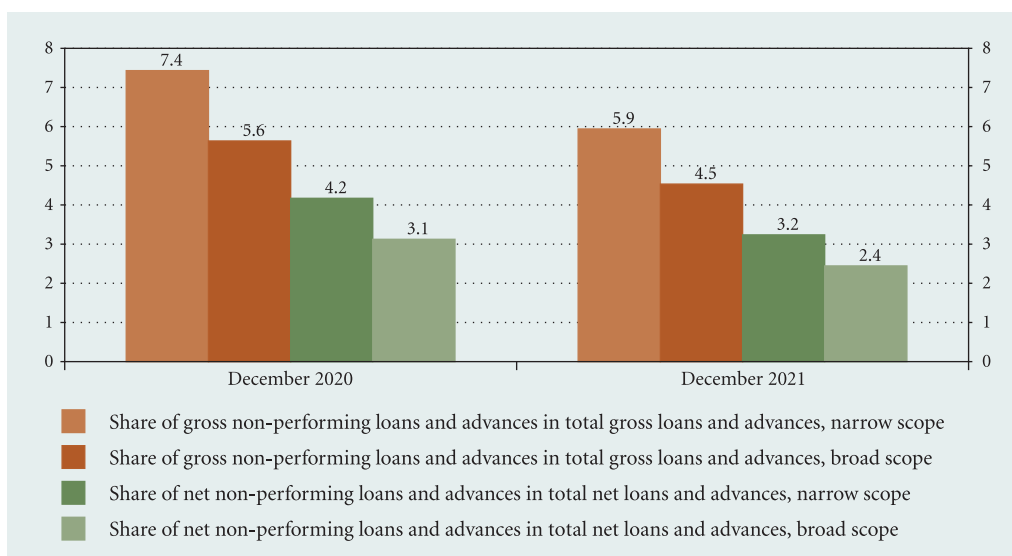
Source: the BNB.

In the structure of gross non-performing loans, loans to non-financial corporations continued to occupy the prevailing share, though falling on an annual basis to 64.0 per cent (66.5 per cent in 2020). As regards the non-financial corporations, the share of non-performing loans fell to 7.8 per cent (10.0 per cent by end-2020) at the expense of an increase in total loans (5.9 per cent) and a decline in the non-performing part (17.4 per cent). The share of loans to households in total gross non-performing loans rose from 31.3 to 34.0 per cent by end-December 2021. The share of non-performing loans also fell to 5.6 per cent (6.9 per cent by end-2020), with an increase recorded in the total volume of loans (13.8 per cent) and a decrease in the non-performing part (6.9 per cent). Total gross non-performing loan and advance impairment coverage ratio came to 47.9 per cent by end-December 2021 (46.6 per cent at the end of 2020).

⁵³ The AQT 3.2 indicator used by the EBA to measure the share of gross non-performing loans and advances is based on a broad definition encompassing all counterparties on loans and advances, including cash balances at central banks and other demand deposits.

Non-performing Loans and Advances in Total Loans and Advances

(per cent)



Source: the BNB.

The net value of non-performing loans and advances⁵⁴ was BGN 2.5 billion by end-December 2021. It represents the potential residual credit risk in bank balance sheets, remaining entirely covered by the excess of capital over capital requirements and applied capital buffers. The net value of non-performing loans and advances under the narrow scope fell by 16.3 per cent (BGN 497 million) from the end of 2020, its ratio to net loans and advances by end-December 2021 reaching 3.2 per cent against 4.2 per cent by end-December 2020. According to the broad scope, the ratio of net non-performing loans and advances declined to 2.4 per cent at the end of 2021 against 3.1 per cent at the end of December 2020.

Balance sheet assets other than loans saw a higher share of liquid assets and an increase in debt securities. As a result of banks' purchases of securities issued by general government sector (which occupied the largest share in their structure at 88.5 per cent), the total amount of debt securities grew by BGN 4.4 billion (24.8 per cent) on the end of 2020 to reach BGN 22.0 billion by the end of the reporting period. The share of equity instruments in total bank assets remained insignificant amounting to BGN 635 million at the end of 2021.

In 2021 banking system liabilities reported an increase in deposits by BGN 9.6 billion (9.1 per cent) according to the supervisory reports reaching BGN 115.4 billion and their growth rate accelerating compared to that in 2020 (BGN 8.6 billion, 8.8 per cent). The bulk of the increase was formed by higher household deposits, which rose by BGN 5.5 billion in 2021 or 8.7 per cent (BGN 5.0 billion, 8.7 per cent a year earlier), their share dominating at 59.0 per cent of total deposits in 2021. Funds attracted from non-financial corporations, which rose by BGN 2.6 billion, 8.3 per cent (BGN 3.6 billion, 12.8 per cent as of 31 December 2020) also contributed to the growth in total deposits. Deposits of credit institutions rose (by BGN 1.0 billion, 19.9 per cent), those of other financial corporations (by BGN 539 million, 16.3 per cent), and deposits of the general government sector (by BGN 3 million, 0.1 per cent) on 2020. In the currency structure of total deposits, the share of lev-dominated deposits continued to prevail amounting to 60.8 per

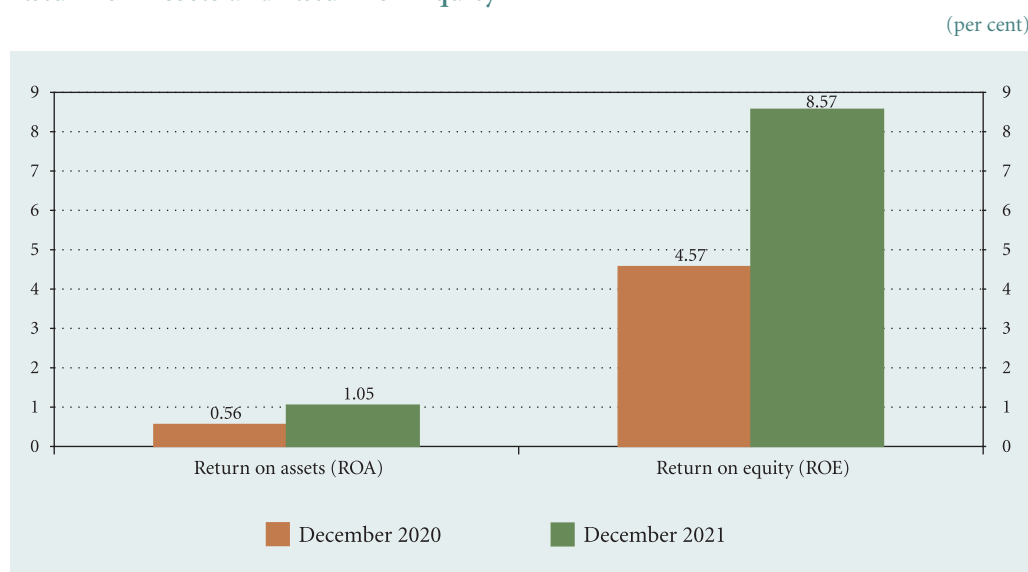
⁵⁴ Net non-performing loans and advances are calculated using the EBA methodology: their gross amount less accumulated impairment for them. In calculating the share of net non-performing loans and advances, their net value is used along with that of total loans and advances.

cent at the end of December 2021, and that of euro-denominated was 32.0 per cent (59.3 and 33.5 per cent respectively at the end of December 2020). The share of deposits in other currencies remained at its previous year's level: 7.1 per cent. Within the resident structure, the share of deposits attracted from domestic sources reached 91.9 per cent and that of non-residents 8.1 per cent (92.3 and 7.7 per cent at end-2020).

The banking system balance sheet equity was BGN 16.6 billion at end-December 2021. In 2021 it grew by BGN 1.5 billion (9.7 per cent) against a rise of BGN 783 million (5.4 per cent) in 2020. In 2021 balance sheet equity profit posted the strongest growth (up BGN 731 million, 105.6 per cent), retained earnings (up BGN 415 million, 10.6 per cent) and other reserves (up BGN 363 million, 9.0 per cent).

Banking system profit amounted to BGN 1.4 billion as of 31 December 2021 (BGN 693 million for 2020). Compared with 2020, the total net operating income grew by BGN 366 million (8.8 per cent) to BGN 4.5 billion at the end of 2021. This development was driven by the higher amount of net fee and commission income, net interest income and net income from financial instruments. It should be noted that this income reported strongly reduced volumes during 2020, representing a lower base for comparison. The higher banking system financial result was also driven by lower expenditure of banks related to resolution and deposit guarantee funds, as well as the lower impairment charges of financial assets. As a result of increased annual profit the return on assets (ROA) and return on equity (ROE) improved to 1.05 per cent by end-December 2021 (0.56 per cent a year earlier) and return on equity to 8.57 per cent (4.57 per cent by 31 December 2020).

Return on Assets and Return on Equity



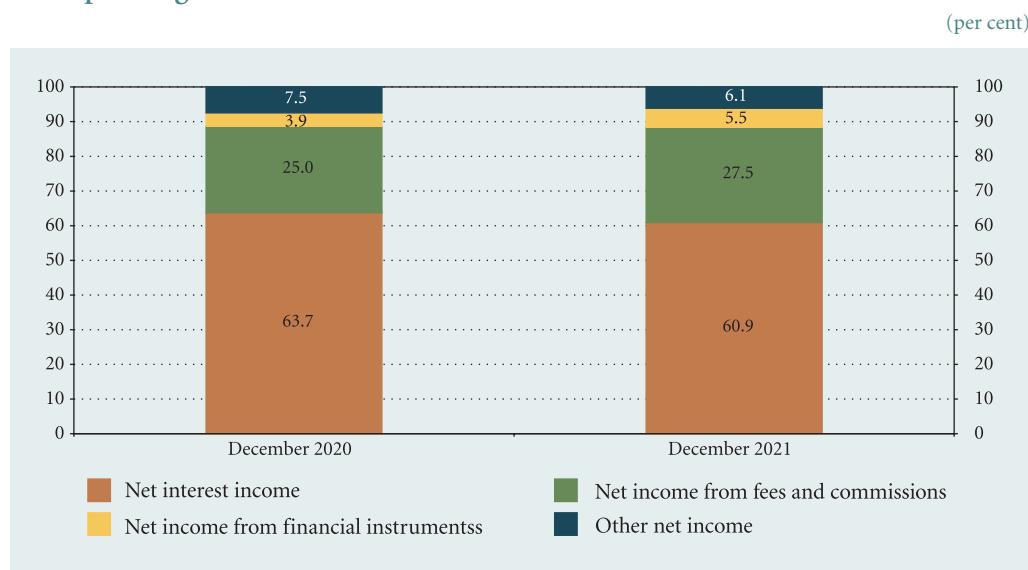
Source: the BNB.

The share of net interest income, which is the major component of total net operating income, fell from 63.7 per cent to 60.9 per cent, though rising by BGN 107 million (4.0 per cent) to BGN 2.8 billion. Compared with the end of 2020, interest income rose by BGN 38 million (1.3 per cent), while interest expenditure dropped by BGN 68 million (19.3 per cent). Return on interest-bearing assets declined to 2.86 per cent by end-December 2021 (3.13 per cent by 31 December 2020) due to the dynamics of gross interest-bearing assets⁵⁵, which posted a higher annual rate of growth than

⁵⁵ Interest-bearing assets are the sum of debt securities and gross loans and advances (excluding those to central banks) to which other demand deposits have been added as from 30 June 2020.

net interest income. In 2021 the cost of interest liabilities continued its downward trend to stand to 0.10 per cent (0.15 per cent at the end of 2020).

Net Operating Income Structure



Source: the BNB.

By end-December 2021 net income from fees and commissions reached BGN 1.2 billion, up BGN 204 million (19.6 per cent) compared to that reported in 2020. As a result, its share in the net operating income rose from 25.0 to 27.5 per cent. Over the same period net income from financial instruments increased by 55.1 per cent (BGN 89 million), its share in the net operating income growing from 3.9 to 5.5 per cent. By the end of 2020 other net income amounted to BGN 277 million, down BGN 33 million (10.8 per cent).

The banking system cost to income ratio⁵⁶ improved to 49.0 per cent at the end of the reporting period (54.3 per cent a year earlier).

Banks' expenditure, including contributions, related to resolution and deposit guarantee funds declined by 48.1 per cent (BGN 145 million) compared with those for the 12 months of 2020.

The ratio of impairment charges to total operating income fell to 14.3 per cent at the end of 2021 (23.7 per cent by end-2020). Impairment charges incurred in 2021 amounted to BGN 0.6 billion (against BGN 1.0 billion in the prior year).

In 2021 banking system's capital position remained stable, while keeping capital indicators at levels significantly above regulatory requirements. This was determined by the measure launched on 28 January 2021⁵⁷ on retaining the 2020 bank profit amid the consistently implemented conservative prudential policy of the BNB intended to build-up and maintain capital buffers.

Regulatory own funds of banks grew by BGN 813 million (5.6 per cent) on an annual basis, coming to BGN 15.4 billion at the end of 2021. Tier one capital and common equity tier one capital amounted to BGN 15.0 billion and BGN 14.8 billion respectively (BGN 14.2 billion and BGN 13.9 billion respectively by end-2021).

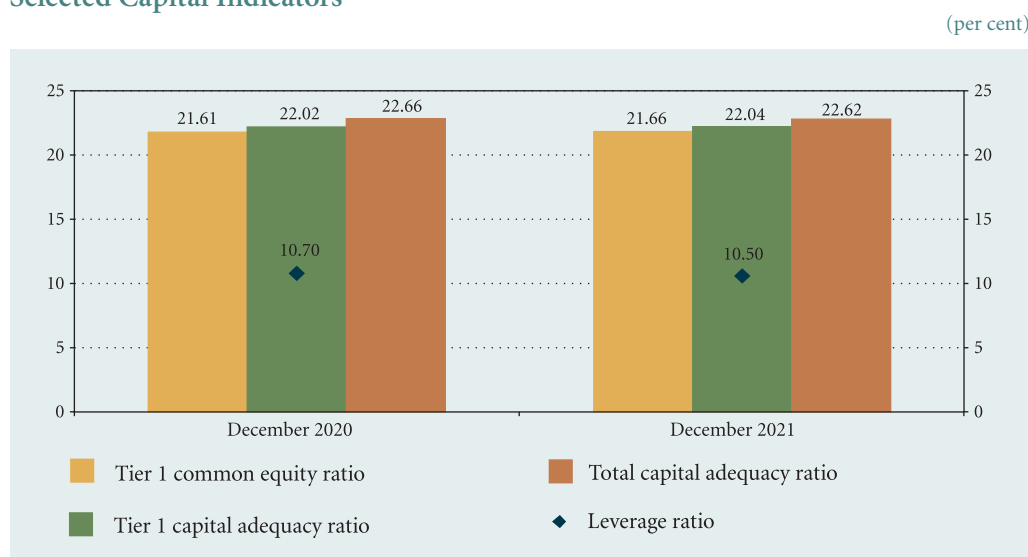
⁵⁶ Under the new methodology, cost-to-income ratio is the sum of administrative expenditure, depreciation costs and (as from June 2020) resolution and deposit guarantee scheme costs to the net operational income.

⁵⁷ Resolution No 11 of the BNB Governing Council of 28 January 2021.

Total risk exposures in 2021 grew by BGN 3.7 billion (5.7 per cent) to BGN 68.3 billion at the end of the period. Risk weighted exposures for credit risk, which went up by BGN 3.8 billion (6.4 per cent) to BGN 62.8 billion, played a major role to this growth.

The share of risk weighted exposures for credit risk in total risk exposures grew to 92.0 per cent at end-2021 (91.3 per cent at end-2020). Risk weighted exposures for credit risk under the standardised approach went up by BGN 3.7 billion (8.0 per cent). Risk exposures to operational risk went down (by BGN 37 million, 0.7 per cent), with their share falling to 7.7 per cent (8.2 per cent at end-2020). Exposures to position, currency, and commodity risk also reported a decline of BGN 56 million (21.1 per cent), their share accounting for 0.3 per cent (0.4 per cent at the end of December 2020).

Selected Capital Indicators



Source: the BNB.

Capital adequacy ratios remained close to that of end-2020. As of 31 December 2021 common equity tier one, tier one capital and total capital adequacy ratios were 21.66 per cent, 22.04 per cent and 22.62 per cent respectively (21.61 per cent, 22.02 per cent, and 22.66 per cent at the end of 2020).

The aggregated banking system's leverage ratio (when a fully phased-in definition of tier 1 capital is applied) came to 10.50 per cent, against 10.70 per cent at the end of 2020, indicating a high capital coverage of the total exposure (formed by banks' assets, off-balance sheet items, derivatives, securities financing transactions and standard purchases and sales with pending settlement). Over the review period total risk exposure grew at a higher rate than tier 1 capital. By the end of December 2021 all banks reported a leverage ratio exceeding significantly the minimum regulatory requirement of 3.0 per cent of tier 1 capital in the total exposure.

By 31 December 2021 all banks met regulatory requirements and the buffers⁵⁸. The capital above the regulatory minimum under Pillar 1 was BGN 10.0 billion or by BGN 517 million (5.5 per cent) higher than at the end of 2020. The capital exceeding the minimum regulatory requirements and the buffers rose by BGN 260 million, (5.7 per cent) to BGN 4.8 billion by end-2021. The growth of regulatory capital and the decline in net non-performing exposures in 2021 ensured additional coverage of the items appearing to be a source of a potential residual credit risk in bank balance sheets.

Banking system liquidity remained stable, with liquidity coverage ratios (LCR) of all credit institutions exceeding significantly the minimum requirement of 100 per cent. Banking system liquidity coverage ratio was 274.1 per cent at the end of 2021 (278.9 per cent by end-2020). Compared to the end of 2020, liquidity buffer (ratio numerator) went up by BGN 5.3 billion (14.6 per cent) to BGN 41.5 billion. Reserves in the central bank with an option for withdrawal increased by BGN 1.3 billion (6.7 per cent) to BGN 21.4 billion, its share in the liquidity buffer structure falling from 55.4 to 51.6 per cent.

Selected Liquidity Indicators under Commission Delegated Regulation (EU) 2015/61

(BGN million)

(per cent)



* Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to liquidity coverage requirement for credit Institutions.

Source: the BNB.

Assets in the central government component of the liquidity buffer also rose by BGN 3.7 billion (29.4 per cent) on an annual basis to BGN 16.1 billion and its share in the liquidity buffer rose from 34.4 to 38.8 per cent by end-December 2021. Compared with 31 December 2020, coins and banknotes increased by BGN 266 million (10.7 per cent), their share comprising 6.6 per cent of liquid assets (against 6.9 per cent at the end of 2020). The assets in the central bank component decreased

⁵⁸ The regulatory requirement for a leverage ratio (when a fully phased-in definition of tier one capital is applied) is introduced in compliance with Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/2013, with effect from 28 June 2021. Reporting templates comply with Commission Implementing Regulation (EU) 2021/451 of 17 December 2020 laying down implementing technical standards for Regulation (EU) No 575/2013 and repealing Implementing Regulation (EU) No 680/2014. The rate of 3 per cent is defined in compliance with the value in the Basel III regulatory framework.

by BGN 107 million (17.0 per cent) to BGN 523 million, its share amounting to 1.7 per cent by end-December 2021 (1.7 per cent a year earlier). The liquidity coverage ratio denominator (net liquidity outflows) rose by BGN 2.2 billion (16.6 per cent) to BGN 15.1 billion at the end of the period. Loan-to-deposit ratio (LTD)⁵⁹ for the banking system remained close to the reported values of end-2020 (69.0 per cent) at 69.4 per cent by end-December 2021, reflecting a lower growth rate of loans (9.2 per cent) compared to that of deposits (8.6 per cent) in a year.

At the end of December the aggregate net stable funding ratio (NSFR)⁶⁰ for the banking system reached 166.0 per cent. All banks in Bulgaria met the minimum regulatory requirement of 100 per cent. Available stable funding (the NSFR nominator) was BGN 106.6 billion and required stable funding (the NSFR denominator) BGN 64.2 billion.

General Overview of the Activities of Financial Institutions Recorded in the BNB Register under Article 3a of the LCI

By end-2021 the number of financial institutions registered under Article 3a of the LCI was 219, including 11 financial institutions from EU Member States conducting activities on the territory of the Republic of Bulgaria *via* a branch or directly (Articles 24 and 27 of the LCI) and a fund established under the procedure of the Law on the Bulgarian Development Bank.

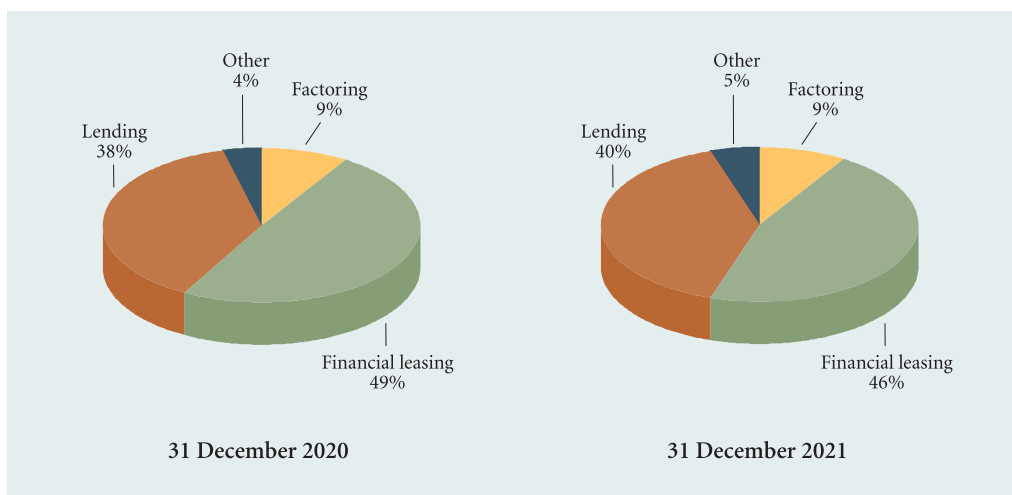
The total amount of balance sheet assets of the sector reached BGN 10.9 billion⁶¹, accounting for 8.0 per cent of banking system's assets by end-2021. The assets increased by 11.2 per cent on an annual basis entirely due to increased business lending to non-financial corporations. Assets of the 20 largest financial institutions increased further to reach 75.5 per cent of the sector's total balance sheet figure at the end of the review period.

⁵⁹ The ratio is calculated excluding central banks and credit institutions sectors.

⁶⁰ The regulatory requirement is introduced in compliance with Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/2013 and becomes applicable as of 28 June 2021. Reporting templates comply with Commission Implementing Regulation (EU) 2021/451 of 17 December 2020 laying down implementing technical standards for Regulation (EU) No 575/2013 and repealing Implementing Regulation (EU) No 680/2014.

⁶¹ Assets balance sheet figure as of 31 December 2021 is based on the assets of 206 financial institutions which have filed financial statements prepared under the procedure provided for in Article 15, paragraph 1 of the BNB Ordinance No 26.

Breakdown of Financial Institutions' Assets by Type of Business in the Register under Article 3a of the LCI



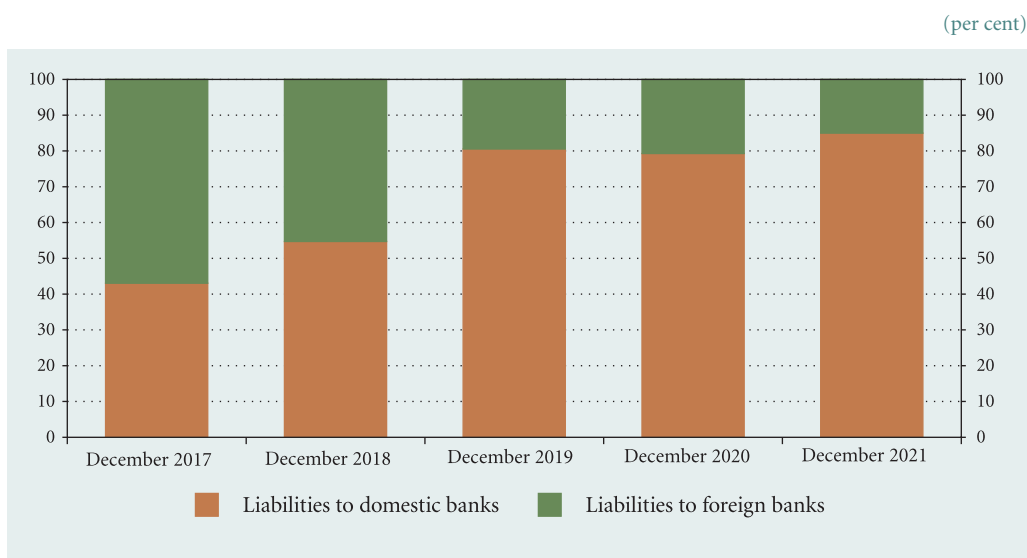
Source: the BNB.

Total breakdown of claims was sustained on an annual basis, with claims on financial leasing amounting to 46 per cent and claims on consumer loans to 40 per cent.

Gross credit portfolio that includes claims on loans and financial leasing increased year on year by 13.4 per cent to BGN 9.1 billion. Credit portfolio quality was maintained, with the share of performing loans occupying 80.6 per cent of the sector's portfolio. Net leasing and credit portfolio grew by 18 per cent year on year to BGN 8.8 billion. Over the review year, impairment posted a 26.8 per cent growth regarding the obligation of financial institutions to accrue impairment also for regular exposures.

Attracted funds in the sector increased by 8.5 per cent on an annual basis to BGN 7.7 billion. Funds attracted by banks amounted to BGN 5.4 billion and occupied the largest share among sources of financing. Over the year the upward trend in the share of attracted resources from domestic banks continued.

Structure of Attracted Funds from Banks



Source: the BNB.

In 2021 the sector's profit rose strongly year on year to reach BGN 377 million, net income from fees and commissions contributing most. At the end of December 2021 the return on assets (ROA) reached 3.5 per cent and return on equity (ROE) 15.7 per cent.

Banking system equity grew by 7.2 per cent year on year, reaching BGN 2.4 billion, underpinned by the higher financial results, coupled with the increasing number of newly registered financial institutions. The main source of capital financing in the banking sector were the own funds in the form of undistributed and current profits. The capital position of the 20 largest financial institutions continued to provide half of sector's required equity.

Banking Supervision's Activity

Activities on Establishing Close Cooperation between the BNB and the ECB in View of BNB Accession to the Single Supervisory Mechanism (SSM)

Implementation of the tasks associated with BNB accession to the SSM by establishing a close cooperation between the BNB and the ECB intended to ensure full synchronisation of supervisory practices between the two competent authorities continued to be the top priority of banking supervision activities in 2021. In this context, the BNB Governing Council decided to apply the SSM Supervisory Manual and effective standards in BNB supervisory activities in order to ensure full compliance with applied supervisory standards and the consequent need to change the existing framework of BNB internal rules.

Off-site Supervision

Activities Related to Supervisory Review and Evaluation and Current Monitoring of Credit Institutions' Risk Profile

In 2021 off-site supervision remained focused on current monitoring of credit institutions financial position and assessment of their risk profile. Within the Supervisory Review and Evaluation Process (SREP), key risk indicators (KRI), the scope of which was updated according to the applied methodology within the SSM, continued to be monitored. Over the review period off-site supervision remained focused on the monitoring of dynamics of credit institutions' liquidity positions on a daily basis and compliance with the limits on banks' net exposures to foreign counterparties on a weekly basis, and analysis of data related to the moratorium according to the requirements in EBA Guidelines on a monthly and quarterly basis.

Supervisors carried out an annual review of banks' Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) reports for 2020. Banks' funding plans in the 2021–2023 were reviewed, as well as banks' strategies and operational plans for non-performing exposures in the context of the implementation of the measures taken and deadlines to apply the EBA Guidelines on the management of non-performing and forborne exposures. In 2021 a horizontal review was also conducted for the purposes of analysing the internal governance of less significant institutions.

Pursuant to Article 6, paragraph 1 of the Law on the Recovery and Resolution of Credit Institutions and Investment Firms, the Bank reviewed and assessed the updated and revised recovery plans of less significant institutions, with banks being informed on main conclusions to address deficiencies and improve plan applicability.

In 2021 draft reports under the SREP of less important institutions with a reference date 31 December 2020 were prepared in compliance with SSM LSI SREP Methodology. Overall assessment and ratings of the individual risk categories were determined, as well as additional capital requirements.

Work on Drafting Opinions and Follow-up of Supervisory Measures

In 2021 opinions were drafted on preliminary approvals issued by the BNB to include 2020 annual profits in banks' capital, to include capital instruments into the tier two capital, and preliminary approvals for redemption and simultaneous replacement of additional tier one instruments. An opinion was drafted on the application of an alternative Standardised Approach for calculating the capital requirements for operational risk, as well as opinions on preliminary coordination of the selection of bank auditors. Analysis of received notifications for outsourced activities of one of the commercial banks was also drafted. Based on the ongoing follow-up of the implementation of recommendations resulting from supervisory inspections, it was established that credit institutions took proper actions to implement some of the recommendations and remove infringements thereof.

Close Cooperation within the Single Supervisory Mechanism

In 2021 the work of the joint supervisory teams in the process of close cooperation within the SSM continued. Risk assessments under the SREP as of 31 December 2020 were prepared for the five subsidiary banks of EU banking groups under the ECB direct supervision, as well as draft joint decisions on the capital and liquidity of bank groups. To this end, supervisory dialogue with the management bodies of banks took place in order to present the main conclusions from the SREP, including additional capital requirements. Opinions were drafted on preliminary coordination of the selection of external auditors, analyses related to submitted applications for merger (of a subsidiary into a bank, of a bank into another bank), notifications for outsourcing of activities. The participation in the joint supervisory teams also covered activities related to procedures for approval of members of the Governing Council, Supervisory Board and key function holders, and received requests for methodological clarifications from the significant institutions. In the second half of 2021, within the framework of the joint supervisory teams, group recovery plan review and assessment were carried out, with recovery plans of Bulgarian subsidiaries being inseparable part thereof. In 2021 the BNB continued its cooperation with German supervisory authorities in relation to the SREP, the assessment of the National Recovery and Resilience Plan and joint decisions on the capital and liquidity of the subsidiary bank.

On-site Inspections

In 2021 the operational work on organising and conducting supervisory inspections was carried out remotely, in view of the continued effect of anti-epidemic measures in Bulgaria. During the year simultaneous (horizontal) and fully remote inspections were performed in 12 banks based on the annual plan of on-site inspections in the so-called less significant institutions, which were subject to BNB direct supervision.

The degree of credit risk and credit risk management were checked in these banks. In particular, inspections reviewed and assessed credit institutions' operational capacity to manage credit exposures to distressed customers amid the COVID-19 pandemic and compliance with EBA Guidelines on legislative and non-legislative moratoria on loan repayments. Another main aspect subject to inspection review and evaluation was the reflection in the banks' internal regulatory framework of the requirements

(effective since early 2021) under EBA Guidelines on the application of the definition of default (EBA/GL/2016/07) in compliance with Regulation (EU) No 575/2013 on prudential requirements for credit institutions. In this relation, inspections checked banks' definition of the past due criterion in the identification of default, possible indications of unlikelihood to pay, criteria for a return to non-defaulted status, consistency in the application of the definition of default. A wider range of credit risk inspections was envisaged for banks whose gross non-performing loans exceed 5 per cent on an individual basis, which corresponds to EBA's concept of a high level of non-performing loans. In addition to checks of credit risk level and credit risk management, all horizontal inspections included a review and assessment of the measures initiated by banks to adapt their business models to the current economic environment and digitalisation processes amid strong market competition.

Over the reporting period, an ad-hoc thematic off-site inspection was carried out into one bank in order to review and assess internal governance. The BNB conducted an analysis of the internal regulation of the activities of the management bodies and committees assisting the management body engaged in control functions with regard to the distribution and levels of responsibilities and applicable procedures. Findings resulted in supervisory recommendations to the bank to improve internal governance efficiency, organisation and work of management bodies.

All major activities related to operational planning and supervisory inspections complied with applicable joint supervisory standards, recommendations and guidelines drafted by the ECB within the Single Supervisory Mechanism and adopted by the Resolution of the BNB Governing Council of 25 February 2021.

Analysis and approvals of changes in internal models to measure regulatory capital for credit risk included two parallel checks with a different scope in one bank. The results of the inspections of the internal models concerned were set out in two separate reports, which were agreed with the ECB under the mechanism for close cooperation. Internal models team completed the first inspection fully mandated by the ECB and on behalf of the ECB regarding changes to internal models of a bank operating in Bulgaria.

Over the reporting period representatives of supervisory teams took part for the first time in the centralised process of annual planning of inspections of significant institutions organised and led by the ECB. To this context, a 'quality review' of the requested inspections for 2022 by ECB joint supervisory teams was carried out in terms of their compliance with the ECB Supervisory Board guidance on 'top-down' planning. Based on the multilateral consultations with supervisory units in the ECB and in other national competent authorities, a plan for inspections of significant credit institutions operating in Bulgaria was drawn up.

Opinions on assessment of individual and collective suitability of candidates for new members of management bodies of credit institutions and for persons in key positions were also prepared.

Macroprudential Supervision

The BNB macroprudential mandate includes the regular monitoring and analysis of the economic environment and factors impacting the activity and the state of the banking sector. Cyclical and structural measures of the systemic risk are assessed, with applying a set of risk-mitigating macroprudential measures and instruments. BNB's macroprudential measures introduced in March 2020 remained in place in 2021. In order to strengthen bank resilience to credit risk and provide conditions for

boosting the credit capacity of the banking sector, in January 2021 the BNB Governing Council decided⁶² to maintain the restriction on dividend distribution and to capitalise the full profit of banks in 2020. The individual and aggregate limits on banks' foreign exposures set in March 2020 to limit credit risk and concentration risk on their balance sheets remained effective. With its March and June 2021 decisions the Governing Council maintained the countercyclical capital buffer rate applicable to credit risk exposures in the Republic of Bulgaria at 0.5 per cent. The decision aimed to maintain the capital buffers built into the system, which provides loss-absorbing capacity in case of adverse economic processes and possible deterioration of banks' credit portfolios.

In September 2021, given accelerating growth of lending activity, especially in the housing loan segment, as well as related preconditions for increasing indebtedness and accumulation of cyclical risks which may result in an increase in the volume of non-performing loans in case of an economic activity downturn, the BNB Governing Council decided to raise the countercyclical capital buffer rate to 1.0 per cent from 0.5 per cent, in force as of 1 October 2022.

In December 2021, given accelerating growth of lending activity, especially in the housing loan segment, as well as real interest rates levels creating preconditions for increasing indebtedness which may impact borrowers' ability to service their debt in the event of economic environment deterioration, the BNB Governing Council decided to raise the countercyclical capital buffer rate to 1.5 per cent, in force as of 1 January 2023. The decision took into account the fact that banks' current policy to maintain the activity in the sectors of housing construction and loans secured by real estate, though justified as individual credit decisions and covered by the existing capital and liquidity buffers, has implications of systemic nature, which necessitates continuation of the proactive stand to build a buffer capacity against cyclical risks.

In making the decisions to increase the countercyclical capital buffer, in addition to the dynamics of the standard indicator of the credit to GDP ratio deviation from the long-term trend, which does not fully reflect the trends in cyclical risks, the BNB Governing Council also took into account additional indicators focused on credit market, indebtedness, real estate market, and overall macroeconomic environment.

As regards risks of a structural nature, following the review of the systemic risk buffer (SRB), the BNB Governing Council confirmed the rate of 3 per cent, with the aim of maintaining banks' resilience to the materialisation of structural risks threatening the stability of Bulgaria's financial system.

Following the 2021 annual review of the buffer for other systemically important institutions (OSII), in November the BNB Governing Council took a decision identifying eight banks, the buffer rates of which will be in the range from 0.50 to 1.0 per cent in 2022.

Specific Supervisory Activities

In 2021 the supervisory inspections for compliance with the requirements of the Law on Measures against Money Laundering (LMML) and the Law on Measures against Financing of Terrorism (LMFT), as well as the EBA Guidelines in this area continued to be conducted fully remotely due to the epidemic situation in Bulgaria.

Over the review period planned inspections were completed in seven banks. Inspectors applied the risk-based approach and found isolated infringements, not affecting

⁶² Resolution No 11 of the BNB Governing Council of 28 January 2021.

efficiency of bank systems established to prevent money laundering and terrorist financing. Eighteen recommendations were sent to banks' management to improve control functions in applying due diligence measures.

The past year saw supervisory measures imposed by the BNB Governing Council on three banks for supervisory framework breaches. Prescriptions were issued to improve the adequacy of prevention systems, providing for the monitoring of their implementation.

The interaction with other competent national authorities continued, with joint review being carried out into one bank. Over the review period results of three horizontal thematic inspections in all banks concerning their actions on implementing the LMML were taken into account: PEPs (politically exposed persons) customers and related persons, non-governmental organisations and fraud by offering financial services, without the required license for trading regulated financial instruments.

Five thematic inspections were conducted as a result of exchanged information with other competent authorities and 56 ad-hoc checks in eight banks were performed following received complaints and signals. The assessment of the banking sector based on inspections showed that bank systems developed to prevent money laundering and terrorism financing functioned reliably and banks adhered to statutory requirements.

In 2021 BNB experts participated in the fifth round of evaluation for Bulgaria by the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) ⁶³.

Over the period under review opinions on the assessment of funds used for acquisitions and increases in qualified shareholdings, assessment of reliability and suitability of credit institutions' management and key personnel were drafted.

Jointly with the State Agency of National Security Financial Intelligence Directorate, the BNB developed guidelines for commercial banks on the application of the requirements of the LMML to customers who are non-profit institutions and PEPs customers and related persons, and a methodology for assessing the risk.

Three credit, three non-bank financial institutions and nine credit intermediaries were inspected to implement the requirements of the Law on Real Estate Loans for Consumers (LRELC), and one credit institution to comply with the provision of the LBDG. The review and assessment of relevant areas under the LRELC covered the following main aspects: borrower creditworthiness rules adopted by creditors, their compliance with the law and EBA guidelines, their implementation, professional training systems and staff remuneration policy. In order to comply with the provisions of the LBDG, a targeted inspection for the correct determination of guaranteed deposits amount used for the calculation of the premium contribution and the correct preparation of reporting forms was conducted.

