Annual Report
2023

BULGARIAN NATIONAL BANK

ANNUAL REPORT

2023

1879

BULGARIAN NATIONAL BANK

Published by the Bulgarian National Bank
1, Knyaz Alexander I Square, 1000 Sofia
Fax: (+359 2) 980 2425, 980 6493
Printed in the BNB Printing Centre

Website: www.bnb.bg

The BNB Annual Report for 2023 employs statistical data as of 12 March 2024.

ISSN 1313-1494 (print)
ISSN 2367-492X (online)

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

Under the provisions of Article 1, paragraph 2 and Articles 50 and 51 of the Law on the Bulgarian National Bank, I have the honour of presenting the Bank's Annual Report for 2023.

Dimitar Radev
Governor
of the Bulgarian National Bank

Governing Council of the BNB
Sitting from left to right: Petar Chobanov, Dimitar Radev, Andrey Gurov.
Standing from left to right: Radoslav Milenkov, Lyudmila Elkova, Nikolay Nenovsky, Iliya Lingorski.

BNB Governing Council

Dimitar Radev
Governor

Andrey Gurov*
Deputy Governor
Issue Department

Petar Chobanov**
Deputy Governor
Banking Department

Radoslav Milenkov
Deputy Governor
Banking Supervision Department

Lyudmila Elkova

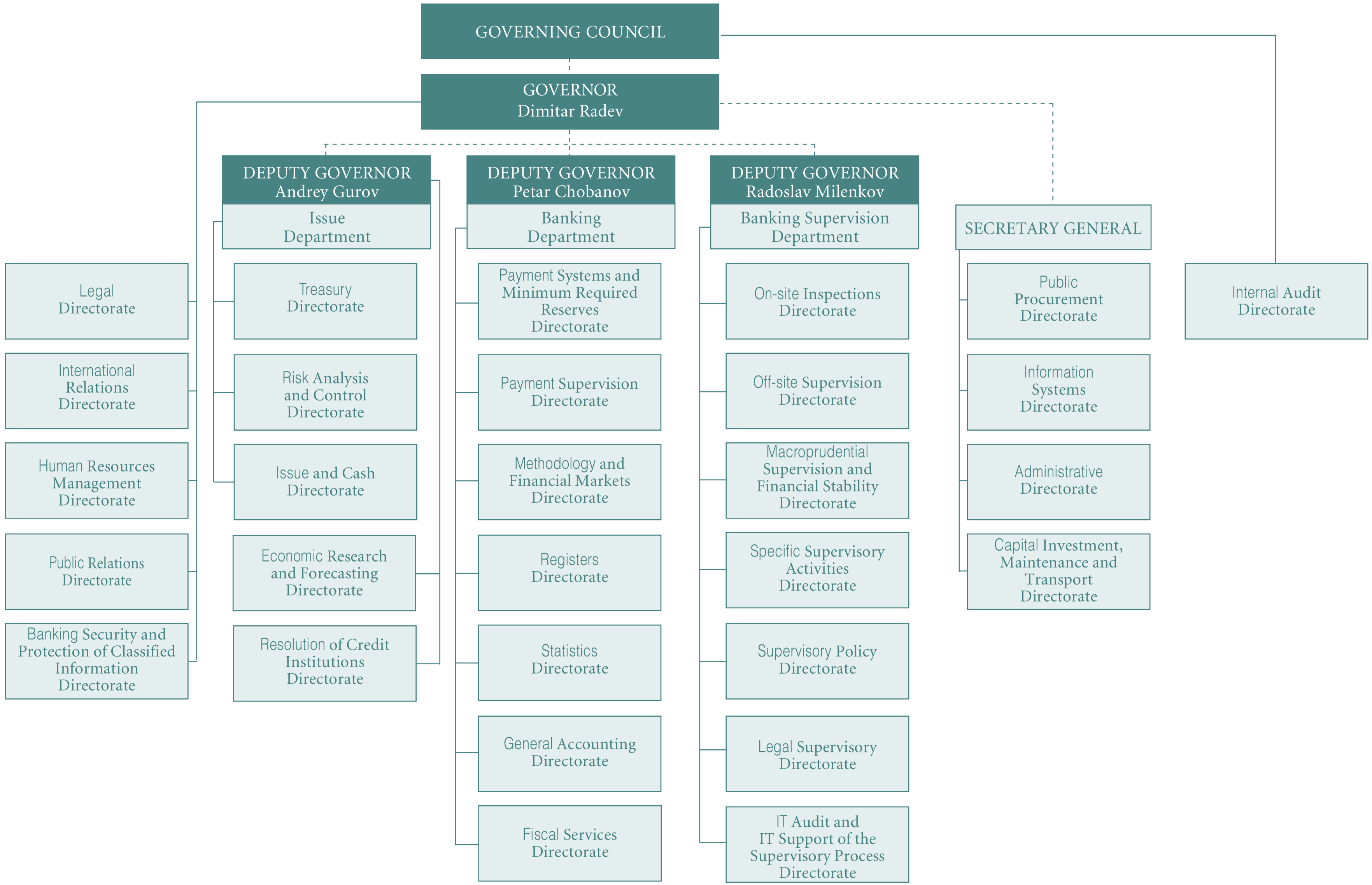
Nikolay Nenovsky

Iliya Lingorski

* As of 26 July 2023, Andrey Gurov is Deputy Governor in charge of the Issue Department to replace Kalin Hristov whose term of office expired on 25 July 2023.

** As of 26 July 2023, Petar Chobanov is Deputy Governor in charge of the Banking Department to replace Nina Stoyanova whose term of office expired on 25 July 2023.

Organisational Structure of the BNB
(as of 31 December 2023)



Contents

Abbreviations

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

Summary

Global economic activity slowed down in 2023, with global real GDP increasing by 2.5 per cent year on year, compared with 3.0 per cent in 2022. Dynamics of global economic growth largely reflected monetary policy tightening by leading central banks, sustainable growth of the US economy and the uneven recovery of China's economy following the lifting of the strict containment measures in the country. In the euro area, annual GDP growth slowed in real terms on the back of weaker private consumption and declining inventories. In Germany, which is Bulgaria's main trading partner, real GDP contracted. Despite slowing economic activity, euro area labour market conditions remained favourable throughout the year.

Annual global inflation slowed down in 2023, driven mainly by energy and food prices. Downward inflation dynamics was driven by high base effects in 2022, tight monetary policies in major advanced economies, and recovered global supply chains of goods and raw materials. Headline and core consumer price inflation in the United States and the euro area followed a downward trend, but the slowdown in core inflation was more limited. In view of the observed downward trend in annual inflation in the United States and the euro area, and the convergence of its levels to the Federal Reserve and ECB targets, the two central banks initially slowed down the rates of increase in key interest rates and, in the second half of 2023, stopped the monetary policy tightening by raising interest rates and signalling a possible reduction in key policy rates in 2024. The two central banks continued to reduce the size of their balance sheets, limiting the reinvestments of maturing securities.

Bulgaria's real GDP growth was 1.8 per cent in 2023, with private consumption and net exports having the largest positive contribution to it. Household consumption rose by 5.4 per cent, underpinned by real wage rises, an increase in the number of persons employed and an improvement in sentiment. Rising net fiscal transfers to households and accelerated lending supported further private consumption growth. Compensation *per* employee increased by 13.3 per cent in nominal terms (4.4 per cent in real terms), supported by enhanced economic activity, labour shortages, public sector wage growth and increased minimum wage.

HICP inflation declined from 14.3 per cent at the end of 2022 to 5.0 per cent in December 2023 as a result mainly of the high base of strong growth rates of consumer prices in 2022 and falling energy prices. High rates of growth of private consumption and unit labour costs, which contributed to maintain core inflation at a relatively high level, continued to be the pro-inflationary factors.

In early 2023, the banking system continued to be characterised by ample liquidity, slow and low pass-through of the effects of the ECB monetary policy tightening to interest rates on deposits and loans, especially in the household sector, and continued strong growth of credit to households, supported by both demand-side factors and active supply of credit resources by banks. Taking into account these developments and strong consumer demand along with high consumer price growth rates, the BNB Governing Council decided on 26 April 2023 to increase the MRR rate for funds attracted from banks in two steps. According to this decision, from 1 June 2023, the MRR rate on funds attracted from non-residents by banks was raised from 5 per cent to 10 per cent, and from 1 July 2023, the MRR rate on funds attracted from residents and non-residents was increased from 10 per cent to 12 per cent. The BNB decision aims to tighten monetary conditions in Bulgaria by absorbing part of the excess liquidity in the banking system, thus reducing banks' free resources and lending capacity and creating incentives for a faster and stronger pass-through of the increased interest rates in the euro area to domestic interest rates. This measure resulted in a withdrawal of liquidity of approximately BGN 3.3 billion from the banking system. However, this did not lead to a slowdown in the growth of credit to households (15.9 per cent by end-year), as resources needed to cover the increased MRR were generated by banks through a transformation of mainly foreign liquid assets and, to a lesser extent, excess reserves into minimum required reserves. By end-2023, the effects of the increased MRR rate on deposit and lending interest rates for households for the banking system as a whole also remained limited due to the continued ample liquidity, driven by both growth in non-government sector's deposits and the policy of maintaining budget deficits.

In 2023, the budget balance on the consolidated fiscal programme was negative at BGN -5619 million (3.1 per cent of GDP). Fiscal reserve deposits fell by BGN 1250 million from the end of 2022, amounting to BGN 10,880 million (5.9 per cent of GDP), of which BGN 10,183 million of deposits with the BNB. The year saw positive external debt financing of the budget and negative net financing by government securities issued in the domestic market.

In managing gross international reserves, the BNB pursues a conservative policy to ensure high liquidity and security. In 2023, developments in international financial markets were mainly driven by major central banks' measures to curb inflation. Monetary policy measures taken by the Federal Reserve and the ECB led to a substantial rise in US and euro area government bond yields in short-term maturity sectors. In March, significant tensions were observed in global financial markets after the insolvency of several US regional banks and liquidity problems posing a threat to the viability of a global systemically important Swiss bank, which led to a preventive restriction on investments in certain asset classes and to certain BNB's counterparties. Measures taken by US and Swiss regulators to restore the stability of the banking sector in these countries have reduced risk in financial markets, and therefore, some of the imposed investment restrictions were lifted in mid-June 2023.

By end-2023, the balance sheet value of gross international reserves was EUR 41,925.58 million: up EUR 3501.27 million on end-2022, or 9.1 per cent as a share of BNB's foreign currency assets. External cash flows and, to a lesser extent, income from asset management contributed mainly to the increase in international reserves.

To achieve its main objectives in managing gross international reserves, namely very high liquidity and security, the BNB continued investing the main share of assets on the Issue Department's balance sheet into government bonds and government guaranteed debt securities with the highest credit rating, and into short-term deposits with first class foreign central and commercial banks. By end-2023, some 68 per cent of international reserves was invested into assets with the highest AAA long-term credit rating. In 2023, there were no significant changes in the currency structure of gross international reserves compared to 2022. The structure by financial instrument recorded a decrease in current account and deposit funds by 7.0 per cent and 9.8 per cent, respectively, on account of the increase in BNB securities exposures by 16.8 per cent. In terms of the maturity structure, in 2023, almost all BNB investments (99.63 per cent) occupied the shortest maturity sector: from 0 to 1 year.

The net income in the Issue Department balance sheet is the sum of three components: i) income from gross international reserves investment in the original currency; ii) currency imbalance income; and iii) liabilities expenditure/income. In 2023, BNB income from international reserve investments was positive at EUR 924.6 million, or 2.95 per cent of annual yield. This result was due to higher yields on financial instruments in which the BNB invests and to the chosen low duration exposure of foreign reserves. Earnings from currency imbalance for 2023 were positive at EUR 212 million (yield of 0.59 per cent), reflecting primarily the increased market price of monetary gold measured in euro. As a result of the BNB's interest rate policy, the net financial result from liabilities led to an expense of EUR 194.2 million for the BNB, corresponding to -0.62 per cent of return. In 2023, the above three components brought net returns from international reserve management to EUR 942.4 million: a total return of 2.92 per cent for the year.

Creating and developing safe, reliable and efficient payment systems, as well as conducting payment oversight are important functions of a modern central bank. Payment systems in Bulgaria operate effectively, ensuring continuity of payment flows; they are largely aligned with the existing payment infrastructure in Europe. In 2023, RINGS, a real-time gross settlement system operated by the BNB, processed 81.2 per cent of non-cash payments in levs in Bulgaria. RINGS payments numbered 959,393, down 17 per cent on 2022, their value reaching BGN 1,495,572 million (up 29 per cent from 2022). In 2023, 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 299,764 payments (up 7.6 per cent on 2022) for EUR 779,500 million (down 7.7 per cent on 2022). In 2023, the BNB jointly with the Ministry of Finance, BORICA AD and Bulgarian banks launched a large-scale project to migrate budget payments in levs to the Single Euro Payments Area (SEPA) standards.

In 2023, the BNB granted one electronic money institution license and, as of the year-end, there were six payment institutions and nine electronic money institutions licensed by the BNB. Over 2023, the Bank completed an inspection of a payment service provider and electronic money issuer licensed by the BNB, thereafter imposing relevant measures, and started one oversight inspection of a payment service provider licensed by the BNB. Two thematic oversight inspections were completed and work continued on two other thematic inspections of payment service providers. The Bank inspected 12 institutions to find out whether they provided payment services and/or issued electronic money without due licence or registration. In 2023, the BNB enquired into 486 complaints submitted by natural persons and legal entities – payment service users; on 38 of them, the Bank issued instructions.

The Bulgarian National Bank has a monopoly on issuing banknotes and coins 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. The rate at which currency in circulation increased in 2023 slowed down, and year-on-year growth in value was the lowest since 2013. At the end of 2023, 605.9 million legal tender banknotes were in circulation, worth BGN 28,826.0 million, rising for the year by BGN 9.2 million (1.5 per cent) in number and by BGN 1999.6 million (7.5 per cent) in value. As in recent years, the trend to a high annual growth rate in the number of high value banknotes (BGN 50 and 100) was sustained in 2023. In late 2023, 3222.9 million of coins (legal tender) worth BGN 590.2 million nominal value were in circulation. Over the year, their number rose by 168.3 million (5.5 per cent), and their value by BGN 32.1 million (5.8 per cent). The overall upward trend in the number of circulating coins of all denominations continued over the year. The shares of retained non-genuine Bulgarian banknotes and coins remained at very low levels: 0.000329 per cent and 0.000008 per cent. In 2023, the BNB tested sorting machines and customer operated machines in line with identification and fitness standards into ten credit institutions, four service providers and six representatives of machine producers under BNB Ordinance No 18 on the Control over Quality of Banknotes and Coins in Cash Circulation.

As part of the Single Supervisory Mechanism (SSM), which Bulgaria joined by establishing close cooperation between the ECB and the BNB, the BNB performs its supervisory functions in relation to banks in Bulgaria in full compliance with the requirements of the national, European and international legal and prudential framework. The BNB implements all guidelines, instructions, analytical and methodological requirements of the ECB as the national competent authority for less significant institutions (LSIs) and participates with its representatives in the joint supervisory teams through which the ECB supervises systemic institutions at the SSM level.

In line with its macroprudential mandate, the BNB supervises the operation of credit institutions and the banking system on the basis of continuous monitoring, identification and assessment of systemic risks. The level of the combined buffer requirement in Bulgaria is the highest among the countries represented in the SSM. As one of the macroprudential instruments used, the countercyclical capital buffer aims to preserve the banking system's ability to cope with adverse effects of the business and financial cycle by strengthening banks' capital positions. With effect from 1 January 2023, the applicable buffer rate is 1.5 per cent for credit risk exposures in the Republic of Bulgaria, and in view of persistent high rates of credit growth and the uncertainty in the economic environment, the BNB Governing Council decided to raise the countercyclical buffer rate to 2.0 per cent, effective from 1 October 2023. Decisions to raise the countercyclical buffer rates aim to strengthen the resilience of the banking system amid pressures on the profitability and capital position caused by a potential increase in non-performing loans and their impairment. As regards risks of a structural nature, the annual review of the buffer for other systemically important institutions (O-SIIs) carried out by the BNB Governing Council in 2023 identified six institutions for which the buffer rates in 2024 would be between 0.5 per cent and 1.0 per cent. The biennial review of the systemic risk buffer in 2023 confirmed its level of 3 per cent of local risk-weighted exposures.

The BNB monitors developments in the economic environment and their impact on the financial system of Bulgaria and other EU Member States, taking into account the possibility of exacerbation and accumulation of risks to financial intermediation, mainly due to the financial position of the borrowers and the capacity to service their obligations. Based on the ongoing monitoring and analysis and following its conservative approach to risk assessments, the BNB recommended that credit institutions adhere to a conservative lending policy, timely and adequate provisioning and capital planning that takes into account the evolution of risks in the economic environment.

In 2023, macroprudential priorities included a regular analysis of the risks stemming from lending collateralised by residential real estate. The ongoing monitoring of the financial situation of credit institutions and of the trends in their risk profile as part of the Supervisory Review and Evaluation Process (SREP) continued throughout the year. Based on the SSM LSI SREP Methodology, the assessments of less significant institutions were prepared, and capital requirements and recommendations for additional own funds were specified. Supervisors carried out a regular annual review of banks' Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) reports for 2022 along with their funding plans covering the 2023–2025 period. The process of reviewing and assessing updated recovery plans of less significant institutions also continued with the aim to establish their reliability along with implementation of the recommendations made by the BNB. Fulfilment of the targets set by banks to reduce NPLs in their strategies and operational plans was also monitored. The state of implementation of the recommendations and the corrective actions taken as a result of the supervisory inspections were followed up. In 2023, on-site supervisory inspections were carried out in banks subject to direct supervision by the ECB (under the established regime of close cooperation between the ECB and the

BNB), as well as in banks for which the BNB is a directly responsible supervisor. The checks initiated in the previous year were completed, and new checks started according to the approved annual inspection plan. The scope and intensity of the on-site inspections carried out by a BNB team at significant institutions under the direct supervision of the ECB were agreed within a centralised process organised by the ECB and aligned with SSM's priorities for high-risk areas. The scope and topics of supervisory inspections at banks directly supervised by the BNB were determined following a review and analysis of proposals received in ongoing supervision, reflecting areas of increased supervisory engagement upon implementing the SREP.

BNB control activities continued to ensure compliance with the requirements of the Law on Measures against Money Laundering (LMML) and the Law on Measures against Financing of Terrorism (LMFT). During the reporting period, four supervisory inspections were completed: at three LSIs and one joint inspection by the BNB and the Financial Intelligence Directorate at a bank branch. Four horizontal inspections at banks were also carried out (two of them covering all credit institutions, one covering four banks and one covering 17 banks). Results of completed inspections did not require application of supervisory measures. Recommendations on the prevention of money laundering and terrorist financing were issued to improve the performance of credit institutions. In relation to the BNB control functions under the Law on Real Estate Loans for Consumers (LRELC) and the application of the EBA guidelines in this area, three less significant, one significant credit institution and five non-bank financial institutions were inspected in 2023 along with a horizontal inspection in several credit intermediaries.

Changes were made to the core information system of the Banking Supervision Department to automate the transmission of data on supervisory reporting to regulators. Necessary changes to the information resources stemming from regulatory reporting requirements were put in place. Functional and technical requirements for the procurement for changes to the core information system related to the introduction of the euro were analysed, verified and agreed. A full-scope supervisory IT exercise was completed in two of the High Impact LSIs. Implementation of recommendations to banks from previous IT supervisory checks was followed up. Reports on implementation with deadlines in 2023 showed that all of the recommendations (with very few exceptions) were fulfilled. During the year, there were two cyber attacks to banks, which were successfully neutralised.

With regard to the existing regulatory framework at national level, following the entry into force of amendments to the LCI (published in Darjaven Vestnik, issue 84 of 2023), draft ordinances were prepared to amend and supplement the following regulations: Ordinance No 2 of the BNB of 2006 on the Licenses, Approvals and Permissions Granted by the Bulgarian National Bank According to the Law on Credit Institutions; Ordinance No 10 of 2019 on the Organisation, Governance and Internal Control of Banks; Ordinance No 20 of the BNB of 2019 on the Requirements to the Members of the Management and Control Bodies of a Credit Institution and on the Assessment of the Suitability of Their Members and the Key Function Holders. With regard to the regulatory framework, the BNB Governing Council adopted decisions on implementing in Bulgaria of a number of guidelines of the European Banking Authority (EBA).

In 2023, banking sector's capital ratios remained significantly above the minimum regulatory requirements and capital buffer requirements. The liquidity position of the banking sector remained sound over the year, with liquidity coverage ratio and net stable funding ratio being maintained at levels exceeding significantly the minimum regulatory requirements.

In 2023, the process of banking sector consolidation continued in Bulgaria. The year saw the merger of KBC Bank Bulgaria EAD into United Bulgarian Bank AD and the acquisition of the business of BNP Paribas Personal Finance S.A. – branch Bulgaria by Eurobank Bulgaria AD. As a result of the two transactions, by end-2023, the total number of credit institutions in Bulgaria was 23, of which 17 banks and 6 branches of foreign banks.

The Law on the Recovery and Resolution of Credit Institutions and Investment Firms tasks the BNB with resolution of credit institutions and other legal entities which are subject to supervision or consolidated supervision by the central bank. 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 full day-to-day management of the Banks Resolution Fund (BRF). In 2023, the activity of the BNB, as a resolution authority and a national resolution authority, focused primarily on organising and implementing the process of preparing, reviewing and updating resolution plans of credit institutions and monitoring the implementation of intermediate target levels of minimum requirements for own funds and eligible liabilities (MREL) set for credit institutions. In 2023, as part of the process of reviewing and updating resolution plans, the BNB Governing Council adopted the resolution plans for 2022 and set MRELs for twelve credit institutions. As the resolution authority of a credit institution that is part of an EU cross-border group, the BNB and the resolution college members reached joint decisions on the 2022 group resolution plan and on the MREL. In reviewing and revising resolution plans of the four credit institutions falling within the SRB direct powers, the BNB Governing Council adopted in 2023 decision-voting positions of the SRB Extended Executive Session on the final approval of joint decisions on 2022 resolution plans of three cross-border groups with subsidiaries licensed in Bulgaria, within the scope of SRB powers, along with setting MRELs to resolution entities and their subsidiary banks. The BNB Governing Council approved also a position on voting draft decisions of the SRB Extended Executive Session concerning an approval of a resolution plan and setting out of an MREL for a cross-border group with a subsidiary bank licensed in Bulgaria for which there is no organised resolution college, given the lack of presence of the group in Member States outside the SRM. Under the BRF governance function, in early April 2023, the BNB Governing Council adopted the annual financial statements of the BRF for 2022. It also maintained the investment strategy applied in relation to the BRF resources, and they continued to be held on current accounts with the BNB. In accordance with the allocation of powers between the SRB and the BNB, the BNB Governing Council determined in April the 2023 annual contributions of branches of third-country credit institutions to the BRF at a total of BGN 92 thousand. As of 31 December 2023, funds collected in the sub-fund established to raise contributions by branches of third-country credit institutions were BGN 897 thousand. In May 2023, the SRB determined the 2023 contributions to be collected from credit institutions licensed in Bulgaria, and transferred from the BNB to the SRF at a total amount of EUR 11,508 thousand, or BGN 22,508 thousand. Given the available resources in the BRF sub-fund and the possibility of using them provided for in the LRRCIIF, the BNB Governing Council decided the contributions due by credit institutions to the SRF for 2023 to be deducted from the funds available in the relevant sub-fund. As of 31 December 2023, funds in the earmarked BRF sub-fund established to raise and transfer contributions of credit institutions to the SRF were BGN 463,078 thousand.