The inspected credit institutions under the LRELC have applied adequate rules and procedures for assessing borrower creditworthiness. Employees' wages were compliant with the requirements laid down in the LRELC and EBA guidelines. Professional training of employees engaged in mortgage lending complied with legal requirements. Some deficiencies were established in the LRELC implementation by financial institutions, and recommendations for removing them made. Inspections identified some

⁶³ The Council of Europe MONEYVAL Committee is a regional structure of the Financial Action Task Force (FATF), which is a leading international organisation setting international standards to counter money laundering and the financing of terrorism.

weaknesses in relation to the requirements of the law in some of the entities acting as credit intermediaries.

The application of BDIF provisions in the inspected credit institution revealed misstatement in determining the amount of the deposit base and guaranteed deposits. The bank initiated measures to address the weaknesses and implement inspectors' prescriptions.

During the reporting period all signals, issues and inquiries received from customers of banks, financial institutions and credit intermediaries were checked and customers were duly informed. The Consumer Protection Commission was asked questions falling within its competence.

Over the reporting period 19 new Bulgarian and three EU Member State credit intermediaries willing to act as intermediaries under the LRELC were registered. In 2021 two credit intermediaries were deleted: one domestic and one from another EU Member State. During the same period 1134 entities were inspected and found to act as credit intermediaries without registration. Inspectors established incorrect information published on the websites of 58 companies.

Compliance with the regulatory requirements by financial institutions registered under the LCI and Ordinance No 26 of the BNB was checked through regular reviews of their financial statements, and data and information associated with changed registration circumstances.

Over the review year, ten new financial institutions were registered. Inspections of companies continued. As a result, two legal entities were served an administrative infringement notice against one legal entity specialised in purchasing and collecting claims and against one financial institution for non-compliance with a regulatory requirement.

The Sofia District Prosecutor's Office and the National Revenue Agency were notified of the results of inspection for incorrect market behaviour, illegal activities and financial fraud.

Supervisory Information Service

Over the review period BNB supervisory information service included preparation of risk assessments in IT used by credit institutions, development of practices regarding information services of the supervisory process and implementation of the requirements arising from the process of full integration of the information exchange and processing of supervisory information into the SSM system.

Timely provision of data for banking supervision purposes was the main priority in line with supervisory information service during the reporting period. Design, development and implementation of improvements and amendments were prepared and assigned into the Single Data Depository/Banking Supervision Reports. Changes related to the credit institutions arose from a change in the regulatory framework for reporting and new requirements relating to the supervisory review and evaluation process, and those related to financial institutions reflected amendments to the LMML.

Over the review period a risk-based IT audit framework was developed, integrated with the processes in the Banking Supervision Department and the recommendations of the European Banking Authority and the SSM. The framework defined the governance, planning, conduct (including specific techniques and approaches) and reporting of IT audits. At the end of 2021 the first complete IT audit of a bank began.

The reporting of cyber incidents at credit institutions showed an effective organisation, with further coordination with the Bulgarian Computer Security Incidents Response Team.

Issue of Licences, Permits, and Approvals

There were no new bank operations licences or bank licensing procedures in 2021⁶⁴.

Over the review year there were applications for the acquisition of a qualifying holding from the capital of three credit institutions under Article 28 of the Law on Credit Institutions, including the application filed by the KBC Bank Belgium to approve acquisition of 100 per cent of Raiffeisenbank (Bulgaria) equity⁶⁵.

In June 2021 the BNB was notified of a request from the parent financial holding company from EU for exemption from the obligation to obtain approval under Article 35a, paragraph 1 of the LCI.

In July and September 2021 BNB Governing Council decided to terminate two application procedures to take over subsidiary financial institutions by their banks. One of the applications was filed by a significant institution.

In 2021 by BNB Governing Council resolutions the following permissions related to own funds were issued:

- to two banks to include 2020 profits into Common Equity Tier 1 (CET1);
- to one bank to include a capital instrument in CET1;
- to one bank to include an issue of convertible bonds into additional tier 2 capital (T2);
- to two banks to repay in advance existing capital instruments under the terms of exchange, one of which issued to a significant institution.

Over the past year seven banks of which one is a significant institution obtained approvals by the BNB Governing Council under Article 71, paragraph 5 of the LCI to amend their statutes.

In 2021 after an assessment of reliability and suitability, 24 approvals for holding positions in the management and supervisory bodies of banks⁶⁶ were issued by resolutions of the BNB Governing Council (12 to less significant institutions and 12 to significant institutions following an instruction by the ECB) and 11 approvals to assess the suitability of key function holders (seven to less significant institutions and four to significant institutions following an instruction by the ECB)⁶⁷.

⁶⁴ By Decision (EU) 2020/1015 of the ECB of 24 June 2020 on the establishment of close cooperation between the European Central Bank and the Bulgarian National Bank (ECB/2020/30) close cooperation was established between the BNB and the ECB and, starting from 1 October 2020 in accordance with Article 4(1)(c) of Regulation (EU) No 1024/2013, the ECB is the competent authority for authorisation of credit institutions, consistent with specific rules, reflecting the role of the national competent authority.

⁶⁵ Following the established close cooperation between the BNB and the ECB, in accordance with Article 4(1)(c) of Regulation (EU) No 1024/2013, the ECB is exclusively competent to assess notifications and take decisions on the acquisition and increase of qualifying holdings in all credit institutions encompassed by the Single Supervisory Mechanism, regardless of whether they are significant or less significant and are under the direct supervision of the BNB or the ECB as a national competent authority. The ECB assesses the applications of acquisition in cooperation with national supervisory authorities.

⁶⁶ Information on approvals issued pursuant to Article 11, paragraphs 1 and 3 of the Law on Credit Institutions is available on the BNB website: <https://www.bnb.bg/BankSupervision/BSCreditInstitution/BSCIRegisters/index.htm>.

⁶⁷ Following the established close cooperation between the BNB and the ECB, in accordance with Article 4(1)(c) of Regulation (EU) No 1024/2013, the ECB is exclusively competent to assess the suitability of members of the management body and key function holders in significant banks. The ECB assesses the persons concerned in cooperation with national supervisory authorities.

Notifications of direct services by two credit institutions licensed in the Republic of Bulgaria were sent to the supervisory authorities of the hosts Member States and a notification of establishment through a branch in a Member State by another credit institution.

From January to December 2021 twenty new EU Member State credit institutions exercised the freedom to provide direct services under the mutual recognition of single European passport through notifications to the BNB from their licensing authorities, on their intent to provide bank services in the Republic of Bulgaria, bringing the number of first time notifications received in the BNB to 303.

As a result of the close cooperation between the ECB and the BNB⁶⁸ procedures on specific instructions by the ECB were conducted leading to the adoption by the BNB Governing Council of national resolutions, as follows:

- five national resolutions on providing permissions to use internal models for calculating the capital requirements for credit risk to two significant institutions;
- 16 national resolutions on issuing approvals for holding a position of a member of a management and supervisory body and for holding key positions in four significant institution;
- one national resolution on issuing an approval of amendments to the Statute of a significant credit institution;
- one national resolution on providing permission to a bank (a significant institution) to take over its subsidiary financial institution;
- 13 national resolutions on invoicing 2020 annual supervisory fees due to the ECB for the supervised persons and supervised groups established in Bulgaria to twelve less significant banks and one significant institution;
- one national resolution on providing permission for early repayment of existing capital instrument under the terms of exchange to one significant institution;
- five national resolutions on reporting supervisory information at recurring intervals (data collection process related to the supervisory review and evaluation process) to five significant institutions.

The BNB Banking Supervision Department registered and handled 250 complaints from bank customers.

Work on the Change of the Existing Regulatory Framework

Law on Credit Institutions

In 2021 the BNB participated in a number of technical meetings before the final adoption by the National Assembly of amendments to the Law on Credit Institutions intended to introduce the requirements of Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures.

The BNB took part in drafting amendments to the Law on Credit Institutions⁶⁹, which in accordance with Regulation (EU) 2019/2033 of the European Parliament

⁶⁸ By Decision (EU) 2020/1015 of the ECB of 27 July 2020.

⁶⁹ As part of the draft Law amending the Law on Markets in Financial Instruments submitted to the National Assembly.

and of the Council of 27 November 2019 on the prudential requirements of investment firms and amending Regulations (EU) No 1093/2010, (EU) No 575/2013, (EU) No 600/2014 and (EU) No 806/2014 expanded the definition of a credit institution, including also investment firms of systemic importance for the EU financial system.

Ordinance on Amendment of Ordinance No 2 of the BNB of 22 December 2006 on the Licenses, Approvals and Permissions Granted by the Bulgarian National Bank under to the Law on Credit Institutions

The BNB Governing Council adopted Ordinance on Amendment of Ordinance No 2 of 2006 on the Licenses, Approvals and Permissions Granted by the Bulgarian National Bank under the Law on Credit Institutions. The Ordinance establishes the terms and procedure for issuing an approval to a financial holding company or mixed financial holding company under Article 35a of the LCI. The requirements for providing information within the procedure for granting a banking license and including capital instruments into common equity tier 1 have been specified. The Ordinance also provides for amendments aimed at ensuring consistency and harmonisation of the framework with the terms and conditions for granting a license to an investment firm, the requirements for conviction status certificates and the amendments to the LCI published on 12 February 2021.

Ordinance on Amendment of Ordinance No 4 of the BNB of 21 December 2010 on the Requirements for Remunerations in Banks

The BNB Governing Council adopted Ordinance on Amendment of BNB Ordinance No 4 of 21 December 2010 on the Requirements for Remunerations in Banks under which the importance of proportionality principle has increased. The Ordinance establishes the categories of staff in respect of which the remuneration policy applies, specifying exactly the managerial staff and criteria for determining the employees who receive significant remuneration commensurate with that of the managerial staff. The minimum period of variable remuneration deferral has been increased to four or five years depending on the bank's risk profile.

Ordinance on Amendment of BNB Ordinance No 7 on the Organisation and Risk Management in Banks

The BNB Governing Council adopted Ordinance on Amendment of BNB Ordinance No 7 on the Organisation and Risk Management in Banks, intended to bring the Ordinance in line with the requirements arising from the accession to the Single Supervisory Mechanism by establishing close cooperation between the BNB and the European Central Bank. Amendments concern the requirements for materiality threshold for credit obligations past due under Article 178(1)(b) of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, as well as the exercise of the right of choice and discretion under the same Regulation. The treatment in BNB Ordinance No 7 has been unified with respect to significant and less significant credit institutions to ensure equal treatment of banks in the Republic of Bulgaria.

Furthermore, based on the amendments to the LCI published on 12 February 2021, Ordinance No 7 of the BNB improves the requirements for interest rate risk management in the banking book and explicitly includes risks arising from the activities of external contractors in the exposure to operational risk. The distinction between the instruments of microprudential and macroprudential supervision has been further clarified.

Ordinance No 8 on Capital Buffers, the Combined Buffer Requirement, Restrictions on Distributions and the Guidance on Additional Own Funds

The BNB Governing Council adopted Ordinance No 8 on Capital Buffers, the Combined Buffer Requirement, Restrictions on Distributions and the Guidance on Additional Own Funds. The adoption of the new Ordinance No 8 repealing BNB Ordinance No 8 of 2014 on Banks' Capital Buffers stemmed from the accumulation of a significant volume of amendments to its content due to the expansion of the delegation for an ordinance of the BNB provided for in Article 39, paragraphs 2 and 3 of the LCI. Ordinance No 8 newly adopted by the BNB Governing Council further develops the rules for setting the applicable rates of the systemic risk buffer and the buffers for systemically important institutions, and updates the manner in which they interact. The leverage ratio buffer established in Article 92(1a) of Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 is also included in the scope of restrictions on distributions. The specific guidance on additional own funds for an individual bank, introduced by Article 79d of the Law on Credit Institutions is subject to additional requirements.

Ordinance on Amendment of Ordinance No 20 of 2019 on the Issuance of Approvals to the Members of the Management Board (Board of Directors) and Supervisory Board of a Credit Institution and Requirements for Performing Their Duties

In compliance with the adopted Ordinance amending Ordinance No 20 of the BNB, the provisions of the Ordinance will accordingly apply to financial holding companies and mixed financial holding companies, as well as upon issuance of approvals to the members of their management and control bodies or the persons managing their activity. The BNB may permit members of management and control bodies to hold an additional position of a member of a management board (board of directors), who is not an executive member, or a member of a supervisory body, provided that the terms and conditions and documents for issuing the permit are set out. The deadline for deciding on applications in respect of significant supervised entities has been extended, given the close cooperation between the BNB and the ECB, whereby the BNB and the ECB assess interactively and consistently the compliance of the members of the management and control bodies of significant banks with the requirements of law.

Regulatory Framework Activity

Evaluation of Capital Instruments Issued by Commercial Banks

In 2021 the BNB jointly with the EBA reviewed and assessed capital instruments of two Bulgarian banks, which were issued before entry into force of Regulation (EU) No 575/2013 and included in Common Equity Tier 1 (CET1). Examination comprised both relevant national legislation (the Law on Commerce, the Law on Credit Institutions and the Law on Bank Bankruptcy) and bank statutes. The review established that both national legislation and bank statutes had complied with the requirements of Article 28 of Regulation (EU) No 575/2013, Commission Delegated Regulation (EU) No 241/2014 of 7 January 2014 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for own funds requirements for institutions, the EBA Report on the Monitoring of CET1 instruments and all released EBA enquiries and responses related to CET1 instruments. The review of the instruments for Bulgaria was completed and the

EBA concluded that in Bulgaria there was no instrument of common equity tier one that did not comply with the provisions of applicable European legislation.

Review of the Activities of Credit Institutions regarding Compliance with the Guidelines on Outsourcing Arrangements (EBA/GL/2019/02).

In the second half of 2021 the BNB reviewed the activities of credit institutions regarding compliance with the Guidelines on Outsourcing Arrangements adopted by the BNB Governing Council.

Supervisory Reporting and Related Activities

In 2021 the work on updating the existing supervisory database in the BNB Banking Supervision Department continued due to changes in the European regulatory framework⁷⁰, including a change in the business reporting card.

Permissions Granted by the BNB Governing Council

In 2021 following BNB Governing Council resolutions, one permission was granted to a significant credit institution for exemption from clearing obligation and the obligation of exchange of collateral for intragroup transactions for OTC derivatives pursuant to Article 4(2a) and Article 11(6) of Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories. Granted permits are in accordance with the BNB Governing Council powers under Article 1, paragraph 2, item 2 and Article 151, paragraph 1 of the Law on Credit Institutions.

In 2021 the BNB Governing Council granted permission to one bank to apply the Standardised Approach for calculating the capital requirements for operational risk in accordance with the relevant provisions of Regulation (EU) No 575/2013.

⁷⁰ Commission Implementing Regulation (EU) 2021/451 of 17 December 2020 and Commission Implementing Regulation (EU) 2021/453 of 15 March 2021.

VII. BNB Activities on Resolution of Credit Institutions

The Law on the Recovery and Resolution of Credit Institutions and Investment Firms (LRRCIIF) tasks the Bulgarian National Bank with resolution of credit institutions and other legal entities, which are subject to supervision or consolidated supervision by the BNB. With effect from 1 October 2020, the date of establishing close cooperation with the European Central Bank (ECB), the BNB performs the function of a resolution authority within the framework of the Single Supervisory Mechanism (SSM), while observing the direct application of Regulation (EU) No 806/2014 in the Republic of Bulgaria⁷¹. As a result of the accession to the SRM, the resolution powers are split between the Single Resolution Board (SRB) and the BNB as a national resolution authority. Credit institutions and groups established in the Republic of Bulgaria, subject to ECB supervisory powers, are included in the scope of the SRB powers⁷². As regards these credit institutions, the BNB is substituted by the SRB in performing the functions of a resolution authority and in making decisions concerning them in all aspects of resolution. The BNB as a national resolution authority participates and is represented in Internal Resolution Teams⁷³ (IRT), which are set up by the SRB for each entity or group within the scope of the SRB direct powers and perform tasks on drawing up resolution plans and taking decisions related to resolution. In these cases, the SRB substitutes the BNB also in cooperating with resolution authorities of non-participating Member States, including in resolution colleges and European resolution colleges established under Directive 2014/59/EU⁷⁴. With regard to credit institutions, respectively groups, for which the SRB is a resolution authority, the Bulgarian National Bank participates in the resolution colleges as an observer.

As a part of the SRM, the Bulgarian National Bank is represented by the Deputy Governor heading the Issue Department in the SRB management bodies in the form of the Plenary Session⁷⁵ and the Extended Executive Session⁷⁶.

In its capacity as a resolution authority, the BNB is fully responsible for the current management of the Bank Resolution Fund (BRF).

In 2021 the BNB as a resolution authority and national resolution authority focused primarily on preparing, reviewing and updating resolution plans of credit institutions and setting a minimum requirement for own funds and eligible liabilities (MREL). In view of the accession to the SRM, in early 2021 work on updating the BNB internal regulatory framework related to the resolution function continued.

⁷¹ Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010.

⁷² Currently these are five credit institutions, namely DSK Bank AD, Eurobank Bulgaria AD, Raiffeisenbank (Bulgaria) EAD, UniCredit Bulbank AD, and United Bulgarian Bank AD.

⁷³ They include representatives of the SRB and national resolution authorities and are established under Article 83(3) of Regulation (EU) No 806/2014.

⁷⁴ Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012 of the European Parliament and of the Council.

⁷⁵ Including permanent members of the SRB and representatives of all national resolution authorities within the SRM.

⁷⁶ It includes permanent SRB members and representatives of national resolution authorities in whose jurisdiction the entities subject to consideration of issues and adoption of decisions are.

Relevant amendments to Internal Rules on the decisions of the Governing Council and the powers of the Deputy Governor heading the Issue Department were adopted in the performance of functions and tasks of the BNB as a resolution body. New Internal Rules for establishing resolution teams, participants in internal resolution teams organised by the SRB and representatives of the Bulgarian National Bank in the resolution colleges were approved. The BNB internal regulatory framework was also supplemented by Internal Rules for the activities of resolution colleges, which the BNB establishes as a group-level resolution authority. With entry into force of the amendments to the LRRCIIF⁷⁷ transposing into Bulgarian legislation the provisions of Directive (EU) 2019/879⁷⁸, the internal methodological framework for setting the minimum requirement for own funds and eligible liabilities (MREL) of credit institutions that are within the scope of BNB direct powers was revised. In accordance with the BNB power under Articles 52a, 55a and 101 of the LRRCIIF the preparation of the relevant regulations has commenced to regulate the selection of assessors for restructuring purposes and determining a minimum daily amount for the suspension of certain obligations.

In the first half of 2021 the BNB continued preparing and updating⁷⁹ resolution plans for credit institutions falling within the direct powers of the BNB⁸⁰. As part of resolution planning, individual meetings were organised in early 2021 with the credit institutions for which the BNB Governing Council has approved resolution plans and which have been revised currently. Principles, objectives and working priorities established by the BNB in the previous period of resolution planning and their importance in ensuring credit institutions' resolvability were discussed. In line with the BNB procedural commitments,⁸¹ in the second half of 2021 all prepared and revised resolution plans for credit institutions within the scope of the BNB direct powers were sent to the SRB for prior approval.

In December 2021 the BNB Governing Council adopted resolution plans for 2019 for five credit institutions that are not part of a group subject to supervision on a consolidated basis⁸², and a resolution plan for four credit institutions subject to a supervision on a consolidated basis⁸³. Along with the above, by virtue of Article 71 paragraph 1 of the LRRCIIF, the BNB set MREL for the relevant credit institutions along with the development and maintenance of a resolution plan.

The Bulgarian National Bank in its capacity as a resolution authority of a credit institution, part of a cross-border EU group, participated as a member in the resolution college set up by the group-level resolution authority. In compliance with the national

⁷⁷ Darjaven Vestnik, issue 12 of 12 February 2021, effective as of 12 February 2021.

⁷⁸ Directive (EU) 2019/879 of the European Parliament and of the Council of 20 May 2019 amending Directive 2014/59/EU as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms and Directive 98/26/EC (OJ, L 150 of 7 June 2019).

⁷⁹ Resolution plans are to be reviewed and revised at least annually and after any material change to the legal form, governance or organisational structure, or to the business or its financial position of the institution or group that could have a material effect on the effectiveness of the plan or requires a revision of the resolution plan.

⁸⁰ In the context of the allocation of functions and powers between the BNB and the SRB, the Bulgarian National Bank is responsible for the resolution planning of thirteen credit institutions licensed in the Republic of Bulgaria.

⁸¹ Pursuant to Article 31, paragraph 1(d) of Regulation (EU) 806/2014 and Article 34 of the Decision of the Single Resolution Board establishing the framework for the practical arrangements for the cooperation within the SRM between the Single Resolution Board and National Resolution Authorities (SRB/PS/2018/15), draft decisions of the BNB Governing Council on the adoption of resolution plans for credit institutions falling within the scope of the BNB direct powers, including on setting MREL, are subject to prior consultation with the SRB, which expresses an opinion on the drafts.

⁸² Pursuant to Article 14, paragraphs 1 and 10 of the LRRCIIF and Article 9 of Regulation (EU) No 806/2014.

⁸³ Pursuant to Article 19, paragraph 3 in connection with Article 17, paragraph 1 of the LRRCIIF and Article 9 of Regulation (EU) No 806/2014.

and European legal framework, in 2021 the BNB prepared and adopted an individual resolution plan for a subsidiary credit institution licensed in the Republic of Bulgaria, part of the group⁸⁴, due to a lack of a joint decision on the group resolution plan for 2020 in the resolution college. Concurrently, the BNB also set MREL at individual level for a subsidiary credit institution licensed in the Republic of Bulgaria.

Liquidation under insolvency proceedings was assessed as not appropriate for all ten credit institutions' resolution plans,⁸⁵ and an analysis of an appropriate resolution tool was therefore carried out. Given the critical functions identified and based on the detailed analyses, it was assessed that the application of the bail-in tool would better achieve the resolution objectives under Article 50, paragraph 2, items 1–5 of the LRRCIIF compared to the degree to which they would be achieved in case of liquidation under insolvency proceedings. In this context and in accordance with Article 51, paragraph 7 of the LRRCIIF, it may be concluded that taking resolution actions by applying the approved tool is in the public interest. The selected tool provides for losses to be absorbed by shareholders and creditors, where implicitly the need of using extraordinary public financial support and its amount are kept to a minimum. Impediments to resolvability were analysed in the adopted resolution plans in terms of the chosen resolution tool, with these impediments being considered in the following main areas: structure and operations; financial resources; information; cross-border legal matters. All ten credit institutions were informed on the key elements of their resolution plan and on set MREL.

In the course of reviewing and revising resolution plans of the five credit institutions falling within the SRB direct powers, in the first half of 2021 the BNB Governing Council adopted decision-voting positions of the SRB Extended Executive Session for the final approval of 2020 resolution plans of five cross-border groups with subsidiaries licensed in Bulgaria along with setting MREL for resolution entities and their subsidiary banks falling within the SRB powers⁸⁶.

The Bulgarian National Bank supported draft decisions of the SRB Extended Executive Session for two cross-border groups with subsidiaries in Bulgaria. The BNB did not support SRB draft decisions regarding the resolution plan and resolvability assessment for 2020 and on setting MREL for three cross-border groups with subsidiaries in Bulgaria. The Bulgarian National Bank expressed its reasoned disagreement with group resolution plan and resolvability assessment as regards the part relating to the approach for setting out MREL on an individual basis for subsidiary banks licensed in the Republic of Bulgaria. The BNB position as a national resolution authority was expressed within the framework of the Extended Executive Session of the SRB by the Deputy Governor heading the Issue Department as a BNB representative. Due to a lack of consensus and in accordance with the legal framework, the SRB draft decisions, which were not supported by the BNB, were adopted in the form of an Executive Session composed of the SRB permanent members. The 2020 resolution plans for the five groups include assessments of banking group resolvability, assessment of significant corporations and a business model analysis, critical functions of significant corporations, and a preferred resolution strategy and resolution tool. The five subsidiary banks licensed in Bulgaria, part of the relevant banking groups, were determined as significant with identified critical functions. One subsidiary bank was

⁸⁴ Pursuant to Article 21, paragraph 3 of the LRRCIIF and Article 9 of Regulation (EU) No 806/2014.

⁸⁵ Applying the BNB internal methodological framework, ensuring a consistent and objective approach to the analyses.

⁸⁶ Pursuant to Article 54(2)(a and c) of Regulation (EU) No 806/2014, the SRB at its Executive Session prepares, assesses and approves resolution plans and determines MREL for entities and groups falling within the scope of its powers. Decisions of the Executive Session of the SRB are taken by consensus, and if members are not able to reach a joint agreement by consensus, by a simple majority of the votes of permanent SRB members.

identified as a resolution entity⁸⁷ according to the preferred resolution strategy in the resolution plan and MREL for it was set out on a consolidated basis. MREL was set out on an individual basis for four subsidiary banks, that are not resolution entities, according to the strategy provided for in their resolution plans.

In accordance with the schedule established by the SRB, within the launched review, revision and adoption of resolution plans for 2021, in the fourth quarter of 2021 the BNB Governing Council approved positions in relation to voting on draft decisions of the SRB Extended Executive Session for prior approval of resolution plans for three cross-border groups with subsidiary banks licensed in the Republic of Bulgaria, for the purpose of subsequent submission and consideration of the documents within the respective restructuring colleges. The Bulgarian National Bank also adopted a position on the approval of a resolution plan and setting out MREL for a cross-border group with a subsidiary bank licensed in the Republic of Bulgaria for which there is no organised resolution college, as the group is not present in Member States outside the SRM. In one of the four cross-border groups, the BNB supported the draft SRB decisions. With regard to the remaining three cross-border groups, the BNB expressed reasoned disagreement with the draft decisions due to the approach of setting out MREL on an individual basis for subsidiary banks licensed in Bulgaria. The BNB position as a national resolution authority was expressed within the framework of the Extended Executive Session of the SRB by the Deputy Governor heading the Issue Department. Due to a lack of consensus in these three cases SRB draft decisions were adopted by an Executive Session composed of the SRB permanent members.

When taking into account 2019 internal rules for applying simplified requirements, the BNB did not identify credit institutions in respect of which simplified requirements under Article 25 of the LRRCIIF to be applied and did not offer to the SRB, given the participation in the SRM, to apply simplified requirements to credit institutions falling within the scope of its direct powers.

Under the BRF governance function, in the first half of 2021 the BNB Governing Council adopted Ordinance No 41 on Determining the Amount of the Individual Annual Contributions by Branches of Third-country Credit Institutions to the Bank Resolution Fund⁸⁸. In addition, the activity on preparation of financial statements and BRF accounting policy was regulated.

For the purposes of completion of the financial year 2020, at the beginning of 2021 the BNB conducted a public procurement procedure for the selection of a registered auditor for independent financial audit of the annual financial statements of the BRF for the 2020 financial year. Following the public procurement exercise and pursuant to Article 136, paragraph 1, item 5 of the LRRCIIF, the Governing Council appointed Ernst & Young Audit OOD as an auditor for independent financial audit of the BRF for 2020. At the end of March 2021 the BNB Governing Council adopted the BRF Annual Financial Statements for 2020, including Performance Report⁸⁹ and all BRF financial statement items as of 31 December 2020. In early April 2021 the Bulgarian National Bank published the Annual Report of the Banks Resolution Fund for 2020, presenting its financial position, cash flows and financial performance, along with the report of the independent auditor at its website. To that end, a new periodical publication of the BNB was launched. The audited Annual Accounts of the Bank Resolution Fund for 2020 was published within legally set deadlines in the *Darjaven Vestnik*, issue 34 of 23 April 2021.

⁸⁷ Within the meaning of § 1, item 71a of the Additional Provisions of the LRRCIIF.

⁸⁸ *Darjaven Vestnik*, issue 23 of 19 March 2021.

⁸⁹ This Report covers the activities relating to the BNB functions and tasks related to the BRF management.

For the purposes of BRF current funds management, in the first half of 2021 the BNB Governing Council determined eligible classes of assets and investment restrictions for market and credit risks with regard to the possibility for BRF resources to be invested through structured indexed account (SIA) with the BNB. In 2021 the BNB Governing Council decided⁹⁰ to leave unchanged the investment strategy implemented to BRF resources, which continued to be kept on current accounts with the BNB and are subject to the General Terms and Conditions of the Bulgarian National Bank on Servicing Accounts of Banks, Budget Organisations and Other Customers. Upon making relevant decisions to invest the resources of the BRF, the Governing Council reviewed and took the expected returns and risk into account in the event of a choice of SIA, as well as the market situation at that time.

In line with the allocation of powers between the SRB and the BNB, the function of determining and raising contributions by branches of third-country credit institutions for the purposes of resolution financing is exercised entirely by the BNB and the collected funds are transferred to a separate BRF sub-fund under Article 134, paragraph 1, item 1 of the LRRCIIF. In April 2021 the BNB Governing Council set the total amount of individual annual contributions by branches of third-country credit institutions to the BRF at BGN 72.6 thousand. Funds were transferred in the respective sub-fund within the time-limit under Article 139, paragraph 5 of the LRRCIIF (30 days from the date of notification). As of 31 December 2021 funds collected in the sub-fund established to raise contributions by branches of third-country credit institutions amounted to BGN 683 thousand.

Contributions of credit institutions licensed in the Republic of Bulgaria for the purpose of resolution financing are due to the Single Resolution Fund (SRF) and are determined by the SRB. As a national resolution authority, the Bulgarian National Bank is responsible for notifying credit institutions about their *ex-ante* annual contributions (the contributions) set by the SRB, raising and transferring the contributions to the SRF. In order to raise and transfer the contributions to the SRF, a separate earmarked sub-fund is used under Article 134, paragraph 1, item 2 of the LRRCIIF. In April 2021 the SRB determined the contributions for 2021 to be raised from the credit institutions licensed in the Republic of Bulgaria and transferred from the BNB to the SRF at a total amount of EUR 15,289 thousand, or BGN 29,903 thousand⁹¹. In view of the funds available in the earmarked BRF sub-fund and the possibility of using them provided for in § 56, paragraph 2 of the Transitional and Final Provisions of the Law on the Amendment to the LRRCIIF⁹², the BNB Governing Council decided contributions due by credit institutions to the SRF for 2021 to be deducted from the funds available in the respective sub-fund. Credit institutions were notified of their contributions determined by the SRB to the SRF for 2021 and of the BNB Governing Council's decision these contributions to be deducted from the funds in the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF. After receipt of the BNB notification on the contribution for 2021 determined by the SRB and the

⁹⁰ In compliance with Internal Rules for Management of the Banks Resolution Fund Financial Means approved by Decision No 446 of 17 December 2020 of the BNB Governing Council, decisions on the selection of financial instruments, in which to invest the financial means of each of the two sub-funds, is taken by the BNB Governing Council on a quarterly basis on a proposal from the Deputy Governor heading the Issue Department.

⁹¹ Using the fixed exchange rate of 1.95583 lev *per* euro.

⁹² 'Following the Single Resolution Board notification on the initial contribution, the resolution authority under Article 2, paragraph 1 shall order a transfer of an amount from the sub-fund under Article 134, paragraph 1, item 2 to the Single Resolution Fund in accordance with Article 8 of the Agreement on the Transfer and Mutualisation of Contributions to the Single Resolution Fund. Following the transfer of the financial means, the other financial means raised in the sub-fund under Article 134, paragraph 1, item 2, if any, are deducted from the obligations of institutions for future contributions to the Single Resolution Fund upon a decision of the resolution authority until their exhaustion.'

BNB Governing Council's decision, one credit institution choose to make use of the opportunity given by the SRB 15 per cent of the contribution due to be paid by making an irrevocable payment commitment under the terms of an agreement concluded with the SRB⁹³. Upon receipt of a payment notification by the SRB, on 28 June 2021 the BNB made the relevant payments⁹⁴, decreasing the funds to be deducted from the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF in view of the funds provided by the respective credit institution to collateralise the irrevocable payment commitment to the SRB.

As of 31 December 2021 funds in the earmarked BRF sub-fund established to raise and transfer contributions of credit institutions to the SRF came to BGN 506,939 thousand.

In September 2021 the SRB took a decision laying down the format and method for submission of data by institutions providing reporting information necessary for the calculation of the *ex-ante* individual annual contributions to the SRF for 2022 (SRB Decision SRB/ES/2021/57). In early October 2021 the BNB sent a notification letter to credit institutions licensed in the Republic of Bulgaria informing them of the launched calculation of individual annual contributions to the SRF for 2022 and provided them with a copy of the SRB decision and the accompanying documentation and reporting forms.

For the purposes of completing the financial years 2021, 2022 and 2023 in the second half of 2021 the BNB conducted a public procurement procedure⁹⁵, including also a selection of a registered auditor to perform an independent financial audit of the annual financial statements of the BRF for those financial years. Following the public procurement exercise and pursuant to Article 136, paragraph 1, item 5 of the LRRCIIF, the BNB Governing Council appointed Ernst & Young Audit OOD as an auditor to perform an independent financial audit of the BRF for 2021, 2022, 2023.

⁹³ The irrevocable payment commitment is fully collateralised by credit institution's funds. The LRRCIIF does not provide for a possibility funds in the respective earmarked sub-fund to be used as a collateral for irrevocable commitments.

⁹⁴ Transfer of contributions of credit institutions licensed in the Republic of Bulgaria to the SRF for 2021 and the separate transfer of the amount representing a collateral on an irrevocable payment commitment made by a credit institution licensed in the Republic of Bulgaria.

⁹⁵ Subject: 'Selection of a registered auditor to perform an independent financial audit of the consolidated financial statements of the Bulgarian National Bank and the annual financial statements of the Banks Resolution Fund for 2021, 2022 and 2023 financial years.'

VIII. Participating in the ESCB and EU Bodies

The work of the EU bodies and institutions in 2021 focused on adopting coordinated measures to tackle the COVID-19 pandemic, limit its economic and social impact, preserve favourable financing conditions, uphold the integrity of the single market and prepare for a rapid and sustainable recovery.

The EU Council continued to deepen the Economic and Monetary Union, including the further strengthening of all elements of the regulatory framework for the completion of the Banking Union. As regards financial services, legislative initiatives have been launched to ensure that the banking sector is implementing the latest elements of the reform of international standards adopted by the Basel Committee on Banking Supervision. The BNB actively participated in the discussions on the amendment of the prudential framework on credit institutions through its representatives, who contributed with their expertise to the drafting and coordination of national positions on the legislative proposals.

The European System of Central Banks

The BNB Governor sits on the ECB General Council with EU central bank governors and the ECB President and Vice President. In 2021 the four sessions of the ECB General Council focused on issues related to the economic development and EU financial sector performance, including the ECB report on the economic outlook and monetary policies of non-euro area member states, and the report on compliance with the ban on monetary financing by central banks.

BNB representatives sit on 14 ESCB committees⁹⁶, 53 working groups, and the Human Resource Conference and Heads of Administration Conference. Bank representatives in ESCB bodies, committees, and working groups helped elaborate ECB legal instruments on monetary and banking policy, payment and settlement systems, statistical reporting and research, and other central banking issues. The Bank also helped coordinate ECB standpoints in written consultations with EU Member States on legislative bills within ECB purview.

Over the review period Bulgaria consulted the ECB in writing on the draft laws amending the LCI, LBNB and Law on Combating Corruption and the Withdrawal of Illegally Acquired Property in line with the implementation of recommendations in the 2020 Convergence Report of the ECB and the EC.

The European Systemic Risk Board, the European Banking Authority, and Colleges of Supervisors

The BNB Governor and BNB Deputy Governor are members of the ESRB General Board. At its two meetings in the first half of 2021, the General Board continued to discuss the effects of the COVID-19 pandemic on the economy and financial stability

⁹⁶ The Accounting and Monetary Income Committee (AMICO), the Financial Stability Committee (FSC), the Banknotes Committee (BANCO), the Eurosystem/ESCB Communications Committee (ECCO), the Information Technology Committee (ITC), the Internal Auditors' Committee (IAC), the International Relations Committee (IRC), the Legal Committee (LEGCO), the Market Operations Committee (MOC), the Monetary Policy Committee (MPC), the Market Infrastructure and Payments Committee (MIPC), the Statistics Committee (STC), the Organisational Development Committee (ODC), the Committee on Controlling (COMCO).

in the EU Member States. It was highlighted that the main source of systemic risk in the Member States stemmed from the impact of the pandemic on economic activity, including through the increasing pressure on non-financial corporation solvency and household indebtedness, and through the potential spillovers on the financial system. The General Board noted that the risk of potential spillovers from the non-financial private sector to the banking sector, mainly due to the deteriorating quality of bank assets, should be closely monitored. To this end, the importance of banks to appropriately reflect credit risk in the loan classification and provisioning, as well as to take active measures to address the deteriorating asset quality, including through debt restructuring of viable but heavily indebted borrowers, was also stressed.

Discussions dealt with the risks arising from the low interest rate environment and related structural changes in the EU financial system and macroprudential policies to mitigate them. The General Board outlined the following four main risks to financial stability stemming from the low interest rates: profitability and resilience of banks; indebtedness and viability of borrowers; systemic liquidity risk; and sustainability of the business models of insurance undertakings and pension funds. It was noted that the low interest rate environment has been driven mainly by structural factors mostly related to the negative demographics, low productivity, significant savings and low investment.

At its meetings in September and December 2021 the General Board continued to discuss the key systemic risks in the EU and public policies required to address them. The General Board noted that the risk of an abrupt asset price correction had increased as a result of the continued exuberance in some financial market segments. With real yields falling to historical lows on the back of a moderating economic recovery and rising inflationary pressures, the search for yield had compounded risk-taking in financial markets. Members of the General Board were of the view that high-yield bond markets and some equity market segments were particularly vulnerable to adverse interest rate shocks or downward revisions to the growth outlook. It noted that these developments highlighted the need to strengthen the policy framework for non-banks to enhance the resilience of the financial system. The General Board noted that the broadening economic recovery had further reduced the risk of widespread defaults in the non-financial private sector. However, it emphasised that corporate vulnerabilities remained high in certain sectors and countries and that there was still significant uncertainty surrounding the rates of recovery given the uncertain duration of global supply chain disruptions and surging energy prices. In line with the decline in the risk of widespread insolvencies, the General Board noted that, while remaining elevated, the risk of spillovers from the non-financial private sector to the financial system had decreased. A deterioration in borrowers' balance sheets on account of a weaker-than-currently-anticipated recovery could lead to a perceptible deterioration in bank asset quality. It was emphasised that the medium-term profitability outlook remained challenging.