By participating in the committees and working groups to the European System of Central Banks, the European Commission, the EU Council, the European Systemic Risk Board, the European Banking Authority, and the Council for European Affairs, the BNB contributed to formulating Bulgarian standpoints in the area of economic governance and the financial sector and discussing other issues falling within the competencies of central banks.

In 2023, the BNB continued to collect, process, analyse and disseminate the official monetary and interest statistics, external sector 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 its activities in the field of statistics, the BNB continued its cooperation with the Ministry of Finance, national and foreign statistical authorities and central banks, with a bilateral agreement on cooperation, strategic partnership and exchange of information between the NSI and the BNB being signed at the end of the year. In 2023, the BNB participated in the first mission of the Organisation for Economic Co-operation and Development (OECD) in Bulgaria, introducing OECD representatives to the main sources of information and specificities in compiling data on balance of payments statistics, services and national financial accounts statistics by institutional sector, monetary and interest rate statistics.

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.

Following an approval by the ECB Governing Council, on 11 September 2023, the BNB as an owner and operator of the Government Securities Depository at the BNB successfully joined the TARGET2-Securities (T2S), Eurosystem's securities settlement platform. Migration to T2S was a result of the joint work of the BNB and the Eurosystem which started in 2021 in compliance with the implementation of the commitments under the National Plan for the Introduction of the Euro in the Republic of Bulgaria.

The BNB maintains the Central Credit Register, 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, as well as to investors granting project loans through a crowdfunding service provider, excluding foreign financial institutions conducting activities directly on the territory of Bulgaria (institutions under Article 56, paragraph 1 of the LCI). As of 31 December 2023, the CCR listed 6642 thousand loans, with their balance sheet value amounting to BGN 117,416 million. Borrowers numbered 2603 thousand, of whom 2379 thousand individuals, 109 thousand legal entities, 111 thousand non-residents not registered at Bulgarian addresses or BULSTAT/PIK coded, and 4 thousand self-employed persons practising liberal professions or crafts. Institutions and bodies entitled to Register access under Article 56, paragraphs 1 and 3 of the LCI conducted searches on 8798 thousand entities. There were 20,842 paper applications for CCR statements: 19,969 by individuals, 844 by legal entities, and 29 under Article 21a of Ordinance No 22 on the CCR for obtaining information under Regulation (EU) 2016/679 of the European Parliament and of the Council of 2 April 2016. Over the year, 4835 individuals obtained electronic CCR statements.

The BNB also maintains a Register of Bank Accounts and Safe Deposit Boxes (RBASDB) with an electronic information system containing bank and payment account numbers, holders and attorneys, data on account preservation orders, bank deposit box holders and attorneys. As of 31 December 2023, the RBASDB logged 14.87 million of active bank accounts, 850.80 thousand of payment accounts kept by payment institutions and electronic money institutions, and 34.93 thousand of safe deposit box hires, including records of 2.90 million of new accounts and 2.60 million of close accounts. In 2023, bodies and institutions entitled to Register's access conducted searches on 766,814 entities. There were 4921 applications for RBASDB paper statements: 4747 by individuals and 174 by legal entities. Over the year, 567 individuals obtained electronic statements from the RBASDB.

Economic research and projections support the Bank's management in making decisions and delivering economic policy stance. Implementing the BNB Research Plan for 2023–2024, studies were focused on topics related to the macroeconomic effects of decreasing population, factors behind the dynamics of volumes and interest rates on consumer and housing loans, public debt sustainability, and inflation inertia in Bulgaria. Honing the basic macroeconometric model of the BNB for producing forecasts and simulations of the effects of economic shocks continued over the year along with developing a risk management methodology for BNB's gross international reserves. The simulation model was further developed by adding new channels necessary to quantify the potential macroeconomic effects of raising banks' minimum required reserves with the BNB.

In 2023, the main priorities in human resource management at the BNB focused on provision of competitive working conditions and favourable working environment for the effective implementation of the Bank's objectives, functions and tasks. During the year, 78 employees joined the BNB and 47 left. Employees numbered 938 by end-2023.

In 2023, there were twelve audits: six under the annual Internal Audit Directorate Programme approved by the BNB Governing Council and six under the ESCB Internal Auditors Committee Programme. Audits sought objective assurance of adequate and effective risk management, control and governance inherent in the activities concerned to ensure: effective attainment of objectives and tasks; attainment of strategic objectives of the organisation; 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 ensures performance of Bank's functions and tasks. In 2023, BNB's operating expenses were BGN 132,817 thousand, or 50.0 per cent of approved annual budget, including currency circulation costs of BGN 29,757 thousand. Bank investments were BGN 14,192 thousand, or 14.6 per cent of annual budget under this item. The BNB continues to actively work on issues related to the euro adoption as national currency, with this expenditure having an indirect effect on the overall implementation of the 2023 BNB budget. Due to the changed date of the euro adoption from 1 January 2024 to 1 January 2025, a larger portion of the expenditure planned in the 2023 BNB budget for circulation costs, acquisition of machinery, facilities, transport vehicles, and other equipment and on the IT system development was not incurred in 2023 and was included in the BNB budget for 2024.

Consolidated financial statements (audited) present the Bank's financial position as of 31 December 2023.

I. Economic Development in 2023

The External Environment

Global economic activity slowed down in 2023, with global real GDP increasing by 2.5 per cent year on year, compared with 3.0 per cent in 2022.[1] Dynamics of global economic growth largely reflected the effects of monetary policy tightening by big central banks, the sustained growth of the US economy and the uneven recovery of China's economy following the lifting of country's stringent containment measures in late 2022 and early 2023. Factors that supported global growth have been linked to the resilient labour market in advanced economies, the recovery of global supply chains and the easing of inflationary pressures on commodities. The deterioration in financing conditions impacted negatively private consumption dynamics and investment in developed market economies. Dynamics of the global economic indicator (global PMI) signalled an increase in the global economic activity mainly in both services and manufacturing. The industrial sector experienced a decline throughout 2023, following lower demand and subdued financing conditions due to tighter monetary policies by leading central banks. Global trade volumes declined by 0.2 per cent[2] in 2023, with a trend towards a slowdown in the rate of decline in the fourth quarter, likely reflecting the increase in demand for goods after a period dominated by demand for services.

In 2023, US GDP rose by 2.5 per cent in real terms, compared with 1.9 per cent in 2022, mainly driven by private consumption and, to a lesser extent, by consumption and public investments and net exports. High private consumption in the country reflected the resilient labour market and rising real disposable household income. The lifting of containment measures in China contributed to the increase in economic activity in the country in 2023, which accelerated to 5.2 per cent, from 3.0 per cent in 2022. At the same time, weaker external demand and structural problems in the residential construction sector had a dampening impact on economic activity in the country, reducing net exports, investment activity and household consumption.

In 2023, annual real GDP growth in the euro area slowed down to 0.4 per cent on an annual basis compared with 3.4 per cent in 2022. By final consumption expenditure component, private consumption and the decline in inventories contributed most to the subdued economic activity. Private consumption was affected negatively by high inflation leading to a decline in households' real disposable income, as well as by the deteriorated financing conditions as a result of the ECB's monetary policy tightening. At the same time, net exports supported economic growth in the euro area. In 2023, economic indicators pointed to a sustained downward trend in the euro area industrial sector, while economic activity in the services sector recorded a rebound until July and a subsequent decline. Over the year under review, in Germany, which is Bulgaria's major trading partner, real GDP contracted by 0.3 per cent year on year, while in Italy, our other main trading partner in the euro area, growth stood at 0.9 per cent. Labour market conditions in the euro area remained favourable throughout the year, with the unemployment rate falling to 6.5 per cent on average, from 6.7 per cent in 2022.

In 2023, the average Brent crude oil price declined on an annual basis in both US dollars (by 17.2 per cent) and euro (by 19.4 per cent). In the first half-year, the fall in oil prices was driven mainly by lower demand, reflecting the slowdown in global economic growth and market participants' expectations of an imminent recession in advanced economies as a consequence of the tight monetary policies of leading central banks.

[1] Based on World Bank data as of 12 March 2024.
[2] CPB Netherlands Bureau for Economic Policy Analysis data as of 23 February 2024.

Key Macroeconomic Indicators

(per cent)

	Average annual real GDP growth			Inflation (end of year)			Unemployment rate (average annual)		
	2021	2022	2023	2021	2022	2023	2021	2022	2023
USA	**5.8**	**1.9**	**2.5**	**6.2**	**5.4**	**2.6**	**5.4**	**3.6**	**3.6**
China	8.4	3.0	5.2	1.5	1.8	-0.3	5.1	5.6	5.2
Europe									
EU	6.0	3.4	0.4	5.3	10.4	3.4	7.0	6.2	6.0
Euro area	5.9	3.4	0.4	5.0	9.2	2.9	7.7	6.7	6.5
United Kingdom	8.7	4.3	0.1	4.8	9.3	4.2	4.6	3.9	4.0

Notes: The EU group consists of 27 Member States of the European Union. Non-seasonally adjusted data on unemployment, excluding those on the UK. Inflation in China, EU and the euro area is calculated based on CPIs. 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. Data as of 12 March 2024 are used.

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.

The year also saw periods of crude oil price increases due to the introduction of measures to limit its production by OPEC+, as well as to the increased uncertainty following the heightened geopolitical tensions in the Middle East in early October. In 2023, metal and food prices also followed a downward trend. The main factors behind the fall in metal prices were the slowdown in global economic activity and the worsened prospects to the industrial sector. At the same time, the fall in food prices was driven by the decrease in the prices of energy and fertilisers and the gradual normalisation of supply.

Annual global inflation moderated in 2023, standing at 3.9 per cent as of December, compared with 8.8 per cent at the end of 2022. The slowdown in global inflation was mainly driven by energy and food prices reflecting the high base effect in 2022, the tightened monetary policy in major advanced economies, as well as the recovery of commodity supply chains.

At the end of 2023, annual US inflation as measured by the price index of personal consumption expenditure continued to moderate, remaining, however, above the target of 2.0 per cent set by the Federal Open Market Committee (FOMC). In December, the annual inflation rate stood at 2.6 per cent, compared with 5.4 per cent at the end of 2022. The decline in inflation was largely attributable to the fall in durable goods prices on an annual basis and the decline in inflation for food, housing costs and some services. Core inflation in the United States (excluding food and energy products) slowed less in 2023, to stand at 2.9 per cent in December, down from 4.9 per cent at the end of 2022. Euro area annual consumer price inflation also declined significantly, reaching 2.9 per cent in December compared to 9.2 per cent at the end of 2022. Core inflation (excluding food, energy products, alcoholic beverages and tobacco) also fell to 3.4 per cent in December (from 5.2 per cent in December 2022). Lower natural gas, electricity and food prices made a major contribution to the decline in annual inflation in the euro area.

In view of the observed downward trend in annual inflation in the United States and the euro area, and the convergence of its levels to the Federal Reserve and ECB targets, the two central banks initially slowed down the rates of increase in key interest rates and, in the second half of 2023, stopped the monetary policy tightening by raising interest rates and signalling a possible reduction in key policy rates in 2024. The two central banks continued to reduce the size of their balance sheets, limiting the reinvestment of proceeds from maturing securities.[3]

[3] For more information, see Central Banks' Policies Section of Chapter II.

The Bulgarian Economy

In 2023, Bulgaria's real GDP growth stood at 1.8 per cent[4] (compared with 3.9 per cent in 2022). By final consumption expenditure, private consumption and net exports had the main positive contribution to this growth, while changes in inventories contributed negatively to the real GDP dynamics. Labour market conditions favoured economic activity due to the increase in employment and the rise in real labour income, which supported growth in household consumption expenditure. Fiscal policy continued to exert a pro-cyclical effect and stimulated domestic demand mainly through increases in social payments and compensation of employees in the public sector and rising capital expenses. Another positive factor for private consumption was the increase in lending. Concurrently, the gradual decline in total consumer price inflation created conditions for real interest rates on new household time deposits to become less negative, and they continued, albeit to a lesser extent, to underpin private consumption growth. The acceleration in economic activity in Bulgaria in 2023 was constrained by the weakening growth of external demand for Bulgarian goods, emerging specific factors in some export-oriented economic sectors and firms' policy to reduce significant stocks of raw materials and finished products accumulated from mid-2021 to end-2022.

In 2023, nominal labour income retained its trend to grow at a rate higher than that of consumer prices. The main factors weighing on wage growth were stronger labour demand in the context of improved economic activity and preserved significant labour shortages, as well as increased budget and minimum wages since January 2023. Household consumption rose by 5.4 per cent in real terms, underpinned by real wage growth, the increased number of employees and improved household sentiment measured by the consumer confidence indicator. The increase in consumer credit, coupled with that in fiscal transfers, provided a further stimulus to private consumption growth.

Gross fixed capital formation posted 3.3 per cent growth in real terms, with public investment contributing to this, according to the BNB's estimates[5], while private investment had a negative contribution. The increase in public investment was supported by the implementation of nationally financed projects and the completion of projects with European financing following the closure of the 2014–2020 programming period. Factors dampening private investment in 2023 were deteriorated prospects for external demand, continued rises in investment goods prices, available spare capacities in some industrial sub-sectors and reported year-on-year declines in sales of new dwellings[6]. Concurrently, private investment growth was supported by the increase in final consumption expenditure and the active credit supply by banks amid persistent, albeit to a considerably lesser extent, negative real interest rates on new loans (excluding overdraft) to non-financial corporations.

Changes in inventories contributed negatively to real GDP dynamics in 2023, which could be explained by firms' decision to reduce significantly the stock of commodities and finished products accumulated between mid-2021 and the end of 2022. These developments are likely to reflect the improved functioning of global supply chains, falling commodity prices in international markets, and rising costs of firms for financing with working capital[7].

[4] Non-seasonally adjusted data. Preliminary data from the National Statistic Institute, published on 8 March 2024, are used.

[5] The NSI does not provide official data on the breakdown of total investment into private and public in the economy. The series on private investment is constructed by the BNB as a difference between total investment and the estimated amount of public investment on an accrual basis in real terms. Public investment estimates for the period from January to September 2023 are based on quarterly non-financial accounts data on the general government sector as published by the NSI, while for the fourth quarter of 2023 data from the Consolidated Fiscal Programme are used.

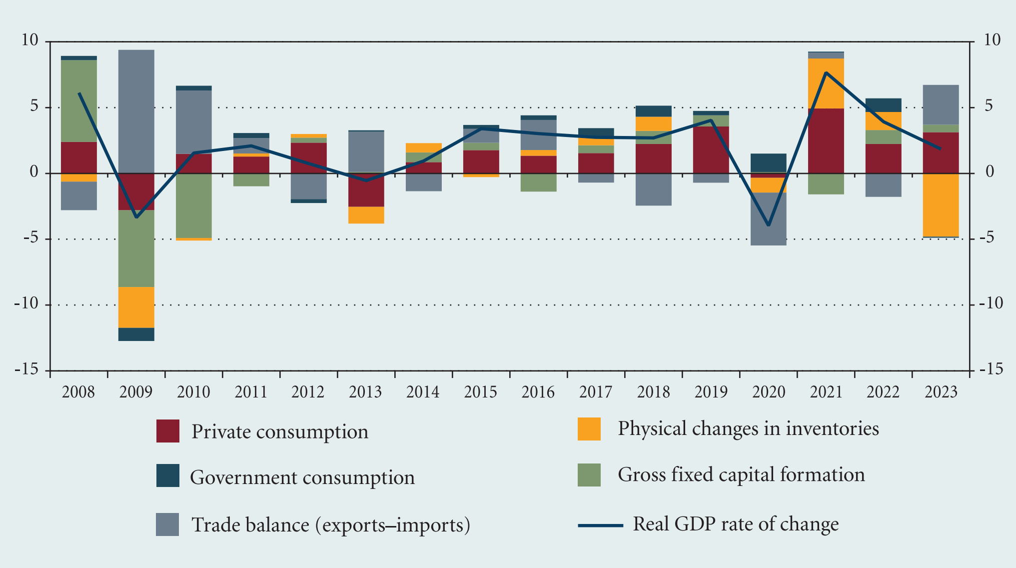
[6] NSI data for the period January–September 2023 are used, showing a decrease in the number of sold new dwellings by 19 per cent on an annual basis.

[7] This refers to the interest rates on loans to firms, which rose from 2.35 per cent on average in 2022 to 3.75 per cent on average in 2023.

Net exports had a positive contribution to real GDP growth in 2023, driven by a stronger decline of imports (by 6.3 per cent) compared to exports (by 1.9 per cent) of goods and services. Downward dynamics of imports can be explained by the decline in firms' holdings of commodities, raw materials and finished products, which are characterised by a high import content. The decrease in exports was entirely determined by trade in goods, consistent with deterioration of economic activity in Bulgaria's main trading partners and emerging specific factors in the sub-sectors of the economy related to the processing of petroleum products and metals[8]. Trade in services contributed positively to the economic activity growth.

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

(per cent, percentage points compared to the previous year, non-seasonally adjusted data)



Sources: NSI, BNB calculations.

In 2023, government consumption decreased by 0.4 per cent in real terms, with data on Consolidated Fiscal Programme performance indicating that it was probably driven by the lower intermediate consumption expenditure of the general government sector.

In 2023, gross value added increased by 0.8 per cent in real terms, contributing 0.7 percentage points to real GDP growth[9]. Looking at the trends across economic sectors, the services sector had the main positive contribution to the positive value added growth, followed by industry, while agriculture recorded a decline. In the services sector, the trade, transport, accommodation and food service activities sub-sector had the highest positive contribution to value added growth. As regards industry, real value added growth was observed in both industry and construction.

Increased economic activity in Bulgaria had a favourable effect on the labour market in 2023, with the number of employees and hours worked *per* person increasing by 1.0 per cent each on an annual basis. The services sector, the general government, education, human health and social work activities, in particular, contributed most to the increase

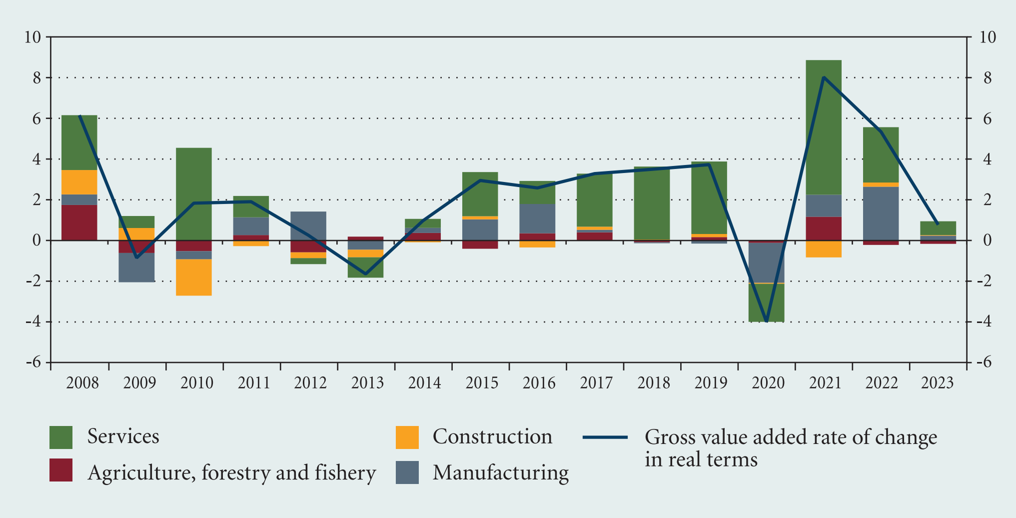
[8] According to detailed data by commodity group in foreign trade statistics, the year-on-year decline in exports of goods in real terms was almost entirely due to the negative contribution of the energy product groups (oil products, natural gas and electricity) and non-ferrous metals. The decline in exports of these groups in real terms can be explained by the entry into force on 5 February 2023 of the ban on exports to countries other than Ukraine of refined petroleum products from crude oil originating in Russia and repairs in leading manufacturing companies.

[9] The contribution of adjustments to GDP growth was 1.2 percentage points.

in the number of employed persons, followed by trade, transport, accommodation and food service activities which also reported the highest value added for the review year.

Gross Value Added Change in Real Terms and Contribution by Industry

(per cent, percentage points compared to the previous year, non-seasonally adjusted data)



Sources: NSI, BNB calculations.

Increased economic activity in Bulgaria had a favourable effect on the labour market in 2023, with the number of employees and hours worked *per* person increasing by 1.0 per cent each on an annual basis. The services sector, the general government, education, human health and social work activities, in particular, contributed most to the increase in the number of employed persons, followed by trade, transport, accommodation and food service activities which also reported the highest value added for the review year. The number of persons employed in construction also increased, while in manufacturing and agriculture, there was a decline. According to data from the Employment Agency and the NSI Labour Force Survey[10], the unemployment rate increased slightly to 5.3 per cent and 4.4 per cent, respectively, in 2023, compared to 5.2 per cent and 4.2 per cent in 2022. This was mainly due to the deterioration in the external environment, which contributed to the fall in the exports of goods and had an impact on the rise in the number of newly registered unemployed persons in manufacturing. The labour force participation rate continued to rise, reaching 73.9 per cent in 2023 (from 73.7 per cent in 2022), with the increase coming from a larger decline in the working-age population than in the labour force, reflecting the country's unfavourable demographic conditions.

Labour productivity[11] for the total economy rose by 0.9 per cent in 2023, driven by productivity growth in industry, while agriculture, construction and services reported a decline. Compensation *per* employee increased by 13.3 per cent in nominal terms in 2023. This growth was supported by enhanced economic activity in Bulgaria, large labour shortages, public sector wage growth and the increase of the minimum wage in early 2023. In real terms[12], the growth of compensation *per* employee for the total economy amounted to 4.4 per cent in 2023, with decreases reported only in the information and communication and real estate operations sub-sectors.

---

[10] Labour Force Survey data refer to the 15–64 age group.

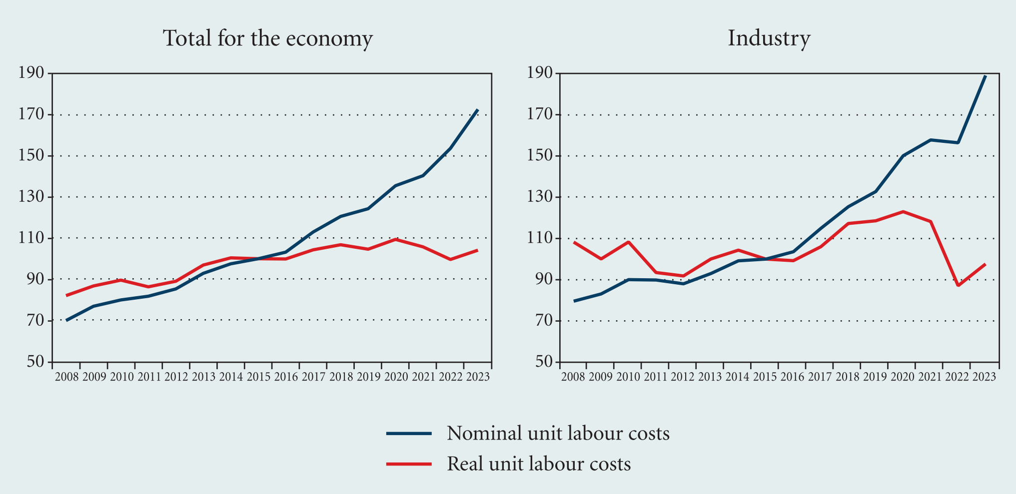
[11] Real GDP measures labour productivity in the total economy. Labour productivity by sector is calculated based on value added of the sector in real terms.

[12] Real compensation *per* employee is obtained after the nominal compensation *per* employee is deflated by the Harmonised Index of Consumer Prices.

The strong rise in compensation *per* employee was translated in a significant increase in nominal unit labour costs of 12.3 per cent in 2023. In real terms, unit labour costs for the total economy grew by 4.5 per cent, with growth reported in all main sectors.

Unit Labour Costs

(moving average, 2015 = 100)



Sources: NSI, BNB calculations.

Gross operating surplus at current prices for the total economy increased by 2.3 per cent in 2023, mainly reflecting the improvement in the financial performance of firms in services and, to a lesser extent, in manufacturing. Gross operating surplus in agriculture decreased.

In 2023, GDP deflator increased by 7.5 per cent (16.2 per cent in 2022), and by final expenditure component, growth was registered across all main domestic demand components. The private consumption, government consumption and gross fixed capital formation deflators increased by 6.9 per cent, 9.1 per cent and 7.5 per cent, respectively. The deflators of total exports and imports recorded year-on-year declines of 1.8 per cent and 2.3 per cent, respectively.

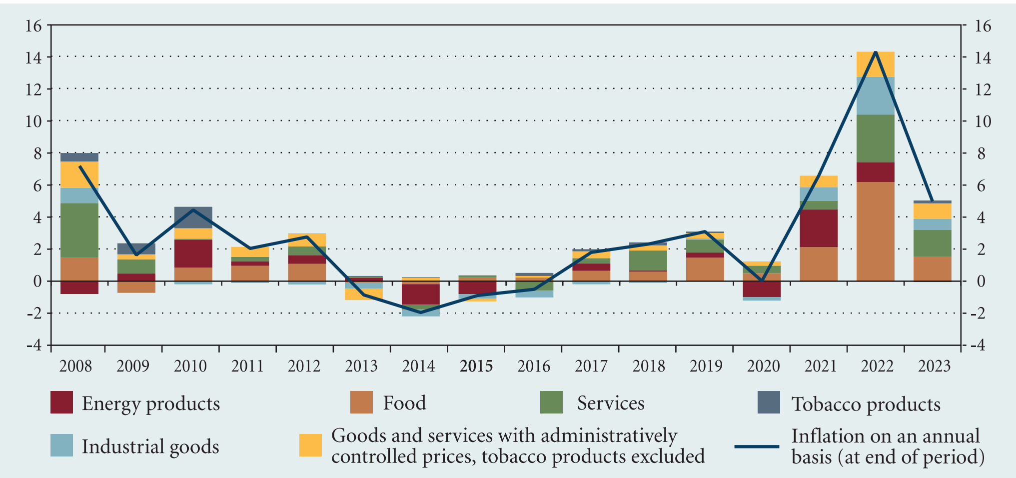
In 2023, annual HICP inflation followed a downward trend and stood at 5.0 per cent at the end of the year (compared to 14.3 per cent in December 2022). The main factors contributing to the slowdown in inflation were the high base effect resulting from the high growth rates of consumer prices in 2022, in particular in the food and core component groups, and the decline in energy prices as a result of the downward dynamics in international energy prices. As regards the domestic macroeconomic environment, high rates of growth in private consumption and unit labour costs continued to exert a pro-inflationary pressure. These factors, combined with the observed policy of firms in 2023 to maintain their profit margins at similar levels to those of 2022, have contributed to the limited pass-through of falling prices of key energy and agricultural commodities on international markets to final consumer prices in the country. Fiscal policy also continued to have a pro-inflationary impact, with increases in social payments and compensation of employees in the public sector supporting growth in household disposable income and consumption and creating preconditions for maintaining high inflation in more demand-sensitive HICP components, such as services.

Core inflation[13] had the largest positive contribution to headline inflation at the end of 2023, with the price index in the group growing by 5.3 per cent year on year (compared with 11.9 per cent at the end of 2022). Maintaining relatively elevated levels of core inflation was primarily attributable to the services sector, where inflation reached 7.1 per cent by the end of the year. In the services group, catering and accommodation services contributed most positively to the inflation accumulation. Industrial goods had a more significant impact on the decline in core inflation, mainly due to the slowdown in the rate of increase of non-durable goods prices.

Food price inflation stood at 6.0 per cent in December 2022 (25.0 per cent at the end of 2022), and this group also had a substantial positive contribution to headline inflation, despite falling agricultural and energy commodity prices in international markets. The positive contribution of foods was driven by an increase in both unprocessed and processed food prices. Inflation in the group of goods and services with administratively controlled prices and tobacco products reached 5.4 per cent in December 2023 (6.9 per cent at the end of 2022), with year-on-year price increases in this group mainly driven by increases in the prices of medicinal products, tobacco products and electricity. At the end of 2023, central gas had a low negative contribution to administered price inflation in the group of goods and services, influenced by developments in gas prices in international markets. In December 2023, the group of energy products (excluding those with administratively controlled prices) recorded a year-on-year fall of 0.6 per cent (compared with an increase of 15.9 per cent in December 2022), driven by the strong depreciation of solid fuels, while transport fuels had a low positive contribution.

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

(per cent, percentage points)



Notes: 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 through the elementary aggregates level in the consumer basket.

Sources: NSI, BNB calculations.

Preliminary data on Bulgaria's balance of payments show that the current account balance was slightly positive at EUR 274 million (0.3 per cent of GDP) in 2023, compared to a deficit of 1.4 per cent of GDP in 2022. The improvement in the current account was

[13] Core inflation includes the sub-groups of HICP services and non-food goods and excludes the sub-groups of food, energy products, goods and services with administratively controlled prices, and tobacco products.

primarily driven by a narrowing of the trade balance deficit and an increase in the surplus on services, net, while the deficit on primary income, net, widened year on year.

In 2023, the trade balance deficit narrowed as a result of a sharper fall in goods imports in real terms[14] (7.1 per cent) compared to the drop in exports (4.1 per cent), while the deficit contraction was partly mitigated by unfavourable trade conditions[15]. Foreign trade data show that exports in all major commodity groups except machinery[16] fell in nominal terms, with mineral products and fuels[17], followed by metals[18], having the largest negative contribution to this. The decline in imports of goods in nominal terms was mainly due to the groups of mineral products and fuels, chemicals[19] and metals.

Net services surplus increased in 2023 compared with 2022. According to the non-seasonally adjusted national account GDP data, exports of services in real terms increased by 6.8 per cent, while imports rose by 0.1 per cent. Favourable trade conditions also contributed to the increase in the surplus of this item. In nominal terms, exports of services increased by 12.2 per cent, driven mainly by higher revenues from travel-related services and telecommunications, computer and information services. According to NSI data, the number of visits by foreign nationals to Bulgaria increased by 16.0 per cent in 2023, reaching its 2019 level, before the spread of the COVID-19 pandemic. Imports of services in nominal terms grew by 2.7 per cent, mostly due to the higher costs incurred by Bulgarian residents for travel abroad, while, at the same time, imports of transport services decreased compared to 2022. NSI data for 2023 indicate that Bulgarian residents' visits abroad rose by 12.4 per cent on an annual basis.

In 2023, net primary income deficit increased compared to the previous year, mostly as a result of the higher outflows under the equity income sub-item related to reinvested earnings on direct investment. In 2023, the net secondary income surplus did not change substantially.

The balance of payments capital account surplus increased by EUR 489 million to EUR 1283 million in 2023 (1.4 per cent of GDP). The higher surplus was driven by a larger reduction in outflows on the gross acquisition/disposal of non-produced non-financial assets item compared with the decrease in capital transfers to the general government sector.

Reflecting the above dynamics in current and capital account flows in 2023, a surplus was reported on both accounts at 1.7 per cent of GDP (against a surplus of 0.5 per cent of GDP for 2022).

The financial account of the balance of payments recorded a net inflow of EUR 1850 million (2.0 per cent of GDP) in 2023, compared with EUR 431 million (0.5 per cent of GDP) in 2022, while newly assumed liabilities to non-residents exceeded the newly acquired foreign assets by Bulgarian residents. Liabilities to non-residents increased mainly due to an increase in direct investment in the form of reinvested earnings of non-financial corporations and banks, as well as an increase in the government portfolio investment. Direct investment liabilities (reporting direct investment into Bulgaria) reached EUR 3798 million in 2023, posting an increase on 2022 (EUR 3130 million). Government bond issues in the international capital markets of EUR 1.5 billion in January and EUR 2.3 billion in November contributed to the increase in government foreign liabilities in 2023. The new foreign assets acquired in 2023 were mainly in the form of portfolio investments of the non-bank private sector and deposits of the banking sector.

[14] Non-seasonally adjusted national account GDP data.

[15] The unfavourable terms of trade in 2023 reflected a stronger year-on-year decline in the deflator of exports of goods than that in the deflator of imports of goods.

[16] In this chapter, it should read the machines, vehicles, appliances, instruments and weapons group under the Combined Nomenclature.

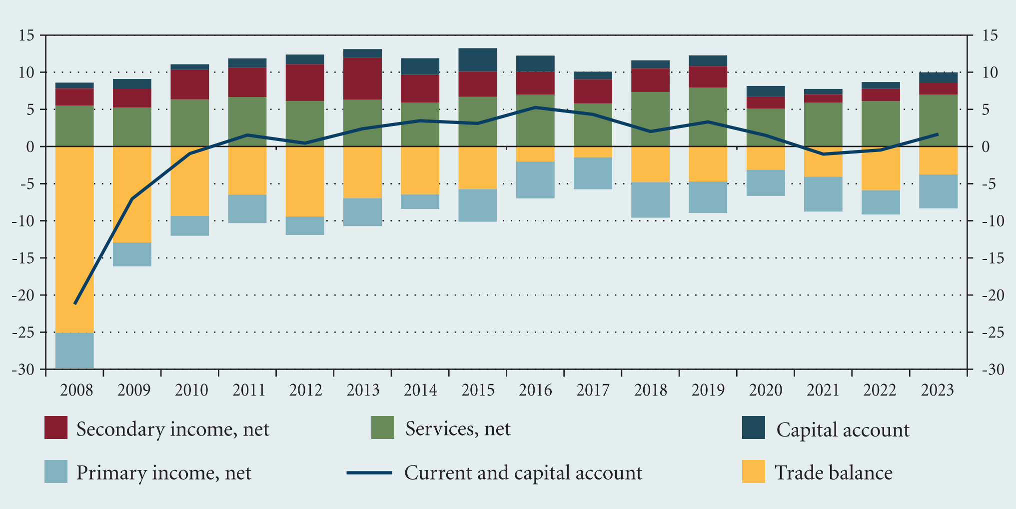
[17] In this chapter, it should read mineral products and fuels group under the Combined Nomenclature.

[18] In this chapter, it should read the base metals and their products group under the Combined Nomenclature.

[19] In this chapter, it should read chemical products, plastics and rubber under the Combined Nomenclature.

Current and Capital Account Flow Dynamics and Contribution by Components

(per cent of GDP)



Sources: BNB, NSI, BNB calculations.

The financial account of the balance of payments recorded a net inflow of EUR 1850 million (2.0 per cent of GDP) in 2023, compared with EUR 431 million (0.5 per cent of GDP) in 2022, while newly assumed liabilities to non-residents exceeded the newly acquired foreign assets by Bulgarian residents. Liabilities to non-residents increased mainly due to an increase in direct investment in the form of reinvested earnings of non-financial corporations and banks, as well as an increase in the government portfolio investment. Direct investment liabilities (reporting direct investment into Bulgaria) reached EUR 3798 million in 2023, posting an increase on 2022 (EUR 3130 million). Government bond issues in the international capital markets of EUR 1.5 billion in January and EUR 2.3 billion in November contributed to the increase in government foreign liabilities in 2023. The new foreign assets acquired in 2023 were mainly in the form of portfolio investments of the non-bank private sector and deposits of the banking sector.

As a result of net current, capital, and financial account flows, in 2023 BNB international reserves rose by EUR 3280 million, according to balance of payments data (valuation adjustments and revaluations excluded). After taking into account changes in international reserves on the BNB Issue Department balance sheet, including valuation adjustments and price revaluations, by end-December 2023, they grew by EUR 3501million from the end of 2022.

As of December 2023, Bulgaria's gross external debt was EUR 45.1 billion (48.0 per cent of GDP), up EUR 820 million compared to end-2022, mainly due to an increase in banking and general government debt, while other sectors' debt[20] contracted.

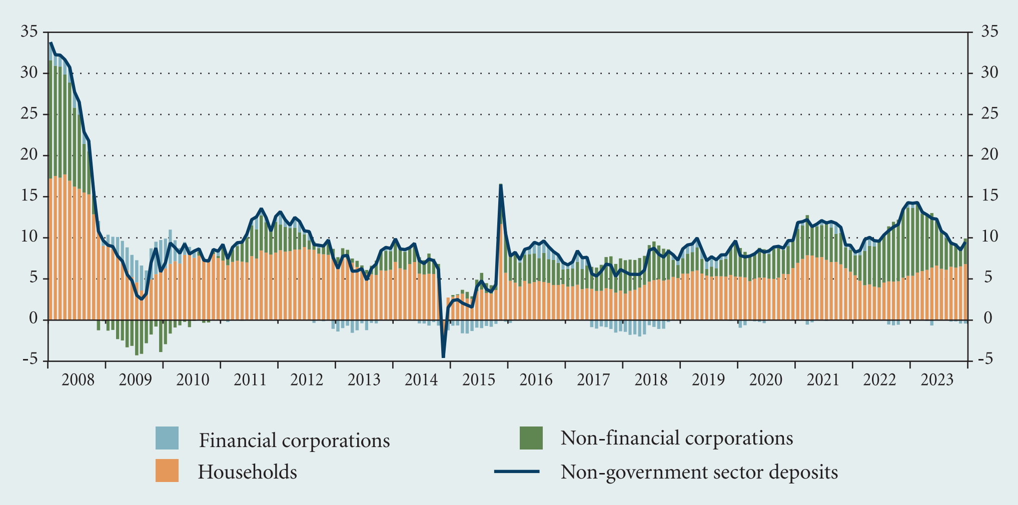
In early 2023, the banking system continued to be characterised by ample liquidity, slow and low pass-through of the effects of the ECB monetary policy tightening to interest rates on deposits and loans, especially in the household sector, and continued strong credit growth to households, supported by both demand-side factors and the strong credit supply by banks. Taking these trends into account, as well as the strong consumer demand and the accelerated rate of growth in consumer prices, on 26 April 2023 the BNB Governing Council decided to increase the MRR rate for funds attracted from banks in two steps. According to the decision, as of 1 June 2023, the MRR on funds attracted from non-residents by banks increased from 5 per cent to 10 per cent, and as of 1 July

[20] It should read sectors other than general government, banks and central bank.

2023, the MRR on funds attracted by banks from residents and non-residents was raised from 10 per cent to 12 per cent. The BNB decision aims to tighten monetary conditions in Bulgaria by absorbing part of the excess liquidity in the banking system, thus reducing banks' free resources and lending capacity and creating incentives for a faster and stronger pass-through of the increased interest rates in the euro area to domestic interest rates. The measure resulted in the withdrawal of liquidity of approximately BGN 3.3 billion from the banking system. However, this did not affect the slowdown in the growth of credit to households, as the necessary resources to cover the increased MRR were acquired by banks through the transformation of mainly foreign liquid assets and, to a lesser extent, excess reserves into minimum required reserves. By the end of 2023, the effects of the increase in the MRR rate on the interest rates on deposits and loans to households for the banking system as a whole also remained limited due to the continued ample liquidity, driven by both the growth in non-government sector deposits and, in particular, in deposits of households, and by the policy of maintaining budget deficits.

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: BNB.

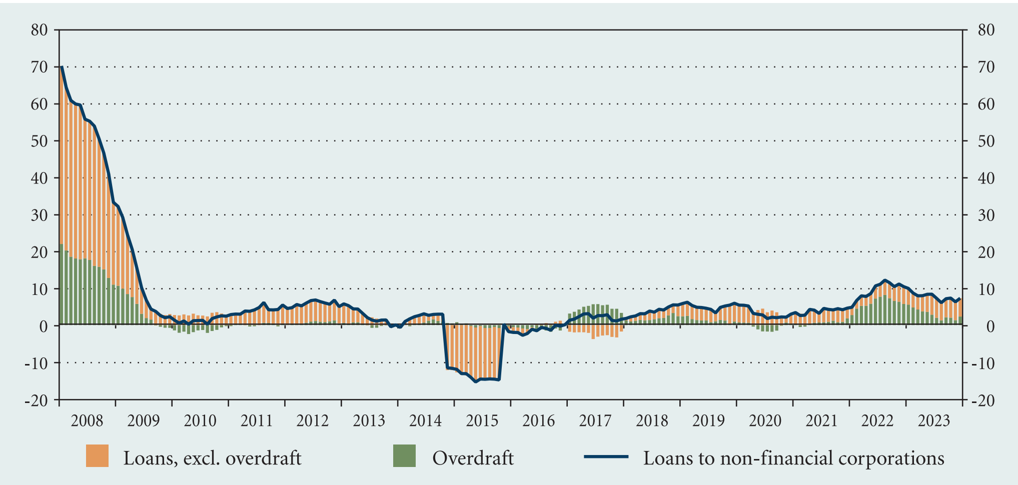
In 2023, annual growth of non-government sector deposits in the banking system followed a downward trend, reaching 9.5 per cent as of December. The downward dynamics was driven by a significant slowdown in the growth of deposits of non-financial corporations to 9.0 per cent (26.6 per cent as of December 2022). This was the result of lower nominal turnover growth in retail trade and the reported decline in the nominal turnover in industry. The upward trend in interest rates on new time deposits of non-financial corporations was a factor for the increase in deposits with agreed maturity, and at the end of the review year they contributed significantly to deposit growth in this sector. Annual growth in household deposits accelerated to 11.0 per cent in December 2023 (8.3 per cent at the end of December 2022), supported mainly by rising labour income and retained preferences of households for saving in deposits. The gradual increase in interest rates on new time deposits offered by some banks was relatively less important, which encouraged households to channel part of their savings towards time deposits. At the end of 2023, overnight deposits continued to contribute most to the annual growth of household deposits.

Annual growth in loans to non-financial corporations slowed down to 7.3 per cent at the end of 2023, driven by a lower contribution from corporate overdrafts, which reflected weaker demand for financing for working capital and accumulation of inventories in the context of falling inventories in the economy. In the case of loans other than overdraft, growth accelerated slightly against the backdrop of strong bank credit supply and the increased demand from firms. The effects of the increases in euro area policy rates on interest rates on new loans were more pronounced in the non-financial corporations sector[21] and reflected the much larger share of euro-denominated loans, for which interest rates are often linked to the reference indices in the euro area interbank market. In real terms, interest rates on new loans to non-financial corporations (excluding overdraft) remained negative for most of 2023, but the negative values were significantly lower than in 2022.

Concurrently, new loans to households are almost entirely denominated in levs, and the interest rates on them are formed by some of the larger banks on the basis of a selected interest rate on outstanding balances of deposits only for the household sector or for the banking system as a whole which remained at very low levels in 2023. Annual growth of credit to households remained very high in 2023, especially in the housing lending segment. At the end of the review year, growth in housing loans stood at 20.5 per cent (17.9 per cent in December 2022). On the demand side, the main factors behind the growth of housing lending continued to be rising labour income, the still very low nominal interest rates on housing loans, which are negative in real terms, and households' maintained preferences to purchase real estate as an alternative form of investment or saving. On the supply side, the growth of housing loans was affected by the ample liquidity in the banking system, banks' sound capital position and the competition between banks, which continued to contribute to keeping lending rates on housing loans at historically very low levels. In addition, growth in residential property prices was a precondition for growth in new residential credit volumes, which supported housing lending growth, despite the reported year-on-year fall in the number of concluded sale and purchase transactions. The growth rate of consumer credit was 12.3 per cent on an annual basis in December 2023, unchanged from the end of 2022.

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

(per cent, percentage points)



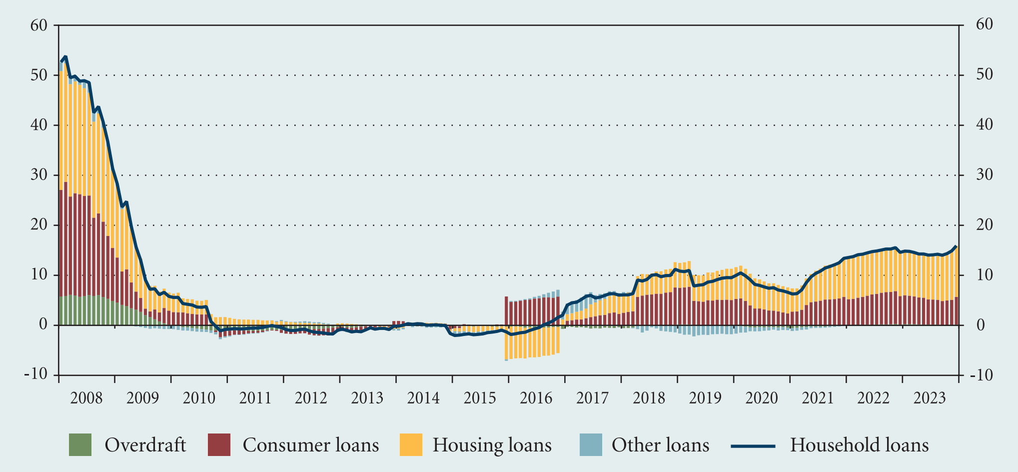
Note: The annual growth rate of loans to non-financial corporations in November 2015 reflects the exhausted base effect of KTB removal as a reporting unit from the monetary statistics in November 2014.