Against the background of constantly evolving cyber threats and a rising number of serious cyber incidents, the General Board considered the need to establish a systemic cyber incident coordination framework for financial authorities to mitigate systemic cyber risk. To this end, General Board adopted a Recommendation on a pan-European systemic cyber incident coordination framework for relevant authorities to enable an effective EU-level coordinated response in the event of a major cross-border ICT-related incident or related threat having a systemic impact on the Union's financial sector as a whole.

At its December meeting the General Board discussed the ESRB's 2021 assessment of the developments of vulnerability indicators in residential real estate markets EEA

countries and the relevant macroprudential policies launched by these countries to mitigate financial stability risks arising from these areas of vulnerability. The assessment suggested that the main areas of vulnerability across countries relate to the level of household indebtedness, overvalued house prices, growth of mortgage lending and signs of easing lending standards.

As a result of the discussions, the General Council adopted two country-specific recommendations and five warnings on medium-term vulnerabilities in the residential real estate sector, specifying the risks identified and, in the case of the recommendations, measures to be taken to mitigate these risks. An warning was issued to Bulgaria, identifying the following medium-term vulnerabilities: high growth in mortgage credit, signs of house price overvaluation and the absence of borrower-based measures that could mitigate the build-up of risks related to the residential real estate sector. In response to the warning, the Governor of the BNB and the Minister of Finance expressed their views on the assessment and the risks identified by the ESRB, which were published.

In addition to the ESRB General Board, Bank representatives were active in the Advisory Technical Committee to the ESRB, working group meetings and task forces, and prepared positions on topics discussed at meetings, including on consultations relating to written procedures.

In 2021 acting in close cooperation with the ECB, BNB representatives of the joint supervisory teams to the ECB took part in weekly meetings focused on the issues related to the application of the methodology of the Supervisory Review and Evaluation Process (SREP), valid for the supervisory review and assessment of significant institutions in 2021, the priorities for risk assessment and their application to European banking groups, including their subsidiaries conducting transactions in Bulgaria. The results of the subsidiaries' SREP assessments, additional capital requirements and capital maintenance guidelines in 2022 were also discussed and agreed with significant institutions in the course of the dialogue with them. The assessment of the recovery plans of banking groups as of 31 December 2020, including the subsidiaries in Bulgaria, started. Regular two-week meetings were held between representatives of the BNB and the ECB (Country Desk Bulgaria) responsible for the oversight of less significant institutions in Bulgaria during which issues of the supervisory review and evaluation process were discussed, including main risks in bank operations, internal governance and economic implications of the spread of the COVID-19 pandemic, and developments in banks' financial performance, were analysed.

In terms of specific supervisory activities, BNB representatives continued to participate actively in the meetings of the EBA and EC committees and working groups where anti-money laundering and countering terrorist financing, consumer protection and financial innovation measures were discussed. As a result of the discussions the methods of supervision and control in these areas were improved. Interaction between regulatory authorities of the EU Member States continued through participation in a supervisory colleges to prevent money laundering and countering terrorist financing, focusing on the actions initiated by banking groups to improve the efficiency of risk monitoring and minimising money laundering and terrorist financing risk.

Work on the regulatory framework of EC and EBA standing committees and working groups continued, with BNB representatives participating in the discussions and elaboration of common oversight policies and standards, as well as in the exchange, assessment and convergence of national practices on the introduction and implementation of the EU prudential and supervisory framework.

The Ecofin Council and Economic and Financial Committee (EFC)

Finance and economy ministers and central bank governors of EU Member States took part in two informal EU ECOFIN Council meetings in 2021. The BNB Governor attended the meetings. At the meeting in May the participants discussed issues related to the effectiveness of the monetary and fiscal policies and their interaction, as well as strategies to avoid, on the one hand, the negative effects of discontinued support measures and, on the other hand, to prevent the accumulation of imbalances in the economy and the financial sector. Special attention was paid to targeted policy approach, focusing on financially distressed companies with robust business models that need liquidity support to ensure solvency, to the way in which the crisis is affecting banks and other financial institutions, and the effectiveness of the tools available in the EU and in the Member States to avoid a vicious circle between the real economy and the financial system.

During the second informal meeting of the EU ECOFIN Council in September, participants discussed the relationship between financial and economic risks stemming from climate change, their inclusion in financial stability monitoring and the possible effect that incorrect consideration of these risks could have on the stability of financial markets. In this context, the necessary incentives and policies to ensure that these risks are duly taken into account by all financial market participants and reflected in asset prices were also discussed, which would facilitate the creation and adoption of new sustainable finance instruments. Following the general allocation of Special Drawing Rights in August 2021, ministers and governors studied various options for voluntarily channelling them in support of vulnerable countries.

A Deputy Governor represents the BNB on the Economic and Financial Committee. In the first half of 2021 discussions focused on the economic challenges and risks to financial stability arising from the restrictions linked to the COVID-19 pandemic. The Committees continued its work on the implementation and coordination of policies aimed at supporting the economic recovery. The strategy to prevent the accumulation of non-performing loans as a result of the COVID-19 pandemic was also among discussed issues. Discussions on the EU Retail Payments Strategy, part of the digital finance package of the EC, which aims to boost European competitiveness and innovation in financial services, also continued. The members of the Committee also discussed the issue concerning the resolution planning within the Single Resolution Mechanism (SRM). The topics discussed included also the measures initiated in response of the Action Plan for a comprehensive Union policy on preventing money laundering and terrorist financing approved in May 2020 and the strategy for raising funds to finance the NextGenerationEU instrument through issues of bonds, as well as the plans for using these funds.

At the meetings held in the second half of the year, the Committee continued to discuss the financing of the NextGenerationEU instrument, the maturity structure of the debt issued and the repayment of borrowed funds so as to ensure a gradual and predictable reduction of liabilities. Work continued in the area of anti-money laundering, with Committee members discussing a package of legislative proposals published in July aimed at building a much more coherent framework to facilitate compliance with anti-money laundering and countering terrorism financing legal rules by different economic agents, particularly those with cross-border transactions. Committee members expressed their support for the proposed measures, including the establishment of an EU authority for anti-money laundering and countering the

financing of terrorism as well as for strengthening cooperation between national supervisory authorities. The Committee members also discussed the package of legislative proposals presented by the EC for the implementation of the last parts of the Basel III agreement. Discussions in the Committee have shown that further work is needed on this issue to ensure a fair implementation of the international agreement, while taking into account the specificities of the EU banking sector and avoiding a significant increase in capital requirements as agreed between Member States. Members of the Committee discussed the package of legislative proposals presented by the Commission in November 2021 to stimulate capital markets in Europe and underlined its strategic importance for Europe's economic recovery from the COVID-19 crisis, as well as for the digital and green transition. Discussions continued on the progress made in reinforcing the banking union, focusing on strengthening the crisis management framework and deposit insurance. The effect of energy commodity prices on inflation was among the topics discussed. Committee members were of the view that vulnerable households should be supported, and that incentives should be provided for investment in renewable energy sources and to support the green transition in response to rising energy commodity prices and to reduce the EU's energy dependence on third countries.

Over 2021 work continued on the technical aspects of the legislative proposal for the creation of a European Deposit Insurance Scheme (EDIS)⁹⁷ as part of the measures for further risk sharing in the banking system and building Banking Union's third pillar in the euro area. In relation to the continuing negotiations in the Ad Hoc Working Party on the Strengthening of the Banking Union the BNB provided their expertise to the representatives of the Ministry of Finance on issues falling within the competence of the central bank.

In February 2021 the EU Council approved the proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) 2016/1011 as regards the exemption of certain third country foreign exchange benchmarks and the designation of replacement benchmarks for certain benchmarks in cessation, which entered into force on 13 February 2021.⁹⁸ The regulation, negotiated with the participation of BNB experts, aims at providing powers to ensure the continued implementation of contracts or financial instruments in the event of refusal of a benchmark of systemic importance in the Union.

In July 2021 the European Commission submitted a package of legislative proposals to reform EU rules on anti-money laundering and terrorist financing measures⁹⁹. The proposed measures are designed to help improve the current EU legal framework on

⁹⁷ Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) No 806/2014 in order to establish a European Deposit Insurance Scheme (EDIS), COM (2015) 586 final, 24.11.2015.

⁹⁸ Regulation (EU) No 2021/168 of the European Parliament and of the Council of 10 February 2021 amending Regulation (EU) 2016/1011 as regards the exemption of certain third-country spot foreign exchange benchmarks and the designation of replacements for certain benchmarks in cessation, and amending Regulation (EU) No 648/2012 (OJ, L 49/6 of 12 February 2021).

⁹⁹ The package is comprised of following legislative proposals:

- Proposal for a Regulation of the European Parliament and of the Council on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, COM (2021) 420 final, 20.07.2021;
- Proposal for a Regulation of the European Parliament and of the Council establishing the Authority for Anti-Money Laundering and Countering the Financing of Terrorism and amending Regulations (EU) No 1093/2010, (EU) 1094/2010 and (EU) 1095/2010, COM/2021/421 final, 20.07.2021;
- Proposal for a Regulation of the European Parliament and of the Council on information accompanying transfers of funds and certain crypto-assets (recast), COM/2021/422 final, 20.07.2021;
- Proposal for a Directive of the European Parliament and of the Council on the mechanisms to be put in place by the Member States for the prevention of the use of the financial system for the purposes of money laundering or terrorist financing and repealing Directive (EU) 2015/849, COM (2021) 423 final, 20.07.2021.

anti-money laundering and countering financing of terrorism through more effective implementation of existing rules, more detailed and harmonised regulation, improved supervision that provides for the assignment of supervisory tasks to an EU body, and a more effective mechanism to coordinate and support the work of the financial intelligence units. BNB representatives participated actively through their expertise and analysis in the negotiations on the proposals of the Working Group on Financial Services to the EU Council. In December 2021 the EU Council agreed on a mandate to negotiate with the European Parliament on a draft Regulation of the European Parliament and of the Council on information accompanying transfers of funds and certain crypto-assets, which is intended to extend the scope of rules on the exchange of information in transactions involving certain crypto-assets. Discussions on the remaining part of the legislative package are underway in the EU Council.

In October 2021 the EC submitted a package of legislative amendments to the EU's regulatory framework on the banking sector¹⁰⁰ aimed at implementing the latest elements of the reform of international standards adopted by the Basel Committee on Banking Supervision (Basel III). The proposed amendments are intended to ensure uniform application of regulatory requirements, convergence of supervisory practices and a level playing field within the single market for banking services. Representatives of the BNB actively participated in the negotiations on the legislative amendments held in the Financial Services Working Group of the EU Council. Progress has been made on the indirect subscription of instruments recognised to cover the minimum requirement for own funds and eligible liabilities in bank resolution¹⁰¹, on which Member States agreed a common negotiating position in December 2021.

The proposal for a Directive on credit servicers and credit purchasers¹⁰², which is directly linked to the implementation of the main objective of mitigating risks in the banking sector and completing the Banking Union, was finally approved by the ECOFIN Council on 9 November 2021 and then published in the Official Journal of the EU. The Directive, which was consulted on by BNB experts, aims to provide measures to promote the development of secondary markets for non-performing loans in line with the comprehensive action plan to tackle non-performing loans, approved by the EU Council on 11 July 2017.

¹⁰⁰ The package is comprised of the following three documents:

- Proposal for a Directive of the European Parliament and of the Council amending Directive 2013/36/EU as regards supervisory powers, sanctions, third-country branches, and environmental, social and governance risks, and amending Directive 2014/59/EU COM (2021) 663 final, 27.10.2021;
- Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) No 575/2013 as regards requirements for credit risk, credit valuation adjustment risk, operational risk, market risk and the output floor, COM (2021) 664 final, 27.10.2021;
- Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) No 575/2013 and Directive 2014/59/EU as regards the prudential treatment of global systemically important institution groups with a multiple point of entry resolution strategy and a methodology for the indirect subscription of instruments eligible for meeting the minimum requirement for own funds and eligible liabilities, COM (2021) 665 final, 27.10.2021.

¹⁰¹ Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) No 575/2013 and Directive 2014/59/EU as regards the prudential treatment of global systemically important institution groups with a multiple point of entry resolution strategy and a methodology for the indirect subscription of instruments eligible for meeting the minimum requirement for own funds and eligible liabilities, COM (2021) 665 final, 27.10.2021.

¹⁰² Directive (EU) 2021/2167 of the European Parliament and of the Council of 24 November 2021 on credit servicers and credit purchasers and amending Directives 2008/48/EC and 2014/17/EU (OJ L 438/1 of 8 December 2021).

In 2021 intensive discussions were held on the legislative package on digital financial services¹⁰³, which aims to support innovation in financial technologies while providing for an appropriate level of consumer and investor protection and contributing to maintaining financial stability. In the course of the negotiations in the Financial Services Working Group to the Council of the EU, in which BNB representatives participated through their expertise and analysis, it was agreed to adopt a mandate for the Council of the EU to start negotiations with the European Parliament with a view to final adoption of the legislative proposals.

At the Council of Ministers' Council for European Affairs the BNB helped formulate Bulgarian standpoints on key economic governance areas and the financial sector.

¹⁰³ The package is comprised of the following documents:

- Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on a Digital Finance Strategy for the EU, COM (2020) 591 final, 24.09.2020;
- Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on a Retail Payments Strategy for the EU, COM(2020) 592 final, 24.09.2020;
- Proposal for a Regulation of the European Parliament and of the Council on Markets in Crypto-assets, and amending Directive (EU) 2019/1937, COM (2020) 593 final, 24.09.2020;
- Proposal for a Regulation of the European Parliament and of the Council on a pilot regime for market infrastructures based on distributed ledger technology, COM (2020) 594 final, 24.09.2020;
- Proposal for a Regulation of the European Parliament and of the Council on digital operational resilience for the financial sector and amending Regulations (EC) No 1060/2009, (EU) No 648/2012, (EU) No 600/2014 and (EU) No 909/2014, COM (2020) 595 final, 24.09.2020;
- Proposal for a Directive of the European Parliament and of the Council amending Directives 2006/43/EC, 2009/65/EC, 2009/138/EU, 2011/61/EU, EU/2013/36, 2014/65/EU, (EU) 2015/2366 and EU/2016/2341, COM (2020) 596 final, 24.09.2020.

IX. International Relations

The Law on the Bulgarian National Bank entitles the Bank to participate organisationally and contribute financially to international financial organisations furthering currency, monetary, and credit policy cooperation. Where Bulgaria participates in international financial institutions, the BNB acts as government's fiscal agent and depository.

The Bulgarian National Bank holds equity in the Bank for International Settlements (BIS). The BNB Governor sat on BIS central bank governors' regular meetings: a major forum for cooperation and debate on world economic developments and prospects, and international financial markets. At the Annual General Shareholder Meeting in late June 2021, the BIS Governors decided to pay dividend of special drawing right (SDR) 4.2 million for 2021.

The BNB Governor represents Bulgaria as member on the IMF Board of Governors. Bulgaria's IMF quota is SDR 896.3 million or 10,428 voting shares: 0.21 per cent of IMF members' voting shares.

In August 2021 the IMF allocated SDRs, worth USD 650 billion (SDR 456 billion). The SDR allocation was aimed to create additional liquidity globally by providing foreign exchange reserves to individual member countries to support their economies during the crisis. The allocation of SDRs across countries is based on their quotas in the IMF. Bulgaria received SDR 859 million.

December 2021 saw the end of the technical cooperation programme with central banks and supervisory authorities of countries in the Western Balkans – EU candidates and potential candidates (Albania, Bosnia and Herzegovina, Montenegro, the Republic of North Macedonia, Serbia and Kosovo), funded by the EU and managed by the Deutsche Bundesbank, in which the BNB participated together with other ESCB central banks and the ECB. Over 2021 BNB experts delivered lectures on statistics and banking supervision. Work on the implementation of bilateral activities agreed with the central bank of the Republic of Kosovo on preventing money laundering and terrorist financing was successfully completed.

In April 2021 the BNB contributed USD 10,000 to support the activity of the Group of Thirty.

Helping step up regional cooperation, the Bank also participated at summit level in the Central Banks Governors' Club of Central Asia, Black Sea Region and Balkan Countries.

X. Statistics

The BNB compiles statistical information under Article 42 of the Law on the Bulgarian National Bank and as ESCB member under Article 5 of the Statute of the ESCB and the ECB. In its statistical activities, the BNB applies harmonised European standards based on the international statistical methodology of relevant leading institutions (the ECB, Eurostat, the IMF, the BIS, the OECD, the UN, and the World Bank).

The BNB collects, processes, analyses and disseminates official monetary¹⁰⁴ and interest¹⁰⁵ statistics, external sector statistics¹⁰⁶, quarterly financial account statistics for all institutional sectors¹⁰⁷, statistics of non-bank financial institutions, including leasing companies and investment funds¹⁰⁸, specialised lenders, insurance and reinsurance undertakings¹⁰⁹ and pension funds.¹¹⁰

Compiled statistical data are also used for economic research and forecasting, financial stability analyses, other major BNB operations, and a number of foreign publications and reports.

In 2021 the Bank continued to collect, compile and disseminate up-to-date statistical data on its website and by regular communications with the ECB, Eurostat, the ESRB, the IMF, the BIS, and other national and international institutions. The amount of statistics sent to international institutions increased, with the number of individual time series provided to the ECB, Eurostat and the IMF reaching 373 thousand in 2021 compared with 367 thousand in 2020.

All statistical data available on the BNB website were published as scheduled.

In addition to the compilation of statistical data, the BNB continued to actively participate in a number of national, European and international fora in discussing and solving methodological issues in the area of statistics.

All statistical data published by the BNB were accompanied by the relevant metadata which were periodically revised, where necessary.

In line with the newly introduced reporting requirements in the beginning of the previous year and on the grounds of Ordinance on Amendment of BNB Ordinance No 17, in February 2021 the BNB significantly broadened the scope of the published information for the purposes of monetary and interest rate statistics and on loans and deposits broken down by quantitative categories and business. As a result, disseminated information was enriched by adding a large number of new indicators for

¹⁰⁴Pursuant to Regulation (EU) No 1071/2013 of the European Central Bank of 24 September 2013 concerning the balance sheet of the monetary financial institutions sector (recast).

¹⁰⁵Pursuant to Regulation (EU) No 1072/2013 of the European Central Bank of 24 September 2013 concerning statistics on interest rates applied by monetary financial institutions (recast).

¹⁰⁶Pursuant to Regulation (EC) No 184/2005 of the European Parliament and of the Council of 12 January 2005 on Community statistics concerning balance of payments, international trade in services and foreign direct investment and Guideline of the ECB of 9 December 2011 on the statistical reporting requirements of the European Central Bank in the field of external statistics (ECB/2011/23).

¹⁰⁷Under the European System of Accounts (ESA 2010) provided for in Regulation (EU) No 549/2013 of the European Parliament and of the Council of 21 May 2013, Guideline of the European Central Bank of 25 July 2013 on the Statistical Reporting Requirements of the European Central Bank in the Field of Quarterly Financial Accounts (ECB/2013/24) and subsequent amendments.

¹⁰⁸Pursuant to Regulation (EU) No 1073/2013 of the ECB of 18 October 2013 concerning statistics on the assets and liabilities of investment funds.

¹⁰⁹Pursuant to Regulation (EU) No 1374/2014 of the European Central Bank of 28 November 2014 on statistical reporting requirements for insurance corporations (ECB/2014/50).

¹¹⁰Pursuant to Regulation (EU) No 231/2018 of the European Central Bank of 26 January 2018 on statistical reporting requirements for pension funds (ECB/2018/2).

the purposes of the analysis, while updating press releases and the structure of data transmission.

In line with Regulations (notes 122, 123 and 124) of the ECB, the BNB developed draft instructions and new reporting forms for pension insurance companies and funds managed by them, insurance and reinsurance undertakings and for investment and alternative investment funds, which are to be introduced and become effective from the beginning of 2022. Along with implementation of the requirements of ECB Regulations on reporting of these financial institutions, new reporting forms are compliant also with the need to ensure information for the purposes of compiling statistics of quarterly financial accounts, balance of payments and international investment position of Bulgaria.

In 2021 the BNB introduced the latest IMF methodological requirements¹¹¹ for gross external debt data, thus synchronising all areas of external sector statistics.

In view of the amendments to ECB Guidelines on the Register of Institutions and Affiliates Data (RIAD), in 2021 BNB statistical databases continued to be developed and improved, including individual reference information: the Register of Domestic Economic Agents and the Bulgarian securities database. Along with analytical options at national level, these databases allow the BNB to fulfil its commitments to the ESCB in managing data for Bulgaria in the Register of Institutions and Affiliates Database and the Centralised Securities Database (CSDB).¹¹² In 2021 the BNB continued updating and maintaining all reference data required for supervisory purposes for credit institutions and related entities. The Bank continued volunteering to help ESCB national central banks identify and supplement RIAD reference information on resident institutional unit parties to credit relations as part of the AnaCredit project (Analytical credit datasets, AnaCredit)¹¹³ on granular credit and credit risk data. Besides information on credit institutions and other participants in the credit process for the purposes of AnaCredit, the BNB maintains in the RIAD register up-to-date reference information on financial vehicle corporations, investment funds and their management companies, payment service providers and payment system operators, insurance and reinsurance companies, pension funds, as well as holding companies and head offices, and issuers of securities. The BNB actively participated in the ECB Securities Holdings Statistics project (SHS)¹¹⁴ which is important for both gathering various statistical data and analysing financial stability.

In 2021 the Bank continued developing and elaborating the Integrated Statistical Information System (ISIS) and the Information System for Monetary and Interest Rate Statistics (ISMIS). They automate management, improve the reliability and high quality of statistical information the BNB receives, processes and disseminates, and greatly reduce the administrative burden on individuals and legal entities by offering electronic submission of statistical reports and declarations.

The BNB follows the principles of the Public Commitment on European Statistics by the European System of Central Banks, based on the fundamental principles of UN official statistics. Along with regular procedures for data validation, the Bank

¹¹¹Pursuant to External Debt Statistics Guide for Compilers and Users (IMF 2014).

¹¹²Pursuant to Guideline and Recommendation of the ECB of 26 September 2012 on the data quality management framework for the Centralised Securities Database (ECB/2012/21 and ECB/2012/22).

¹¹³Pursuant to Regulation (EU) No 2016/867 of the European Central Bank of 18 May 2016 on the collection of granular credit and credit risk data (ECB/2016/13).

¹¹⁴Pursuant to Regulation (EU) No 1011/2012 of the European Central Bank of 17 October 2012 concerning statistics on holdings of securities (ECB/2012/24) and subsequent amendments; Guideline of the ECB of 22 March 2013 concerning statistics on holdings of securities (ECB/2013/7) and subsequent amendments; Recommendation of the ECB of 2 August 2016 on the data quality management framework for statistics on holdings of securities (ECB/2016/24).

participated actively in ESCB and European Statistical System reports on data quality assessments measuring compliance with these principles of central bank statistical products and national statistical institutes through set indicators: accessibility and clarity, punctuality, reliability, comparability, and coherence. The published reports ensure transparency and allow for a comparative analysis of the quality of these statistical products for all EU Member States. The BNB as coordinator for Bulgaria also adheres to the requirements of the IMF Data Quality Assessment Framework, part of the Special Data Dissemination Standard Plus (SDDS Plus) which Bulgaria has joined.

In the field of statistics, the BNB continued cooperating with the NSI and the Ministry of Finance, national and international statistical authorities and central banks.

XI. The Central Credit Register and the Register of Bank Accounts and Safe Deposit Boxes

The Central Credit Register

The Bulgarian National Bank maintains an information system on customer debt to banks, financial institutions, payment institutions and electronic money institutions extending loans under Article 21 of the Law on Payment Services and Payment Systems (institutions within the meaning of Article 56, paragraph 1 of the LCI). BNB Ordinance No 22 establishes the operation, scope, terms, procedure and timeliness of information flows to and from the Central Credit Register (CCR). The Register maintains data on all loans (irrespective of their amount) extended by the institutions under Article 56, paragraph 1 of the LCI. The CCR provides information on credit indebtedness of customers in real time. This includes loan status, arrears, and repaid loans for five years back, new loans, co-borrowers and loan guarantors.

As of 31 December 2021, 230 institutions under Article 56, paragraph 1 of the LCI submitted information to the CCR, of which 26 banks, 201 financial institutions, two payment institutions and an electronic money institution. In 2021, 13 new financial institutions (of which 11 financial institutions and two banks) were included and three financial institutions were deleted from the CCR information system.

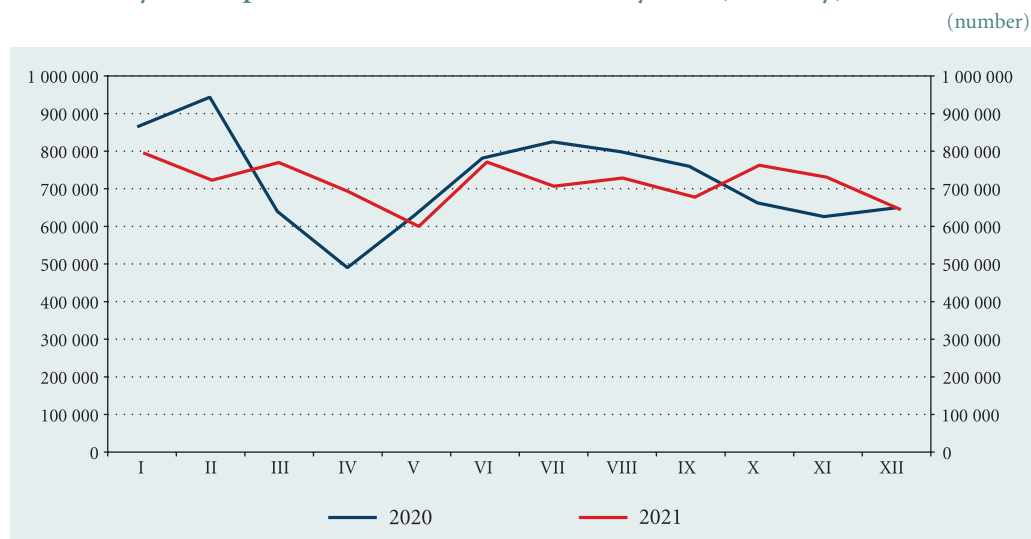
As of 31 December 2021 the CCR listed 6172 thousand loans (against 5825 thousand as of 31 December 2020), with their balance sheet value amounting to BGN 94,445 million (BGN 87,154 million as of 31 December 2020). Borrowers numbered 2555 thousand, of whom 2307 thousand individuals, 101 thousand legal entities, 139 thousand non-residents not registered at Bulgarian addresses or BULSTAT/PIK coded, and 8 thousand self-employed persons practising liberal professions or crafts.

As of 31 December 2021 residual debt of up to BGN 5 thousand predominated with natural persons (56.4 per cent), while debts of BGN 5 thousand to BGN 50 thousand predominated with legal entities (32.4 per cent).

Article 56, paragraph 3 of the Law on Credit Institutions grants Register information access to judicial authorities (the Prosecutor's Office and criminal investigation authorities), the Ministry of Interior National Police General Directorate, the General Directorate for Combating Organised Crime and Ministry of Interior regional directorates, the State Agency for National Security, the National Revenue Agency, the Committee for Combating Corruption and Withdrawal of Illegally Acquired Property, the Customs Agency, the Financial Supervision Commission and other bodies listed in the Law. Technical conditions necessary for authorised bodies to gain electronic access to the system are available.

Over 2021 institutions and bodies entitled to Register access under Article 56, paragraphs 1 and 3 of the Law on Credit Institutions conducted searches on 8664 thousand individuals, with average monthly searches numbering 722 thousand (8681 thousand for 2020, with average monthly number of 723 thousand). In 2021 electronic searches conducted by institutions and bodies under Article 56, paragraphs 1 and 3 of the LCI accounted for 99.8 per cent of all searches in the Register.

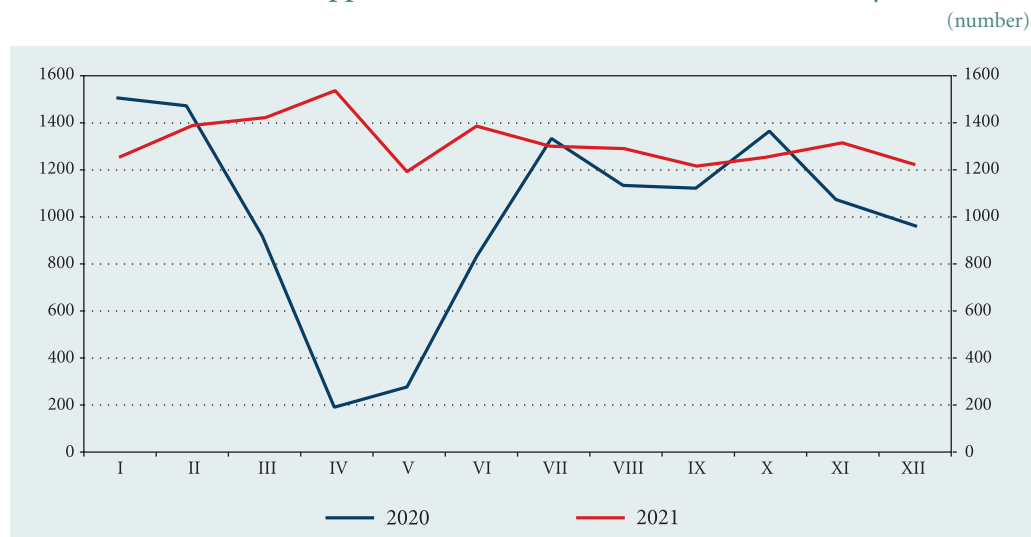
Searches by Participants in the CCR Information System (Monthly)



Source: the BNB.

BNB Ordinance No 22 on the Central Credit Register grants individuals (including for probate purposes) and legal entities access to debt information. In 2021 there were 15,816 paper applications for CCR statements: 15,464 by individuals and 352 by legal entities. 2020 saw 12,202 applications for CCR statements, of which 11,878 by individuals and 324 by legal entities.

CCR Searches Based on Applications /Letters Submitted to the BNB by Month



Source: the BNB.

BNB provides CCR electronic services to natural persons holding a qualified certificate for electronic signatures issued by a certification service provider under the Electronic Document and Certification Services Law. Fees charged for electronic services accounted for 50 per cent of those submitted on paper. In 2021 there were 2726 electronic applications for CCR statements by individuals (1507 electronic applications for 2020).

The CCR operates on three user interfaces based on advanced data processing technologies. CCR information was essential for institutions under Article 56, paragraph 1 of the LCI to assess borrower creditworthiness before lending. The Register exchanges information with other European credit registers to improve its technological and methodological performance. CCR information compiling and maintenance followed relevant best practices in this area.

The CCR is continually developing and improving as a result of legislative initiatives and enhancements in step with changing international and national criteria for lending developments. To boost quality and reliability, data are monitored and supplemented along with ongoing changes and new functionalities. Register's technical architecture is upgraded, thus contributing to system smooth functioning, expanding services scope and improving technical conditions for participants' access to the CCR information system.

The CCR cooperates with the World Bank, the ECB, the IMF and other international bodies, providing periodical information for research, statistical analyses and annual studies.

The Register of Bank Accounts and Safe Deposit Boxes

The BNB maintains an electronic information system on bank and international bank account numbers (IBAN) kept by banks, payment institutions and electronic money institutions, holders and attorneys, beneficial owners of the account holders, data on account preservation orders, bank deposit box holders and attorneys. BNB Ordinance No 12 on the Register of Bank Accounts and Safe Deposit Boxes (RBASDB) establishes the operation, scope, terms, procedure and timeliness of information flows to and from the Register. The information on bank and payment accounts and safe deposit box hires is provided in real time, with the institutions specified in Article 3 of Ordinance No 12 on the RBASDB submitting weekly data to the BNB. Information in the RBASDB is kept five years from the date of closure of an account, respectively five years from the date of termination of a safe deposit box contract.

As of 31 December 2021, 33 institutions under Article 3 of Ordinance No 12 submitted information to the RBASDB, of which 25 banks, including the BNB, two payment institutions and six electronic money institutions. In 2021 six bodies and institutions obtained electronic access in the information system of the RBASDB.

As of 31 December 2021 the Register logged 14.81 million active bank accounts (15.26 million as of 31 December 2020) and 486 thousand payment accounts¹¹⁵ kept by payment institutions and electronic money institutions along with 31.52 thousand safe deposit box hires (31.39 thousand as of 31 December 2020), including records of 3.06 million new accounts and 3.20 million closed accounts.

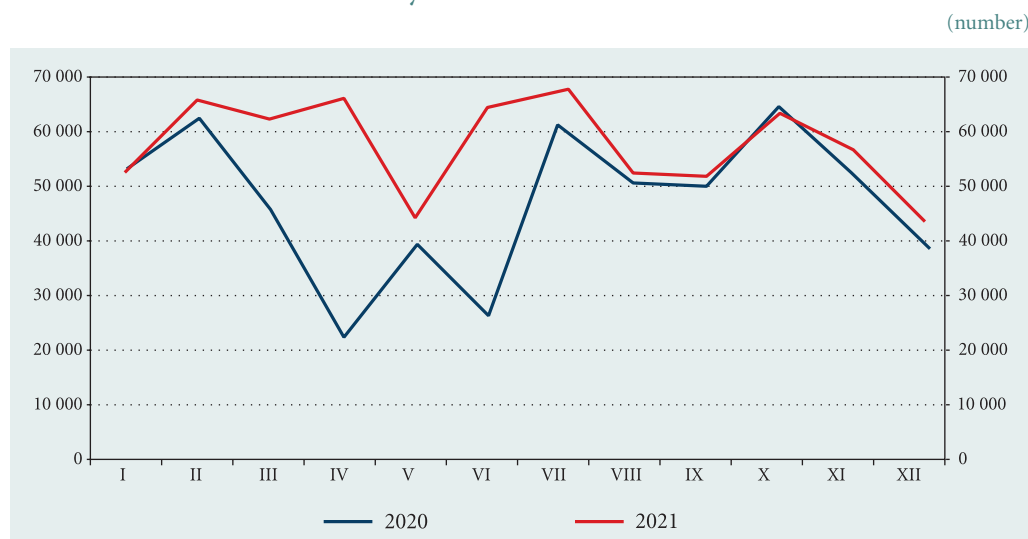
In 2021 the RBASDB information system held details of 675 thousand account preservation orders and 436 thousand accounts with rescinded preservation orders, from 565 thousand placed and 402 thousand rescinded preservation orders as of 31 December 2020.

¹¹⁵ Ordinance on Amendment of BNB Ordinance No 12 on the RBASDB, published in the Darjaven Vestnik, issue 100 of 2019: with effect from 10 September 2020, payment institutions and electronic money institutions submit information to the information system of the RBASDB about customers' payment accounts.

Article 56a, paragraph 3 of the Law on Credit Institutions grants Register information access to judicial authorities (Courts, the Prosecutor's Office, and criminal investigation authorities), the Ministry of Interior National Police General Directorate, the General Directorate for Combating Organised Crime and Ministry of Interior regional directorates, the State Agency for National Security, the National Revenue Agency, the Committee for Combating Corruption and Withdrawal of Illegally Acquired Property, the Customs Agency, banks, the Financial Supervision Commission, as well as to private and state bailiffs in enforcement proceedings, and other bodies listed in the Law. Technical conditions necessary for authorised bodies and institutions to gain electronic access to the system are available.

In 2021 bodies and institutions entitled to access under the Law on Credit Institutions Article 56a, paragraph 3 conducted searches on total 649,604 individuals, with the average monthly number of searches reaching 54,134 (from 535,540 searches for 2020 and the average monthly number of searches 44,628). In 2021 electronic searches accounted for 643,407, or 99.04 per cent of all searches in the Register for the year, including 1564¹¹⁶ for a beneficial owner of a titleholder. By comparison, in 2020, 528.8 thousand electronic searches were conducted, or 98.23 per cent of all searches.

RBASDB Searches by Bodies and Institutions under Article 56a, Paragraph 3 of the Law on Credit Institutions by Month

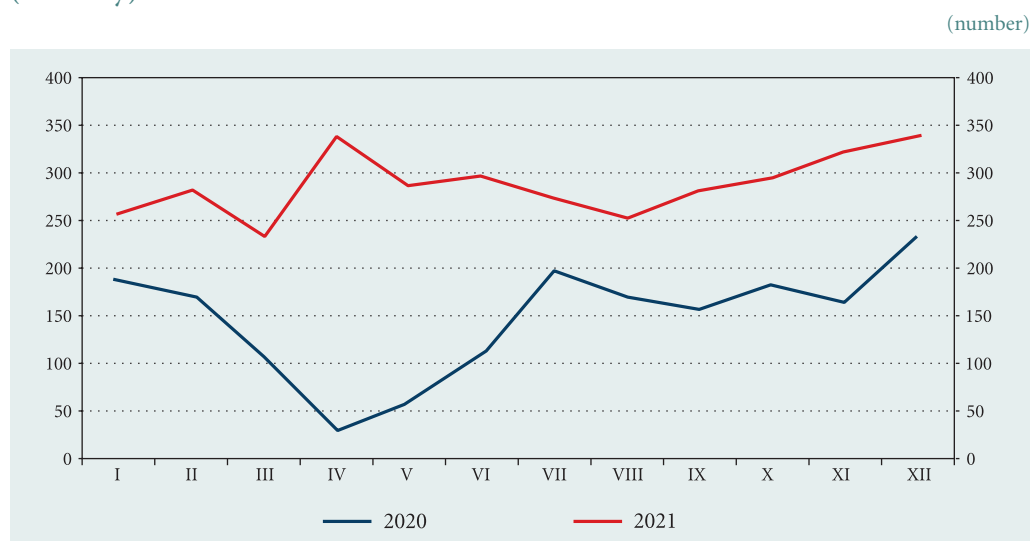


Source: the BNB.