Source: BNB.

[21] Reflecting a rise in the three-month EURIBOR rate of 187 basis points in December 2023 compared to December 2022, the average weighted interest rate on new time deposits to non-financial corporations recorded an increase of 164 basis points, while the weighted average interest rate on new time deposits to households went up by 56 basis points. Over the same period, the weighted average interest rate on new corporate loans increased by 156 basis points, while the weighted average interest rates on new consumer and housing loans decreased by 11 basis points and 6 basis points, respectively.

Annual Household Credit Growth and Contribution by Loan Type

(per cent, percentage points)

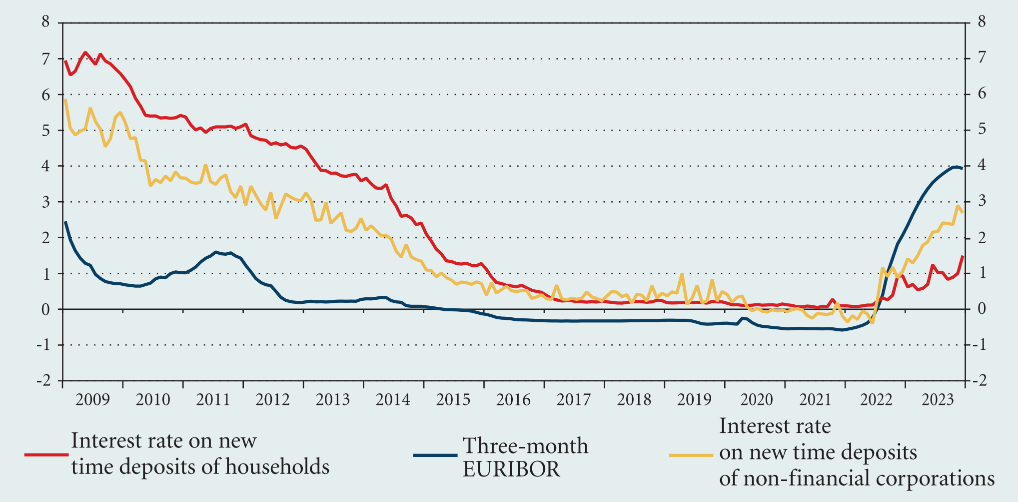


Note: Based on additional information received from reporting units, a revision of household loans was carried out according to their purpose of use in December 2015–August 2019.

Source: BNB.

Interest Rates on New Time Deposits and Three-Month EURIBOR

(per cent, percentage points)



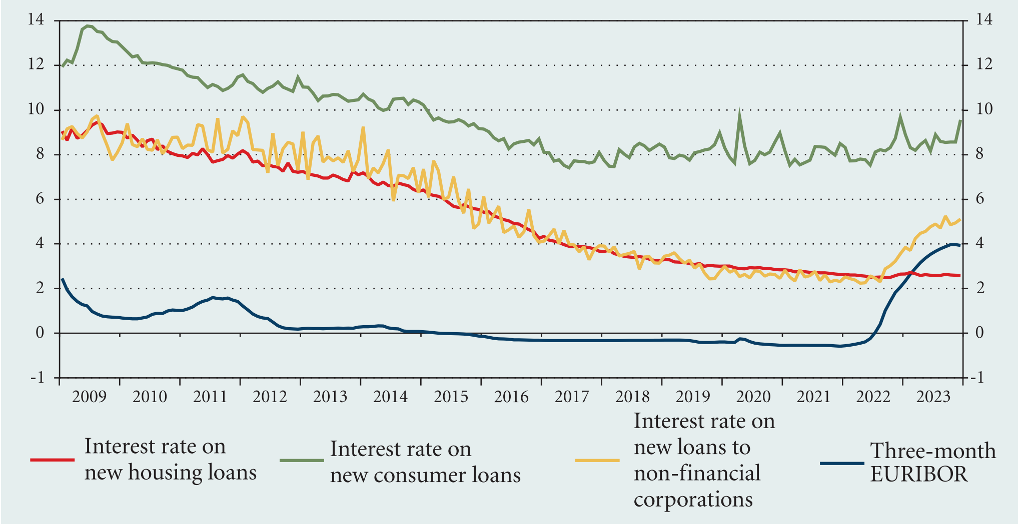
Note: Average deposit rates for non-financial corporations and households are calculated based on interest rates for all maturities and currencies across individual sectors, weighted by the relevant volumes of new deposits .

Sources: BNB, ECB.

The results of the Bank Lending Survey, conducted by the BNB on a quarterly basis, showed an increase in demand for corporate loans in the first and last quarters of 2023, a decrease in the second quarter and no change in the third quarter. In the household sector, banks report an increase in demand for consumer credit in the first half of the year and no change thereafter, while demand for housing loans remained stable in the first two quarters of 2023 and increased slightly in the July–December period. According to the banks' weighted responses, the increased demand for corporate loans over the review year was mainly driven by the need to secure financial resources for working capital and inventories (although it is estimated as weaker compared with that in 2022) and, to a lesser extent, financing needs for investment purposes. Concurrently, the rise in interest rates was the main factor that contributed to a fall in demand for corporate loans in 2023.

Interest Rates on New Loans and Three-Month EURIBOR

(per cent, percentage points)



Note: The interest rates on new housing loans, consumer loans and new loans to non-financial corporations are calculated from the interest rates on all maturities and currencies by loan type, weighted by the corresponding volumes of new loans.

Sources: BNB, ECB.

In the household sector, the purchase of goods for current consumption and that of durable goods contributed significantly to the increase in demand for consumer credit, while the purchase of first and additional homes, as well as the lower interest rates, were the main drivers of the increase in the demand for housing loans. In 2023, banks reported a continued tightening of credit standards for both loans to non-financial corporations and households. According to banks' weighted responses, the main factors behind the tightening of credit standards for corporate loans, consumer credit and housing loans were banks' reduced risk appetite and increased risk assessment. At the same time, banks indicated that competition had a limiting impact on the tightening of their lending policy towards the household sector.

The banking system retained high levels of liquidity in 2023. The liquidity coverage ratio (LCR)[22] stood at 246.7 per cent as of December (compared with 235.0 per cent at the end of 2022). As regards the dynamics of bank assets, the largest increases in 2023 were recorded in claims on the non-government sector (by BGN 10.0 billion) and in reserves with the BNB (by BGN 3.9 billion). The main factor behind the increase in banks' reserves was the measure taken by the BNB to increase the MRR rate, which banks fulfilled through the transformation of mainly foreign liquid assets and, to a lesser extent, excess reserves into minimum required reserves. Over the first five months of the year under review, banks' foreign assets reported an increase of BGN 7.8 billion, driven by banks' demand for higher returns on their assets in the context of the widening negative spreads between the BNB's excess reserves rate (0 per cent) and the ECB's deposit facility rate following the increases in euro area policy rates. Between June and November, banks' foreign assets decreased (by BGN 3.8 billion) as a result of the conversion of part of these assets into minimum required reserves with the BNB following the increase in the MRR rate. In December, banks' foreign assets continued to decline, which is normal for this time of the year.

Bank transactions with the BNB in reserve currency (euro) are the main instrument of banks for managing their lev liquidity under the currency board arrangement in

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

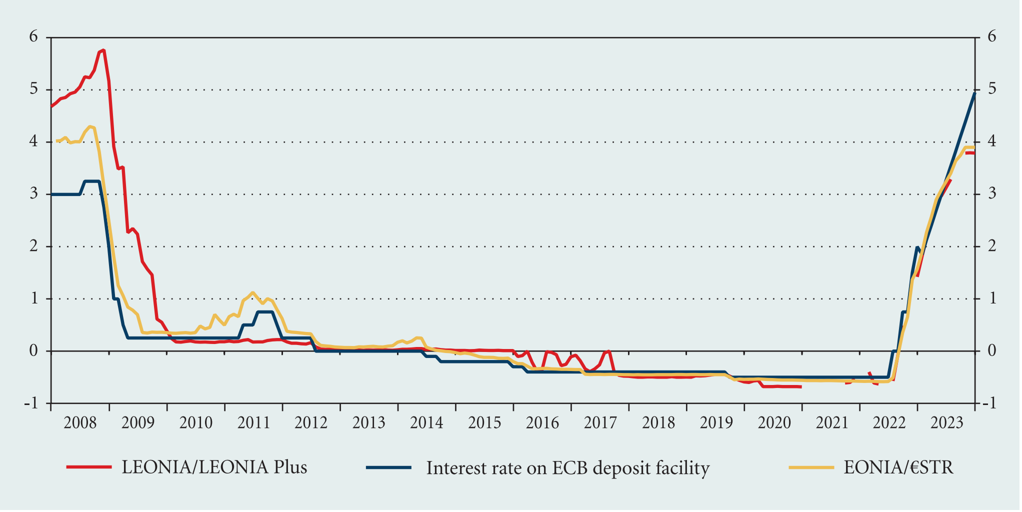
Bulgaria. This takes advantage of the main function of the currency board: buying and selling levs for euro at the fixed exchange rate set by the Law on the Bulgarian National Bank. In 2023, BNB sales (net) to commercial banks were EUR 1.1 billion[23].

The activity in the interbank lev money market was high in 2023, with the total volume of concluded transactions reaching BGN 130.4 billion (BGN 23.8 billion in 2022). The upward trend in trading volumes that began in the second half of 2022 continued in the first eight months of 2023. This development was supported by the widening of the spread between the BNB's excess reserve rate and the ECB's deposit facility rate until September 2023, which created an incentive for domestic commercial banks to reduce their excess reserves in search of higher yields and to obtain liquidity from the interbank money market when needed. Between September and December 2023, trading volumes in the interbank money market declined, but remained at a relatively high level.

In the context of a functioning currency board in Bulgaria, the continued increase in euro area policy rates in 2023 was passed on relatively quickly to the interest rates on transactions concluded in the interbank money market in Bulgaria. As of December 2023, the LEONIA Plus index reached 3.79 per cent (1.42 per cent in at the end of 2022), while the spread between LEONIA Plus and *€STR* was negative at -11 basis points (-15 basis points in December 2022).

Overnight Interbank Money Market Rates

(per cent, monthly average amount)



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. The EONIA/€STR series is composed of: EONIA between 2008 and 14 March 2017; pre-€STR between 15 March 2017 and 30 September 2019; €STR in the period after 30 September 2019.

Sources: BNB, ECB.

In 2023, CFP budget balance was negative and amounted to BGN -5619 million[24] (-3.1 per cent of GDP[25]) against a budget deficit of BGN -4580 million set in the CFP programme for the year.[26] The deterioration in the budget balance compared to

[23] Data refer to all bank transactions in foreign currency, including liquidity management operations related to the transfer of own funds from lev accounts with the BNB to own accounts with the BNB in euro, and *vice versa*.

[24] Based on monthly reports on cash implementation of the budget, published on the Ministry of Finance website.

[25] Nominal GDP for 2023 is based on preliminary data from the National Statistical Institute of 8 March 2024.

[26] The CFP programme for 2023 is presented in the Updated Medium-Term Budgetary Forecast for 2024–2026 as explanatory memorandum to the draft State Budget Law of the Republic of Bulgaria for 2024, approved by Resolution No 830 of the Council of Ministers of 24 November 2023.

the 2023 programme was due to the delayed receipt of the second tranche under the National Recovery and Resilience Plan, as well as to the cash-based expenditure in 2023 of BGN 1.2 billion earmarked for the implementation of the investment programme for municipal projects presented in the State Budget Law for 2024. At the same time, lower-than-planned operating expenditure, social spending and subsidies were factors limiting the realised budget deficit.

The annual growth rate of total revenue and grants under the CFP was 3.5 per cent in 2023 and was entirely determined by the increase in tax revenue, while non-tax revenue and revenue from grants reported a decline. Social and health insurance revenue, as well as other tax revenue contributed most to the increase in tax revenue. The upward dynamics of compensation of employees had the most significant impact on the increase in social and health insurance revenues. The growth in other tax revenue was driven by energy companies' contributions to the Electricity System Security Fund, which have been reported as other tax revenue since the beginning of the year.

In 2023, total CFP expenditure grew by 9.9 per cent year on year, mainly due to the increases in social spending and capital expenditure. A key factor for the upward trend in social expenditure was the increased amount of pension payments.[27] The growth in capital expenditure was supported by both nationally funded capital expenditure, which was also driven by the reported capital expenditure allocated to the Investment Programme for Municipal Projects in the State Budget Law for 2024 and EU-funded capital expenditure, which increased significantly as a result of the completion of projects from the 2014–2020 programming period.

By the end of December 2023, the total amount of the fiscal reserve, including claims on EU funds for certified expenses, advances and other payments, was BGN 13,397 million. Fiscal reserve deposits fell by BGN 1250 million on end-2022 to BGN 10,880 million (5.9 per cent of GDP), of which BGN 10,183 million were deposits with the BNB. In 2023, no government securities were issued in the domestic market and, at the same time, payments were made on maturing government securities, resulting in a negative net domestic financing of the budget with government securities of BGN 350 million.[28] Over the year, the net external financing of the budget was positive and amounted to BGN 4643 million, mainly as a result of proceeds from the Eurobonds issued in the international capital markets during the year for the total nominal amount of EUR 3.8 billion and the repayment of maturing Eurobonds for the nominal amount of EUR 1.144 billion.

At the end of 2023, the yield on Bulgarian Eurobonds issued in the international capital markets reported a decline compared to the end of 2022, which was most pronounced for securities maturing in 2029 and amounted to 87 basis points.[29] At the end of 2023, there was diverging dynamics in terms of the spread between Bulgarian and German government bond yields compared to the end of 2022. Spread changes were more pronounced for securities maturing in 2027, 2029 and 2034. For securities maturing in 2029 and 2034, there was a narrowing of the spread (by 26 basis points and 25 basis points to 162 basis points and 178 basis points, respectively) due to the stronger decline in the yield of Bulgarian government bonds compared with that of German government bonds. The stabilisation of the political situation in Bulgaria after the formation of a regular government in June 2023 was a factor with a potential impact on the narrowing of the spreads between Bulgarian and German government bond yields. The spread of bonds maturing in 2027 widened by 20 basis points to 105 basis points.

[27] As of 1 July 2023, the increase of the basic pension of all pensioners by 12 per cent came into force, while the maximum amount of one or more pensions received, excluding allowances thereto, was left unchanged at BGN 3400.

[28] For more information on government securities domestic market, see Chapter XI.

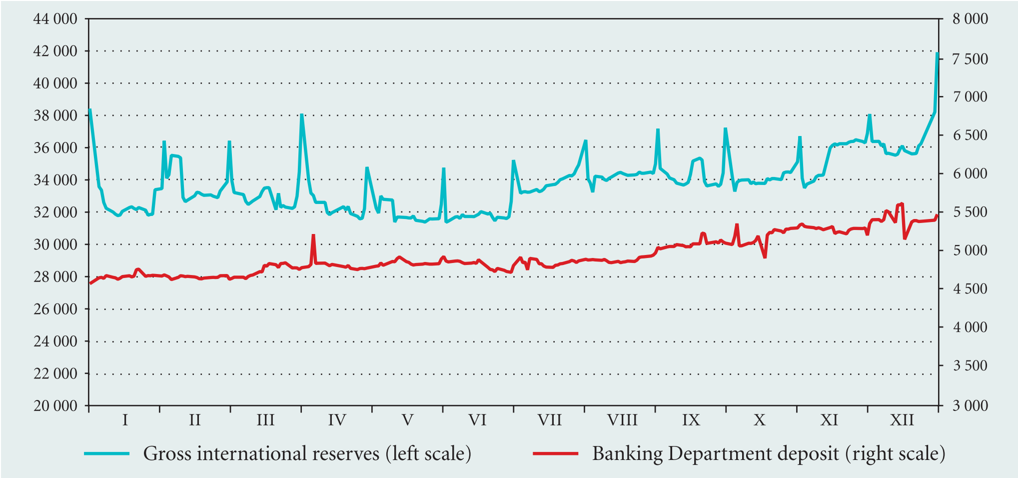
[29] An increase in Bulgarian government bond yields was only reported for the securities maturing in 2024.

II. Gross International Reserves

The BNB manages its gross international reserves in line with the Law on the Bulgarian National Bank[30], 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 BNB[31]. The excess of gross international reserves over monetary liabilities forms the Banking Department Deposit item or the net value of the Issue Department's balance sheet[32].

Gross International Reserves and Banking Department Deposit in 2023

(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.

Source: BNB.

---

[30] There were no Law on the BNB amendments to the regulatory framework of gross international reserve management over the reporting period.

[31] 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.

[32] According to the LBNB 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 December 2023, the balance sheet value of gross international reserves was EUR 41,925.58 million: up EUR 3501.27 million[33] on end-2022 or 9.1 per cent as a share of BNB foreign currency assets.

External Cash Flows in Foreign Currency

(EUR million)

	2022	2023
I. Euro purchases and sales		
At tills	-400	-424
With banks	-1,326	2,415
purchases from banks	58,239	86,164
sales to banks	-59,565	-83,749
Subtotal I	**-1,726**	**1,991**
II. Currency flows with banks, the MF, *etc.*		
Bank reserves (including minimum required reserves)	-229	-2,762
Government and other depositors	4,843	4,704
Subtotal II	**4,615**	**1,942**
Total I+II	**2,889**	**3,933**

Source: BNB.

Changes in the market value of international reserves were mainly driven by external cash flows and, to a lesser extent, by the income from their management. External foreign currency flows, which amounted to EUR 3933 million net in 2023, were the main factor behind the international reserve increase. Of these, the bulk were receipts into government accounts and other depositors of EUR 4704 million, most of these flows resulting from the positive net issuance of government debt of Bulgaria in the international financial markets. Purchases and sales of reserve currency by commercial banks also contributed positively to the increase in foreign reserves, with a net positive flow of EUR 2415 million. The largest negative contribution to cash flows was made by net repayments of EUR 2762 million from commercial bank accounts with the BNB, on the basis of which minimum required reserves and excess reserves of commercial banks are reported. Net reserve currency sales of EUR 424 million at tills also contributed negatively.

In 2023, there were no significant changes in the composition of gross international reserves by currency compared with 2022. The structure of financial instruments shows a decrease in current account balances by 7.0 per cent and in deposits by 9.8 per cent, while BNB's securities exposures increased by 16.8 per cent. In terms of the maturity structure, in 2023 almost all BNB investments (99.63 per cent) occupied the shortest maturity sector: from 0 to 1 year.

[33] The remaining part of the analysis of changes in BNB gross international reserves does not include balances in banks' TARGET2 payment system accounts, worth some EUR 394 million at the end of 2023. Over the first half year, balances in banks' TARGET2 accounts declined by EUR 1410 million. Tranches of Special Drawing Rights (SDR) 611 million disbursed in August and September 2009 and around SDR 859 million disbursed in August 2021 upon general SDR allocation by the IMF were also not included in these balances. For further details, see *BNB Annual Report 2009,* p. 26, and *BNB Annual Report 2021,* p. 91.

Currency Structure of Gross International Reserves

(per cent)

Currency	Issue Department balance sheet assets	
	2022	2023
EUR	91.63	92.53
USD	0.14	0.02
XAU	7.74	7.03
SDR	0.49	0.42
CHF	0.00	0.00

Source: BNB.

Structure of Gross International Reserves by Financial Instrument

(per cent)

Financial instruments	2022	2023
Vault cash*	15.10	8.08
Deposits**	34.65	24.83
Securities**	50.25	67.09

* Account balances, payments, and monetary gold.
** Including instruments in foreign currency and gold.

Source: BNB.

Gross International Reserves by Residual Term to Maturity

(per cent)

Maturity sectors	2022	2023
Up to one year	94.12	99.63
One to three years	5.48	0.32
Three to five years	0.38	0.05
Five to ten years	0.02	0.01
Over ten years	0.00	0.00

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

Source: BNB.

Gross International Reserves Risk and Return

The Market Environment

In 2023, developments in international financial markets were mainly driven by major central banks' measures to curb inflation. The pace of consumer price growth in the United States and the euro area decelerated significantly, mainly owing to the fall in commodity prices, but remained above the large central banks' targets. Therefore, the Federal Reserve System and the ECB continued to tighten their monetary policy by raising policy rates and reducing the size of central bank balance sheets through limiting reinvestments of maturing securities purchased for monetary policy purposes. In 2023, the Federal Open Market Committee (FOMC) raised the target range for the federal funds by a total of 100 basis points, while the ECB Governing Council raised the reference rates by a total of 200 basis points. The monetary policy measures taken by both central banks led to a substantial rise in US and euro area government bond yields in short-term maturity sectors. In March, significant tensions were observed in global financial markets following the bancruptcies of several US regional banks and liquidity problems that posed a threat to the viability of a global systemically important Swiss bank. This boosted demand for US and German government securities as low-risk assets, and triggered a significant increase in day-to-day volatility in international financial markets. As a result, US and German government bond yields declined. Market participants' concerns that the Federal Reserve's and the ECB's monetary policy measures would cause recession have also contributed to the decline in yields in longer-term maturity sectors. The faster than anticipated slowdown in inflation observed by market participants in the euro area and the US in the fourth quarter of 2023 confirmed their expectations that the ECB and the Federal Reserve interest rates had peaked in the current interest rate cycle and reinforced expectations of a more recent rate cut in 2024, leading to a significant decline in German and US government bond yields. Stock indices in the United States and Europe increased in 2023, this dynamics being supported by rising stock prices of technology companies and expectations of monetary policy easing by the ECB and the Federal Reserve in 2024. Indicators measuring financial market volatility in the United States and Europe declined compared with 2022, despite a short-term increase in volatility in March.