BNB Ordinance No 12 on the RBASDB grants natural persons (including for probate purposes) and legal entities access to information on available bank and payment accounts preservation orders, account holders and safe deposit box hires. In 2021 there were 5177 paper applications for Register statements: 4956 by individuals and 221 by legal entities. 2020 saw 2667 applications for RBASDB statements, of which 2553 by individuals and 114 by legal entities.

¹¹⁶ Ordinance on Amendment of BNB Ordinance No 12 on the RBASDB; published in the Darjaven Vestnik, issue 61 of 2021.

RBASDB Information System Searches Based on Submitted Applications (Monthly)*



* Based on hard copy applications submitted by natural persons and legal entities.

Source: the BNB.

The BNB provides electronic RBASDB services to natural persons holding a qualified certificate for electronic signatures issued by a certification service provider under the Electronic Document and Certification Services Law. Fees charged for electronic services account for 50 per cent of those submitted on paper. In 2021 there were 352 electronic applications for statements by individuals (172 electronic applications for 2020).

The RBASDB continuously improves and develops following regulatory initiatives. The RBASDB development uses the best EU practices in creating and operating bank account registers. Data entered in the RBASDB information system are continuously monitored, updated and supplemented, with the RBASDB being constantly changed and improved.

XII. The Fiscal Agent and State Depository Function

In line with the Law on the BNB, the Bank acts as the fiscal agent and official depository pursuant to contracts concluded with the Ministry of Finance (MF). These commitments call for a continuing improvement of the GSAS system for conducting government securities auctions; the ESROT electronic system for registering and servicing government securities trading; the GSSS government securities settlement system; the Register of Special Pledges; and the IOBFR system for budget and fiscal reserve information servicing.

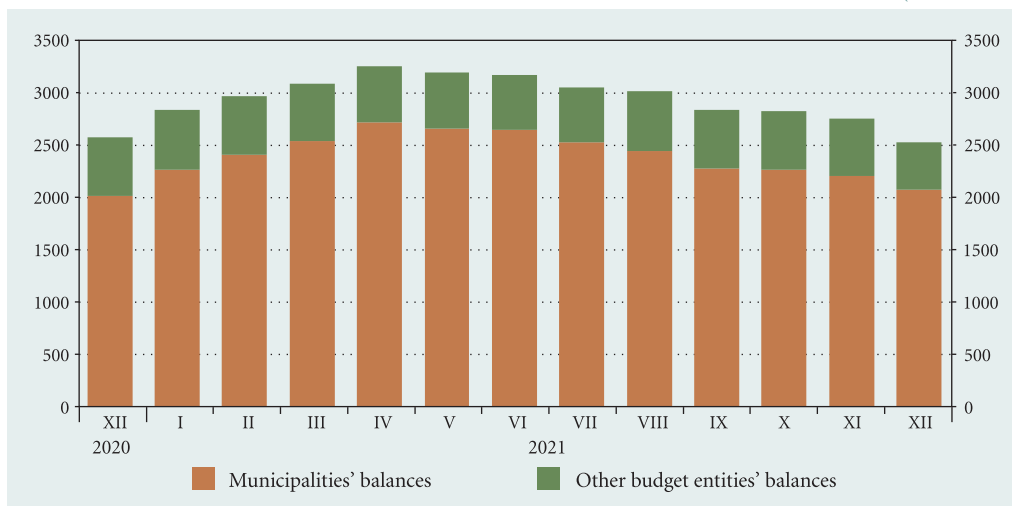
Revenue raised in 2021 from system participants under the Tariff of Fees and Commissions Charged on Processing Government Securities Transactions and from the MF under LBNB Article 43 was BGN 3489.8 thousand, from BGN 2238.6 thousand last year.

Information Service

Providing state budget information under the MF contract involved issuing 981 summarised standard statements on budget entity operations and balances at the BNB and Bulgarian banks *via* the IOBFR system. Summarised information sets the overall balance of budget entities' accounts (including municipalities) at BGN 11,693.9 million¹¹⁷, up 10.3 per cent compared to 31 December 2020. At end-2021, 78.4 per cent (BGN 9169.5 million) was in BNB accounts and the rest (BGN 2524.3 million) with 16 domestic banks.

Budget Entities' Accounts with Domestic Banks (BNB excluded)

(BGN million)



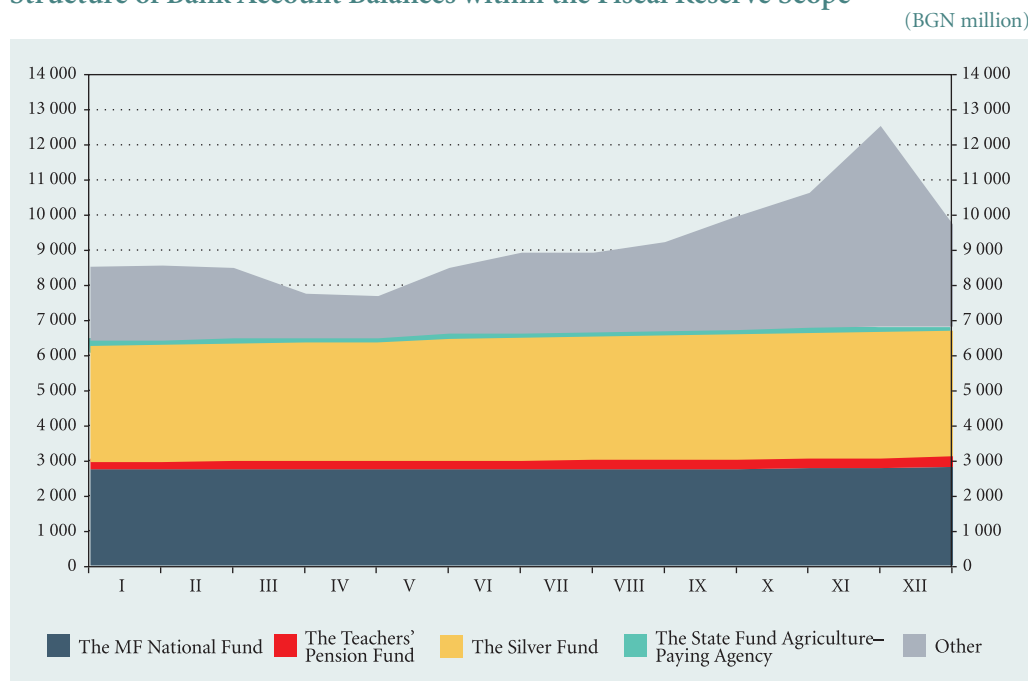
Source: the BNB.

Budget entities' account balances outside the central bank dropped by 2.0 per cent from end-2020, of which 72.3 per cent at five banks.

¹¹⁷ Foreign currency account balances are recalculated in leva at the BNB exchange rate on 31 December 2021.

Approximately 83.1 per cent of total budget funds at the BNB and other domestic banks formed the fiscal reserve's¹¹⁸ liquidity portion¹¹⁹: BGN 9712.9 million on 31 December 2021. Of this, BGN 6840.6 million was allocated to earmarked funds: the State Fund for Guaranteeing the Stability of the State Pension System (the Silver Fund), the MF National Fund, the State Fund Agriculture – Paying Agency, and the Teachers' Pension Fund.

Structure of Bank Account Balances within the Fiscal Reserve Scope



Source: the BNB.

Standing Minister of Finance and BNB Governor joint instructions task the Bank, on behalf of the Ministry of Finance, to monitor security pledged by banks under the Law on Public Finance and tally it with IOBFR balances on budget entities' accounts on a daily basis.

Servicing Government Securities Trading

The MF issuing policy in 2021 involved eleven auctions for domestic government securities *via* the GSAS system. Four lev-denominated government securities issues were offered, of which two medium-term issues (a three year and six month issue at 0.0 per cent annual interest rate and a five-year issue at 0.0 per cent annual interest) and two long-term issues (with a maturity of seven years and six months at 0.25 per cent annual interest rate and a ten year and six month issue at 0.1 per cent annual interest rate).

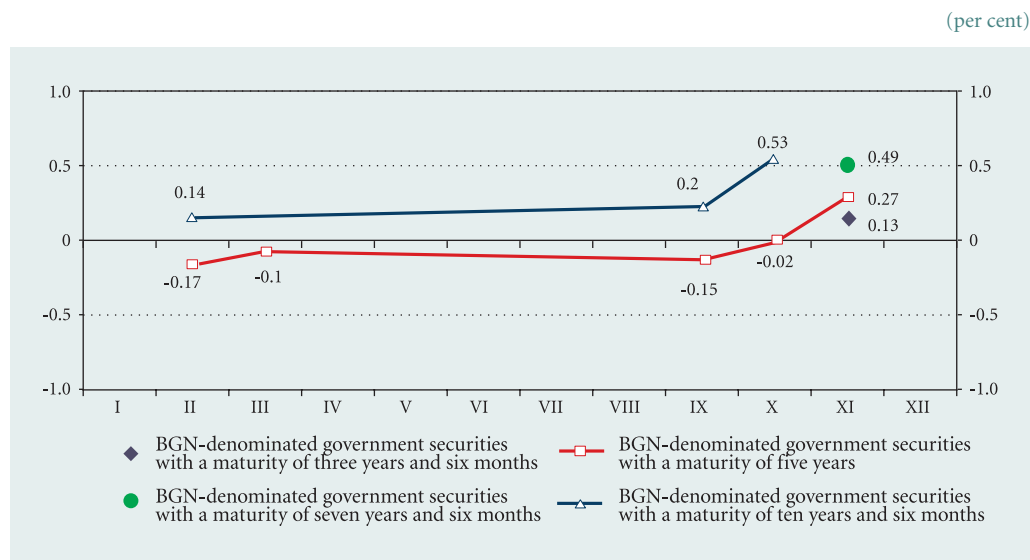
The total nominal value of government securities offered for sale was BGN 4000 million. Over 81.3 per cent of bids were by banks (BGN 5106.6 million) with BGN 1171.2 million by non-bank institutions. The total volume of government bond sales was

¹¹⁸ The Law on Public Finance Additional Provisions §1, item 41 defines the fiscal reserve as comprising the balances of all budget entities' bank accounts (excluding municipalities and their budget spending units) and other assets and claims on EU funds.

¹¹⁹ Comprises the balances of all Bulgarian budget entities' bank accounts, excluding municipalities and their budget spending units.

BGN 3800 million, or 95.0 per cent of scheduled auction volume.¹²⁰ Banks (including primary dealers¹²¹) bought over 78.6 per cent of all sold government bonds. The average annual yield attained at the government bond auctions was 0.13 per cent for three years and six month issues, 0.02 per cent for five-year bonds, 0.49 per cent for seven years and six months and 0.33 per cent for ten years and six months.

Average Annual Yields Attained at Auctions for Sale of Government Securities Issued in the Domestic Market in 2021



Source: the BNB.

ESROT registered corporate event payments on behalf and for the account of the issuer to a total amount of BGN 934.1 million,¹²² down 21.7 per cent from 2020. The 16 circulating MF issues had an overall nominal value of BGN 8637.1 million,¹²³ or 53.0 per cent more than in December 2020. Bond currency structure was retained, with BGN-denominated issues redeemable in leva occupying the largest share at 94.7 per cent, followed by EUR-denominated issues redeemable in euro at 5.3 per cent. The maturity structure underwent no changes from end-December 2020, medium and long-term bonds comprising 32.4 and 67.6 per cent.

¹²⁰ The MF rejected all bids at an auction conducted in March 2021.

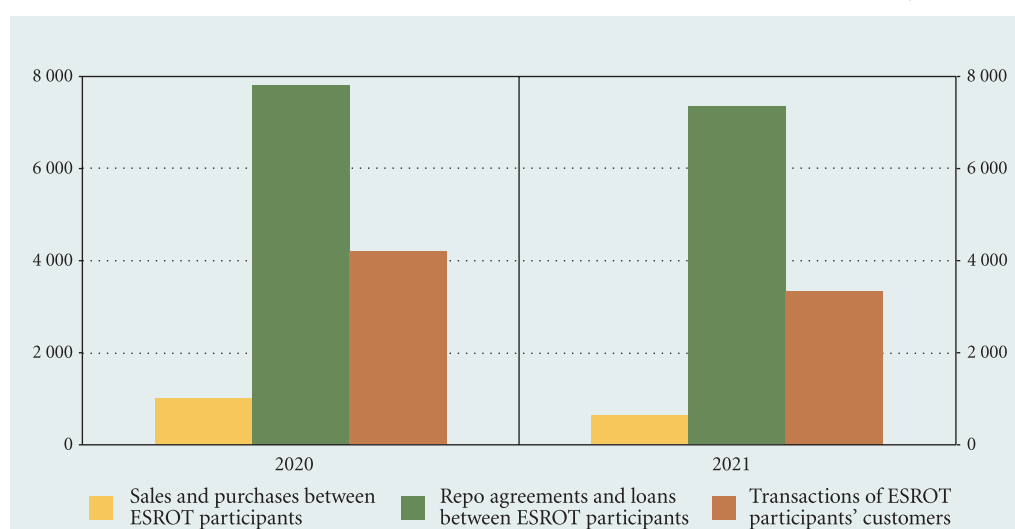
¹²¹ Nine primary dealers were selected under MF and BNB Ordinance No 15 over the review period.

¹²² The lev equivalence of payments on foreign currency denominated government securities issues was calculated at the official BNB rate on the date of payment.

¹²³ The lev equivalence of government securities issues denominated in foreign currency is calculated on the basis of the BNB rate for 31 December 2021.

Volume of Transactions in Tradable Government Securities

(BGN million)



Source: the BNB.

In 2021 the nominal value of government securities registered in ESROT was BGN 10,682.5 million, down 13.7 per cent from 2020.

Repo transactions had the largest share at 65.1 per cent, including one-day ones (66.2 per cent), mostly in lev-denominated government securities. Bond sales and purchases were BGN 566.7 million. Of this, transactions between ESROT participants came to BGN 48.1 million. The volume of transactions between ESROT participants and customers was BGN 2551.7 million, and that between participants' customers¹²⁴ reached BGN 606.5 million.

Reflecting government securities trade, secondary government bond market liquidity ratio¹²⁵ was 1.2 for 2021 against 2.2 in the previous year. ESROT participants encountered no problems and provided government bonds and cash in levs and euro for the delivery *versus* payment (DvP) settlement of government securities transactions, with the averaged settlement ratio¹²⁶ reaching 100 per cent.

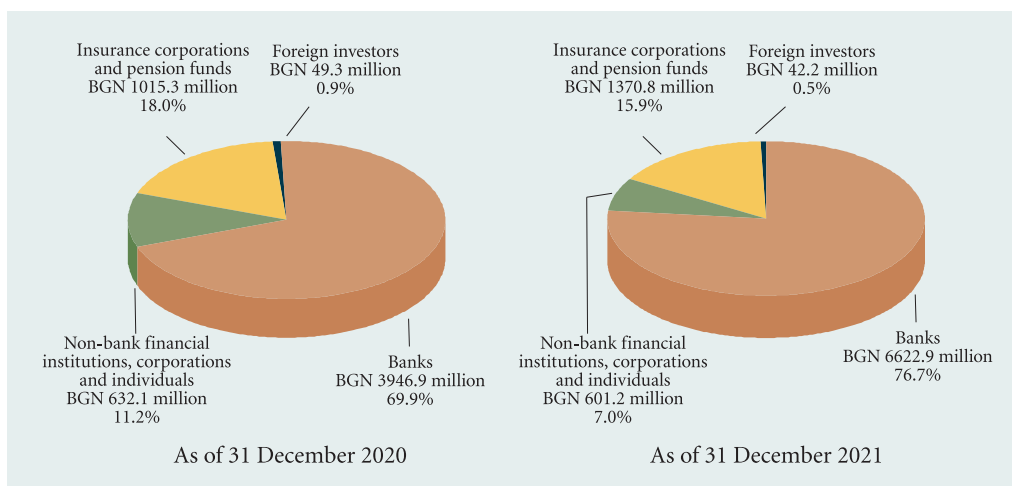
Over the review period ESROT blocking and unblocking operations in domestic government securities related to securing funds in budget entities' bank accounts under the Law on Public Finance and the Law on Special Pledges totalled BGN 5134.9 million, from BGN 4961.3 million for 2020.

¹²⁴ The ESROT system registered no transactions between customers of the same participant.

¹²⁵ Liquidity ratio is the ratio between the volume of secondary market government bond transactions concluded over a year and the volume of circulating government securities by that year's end.

¹²⁶ Settlement ratio is the ratio of the number of transactions settled on a specific date to all transactions subject to registration and settlement within the system for the reporting period.

Holders of Government Securities Issued in the Domestic Market



Notes: According to BNB and ESROT participants data. The lev equivalence of government securities issues denominated in foreign currency is calculated on the basis of the BNB exchange rate valid for the last business day of the relevant period.

Source: the BNB.

At the end of 2021 investments in government securities increased in bank portfolios *vis-à-vis* the end of 2020 (up BGN 2676.0 million) and in insurance corporations and pension funds (up BGN 355.5 million), while government securities investments decreased in portfolios of non-bank financial institutions, corporations and individuals (down BGN 30.9 million) and foreign investors (down BGN 7.1 million). This changed the share of individual government bond holder categories as of 31 December 2021 to: 76.7 per cent with banks; 15.9 per cent with insurance corporations and pension funds, 7.0 per cent with non-bank financial institutions, corporations and individuals, and 0.5 per cent with foreign investors, from 69.9, 18.0, 11.2 and 0.9 per cent as of 31 December 2020.

Over the review period the ESROT offered 99.9 per cent availability,¹²⁷ with no call for contingency rules for interaction between systems operated by the BNB.

As of 31 December 2021 there were 548 accounts in the government securities settlement system under BNB Ordinance No 31 on Government Securities Settlement. Of them, 16 were for government securities of the issuer (the MF), 222 for participants' own government securities portfolios, 121 for encumbered bonds, and 189 for participants' customers. Account nominals tallied with the amount of outstanding issues at BGN 8637.1 million.¹²⁸

¹²⁷ The ratio of time when the system is operational to scheduled operating time.

¹²⁸ The lev equivalence of government securities issues denominated in foreign currency is calculated on the basis of the BNB rate for 31 December 2021.

XIII. Research

Economic research, Bulgarian economic development analyses, and macroeconomic forecasts prepared by BNB experts support the Bank management decisions and economic policy formulation.

Specialised research under the BNB Research Plan supported Bank operations by analysing specific economic processes and issues and improving available forecasting and modelling tools. Research studies completed under the BNB Research Plan are published in the BNB topical publication Discussion Papers and are presented at seminars and conferences involving experts in the respective area.

Implementing the BNB Research Plan for 2021–2022, factors behind the dynamics of money in circulation in Bulgaria, the labour productivity, profitability and financial performance of companies in Bulgaria and other EU Member States were studied in 2021. Honing the basic model for BNB macroeconometric forecasting continued over the period under review along with developing a risk management methodology in BNB's gross international reserves.

The Bank continued encouraging the research potential of Bulgarian economic science and practice in macroeconomics and finance. In 2021 the Discussion Papers Editorial Board reviewed three submissions, two of which were subsequently published: *Determinants of Bulgarian Exports: the Role of Price and Non-Price Competitiveness*, authors Evgeni Ivanov and Neli Ivanova, and *Using an Aggregate Measure of the Financial Cycle for Setting the Countercyclical Capital Buffer Rate in Bulgaria*, author Tania Karamisheva. Volume 6 of the annual publication Annual of the Bulgarian National Bank saw light. The Annual of the Bulgarian National Bank is an electronic issue presenting double-blind peer-reviewed papers already published in the BNB topical publication Discussion Papers whose authors have agreed to be included in the Annual. The Annual publication is produced with a view to its inclusion into the National Reference List of Contemporary Bulgarian Scientific Publications with Scientific Review of the National Centre for Information and Documentation to the Ministry of Education and Science. The first edition of the topical publication series BNB Conference Proceedings, entitled *The Current Global and European Financial Cycle: Where Do We Stand and How Do We Move Forward?*, was published in the same period. (Joint Bulgarian National Bank – Bank for International Settlements Conference on the Occasion of the 140th Anniversary of the Bulgarian National Bank). The edition includes research, speeches and discussions from the Conference on the 140th Anniversary of the Bank, held in July 2019.

Part of the results from BNB analytical and forecasting activities were published in the Bank's quarterly editions Economic Review and Macroeconomic Forecast. The Economic Review presents information about Bulgaria's economic development, analyses of the balance of payments flow dynamics, monetary aggregates, their link with the development of the real economy, and their bearing on price stability. The edition also analyses external environment developments and trends. The Review also carries the results of BNB analyses of particular economic issues as highlights and research topics. In 2021 highlights entitled *Basic Parameters of the 2021-2023 Budgetary Framework* and *Revision of GDP Data* were published. The BNB quarterly Macroeconomic Forecast provides annual projections of major macroeconomic indicators for Bulgaria in the current and next two years. In 2021 highlights entitled *Comparison of Inflation According to the CPI and the HICP* were published in the Macroeconomic Forecast.

XIV. Human Resource Management

In 2021 priorities in the field of human resource management continued to be ensuring a safe work environment at the BNB by timely implementing COVID-19 containment measures and maintaining the appropriate organisation of the working processes required for the efficient fulfilment of the BNB objectives, functions and tasks in the context of a pandemic.

Considering the extended emergency epidemic situation in 2021 the BNB pursued the implementation of all necessary anti-epidemic measures. To comply with statutory requirements and recommendations of the health authorities to limit face-to-face contact between people and to ensure the necessary distance, an organisation of work processes providing remote work opportunities continued to be applied at the BNB. The Bank updated its internal rules on health and safety at work over the reporting period.

BNB priorities related to human resource management continued to include maintaining a competitive human resource management system, resulting in the retention of highly qualified professionals and attracting new highly motivated employees, providing career opportunities, while applying an incentive remuneration system and ensuring a favourable social environment. In the context of Bulgaria's accession to the Single Supervisory Mechanism and Single Resolution Mechanism as a result of the established close cooperation between the BNB and the ECB in 2021, the process of implementing the required structural and organisational changes continued to ensure the efficient performance of Bank's related functions and tasks, which necessitated the recruitment of new highly qualified employees. In 2021 the number of employees rose by 1.5 per cent from 2020, reaching 908 as of 31 December 2021 from 895 as of 31 December 2020. Over the reporting period staff turnover increased by 1.3 percentage points from 2020 to 6.2 per cent. Sixty-three new employees joined in 2021 (against 43 in 2020), including one employee replacing a long-term absent one, while 56 left (from 44 in 2020), with 25 of them eligible for old age pension (against 15 retired employees in 2020). In 2021 the bank advertised 71 vacancies (from 29 in 2020), attracting more than 1400 applicants. Staff educational attainment structure remained unchanged. University graduates continued to account for the highest share at 76.8 per cent, followed by employees with secondary education at 23.2 per cent. The number of employees who have obtained PhD degree rose to 33 (32 at the end of 2020), accounting for 4.7 per cent of university graduates. The staff grading structure remained broadly unchanged compared to the previous year. Specialists held the largest share at 61.3 per cent, followed by support staff (20 per cent) and management (18.6 per cent). No significant changes occurred in the age structure compared to 2020. The share of employees aged over 51 rose by 1.2 percentage points to 40.6 per cent, followed by the 41 to 50 year olds (31.3 per cent) and 31 to 40 year olds (20.5 per cent). The breakdown by sex shows a slightly increasing share of men compared to the previous year, with women accounting for 64 per cent and men 36 per cent by end-2021.

Bank employees' career development through internal mobility aimed at boosting their professional knowledge and skills and encouraging experience and expertise exchange. Over the year 45 employees moved to other internal structural units, including 23 employees consequent to structural and organisational changes. Six BNB employees worked in European institutions on short-term assignments.

In the context of a dynamic and highly competitive labour market and in view of the need to employ and retain a highly skilled workforce, Bank's remuneration policy continued to be aimed at ensuring competitive pay levels also in 2021. When determining the remuneration, the contribution of each employee to the effective fulfilment of Bank's objectives and tasks, as well as changes in work organisation and performance of professional duties due to the COVID-19 spread, were taken into account.

Opportunities for training and qualification boosting continued to be among major incentives for a quick and efficient entry and inclusion of employees in the BNB corporate culture, strengthening confidence in the implementation of policies related to professional development, work motivation and long-term careers in the institution. The approved annual schedule offered employees plentiful opportunities to take a variety of training and qualification boosting programmes, *i. e.* professional courses and seminars in Bulgaria and abroad, distance learning and certification programmes, language courses, information technology courses, courses for specific responsibilities, *etc.*

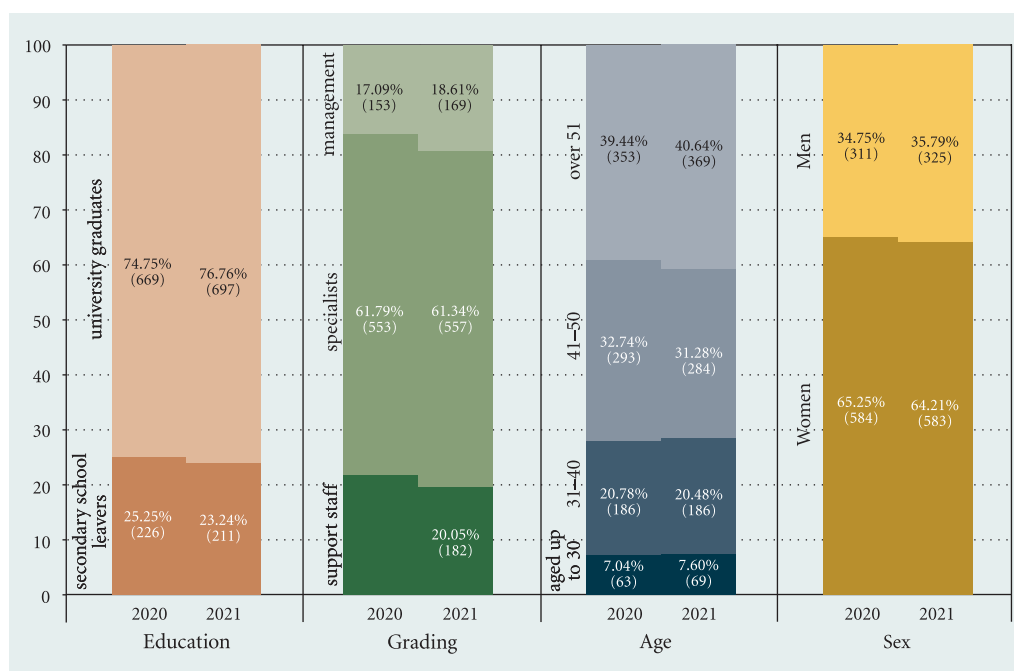
In the period under review, a number of internal bank training courses were held on identification of non-genuine Bulgarian and foreign banknotes, requirements for monetary and interest rate statistics, capital instruments requirements and supervision of money laundering and terrorist financing, information security in working with payment systems, *etc.* The topics of training for employees in Bulgaria focused on trends in money laundering and terrorist financing prevention measures, cyber security, public procurement procedures and communication skills development. International courses and seminars in which BNB employees took part focused mainly on banking supervision, financial stability, resolution of credit institutions, monetary policy, econometrics, database processing, managing cash circulation, financial technologies and operational risks management. In view of the epidemic situation most of the trainings were held in on-line format.

In 2021, 15 employees, of whom two reading for doctors', nine for masters', and four for bachelors' degrees, boosted their educational attainments without discontinuing work. Five BNB employees took part in two vocational training and certification programmes focusing on financial analyses and internal audit. Employees who have obtained certificates, had the opportunity to maintain their professional qualifications by maintaining membership in certifying organisations, extended certificate validity, participation in discussions and access to specialised scientific materials.

Twenty-two applicants enquired into the annual postgraduate scholarship programme: 11 for doctors' and 11 for masters' degrees. Following the open competition, the Bank awarded one master's degree scholarship. The selection of trainees at the BNB has also traditionally started in June with five students from universities in the country and abroad approved. Trainees worked on topics related to currency in circulation dynamics, inflation forecasting, study of export of goods, COVID-19 impact on credit risk, and joint work between the BNB and the ECB in the context of a close cooperation.

Staff Structure as of 31 December of the Respective Year

(per cent, number)



Source: the BNB.

XV. BNB Internal Audit

BNB internal audit conforms to the International Standards for the Professional Practice of Internal Auditing, the Code of Ethics of Internal Auditors, ESCB Internal Auditor Committee Rules and Internal Auditor Rules approved by the BNB Governing Council.

In 2021 there were ten audits of which six under the annual Internal Audit Directorate Programme approved by the BNB Governing Council and four under the ESCB Internal Auditors Committee Programme.

Audits sought assurance of adequate and effective control, corporate governance, and risk management for effective attainment of objectives and tasks; reliability and integrity of financial and operational information; effective and efficient operations and programmes; asset safeguarding; legal, regulatory, internal rule, policy, procedure and contractual observance.

Audits under Annual Internal Audit Directorate Programme

BNB Functions	Audits
Internal services	Building maintenance. Supply and acquisition
Tracking performance	Follow-up on recommendations from past audits under Internal Audit Directorate Programme
Internal legal, fiscal and administrative functions	Legal advice and protection
Financial accounting and financial statements	BNB Consolidated Financial Statements as of 30 June 2021
Information and communication technologies	Verification of the compliance with the requirements of statutory regulations and adopted cybersecurity standards
Banknotes and coins	Assessment of the need for banknotes and the control on their production

Source: the BNB.

Audits under the ESCB Annual Internal Auditors Committee Programme

BNB Functions	Audits
Tracking performance	Follow-up on recommendations from past audits under the ESCB Annual Internal Auditors Committee Programme
Supervision and financial stability	Legal supervisory activity: licenses and permits
Payment and securities settlement systems	Operation of TARGET services focused on TARGET2
Information and communication technologies	Operation of IT systems focusing on e-mail security

Source: the BNB.

In 2021 the BNB Chief Auditor organised and coordinated BNB Internal Audit Directorate work with the BNB external auditor and the Republic of Bulgaria Court of Auditors auditing team.

XVI. BNB 2021 Budget Implementation

The Governing Council adopted the BNB budget by Resolution No 417 of 1 December 2020. This report on the Bank's budget comprises two sections pursuant to the Governing Council's Internal Rules on Drafting, Implementing, and Reporting the BNB Budget: BNB Operating Expenditure and Investment Programme. The Bank adheres to environmental protection requirements.

Operating Expenditure

In 2021 the BNB spent BGN 112,848 thousand on operating expenses, or 85.6 per cent of the annual budget.

Currency circulation cost BGN 33,246 thousand, or 97.1 per cent of budget and 29.5 per cent of Bank operating expenditure. New banknotes cost BGN 22,224 thousand and minting BGN 10,372 thousand, of which BGN 9667 thousand on circulating coins. The BNB Governing Council 2021 Commemorative Coin Programme cost BGN 705 thousand. New banknote and coin design accounted for BGN 53 thousand. Spending on machines for servicing circulating cash came to BGN 56 thousand and that on consumables for banknote and coin processing BGN 109 thousand. Premise rentals for Bank issue and cash operations cost BGN 431 thousand.

The Bank spent BGN 32,833 thousand on materials, services and depreciation: 74.4 per cent of approved budget under this item and 29.1 per cent of Bank's operating expenditure.

Materials expenditure was BGN 932 thousand: 70.1 per cent of approved annual budget and 0.8 per cent of all operating expenditure for 2021. Hygiene materials (BGN 287 thousand) and vehicle fuel and spares (BGN 247 thousand) occupied the largest share in this group. The Bank spent BGN 169 thousand on inventories.

External services cost BGN 19,750 thousand, or 78.8 per cent of annual budget and 17.5 per cent of all Bank operating expenditure. Software maintenance subscriptions at BGN 4843 thousand, Bloomberg, Reuters, and other systems at BGN 1255 thousand, mandatory TARGET2 modules at BGN 1078 thousand and BORICA AD subscriptions at BGN 601 thousand held a significant share in this group. Equipment maintenance subscriptions cost BGN 1953 thousand. Property and refuse collection levies cost BGN 1415 thousand and mail, telephone and telex, BGN 816 thousand. Electric bills were BGN 1192 thousand and heating and water cost BGN 260 thousand. Security and fire protection cost BGN 3285 thousand. Major building maintenance cost BGN 1467 thousand. Judicial protection and other legal services cost BGN 477 thousand and health and safety at work and special clothing BGN 217 thousand. Consultancy services were BGN 135 thousand, including costs on upgrades, configuration, changes and a functional design of a SEPA payments module in SWIFT Alliance Access. Property insurance expenses were BGN 96 thousand.

Depreciation for 2021 cost BGN 12,151 thousand, or 68.5 per cent of annual budget and 10.8 per cent of all operating expenditure.

Payroll, including social and healthcare, cost BGN 42,109 thousand, or 96.3 per cent of approved budget and 37.3 per cent of Bank's total operating expenditure. The BNB reported BGN 2346 thousand of current retirement obligations and unused paid leave under IAS 19 Employee Benefits.

Social expenditure was BGN 2252 thousand: 91.1 per cent of approved annual budget and 2.0 per cent of Bank's operating expenditure for 2021.

Other administrative expenditure was BGN 374 thousand: 13.7 per cent of budgeted funds and 0.3 per cent of total operating expenditure. Inland travel worth BGN 72 thousand involved mainly regional cash centre logistics and checks. Foreign travel unrelated to BNB participation in the ESCB and other EU bodies cost BGN 0.1 thousand. The annual BNB Staff Education and Professional Training Programme came to BGN 227 thousand. Bank employees took part in professional courses and seminars held in Bulgaria and abroad, organised by EU central banks and international financial institutions which were carried out in an on-line format. They participated in distant learning and foreign language courses.

The BNB spent BGN 2034 thousand on ESCB participation: 44.4 per cent of approved budget and 1.8 per cent of operating expenditure. The annual European Banking Authority membership fee was BGN 1782 thousand. BNB representatives sat on ESCB committees and working groups and other EU bodies, which cost BGN 12 thousand. The annual contribution to the Centralised Securities Database was BGN 138 thousand and to the Securities Holdings Statistics Database (SHSDB) BGN 59 thousand.

The COVID-19 pandemic and related suspension of staff foreign travel along with video conference training and working meetings, committees and working groups of the ESCB appeared to be the main reason behind the unspent funds for foreign travel and training.

The BNB Investment Programme

The Bank invested BGN 9942 thousand, or 34.4 per cent of annual budget under this item.

New construction, refurbishment and modernisation cost BGN 258 thousand: 5.4 per cent of budget and 2.6 per cent of all investment programme expenses.

Funds spent on the Plovdiv cash centre project amounted to BGN 231 thousand, including: BGN 208 thousand on construction; BGN 19 thousand on consultancy within the meaning of Article 166 of the Law on Spatial Planning; BGN 4 thousand on fees for placing the building into service.

Preliminary examination of the investment project (technical phase) related to refurbishment and partial rehabilitation of the BNB recreation home in Primorsko cost BGN 27 thousand.

In 2021 machines and equipment, vehicle and other equipment investment cost BGN 1065 thousand: 42.5 per cent of approved annual budget and 10.7 per cent of all investment programme expenditure.

Building security systems for the BNB Plovdiv Cash Centre accounted for BGN 816 thousand.

Cash operations equipment cost BGN 37 thousand. Security systems equipment amounted to BGN 49 thousand. The BNB spent BGN 163 thousand on purchasing other equipment, including: BGN 74 thousand on supply and installation of air-conditioners, BGN 35 thousand on two boilers of a capacity equal to 1300 litres for the BNB Cash Centre in Sofia, BGN 31 thousand on furniture in premises and BGN 23 thousand on office equipment and machinery.

Information and communication system development cost BGN 8594 thousand: 39.8 per cent of approved annual budget and 86.4 per cent of all investment programme expenses.

Software expenditure was BGN 4048 thousand, including BGN 793 thousand for licence purchases and BGN 3255 thousand for upgrades.

Hardware cost BGN 4546 thousand, mainly for updating and expanding existing computer and communications equipment.

Investment spending on ESCB membership was BGN 25 thousand.

BNB budget implementation and fund takeup under both sections were continuously monitored.

The investment programme involved public tendering, contractor selection, and project implementation. Some procurement procedures have not yet completed, and contract implementation was postponed.

At the same time, the Bank analysed the two essential investment expenditure groups of information systems and new construction, refurbishment, and modernisation. The analysis prioritised new information system functionalities, deferring some for 2022. Due to changes in the time limits under the Programme for the BNB Property Development, BGN 3000 thousand of planned new construction, refurbishment and modernisation expenses were not spent and were included in the funds foreseen for 2022.

BNB Budget Implementation as of 31 December 2021

Indicator	Report 31 December 2021 (BGN thousand)	Budget 2021 (BGN thousand)	Implementation (per cent)
Section I. Operating expenditure	112,848	131,841	85.6
Currency circulation expenditure	33,246	34,232	97.1
Materials, services, and depreciation expenditure	32,833	44,118	74.4
Staff expenditure	42,109	43,713	96.3
Social expenditure	2,252	2,473	91.1
Other administrative expenditure	374	2,729	13.7
BNB expenditure on ESCB membership	2,034	4,576	44.4
Section II. Investment programme	9,942	28,888	34.4
Expenditure on construction, refurbishment, and modernisation	258	4,774	5.4
Machines, equipment, vehicles, and other equipment	1,065	2,504	42.5
BNB information systems	8,594	21,585	39.8
Investment related to ESCB membership	25	25	100.0

Source: the BNB.

XVII. BNB Consolidated Financial Statements for the Year Ended 31 December 2021

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Independent auditor's report

To the Governing Council of
The Bulgarian National Bank

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Bulgarian National Bank and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Bulgarian National Bank and its subsidiaries as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Bulgarian National Bank and its subsidiaries in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements of the Independent Financial Audit Act (IFAA) that are relevant to our audit of the consolidated financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the requirements of the IFAA and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Translation in English of the official Auditor's report issued in Bulgarian.

A member firm of Ernst & Young Global Limited

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Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the consolidated management report, prepared by management in accordance with Chapter Seven of the Accountancy Act, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, unless and to the extent explicitly specified in our report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and presentation of the consolidated financial statements that give a true and fair view in accordance with IFRS as adopted by the EU and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Bulgarian National Bank and its subsidiaries' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bulgarian National Bank and its subsidiaries' internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bulgarian National Bank and its subsidiaries' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves true and fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bulgarian National Bank and its subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Bulgarian National Bank and its subsidiaries audit. We remain solely responsible for our audit opinion.

We communicate with management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Report on Other Legal and Regulatory Requirements

Additional Matters to be Reported under the Accountancy Act

In addition to our responsibilities and reporting in accordance with ISAs, described above in the *Information Other than the Consolidated Financial Statements and Auditor's Report Thereon* section, in relation to the consolidated management report, we have also performed the procedures added to those required under ISAs in accordance with the Guidelines on New and Expanded Auditor's Reports and Auditor's Communication of the professional organisation of certified public accountants and registered auditors in Bulgaria, i.e. the Institute of Certified Public Accountants (ICPA). These procedures refer to testing the existence, form and content of this other information to assist us in forming an opinion about whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act applicable in Bulgaria and the law on the Bulgarian National Bank.

Opinion in connection with Art. 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, our opinion is that:

- a) The information included in the consolidated management report referring to the financial year for which the consolidated financial statements have been prepared is consistent with those consolidated financial statements.
- b) The consolidated management report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

Audit Firm Ernst & Young Audit OOD:

Nikolay Garnev
Legal Representative and
Registered Auditor in charge of the audit

Milka Natcheva-Ivanova
Legal Representative and
Registered Auditor in charge of the audit

Sofia, Bulgaria
28 April 2022

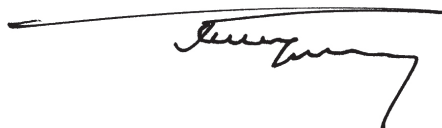
Translation in English of the official Auditor's report issued in Bulgarian.

Statement of Responsibilities of the Governing Council of the Bulgarian National Bank

The Governing Council of the Bulgarian National Bank is responsible for preparing and approving financial statements to present the Bank's financial position and performance for the period.

The financial statements of the Bulgarian National Bank approved by the its Governing Council are prepared in accordance with the International Financial Reporting Standards adopted by the European Commission.

The Governing Council of the Bulgarian National Bank is responsible for maintaining proper accounting records to disclose with reasonable accuracy at any time the financial position of the Bulgarian National Bank. It has overall responsibility for taking such steps as are reasonably open to it to safeguard the assets of the Bulgarian National Bank and to prevent or detect fraud and other irregularities.

A handwritten signature in black ink, consisting of a long horizontal line followed by a stylized, cursive signature.

Dimitar Radev
Governor of the Bulgarian National Bank

Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2021

(BGN'000)

	Note	2021	2020
Interest income	7	194,121	254,840
Interest expense	7	(104,139)	(87,600)
Net interest income		89,982	167,240
Fees and commission income		27,716	8,393
Fees and commission expense		(4,945)	(5,033)
Net fee and commission income		22,771	3,360
Net (losses)/gains from financial assets and liabilities reported at fair value in the profit or loss or measured at amortised cost	8	(133,526)	205,555
<i>incl. provisions for expected credit losses under IFRS 9</i>		(6,150)	-
Other operating income	9	69,334	47,249
Total income from banking operations		48,561	423,404
Administrative expenses	10	(142,377)	(127,713)
Profit/(loss) for the period		(93,816)	295,691
Other comprehensive income			
<i>Other comprehensive income that can be reclassified into profit or loss at a future point in time</i>		-	-
<i>Other comprehensive income that cannot be reclassified into profit or loss at a future point in time</i>		(3,630)	31,036
Other comprehensive income, total		(3,630)	31,036
Total comprehensive income for the period		(97,446)	326,727
(Loss)/profit attributable to:			
Equity holder of the Bank		(93,305)	296,900
Non-controlling Interest		(511)	(1,209)
(Loss)/profit for the period		(93,816)	295,691
Total comprehensive income attributable to:			
Equity holder of the Bank		(96,935)	327,936
Non-controlling Interest		(511)	(1,209)
Total comprehensive income for the period		(97,446)	326,727

The accompanying notes on pages 125 to 161 form an integral part of the Consolidated Financial Statements.

Consolidated Statement of Financial Position for the Year Ended 31 December 2021

(BGN'000)

	Note	2021	2020
ASSETS			
Cash and deposits in foreign currency	11	44,305,002	33,559,145
Gold, instruments in gold, and other precious metals	12	4,174,343	4,003,321
Financial assets at fair value through profit or loss	13	18,996,385	22,599,646
Financial assets at fair value in other comprehensive income	14	2,227,091	2,116,084
Tangible assets	15	169,711	163,824
Intangible assets	16	9,930	8,783
Other assets	17	81,627	88,884
Total assets		69,964,089	62,539,687
LIABILITIES			
Banknotes and coins in circulation	18	24,696,677	21,241,038
Liabilities to banks and other financial institutions	19	24,313,910	23,518,532
Liabilities to government institutions and other borrowings	20	9,531,918	8,646,875
Borrowings against Bulgaria's participation in international financial institutions	21	5,481,879	3,235,232
Other liabilities	22	911,280	771,674
Total liabilities		64,935,664	57,413,351
EQUITY			
Capital	23	20,000	20,000
Reserves	23	5,004,844	5,102,244
Non-controlling interest	24	3,581	4,092
Total equity		5,028,425	5,126,336
Total liabilities and equity		69,964,089	62,539,687

The accompanying notes on pages 125 to 161 form an integral part of the Consolidated Financial Statements.

Consolidated Statement of Cash Flows for the Year Ended 31 December 2021

(BGN'000)

	Note	2021	2020
OPERATING ACTIVITIES			
Net (loss)/profit		(93,816)	295,691
<u>Adjustments</u>			
Dividend income	9	(16,617)	(12,346)
Depreciation	15, 16	16,347	13,930
Loss on disposal of tangible assets		2,906	153
(Profit) on financial assets and liabilities arising from market movements		(43,665)	(422,766)
(Profit)/loss of associates		(912)	170
Other adjustments		910	(4,171)
Net cash flow from operating activities before changes in operating assets and liabilities		(134,847)	(129,339)
Change in operating assets			
Decrease/(increase) in gold, instruments in gold and other precious metals		738	(31,005)
Decrease in financial assets at fair value through profit or loss		3,577,775	7,695,584
(Increase) in other assets		(3,874)	(3,028)
Change in operating liabilities			
Increase in banknotes and coins in circulation		3,455,639	2,136,118
Increase in due to banks and other financial institutions		795,378	9,055,907
Increase/(decrease) in due to government institutions and other liabilities		885,043	(206,840)
Increase in liabilities against participations in international financial institutions		2,029,193	-
Increase in other liabilities		139,606	506,047
Net cash in flow from/(used in) operating activities		10,744,651	19,023,444
INVESTMENT ACTIVITIES			
Acquisition of tangible and intangible assets		(26,542)	(29,685)
Dividends received		16,617	12,346
(Net cash outflow) from investing activities		(9,925)	(17,339)
FINANCING ACTIVITIES			
Payments to the state budget		-	-
Net cash inflow/(net cash outflow) used in financing activities		-	-
Net increase in cash and cash equivalents		10,734,726	19,006,105
Cash and cash equivalents at beginning of period		33,606,294	14,600,189
Cash and cash equivalents at the end of period	11, 17	44,341,020	33,606,294
Cash flows from interest and dividends			
Interest received		189,423	251,320
Interest paid		(102,978)	(81,999)

The accompanying notes on pages 125 to 161 form an integral part of the Consolidated Financial Statements.

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2021

(BGN'000)

	Capital	Revaluation of non- monetary assets	Special and other reserves	Total capital and reserves	Non- controlling interest	Total equity
Balance as at 1 January 2020	20,000	135,187	4,639,586	4,794,773	5,301	4,800,074
Profit for the period	-	-	296,900	296,900	(1,209)	295,691
Other comprehensive income:						
other income	-	5,134	25,902	31,036	-	31,036
Other comprehensive income, total	-	5,134	25,902	31,036	-	31,036
Total comprehensive income for the period	-	5,134	322,802	327,936	(1,209)	326,727
Contributions by and distributions to owners:						
contribution to the budget of the Republic of Bulgaria	-	-	-	-	-	-
dividend paid by subsidiaries to minority shareholders	-	-	(465)	(465)	-	(465)
Transactions with owners, total	-	-	(465)	(465)	-	(465)
Balance as at 31 December 2020	20,000	140,321	4,961,923	5,122,244	4,092	5,126,336
Balance as at 1 January 2021	20,000	140,321	4,961,923	5,122,244	4,092	5,126,336
(Loss)/profit for the period	-	-	(93,305)	(93,305)	(511)	(93,816)
Other comprehensive income:						
other income	-	782	(4,412)	(3,630)	-	(3,630)
Other comprehensive income, total	-	782	(4,412)	(3,630)	-	(3,630)
Total comprehensive income for the period	-	782	(97,717)	(96,935)	(511)	(97,446)
Contributions by and distributions to owners:						
contribution to the budget of the Republic of Bulgaria	-	-	-	-	-	-
dividend paid by subsidiaries to minority shareholders	-	-	(465)	(465)	-	(465)
Transactions with owners, total	-	-	(465)	(465)	-	(465)
Balance as at 31 December 2021	20,000	141,103	4,863,741	5,024,844	3,581	5,028,425

The accompanying notes on pages 125 to 161 form an integral part of the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

1. Statute and Principal Activities

The Bulgarian National Bank (the 'Bank, the BNB') is 100 per cent owned by the Bulgarian state and is the central bank of the Republic of Bulgaria. The operation of the Bank is governed by the Law on the Bulgarian National Bank (LBNB), which has been effective since 10 June 1997.

Under this Law, the principal activities of the Bank may be summarised as:

- Maintaining price stability through ensuring national currency stability;
- Exclusive right to issue banknotes and coins in Bulgaria;
- Regulation and supervision of other banks' activities in the country with a view to banking system stability maintenance;
- Establishment and operation of efficient payment systems;
- Regulation and supervision of the activity of payment system operators, payment service providers and electronic money issuers in Bulgaria;
- The Bank shall not extend credit and guarantees in any form whatsoever, including through purchase of debt instruments, to the Council of Ministers, municipalities, as well as to other government and municipal institutions, organisations and undertakings in the public sector;
- The Bank may not provide credit to banks except in the case of liquidity risk threatening to affect the stability of the banking system;
- The Bank may not deal in debt instruments issued by the Bulgarian government and municipalities, as well as by Bulgarian government and municipal institutions, organisations and public sector entities;
- The Bank may not issue Bulgarian leva in excess of the Bulgarian lev equivalent of the gross international reserves;
- The Bank acts as the fiscal agent and depository for the state.

As from the date on which the ECB decision¹²⁹ on establishing close cooperation becomes applicable *i.e.* 27 July 2020, the Banks Resolution Fund (BRF) is managed by the BNB. The decisions on the BRF management are taken by the BNB Governing Council.

The Governing Council of the BNB approved the Consolidated Financial Statements, set out on pages 115 to 161, on 28 April 2022.

2. Applicable Standards

The consolidated financial statements of the BNB have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Commission.

3. Basis of Preparation

The consolidated financial statements are presented in Bulgarian lev rounded to the nearest thousand (BGN'000), which is the functional currency of the Bank. They are prepared on a historical cost basis, except for the items, disclosed in the table below, which are measured on an alternative basis as at each reporting date:

Items	Measurement basis
Derivative financial instruments	Fair value
Non-derivative financial instruments at fair value through profit or loss	Fair value
Tangible non-current assets	Revalued amount, which is the asset's fair value at the revaluation date less subsequent depreciation and impairment loss
Defined benefit liability	Present value of the defined benefit liability

¹²⁹Decision (EU) 2020/1015 of 24 June 2020 of the European Central Bank on the establishment of close cooperation between the European Central Bank and Българска народна банка (Bulgarian National Bank) (ECB/2020/30) within the meaning of Article 2, item 1 of Regulation (EU) No 1024/2013.

Use of estimates and judgements

In preparing these consolidated financial statements, the Bank has made judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, incomes and expenses, and the disclosure of contingent receivables and payables as at the financial statements date. These estimates, judgements and assumptions are based on data available as at the date of the consolidated financial statements; therefore actual future results may differ from these estimates.

The estimates and main assumptions are revised on an ongoing basis and are recognised prospectively.

Judgements

The Bank has estimated and classified cash in circulation as a financial liability (ref. note 18).

Assumptions and estimation uncertainties

Measurements of the present value of long-term obligations to retiring staff (following a defined benefit plan) use certified actuarial calculations based on mortality assumptions, rate of staff turnover, future level of salaries and discount factor. These assumptions may lead to adjustments in the next financial year; management however considers them to be reasonable and appropriate for the Bank (ref. note 10).

Bank assumptions and estimates are based on the existing parameters and available information at the time of preparation of the financial statements. Existing circumstances and assumptions about future developments may change due to market changes or circumstances beyond Bank's control. Such changes are reflected in assumptions when they occur.

Determination of expected credit losses on financial assets with a low credit risk

Instruments with a low credit risk are those for which the risk of default is low, the capacity of a counterparty to perform its contract obligations in a short term is stable and long-term negative changes in economic conditions are unlikely to change the capacity to repay obligations. For its short-term receivables from banks and debt instruments reported at amortised value or at fair value in 'other comprehensive income', the Bank accepts at the reporting date that the possibility of default is unlikely, so it determines for them 12-month credit losses. In case that the low credit risk criteria are no longer true in subsequent reporting periods, the Bank conducts an analysis of the changes in credit risk compared to the initial recognition to assess the need for an adjustment instrument on losses over the life of the instrument. Definition of instruments as such with a low credit risk requires judgement. In developing this judgement, the Bank uses all reasonable and supportable information accessible to it.

Determination of expected credit losses on deposit receivables

As reported in ref, note 6(b) Credit risk, the Bank has developed a Policy to Assessing Changes in Credit Quality and Determining Expected Credit Losses on Financial Instruments. The Bank classifies its risky assets into three risk phases depending on changes in credit risk after initial recognition of the asset and, accordingly, assesses the expected credit losses on the basis of a 12-month probability of default if there is no changed credit quality (phase 1) and based on the probability of default for the expected lifetime of the instrument (phase 2 and phase 3) where there is a significant increase in credit risk. When determining how much the credit risk is increased compared to the initial recognition of the asset, the Bank uses all reasonable and supportable information that is available.

Loss on non-performance is a judgement for damages that the Bank would suffer in the event of default. It is based on the difference between the contractual cash flows and the cash flows that the Bank expects to receive. Significant judgement is needed in determining the time and amount of expected cash flows. The management uses judgements based on historical experience of losses on assets with an inherent credit risk and on objective circumstances of impairment similar to those in the portfolio in calculating future cash flows. In determining the amount of expected credit losses, the Bank uses forward-looking information on expected future changes in certain economic conditions and indicators, as well as assumptions about how changes in these indicators would affect the probability of default.

The 'probability of default' parameter is key for calculating the amount of expected credit losses and reflects the probability that the counterparty will not fulfil its contractual obligations on a certain time horizon. The Bank has developed internal models to determine the probability of default on loans, based mainly on historical information for the period for which such is available. The assessment of correlation between historical indicators of default and projected economic indicators is a significant approximate estimate. Bank's historical experience in credit losses and expectations of economic conditions may also not be representative of real losses in the future.

Fair value of financial instruments

When fair values of financial assets and liabilities in the statement of financial position cannot be obtained from active markets, they are determined by using various valuation methods, which include the use of mathematical models. Basic data for these models are derived from indicators that are observed in financial markets where possible. Otherwise, assumptions about establishing the fair value are made. Assumptions take into account factors related to liquidity, volatility of longer-term derivatives and discount rates, early payments and default assumptions related to asset-backed securities.

Some of the Bank's accounting policies and disclosures require fair value measurements of financial and non-financial assets and liabilities. For information on fair value measurements see note 6(e) and note 15.

New and amended standards and clarifications as of 1 January 2021

The following new clarifications and amendments to the existing standards issued by the International Accounting Standard Board (IASB) and adopted by the EU are in force throughout the reporting period. The Bank has not previously applied any standard, clarification or amendment that has been published but has not yet become effective.

Amendments to IFRS 4 Insurance Contracts – Deferral of IFRS 9

On 25 June 2020 the IASB published Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4). The amendments to IFRS 4 extend the expiry date of the temporary exemption from applying IFRS 9 until 2023 in order to align the effective date of IFRS 9 with new IFRS 17. The amendments to IFRS 4 which aim to address the temporary accounting consequences of the different effective dates of IFRS 9 Financial instruments and the forthcoming IFRS 17 Insurance contract. The amendments, which are effective from 1 January 2021, were adopted by the EU on 15 December 2020 and published in the Official Journal of the EU on 16 December 2020. They are not applicable to the Bank.

Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

On 27 August 2020 the IASB published Interest Rate Benchmark Reform to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, representing the finalisation of Phase 2 related to the project for replacement of the existing interest rate benchmark with alternative benchmark rate. The amendments complement Interest Rate Benchmark Reform – Phase I (Amendments to IFRS 9, IAS 39 and IFRS 7) published in September 2019 (Phase I, amendments), and are designed to address the effects on financial reporting in replacing the old interest rate with an alternative benchmark interest rate as a result of the reform. The amendments in Phase 2 deal with:

- the contractual cash flows – the entity is not required to derecognise or adjust the carrying amount of financial instruments for changes required by the reform but will instead update the effective interest rate to reflect the change in the alternative benchmark interest rate;
- the accounting, aimed to prevent the unnecessary discontinuations of hedging relationships as consequence of replacement of the interest rate benchmark;
- additional disclosures: the entity is required to disclose information on new risks arising from the reform and how it manages the transition to alternative benchmark interest rates.

These amendments, which are effective from 1 January 2021, were adopted by the EU on 13 January 2021 and published in the Official Journal of the EU on 14 January 2021. These amendments have no material effect on the financial position or performance of the Bank.

Amendments to IFRS 16 Leases: COVID-19-Related Rent Concessions beyond 30 June 2021

On 31 March the IASB published amendment to IFRS 16 that extends the 2020 relief by 12 months to cover COVID-19-related rent concessions that affect only payments originally due on or before 30 June 2022. The amendments published in 2021 were adopted by the EU on 30 August 2021 and published in the Official Journal of the EU on 31 August 2021. These amendments have no material effect on the financial position or performance of the Bank.

Adoption of these new standards and clarifications and amendments to the existing standards did not result in changes in the BNB accounting policy.

4. Basis of Consolidation

Subsidiaries

Subsidiaries are the entities controlled by the Bank. Control over an entity exists when the Bank is exposed to or has rights over the variable return from its participation in that entity, and is able to influence that return through its powers. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The share in the net assets of the Bank's subsidiaries, which corresponds to the minority shareholders' proportionate share, is disclosed separately from Capital and Reserves under the Non-controlling Interest item.

The Bulgarian National Bank holds a majority of the BNB Printing Works AD and Bulgarian Mint EAD. The accounts prepared for the group contain the accounts of the parent company and subsidiaries. The BNB consolidated report eliminates all receivables and payables, incomes and expenses, as well as intragroup balances and transactions, including sales.

Associates

Associates are those entities in which the Bank has significant influence, but which are neither subsidiary enterprise, nor joint venture. Investments in associates are accounted for in the Bank's consolidated financial statements using the equity method as an amount corresponding to the Bank's share in the associates' own funds as of the end of the reporting period. The Bank's share of associates' net results subsequent to acquisition is disclosed in 'profit or loss' as investment income/expenses and is added to/subtracted from the carrying value of the investment.

The BNB participation in other associated companies is accounted for at the price of acquisition. The Bank consolidates on an annual basis the accounts of associated companies in which its share is 20 per cent or more than 20 per cent on the basis of the equity method.

Transactions eliminated on consolidation

All receivables and payables, incomes and expenses, as well as intragroup profits, resulting from inter-company transactions within the group, are eliminated, except where these are immaterial.

5. Significant Accounting Policies

a) Income recognition

Interest income and expense are recognised on an accrual basis in accordance with the Bank's interest rate policy and in accordance with concluded agreements with international financial institutions and customers of the Bank. Interest income and expense are recognised in the statement of comprehensive income. Interest income and expense also include the amortisation of the discount and premium calculated on the basis of the effective interest rate.

Interest income on foreign securities held in the BNB portfolio includes interest rates on interest coupons of securities issues.

Interest income on deposits includes interest income on deposits in foreign currency and in gold.

Income from and expenses on fees and commissions from financial services of the Bank are recognised in the income statement of the Bank at the moment of provision of the respective service.

In accordance with IFRS 15, revenue from contracts with customer is recognised when the Bank has fulfilled its performance obligations by transferring the promised services to the customer. Revenue is recognised at an amount reflecting the consideration expected to be received in return. No changes in the valuation and recognition of fees and commissions have occurred as a result of the entry of IFRS 15.

Other financial income/expenses include income and expenses from sales and changes in the fair value in the profit or loss.

Interest income and expense are recognised in the 'profit or loss' using the effective interest rate method. The effective interest rate is the rate which precisely discounts the estimated future cash payments and income over the term of the financial asset or liability to the carrying amount of the asset or liability. The effective interest rate is determined on the initial recognition of the financial asset or liability and does not change thereafter.

The calculation of the effective interest rate includes all commissions, received or paid, as well as discounts and premiums that are an integral part of the effective interest rate. Transaction costs include incremental costs directly attributable to the acquisition, issue or derecognition of a financial asset or liability.

Interest income and expense presented in the statement of profit or loss include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest on securities reported at fair value through profit or loss calculated on an effective interest basis.

Dividend income is recognised when the Bank establishes the right to receive a dividend.

Fee revenue is deferred and recognised in each of the separate financial periods.

All gains and losses arising from changes in the fair value of financial instruments reported at fair value through profit and loss are recognized in the statement of comprehensive income.

Revenue from a grant related to depreciable assets is recognised as income for future periods upon receipt of the grant and subsequently recognised in the statement of comprehensive income over the relevant periods, systematically over the useful life of assets and proportionate to the depreciation charge for the same assets. Expenses related to depreciable assets incurred during the current period are deferred over the useful life of the assets.

Revenue from a grant related to non-depreciable assets is recognised as income for future periods upon receipt of the grant and is then recognised in the statement of comprehensive income for the periods in which the relevant expenses are accounted for.

Foreign currency differences arising from available-for-sale investments are recognised in profit or loss.

Net gains/losses from financial assets and liabilities at fair value through profit or loss include net gains from operations in securities, net gains from operations in foreign currency, net revaluation gains on securities, net gains from gold revaluation, net gains from revaluation of futures, and net gains from revaluation of assets and liabilities denominated in foreign currencies.

b) Recognition of assets and liabilities

All assets and liabilities of the Bank are measured at the initial acquisition cost or at fair value. Subsequent revaluations are carried out with different types of assets and liabilities being revaluated over different periods to determine their fair value. Adjustments to the accounting registers, as well as the relevant recognition records in the reserve are recorded in compliance with the IFRS. Where it is not possible to measure the fair value, the historical acquisition cost is used less impairment losses.

The International Financial Reporting Standards do not require presentation of assets in a specified balance sheet format and may be designated as underlying assets (tangible fixed

assets, intangible fixed assets, inventories, investment property, asset acquisition loans, impaired assets) and assets not classified as financial instruments.

c) Financial instruments

The Bank can recognise a financial asset or liability in its balance sheet only in cases where it becomes a party to the contractual provisions of financial instruments used. The Bank derecognises a financial asset:

- when it loses control over the contractual rights to the financial asset and transfers substantially all the risks and rewards of ownership;
- when the obligation specified in the contract is repaid or cancelled or expires.

i) Classification

The classification is critical to the measurement of financial instruments and how the Bank reflects that measurement in the financial statements.

For the purposes of subsequent measuring of financial assets the BNB uses the following business models:

- financial assets held to collect contractual cash flows;
- financial assets held to collect contractual cash flows and for sale;

The evaluation whether cash flows of debt instruments consist only of the principal and interest is based on the facts and circumstances of the initial recognition of assets. The Bank classifies the financial assets depending on the business model for managing a particular class of financial assets and the nature of the contractual cash flows of the financial asset.

The business model of the *financial assets held to collect the contractual cash flows* includes all current accounts of the Bank with foreign correspondents, and the cash flows under the model used for these assets representing only principal and interest payments. These financial assets are measured at amortised cost.

The business model of *financial assets held to collect contractual cash flows and for sale* includes: deposits, securities and investment. The assets in this group are measured as follows:

- deposits – at amortised cost;
- securities – at fair value through profit or loss;
- investment – at fair value in other comprehensive income.

The Bank classifies the financial assets on initial recognition depending on the business model for managing a particular class of financial assets and the nature of the contractual cash flows of the financial asset.

Financial liabilities are accounted at fair value or at amortised cost, except for the treatment of differences arising from changes in own credit risk for financial instruments designated to account for fair value in profit or loss. Under IFRS 9 these differences are recognised in other comprehensive income without subsequent reclassification in the statement of comprehensive income. As of the date of present statements, the Bank does not account financial liabilities in this category.

ii) Recognition

The Bank recognises trading financial assets and investments, the Bank's loans and receivables, and financial liabilities at amortised cost from the settlement date. All other financial assets and financial liabilities are recognised when the Bank becomes a party to financial instrument contracts.

Financial assets and liabilities are recognised in off-balance-sheet accounts from the trade date to the date of their settlement and are recorded in the BNB statement of financial position at the settlement date (value date). The initial recognition is at acquisition cost, *i.e.* the fair price paid on acquisition. Transaction costs are included in the acquisition cost of all assets and liabilities. From that moment on, any changes in their fair value are recognised by the Bank as income or expense.

iii) Amortised cost measurement

Assets measured at amortised cost are initially recognised at acquisition cost, then measured at amortised cost, which is the initial measurement of the asset adjusted for the amortised premium or discount using the effective interest rate method and adjusted to expected credit losses for each asset calculated based on the methodology adopted by the BNB Governing Council. Premium and discount is amortised for each individual item and is recognised in the Bank's income statement. Interest is calculated or recognised on a daily basis in the Bank's statement of comprehensive income.

iv) Fair value measurement and disclosure principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market and, if no such market is available, then in the most advantageous and accessible market on the measurement date. The fair value of a liability reflects the effect of non-performance risk.

Whenever possible, the Bank measures the fair value of an instrument using quoted prices in an active market of that instrument. A market is considered as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If no quoted price in an active market is available, the Bank uses the most relevant observable inputs and makes minimum use of unobservable data. The aim of using a valuation technique is to estimate the price that would be obtained in an orderly transaction between market participants. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in determining a price, and is consistent with accepted economic methodologies for pricing financial instruments.

Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, *i.e.* the fair value of the consideration given or received. When the Bank finds a difference between the fair value at initial recognition and the transaction price, and the fair value is neither evidenced by quoted price in an active market for identical assets or liabilities, nor based on a valuation technique based only on data from observable markets, then the financial instrument is initially recognised at fair value adjusted with the difference between the fair value at initial recognition and the transaction price. This difference is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

The Bank recognises assets and long positions at a bid price and liabilities and short positions at an ask price when assets or liabilities measured at fair value have a bid and an ask price.

Where the Bank has position in a group of financial assets and financial liabilities, it is exposed to market risks and credit risk. The Bank, on the basis of its net exposure to such risks, measures them on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

Where the Bank has positions with offsetting risks, mid-market prices are used to measure them and a bid or ask price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank entity and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as: liquidity risk or model uncertainties, to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

v) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to the receipt of the contractual cash flows from the financial asset in the transaction in which substantially all risks and rewards of ownership of the financial asset are transferred.

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or when the cash flows of financial liability are expired.

The Bank enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or the substantial risks and rewards of the transferred assets or a part of them. If a part of or all substantial risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position.

Transfers of assets with retention of a part of or all substantial risks and rewards are, for instance, securities lending or repurchase agreements.

In transactions where the Bank neither retains nor transfers all substantial risks and rewards of ownership of a financial asset, it derecognises the asset if it does not retain the control of that asset. The rights and obligations retained in the transfer are recognised separately as assets and as liabilities respectively. In transactions where control of the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which the Bank is exposed to changes in the value of the transferred asset.

In certain transactions the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

vi) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, the Bank has a legal right to offset the recognised amounts and intends to settle the asset or the liability on a net basis. Accounting for assets, net of adjustments, is not considered to be offsetting.

Income and expenses are presented on a net basis only when permitted by the accounting standards or for gains and losses arising from a group of similar transactions such as in the Bank's trading operations.

vii) Impairment of assets

At each reporting date the Bank analyses impairment of financial assets classified as Financial assets at fair value in other comprehensive income and Financial assets at amortised cost, using the impairment categories in accordance with IFRS 9:

- The Bank calculates the expected credit losses on the basis of a 12-month probability of default where there is no a significant increase in credit risk compared to the initial recognition. Probability of default is the management's estimate of the likelihood of a debtor/credit borrower defaulting on its financial obligation over a given time period, reflected through the measured/calculated impairment;
- The Bank calculates expected credit losses for the residual lifetime of the financial asset where reasonable and supportable information is available that refers more to future events. The increase in credit risk from initial recognition rises significantly before the financial instrument becomes past due. In the case of management's expected loss, the impairment represents the share of exposure/asset lost.

In assessing collective impairment the Bank uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses from assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows discounted by the original effective interest rate of the asset. Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised through unwinding of the discount, but on the amortised cost. When a subsequent event reduces the impairment loss, the reduction in the impairment loss is reversed through profit or loss.

Impairment losses on held-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in equity to profit or loss. The cumulative loss that is transferred from profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. If, in a subsequent period, the fair value of an impaired debt security increases, and the increase can be objectively linked to an event that occurred after the impairment loss had been recognised in profit and loss, then the impairment loss is reversed and the reversed amount is recognised in profit and loss.

viii) *Financial assets and liabilities held to collect contractual cash flows and for sale*

Financial assets and liabilities held to collect contractual cash flows and for sale are recognised initially at fair value in the statement of financial position with transaction costs recognised in profit or loss. All changes in the fair value are recognised as net income from trading operations in profit or loss.

ix) *Financial assets held within a business model whose objective is to hold financial assets to collect contractual cash flows*

Financial assets held within a business model whose objective is to hold financial assets to collect contractual cash flows are initially recognised at acquisition cost and subsequently are carried at amortised cost which is the initial asset valuation adjusted for the amortised premium or discount using the effective interest rate method. Premium and discount is amortised for each individual item and is recognised in the Bank's statement of comprehensive income. Interest is calculated or recognised on a daily basis in the Bank's statement of comprehensive income.

d) *Gold and other precious metals*

The BNB as a central bank maintains particular volumes of gold as part of Bulgaria's international reserves. In compliance with the requirements of the Law on the BNB, the Bank may take any necessary action in connection with the acquisition, possession and sale of gross international reserves, including monetary gold. Consequently, monetary gold as part of international reserves may be immediately used by the BNB without further constraints which determines it as a monetary asset. Pursuant to the requirements of the 'General Provisions for Defining the Valuation Basis in the Financial Statements' to the IFRS, as well as in the absence of a specific IFRS to determine the treatment of such a transaction, the Bank defines the recognition and valuation of the monetary gold as an asset reported at fair value through profit or loss as the most reliable and appropriate base for a subsequent valuation of this financial asset. Gold and other precious metals are measured at market value based on the London Bullion Market fixing in euro at the reporting date.

Monetary gold

Gold in standard form (monetary gold) is initially recognised at acquisition cost. Monetary gold and other gold instruments are valued daily at the latest market value posted on the wholesale gold market in London, the UK. Unrealised gains and losses from revaluation of monetary gold and other gold instruments of the Bank are recognised in the income statement.

e) *Equity investments*

For the purposes of measuring the equity investments subsequent to initial recognition, they are classified as held-for-trading financial assets and measured at fair value in other comprehensive income.

Details of investments held by the Bank are set out in note 14.

f) **Property, plant, equipment and intangible assets**

The policy pursued by the Bank is to present land, buildings and other groups of fixed tangible assets in the statements of financial position at revalued amount as per the alternative approach allowed in *IAS 16 Property, Plant and Equipment*.

The Bank recognises an intangible asset if it meets the criteria for recognition under International Financial Reporting Standards. Intangible assets are presented in the statement of financial position at acquisition cost, including paid duties, non-recoverable taxes, as well as direct costs of preparing the asset for its intended use, less accumulated amortisation and impairment losses.

Land and buildings are measured at fair value which is regularly assessed by professionally qualified valuers. The revaluation of property is done asset by asset, and any accumulated depreciation at the revaluation date is derecognised against the gross carrying amount of the asset, and the net amount restated to the revalued amount of the asset. When the value of assets increases as a result of revaluation, the increase is reflected directly in other comprehensive income. When the value of assets decreases as a result of revaluation, the decrease is recognised by decreasing the revaluation reserve in equity, and in case of a shortage, the difference is recognised as an expense in the statement of comprehensive income.

i) Subsequent costs

The separately accounted for costs incurred to replace a component of an item of property, plant and equipment are capitalised. All other subsequent costs are capitalised only when future economic benefits embodied in the item of property, plant and equipment will flow to the Bank. All other costs are recognised in 'profit or loss' as incurred.

ii) Depreciation and amortisation

The depreciation/amortisation shall be carried out from the day of initial asset recognition according to the straight-line method for the expected useful life. Land is not depreciated. The Governing Council of the BNB approves the annual depreciation rates presented below:

(per cent)

Assets	
Buildings	2–4
Plant & equipment	3–15
Computers	30–33.3
Fixtures and fittings	15–20
Motor vehicles	8–25
Intangible fixed assets	20–25

Expenditures incurred for the acquisition of property, plant, equipment and intangible assets are not depreciated until they are brought into use.

iii) Recoverable amount of assets

The recoverable amount of the Bank's fixed assets is the higher of the net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using the Bank's incremental borrowing rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

iv) Reversals of impairment

Impairment losses of tangible fixed assets are reversed when a change occurs in the estimates used to determine the recoverable amount and may be reversed only up to that carrying amount of the asset at which it would be assessed after deducting any accumulated amortisation if impairment losses were not recognised.

v) Derecognition and sales

An item of property, plant or equipment is derecognised from the Bank's balance sheet at the time of its sale or when the asset is definitively disposed of and no other economic benefits

are expected. Gains or losses arising from derecognition or disposal of tangible fixed assets are determined as the difference between the sale proceeds and the carrying amount of the asset and are recognised as income or expense in the statement of comprehensive income. Tangible fixed assets withdrawn from active use and held for sale are reported at their carrying amount at the date when the asset is retired from active use.

vi) Inventories

Inventories are assets held by the Bank that will be used in the core business, in the process of providing services. Inventories are reported in the Bank's balance sheet at a historical price that includes the sum of all purchase costs and costs associated with their delivery to their current location and condition. Purchase costs include a purchase price at invoice, import duties, non-refundable taxes and excise duties. Delivery costs include shipping and handling costs. Write-off of inventories is carried out using the weighted average method.

In the event of a fall in market prices, in the case of physical damage to inventories, when the products are aged, the value of inventories is adjusted, *i.e.* they are valued at the lower net realisable value.

At the end of the reporting period, the net realisable value of inventories is valued, and if it is lower than the supply, the difference is related to current expenses. For each subsequent reporting period, a new estimate of net realisable value is made. If during the relevant reporting period, there are conditions for an increase in the value of the inventory, its recovery is up to the amount that it had before the decrease. This reversal of the book value is accounted for as an increase in inventories and as other current income.

g) Foreign exchange

Gains and losses arising in foreign currencies are translated to BGN at the official rates of exchange on the transaction date. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the official exchange rate of the Bank on that day. Foreign currency gains and losses resulting from the revaluation of monetary assets and liabilities are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currency are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Outstanding forward contracts in foreign currency are marked to market. The gains and losses on revaluation of outstanding forward contracts are recognised in profit or loss.

The exchange rates of the major foreign currencies as of 31 December 2021 and 31 December 2020 are as follows:

Currency	31 December 2021	31 December 2020
US dollar	1:BGN 1.72685	1: BGN 1.59386
Euro	1: BGN 1.95583	1: BGN 1.95583
Special drawing rights	1: BGN 2.41688	1: BGN 2.29559
Gold	1 troy ounce: 3141.18	1 troy ounce: 3011.82

h) Taxation

The Bank is not subject to income tax from its core activities. Income tax from subsidiaries for the period comprises current tax and deferred tax. Current tax comprises tax payable calculated on the basis of the expected taxable income for the period, using the effective tax rate or the current one at the reporting date. Deferred tax is derived using the balance sheet liability method on all temporary differences between the amounts used for taxation purposes and the carrying amounts of assets and liabilities.

The deferred tax is calculated using tax rates which are expected to be applied for the period of asset realisation or liability settlement. The effect of changes in the tax rates on the deferred tax is recorded in the statement of comprehensive income up to the amount already charged or reported directly as other comprehensive income.

A deferred tax asset is recognised to the extent that is probable that future taxable profits will be available against which the unused tax losses or tax credit can be utilised. The deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

i) Provisions

Provisions related to ongoing legal cases or other obligations are reported when the Bank has assumed a legal or constructive obligation as a result of some past events, the repayment of which is likely to be associated with lost economic benefits. Provisions are charged only when the Bank is able to reliably determine the size of future outgoing cash flows.

j) Profit distribution policy of the Bank

The Bank's policy of distribution of profit from banking operations is defined in the Law on the BNB. Internal rules for preparation of financial statements and accounting policies were adopted upon a decision of the Governing Council, effective from 1 January 2007, which are in compliance with Article 36, paragraphs 1 and 2 of the Law on the BNB. According to these rules, the Bank allocates to special reserves unrealised net gains and losses arising from revaluation of assets and liabilities denominated in foreign currency or gold. According to the requirements of Article 8, paragraph 2 of the Law on the BNB, the Bank sets aside 25 per cent of the excess of its annual revenue over its annual expenditure into a Reserve Fund. According to Article 8, paragraph 3 of the Law on the BNB, after the allocation to the Reserve Fund, the Bank may allocate reserves to cover market risk losses and other reserves upon a resolution of the Governing Council. Subsequent to the allocation of reserves as required by the Law on the BNB, the Bank stipulates the remainder to be paid into the State Budget. The distribution of excess of revenue over expenditure is set out in note 23.

k) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash in hand, current accounts and time deposits with maturities of less than three months.

l) Employee benefits

The Bank has the obligation to pay certain amounts to each employee who retires in accordance with the requirements of Article 222, § 3 of the Labour Code in Bulgaria. According to these Labour Code requirements, on termination of the employment contract of an employee who has become entitled to retirement, the employer is obliged to pay him/her compensation amounting to twice his/her gross monthly salary. If, at the date of retirement, the employee has been employed by the Bank for ten or more years, the amount of the compensation is six gross monthly salaries. As at the date of the statement of financial position, the Bank's Management estimates the approximate amount of the potential expenditures for all employees based on an actuarial report using the projected unit credit method. The estimated amount of the obligation and the main assumptions, on the base of which the estimation of the obligation has been made, is disclosed to the Financial Statements in note 10.