Central Banks' Policies

In 2023, the Federal Open Market Committee raised the federal funds rate by a total of 100 basis points to 5.25 per cent signalling a possible end of the current rate-rising cycle and forthcoming start of discussions about monetary policy easing in 2024. US federal funds rate was raised in four steps: by 25 basis points in February, March, May and July. All meetings of the Committee held during the year confirmed the measures underlying the Federal Reserve's balance sheet reduction plan.[34]

In response to the tensions and uncertainty built-up in the US banking sector following the bancruptcies of several regional banks in the country, on 12 March 2023, a new Bank Term Funding Program (BTFP) was launched, in addition to the traditional method of providing liquidity to the banking sector, *i.e.* the discount window. The programme, which runs until 11 March 2024, allows US deposit-taking corporations to obtain one-year term funding at an interest rate equal to Overnight Indexed Swap (OIS) plus 10 basis points against eligible collateral, which will be valued at full par value rather than at market price. Furthermore, on 19 March 2023, the Bank of Canada, the Bank of England, the Bank of Japan, the Swiss National Bank, the euro area and the Federal Reserve announced coordinated action to enhance the provision of US dollar liquidity through the standing swap line arrangements. The FOMC's March meeting indicated that problems in the US banking sector would likely be translated into tighter financing conditions for households and firms, exerting adverse pressure on economic activity, labour demand and inflation. Guidelines on the course of monetary policy were also modified by more moderate views on its future tightening. In the context of a normalisation of tensions in the US banking sector and taking into account macroeconomic developments, the FOMC interrupted the series of increases in the target range in June, referring to the need for additional time to properly assess incoming economic information. This put an end to the increases in the reference rate made at each FOMC meeting since March 2022.

With the sustainable decline in inflation towards the Federal Reserve target and the robust labour market in the US gave grounds for the FOMC to maintain its restrictive monetary policy in the period from August to December 2023. In December, the FOMC indicated that the federal funds rate was likely to have peaked or was close to peaking, signalling a possible end to the current monetary policy tightening cycle. At the meeting, it was indicated for the first time that future steps to ease the restrictive

[34] The USD 95 billion monthly cap for non-reinvestment of maturing securities was maintained: up to USD 60 billion for US government securities and up to USD 35 billion for debt securities and agency mortgage-backed securities, respectively.

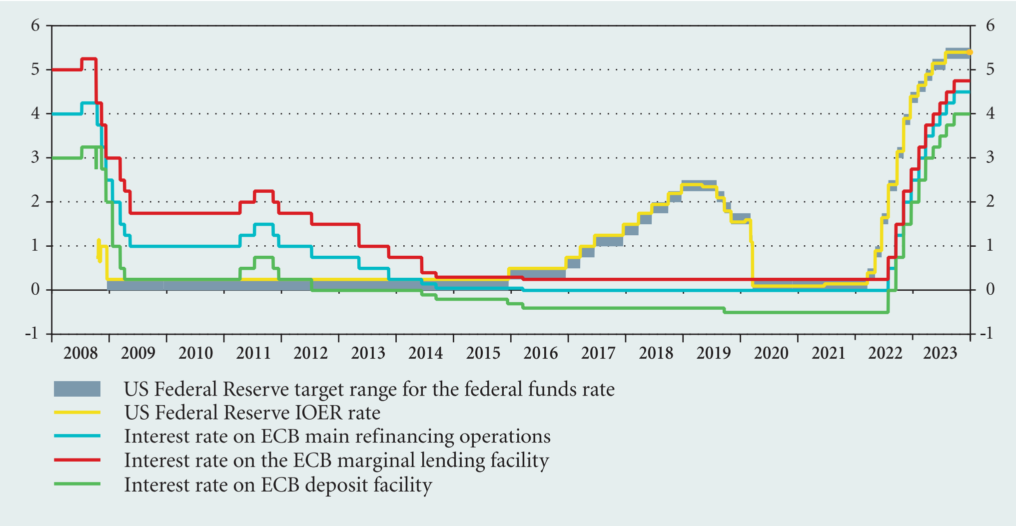
monetary policy measures were discussed, without considering possible changes to the plan to reduce the Federal Reserve's balance sheet.

With the decisions to raise the interest rate corridor in 2023, related rates were also increased. The Standing Repo Facility (SRF) minimum rate increased to 5.50 per cent and the overnight repurchase rate to 5.30 per cent. At the same time, the Federal Reserve Board increased the interest rate on banks' reserves to 5.40 per cent.

In 2023, total assets in the US Federal Reserve balance sheet decreased by USD 838 billion to USD 7.7 trillion (30 per cent of GDP for 2023 compared to 34.4 per cent of GDP for 2022).

Key ECB and US Federal Reserve Interest Rates

(per cent)



Sources: ECB; the Federal Reserve System.

In view of the high level of inflation, deviating significantly from the ECB's 2 per cent target, the Governing Council continued to raise reference rates in the first half of 2023, with interest rates on the main refinancing operations, the marginal lending facility and the deposit facility standing at 4.50 per cent, 4.75 per cent and 4.00 per cent, respectively. The overall increase throughout the year was 200 basis points and was implemented through ECB's Governing Council decisions on increases taken at all meetings over the first three quarters of 2023 (by 50 basis points each in February and March, and by 25 basis points each in May, June, July and September). The level of the deposit facility rate was the highest since the creation of the euro area.

At its March meeting, the ECB Governing Council stated that future monetary policy decisions would be based on the assessment of financial market developments following the turmoil in the US and Swiss banking sectors and, if necessary, it would be ready to take measures to prevent a deterioration in economic prospects and financial stability in the euro area. In March, the Eurosystem started to reduce the size of its balance sheet by an average of EUR 15 billion *per* month by limiting the reinvestments of maturing securities under the Asset Purchase Programme (APP), and the May meeting announced that these reinvestments would be discontinued from July 2023. In July, the ECB announced that from the beginning of the maintenance period, starting on 20 September 2023, the remuneration of banks' minimum reserves would be at 0 per cent instead of the previously used deposit facility rate. At its September meeting, the Governing Council of the ECB indicated that the key ECB interest rates had reached a level which, if maintained for a sufficiently long period, would contribute significantly to the timely return of inflation to the target level.

In order to maintain the downward trend in euro area annual inflation towards the ECB's target, the Governing Council of the central bank kept the key interest rates unchanged in the last quarter of 2023. At its December 2023 meeting, it was also announced that it intends to start reducing from mid-2024 reinvestments of maturing securities purchased by the Eurosystem under the Pandemic Emergency Purchase Programme *(*PEPP*)* by an average of EUR 7.5 billion *per* month and to discontinue them at the end of 2024.

The Eurosystem balance sheet followed a downward trend in 2023, owing to targeted longer-term refinancing operations (*TLTRO III),* and as of 29 December 2023, it fell to EUR 6935 billion (51.4 per cent of GDP in 2022), from EUR 7956 billion (59 per cent of GDP in 2022). At the same time, excess liquidity in the euro area banking system decreased by EUR 359 billion, compared with the end of 2022, to EUR 3470 billion.

The rise in the ECB deposit facility rate was the main factor driving a significant increase in €STR and unsecured deposit rates in the interbank market in 2023. The average value of €STR in 2023 rose to 3.21 per cent, from -0.01 per cent in 2022. The trade volume of overnight deposits on the euro area unsecured money market in 2023 increased, with its daily average over the year coming to EUR 60.9 billion compared with EUR 55.9 billion in 2022. In 2023, EURIBOR unsecured deposit rates increased significantly. The interest rate on deposits with a maturity of three months at the end of 2023 increased to 3.91 per cent (compared to 2.13 per cent at the end of 2022) and interest rates on deposits with a maturity of six months and 12 months increased to 3.86 per cent and 3.51 per cent, respectively, from 2.69 per cent and 3.29 per cent, accordingly, at the end of 2022.

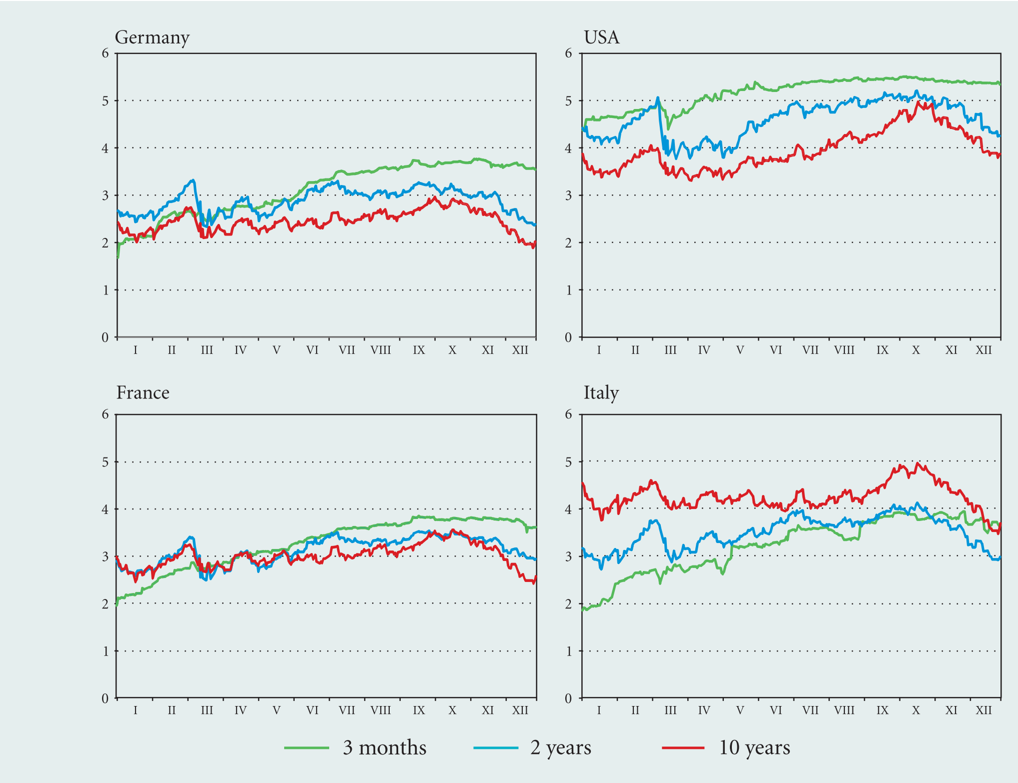
Euro Area and US Sovereign Bond Yield Curve

In 2023, US sovereign bond yield developments diverged across maturity sectors. Two-year bond yields declined by 18 basis points to 4.25 per cent, and ten-year yields remained broadly unchanged at 3.88 per cent. By end-2023, the slope of the US sovereign bond yield curve measured by ten- and two-year bond yield spreads increased by 18 basis points on the end of 2022 to -37 basis points. With the exception of March, the dynamics of US government bond yields was mainly upward until mid-October. The main factors behind the upward movement of yields in the first ten months were Federal Reserve System decisions to raise the reference rate in response to high domestic inflation. At the same time, tensions in financial markets at the end of the first quarter following the failure of several US regional banks and the uncertainty related to the widening limit on the size of US sovereign debt in the second quarter contributed to the short-term decline in yields. Fluctuations in yield dynamics over the review period also reflected data releases on the US economy, mainly on inflation and labour market developments, which affected market participants' expectations regarding the length of the cycle of Federal Reserve rate increases. As a result of the positive economic developments, US government bond yields in maturity sectors above one year peaked in October reaching the highest levels since 2006-2007. Two-year government bond yields in the second half of the year reached 5.22 per cent – the highest level since July 2006, while ten-year yields reached 4.99 per cent, the highest level since July 2007. The sustained downward trend in inflation and the associated change in the forward guidance of FOMC's monetary policy resulted in an increase in market expectations in November and December 2023 of a near start of Federal Reserve's easing of the restrictive monetary policy. An additional factor behind the decline in yields at the end of the year was the increased demand for low-risk assets due to Israel's military operation in the Gaza Strip and the subsequent escalation of geopolitical tensions in the region. Other factors driving the dynamics of US government bond yields in 2023 were the political antagonism in the US Congress, which led to a slowdown in the increase in the US government's debt limit, and difficulties in adopting the government's budget for fiscal 2024.

In 2023, German government bond yields rose significantly across the maturity sectors of up to one year and declined across longer-term maturity sectors. German government two-year bond yields declined by 36 basis points to 2.40 per cent, with ten-year yields falling by 55 basis points to 2.02 per cent. The negative slope of the German yield curve increased, as the slope measured by the spread between the yield on ten-year and two-year government bonds widened to -38 basis points The key factor behind the rise in German government bond yields in the short-term maturity sectors was the increase in key ECB interest rates. The rise in German government bond rates was contained in March by the financial turmoil at some major US regional banks and the Credit Suisse, which boosted demand for German bonds as a low-risk asset. The decline in German government bond yields in longer-term maturity sectors reflected macroeconomic data on the euro area which in 2023 were predominantly weaker than expected. The increased demand for low-risk assets due to the military conflict between Israel and Hamas and the ensuing rise in geopolitical tensions in the Middle East were the driving factors for the decline in German government bond yields in October. The faster slowdown in euro area inflation and weaker than projected GDP data in the third quarter confirmed market participants' expectations that key ECB interest rates had peaked in the current interest rate cycle and reinforced their expectations of a near rate cut in 2024, which contributed to the substantial decline in German government bond yields in the fourth quarter.

Government Bond Yields in 2023

(per cent)



In 2023, yield spreads between euro area countries' and Germany's government bonds narrowed. Ten-year government bond yields of periphery euro area counties fell more strongly than the corresponding German government bonds, owing to positive changes in the credit rating of government debt of many of the countries. In this maturity sector, the largest declines in spreads were observed in Greece's sovereign bonds (-101 basis points), Italy's (-47 basis points), Portugal's (-38 basis points) and Spain's (-12 basis points). Over the year, three credit rating agencies upgraded their rating of Greece's government debt, Fitch from BB to BB+, Moody's by two notches from Ba3 to Ba1 and S&P by one notch from BB+ to BBB-. Credit rating agencies motivated the increase in the rating by improved macroeconomic indicators, increased fiscal sustainability and lower risks in the Greek banking sector. A major factor behind the narrowing of Italy's government bond spread was Moody's increased outlook for the country's credit rating (Baa3) from 'negative' to 'stable', which was justified by the stabilisation of economic growth prospects, the banking sector's good performance and sovereign debt dynamics. Portugal's spread was positively affected by the increase in Fitch rating from BBB+ to A- with a 'stable' outlook. A factor behind the improved rating was the decline in the government debt-to-GDP ratio. Moody'salso upgraded Portugal's long-term rating, by two notches from Baa2 to A3, as a result of the sustained positive effects of a series of economic and fiscal reforms that have led to a decline in private sector indebtedness and a continued strengthening of its banking sector. Spreads of euro area core countries posted a significantly weaker decline throughout the year. Austria's ten-year government bond spread decreased by 6 basis points, that of Belgium by 7 basis points, and of Finland by 2 basis points. Austria's spread was positively influenced by Fitch's decision to confirm the country's credit rating (AA+) and to raise the rating outlook from 'negative' to 'stable'. Finland's spread was positively affected by the announced target of the newly formed centre-right coalition government to reduce the budget deficit to 1 per cent of GDP by 2027. France's spread narrowed slightly by 1 basis point and the Netherlands' by 3 basis points. In April, Fitch downgraded France's credit rating from AA to AA- due to weak fiscal indicators, including a high level of public debt and high interest costs for its servicing.

Gold and Exchange Rates

In 2023, the dollar depreciated by 3.1 per cent against the euro, with unstable and volatile exchange rate dynamics. The USD/EUR exchange rate moved between USD 1.05 and 1.12 *per* EUR 1 (EUR 0.89 to 0.96 *per* USD 1). The depreciation of the dollar against the euro was due to a shift in market participants' expectations regarding the Federal Reserve's and the ECB's monetary policies. As a result of tensions in US financial markets, in March a marked increase was observed in market participants' expectations that the Federal Reserve could stop its monetary policy tightening process. These expectations weakened in the second quarter reflecting a relatively slow downward trend in US core inflation and signals from the Federal Reserve that further increases in the target rate would be needed. In the third quarter, the depreciation trend of the dollar against the euro was briefly interrupted due to an increase in the interest rate spread between long-term government bond yields in the United States and the euro area, owing to a deterioration in the economic prospects of the euro area *vis-à-vis* those of the United States and signals from the ECB for a possible end of the process of raising reference interest rates. At the end of the year, the depreciation of the dollar against the euro was due to a significant increase in market expectations for the start of a cycle of declines in the US reference rate in March 2024, which led to a decrease in US government bond yields and a narrowing of the interest rate spread between US and euro area long-term government bond yields.

In 2023, the spot gold price rose by 13.1 per cent to USD 2063 *per* troy ounce and by 9.7 per cent to EUR 1869 *per* troy ounce. Gold price moved within a relatively wide range between USD 1811 to USD 2078 *per* troy ounce. In the first quarter of 2023, gold appreciated significantly as the uncertainty about the stability of the US and Switzerland's banking sector strongly increased the demand for gold in its role as a safe-haven asset. Gold prices declined during the second and third quarters owing to weakening of these concerns, a shift in market participants' expectations of a longer continuation of the Federal Reserve's tight monetary policy, as well as a rise in US government bond yields in real terms. In early October, the price of gold rose sharply due to the military conflict between Israel and Hamas. By the end of 2023, the FOMC monetary policy decisions were the main driver of the change in gold prices. The guidelines for the future monetary policy following the Committee's meeting in November and subsequent comments by its members reinforced market expectations of an end of the process of raising the key interest rate and of an impending decline in 2024, which, in turn, had a positive effect on the price of gold.

The USD/EUR Exchange Rate in 2023

(EUR)

Troy Ounce Gold Price in US Dollars in 2023

(USD)

Troy Ounce Gold Price in Euro in 2023

(EUR)

Major Types of Risk

Net value risk in the Issue Department balance sheet in 2023, as measured by the standard deviation of net return, was 10.01 per cent on an annual basis.

International reserve interest risk in 2023, measured by reserves' average modified duration was 0.18 years. The duration maintained was 0.03 years shorter than the average for 2022. The relative interest risk limit of investment portfolios was set on the basis of a tracking error risk measure at not more than 0.10 per cent standard deviation of relative yield (increased to 0.25 per cent since 15 June 2023).

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 positions[35] 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. In 2023, there were minimal open positions in foreign currencies other than euro, with the main currency risk stemming from the open position in gold.

In 2023, the BNB continued managing gross international reserve investment credit risk conservatively. To achieve its main objectives of high international reserve security and liquidity, the main share of assets continued to be invested into euro area core country government bonds and government guaranteed debt securities, and into short term deposits with first class foreign central or commercial banks. By end-2023, the exposure to credit risk remained limited and approximately 63 per cent of international reserves were invested into assets with the highest AAA long-term credit rating.

During the year, some investment restrictions were modified to take account of market events. Given the deteriorated confidence of depositors in US and Swiss banks following the turmoil in the banking sectors of both countries, in the second half of March investments in certain asset classes and towards some BNB counterparties were preventively restricted. Measures taken by US and Swiss regulators to restore the stability of the banking sector in these countries have reduced risk in financial markets, and, therefore, some of the imposed investment restrictions were lifted in mid-June 2023.

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 in the Issue Department balance sheet is the sum of three components: i. income from gross international reserves investment in the original currency; ii. currency imbalance income[36]; and iii. liabilities expenditure/income. In 2023, BNB income from international reserve investment was positive at EUR 924.6 million, or 2.95 per cent yield for the year.

This result was due to both the higher yields to maturity of short-term securities and interest on deposits in first-class banks and the chosen low duration exposure of foreign reserves.

Earnings from currency imbalance for the first half of 2023 was positive, standing at EUR 212 million (yield of 0.59 per cent). This reflected primarily movements in the market price of monetary gold measured in euro. As a result of the BNB interest rate policy, the net financial result from liabilities led to an expense of EUR 194.2 million

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

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

for the BNB, corresponding to -0.62 per cent of return. In 2023, the above three components brought net returns from international reserve management to EUR 942.4 million: a total of 2.92 per cent return for 2023[37].

International Reserves Income and Return* in 2023

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	263.57	0.84	155.59	0.51	148.26	0.46	-40.29	-0.13
Second quarter	69.02	0.22	189.24	0.63	-78.33	-0.28	-41.90	-0.13
Third quarter	200.01	0.60	263.53	0.82	-11.05	-0.04	-52.46	-0.17
Fourth quarter	409.82	1.23	316.27	0.96	153.08	0.46	-59.54	-0.19
Total	**942.41**	**2.92**	**924.63**	**2.95**	**211.96**	**0.59**	**-194.18**	**-0.62**

* 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: $R(T_0,T_N) = (1+r_1)(1+r_2)\ldots(1+r_N)-1$. This formula for calculating investment returns complies fully with the Global Investment Performance Standards (GIPS).

Source: 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 shows major BNB portfolios and the results from their management.

Portfolio Return and Risk in 2023

Portfolio	Return		Volatility (risk)		Information ratio[3]
	Absolute (per cent)	Relative[1] (basis points)	Absolute (basis points)	Relative[2] (basis points)	
Investment 1, EUR	3.24	20	14	10	2.06
Investment 2, EUR	3.23	20	15	10	2.05
External manager A, EUR	3.06	48	32	13	3.82
External manager B, EUR	2.60	3	33	18	0.18
Liquid, EUR	3.21	2	4	4	-
Liquid, XAU	0.07	-	0	-	-
Liquid, USD	5.16	9	0	0	-

[1] A portfolio's positive relative return is the attained profit against benchmark returns. Relative return with a negative sign is 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: BNB.

To diversify management styles and reduce 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 2023, international financial institutions – external managers – managed some 2 per cent of gross international reserves, and 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 payments.

[37] 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;
- RINGS has these transaction settlement ancillary systems:
  - BISERA6, a system for servicing customer transfers in levs, 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 TARGET national system component, TARGET-BNB, run by the BNB;
- the TARGET-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;
- the book-entry securities registration and servicing system, run by the Central Depository AD.

Lev Payment Systems

In 2023, the RINGS real-time gross settlement system processed most lev payments in Bulgaria. As of 31 December 2023, the BNB and 23 banks participated in RINGS.

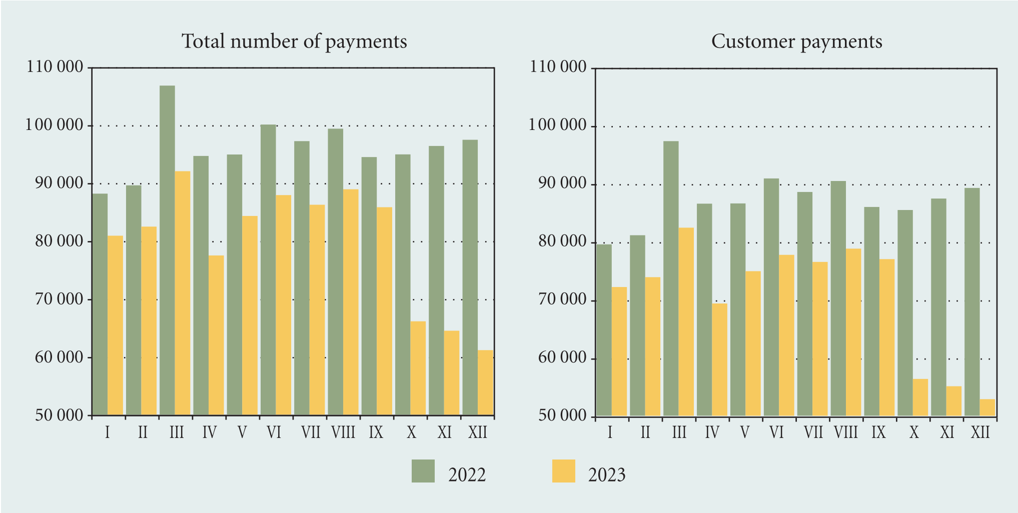
In 2023, RINGS processed 959,393 payments, down 17 per cent from 2022. The total value of payments came to BGN 1,495,572 million, posting a 29 per cent increase compared with the previous year. Customer payments numbered 847,393 (88 per cent of total payments), accounting for BGN 315,968 million (21 per cent of total payments).