Termination benefits

Termination benefits are recognised as an expense when the Bank is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Bank has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under a short-term cash bonus or profit-sharing plans if the Bank has a present constructive obligation to pay this amount as a result of past services provided by the employee, and the obligation can be estimated reliably. The Bank recognises as a liability the undiscounted amount of the estimated costs related to annual leave expected to be paid in exchange for the employee's service for the period completed.

n) IFRS 16 Leases

For new contracts after 1 January 2020 the Bank is required to assess whether a specific contract is a lease or contains lease components.

The Bank applies the practical relief as provided for by the standard and has elected to account for short-term leases of plant and equipment (leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option) and applies the lease of low-value assets recognition exemption to leases of office furniture that is considered to be of low value. Lease payments for short-term leases and leases of low-value assets are recognised as expenses on a linear basis over the term of the lease.

For contracts after 1 January 2020 the Bank is required to assess whether the contract is a lease or contains lease components. In the event of a change in the terms and conditions of a lease, the Bank makes a new assessment to establish whether the contract is a lease or contains lease components.

COVID-19-related rent concessions

The Bank is not a party to contracts subject to rent concessions arising directly as a result of the COVID-19 pandemic. In accordance with the practical expedient measure, subsidiaries do not account for lease modifications on COVID-19-related rent concessions contracts that occurred as a direct result of the pandemic and have nothing further to disclose as required by paragraph 28 (f) of IAS 8.

o) New and amended standards and clarifications issued but not yet effective and not early adopted

Already published standards which are not yet in effect or have not been previously applied by the Bank at the date of these financial statements are briefly presented below. It is disclosed how reasonably they are expected to impact disclosures, the financial position or performance when the Bank adopts these standards for the first time. It is expected to happen when they come into force.

IFRS 17: Insurance Contracts (issued on 18 May 2017), including Amendments to IFRS 17 (issued on 25 June 2020)

On 25 June 2020 the IASB issued Amendments to IFRS 17 to defer the date of its initial application, and to IFRS 4 to change the extension of the temporary exemption from applying IFRS 9 Financial Instruments. The amendments to IFRS 4 defer the requirement to apply IFRS 9 to annual periods beginning on or after 1 January 2023, with earlier application permitted. Retrospective application is required. IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. In addition, it requires the application of similar principles with regard also to reinsurance contracts and investment contracts containing a discretionary participation feature. The objective of this standard is to require companies to provide the information related to insurance contracts in a way that fairly reflects them. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of the entities. The standard, endorsed by the EU on 19 November 2021 and published in the Official Journal of the EU on 23 November 2021, is not applicable to the Bank.

Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current – Deferral of Effective Date

On 23 January 2020 the IASB issued amendments to IAS 1 – Presentation of financial statements (Amendments) to clarify the criteria for the classification of liabilities as current or non-current. They clarify:

1. requirements by a right to defer settlement of a liability;
2. that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period;

3. that the classification of liabilities is unaffected by management expectations about events after the date of the balance sheet, *i.e.* whether an entity will exercise its right to early settlement of a liability or to defer settlement of a liability; and
4. situations that are considered settlement of a liability (referring to the transfer of cash, equity instruments, other assets or services).

On 15 July 2020 the IASB published a second exposure draft of Classification of Liabilities as Current or Non-current – Deferral of Effective Date (Proposed Amendment to IAS 1) proposing to defer the effective date of the amendments to IAS 1 to annual reporting periods beginning on or after 1 January 2023. The standard has not yet been endorsed by the EU.

Amendments to IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets; Annual Improvements 2018–2020

On 14 May 2020 the IASB published amendments to:

1. IFRS 3 Business Combinations: reference to the Conceptual Framework has been updated;
The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential ‘day 2’ gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.
2. IAS 16 Property, Plant and Equipment: the amendment relates to actions before the intended use regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management;
3. IAS 37 Provisions, Contingent Liabilities and Contingent Assets: amendment regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous;
4. Annual improvements 2018–2020 include amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter, IFRS 9 Financial Instruments – Fees in the ‘10 per cent’ test for derecognition of financial liabilities, and IAS 41, Agriculture – Taxation in fair value measurements, as a result of the annual improvements project.

The amendments, which are effective for annual periods beginning on or after 1 January 2021, were adopted by the EU on 28 June 2021 and published in the Official Journal of the EU on 2 July 2021. The BNB will analyse and assess the impact of these amendments on its financial position or performance.

Amendments to IAS 1 Presentation of Financial Statements and IFRS 2 Practice Statement: Disclosure of Accounting Policies

The amendments are applied prospectively and they are effective for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. The IASB has issued amendments on 12 February 2021 to IAS 1 Presentation of Financial Statements and an update to IFRS Practice Statement 2 Making Materiality Judgement to help entities improve accounting policy disclosures so that the entities provide useful disclosures for the investors and the primary users of financial statements, and clarify distinction between changes in accounting estimates and changes in accounting policy. The key amendments include:

- requirements for entities to disclose their material accounting policies are replaced by a requirement to disclose their significant accounting policies;
- the conception of materiality and guidance on how entities take decisions on disclosure of accounting policies.

The amendments in Practice Statement 2 are consistent with the definition of materiality: Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence

decisions that the primary users of general purpose financial statements make on the basis of these financial statements.

Amendments to IAS 1 and IFRS Practice Statement 2 have not been endorsed by the EU.

Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates

On 12 February 2021, the IASB published a definition of accounting estimates (amendments to IAS 8) to help entities to distinguish between changes in accounting policies and changes in accounting estimates. That distinction is important because changes in accounting estimates are applied prospectively only to future transactions and other future events, while changes in accounting policies are generally also applied retrospectively for past transactions and other past events. Under the new definition, accounting estimates are 'monetary amounts in financial statements that are subject to measurement uncertainty'. Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. The Board clarifies that:

- a change in accounting estimate that result from new information or new events is not a correction of an error;
- the effect of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors;
- a change in an accounting estimate may affect only the current period's profit or loss. The effect, if any, on future periods is recognised as income or expense in these future periods.

The amendments which are effective for annual periods beginning on or after 1 January 2023 have not yet been endorsed by the EU. Earlier application is permitted.

Amendments to IAS 12 Income Taxes: Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction

On 7 May 2021 the IASB published 'Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction: Amendments to IAS 12' to specify how entities accounting for deferred tax on transactions, such as leases and decommissioning obligations. The amendments limit the scope of the initial recognition exemption so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. In this case, an entity should recognise deferred tax assets and deferred tax liabilities associated with temporary differences arising from the initial recognition of leases and decommissioning obligations.

The Board expects that the amendments will reduce diversity in the reporting and align the accounting for deferred tax on such transactions with the general principle of IAS 12 recognition of deferred tax on temporary differences. The amendments, which have not yet been endorsed by the EU, are effective for reporting periods beginning on or after 1 January 2023. The Bank will analyse and assess the impact of the amendments on its financial position or performance.

Amendments in IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

In December 2015 the IASB decided to defer the effective date of the amendments until such a future date by which the IASB has finalised any amendments that arise as a result of the IASB project related to the equity method. The amendments solve a conflict between IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures when accounting for a loss of control over a subsidiary which is sold or contributed to an associate or a joint venture. The amendments clarify that the full amount of profit or loss is recognised when the transfer to an associate or a joint venture involves business which meets the definition of business in IFRS 3. Any profit or loss resulting from a sale or a contribution of assets that are not a business is recognised only to the extent of unrelated investors' interests in the associate or joint venture. These amendments have not yet been endorsed by the EU. The Bank will analyse and assess the impact of the new amendments on its financial position or performance.

6. Financial Risk Management Policy Disclosure

a) Introduction and overview

Introduction to the financial risk management policy

The Bank is exposed to the following types of risk in relation to the financial instruments operations:

- credit risk;
- liquidity risk;
- market risk;
- operational risk.

This note provides information on the Bank's goals, exposures to each of the above types of risk and the policies and processes for risk measurement and management.

General provisions of risk management

In the process of management of the gross international reserves, the Bank aims to achieve high security and liquidity of the assets, first, and then to maximise returns in the situation of the current global financial markets. Its investment strategy depends mainly on the specific functions of the Bank operating under a currency board arrangement and in full compliance with the requirements of the Law on the BNB.

The major portion of BNB's international reserves is invested in assets of comparatively low credit risk, such as discount and coupon securities issued by highly rated issuers (governments, government agencies or supranational financial institutions), and short-term foreign currency or gold deposits placed with first-rate foreign banks. The remaining portion is held in SDRs on BNB accounts with the IMF and in monetary gold kept in the Bank's vaults.

A specialised international reserves risk management unit is responsible for preparing and submitting for approval a draft of strategic asset structuring, setting up benchmark for the international reserves and investment management limits. On a quarterly basis, an overall review is made of the changes in the market conditions, the amount and structure of international reserves, and if required, the investment limits and model portfolios (benchmarks) are updated. The monitoring of underlying limits, rules, and procedures is undertaken on a daily basis. Reports are regularly prepared for both the needs of international reserves operating management and providing updated information to the Bank's management.

All approved financial instruments and asset classes, in which the BNB may invest, are specified in internal documents. The documents define the main portfolios and the respective model portfolios (benchmarks), all limits for credit, interest rate, currency and operational risks, contain a list of approved debt instrument issuers which the BNB may invest in, and a list of the foreign financial institutions which are counterparties of the Bank.

The international reserves management is governed by a business procedure and rules of behaviour regulating the performance of the functions and tasks of the main structural units involved in the process.

b) Credit risk

The BNB is exposed to credit risk through its trading operations and investment activities and in cases where it acts as an intermediary on behalf of the government or other public institutions. The Bank assumes credit risk also in operations of purchases and sales of foreign currency with banks. In general, this credit risk is associated with the probability of insolvency of a BNB's counterparty or the insolvency of an issuer, in whose debt instruments the Bank has invested its own funds. The credit risk in managing BNB's gross international reserves is assessed in line with the requirements in Article 28, paragraph 3 of the Law on the BNB. According to these requirements, the BNB may invest international reserves in debt instruments issued by foreign governments, central banks, other foreign financial institutions or international financial organisations whose debts are rated with one of the top two grades by two internationally recognised credit rating agencies and are payable in freely convertible currency in line with an internally developed methodology as per the requirements of Article 28 of the LBNB.

According to these requirements, the approved types of financial instruments for investment of funds in managing the international reserves are as follows:

- investment programmes with central banks;
- automatic borrowings/lending of securities with the main depository;
- tri-party repo agreements with specially designated counterparties of the BNB carried out through the Bank's main depository as a third party;
- deposits in foreign currency (time deposits and funds on current accounts) with BNB counterparties, including central banks or supranational financial institutions;
- deposits in gold (time deposits and funds on current accounts) with BNB counterparties, including central banks or supranational financial institutions;
- commercial securities (of up to one-year term to maturity), issued by governments or government guaranteed institutions, supranational financial institutions, specialised financial agencies, banks, and other financial institutions;
- bonds issued by governments or government guaranteed institutions, supranational financial institutions, specialised financial agencies, banks and other financial institutions – issuers of covered bonds. All bonds must be with a one-off payment of their face value on the maturity date and without any embedded option;
- purchases and sales of foreign currency with a value date of up to two business days.
- purchases and sales of banknotes in foreign currency (euro) and their subsequent storage with investment goals and for the purposes of performance of the currency board functions.

Two basic types of limits are set which are calculated on the basis of the market value of foreign currency reserves: (i) a maximum or minimum limit on the weight of each asset class in the Issue Department balance sheet, and (ii) an individual maximum acceptable exposure of the BNB to a country, including an individual exposure to an issuer/counterparty (concentration limit).

In the context of COVID-19, in 2021 the BNB continued managing credit risk conservatively in investing its gross international reserves and investment restrictions introduced in 2020 to reduce credit and market risk, on the one hand, and to increase the liquidity of international reserves, on the other one. Over the reporting period limits for minimum and maximum credit exposures by asset class at balance sheet level continued to be observed along with concentration limits to individual issuers and counterparties which were modified to become more conservative than those in the pre-pandemic period. Detailed information on this topic is disclosed in Chapter II Gross International Reserves.

c) Liquidity risk

Liquidity risk arises in the funding of the Bank's core activities and in the management of positions. It is primarily manifested in two aspects: the first aspect is risk for the Bank of being unable to meet its obligations when due and the second aspect comprises the risk for the Bank of being unable to sell an asset on international markets at a fair value within an appropriate time the Bank of frame in compliance with the respective market conventions.

The BNB is striving to maintain a balance between the maturity of attracted funds and that of assets by means of investments in financial instruments of a different maturity structure. The instruments for attracting funds, which are provided to customers on the liability side, are mainly deposit/investment accounts and settlement accounts. The Bank maintains a minimum level of liquidity by type of currency on a daily basis to ensure all BNB payments in foreign currency. To better manage the risk arising from liquidation of positions in financial instruments, the latter are grouped by liquidity rank subject to the level of difficulty (*i.e.* discount from the fair value), at which they could be sold on the market. Liquidity limits on BNB's exposures are set for the different types of financial instruments based on the liquidity ranks.

As part of its overall liquidity risk management strategy, the Bank has defined requirements for the management of a portfolio of liquid assets denominated in euro and for maintaining assets denominated in other currencies for the purposes of meeting its cash inflows and outflows.

The Bank's financial assets and liabilities, analysed by residual term to maturity from the date of the statement of financial position to the date of any subsequent agreement or contractual maturity are, as follows:

(BGN'000)

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Undefined maturity	Total
As of 31 December 2021							
Financial assets							
Cash and deposits in foreign currency <i>incl. provisions for expected credit losses under IFRS 9</i>	42,934,721	1,379,255	-	-	-	(8,974)	44,305,002
	-	-	-	-	-	(8,974)	(8,974)
Gold, instruments in gold, and other precious metals <i>incl. provisions for expected credit losses under IFRS 9</i>	4,174,343	-	-	-	-	-	4,174,343
	-	-	-	-	-	-	-
Financial assets at fair value through profit or loss	1,662,874	1,158,347	6,560,201	9,605,207	9,756	-	18,996,385
Financial assets at fair value through profit and loss in other comprehensive income	237,159	-	-	-	-	1,989,932	2,227,091
Other assets	35,951	-	-	-	-	70	36,021
Total financial assets	49,045,048	2,537,602	6,560,201	9,605,207	9,756	1,981,028	69,738,842
Financial liabilities							
Banknotes and coins in circulation	-	-	-	-	-	24,696,677	24,696,677
Liabilities to banks and other financial institutions	24,313,910	-	-	-	-	-	24,313,910
Liabilities to government institutions and other borrowings	9,531,918	-	-	-	-	-	9,531,918
Borrowings against Bulgaria's participation in international financial institutions	-	-	-	-	-	5,481,879	5,481,879
Total financial liabilities	33,845,828	-	-	-	-	30,178,556	64,024,384
Asset-liability maturity mismatch	15,199,220	2,537,602	6,560,201	9,605,207	9,756	(28,197,528)	5,714,458
As of 31 December 2020							
Financial assets							
Cash and deposits in foreign currency <i>incl. provisions for expected credit losses under IFRS 9</i>	31,340,560	2,221,409	-	-	-	(2,824)	33,559,145
	-	-	-	-	-	(2,824)	(2,824)
Gold, instruments in gold, and other precious metals <i>incl. provisions for expected credit losses under IFRS 9</i>	4,003,321	-	-	-	-	-	4,003,321
	-	-	-	-	-	-	-
Financial assets at fair value through profit or loss	882,298	1,582,863	11,976,168	7,315,297	843,020	-	22,599,646
Financial assets at fair value through profit and loss in other comprehensive income	225,258	-	-	-	-	1,890,826	2,116,084
Other assets	33,696	13,361	70	-	-	-	47,127
Total financial assets	36,485,133	3,817,633	11,976,238	7,315,297	843,020	1,888,002	62,325,323
Financial liabilities							
Banknotes and coins in circulation	-	-	-	-	-	21,241,038	21,241,038
Liabilities to banks and other financial institutions	23,518,532	-	-	-	-	-	23,518,532
Liabilities to government institutions and other borrowings	8,646,875	-	-	-	-	-	8,646,875
Borrowings against Bulgaria's participation in international financial institutions	-	-	-	-	-	3,235,232	3,235,232
Total financial liabilities	32,165,407	-	-	-	-	24,476,270	56,641,677
Asset-liability maturity mismatch	4,319,726	3,817,633	11,976,238	7,315,297	843,020	(22,588,268)	5,683,646

The outstanding contractual maturities of the Bank's financial liabilities are, as follows:
(BGN'000)

	Book value	Gross nominal outgoing cash flow	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years
As of 31 December 2021							
Banknotes and coins in circulation	24,696,677	24,696,677	-	-	-	-	24,696,677
Liabilities to banks and other financial institutions	24,313,910	24,313,910	24,313,910	-	-	-	-
Liabilities to government institutions and other borrowings	9,531,918	9,531,918	9,531,918	-	-	-	-
Borrowings against Bulgaria's participation in international financial institutions	5,481,879	5,481,879	-	-	-	-	5,481,879
	64,024,384	64,024,384	33,845,828	-	-	-	30,178,556
As of 31 December 2020							
Banknotes and coins in circulation	21,241,038	21,241,038	-	-	-	-	21,241,038
Liabilities to banks and other financial institutions	23,518,532	23,518,532	23,518,532	-	-	-	-
Liabilities to government institutions and other borrowings	8,646,875	8,646,875	8,646,875	-	-	-	-
Borrowings against Bulgaria's participation in international financial institutions	3,235,232	3,235,232	-	-	-	-	3,235,232
	56,641,677	56,641,677	32,165,407	-	-	-	24,476,270

d) Market risk

Market risk

All financial instruments are subject to market risk, *i.e.* the risk of impairment as a result of changes in the market conditions. The instruments are evaluated on a daily basis at fair market value which best reflects current financial market conditions for the respective type of financial instruments. The Bank manages its portfolios in response to changing market conditions and to changes in the liability structure of Issue Department balance sheet. Market risk exposure is managed in accordance with the risk limits specified in the document *Investment Limits and Benchmarks for the Management of the Gross International Reserves*.

The table below presents one important measure of market risk, *i.e.* Value at Risk (VaR). VaR is an indicator of the maximum loss over a certain period of time (holding period) and with a certain probability (called a confidence level or confidence interval). The VaR used in this report is based on a 95 per cent confidence level and a one-day holding period.

To calculate the total risk, currency risk and interest rate risk, the empiric distributions, derived from time series of 30 daily observations of total income, currency income and interest income of assets, respectively, have been used. The correlation between the currency and interest rate risk is also presented. For each of the parameters, the value as of the last date for the period, the average value for the whole period and the minimum and maximum values have been calculated.

(BGN'000)

	As of 31 December 2021	Average	Maximum	Minimum
Currency risk	(33,656)	(39,892)	(66,465)	(15,859)
Interest rate risk	(6,009)	(6,866)	(11,462)	(1,828)
Correlation (per cent)	0.24	0.32	0.66	(0.16)
Overall risk	(35,305)	(43,348)	(72,937)	(17,266)
	As of 31 December 2020	Average	Maximum	Minimum
Currency risk	(35,449)	(58,094)	(107,024)	(14,356)
Interest rate risk	(5,698)	(8,483)	(34,555)	(2,115)
Correlation (per cent)	0.10	0.14	0.64	(0.42)
Overall risk	(36,964)	(61,379)	(136,979)	(15,984)

Interest rate risk

The Bank's operations are subject to the risk of interest rate fluctuations, which impact the prices of interest-earning assets (including investments) and interest-bearing liabilities. Modified duration is used as a key measurement for absolute interest rate risk. It measures the effect of the change in the market value of an asset (liability) in percentage points in response to a 1 basis point (1/100th of 1 per cent) change in the interest rate levels. In addition, portfolios' technical parameters such as protuberance (convexity), duration in a fixed point of the yield curve, *etc.* are monitored on a daily basis. For each portfolio held by the BNB, the interest rate risk is limited by a model portfolio (benchmark) and by the investment limits for a maximum deviation of the modified duration of the portfolio from that of the respective benchmark. The relative interest risk limit of investment portfolios has been set on the basis of the risk measure, *i.e.* a relative yield volatility measure.

Assets and liabilities with floating interest rates involve the risk of changes in the base which serves to determine the interest rates.

(BGN'000)

	Total	Floating rate instruments	Fixed rate instruments		
			Up to 1 month	From 1 to 3 months	Over 3 months
As of 31 December 2021					
Interest-earning assets					
Cash and deposits in foreign currency	38,160,748	34,184,515	2,596,351	1,379,882	-
Gold, instruments in gold, and other precious metals	-	-	-	-	-
Financial assets at fair value through profit or loss	19,106,617	311,942	1,669,182	1,164,622	15,960,871
Financial assets at fair value through profit and loss in other comprehensive income	237,159	-	237,159	-	-
Other interest-earning assets	36,021	17,891	18,060	-	70
Total	57,540,545	34,514,348	4,520,752	2,544,504	15,960,941
Interest-bearing liabilities					
Liabilities to banks and other financial institutions	24,313,910	-	24,313,910	-	-
Liabilities to government institutions and other borrowings	4,913,475	4,913,475	-	-	-
Borrowings against Bulgaria's participation in international financial institutions	3,552,666	3,552,666	-	-	-
Total	32,780,051	8,466,141	24,313,910	-	-
Interest-bearing asset/liability gap	24,760,494	26,048,207	(19,793,158)	2,544,504	15,960,941
As of 31 December 2020					
Interest-earning assets					
Cash and deposits in foreign currency	27,371,483	24,876,619	271,675	2,223,189	-
Gold, instruments in gold, and other precious metals	-	-	-	-	-
Financial assets at fair value through profit or loss	22,730,574	393,652	884,643	1,586,044	19,866,235
Financial assets at fair value through profit and loss in other comprehensive income	225,258	-	225,258	-	-
Other interest-earning assets	47,127	33,696	-	13,361	70
Total	50,374,442	25,303,967	1,381,576	3,822,594	19,866,305
Interest-bearing liabilities					
Liabilities to banks and other financial institutions	23,518,532	-	23,518,532	-	-
Liabilities to government institutions and other borrowings	6,987,891	6,987,891	-	-	-
Borrowings against Bulgaria's participation in international financial institutions	1,402,320	1,402,320	-	-	-
Total	31,908,743	8,390,211	23,518,532	-	-
Interest-bearing asset/liability gap	18,465,699	16,913,756	(22,136,956)	3,822,594	19,866,305

For managing interest rate risk and the band of interest rate changes, the sensitivity of financial assets and liabilities to various standard and non-standard interest rate movement scenarios are monitored.

The standard scenarios include the following changes in yield curves: (i) a 100 basis points instant parallel increase; (ii) a 100 basis points instant parallel decrease; (iii) a 50 basis points parallel increase in the yield curves for a period of 12 months; and (iv) a 50 basis points parallel decrease in the yield curves also for a period of 12 months. The second two scenarios assume that the change in yields takes place at the beginning of the period, and over the one-year period the yield curve remains unchanged.

The analysis of the sensitivity of the Bank's assets (to first approximation) to changes in interest rates, assuming a constant spread of assets and liabilities and parallel shifts in the yield curves of the relevant assets is, as follows:

(BGN'000)

	100 basis points intra-day instant parallel increase	100 basis points intra-day instant parallel decrease	50 basis points parallel increase in the beginning of the period	50 basis points parallel decrease in the beginning of the period
As of 31 December 2021	(243,177)	243,177	(161,372)	(350,910)
As of 31 December 2020	(291,821)	291,821	(270,348)	(420,786)

Currency risk

For the Bank, a currency risk exists where there is a mismatch between the currency structure of assets and that of liabilities. The Bank is exposed to currency risk when entering into transactions in financial instruments denominated in foreign currencies other than the euro. With the introduction of the currency board arrangement in Bulgaria and the fixing of the Bulgarian currency to the euro, the Bank's financial statements, prepared in Bulgarian leva, are affected by movements in the exchange rate of the lev against the currencies other than the euro.

To minimise currency risk, there is a limit to the mismatches between the currency structure of assets and that of liabilities. According to Article 31, paragraph 3 of the Law on the BNB, the total market value of assets in a foreign currency other than the euro, SDR and monetary gold, may not deviate by more than +/-2 per cent from the market value of the liabilities denominated in these currencies.

(BGN'000)

	31 December 2021	31 December 2020
Assets		
Bulgarian lev and euro	59,991,881	55,028,862
US dollar	72,017	66,830
Japanese yen	233	239
Pound sterling	410	484
SDR	5,775,544	3,489,124
Gold	4,123,863	3,953,565
Other	141	583
	69,964,089	62,539,687
Liabilities, capital and reserves		
Bulgarian lev and euro	64,236,917	59,086,884
US dollar	72,967	67,472
Japanese yen	-	-
Pound sterling	-	-
SDR	5,654,158	3,385,286
Other	47	45
	69,964,089	62,539,687

(BGN'000)

Net position		
Bulgarian lev and euro	(4,245,036)	(4,058,022)
US dollar	(950)	(642)
Japanese yen	233	239
Pound sterling	410	484
SDR	121,386	103,838
Gold	4,123,863	3,953,565
Other	94	538

e) Using accounting judgements and assumptions

The Governing Council of the BNB discusses the development, selection and disclosure of critical accounting policies and assumptions, as well as their application.

These disclosures supplement the notes to the financial risk management.

Management's major priorities in the next few years will still be to maintain monetary and financial system stability in the country, keep the Bank's stable liquidity position and improve continuously Bank's valuation methods and techniques, international reserves management and control on international financial markets.

1) Determination of fair values

In note 5(c), item 4, the Bank has disclosed its accounting policy and principles used by it for fair value measurement and disclosure.

The determination of fair values of financial assets and liabilities for which there is no observable market price requires the use of valuation techniques described in the accounting policy. For financial instruments that trade infrequently and whose price is not transparent, the fair value is less objective and requires an expert's judgement depending on liquidity, concentration, market factors uncertainty, pricing assumptions, and other risks affecting the particular instrument.

2) Valuation of financial instruments

The Bank measures the fair value of financial instruments using the following hierarchy of methods:

- **Level 1:** quoted market price or closing price for positions for which there is a reliable market;
- **Level 2:** valuation techniques based on observable market information about the yield curve. This category of methods is used to measure debt securities for which there is no reliable market;
- **Level 3:** valuation techniques, where inputs on financial assets and liabilities are not based on observable market data.

The fair values of financial assets and liabilities traded in international financial markets for which there is available market information are based on market quotations or closing market prices. The use of observable market prices and information reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. The availability of actual market prices and information varies depending on products and markets and changes because of specific events and the general conditions of financial markets. The Bank determines the fair values of all other financial instruments for which there are no current market quotes by using a valuation technique based on a net present value. The net present value is computed by means of market yield curves and credit spreads, where necessary, for the relevant instrument. The purpose of the valuation techniques is to determine a fair value which reflects as correctly as possible the price of the financial instrument on the reporting date.

The Bank has established a control framework with respect to the measurement of fair values. The fair values of financial instruments are set by a specialised risk analysis and control unit. Specific controls include: checking the actual price information; regular reviews of current valuation models and, if necessary, development, approval and introduction of new

valuation models; follow-up verification by means of an analysis and comparison of data from various information sources, *etc.*

The table below analyses financial instruments reported at fair value using valuation models. The data do not include equity instruments reported at acquisition cost (note 14).

(BGN'000)

	Level 1 Quoted market prices on active markets	Level 2 Valuation techniques (using market data)	Total
31 December 2021			
Cash and deposits in foreign currency <i>incl. provisions for expected credit losses under IFRS 9</i>	44,305,002 (8,974)	- -	44,305,002 (8,974)
Gold, instruments in gold, and other precious metals <i>incl. provisions for expected credit losses under IFRS 9</i>	4,174,343 -	- -	4,174,343 -
Financial assets at fair value through profit or loss	18,243,390	752,995	18,996,385
Total	66,722,735	752,995	67,475,730
31 December 2020			
Cash and deposits in foreign currency <i>incl. provisions for expected credit losses under IFRS 9</i>	33,559,145 (2,824)	- -	33,559,145 (2,824)
Gold, instruments in gold, and other precious metals <i>incl. provisions for expected credit losses under IFRS 9</i>	4,003,321 -	- -	4,003,321 -
Financial assets at fair value through profit or loss	17,027,954	5,571,692	22,599,646
Total	54,590,420	5,571,692	60,162,112

Financial instruments not measured at fair value, but by applying a level of the fair value hierarchy where a fair value measurement is categorised, are analysed, as follows:

(BGN'000)

	Level 1 Quoted market prices on active markets	Level 2 Observable inputs other than quoted prices	Total
31 December 2021			
Liabilities to banks and other financial institutions	-	24,313,910	24,313,910
Liabilities to government institutions and other borrowings	-	9,531,918	9,531,918
Borrowings against Bulgaria's participation in international financial institutions	-	5,481,879	5,481,879
Total	-	39,327,707	39,327,707
31 December 2020			
Liabilities to banks and other financial institutions	-	23,518,532	23,518,532
Liabilities to government institutions and other borrowings	-	8,646,875	8,646,875
Borrowings against Bulgaria's participation in international financial institutions	-	3,235,232	3,235,232
Total	-	35,400,639	35,400,639

The fair value of liabilities to banks and other financial institutions and of liabilities to government institutions is approximately equal to the reporting value as they are short-term.

The fair value of the liabilities for participation in international financial institutions is approximately equal to their reporting value as they are interest-free and of undefined maturity.

f) Maturity structure of assets and liabilities

The Bank's assets and liabilities, analysed by residual term to maturity from the date of the statement of financial position to the date of any subsequent agreement or contractual maturity are, as follows:

(BGN'000)

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Undefined maturity	Total
As of 31 December 2021							
Financial assets							
Cash and deposits in foreign currency	42,934,721	1,379,255	-	-	-	(8,974)	44,305,002
<i>incl. provisions for expected credit losses under IFRS 9</i>	-	-	-	-	-	(8,974)	(8,974)
Gold, instruments in gold, and other precious metals	4,174,343	-	-	-	-	-	4,174,343
<i>incl. provisions for expected credit losses under IFRS 9</i>	-	-	-	-	-	-	-
Financial assets at fair value through profit or loss	1,662,874	1,158,347	6,560,201	9,605,207	9,756	-	18,996,385
Financial assets at fair value through profit and loss in other comprehensive income	237,159	-	-	-	-	1,989,932	2,227,091
Tangible assets	-	-	-	-	-	169,711	169,711
Intangible assets	-	-	-	-	-	9,930	9,930
Other assets	35,951	-	-	-	-	45,676	81,627
Total financial assets	49,045,048	2,537,602	6,560,201	9,605,207	9,756	2,206,275	69,964,089
Financial liabilities							
Banknotes and coins in circulation	-	-	-	-	-	24,696,677	24,696,677
Liabilities to banks and other financial institutions	24,313,910	-	-	-	-	-	24,313,910
Liabilities to government institutions and other borrowings	9,531,918	-	-	-	-	-	9,531,918
Borrowings against Bulgaria's participation in international financial institutions	-	-	-	-	-	5,481,879	5,481,879
Other liabilities	-	-	-	-	-	911,280	911,280
Total financial liabilities	33,845,828	-	-	-	-	31,089,836	64,935,664
Asset–liability maturity mismatch	15,199,220	2,537,602	6,560,201	9,605,207	9,756	(28,883,561)	5,028,425
As of 31 December 2020							
Financial assets							
Cash and deposits in foreign currency	31,340,560	2,221,409	-	-	-	(2,824)	33,559,145
<i>incl. provisions for expected credit losses under IFRS 9</i>	-	-	-	-	-	(2,824)	(2,824)
Gold, instruments in gold, and other precious metals	4,003,321	-	-	-	-	-	4,003,321
<i>incl. provisions for expected credit losses under IFRS 9</i>	-	-	-	-	-	-	-
Financial assets at fair value through profit or loss	882,298	1,582,863	11,976,168	7,315,297	843,020	-	22,599,646
Financial assets at fair value through profit and loss in other comprehensive income	225,258	-	-	-	-	1,890,826	2,116,084
Tangible assets	-	-	-	-	-	163,824	163,824
Intangible assets	-	-	-	-	-	8,783	8,783
Other assets	33,696	13,361	70	-	-	41,757	88,884
Total financial assets	36,485,133	3,817,633	11,976,238	7,315,297	843,020	2,102,366	62,539,687
Financial liabilities							
Banknotes and coins in circulation	-	-	-	-	-	21,241,038	21,241,038
Liabilities to banks and other financial institutions	23,518,532	-	-	-	-	-	23,518,532
Liabilities to government institutions and other borrowings	8,646,875	-	-	-	-	-	8,646,875
Borrowings against Bulgaria's participation in international financial institutions	-	-	-	-	-	3,235,232	3,235,232

(BGN'000)

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Undefined maturity	Total
Other liabilities						771,674	771,674
Total financial liabilities	32,165,407	-	-	-	-	25,247,944	57,413,351
Asset–liability maturity mismatch	4,319,726	3,817,633	11,976,238	7,315,297	843,020	(23,145,578)	5,126,336

7. Interest Income and Expense

(BGN'000)

	31 December 2021	31 December 2020
Interest income		
– securities	80,155	133,610
– deposits	113,912	121,009
– other	54	221
	194,121	254,840
Interest expense		
– deposits	104,139	87,600
– other	-	-
	104,139	87,600

Interest income includes interest paid of BGN 99,318 thousand on current accounts of BNB customers as a result of using negative reference interest rates (as of 31 December 2020: BGN 101,248 thousand).

As at 31 December 2021 and as at 31 December 2020 there were no interest expenses paid on government and other organisations' deposits either in foreign currencies.

Interest expenses paid on deposits include interest paid of BGN 90,662 thousand on deposits and current accounts with foreign correspondent banks as a result of using negative reference interest rates (31 December 2020: BGN 72,683 thousand).

In addition, BGN 12,316 thousand interest paid on the technical account of the national system component TARGET2-BNB at the ECB are included (as of 31 December 2020: BGN 8316 thousand).

Over the review period the interest rate on the Eurosystem's deposit facility set by the ECB Governing Council remained unchanged. The interest rate remained fixed at -0.50 per cent over the reporting period.

8. Net Gains/(Losses) from Financial Assets and Liabilities at Fair Value through Profit or Loss

(BGN'000)

	31 December 2021	31 December 2020
Net (losses) from operations in securities	(278,284)	(187,792)
Net gains/(losses) from operations in foreign currency	15	(888)
Net revaluation gains on futures	47	110
Net revaluation (losses) on securities	(25,486)	(38,473)
Net revaluation gains/(losses) on foreign currency assets and liabilities	4,572	(4,028)
Net revaluation gains on gold	171,760	436,626
Provisions for expected credit losses	(6,150)	-
	(133,526)	205,555

Net gains/(losses) from financial assets and liabilities carried at fair value through profit or loss as at 31 December 2021 were largely attributable to revaluation of gold of BGN 171,760 thousand due to an increase in the market price of gold, from BGN 3011.82 *per* troy ounce as at 31 December 2020 to BGN 3141.18 as of 31 December 2021, or an increase by 4.3 per cent.

Net losses from operations in securities amounted to BGN 278,284 thousand. The main factors for net losses were the negative yields at which euro-denominated high credit quality bonds were traded, and the fact that usually these securities are purchased at significant premium above their face value, with the coupon yield being relatively low or zero to offset the negative market revaluation of the securities from the time of the purchase to their maturity or sale.

During the reporting period the market yield of the securities remained at very low negative levels, and investment in securities and holding them to maturity presumed negative returns for the holding period. In the short-term maturity sectors, into which the BNB primarily invested international reserves, represented by the German benchmark two-year bonds, market yields decreased by about 10 basis points which was relevant to a large extent to yields on securities of other permitted issuers of euro-denominated bonds. The net effect from revaluation of securities resulting from all market movements was negative: BGN 25,486 thousand.

9. Other operating income

(BGN'000)

	31 December 2021	31 December 2020
Income from subsidiaries	33,645	29,407
Income from associates	912	(170)
Income from sale of coins	3,776	3,138
Dividend income	16,617	12,346
Other income, net	14,384	2,528
	69,334	47,249

In 2021 dividend income includes dividends from BNB's participation in: the BNB Printing Works AD amounting to BGN 4699 thousand, the Bulgarian Mint EAD of BGN 108 thousand, the BORICA AD of BGN 1721 thousand, the Cash Service Company AD of BGN 300 thousand. For the purposes of the consolidated financial statements, the dividends received from the BNB Printing Works AD and Bulgarian Mint EAD are eliminated.

The Bulgarian National Bank received dividend payments of BGN 9789 thousand for its equity stake in the Bank for International Settlements (BIS).

The other net income includes financial income from subsidiaries of BGN 1127 thousand, income from reallocated remuneration from the ECB in relation to TARGET2 of BGN 921 thousand and IMF reimbursements of BGN 11,673 thousand (SDR 4967 thousand), based on a decision of the IMF Board of Executive Directors (ESB/21/39 of 29 June 2021), representing interest payable on BNB debt to the IMF in the 1991–1997 period.

10. General Administrative Expenses

(BGN'000)

	31 December 2021	31 December 2020
Staff expenditure	52,658	46,146
Administrative expenses	70,614	64,150
Depreciation	16,348	13,930
Other expenses	2,757	3,487
	142,377	127,713

The number of employees of the Bank and its subsidiaries is 1126 as of 31 December 2021 (31 December 2020: 1145), including the BNB staff of 888 (31 December 2020: 895).