The daily average value of payments *via* the system was BGN 6030 million and their daily average number was 3869. The daily value peak was BGN 2014 million, with a daily number peak of 6922.

In 2023, 57.4 per cent of payments by value were processed by noon and 84 per cent by 2:30 pm. The balance of 16 per cent went through by 5:30 pm. As regards system traffic, 83.6 per cent of RINGS payments were effected by 2:30 pm. RINGS offered 99.96 per cent availability[38] in 2023.

[38] The ratio of time when the system is operational to scheduled operating time.

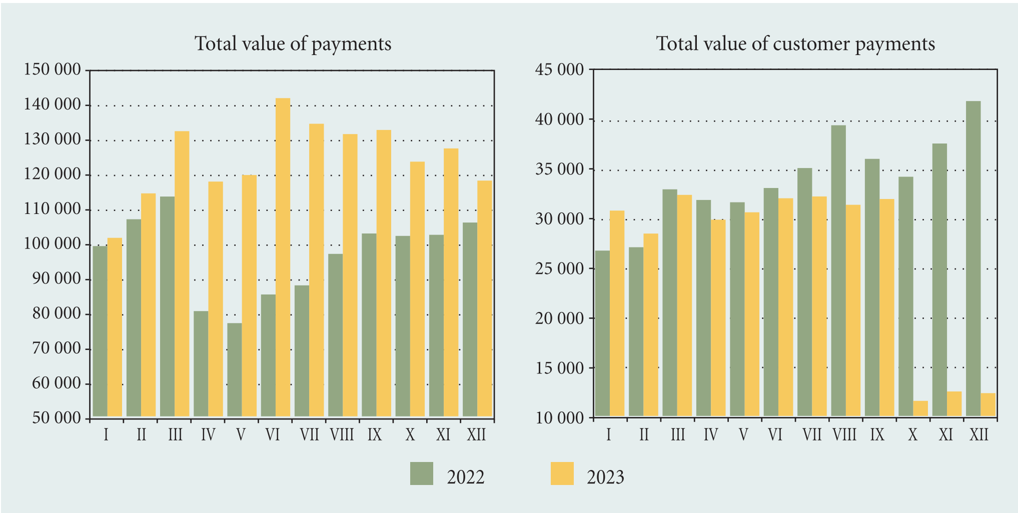
RINGS Payment Number in 2022 and 2023



Source: BNB.

RINGS Payment Value in 2022 and 2023

(BGN million) (BGN million)



Source: BNB.

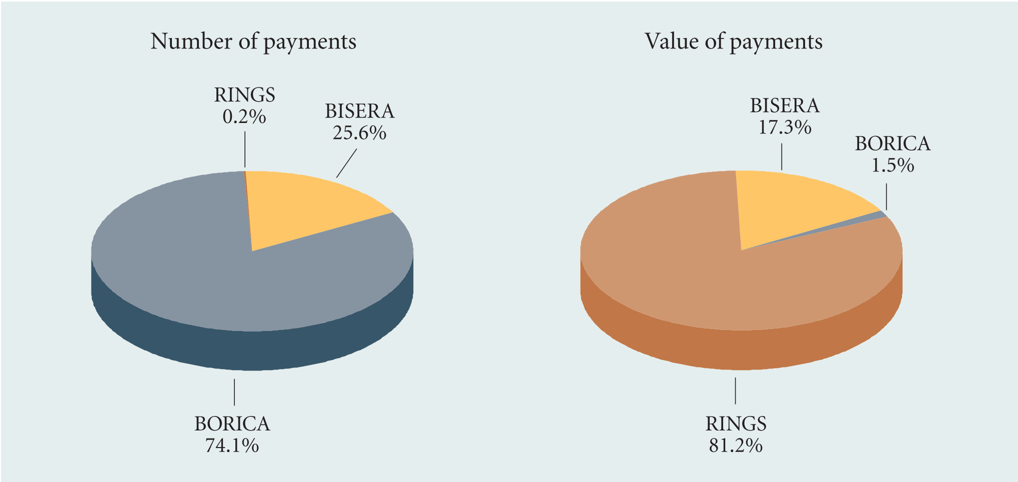
Lev payment distribution in Bulgaria by payment system recorded no changes from 2022. Over the period under review, RINGS processed 81.2 per cent of the value of payments effected in Bulgaria. Values around 80 per cent are deemed optimal for the operation of real-time gross settlement systems. RINGS also processed 0.2 per cent of the total number of lev non-cash payments in Bulgaria.

In 2023, BORICA processed 320.8 million of ATM and POS terminal payments, totalling BGN 28,196.7 million: a 19.2 per cent numerical and 16.8 per cent value rise on 2022.

In 2023, BISERA processed 111 million of payments, totalling BGN 317,977 million. Compared with 2022, processed payments rose 10.5 per cent in number and 23 per cent in value.

The number of instant credit transfers in levs compliant with the SEPA[39] Credit Transfer Instant (SCT Inst) – a scheme for instant credit transfers in the European Payments Council's Single Euro Payments Area was 11.2 million, totalling BGN 18,802.9 million for 2023.

Distribution of Lev Payments in Bulgaria by Payment System in 2023



Source: BNB.

Euro Payment Systems

The large-value payment system T2 (former TARGET2) provides real-time gross settlement for payments in euro, with settlement in central bank money. It is part of the new consolidated TARGET Service Platform (TARGET), which brings together the T2 payment system, the TARGET-Securities settlement system and the TARGET Instant Payment Settlement service (TIPS) at the technical and functional level. Legally, each central bank in TARGET operates its system component.

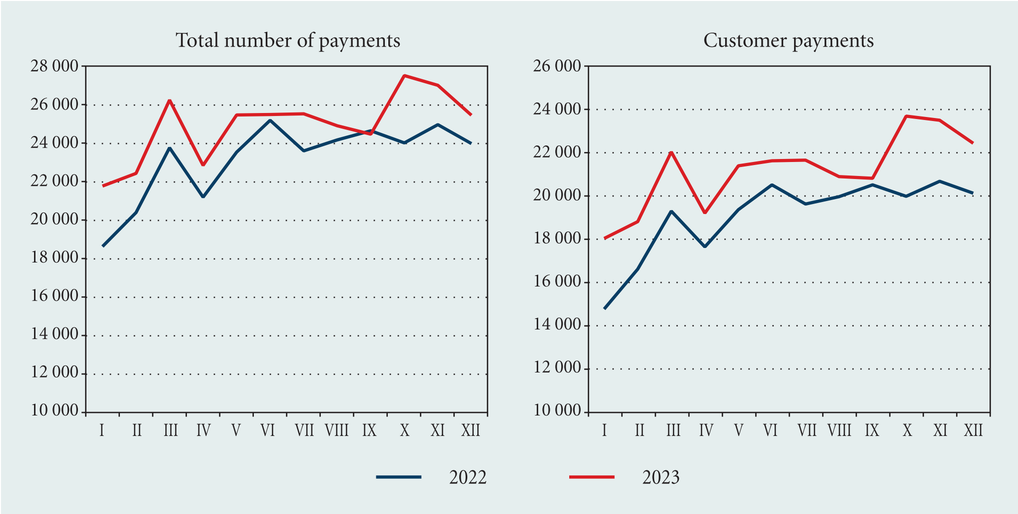
The Bulgarian National Bank operates the TARGET-BNB national component system and is responsible for the business relations of its participants and coordination with the ECB and participant central banks.

As of 31 December 2023, TARGET included the BNB, 18 direct participant banks, seven addressable BIC holders, and two ancillary systems: BISERA7-EUR for settling customer transfers in euro at a designated time and the securities settlement system run by the Central Depository AD.

In 2023, TARGET-BNB processed 299,764 payments worth EUR 779,500 million, including 254,125 customer payments for EUR 21,890 million. Data show a rise of 7.6 per cent in the total number and a 7.7 per cent decrease in total value of processed payments compared to 2022.

[39] Single Euro Payment Area (SEPA).

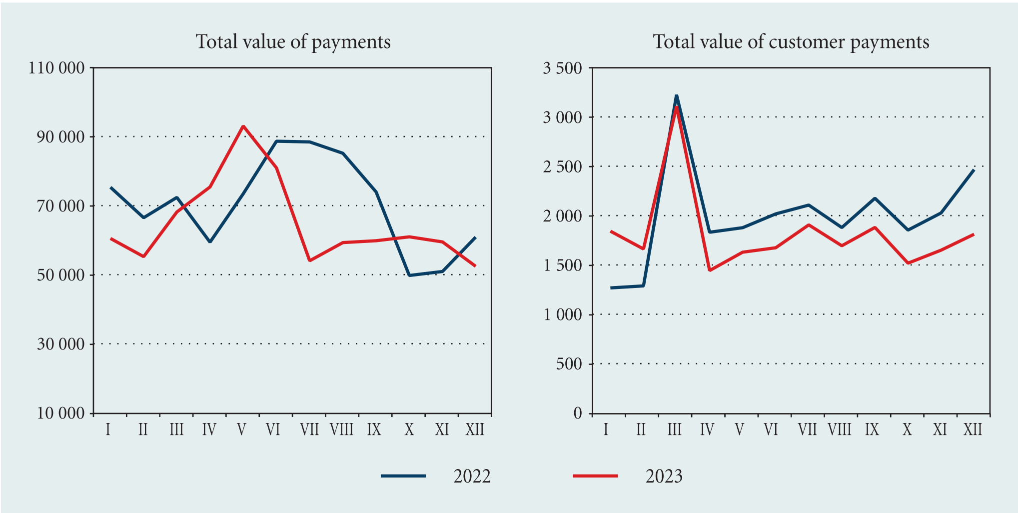
TARGET-BNB Payment Numbers in 2022 and 2023



Source: BNB.

TARGET-BNB Payment Value in 2022 and 2023

(million EUR) (million EUR)



Source: BNB.

The value and number of other system component payments to banks comprised 62 and 89 per cent of payments processed through the national component. There were 1176 daily average TARGET-BNB payments, worth EUR 3057 million. The daily value peak was EUR 12,020 million, with a daily number peak of 2754.

The BISERA7-EUR ancillary system processes designated time customer euro transfers. As of 31 December 2023, it processed 37,225 payments for EUR 257.3 million, down 18.2 per cent in value and 6.2 per cent in number on 2022.

To meet the requirements of Regulation (EU) No 260/2012 of the European Parliament and of the Council, the BISERA7-EUR payment system 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

On 20 March 2023, the new Eurosystem's consolidated TARGET Service platform (TARGET) which brings together the T2 payment system, the securities settlement system TARGET-Securities and the service for processing instant transfers in euro TIPS was launched, and the Eurosystem Collateral Management System (ECMS) is expected to be added in 2024. The new large-value payment system T2 consists of a real-time gross settlement (RTGS) system and a centralised liquidity management tool. The BNB and the banking community in Bulgaria, together with BISERA7-EUR ancillary system for customer payments in euro and the securities settlement system of the Government Securities Depository at the BNB (GSD) and Central Depository AD successfully migrated to the new TARGET service platform on the day of its implementation.

In line with the implementation of the commitments under the National Plan for the Introduction of the Euro in the Republic of Bulgaria, the BNB as a central bank in TARGET actively facilitated the accession of GSD and Central Depository AD to the Eurosystem's TARGET2-Securities (T2S) securities settlement platform. The successful migration of depositaries and participant banks to T2S took place on 11 September 2023 as a result of the joint work between the BNB and the Eurosystem that started in 2021.

In 2023, the BNB jointly with the Ministry of Finance, BORICA AD and Bulgarian banks carried out the large-scale project to migrate budget payments in levs to the Single Euro Payments Area (SEPA) standards. As from 1 October 2023, budget payments are executed in accordance with the technical and business requirements for SEPA Credit Transfer scheme, completing the migration of all categories of customer credit transfers in levs to SEPA standards.

Developing the Payment Services and Payment Systems Regulatory Framework

In 2023, a Law amending the Law on Markets in Financial Instruments was adopted, whereby amendments to the Law on Payment Services and Payment Systems (LPSPS)[40] were made related to the removal of the requirement for payments exceeding BGN 100,000 to be mandatorily executed by banks through the RINGS system, and to the benchmark legal framework.

The Law on the State Budget of the Republic of Bulgaria for 2023[41] adopted during the reporting period amended the LPSPS to introduce the requirement for a payment institution, respectively an electronic money institution, with which a contract has been concluded under Article 209a, paragraph 9 of the Law on Corporate Income Taxation to maintain in a separate safeguard account the funds of an electronic meal voucher operator intended for payment transactions with these vouchers. In addition, Article 120a of the LPSPS was created with these amendments, introducing new requirements for the level of payment account fees with basic features in the circumstances set out in the Law.

In 2023, the Law on amendment to the Law on Measures against Money Laundering[42] was adopted, which amended the LPSPS to introduce additional requirements for the assessment of the reliability, suitability and reputation of managers, representatives and members of management and supervisory bodies, as well as for persons who directly

[40] Published in the Darjaven Vestnik, issue 8 of 2023.
[41] Published in the Darjaven Vestnik, issue 66 of 2023.
[42] Published in the Darjaven Vestnik, issue 84 of 2023.

or indirectly hold or acquire a qualifying holding in a payment institution, electronic money institution and account information service provider.

In the reporting period, the BNB adopted an Ordinance on Amendment of Ordinance No 16 of the BNB 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[43]. The amendments to BNB Ordinance No 16 mainly deal with: a) supplementing the required clarifications on main sources of revenue and expenditure, part of the estimated budget for the first three years of activity to be provided upon licensing a payment institution/electronic money institution and registering an account information service provider; b) ensuring full transposition of Guideline 1.5 of GL 4.4 of the EBA Guidelines on the information to be provided for the authorisation of payment institutions and e-money institutions and for the registration of account information service providers under Article 5(5) of Directive (EU) 2015/2366 (EBA/GL/2017/09) on the notification requirements for changes in information provided by an applicant, as well as the clarification on the requirements for professional and managerial experience of persons managing and representing a payment institution/electronic money institution and account information service provider, as well as members of their management and supervision bodies.

In 2023, joint instructions were adopted by the BNB and the Ministry of Finance[44] regulating the requirements for the execution of payments in levs from/to budget organisations in line with SEPA standards, including payments of public receivables, payments in SEBRA, centralisation procedures, and regime for servicing accounts of administrators of public claims, *etc*.

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.

In 2023, the BNB inspected a payment service provider licensed by the BNB to establish the compliance of operations of the payment service provider and electronic money institution on issuing, distributing and redeeming electronic money, and providing payment services with the requirements of the LPSPS, its implementing acts, the European legal framework, as well as with the requirements of the Law on Measures against Money Laundering (LMML), the Law on Measures against Financing of Terrorism (LMFT) and Regulation (EU) 2015/847[45]. In line with certain non-compliances with the requirements of the LMML, the Bank imposed oversight measures on the company, which were implemented within the specified time limit.

In 2023, the BNB completed a thematic inspection to establish compliance by payment service providers in Bulgaria with the requirement to apply strong payer authentication pursuant to Article 100 of the LPSPS and Commission Delegated Regulation

[43] Published in the Darjaven Vestnik, issue 47 of 2023.

[44] VAT Guideline No 3/3.5.2023; No. BNB-51681/4.5.2023 on the requirements for the structure, form, content of payment documents for the purpose of making transfers from/to accounts of budget organisations in XML format in accordance with ISO 20022 and VAT Guideline No 5/30.6.2023; No BNB73682/30.6.2023 on servicing accounts and payments to budget organisations – key issues and requirements, centralisation procedures and payment technology through SEBRA.

[45] Regulation (EU) No 2015/847 of the European Parliament and of the Council of 20 May 2015 on information accompanying transfers of funds and repealing Regulation (EC) No 1781/2006.

(EU) 2018/389[46]. Payment service providers implemented measures to remedy the non-compliances identified in the oversight review.

In 2023, a thematic review of payment institutions and electronic money institutions licensed by the BNB was completed 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. Payment service providers have taken steps to comply with the findings of the relevant activity.

During the period, an inspection of an electronic money company was carried out on a complaint that resulted in an administrative infringement under the LMML and subsequently a written warning.

The Bank inspected 12 institutions to find out whether they provided payment services and/or issued electronic money without due licence or registration.

In 2023, payment institutions and electronic money institutions licensed elsewhere in the EU and operating on the territory of the Republic of Bulgaria through a branch or an agent, based on the right of establishment, were required to provide information under Commission Delegated Regulation (EU) 2021/1722[47] on their activities on the territory of Bulgaria for supervisory purposes, as well as for the monitoring of compliance with the provisions of national law transposing Titles III and IV of the Directive (EU) 2015/2366[48].

In line with the requirements of the LPSPS and the EBA Guidelines on the limited network exclusion under Directive (EU) 2015/2366 on payment services in the internal market (EBA/GL/2022/02), one notification was examined submitted by a service provider under Article 2, paragraph 3 of the LPSPS to change the information recorded in the register under Article 19 of the LPSPS concerning the exemption under Article 2, paragraph 1, item 11 of the LPSPS on the basis of which it operates in relation to payment instruments offered by it. At the end of 2023, 11 service providers under Article 2, paragraph 3 of the LPSPS were listed in the register kept by the BNB.

In 2023, eleven applications for authorisations to operate as an electronic meal voucher operator under Article 209a of the Law on Corporate Income Taxation were assessed for coordination by the Ministry of Finance on the grounds of § 25, paragraph 6 of the Transitional and Final Provisions of the State Budget Law for 2023 as regards compliance with the requirements of Article 2, paragraph 1, item 11, letter c of the LPSPS.

Over the review period, the Governing Council licensed Cash Express Service OOD to provide payment services under Article 4, item 6 of the LPSPS – money remittances.

In 2023, the procedure on two applications for conducting activity as an electronic money institution, submitted on the basis of Article 37, paragraph 2 in conjunction with Article 10, paragraph 1 of the LPSPS, was terminated.

In 2023, the license for conducting activities as an operator of payment systems with settlement finality to BORICA AD was amended as regards the payment system BISERA, in connection with the removal of the requirement provided for in the LPSPS to process payments exceeding BGN 100,000.

---

[46] 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.

[47] Commission Delegated Regulation (EU) 2021/1722 of 18 June 2021 supplementing Directive (EU) 2015/2366 of the European Parliament and of the Council with regard to regulatory technical standards specifying the framework for cooperation and the exchange of information between competent authorities of the home and the host Member States in the context of supervision of payment institutions and electronic money institutions exercising cross-border provision of payment services.

[48] Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and repealing Directive 2007/64/EC.

Over 2023, the BNB Governing Council decided on one application filed under Article 14, paragraphs 1 and 2 of the LPSPS for an increase in indirectly held qualifying holding in the capital of a payment institution licensed by the BNB.

By the end of 2023, there were six payment institutions and nine electronic money institutions licensed by the BNB.

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

- 502 agents were listed in and 238 agents were delisted from the public register of licensed payment institutions and electronic money institutions operating in Bulgaria;
- seven agents were listed in and one agent was delisted from the public register of licensed payment institutions and electronic money institutions operating elsewhere in the EU;
- one branch was listed in the public register of licensed electronic money institutions operating elsewhere in the EU.

Over 2023, EU Member State competent authorities notifications of the following payment institutions, electronic money institutions and account information service providers licensed elsewhere in the EU and eligible to operate in the Republic of Bulgaria were received:

- for listing 52 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 26 payment institutions, electronic money institutions and account information service providers operating directly in the Republic of Bulgaria;
- for listing 84 agents and delisting 76 agents of payment institutions and electronic money institutions licensed elsewhere in the EU and eligible to operate in Bulgaria.

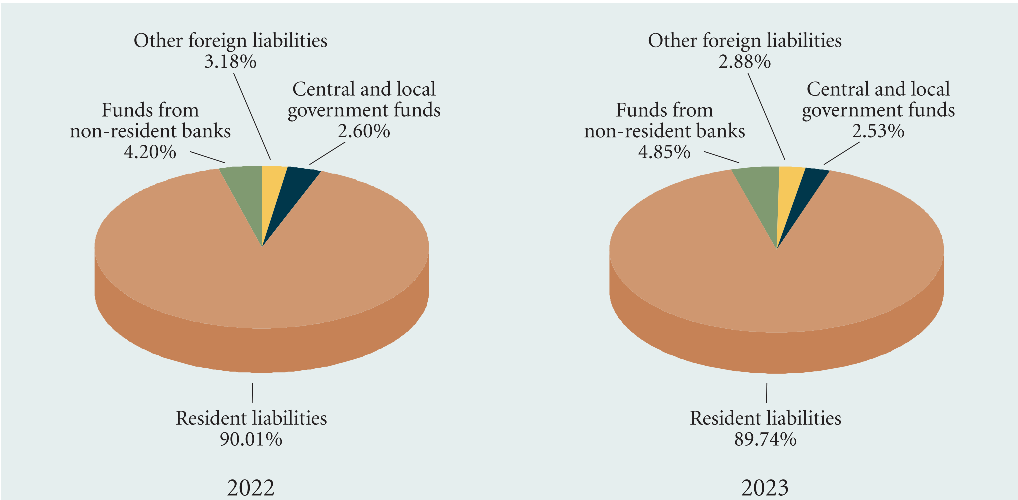
In 2023, the BNB enquired into 486 complaints submitted by natural persons and legal entities – payment service users; on 38 of them, the Bank issued instructions. The other cases involved no breaches of the LPSPS and its statutory instruments, or were resolved in favour of payment service users through correspondence.

IV. Banks' Reserves at the BNB

In 2023, the average daily value of banks' attracted funds for minimum reserve calculation purposes (excluding central and local government budget accounts) rose by 12.0 per cent compared to 2022. The average daily value of funds attracted from residents (excluding central and local budget funds) grew by 11.6 per cent, and those from non-residents by 17.0 per cent, with funds attracted from non-resident banks increasing by 29.1 per cent. Over the review period, funds attracted from central and local government budgets rose by 9.0 per cent.