Staff expenditure include salaries, social and health insurance costs charged under the local legislation provisions as at 31 December 2021, and social activities costs, respectively for the BNB: BGN 44,361 thousand (31 December 2020: BGN 37,894 thousand), for the BNB Printing Works AD: BGN 6193 thousand (31 December 2020: BGN 5711), and for the Bulgarian Mint EAD: BGN 2104 thousand (31 December 2020: BGN 2541 thousand).

Staff expenditure include expenses for remunerations paid to the BNB Governing Council members of BGN 1547 thousand as of 31 December 2021 (31 December 2020: BGN 1358 thousand), presented as follows:

(BGN'000)

	31 December 2021	31 December 2020
Total gross remuneration expenses*	1,547	1,358
including bonuses up to established threshold in accordance with Article 23, paragraph 3 of the LBNB by BNB Governing Council's resolution of 30 July 2015**	462	407
Expenses on BNB Governing Council members' retirement/termination benefits	14	36
Total gross remuneration paid to the BNB Governing Council members	1,561	1,394

* Remunerations are before taxation.

** http://www.bnb.bg/PressOffice/POPressReleases/POPRDate/PR_20150730_1_EN

With the adoption of the BNB budget for 2021, the amount of monthly remunerations of the Governing Council members is determined, as follows: Governor – BGN 20,313; Deputy Governors – BGN 17,411; other Governing Council members – BGN 5804.

Staff retirement liabilities calculated based on actuarial valuation and pursuant to IAS 19 'Employee Benefits' are presented as follows:

(BGN'000)

	31 December 2021	31 December 2020
Defined benefit liabilities as of 1 January	4,331	3,684
Plan benefits paid	(418)	(270)
Current service cost	623	484
Interest expenses	12	11
Remeasurements	-	4
Actuarial (gain)/loss arising from experience adjustment	283	308
Actuarial (gain)/loss arising from change in demographic assumptions	(1)	112
Actuarial (gain)/loss arising from change in financial assumptions	243	(2)
Actuarial loss recognised in expenses	(7)	-
Defined benefit liabilities as at 31 December	5,066	4,331

Costs recognised in profit and loss

(BGN'000)

	31 December 2021	31 December 2020
Current service cost	623	484
Interest expense	12	11
Actuarial losses	(7)	4
Remeasurements	-	-
Total	628	499

Actuarial Assumptions

The key actuarial assumptions as at the Financial Statements date are the following (weighted average):

(per cent)

	31 December 2021	31 December 2020
Discount interest rate as at 31 December	0.25	0.20
Future salary growth	5.60	5.00

(BGN'000)

Distribution of BNB staff liabilities (subsidiaries excluded) by residual term	31 December 2021	31 December 2020
Up to 1 year	677	735
From 1 to 3 years	486	350
From 3 to 5 years	449	395
From 5 to 10 years	738	658
Over 10 years	1,708	1,274
Total	4,058	3,412

Administrative expenses include the BNB's currency circulation expenses of BGN 30,779 thousand as of 31 December 2021 (31 December 2020: BGN 33,294 thousand) and international audit expenses of BGN 129 thousand (31 December 2020: BGN 104 thousand).

Administrative expenses include expenses related to the activities of the Banks Resolution Fund. The costs of BRF management arising from the function of the BNB as a resolution authority are financed by fees collected from credit institutions established in the Republic of Bulgaria and the branches of third-country credit institutions under Article 59a, paragraph 1 of the Law on the BNB in line with Article 8, paragraph 1 of the BNB Ordinance No 40 of 1 December 2020 on Determining the Amount of Fees to Cover Administrative Costs of the Bulgarian National Bank Arising from Supervisory and Resolution Function. The total amount of fees to cover the administrative costs of the Bulgarian National Bank arising from the function of the resolution of credit institutions amounts to BGN 1503 thousand.

As a result of the COVID-19 pandemic and the restrictions introduced in 2020 there was a need to adjust the planned funds on the 2020 Bank's budget indicators and the adjustments were made in implementing the budgetary procedure. In 2021 there was no change in the amount of planned funds on Bank's budget indicators.

11. Cash and Deposits in Foreign Currency

(BGN'000)

	31 December 2021	31 December 2020
Cash in foreign currency	6,160,318	6,196,585
Current accounts in other banks	34,168,499	24,855,855
<i>incl. provisions for expected credit losses under IFRS 9</i>	<i>(6,740)</i>	<i>(2,168)</i>
Deposits in foreign currency	3,976,185	2,506,705
<i>incl. provisions for expected credit losses under IFRS 9</i>	<i>(2,234)</i>	<i>(656)</i>
	44,305,002	33,559,145

Cash and deposits in foreign currency with correspondents are disclosed as follows:

(BGN'000)

	31 December 2021	31 December 2020
Euro area residents		
In EUR	32,449,073	25,022,408
<i>incl. provisions for expected credit losses under IFRS 9</i>	<i>(7,742)</i>	<i>(2,666)</i>
In other currencies	17,256	-
<i>incl. provisions for expected credit losses under IFRS 9</i>	<i>(13)</i>	-
	32,466,329	25,022,408
Non-euro area residents		
In EUR	8,198,120	7,068,859
<i>incl. provisions for expected credit losses under IFRS 9</i>	<i>(1,206)</i>	<i>(142)</i>
In other currencies	3,640,553	1,467,878
<i>incl. provisions for expected credit losses under IFRS 9</i>	<i>(13)</i>	<i>(16)</i>
	11,838,673	8,536,737
	44,305,002	33,559,145

Time deposits in foreign currency with correspondents with counterparty's credit rating graded by at least two of the six internationally recognised credit rating agencies – Standard&Poor's, Fitch Ratings, Moody's, DBRS, R&I and JCRA, are disclosed below:
(BGN'000)

	Counterparty short-term credit rating	31 December 2021	31 December 2020
Investment graded deposits by the counterparty's credit rating	A-1+	54,056	660,803
	<i>incl. provisions for expected credit losses under IFRS 9</i>	(13)	(67)
	A-1	3,919,065	1,832,114
	<i>incl. provisions for expected credit losses under IFRS 9</i>	(2,221)	(589)
		3,973,121	2,492,917

The disclosure by credit rating does not include demand deposits with external managers. The BNB maximum exposure to credit risk is equivalent to the book value of cash on current accounts and deposits.

12. Gold, Instruments in Gold, and Other Precious Metals

	31 December 2021		31 December 2020	
	'000 troy ounces	BGN'000	'000 troy ounces	BGN'000
Gold bullion in standard form	513	1,611,560	513	1,545,193
Gold deposits in standard form	800	2,512,303	800	2,408,372
<i>incl. provisions for expected credit losses under IFRS 9</i>		-		-
Gold in other form	15	47,808	16	47,017
Other precious metals		2,672		2,739
		4,174,343		4,003,321

Gold in standard form includes gold held for safekeeping with a depository and deposits. Deposits in gold are held with banks whose liabilities are rated with one of the two highest ratings given by two internationally recognised rating agencies.

Gold in other form includes commemorative gold coins of BGN 47,808 thousand.

Other precious metals include silver commemorative coins of BGN 154 thousand and platinum commemorative coins of BGN 2518 thousand.

As a result of the completion of a financial swap transaction in 2020 with the Bank for International Settlements, Basel, the gold deposits in standard form item increased by 11,113.6 troy ounces and the other precious metals items decreased by the revaluation of scrap silver coins at market prices amounting to BGN 34,459 thousand, allocated in a revaluation reserve.

13. Financial Assets at Fair Value through Profit and Loss

(BGN'000)

Securities at fair value through profit or loss	31 December 2021	31 December 2020
Foreign treasury bills, notes and bonds	18,996,385	22,599,646
Total	18,996,385	22,599,646

Securities comprise of both coupon and discount securities denominated in euro. The coupon interest of the EUR-denominated securities was 0.37 per cent as of 31 December 2021 (31 December 2020: 0.60 per cent).

The securities issued by foreign governments and other issuers or relevant issuers with credit rating graded by at least two of the six internationally recognised credit rating agencies – Standard&Poor's, Fitch Ratings, Moody's, DBRS, R&I and JCRA are disclosed as follows:

(BGN'000)

	Issue/issuer credit rating	31 December 2021	31 December 2020
Investment graded securities by the issue/issuer credit rating	AAA	17,288,401	21,298,193
	AA+	622,537	596,384
	AA	1,085,447	705,069
		18,996,385	22,599,646

14. Financial Assets at Fair Value in Other Comprehensive Income

(BGN'000)

	31 December 2021	31 December 2020
Republic of Bulgaria's quota in the IMF	2,166,250	2,057,537
Equity investments in international financial institutions	32,011	30,798
Investments in associates	28,830	27,749
	2,227,091	2,116,084

The Republic of Bulgaria's quota in the IMF is SDR 896,300 thousand (31 December 2020: SDR 896,300) BGN 237,160 thousand of the Republic of Bulgaria's quota in the IMF represents the reserve tranche held with the IMF (31 December 2020: BGN 225,258 thousand). The IMF pays remuneration (interest) to those members who have a remunerated reserve tranche position, at an average rate of 0.05 per cent (31 December 2020: 0.2 per cent).

Equity investments in international financial institutions include the equity investment in the Bank for International Settlements (BIS), and 25 per cent of the equity investment in BIS Basel is paid up. As of 31 December 2021 the current value of 10,000 thousand shares in SDR amounts to BGN 24,169 thousand while as of 31 December 2020 it was BGN 22,956 thousand (ref. note 28). The capital subscribed, but not paid-in has an option to be paid in within three months upon a decision of the BIS Board of Governors.

Equity investments in international financial institutions do not exceed 10 per cent of the subscribed share capital of the respective institution.

Investments in international financial institutions also include BNB's participation in the ECB. As of 1 January 2007 (when the Republic of Bulgaria joined the EU), the Bulgarian National Bank has a share in the ECB capital. As at 31 December 2021 the amount of the BNB paid-up share in the ECB capital is EUR 3991.2 thousand or BGN 7806 thousand.

Pursuant to Article 28 of the Statute of the ESCB and the ECB, only ESCB NCBs are entitled to participate in the ECB capital. Capital subscription follows the requirements and the key set forth in Article 29 of the Statute of the ESCB and ECB; *i.e.* the share of each NCB in the ECB capital is determined in percentage and corresponds to the share of the respective Member State in the EU's total population and GDP (in equal proportions). The percentage is adjusted every five years and whenever a new Member State joins the EU. The latest adjustment (eighth) took place on 1 February 2020 and related to the UK's withdrawal from the EU. As of 31 December 2021, the BNB's capital share in the ECB subscribed capital is 0.9832 per cent, which corresponds to EUR 106,431.5 thousand.

As a non-euro area NCB, the BNB is required to pay up the minimum percentage of its subscribed capital in the ECB, which is pursuant to Article 47 of the Statute of the ESCB and of the ECB (as set out by the ECB General Council) and represents the BNB contribution to the ECB operational costs. As of 29 December 2010 this percentage amounts to 3.75 per cent. Unlike euro area NCBs, the BNB is not entitled to the ECB's distributable profit, nor is it required to fund any loss of the ECB. Upon joining the euro area, the BNB will be required to pay up the remaining 96.25 per cent of its capital subscription to the ECB, which is EUR 102,440.3 thousand.

The Bank exercises substantial influence on the financial and operational policies of the associated companies listed below, and its investments in domestic companies are as follows:

Associates	Share-holding, per cent	Principal activity
BORICA AD	36.11	Interbank card payments
Cash Services Company AD	25.00	Handling of sealed parcels of Bulgarian coins and banknotes transferred from the BNB and the banks

15. Tangible Assets

The fair value of land and buildings is categorised as Level-3 fair value based on the input data for the given assessment technique.

For the remaining asset classes Plant and Machinery, Equipment, Vehicles, Fixtures and Fittings, the fair value is considered to be their present value on the Bank's balance sheet as most of them were bought in the last four years and their book value is close to their fair value.

When revaluating tangible fixed assets the Bank derecognises the accrued depreciation at the expense of the gross book value of the assets and their net value is recalculated against the revalued amount. As of 31 December 2021 the assets with a right of use contain BGN 41 thousand (31 December 2020: BGN 62 thousand) regarding the purchase of a vehicle by the Bulgarian Mint EAD in 2020 under the financial lease conditions.

(BGN'000)

	Land and build-ings	Plant and equip-ment	IT equip-ment	Office equip-ment	Right of use asset	Other equip-ment (includ-ing motor vehicles)	Assets under con-struction	Total
As of 1 January 2021	184,211	97,771	55,565	10,139	62	9,838	19,784	377,370
Additions	20	12,711	13	22	-	6	9,598	22,370
Disposals	-	(3,110)	(1,335)	(388)	-	(1,733)	(3,096)	(9,662)
Transfers	12,004	4,280	2,930	89	-	-	(19,303)	-
Revaluation	-	-	-	-	-	-	-	-
As of 31 December 2021	196,235	111,652	57,173	9,862	62	8,111	6,983	390,078
Depreciation and impair-ment loss								
As of 1 January 2021	(71,984)	(74,976)	(49,791)	(8,951)	(9)	(7,835)	-	(213,546)
Charge for the period	(5,396)	(4,151)	(3,142)	(125)	(12)	(557)	-	(13,383)
On disposals	-	3,108	1,333	388	-	1,733	-	6,562
Revaluation	-	-	-	-	-	-	-	-
As of 31 December 2021	(77,380)	(76,019)	(51,600)	(8,688)	(21)	(6,659)	-	(220,367)
Net book value as of 31 December 2021	118,855	35,633	5,573	1,174	41	1,452	6,983	169,711
Net book value as of 31 December 2020	112,227	22,795	5,774	1,188	53	2,003	19,784	163,824
As of 1 January 2020	184,211	93,129	50,824	9,934	-	9,359	6,560	354,017
Additions	-	1,985	21	79	62	9	22,405	24,561
Disposals	-	(1,001)	(51)	(26)	-	-	(130)	(1,208)
Transfers	-	3,658	4,771	152	-	470	(9,051)	-
Revaluation	-	-	-	-	-	-	-	-
As of 31 December 2020	184,211	97,771	55,565	10,139	62	9,838	19,784	377,370
Depreciation and impair-ment loss								
As of 1 January 2020	(66,760)	(72,776)	(47,603)	(8,849)	-	(7,258)	-	(203,246)
Charge for the period	(5,224)	(3,183)	(2,239)	(128)	(9)	(577)	-	(11,360)
On disposals	-	983	51	26	-	-	-	1,060
Revaluation	-	-	-	-	-	-	-	-
As of 31 December 2020	(71,984)	(74,976)	(49,791)	(8,951)	(9)	(7,835)	-	(213,546)
Net book value as of 31 December 2020	112,227	22,795	5,774	1,188	53	2,003	19,784	163,824

In applying IAS 16 Property, Plant and Equipment and BNB's Internal Rules for Financial Statements and Accounting Policy, as of December 2013 a review was made of the book value of tangible fixed assets stated in the Bank's balance sheet. The fair value of land and buildings was determined by an external, independent and licensed assessor of recognised professional qualification and experience in assessing property of location and category similar to the assessed ones. As of 31 December 2021, the fair value of land and buildings did not differ materially from their book value as at the same date; therefore, it is considered that the present book value of land and buildings on the Bank's balance sheet fairly reflects their market value. The book value of fully amortised tangible fixed assets as of 31 December 2021 was BGN 84,830 thousand (31 December 2020: BGN 87,298 thousand).

16. Intangible Assets

(BGN'000)

	Software	Other intangible assets	Development costs	Total
As of 1 January 2021	60,322	194	2,239	62,755
Additions	68	5	4,099	4,172
Disposals	(1,101)	(20)	(61)	(1,182)
Transfers	5,916	-	(5,916)	-
As of 31 December 2021	65,205	179	361	65,745
Depreciation and impairment loss				
As of 1 January 2021	(53,799)	(173)	-	(53,972)
Charge for the period	(2,955)	(9)	-	(2,964)
On disposals	1,101	20	-	1,121
As of 31 December 2021	(55,653)	(162)	-	(55,815)
Net book value as of 31 December 2021	9,552	17	361	9,930
Net book value as of 31 December 2020	6,523	21	2,239	8,783

As of 31 December 2021 software includes licenses purchased by the BNB to the total amount of BGN 4872 thousand (31 December 2020: BGN 208 thousand), and software products to the amount of BGN 1044 thousand (31 December 2020: BGN 2818 thousand).

(BGN'000)

	Software	Other intangible assets	Development costs	Total
As of 1 January 2020	56,975	180	481	57,636
Additions	326	14	4,784	5,124
Disposals	(5)	-	-	(5)
Transfers	3,026	-	(3,026)	-
As of 31 December 2020	60,322	194	2,239	62,755
Depreciation and impairment loss				
As of 1 January 2020	(51,239)	(168)	-	(51,407)
Charge for the period	(2,565)	(5)	-	(2,570)
On disposals	5	-	-	5
As of 31 December 2020	(53,799)	(173)	-	(53,972)
Net book value as of 31 December 2020	6,523	21	2,239	8,783
Net book value as of 31 December 2019	5,736	12	481	6,229

As of 31 December 2020 software includes licenses purchased by the BNB to the total amount of BGN 208 thousand (31 December 2019: BGN 1027 thousand), and software products to the amount of BGN 2818 thousand (31 December 2019: BGN 925 thousand).

17. Other Assets

(BGN'000)

	31 December 2021	31 December 2020
Cash held by subsidiaries with local banks	36,018	47,149
Investments of subsidiary undertakings in joint ventures and associates	10,629	10,973
Commemorative coins for sale	451	444
Inventories	24,937	24,728
Accounts receivable	5,656	2,613
Deferred charges	2,885	1,428
Other receivables	1,051	1,549
	81,627	88,884

Cash held by subsidiaries with local banks comprise BGN 30,213 thousand of BNB Printing Works AD and BGN 5805 thousand of Bulgarian Mint EAD.

Investments of subsidiary undertakings in joint ventures and associates include a non-monetary contribution in the form of banknote production equipment to the capital of François-Charles Oberthur Group with which BNB Printing Works AD has established a joint venture for banknote production.

18. Banknotes and Coins in Circulation

(BGN'000)

	31 December 2021	31 December 2020
Banknotes in circulation	24,177,231	20,755,549
Coins in circulation	519,446	485,489
	24,696,677	21,241,038

19. Liabilities to Banks and Other Financial Institutions

(BGN'000)

	31 December 2021	31 December 2020
Demand deposits from banks and other financial institutions		
– in BGN	15,009,717	14,048,687
– in foreign currency	9,304,193	9,469,845
	24,313,910	23,518,532

Demand deposits include BGN 5,536,356 thousand representing the required reserves, which all local banks are required to maintain on accounts with the BNB (31 December 2020: BGN 8,482,329 thousand).

The allocation of minimum reserves requirement of the commercial banks in the BNB is in accordance with the amendment to the Ordinance 21, effective by 4 June 2021, adopted by the BNB Governing Council on 14 May 2021.

Pursuant to Article 46 of BNB Ordinance No 16 of 29 March 2018 this position includes also the banks' participation in the Guarantee Mechanism for Settlement of Payments of the participants in the system operated by BORICA AD and processing card related payments, amounting to BGN 163,598 thousand (31 December 2020: BGN 167,847 thousand).

20. Liabilities to Government Institutions and Other Borrowings

(BGN'000)

	31 December 2021	31 December 2020
Current accounts		
– in BGN	8,210,411	4,962,210
– in foreign currency	1,321,507	3,684,665
Time deposit accounts	-	-
	9,531,918	8,646,875

Government's accounts in national and foreign currency with the Bank comprise funds held on behalf of the state budget and other government organisations. The Bank applies interest rates in line with the General Terms and Conditions of the Bulgarian National Bank on servicing accounts of banks, budget organisations and other customers adopted by a resolution of the BNB Governing Council of 26 November 2015, last amended on 17 December 2020, effective as of 1 January 2021. As from 18 November 2019, the Bank does not open and service time deposit accounts of the government and other government institutions in accordance with the General Terms and Conditions of the Bulgarian National Bank on servicing accounts of banks, budget organisations and other customers.

As of 31 December 2021 obligations to pay interests of BGN 6452 thousand on current accounts of customers have been accrued.

21. Borrowings against Bulgaria's Participation in International Financial Institutions

The borrowings against Bulgaria's participation in the IMF as of 31 December 2021 amount to BGN 1,923 674 thousand, or SDR 795,933 thousand (31 December 2020: BGN 1,827,136 thousand, or SDR 795,933 thousand).

Borrowings from the IMF are denominated in SDRs. Borrowings related to Bulgaria's quota in the IMF are non-interest bearing with no stated maturity. This note includes account No 1 and account No 2 of the IMF in leva amounting to BGN 5214 thousand (31 December 2020: BGN 5533 thousand).

The Bank's borrowings from the IMF of the general and special allocation of SDRs amount to SDR 1,333,649,773 and SDR 136,289,102 respectively. Repayment will take place on IMF's demand. Under Article XX of IMF Statute, the Bank receives interest on the existing SDRs and pays a fee on its borrowings from the general and special allocation at the same interest rate.

In August 2021 pursuant to a resolution of the IMF Board of Governors, the amount of funds of the general allocation was increased from SDR 474,586,534 to SDR 1,333,649,773 or by SDR 859,063,239 respectively.

22. Other Liabilities

(BGN'000)

	31 December 2021	31 December 2020
Funds of EU institutions and bodies	160,407	18,211
Funds of Banks Resolution Fund	507,622	541,154
Salaries and social security payable	7,449	6,319
Deferred income	1,395	1,336
Other Liabilities	234,407	204,654
	911,280	771,674

Funds of EU institutions and bodies include European Commission's funds and European Investment Bank's funds. Pursuant to Article 9 of Council Regulation No 1150 of 2000 and Bulgaria's participation in the funding of the EU budget, the Bank opened accounts of the European Commission. As of 31 December 2021 the funds on these accounts were BGN 160,407 thousand (31 December 2020: BGN 18,211 thousand).

As from 27 July 2020 in line with the requirements of § 56, paragraph 1 of the Transitional and Final Provisions of the Amendment of the LRRCIIF, the Bulgarian National Bank as a resolution authority of credit institutions is the holder of the funds available in the Banks Resolution Fund' accounts. As of 31 December 2021 the funds amounted to BGN 507,622 thousand (31 December 2020: BGN 541,154 thousand).

23. Capital and Reserves

The capital of the Bank is determined by the Law on the BNB and amounts to BGN 20,000 thousand.

Non-monetary asset revaluation reserves comprise the net change in fair value of property, equity investments and other non-monetary assets.

Pursuant to Article 36 of the Law on the Bulgarian National Bank, unrealised gains/losses arising from the revaluation of assets and liabilities denominated in foreign currencies or gold are transferred to a special reserve account and form special reserves.

Other reserves include 25 per cent of the annual excess of revenue over expenditure after the allocation to special reserves and reserves established upon a resolution of the BNB Governing Council.

As of 31 December 2021 profit distribution in accordance with the profit distribution policy disclosed in note 5 (j) is as follows:

(BGN'000)

	31 December 2021	31 December 2020
Profit/(loss) for the period	(93,816)	295,691
Allocation to special reserve under Article 36 of the LBNB:		
Unrealised (profit)/ from gold revaluation	(171,760)	(436,626)
Unrealised loss from revaluation of financial assets at fair value through profit or loss	25,486	38,473
Unrealised (profit)/loss from foreign currency revaluation	(15)	888
Other unrealised loss/(gain)	24,068	(38,297)
Result after allocation to special reserve including:	(216,037)	(139,871)
Allocation (from)/ to Reserve Fund under Article 8 of the LBNB	(221,979)	(153,569)
Result from consolidation and non-controlling interest	5,942	13,698
Allocation to a special purpose fund under Article 8 of the LBNB	-	-
Planned contribution to the state budget	-	-

As of 31 December 2021 the amount of accrued provisions for expected credit losses was BGN 6150 thousand (as of 31 December 2020 no increase in accrued provisions was required), which is reflected in the amount of BGN 221,979 thousand reported under the Allocation (from)/to Reserve Fund position pursuant to Article 8 of the LBNB.

24. Non-controlling Interest

The BNB Printing Works AD is a joint-stock company with two shareholders: the BNB and the State represented by the Ministry of Finance. The BNB holds 95.6 per cent of the company's capital and the State holds the remaining 4.4 per cent of the company's capital.

25. Monetary Liabilities and Gross International Reserves

(BGN'000)

	31 December 2021	31 December 2020
Gross International Reserves		
Cash and foreign currency denominated deposits	44,305,002	33,559,145
Monetary gold and other instruments in gold	4,123,863	3,953,565
Security investments	18,996,385	22,599,646
Equity investments and quota in the IMF	237,159	225,258
	67,662,409	60,337,614
Monetary liabilities		
Banknotes and coins in circulation	24,696,677	21,241,038
Liabilities to banks and other financial institutions	23,083,009	22,569,436
Liabilities to government institutions	9,164,578	8,021,347

(BGN'000)

Other liabilities	1,758,648	1,592,837
	58,702,912	53,424,658
Surplus of gross international reserves over monetary liabilities	8,959,497	6,912,956

Interest receivable and interest payable are carried to the relevant financial assets and liabilities.

Monetary gold and other instruments in gold are revalued on a daily basis based on the euro fixing of the London Bullion Market closing price.

26. Related Party Transactions

Bulgarian Government

International Monetary Fund

As of 31 December 2021, the Republic of Bulgaria has not received funds under IMF agreements.

The Republic of Bulgaria's quota in the IMF is secured by promissory notes jointly signed by the Bank and the Government (ref. note 21).

Government bank accounts

As of 31 December 2021 government budget organisations have bank accounts with the Bank (ref. note 20).

Fiduciary activities

In accordance with the Law on the BNB and under the terms agreed upon with the Minister of Finance, the BNB acts as an agent in government or government-guaranteed debts. With regard to this role, the BNB performs agent and central depository services related to the administration and management of government securities issued by the Ministry of Finance. The Bank receives commission for providing these services. These government securities are not assets or liabilities of the BNB and are not recognised in its consolidated statement of financial position. The Bank is not exposed to any credit risk relating to government securities as it does not guarantee them. As of 31 December 2021, the par value of the government securities held in custody was BGN 8637 million (31 December 2020: BGN 5644 million).

27. Subsidiaries Included in Consolidated Financial Statements

(per cent)

Ownership interest	31 December 2021	31 December 2020
Bulgarian Mint EAD	100	100
BNB Printing Works AD (ref. note 24)	95.6	95.6

The net income from subsidiaries for the reporting period comprises net result of BGN (292) thousand from the Bulgarian Mint EAD (31 December 2020: BGN 108 thousand) and BGN 5322 thousand from the BNB Printing Works AD (31 December 2020: BGN 5456 thousand).

28. Commitments and Contingencies

1) Participation in the Bank for International Settlements

The Bank holds 8000 shares of the capital of the BIS, each amounting to SDR 5000. Twenty-five per cent of the equity investment in the BIS, is paid up. The capital subscribed but not paid in is with an option to be paid in within three months following a decision of the BIS Board of Governors. The contingent amount as of 31 December 2021 is BGN 72,506 thousand (31 December 2020: BGN 68,868 thousand).

2) IMF quota

The IMF quota is secured by promissory notes jointly signed by the Bank and the government of the Republic of Bulgaria amounting to BGN 1,843,030 thousand.

3) Capital commitments

As of 31 December 2021 the Bank has committed to BGN 5355 thousand to purchase non-current assets (31 December 2020: BGN 4063 thousand).

4) Other commitments and liabilities

There are no other outstanding guarantees, letters of credit or commitments to purchase or sell either gold, other precious metals or foreign currency.

5) Other contingent liabilities

The BNB is being sued in relation to alleged compensation for delayed payment of deposits above the guaranteed amount or for challenging money transfers by customers of Corporate Commercial Bank AD (in bankruptcy) to a total amount of BGN 90.5 million (31 December 2020: BGN 115 million). The case-law is in the process of formation.

Two identical court proceedings have been instituted against the BNB before a Federal Court of the State of New York in relation to alleged compensation of about USD 200 million for each for actions of Corporate Commercial Bank AD (in bankruptcy) conservators appointed in 2014. On 28 January 2022 a decision was issued whereby the Federal Court dismissed the first case against the BNB due to lack of jurisdiction. This decision is provisional, with a time limit for appeal until 28 February 2022. No appeal against the decision was filed within that period. In the second case, which is identical, the Federal Court is yet to rule on the question of jurisdiction.

Therefore and based on available information on both cases, the Bank's management considers that no reliable assessment of the likely outcome of legal proceedings could be made and, consequently, no provisions for these contingent liabilities should be made.

29. Events Occurred after the Reporting Date

The fluctuations in the international financial markets observed after the date of the annual financial statements, volatility of energy and oil prices due to increased geopolitical tensions and sanctions imposed on the Russian Federation and the Republic of Belarus do not require additional disclosure or adjustments in the BNB annual financial statements.

The Bulgarian National Bank has no direct exposures to related parties and/or banks from these countries.

The Bank treats the above events as non-adjusting events occurred after the end of the reporting period. As of the date of approval for issuance of these consolidated financial statements, the quantitative effect of these events cannot be determined with a reasonable degree of accuracy by the Bank. The BNB Governing Council analyses the possible impact of changing macroeconomic conditions on the financial position or performance of the Bank.

There are no events after the reporting date that require additional disclosure or adjustments to the Bank's Financial Statements.

Information under Article 17, Paragraph 5 of the LBNB Concerning Resolutions Adopted by the BNB Governing Council in 2021

Reporting and Budget

RESOLUTION No 12 of 28 January

The BNB Governing Council adopted the Internal Methodology establishing the terms and conditions for calculating the administrative costs arising from the BNB functions under Article 2 of the BNB Ordinance No 40 of 1 December 2020.

RESOLUTION No 13 of 28 January

The BNB Governing Council adopted Draft Ordinance on Amendment of Ordinance No 15 of 2007 of the MF and BNB on the Control over Transactions in Government Securities.

RESOLUTION No 51 of 25 February

The BNB Governing Council adopted amendments to the General Terms and Conditions of the Bulgarian National Bank on accepting cash deposits and servicing bank accounts, budget organisations and other customers, effective from 1 March 2021.

RESOLUTION No 96 of 15 April

The BNB Governing Council approved the report on the implementation of the BNB budget for 2020.

RESOLUTION No 97 of 15 April

The BNB Governing Council approved the BNB Annual Report for 2020 on first reading.

RESOLUTION No 124 of 27 April

The BNB Annual Report for 2020 was approved.

RESOLUTION No 147 of 14 May

The BNB Governing Council adopted Ordinance on Amendment of BNB Ordinance No 21, effective as of 4 June 2021.

RESOLUTION No 247 of 22 July

The BNB Governing Council determined the individual amount of the fees to cover administrative costs of the BNB for 2020 arising from supervisory and resolution functions.

RESOLUTION No 304 of 6 October

The BNB Governing Council approved the report on the implementation of the BNB budget as of 30 June 2021.

RESOLUTION No 335 of 20 October

The BNB Governing Council determined an estimated amount of the fees to cover administrative costs of the BNB for 2021 arising from supervisory and resolution functions.

RESOLUTION No 342 of 3 November

The BNB Governing Council approved the BNB Report for January–June 2021 on first reading.

RESOLUTION No 343 of 3 November

The BNB Budget for 2022 was approved on first reading.

RESOLUTION No 371 of 18 November

The Governing Council appointed Ernst & Young Audit OOD as an international auditor for an independent financial audit of the consolidated financial statements of the BNB for 2021, 2022 and 2023 financial years.

The Governing Council appointed Ernst & Young Audit OOD as a registered auditor for an independent financial audit of the annual financial statements of the BRF for 2021, 2022 and 2023 financial years.

RESOLUTION No 380 of 3 December

The BNB Report for January–June 2021 was approved.

RESOLUTION No 381 of 3 December

The BNB budget for 2022 was approved.

Gross International Reserves**RESOLUTION No 15 of 28 January**

The BNB Governing Council took note of the selected benchmark for dynamic asset allocation in the first quarter of 2021.

RESOLUTION No 63 of 18 March

The BNB Governing Council took note of the International Reserve Management Report in 2020.

RESOLUTION No 101 of 15 April

The BNB Governing Council took note of the selected benchmark for dynamic asset allocation in the second quarter of 2021.

RESOLUTION No 187 of 10 June

The BNB Governing Council took note of the International Reserve Management Report in the first quarter of 2021.

RESOLUTION No 217 of 1 July

The BNB adopted limits for maximum and minimum exposures as a share of the Issue Department balance sheet by asset class for the second half of 2021.

RESOLUTION No 239 of 22 July

The BNB Governing Council took note of the selected benchmark for dynamic asset allocation in the third quarter of 2021.

RESOLUTION No 281 of 2 September

Funds received from the International Monetary Fund on 24 August 2021 upon general SDR allocation to the amount of SDR 859,063,239 will be held on the BNB account in the International Monetary Fund, denominated in SDRs.

RESOLUTION No 282 of 2 September

The BNB Governing Council adopted amendments to the methodology for calculating interest rates on accounts with the BNB, effective as of 1 January 2022.

RESOLUTION No 306 of 6 October

The BNB Governing Council took note of the International Reserve Management Report in the second quarter of 2021.

RESOLUTION No 320 of 20 October

The BNB Governing Council took note of the selected benchmark for dynamic asset allocation in the fourth quarter of 2021.

RESOLUTION No 382 of 3 December

The BNB Governing Council took note of the International Reserve Management Report in the third quarter of 2021.

RESOLUTION No 407 of 16 December

The BNB Governing Council set the risk tolerance for 2022 related to the Bank's gross international reserves management.

Payment Systems and Payment Oversight**RESOLUTION No 29 of 11 February**

The Governing Council took note of the Annual Report of the Conciliation Commission for 2020.

The BNB Governing Council took note of the Annual Report of the Sectoral Conciliation Commission on Financial Services for 2020.

RESOLUTION No 39 of 25 February

The Governing Council of the BNB adopted amendments to Ordinance No 3 of 18 April 2018 on the Terms and Procedure for Opening Payment Accounts, Executing Payment Transactions and Using Payment Instruments.

RESOLUTION No 40 of 25 February

The Governing Council of the BNB adopted amendments to Ordinance No 16 of 29 March 2018 on Granting Licenses and Approvals, Entry into the Register under Article 19 of the Law on Payment Services and Payment Systems, and Requirements to the Activity of Operators of Payment Systems with Settlement Finality.

RESOLUTION No 42 of 25 February

The BNB Governing Council decided to amend the license for conducting activities as an operator of payment systems with settlement finality to BORICA AD, issued by Resolution No 62 of 3 June 2010 of the Governing Council of the BNB as regards a payment system for servicing customer transfers in levls settled at a designated time.

RESOLUTION No 43 of 25 February

The Governing Council took note of the calculated average amount of fees charged by banks on services under Appendix 1 to Article 34 of Ordinance No 3 of the BNB on current accounts as of 31 December 2020 in relation to Article 120, paragraph 6 of the Law on Payment Services and Payment Systems and Article 35, paragraph 2 of Ordinance No 3 of the BNB.

RESOLUTION No 131 of 27 April

The BNB Governing Council decided to license Tenen Payments AD to operate as an electronic money institution, providing in addition payment services under Article 4, item 3 (a) and (c), items 7 and 8 of the LPSPS.

RESOLUTION No 132 of 27 April

The BNB Governing Council took note of the Report on the RINGS conformity with the applicable Principles for Financial Market Infrastructures of the Committee on Payment and Settlement Systems and the Technical Committee of the International Organisation of Securities Commissions, which is to be published on the BNB website.

RESOLUTION No 175 of 27 May

The BNB Governing Council decided to publish on the BNB website information under Article 122, paragraph 1 of the Law on Measures against Money Laundering (LMML) on three enforceable penalty decrees issued by the Deputy Governor of the BNB heading the Banking Department for infringements of the LMML by the electronic money institution Transact Europe EAD which was licensed by the BNB.

The European Banking Authority has to be informed on the enforceable penalty decrees for the pecuniary penalties imposed to Transact Europe EAD in line with Article 122, paragraph 7 of the LMML.

RESOLUTION No 188 of 10 June

The BNB Governing Council decided to license Econt Financial Services EOOD to operate as an electronic money institution, providing in addition payment services under Article 4, item 3 (c) of the LPSPS.

RESOLUTION No 220 of 8 July

The BNB Governing Council approved the draft Law amending the Law on Payment Services and Payment Systems and the justification thereto.

RESOLUTION No 315 of 6 October

The BNB implements with effect from 1 January 2022 Revised Guidelines on major incidents reporting under Directive (EU) 2015/2366 (PSD2) (EBA/GL/2021/03 of 10 June 2021) issued by the European Banking Authority and published on its official website.

RESOLUTION No 327 of 20 October

The BNB approved on first reading Ordinance on Amendment of Ordinance No 31 of the BNB of 2007 on Government Securities Settlement.

RESOLUTION No 328 of 20 October

The Governing Council of the BNB adopted amendments to Ordinance No 16 of 29 March 2018 on Granting Licenses and Approvals, Entry into the Register under Article 19 of the Law on Payment Services and Payment Systems, and Requirements to the Activity of Operators of Payment Systems with Settlement Finality.

RESOLUTION No 410 of 16 December

The BNB Governing Council took note of the presented data and information on the use of the London Interbank Offered Rate (LIBOR) by BNB-licensed banks, foreign bank branches conducting bank transactions on the territory of the Republic of Bulgaria and financial institutions under Article 3a of the Law on Credit Institutions in financial contracts (credit agreements) and all other types of contracts concerning measures undertaken by such entities in view of pending cessation of LIBOR.

In the January to December 2021 period the BNB Governing Council took two resolutions on refusal to grant an electronic money institution licence, one resolution on refusal to enter a company as an account information service provider into the Register under Article 19 of the LPSPS, five resolutions on applications for issuance of approvals and 12 resolutions on other powers related to payment supervision.

Circulation of Banknotes and Coins**RESOLUTION No 3 of 15 January**

In line with Article 25, paragraph 7 of the LBNB, the Governing Council of the BNB adopted Ordinance on Amendment of BNB Ordinance No 39 on the Nominal Value, Coverage, Form and Design of Banknotes and Coins Put into Circulation.

RESOLUTION No 16 of 28 January

The BNB Governing Council took note of the availability and developments in the BNB Strategic Stock of Banknotes for 2020.

RESOLUTION No 17 of 28 January

The BNB Governing Council decided to put into circulation as of 22 March 2021 a silver commemorative coin '200 Years since the Birth of G. S. Rakovski' of the 'Bulgarian National Revival' series.

RESOLUTION No 18 of 28 January

The BNB Governing Council approved a List of Selling Prices of banknotes and coins sold by the BNB at prices other than their nominal value.

RESOLUTION No 19 of 28 January

The BNB Governing Council decided to withdraw from circulation commemorative coins issued in 2015, which ceased to be legal tender on 8 February 2021.

Commemorative coins issued in 2015 will be exchangeable at BNB tills at nominal value with no limits to amounts and free of charge until 31 December 2022.

RESOLUTION No 20 of 28 January

The Governing Council adopted amendments to the General Terms and Conditions of the Bulgarian National Bank on Wholesale Purchase and Subsequent Retail Sales of Commemorative Coins and Coin Sets by Banks and Service Providers (Distributors) effective as of 1 March 2021.

Amendments to the Internal Rules for determination and updating of selling prices of banknotes and coins sold by the BNB at prices other than their nominal value were also adopted.

RESOLUTION No 35 of 11 February

The silver commemorative coin '200 Years since the Birth of G. S. Rakovski', issue 2021, will be sold at BNB tills at BGN 102 (one hundred and two levs).

RESOLUTION No 52 of 25 February

The BNB Governing Council complemented the Commemorative Coin and Banknote Production Programme for 2021 with a new coin.

RESOLUTION No 64 of 18 March

The Governing Council of the BNB decided to put into circulation, as of 17 May 2021, a silver commemorative coin 'Nestinarstvo' of the Bulgarian Customs and Traditions series.

RESOLUTION No 102 of 15 April

The silver commemorative coin 'Nestinarstvo', issue 2021, will be sold at BNB tills at BGN 96 (ninety six levs).

RESOLUTION No 135 of 27 April

The BNB Governing Council decided to put into circulation, as of 21 June 2021, a silver commemorative coin '100 Years of the National Academy of Music'.

RESOLUTION No 169 of 27 May

The silver commemorative coin '100 Years of the National Academy of Music', issue 2021, will be sold at BNB tills at BGN 96 (ninety six levs).

RESOLUTION No 170 of 27 May

The BNB Governing Council set the final ranking in the anonymous competition for the silver commemorative coin '150 Years since the Birth of Panayot Pipkov' and chose the design by Vasilena Stancheva. It also determined coin specifications.

RESOLUTION No 208 of 22 June

The BNB Governing Council adopted the Commemorative Coin and Banknote Production Programme for 2022.

The BNB Governing Council took note of the Preliminary Commemorative Coin and Banknote Production Programme for 2023 and 2024 as a basis for preparing annual programmes.

RESOLUTION No 238 of 22 July

The BNB Governing Council decided to put into circulation on 8 November 2021 a partially gold-plated silver commemorative coin 'Khan Omurtag' of the 'Medieval Bulgarian Rulers' series.

RESOLUTION No 262 of 5 August

The BNB Governing Council approved a List of Selling Prices of banknotes and coins sold by the BNB at prices other than their nominal value.

RESOLUTION No 279 of 2 September

The partially gold-plated silver commemorative coin 'Khan Omurtag', issue 2021, will be sold at BNB tills at BGN 96 (ninety six levs).

RESOLUTION No 307 of 6 October

The Governing Council of the BNB adopted Ordinance on Amendment of Ordinance No 39 of the BNB on the Nominal Value, Coverage, Form and Design of Banknotes and Coins Put into Circulation.

RESOLUTION No 308 of 6 October

The BNB Governing Council decided to put into circulation, as of 15 November 2021, a copper commemorative coin '150 Years since the Birth of Panayot Pipkov' of the Bulgarian Artists series.

RESOLUTION No 309 of 6 October

The BNB Governing Council chose the design by Plamen Chernev and Preslav Chernev for the silver commemorative coin '150 Years since the Birth of Gotse Delchev', issue 2022.

RESOLUTION No 310 of 6 October

The BNB Governing Council chose the design by Elena Todorova and Todor Todorov for the copper commemorative coin '100 Years since the Birth of Stoyanka Mutafova' of the Bulgarian Artists series, issue 2022.

RESOLUTION No 322 of 20 October

The Governing Council adopted amendments to the General Terms and Conditions of the Bulgarian National Bank on Wholesale Purchase and Subsequent Retail Sales of Commemorative Coins and Coin Sets by Banks, effective as of 1 December 2021.

Amendments to the Internal Rules for determination and updating of selling prices of banknotes and coins sold by the BNB at prices other than their nominal value and their distribution were also adopted, effective as of 1 December 2021.

RESOLUTION No 323 of 20 October

The copper commemorative coin '150 Years since the Birth of Panayot Pipkov', issue 2021, will be sold at BNB tills at BGN 36 (thirty six levs).

RESOLUTION No 324 of 20 October

The BNB Governing Council chose the design by Svetlin Balezdrov for the partially gold-plated silver commemorative coin 'Tsar Kaloyan', issue 2022.

RESOLUTION No 325 of 20 October

The BNB Governing Council chose the design by Ivan Todorov and Todor Todorov for the silver commemorative coin ‘The Great Crested Grebe’, issue 2022.

RESOLUTION No 368 of 18 November

The BNB Governing Council decided to put into circulation, as of 17 January 2022, a silver commemorative coin ‘150 Years since the Birth of Gotse Delchev’.

RESOLUTION No 384 of 3 December

The silver commemorative coin ‘150 Years since the Birth of Gotse Delchev’, issue 2022, will be sold at BNB tills at BGN 108 (one hundred and eight levs).

RESOLUTION No 385 of 3 December

As of 24 January 2022, the BNB put into circulation a copper commemorative coin ‘100 Years since the Birth of Stoyanka Mutafova’ of the Bulgarian Artists series and a design by Elena Todorova and Todor Todorov.

RESOLUTION No 408 of 16 December

The copper commemorative coin ‘100 Years since the Birth of Stoyanka Mutafova’, issue 2022, will be sold at BNB tills at BGN 30 (thirty levs).

Maintaining Banking System Stability and Protecting Depositor Interests

RESOLUTION No 10 of 28 January

The Governing Council adopted Ordinance on Amendment of Ordinance No 7 of 2014 on the Organisation and Risk Management in Banks.

RESOLUTION No 11 of 28 January

The Governing Council ordered the credit institutions licensed to conduct bank activities in the country, not to distribute the profit for 2020, partly or fully in the form of dividends; share repurchases or other equivalent payments and not to distribute the elements of own funds as defined in Part Two, Title I of Regulation (EU) No 575/2013, which were formed on the basis of the financial result from previous periods.

RESOLUTION No 55 of 25 February

The Governing Council decided to comply with the Guidelines on the specification and disclosure of systemic importance indicators (EBA/GL/2020/14), issued by EBA, from the moment where there are institutions or groups in Bulgaria with a leverage ratio exposure measure exceeding EUR 200 billion on a consolidated or individual basis, respectively (including insurance subsidiaries).

RESOLUTION No 69 of 18 March

The BNB Governing Council decided to apply Guidelines on the appropriate subsets of sectoral exposures to which competent or designated authorities may apply a systemic risk buffer in accordance with Article 133(5)(f) of Directive 2013/36/EU (EBA/GL/2020/13), issued by EBA, and to publish in the Darjaven Vestnik amendments to Ordinance No. 8 of the BNB on Banks’ Capital Buffers.

RESOLUTION No 78 of 30 March

The BNB Governing Council adopted on first reading draft Ordinance No 8 on Capital Buffers, the Combined Buffer Requirement, Restrictions on Distributions and the Guidance on Additional Own Funds.

RESOLUTION No 79 of 30 March

The Governing Council adopted on first reading draft Ordinance on Amendment of Ordinance No 7 of 2014 on Organisation and Risk Management of Banks.

RESOLUTION No 80 of 30 March

The BNB Governing Council adopted on first reading draft Ordinance No 20 of 2019 on the Issuance of Approvals to the Members of the Management Board (Board of Directors) and Supervisory Board of a Credit Institution and Performance Requirements for Their Duties.

RESOLUTION No 81 of 30 March

The Governing Council adopted on first reading draft Ordinance on Amendment of Ordinance No 2 of 2006 on the Licenses, Approvals and Permissions Granted by the Bulgarian National Bank according to the Law on Credit Institutions.

RESOLUTION No 82 of 30 March

The Governing Council approved Ordinance on Amendment of Ordinance No 4 of the BNB of 2010 on the Requirements for Remunerations in Banks.

RESOLUTION No 83 of 30 March

The Governing Council decided to set the countercyclical capital buffer rate applicable to credit risk exposures in the Republic of Bulgaria at 0.5 per cent for the second quarter of 2021.

RESOLUTION No 84 of 30 March

The BNB Governing Council took note of the Report on the State of the Banking System (fourth quarter of 2020).

The BNB Governing Council took note of the publication of Banks in Bulgaria (October–December 2020).

RESOLUTION No 125 of 27 April

The Governing Council adopted Ordinance No 8 on Capital Buffers, the Combined Buffer Requirement, Restrictions on Distributions and the Guidance on Additional Own Funds.

RESOLUTION No 126 of 27 April

Ordinance on Amendment of Ordinance No 2 of 2006 on the Licenses, Approvals and Permissions Granted by the Bulgarian National Bank according to the Law on Credit Institutions was adopted.

RESOLUTION No 127 of 27 April

The Governing Council adopted Ordinance on Amendment of Ordinance No 4 of 2010 on the Requirements for Remunerations in Banks.

RESOLUTION No 128 of 27 April

The Governing Council adopted Ordinance on Amendment of Ordinance No 7 of 2014 on the Organisation and Risk Management in Banks.

RESOLUTION No 129 of 27 April

The Governing Council adopted Ordinance on Amendment of Ordinance No 20 of 2019 on the Issuance of Approvals to the Members of the Management Board (Board of Directors) and Supervisory Board of a Credit Institution and Performance Requirements for Their Duties..

RESOLUTION No 130 of 27 April

The BNB decided to apply EBA Guidelines on harmonised definitions and templates for funding plans of credit institutions and European Systemic Risk Board Recommendation ESRB/2012/2 (EBA/GL/2019/05). The Guidelines were issued by the European Banking Authority and published on its website.

RESOLUTION No 172 of 27 May

The BNB Governing Council approved the draft Law amending the Law on Credit Institutions.

RESOLUTION No 204 of 22 June

The BNB Governing Council took note of the Report on the State of the Banking System (first quarter of 2021).

The BNB Governing Council took note of the publication of Banks in Bulgaria (January–March 2021).

RESOLUTION No 203 of 22 June

The Governing Council decided to retain the countercyclical capital buffer rate applicable to credit risk exposures in the Republic of Bulgaria at 0.5 per cent for the third quarter of 2021.

In September 2021 the BNB Governing Council will assess the rate applicable in the fourth quarter of 2021.

RESOLUTION No 206 of 22 June

The Governing Council decided to apply from 28 June 2021 Guidelines on conditions for the application of the alternative treatment of institutions' exposures related to tri-party repurchase agreements set out in Article 403(3) of Regulation (EU) 575/2013 for large exposures purposes (EBA/GL/2021/01), issued by EBA.

RESOLUTION No 246 of 22 July

The Governing Council complies from 7 October 2021 with Guidelines under Articles 17 and 18(4) of Directive (EU) 2015/849 on simplified and enhanced customer due diligence and the factors credit and financial institutions should consider when assessing the money laundering and terrorist financing risk associated with individual business relationships and occasional transactions (The Risk Factors Guidelines), and repealing and replacing Guidelines JC/2017/37, (EBA/GL/2021/02 of 1 March 2021), issued by the European Banking Authority and published on its official website.

RESOLUTION No 248 of 22 July

The BNB Governing Council adopted on first reading draft Ordinance No 20 of 2019 on the Issuance of Approvals to the Members of the Management Board (Board of Directors) and Supervisory Board of a Credit Institution and Performance Requirements for Their Duties.

RESOLUTION No 264 of 5 August

The BNB Governing Council approved the draft Law amending the Law on Credit Institutions.

RESOLUTION No 292 of 16 September

The countercyclical capital buffer rate applicable to credit risk exposures in the Republic of Bulgaria was set at 1.0 per cent, effective as of 1 October 2022.

For the period until the third quarter of 2022, the countercyclical buffer rate applicable to credit risk exposures in Bulgaria is retained at the current level of 0.5 per cent.

RESOLUTION No 311 of 6 October

The BNB Governing Council took note of the Report on the State of the Banking System (second quarter of 2021).

The BNB Governing Council took note of the publication of Banks in Bulgaria (April–June 2021).

RESOLUTION No 337 of 20 October

The BNB complies from 1 January 2022 with Guidelines on criteria for the use of data inputs in the risk-measurement model referred to in Article 325bc of Regulation (EU) No 575/2013 (Capital Requirements Regulation) (EBA/GL/2021/07), issued by the European Banking Authority and published on its official website.

RESOLUTION No 353 of 3 November

The BNB complies from 14 November 2021 with Guidelines on the monitoring of the threshold and other procedural aspects on the establishment of intermediate EU parent undertakings under Article 21b of Directive 2013/36/EU (EBA/GL/2021/08), issued by the European Banking Authority and published on its official website.

RESOLUTION No 339 of 29 October

The BNB Governing Council set as other systemically important institutions the following banks: UniCredit Bulbank AD, DSK Bank AD, First Investment Bank AD, United Bulgarian Bank AD, Eurobank Bulgaria AD, Raiffeisenbank Bulgaria EAD, Bulgarian Development Bank EAD, and Central Cooperative Bank AD.

The BNB Governing Council set the buffer rate for other systemically important institutions on an individual and consolidated basis.

RESOLUTION No 390 of 3 December

The systemic risk buffer rate was set at 3 per cent for all banks, applicable to all risk exposures in Bulgaria.

The resolution under item 1 is subject to disclosure after the notification to the European Systemic Risk Board (ESRB) and competent and designated authorities of relevant Member States under the requirements of Article 12, paragraphs 6 and 7 of Ordinance No 8 of the BNB.

RESOLUTION No 394 of 3 December

The BNB complies from 31 December 2021 with Guidelines on Internal Governance under Directive 2013/36/EU (EBA/GL/2021/05), issued by the European Banking Authority and published on its official website.

RESOLUTION No 417 of 16 December

The BNB Governing Council took note of the Report on the State of the Banking System (third quarter of 2021).

The BNB Governing Council took note of the publication of Banks in Bulgaria (July–September 2021).

RESOLUTION No 419 of 16 December

The countercyclical capital buffer rate applicable to credit risk exposures in the Republic of Bulgaria was set at 1.5 per cent, effective as of 1 January 2023.

RESOLUTION No 423 of 16 December

The BNB complies from 1 January 2022 with Guidelines specifying the criteria to assess the exceptional cases when institutions exceed the large exposure limits of Article 395(1) of Regulation (EU) No 575/2013 and the time and measures to return to compliance pursuant to Article 396(3) of Regulation (EU) No 575/2013 (EBA/GL/2021/09), issued by the European Banking Authority and published on its official website.

RESOLUTION No 424 of 16 December

The BNB complies with effect from 31 December 2021 with Guidelines on sound remuneration policies under Directive 2013/36/EU (EBA/GL/2021/04), issued by the European Banking Authority and published on its official website.

RESOLUTION No 425 of 16 December

The Governing Council complies from 31 December 2021 with Guidelines on the assessment of the suitability of members of the management body and key function holders (EBA/GL/2021/06), issued by the European Banking Authority and published on its official website.

In the January to December 2021 period, the Governing Council of the BNB adopted:

- 38 resolutions pursuant to Article 11, paragraphs 1 and 3 of the Law on Credit Institutions for holding a position of a member of a management body and Article 11a of the LCI for holding key positions and relevant administrative proceedings;
- 22 resolutions related to supervisory reviews pursuant to Article 79c of the LCI;
- 13 resolutions pursuant to Article 76, paragraph 4 of the Law on Credit Institutions on coordinating the choice of an auditor of a credit institution;
- 55 resolutions related to the imposition of supervisory measures, performed supervisory inspections and other approvals, authorisations and actions on administrative procedures.
- 8 resolutions related to own funds;
- 11 resolutions on an approval of amendments to the Statute of a credit institution.

BNB Activities on Resolution of Credit Institutions

RESOLUTION No 9 of 21 January

The Governing Council expressed its disagreement with the final decisions on setting a minimum requirement for own funds and eligible liabilities (MREL) of the resolution entity Eurobank S.A. and its subsidiaries, including Eurobank Bulgaria AD and on adopting a resolution plan and assessment of the parent undertaking and its subsidiaries resolvability.

RESOLUTION No 32 of 11 February

The Governing Council appointed Ernst & Young Audit OOD as a registered auditor for an independent financial audit of the annual financial statements of the BRF for the 2020 financial year.

RESOLUTION No 45 of 25 February

The BNB Governing Council adopted Ordinance No 41 on Determining the Amount of the Individual Annual Contributions of Branches of Third-country Credit Institutions to the Banks Resolution Fund.

RESOLUTION No 46 of 25 February

The BNB Governing Council decided to implement SRB decision SRB/EES/2020/165 on setting a minimum requirement for own funds and eligible liabilities (MREL) with regard to Eurobank Bulgaria AD on an individual basis in line with the relevant provisions of the Law on the Recovery and Resolution of Credit Institutions and Investment Firms.

RESOLUTION No 47 of 25 February

The BNB Governing Council decided to launch a periodical publication of the BNB: *Annual Report of the Banks Resolution Fund*.

RESOLUTION No 77 of 30 March

The BNB Governing Council adopted the Annual Report of the Banks Resolution Fund for 2020.

RESOLUTION No 93 of 9 April

The Governing Council expressed its disagreement with the draft proposal of the Single Resolution Board (SRB) on setting preliminary minimum requirements of own funds and eligible liabilities (MREL) on an individual basis for DSK Bank AD.

RESOLUTION No 94 of 9 April

The Governing Council approved the draft decisions of the Single Resolution Board (SRB) on an approval of a joint decision on a resolution plan and assessment of UniCredit S.p.A. and its subsidiaries resolvability and on setting a minimum requirement for own funds and eligible liabilities (MREL) of the resolution entity and its subsidiaries, including UniCredit Bulbank AD.

RESOLUTION No 100 of 15 April

The Governing Council determined the individual annual contribution of the branch of a third country credit institution to the Banks Resolution Fund for 2021.

RESOLUTION No 133 of 27 April

The Governing Council decided pursuant to § 56, paragraph 2 of the Transitional and Final Provisions of the LRRCIIF and a notification from the Single Resolution Board on a SRB decision of 14 April 2021 on determining the *ex-ante* contributions to the Single Resolution Fund for 2021 (SRB/ES/2021/22) to offset credit institutions' obligations to pay *ex-ante* contributions to the SRF for 2021 from the funds accumulated in the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF.

RESOLUTION No 138 of 29 April

The Governing Council approved the draft decisions of the Single Resolution Board (SRB) on an approval of a joint decision on a resolution plan and assessment of Raiffeisen Bank International AG and its subsidiaries resolvability and on setting a minimum requirement for own funds and eligible liabilities (MREL) of resolution entities, including Raiffeisenbank (Bulgaria) EAD.

RESOLUTION No 139 of 5 May

The Governing Council disapproved the draft decision of the Single Resolution Board (SRB) on the final approval of a joint decision on a resolution plan and assessment of KBC Group N. V. and its subsidiaries resolvability.

The Governing Council disapproved the draft joint decision on setting a minimum requirement for own funds and eligible liabilities (MREL) of KBC Group N.V. resolution entity and its subsidiaries in relation to the approach for setting MREL for United Bulgarian Bank (UBB) AD.

The Governing Council disapproved the SRB draft decision on setting MREL for KBC group resolution entities within the Single Resolution Mechanism (Instructions to the national resolution authorities) in relation to the approach for setting MREL for United Bulgarian Bank (UBB) AD.

RESOLUTION No 151 of 14 May

The Governing Council decided to implement SRB decision SRB/EES/2021/38 on setting a minimum requirement for own funds and eligible liabilities for UniCredit Bulbank AD on an individual basis in line with the relevant provisions of the Law on the Recovery and Resolution of Credit Institutions and Investment Firms.

RESOLUTION No 182 of 4 June

The BNB Governing Council took note of the Summarised Information and Analysis of the final draft resolution plan of ProCredit Holding AG & Co. KGaA group for 2020 and the activity of the resolution college in the process of resolution planning for 2020.

The BNB disapproved the draft joint decision on the adoption of a resolution plan of ProCredit Holding AG & Co. KGaA and its subsidiaries (ProCredit group) for 2020.

RESOLUTION No 186 of 10 June

The BNB Governing Council decided to implement SRB decision SRB/EES/2021/45 on setting a minimum requirement for own funds and eligible liabilities (MREL) with regard to Raiffeisenbank (Bulgaria) EAD on a consolidated basis, in line with the relevant provisions of the Law on the Recovery and Resolution of Credit Institutions and Investment Firms.

RESOLUTION No 200 of 21 June

The Governing Council decided to amend Resolution No 133 of 27 April 2021 (in relation to an irrevocable payment commitment of a credit institution in favour of the SRB as a partial discharge of the obligation to pay a contribution to the Single Resolution Fund for 2021).

RESOLUTION No 207 of 22 June

The BNB Governing Council decided to implement SRB decision SRB/EES/2021/46 on setting a minimum requirement for own funds and eligible liabilities (MREL) with regard to United Bulgarian Bank AD on an individual basis, in line with the relevant provisions of the Law on the Recovery and Resolution of Credit Institutions and Investment Firms.

RESOLUTION No 241 of 22 July

The BNB Governing Council took note of the Detailed Information with regard to Raiffeisenbank (Bulgaria) EAD as a resolution entity for the purposes of the assessment of the Bulgarian National Bank (BNB) under Article 12d (5) of Regulation (EU) No 806/2014 and confirmed Resolution No 399 of the BNB Governing Council of 19 November 2020.

RESOLUTION No 259 of 3 August

The Governing Council disapproved the draft decision of the Single Resolution Board (SRB) on a written approval of a joint decision on a resolution plan and assessment of OTP Bank Plc. group resolvability and a joint decision on setting MREL with regard to OTP Bank Plc and its subsidiary DSK Bank AD.

The Governing Council expressed its disagreement with the draft decision of the Single Resolution Board (SRB) on setting a minimum requirement for own funds and eligible liabilities (MREL) on an individual basis for DSK Bank AD.

RESOLUTION No 290 of 16 September

The Governing Council decided to implement the SRB Decision SRB/EES/2021/56 on setting a minimum requirement for own funds and eligible liabilities with regard to DSK Bank AD on an individual basis, in line with the relevant provisions of the Law on the Recovery and Resolution of Credit Institutions and Investment Firms.

RESOLUTION No 358 of 3 November

The Governing Council disapproved the draft decision of the Single Resolution Board (SRB) on the approval of a resolution plan and assessment of Eurobank Ergasias Services and Holdings S.A. group resolvability (the Eurobank group) and expressed its disagreement with the resolution plan and assessment of Eurobank group resolvability for 2021.

The BNB Governing Council disapproved a draft decision on setting a minimum requirement for own funds and eligible liabilities of Eurobank S.A. and its subsidiaries, including Eurobank Bulgaria AD.

RESOLUTION No 369 of 18 November

The BNB does not apply the simplified requirements when preparing resolution plans with regard to credit institutions falling within the BNB direct powers as a resolution authority.

The BNB Governing Council does not propose to the Single Resolution Board the application of simplified requirements to credit institutions falling within the direct powers of the Single Resolution Board.

RESOLUTION No 379 of 2 December

The BNB Governing Council disapproved a draft joint decision on a resolution plan and assessment of the resolvability of UniCredit S.p.A. group. (UniCredit group) for 2021 on a preliminary basis and its submission to the relevant resolution college as regards the part relating to the approach for setting out MREL of UniCredit Bulbank AD on an individual basis.

The Governing Council disapproved a draft joint decision on setting MREL for the resolution entity and relevant subsidiaries of the UniCredit group on a preliminary basis and its submission to the relevant resolution college.

The Governing Council disapproved a decisions of the Single Resolution Board on setting MREL for the resolution entity and relevant subsidiaries within the scope of the Single Resolution Mechanism on a preliminary basis.

RESOLUTION No 383 of 3 December

The BNB Governing Council approved the resolution plan of ProCredit Bank (Bulgaria) EAD for 2020 on an individual basis.

The Governing Council set MREL for ProCredit Bank (Bulgaria) EAD and intermediate target levels of MREL.

RESOLUTION No 398 of 9 December

The BNB Governing Council disapproved a draft joint decision on a resolution plan and assessment of the resolvability of KBC Group N.V. (KBC group) for 2021 on a preliminary basis, a draft joint decision on setting a minimum requirement for own funds and eligible liabilities of the resolution entity and relevant subsidiaries of the KBC group, on a preliminary basis.

RESOLUTION No 399 of 10 December

The BNB Governing Council approved a draft joint decision on the resolution plan and assessment of the resolvability of Raiffeisen Bank International AG for 2021, on a preliminary basis, and draft joint decisions on setting MREL of Raiffeisen Bank International AG (RBI) and relevant subsidiaries, on a preliminary basis.

RESOLUTION No 403 of 16 December

The BNB Governing Council decided to implement the SRB Decision SRB/ES/2021/127 on setting a minimum requirement for own funds and eligible liabilities (MREL) with regard to Eurobank Bulgaria AD on an individual basis, in line with the relevant provisions of the Law on the Recovery and Resolution of Credit Institutions and Investment Firms.

RESOLUTION No 405 of 16 December

The BNB Governing Council approved the resolution plan of the Bulgarian Development Bank (BDB) group for 2020.

The Governing Council set MREL for the Bulgarian Development Bank EAD on a consolidated basis and target levels of MREL.

RESOLUTION No 406 of 16 December

The BNB Governing Council approved the resolution plan of the Bulgarian-American Credit Bank AD for 2020.

The Governing Council set MREL for the Bulgarian-American Credit Bank AD and target levels of MREL.

RESOLUTION No 427 of 21 December

The BNB Governing Council approved the resolution plan of the First Investment Bank for 2020.

The Governing Council set MREL for the First Investment Bank on a consolidated basis, consistent with the group level resolution and target levels of MREL.

RESOLUTION No 428 of 22 December

The BNB Governing Council approved the resolution plan of the Central Cooperative Bank for 2020.

The Governing Council set MREL for the Central Cooperative Bank group on a consolidated basis, consistent with the group level resolution and target levels of MREL.

RESOLUTION No 429 of 22 December

The BNB Governing Council approved the resolution plan of Allianz Bank Bulgaria AD for 2020.

The Governing Council set MREL for Allianz Bank Bulgaria AD and target levels of MREL.

RESOLUTION No 443 of 29 December

The BNB Governing Council approved the resolution plan of Municipal Bank AD for 2020.

It set a minimum requirement for own funds and eligible liabilities (MREL) of Municipal Bank AD and target levels of MREL.

RESOLUTION No 444 of 29 December

The BNB Governing Council approved the resolution plan of Investbank AD for 2020.

The Governing Council set MREL for Investbank AD and target levels of MREL.

RESOLUTION No 445 of 30 December

The BNB Governing Council approved the resolution plan of International Asset Bank AD for 2020.

It set a minimum requirement for own funds and eligible liabilities (MREL) of International Asset Bank AD and target levels of MREL.

RESOLUTION No 446 of 30 December

The BNB Governing Council approved the resolution plan of TBI Bank EAD group for 2020.

The Governing Council set MREL for TBI Bank EAD on a consolidated basis, consistent with the group level resolution and target levels of MREL.

The Central Credit Register and the Register of Bank Accounts and Safe Deposit Boxes

RESOLUTION No 221 of 8 July

The BNB Governing Council adopted Ordinance on Amendment of Ordinance No 12 of 29 September 2016 on the Register of Bank Accounts and Safe Deposit Boxes.

RESOLUTION No 326 of 20 October

The BNB Governing Council adopted Ordinance on Amendment of Ordinance No 22 of 16 July 2009 on the Central Credit Register.

The BNB Governing Council adopted Ordinance on Amendment of Ordinance No 12 of 29 September 2016 on the Register of Bank Accounts and Safe Deposit Boxes.

RESOLUTION No 413 of 16 December

The BNB Governing Council decided that the amount of fees for statements in the Central Credit Register and the Register of Bank Accounts and Safe Deposit Boxes under Article 28 of BNB Ordinance No 22 and Article 16 of BNB Ordinance No 12 would remain unchanged in 2022.

Research

RESOLUTION No 4 of 15 January

The BNB Governing Council took note of the BNB forecast of major macroeconomic indicators for 2020–2022 (based on data as of 22 December 2020) to be published in the Macroeconomic Forecast (December 2020).

RESOLUTION No 34 of 11 February

The BNB Governing Council took note of the assessments of developments in major macroeconomic indicators in the first and second quarters of 2021, to be published in the Economic Review quarterly, issue 4 of 2020).

RESOLUTION No 36 of 11 February

The BNB awarded one master's degree scholarship in 2021.

The BNB awarded no doctor's degree scholarships in 2021.

RESOLUTION No 98 of 15 April

The BNB Governing Council took note of the BNB forecast of major macroeconomic indicators for 2021–2023 (based on data as of 26 March 2021), to be published in the Macroeconomic Forecast, March 2021.

RESOLUTION No 99 of 15 April

The Governing Council of the BNB took note of the Report on the BNB Research Plan (2019–2020) and the BNB Research Plan (2021–2022).

RESOLUTION No 148 of 14 May

The BNB Governing Council took note of the assessments of developments in major macroeconomic indicators in the second and third quarters of 2021, to be published in the Economic Review quarterly (issue 1 of 2021).

RESOLUTION No 237 of 22 July

The BNB Governing Council took note of the BNB forecast of major macroeconomic indicators for 2021–2023 (based on data as of 25 June 2021), to be published in the Macroeconomic Forecast, June 2021.

RESOLUTION No 261 of 5 August

The BNB Governing Council took note of the assessments of developments in major macroeconomic indicators in the third and fourth quarters of 2021, to be published in the Economic Review quarterly, issue 2 of 2021.

RESOLUTION No 319 of 20 October

The BNB Governing Council took note of the BNB forecast of major macroeconomic indicators for 2021–2023 (based on data as of 28 September 2021), to be published in the Macroeconomic Forecast, September 2021.

RESOLUTION No 344 of 3 November

The BNB Governing Council took note of the assessments of developments in major macroeconomic indicators in the fourth quarter of 2021 and first quarter of 2022, to be published in the Economic Review quarterly (issue 3 of 2021).

BNB Internal Audit**RESOLUTION No 198 of 16 June**

The Governing Council of the BNB approved the updated Annual Plan of the BNB Internal Audit Directorate for 2021, adopted by Resolution No 383 of 29 October 2020.

RESOLUTION No 224 of 8 July

The BNB Governing Council approved the Chief Auditor's Report on the activity of the BNB Internal Audit Directorate for 2020.

RESOLUTION No 414 of 16 December

The BNB Governing Council adopted the Annual Plan of the BNB Internal Audit for 2022 and the updated strategy of the activity of the BNB Internal Audit Directorate for the period until 2024.

Resolutions Related to Companies in Which the BNB Holds Participation**RESOLUTION No 104 of 15 April**

The BNB Governing Council approved the audited and certified Annual Financial Statements of the Bulgarian Mint EAD for 2020 and the Report of Bulgarian Mint EAD for 2020 and distributed Bulgarian Mint EAD net profit of BGN 108,275.69 as a dividend to the sole owner of the capital.

The BNB Governing Council granted discharge to the members of the Board of Directors of the Bulgarian Mint EAD for their activities in 2020 and appointed AFA OOD as a registered auditor for the period 2021–2023. It dismissed Bulgarian Mint EAD Board of Directors as of 3 May 2021 and appointed a new Board of Directors. The Governing Council took note of the Business Plan of the Bulgarian Mint EAD for 2021.

RESOLUTION No 105 of 15 April

The BNB Governing Council gave its consent to the Executive Director of the BNB Printing Works AD to vote at the regular annual General Meeting of Shareholders of Oberthur Fiduciaire AD on: adoption of the Report of the Board of Directors for the activity of Oberthur Fiduciaire AD in 2020; adoption of audited and certified Annual Financial Statements of Oberthur Fiduciaire AD for 2020; 2020 profit distribution to the amount of BGN 1,340,112.93, as follows: 1/10 of the profit to be allocated to the Reserve Fund of the entity, while the remaining part, including BGN 2,410,992.36 of retained profit from past years to be distributed as a dividend to shareholders in the amount of BGN 3.95 *per share*; granting discharge to the members of the Board of Directors of the entity for their activities in 2020; dismissing Nicolas Koutros and Georgi Tsvetanov Simeonov as members of the Board of Directors and granting them discharge for the period during which they held office; electing Etienne Couelle as a member of the Board of Directors on a proposal from the shareholder Oberthur Fiduciaire SAS and Liudmila Krasteva Elkova as a member of the Board of Directors on a proposal from the shareholder BNB Printing Works AD with a term of office until the expiration of the term of office of this Board of Directors.

RESOLUTION No 168 of 27 May

The BNB Governing Council gave its consent the BNB Governor to authorise a representative of the BNB to vote at the ordinary General Meeting of Shareholders of BORICA AD on: adoption of the Report of the Board of Directors for the activity of BORICA AD in 2020 and of audited and certified Annual Financial Statements of BORICA AD for 2020; entity's profit distribution for 2020 and retained profit for 2019, as follows: retained profit for 2019 in the amount of BGN 3,000,000 to be distributed as a dividend to shareholders in proportion to the shares they hold, from net profit for 2020 amounting to BGN 5,975,742.52 to be paid BGN 1,766,245.12 as a dividend to shareholders in proportion to the shares they hold, the remainder of the net profit of BGN 4,209,497.40 for 2020 to be allocated to Additional General Reserves; granting discharge to the members of the entity's Board of Directors for their activities in 2020; dismissal of the current members of the Board of Directors Violina Marinova Spasova and Petar Grozdev Andronov and election of Yurii Blagoev Genov and Tatiana Vasileva Ivanova as members of the Board of Directors with terms of office until 11 June 2022; election of BORICA AD Audit Committee members and setting their monthly remuneration; selection of the specialised auditing company Deloitte Audit OOD to audit and certify the Annual Financial Statements of BORICA AD for 2021.

RESOLUTION No 185 of 10 June

The BNB Governing Council gave its consent the BNB Governor to authorise a representative of the BNB to vote at the ordinary General Meeting of Shareholders of Cash Services Company AD on: adoption of the Report of the Board of Directors for the activity of Cash Services Company AD for 2020; adoption of audited and certified Annual Financial Statements of Cash Services Company AD for 2020; entity's profit distribution in the amount of BGN 1,362,318.99, as follows: 10 per cent of the profit to be allocated to the Reserve Fund, the amount of BGN 34,770.00 to be provisioned for future obligations to retiring staff and the amount of BGN 1,200,000 to be distributed as a dividend to shareholders (BGN 96 *per (one) share*), with this amount including retained profit of past years of BGN 138,107.48; granting discharge to the members of the Board of Directors of the entity for their activities in 2020; selection of the specialised auditing company Grant Thornton OOD to audit and certify the Annual Financial Statements of the entity for 2021, 2022 and 2023 financial years; resolving that Cash Services Company

AD Board of Directors consists of 7 (seven) members and dismissing Lyuben Mladenov Ivanov as a member of the Board of Directors and electing Vladimir Gospodinov Vlaev and Anna Valerieva Manolova as members of Cash Services Company AD Board of Directors with a term of office until the expiration of the term of office of the Board of Directors members elected at the General Meeting of Shareholders held on 12 June 2019.

RESOLUTION No 202 of 22 June

The BNB Governing Council gave its consent the BNB Governor to authorise a representative of the BNB to vote at the annual regular Meeting of Shareholders of the BNB Printing Works AD on: adoption of the Report of the BNB Printing Works AD Board of Directors for the activities in 2020; adoption of audited and certified Annual Financial Statements of the BNB Printing Works AD for 2020; granting discharge to the members of the Board of Directors of the entity for their activities in 2020; entity's profit distribution for 2020 in the amount of BGN 5,456,106.96, as follows: 1/10 of the profit to be allocated to the Reserve Fund of the entity, while the remaining part of BGN 4,910,496.26 to be distributed as a dividend to shareholders in proportion to the shares they hold; selection of the specialised auditing company HLB Bulgaria OOD to audit and certify the Annual Financial Statements of BNB Printing Works AD for 2021, 2022 and 2023.

RESOLUTION No 278 of 2 September

The BNB Governing Council gave its consent the BNB Governor to authorise a representative of the BNB to vote at the extraordinary General Meeting of Shareholders of BORICA AD on: dismissal of Angel Kirilov Gekov and Teodora Alexandrova Petkova as members of the Board of Directors of BORICA AD and election of Nedelcho Vasilev Nedelchev and Tsvetanka Georgieva Mincheva as members of the Board of Directors of BORICA AD with a term of office until 11 June 2022.

RESOLUTION No 402 of 14 December

The BNB Governing Council gave its consent the Executive Director of the BNB Printing Works AD to vote at the General Shareholder Meeting of Oberthur Fiduciaire AD on amendments to the Statute of Oberthur Fiduciaire AD, as proposed in the invitation for the General Meeting.

In the January–December 2021 period, the Governing Council of the BNB adopted resolutions on internal rules of the Bank (14 resolutions), public procurements and contracts¹³⁰ (19 resolutions), and organisation of the Bank activities (82 resolutions, including 12 resolutions on the organisation of banking supervision's activities and 14 resolutions on the organisation of credit institution resolution activities).

¹³⁰ Detailed information on procurement procedures is available on the BNB website, Public Procurement in Centralised Automated Electronic Public Procurement Information System (CAIS EOP), eop.bg

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THE SCULPTURAL COMPOSITION BY KIRIL SHIVAROV DEPICTING HERMES AND DEMETER ON THE SOUTHERN FAÇADE OF THE BULGARIAN NATIONAL BANK BUILDING IS USED IN COVER DESIGN