With the amendment of Ordinance No 21 of 1 June 2023, the minimum reserve requirement rate on funds attracted by banks from non-residents was raised from 5 to 10 per cent, and from 1 July 2023, this rate on banks' attracted funds from residents and non-residents was raised from 10 to 12 per cent. As a consequence, the effective implicit rate of MRR increased by 1.2 percentage points on the previous year to stand at 10.6 per cent on average in 2023.[49] Reserve assets used by banks to comply with the MRR rate were allocated to funds on banks' accounts at the BNB (9.6 per cent) and half of cash balances designated as reserves (1.0 per cent).

Structure of Attracted Funds in the Banking System*



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

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

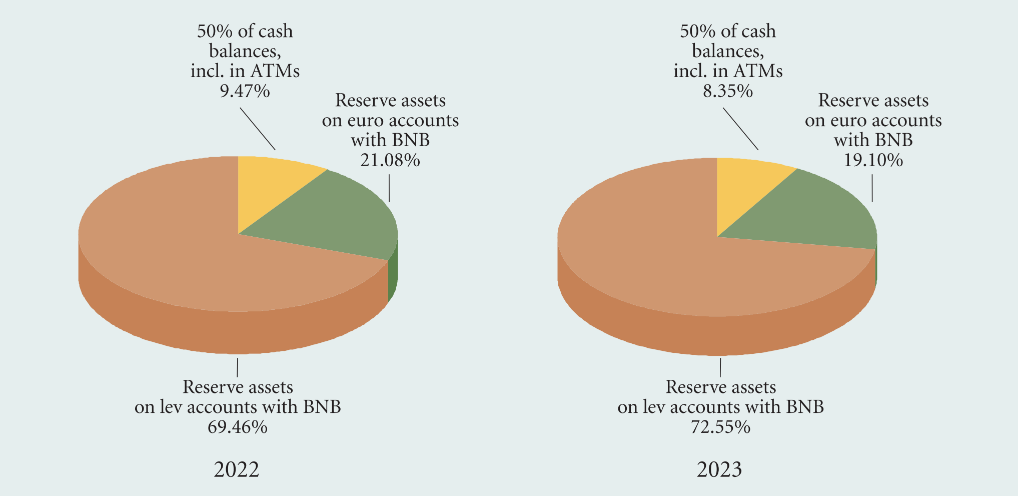
Source: BNB.

Banks keep reserves in their own assets: BNB lev and euro accounts and half their cash balances, including in ATMs.[50] in 2023, the share of lev-denominated reserve assets was 72.6 per cent on an average daily basis, from 69.5 per cent a year earlier, while the share of euro reserve assets declined to 19.1 per cent, from 21.1 per cent in 2022. The share of cash balances designated as reserve assets, including in ATMs, fell from 9.5 per cent in 2022 to 8.4 per cent in 2023.

[49] According to BNB Ordinance No 21, banks do not maintain MRR on attracted funds from government and local budgets.

[50] According to Article 4 of Ordinance No 21 of the BNB.

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



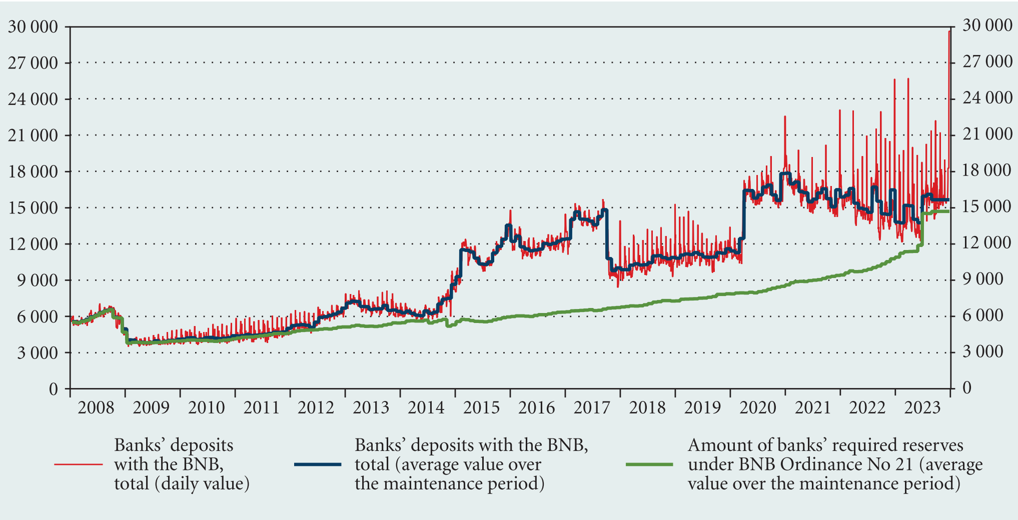
Note: The sum may differ from 100 per cent due to rounding.

Source: BNB.

In 2023, the interest rate on banks' excess reserves[51] under BNB Ordinance No 21 was 0.0 per cent.[52] In 2023, the average daily amount of banks' excess reserves declined by BGN 2.0 billion compared to 2022. Funds on banks' accounts with the BNB to meet the requirements of Ordinance No 21 exceeded minimum required reserves by 10.1 per cent on an average daily basis, from 33.5 per cent a year earlier.

Banks' Reserves at the BNB

(BGN million)



Source: BNB.

[51] Ordinance No 21 Article 5, paragraph 1, in force since 4 June 2021, defines excess reserves as the excess of holdings in reserve assets over the minimum reserve requirements.

[52] From 29 July 2022, excess reserve interest under BNB Ordinance No 21 is 0.00 per cent.

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 and are mandatorily acceptable as payment at full face value without restriction[53]. The Bank prints banknotes, mints coins, and keeps and scraps uncirculated or withdrawn currency.

By Resolution No 40 of 7 February 2023, the BNB Governing Council withdrew from circulation the commemorative coins issued in 2017 which ceased to be legal tender as of 20 February 2023. After this date, commemorative coins issued in 2017 will be exchangeable at BNB tills at nominal value with no limits to amounts and free of charge until 31 December 2024.

The amendments to Ordinance No 39 on the Nominal Value, Coverage, Form and Design of Banknotes and Coins Put into Circulation, in force as of 1 February 2023, regulated the maximum number of commemorative coins with limited and unlimited mintage, which the BNB may put into circulation annually.

The updated 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 August 2023, govern the procedure for wholesale purchases and subsequent retail sales of commemorative coins to be put into circulation by the BNB, as well as coin sets, by commercial bank distributors with which the BNB concludes contracts.

Banknotes and Coins in Circulation (Outside BNB Vaults)[54]

At the end of 2023, circulating currency reached BGN 29,462.1 million, up BGN 2036.7 million, or 7.4 per cent on the end of 2022. In 2023, the annual growth rate of currency in circulation slowed compared to 2022. As of 31 December 2023, the share of banknotes, circulating coins and commemorative coins in the total value of currency in circulation amounted to 97.99 per cent, 2.00 and 0.01 per cent, respectively. Over the year, the share of banknotes rose by 0.04 percentage points at the expense of the share of circulating coins which decreased by the same amount.

Banknotes and Coins in Circulation[55]

By the close of 2023, circulating banknotes numbered 605.9 million, worth BGN 28,826.0 million. Compared to the end of 2022, their number rose by 9.2 million (1.5 per cent) and their value by BGN 1999.6 million (7.5 per cent).

The upward trend in annual growth in the number of high value banknotes (BGN 50 and 100) of the previous years continued also in 2023. The number of BGN 50 banknotes increased by 13.0 million or 5.5 per cent and that of BGN 100 banknotes by 17.4 million or 15.2 per cent compared with end-2022. These two denominations contributed most strongly to the annual increase in the banknotes in circulation. In 2023, the number of BGN 5 banknotes in circulation rose by 2.7 per cent, while the number of

[53] Article 2, paragraph 5 and Article 25, paragraph 2 of the LBNB.

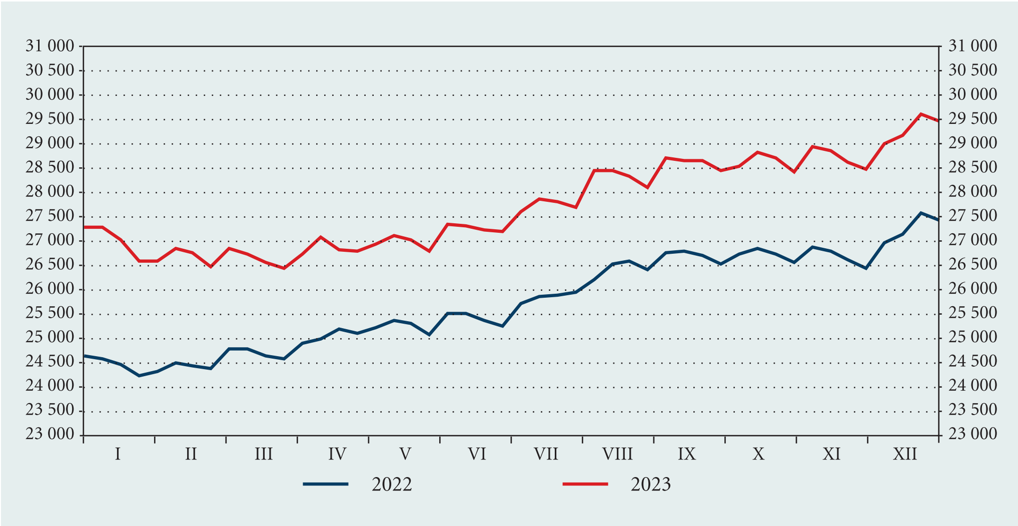
[54] This included: banknotes and circulating coins issued after 5 July 1999, including those withdrawn from circulation with no time restriction on exchange, and commemorative coins issued after 5 July 1999, including those withdrawn from circulation, whose term of exchange has not expired yet.

[55] Banknotes with nominal values of BGN 5, 10, 20, 50 and 100, issued after 5 July 1999, and circulating coins with nominal values 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.

BGN 10 and 20 banknotes fell by 5.2 and 14.0 per cent, respectively, over the same period.

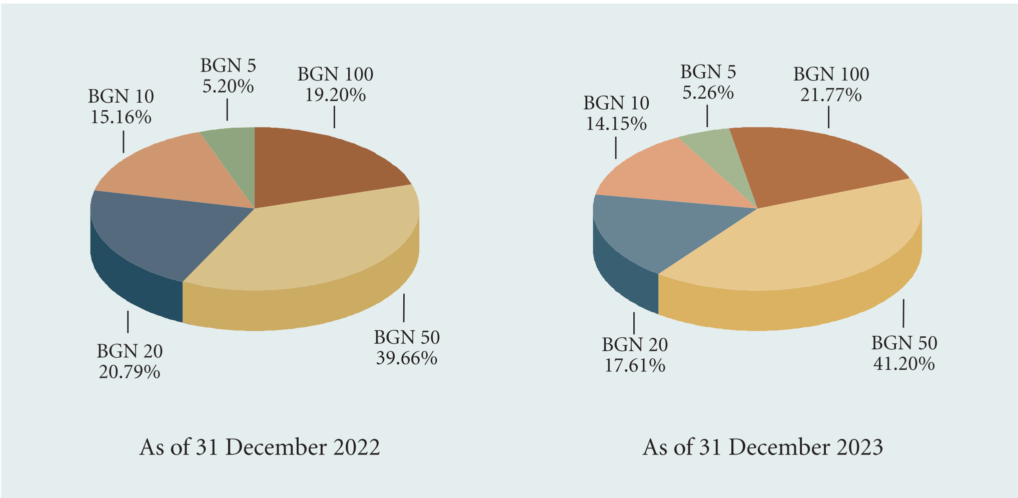
Banknotes and Coins in Circulation (Outside BNB Vaults)

(BGN million)



Source: BNB.

Individual Denomination Shares in the Total Number of Circulating Banknotes



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

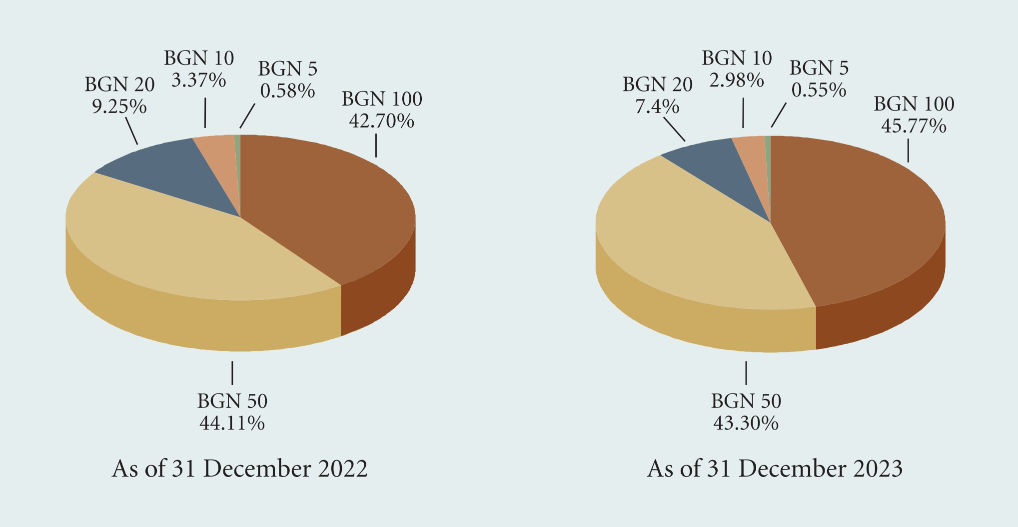
Source: BNB.

The BGN 50 banknote held the largest share (41.20 per cent) in the total number of circulating banknotes at end-2023. The previous years' trend towards an increase in the shares of the highest value banknotes (in number) compared to all other banknote denominations was sustained. In 2023, the shares of BGN 50 and 100 banknotes rose by 1.54 and 2.57 percentage points, respectively, while that of BGN 5 banknotes increased by 0.06 percentage points. Over the same period, the shares of BGN 10 and BGN 20 banknotes decreased, with the share of BGN 20 posting a larger decline (by 3.18 percentage points).

By the end of 2023, the BGN 100 and BGN 50 banknotes held the largest shares in the structure of circulating banknotes: 45.77 and 43.30 per cent. Only the share of BGN 100 banknote increased in value by 3.07 percentage points compared to end-2022.

The shares of other banknotes posted a decrease, with the share of BGN 20 banknote decreasing most (by 1.85 percentage points) and that of BGN 5 banknote least (by BGN 0.03 percentage points).

Individual Denomination Shares in the Total Value of Circulating Banknotes



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

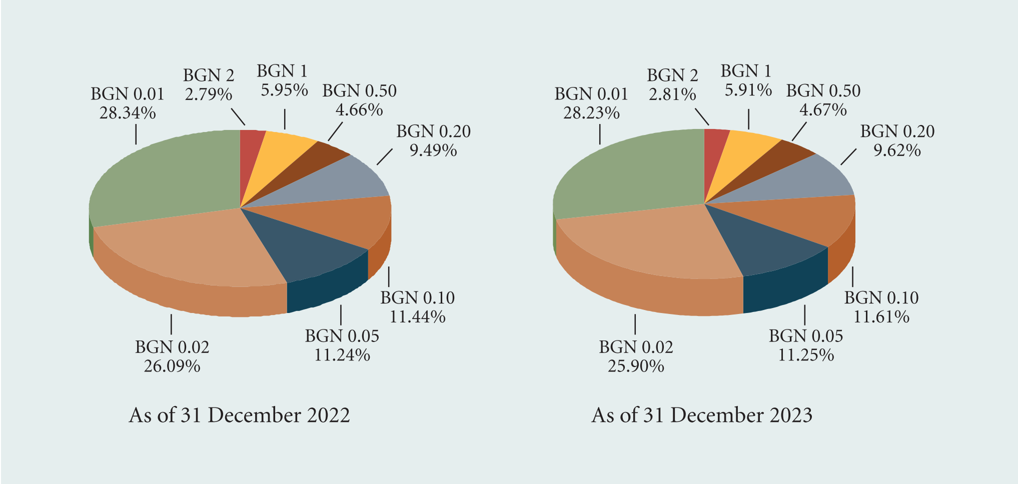
The average banknote circulating at the end of 2023 was worth BGN 47.58. Its value rose BGN 2.62 or 5.8 per cent from end-2022, reflecting continued growth in the number of BGN 50 and 100 banknotes and, at the same time, a decrease in the number of BGN 10 and 20 banknotes.

In late 2023, 3222.9 million coins worth BGN 590.2 million nominal value were in circulation. Year on year, their number rose by 168.3 million (5.5 per cent), and their value by BGN 32.1 million (5.8 per cent). The upward trend in the number of circulating coins of all denominations continued. Year on year, the number of BGN 0.01 and 0.02 coins rose most: by BGN 44.4 million (5.1 per cent) and 37.8 million (4.7 per cent). The number of BGN 0.10 coin grew at a fastest rate year on year (7.1 per cent). At the end of 2023, 374.3 million coins were in circulation, an increase of 24.7 million coins. The growth rate of BGN 2 coins declined in the monetary circulation. In 2023, their number increased by 6.3 per cent to 90.6 million coins. The number of the other denominations rose within the range of 4.8 per cent for BGN 1 coins to 6.9 per cent for BGN 0.20 coins.

At the end of 2023, BGN 0.01 coins had the largest share of 28.23 per cent of total circulating coins, with 910.0 million coins of this nominal value outside BNB vaults by 31 December. BGN 2 coins held the smallest share at 2.81 per cent (in number). Over a one-year period, the shares of BGN 0.01 and BGN 0.02 coins and BGN 1 coins decreased in the structure by number by 0.11, 0.19 and 0.04 percentage points, respectively, while the shares of BGN 0.05, 0.10, 0.20 and 0.50 coins and BGN 2 coins increased within a range from 0.01 percentage points for BGN 0.05 and 0.50 coins to 0.17 percentage points for BGN 0.10 coins.

By end-2023, the total value of BGN 1 coins in circulation was BGN 190.5 million, accounting for the largest share (32.28 per cent) within the structure of circulating coins by value. The value of BGN 0.01 coin held the smallest share at 1.54 per cent.

Individual Nominal Value Shares in the Total Number of Circulating Coins

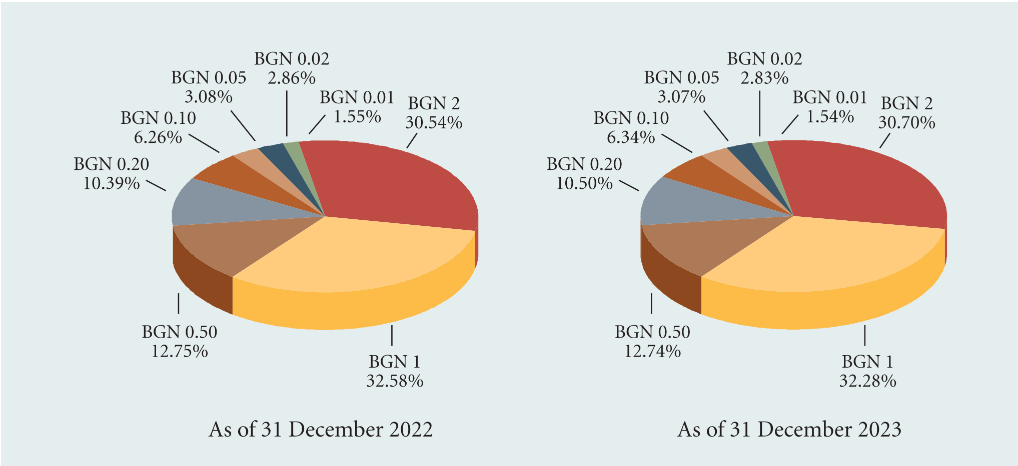


Note: The sum may differ from 100 per cent due to rounding.
Source: BNB.

Over a one-year period, the shares of BGN 0.10 and BGN 0.20 coins increased in the range from 0.08 to 0.15 percentage points in the structure of circulating coins by value. In the same period, the shares (by value) of the remaining denominations declined in the range from 0.01 percentage points for BGN 0.01, 0.05 and 0.50 coins to 0.30 percentage points for BGN 1 coins.

At the end of 2023, the average circulating coin matched its late 2022 level at BGN 0.18.

Individual Nominal Value Shares in the Value of Circulating Coins



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

Non-genuine Banknotes and Circulating Coins

In 2023, the BNB National Analysis Centre retained 1992 non-genuine Bulgarian banknotes which had entered into circulation. The number of non-genuine banknotes rose by 1153 compared to those retained in 2022. The share of retained non-genuine Bulgarian banknotes in the total number of circulating banknotes by end-2023 was 0.000329 per cent.

The BGN 50 banknote had the largest share of retained non-genuine banknotes at 85.39 per cent, followed by BGN 20 at 10.94 per cent. Non-genuine BGN 100, 10 and 5 banknotes' shares were 0.35, 2.51 and 0.80 per cent.

In 2023, retained non-genuine Bulgarian coins numbered 242; all of these had entered into circulation. The number of non-genuine coins rose by 61 compared with retained coins in 2022. The relative share of retained circulating non-genuine Bulgarian coins over the year in the total number of circulating coins at end-2023 was also very low, *i.e.* 0.000008 per cent.

Evaluating suspect foreign banknotes and coins, in 2023 the BNB National Analysis Centre retained 4039 euro banknotes (including 503 banknotes which had entered into circulation), 475 US dollar banknotes (including 255 which had entered into circulation) and 70 other banknotes (including 31 banknotes 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 2023, producers supplied 50.8 million new banknotes and 140.0 million new coins worth BGN 2559.9 million. As planned in its 2023 Minting Programme, the BNB issued six new commemorative coins.[56]

In 2023, banks deposited BGN 33,459.7 million of cash, up BGN 13,373.9 million or 66.6 per cent on 2022. Over the same period, Bulgarian banknotes and coins worth BGN 35,496.7 million were withdrawn from the BNB: up BGN 12,682.9 million or 55.6 per cent in a year.

In 2023, the average banknote recirculation through BNB tills was 1.9 times. Highest value banknotes (BGN 50 and BGN 100) and lowest value banknotes (BGN 5) returned less often, *i.e.* from 0.7 to 1.3 times; while BGN 10 and BGN 20 banknotes recirculated 3.9 and 3.1 times through BNB tills.

In 2023, banknote processing machines tested 1067.1 million banknotes and 75.4 million coins. Compared with 2022, the number of processed banknotes increased by 48.9 per cent, while that of processed circulating coins by 11.9 per cent. BGN 10, BGN 20 and BGN 50 processed banknotes had the largest shares in the structure by nominal value at 28.87, 31.56 and 30.16 per cent. BGN 0.50, BGN 1 and 2 coins comprised the largest shares in the structure by nominal value at 16.82, 26.85 and 13.81 per cent, respectively.

Cash quality and integrity checks identified some 64.3 million banknotes as unfit for circulation, up 23.5 million on 2022. BGN 10, BGN 20 and BGN 50 banknotes had the largest share of banknotes unfit for circulation at 32.90, 29.42 and 20.48 per cent. The share of unfit banknotes processed in 2023 was 6.03 per cent. There were 1.5 million unfit coins over the review period after the machine processing. BGN 0.10, 0.20, 0.50 and BGN 1 coins held larger shares among retained unfit coins at 17.92, 22.73, 15.23 and 15.72 per cent. The share of unfit coins processed in 2023 was 1.97 per cent.

In 2023, the BNB purchased EUR 21.7 million of reserve currency from budget organisations and individuals. At the same time, the Bank sold EUR 445.6 million of reserve currency.

[56] See the BNB website for new banknotes and circulating and commemorative coins issues.

In 2023, the Bank conducted six full checks into credit institutions and two service providers to ensure observance of Ordinance No 18 on the Control over Quality of Banknotes and Coins in Currency Circulation and of instructions given on its implementation. The BNB tested 254 sorting machines and customer operated machines in line with identification and fitness standards into ten credit institutions, four service providers and six representatives of machine producers under Ordinance No 18.

VI. Maintaining Banking System Stability and Protecting Depositor Interests

Assessment of the State of the Banking System[57]

In 2023, Bulgaria's banking system continued to be characterised by high liquidity, driving the slow and weak transmission of the effects of ECB's monetary policy tightening to deposit and lending rates, particularly in the household sector. The year saw double-digit growth in loans and total assets of the banking system, albeit at lower rates than in 2021–2022. At the same time, the reduction in non-performing loans and advances on banks' balance sheets and in their share in total loans and advances continued over the period under review. This was due, on the one hand, to banks' write-off and sale operations in non-performing loans and, on the other hand, to the growth in the volume of credit portfolio. With the increase in bank assets and the change in the interest rate cycle, higher net operating income was reported compared to the end of 2022, resulting in a higher banking system profit for 2023.

Against the background of an increased amount of total risk exposures and in own funds in 2023, banking sector's capital ratios remained significantly above the minimum regulatory requirements and capital buffer requirements. To maintain the resilience of the sector and strengthen the capital position, the BNB Governing Council decided in 2021 to raise the countercyclical buffer applicable to domestic credit risk exposures to 1.5 per cent from 1 January 2023. Given the persistent high rates of credit growth and the uncertain economic environment, in 2022 its level was increased to 2.0 per cent, effective from 1 October 2023.

The liquidity position of the banking sector remained sound over the year, with liquidity coverage ratio and net stable funding ratio being maintained at levels exceeding significantly the minimum regulatory requirements.

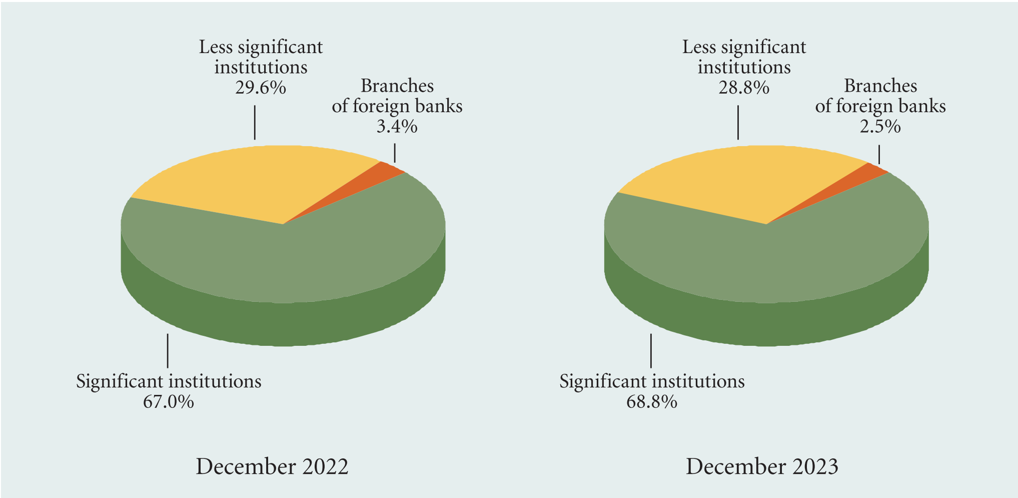
The process of banking sector consolidation in Bulgaria continued during 2023. The review period saw the merger of KBC Bank Bulgaria EAD into United Bulgarian Bank AD and the acquisition of the business of BNP Paribas Personal Finance S.A. – branch Bulgaria by Eurobank Bulgaria AD. As a result of the two transactions, the total number of credit institutions in Bulgaria was reduced to 23 at the end of the year: 17 banks and six branches of foreign banks.

In 2023, banking system assets increased by BGN 16.7 billion (10.7 per cent), amounting to BGN 172.1 billion by end-December, and their growth rate was lower than that in 2022 (BGN 20.1 billion or 14.8 per cent). The increase in balance sheet loans and advances during the period (by BGN 10.5 billion, 11.3 per cent) was mainly a result of the growth in credit portfolio of the banking system, with their share in the structure of assets by end-December 2023 reaching 60.0 per cent. Reflecting the growth in cash balances at central banks (by BGN 3.7 billion, 13.8 per cent), the most liquid balance sheet item of cash, cash balances at central banks and other demand deposits at the end of December 2023 was BGN 36.3 billion, and its share in assets rose to 21.1 per cent. The annual growth in balance sheet figure reflected also the increase in debt securities (by BGN 2.4 billion, 10.1 per cent), mainly in the general government sector, and their share in total banking assets was 15.1 per cent by end-December 2023.

[57] Based on supervisory reports data on an individual basis, as reflected in quarterly reporting forms, summarised on 23 February 2024 for the current quarter and four previous quarters.

Assets of the banks which are subject to direct supervision by the ECB[58] from 1 October 2020 accounted for 68.8 per cent of banking assets at the end of December 2023, while those of less significant institutions (LSIs) comprised 28.8 per cent. Assets of foreign bank branches accounted for 2.5 per cent of the banking balance sheet figure.

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



Source: BNB.

Credit[59] portfolio, which has a predominant share in the assets of the banking system, occupied 54.8 per cent at the end of December 2023 (compared to 53.2 per cent at the end of December 2022). Based on data from supervisory reports, banking gross credit portfolio grew by BGN 11.4 billion on an annual basis (13.3 per cent) at a rate similar to its 2022 rate (BGN 10.2 billion, 13.4 per cent) to BGN 97.4 billion by end-December 2023. Loans and advances to non-financial corporations accounted for 49.8 per cent of gross credit portfolio at the end of December 2023, while those to households were 40.5 per cent (compared to 52.1 and 39.5 per cent, respectively, at the end of 2022). Loans to non-financial corporations rose by BGN 3.6 billion (8.1 per cent), occupying 31.9 per cent of the credit portfolio growth (against 44.8 per cent a year earlier). In the same period, loans to households grew by BGN 5.5 billion (16.3 per cent), with this growth forming 48.4 per cent of the annual rise in gross credit portfolio (44.2 per cent for 2022). Loans secured by residential property grew by BGN 3.7 billion (19.9 per cent), and consumer loans rose by BGN 1.9 billion (11.8 per cent). Loans to other financial corporations also went up (by BGN 2.1 billion, 33.8 per cent) and those to the general government sector increased by BGN 127 million (13.8 per cent). By end-December 2023, the amount of claims on credit institutions was BGN 1.2 billion (11.5 per cent) lower than at the end of December 2022.

Developments in the currency and resident structure of gross loans and advances reflected changes in claims on credit institutions. The share of loans and advances in levs increased to 66.7 per cent at the end of 2023, while that of euro-denominated ones decreased to 29.9 per cent (compared to 63.2 and 33.3 per cent, respectively, at the end of December

[58] As part of the close cooperation process between the BNB and the ECB pursuant to Decision (EU) 2020/1015 of the ECB of 24 June 2020, the ECB announced on 11 September 2020 the list of the banks in Bulgaria which are subject to direct supervision by the ECB from 1 October 2020. These credit institutions are: UniCredit Bulbank, DSK Bank, United Bulgarian Bank, Eurobank and Raiffeisenbank, determined by the ECB on the basis of two criteria: the three most significant banks in Bulgaria and banks which are part of a significant group.

[59] Credit portfolio includes the sectors of non-financial corporations, households, other financial corporations and the general government.

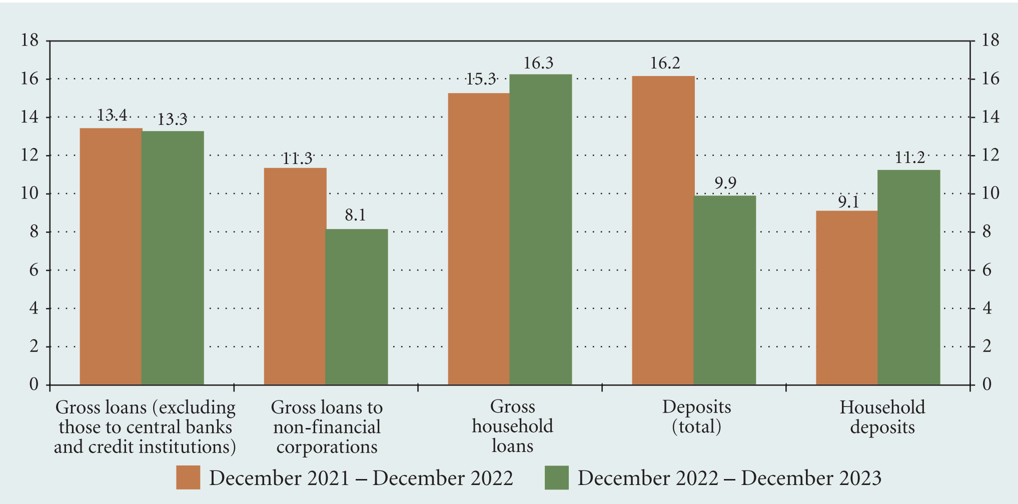
2022). Claims in other currencies comprised 3.4 per cent (3.5 per cent at the end of 2022). In the structure by residence, the share of gross loans and advances to residents increased to 88.4 per cent at the end of 2023 (from 86.9 per cent at the end of the previous year), with a corresponding decrease in the share of claims on non-residents to 11.6 per cent (from 13.1 per cent at the end of 2022).

At the end of 2023, the gross amount of debt securities in bank portfolios was BGN 25.9 billion (from BGN 23.6 billion by end-2022). General government bonds increased by BGN 1.5 billion (7.3 per cent) during the year and accounted for 86.0 per cent of total securities at the end of the period. Debt securities of credit institutions and non-financial corporations posted growth in 2023, while those of other financial corporations declined. By the end of 2023, equity instruments amounted to BGN 654 million, and their share in total banking assets remained insignificant.

Over 2023, attracted deposits in the banking system increased by BGN 13.2 billion (9.9 per cent) to BGN 147.3 billion at the end of the year, and their annual growth rate was lower than in the previous year (BGN 18.7 billion, 16.2 per cent). Household deposits increased by BGN 8.3 billion (11.2 per cent), and their share in total deposits rose to 56.1 per cent (compared to 55.4 per cent at the end of December 2022). In 2023, deposits of non-financial corporations grew by BGN 3.1 billion (7.3 per cent), and their share in the overall structure at the end of the year stood at 31.4 per cent (compared to 32.2 per cent at the end of December 2022). Annually, there was also an increase in deposits of credit institutions (by BGN 2.7 billion, 33.7 per cent), which was larger than in 2022 (BGN 1.8 billion, 29.9 oer cent). Deposits of the general government sector decreased during the reporting period (by BGN 253 million, 6.3 per cent) along with those of other financial corporations (by BGN 641 million, 13.6 per cent). The deposit currency structure experienced no essential changes over the year. By end-December 2023, the shares of lev-denominated and euro-denominated deposits were 61.6 and 32.2 per cent, respectively, from 60.4 and 32.8 per cent at the end of December 2022. Deposits in other currencies comprised 6.2 per cent, from 6.8 per cent at the end of December 2022. Within the resident structure, deposits attracted from domestic sources occupied 90.2 per cent at the end of December 2023 and those from non-residents 9.8 per cent (against 90.6 and 9.4 per cent at end-December 2022).

Dynamics of Selected Balance Sheet Indicators

(on an annual basis) (per cent, on an annual basis)



Source: BNB.

The gross amount of all non-performing exposures[60] at the end of 2023 was BGN 3.9 billion compared with BGN 4.5 billion at the end of 2022, decreasing by 12.7 per cent (BGN 566 million) during the year at a faster pace than in 2022 (8.8 per cent or BGN 431 million). The ratio of gross non-performing exposures improved to 2.4 per cent at the end of 2023, from 3.0 per cent at the end of 2022.

By end-December 2023, gross loans and advances in the banking system were BGN 106.3 billion, according to the narrowed scope (applied since June 2020 under EU Regulation[61]), or an increase of BGN 10.2 billion (10.7 per cent). The gross amount of non-performing loans and advances decreased by 11.6 per cent (BGN 506 million) to BGN 3.8 billion at the end of 2023. The ratio of non-performing loans, calculated on the basis of the narrowed scope, improved to 3.6 per cent by end-December 2023 (compared to 4.5 per cent a year earlier). Based on the broad scope, which includes also cash balances at central banks and other demand deposits, the total amount of gross loans and advances rose by BGN 14.2 billion (11.4 per cent) to reach BGN 139.5 billion by end-2023. The ratio of non-performing loans calculated on the basis of the broad scope[62] fell to 2.8 per cent by end-2023 (against 3.5 per cent at end-December 2022).

As regards the quality of gross credit portfolio of the banking system, in 2023, a decrease was reported in both the amount of its non-performing portion, by BGN 506 million, and in the non-performing loans' ratio, to 3.9 per cent at the end of December (compared to 5.1 per cent at the end of 2022). This reflected the decline over the period in the share of non-performing loans, mainly in the main segments of banks' credit portfolios, namely non-financial corporations and households, and the overall annual growth of the portfolio (by BGN 11.4 billion, 13.3 per cent) to BGN 97.4 billion. Among the prerequisites for improving the credit quality of the portfolio were also banks' write-offs and sales of non-performing loans.

Gross non-performing loans of non-financial corporations accounted for 65.1 per cent of total non-performing loans, and those of households comprised 31.5 per cent. For non-financial corporations, the non-performing loans ratio decreased to 5.2 per cent (from 6.4 per cent at the end of 2022), registering a fall of BGN 378 million (13.1 per cent) in the non-performing part and a rise in their total amount by 8.1 per cent. For households, the non-performing loans ratio also improved, reaching 3.1 per cent (from 4.0 per cent at the end of 2022), with the non-performing part declining by BGN 155 million (11.4 per cent) and their total amount increasing by 16.3 per cent.

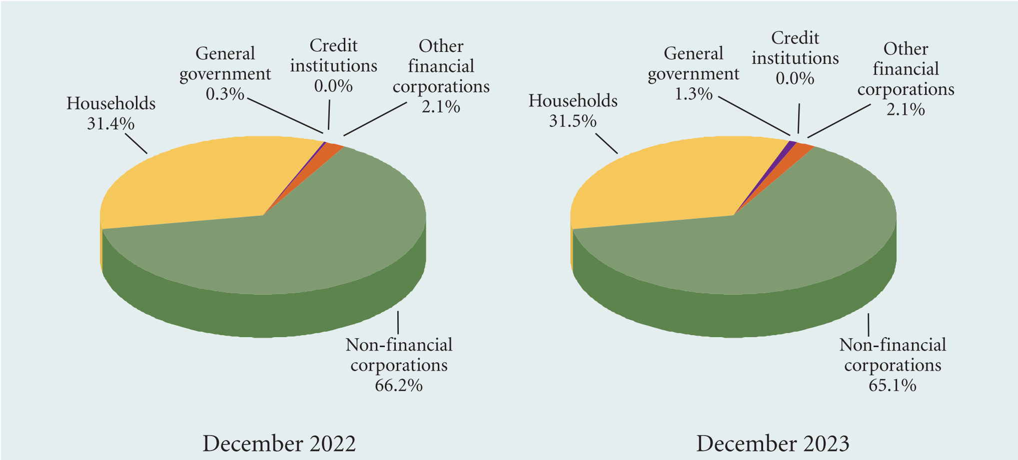
Total gross non-performing loan and advance impairment coverage rose on an annual basis to 49.4 per cent by end-December 2023 (48.2 per cent at the end of 2022).

[60] Exposures under the EBA methodology include gross loans and advances along with cash balances at central banks and other demand deposits and debt securities other than those held for trading.

[61] These changes comply 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 balances at central banks and other demand deposits should not be included in the scope of gross loans and advances but reported separately. As of 28 June 2021, Commission Implementing Regulation (EU) 2021/451 of 17 December 2020 is applied replacing Implementing Regulation (EU) 680/2014.

[62] 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 to loans and advances, including cash balances at central banks and other demand deposits.

Non-performing Loans and Advances by Sector

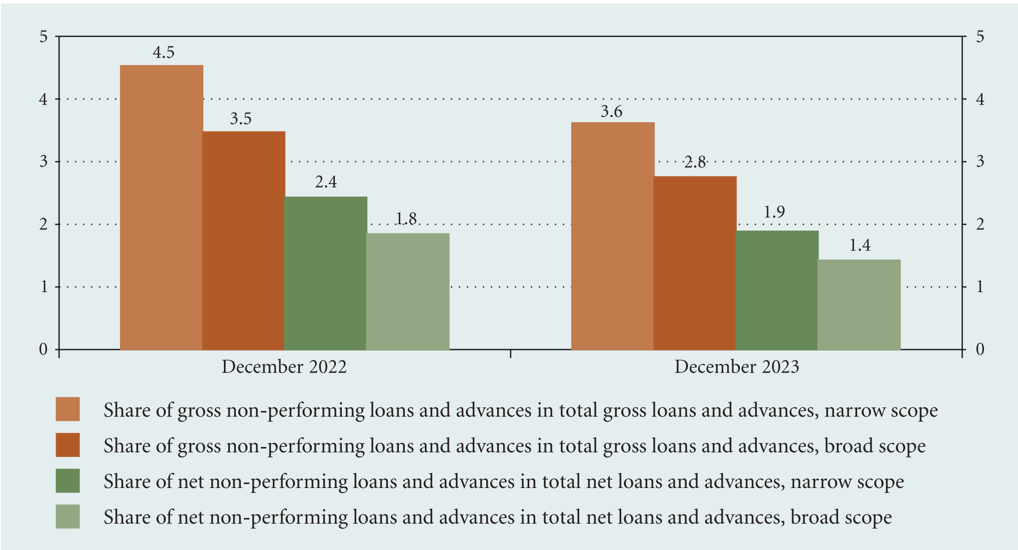


Source: BNB.

The net value of non-performing loans and advances63 was BGN 1.9 billion by end-December 2023. It represents the potential residual credit risk in bank balance sheets, remaining entirely covered by the excess of capital over capital requirements and applicable capital buffers. Compared to the end of 2022, the net value of non-performing loans and advances in the narrowed scope decreased by 13.6 per cent (BGN 305 million). The ratio of net non-performing loans and advances was 1.9 per cent by end-2023 (2.4 per cent at the end of 2022). According to the broad scope, the ratio of net non-performing loans and advances fell to 1.4 per cent at the end of 2023, against 1.8 per cent at the end of December 2022.

Non-performing Loans and Advances in Total Loans and Advances

(per cent)



Source: BNB.

Balance sheet equity of the banking system at the end of 2023 amounted to BGN 20.0 billion, increasing on an annual basis by BGN 2.7 billion (15.7 per cent). The most

[63] The net value of non-performing loans and advances is calculated using the EBA methodology: their gross amount less accumulated impairment thereon. In calculating the share of net non-performing loans and advances, their net value is used along with that of total loans and advances.

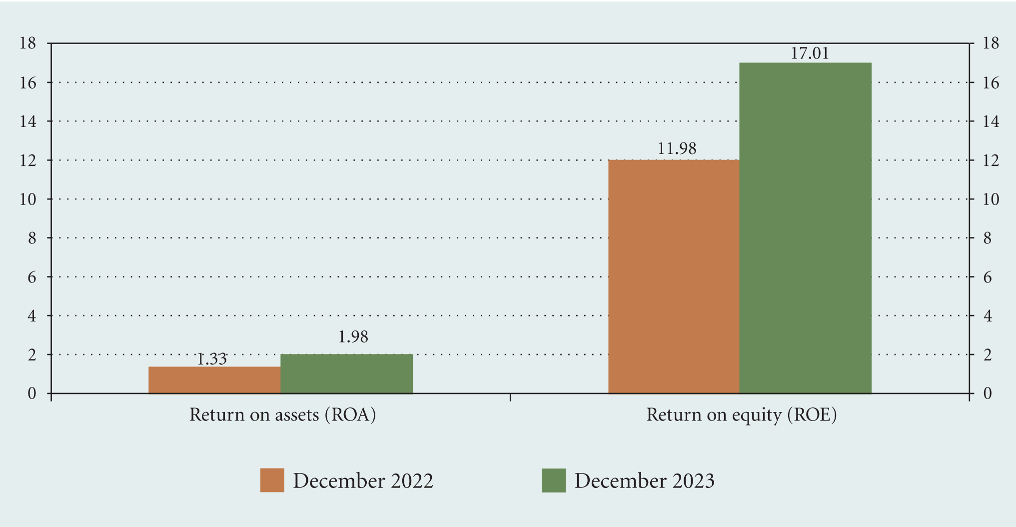
significant contributor was the reported profit for 2023, which was BGN 1.3 billion higher than the one realised in 2022. The contribution of other reserves and retained earnings was also positive. In 2023, accumulated other comprehensive income registered a change of BGN 238 million, and at the end of the year its amount again reached a positive value of BGN 21 million, compared to BGN -217 million at the end of 2022.

The banking system's profit at the end of 2023 was BGN 3.4 billion, or BGN 1.3 billion (64.4 per cent) higher than in 2022. Net interest income had the largest contribution to the increased financial result of the banking sector in 2023. On an annual basis, a higher amount of other net income and of net income from fees and commissions was also generated, while net income from financial instruments decreased. The reported financial result was also positively influenced by lower impairment costs than those accrued for 2022. Operating expenditure also picked up.

As a result of the increased annual profit, the return on assets (ROA) and return on equity (ROE) indicators recorded a rise and by end-2023 ROA was 1.98 per cent and ROE 17.01 per cent (from 1.33 and 11.98 per cent as of 31 December 2022).

Return on Assets and Return on Equity

(per cent)



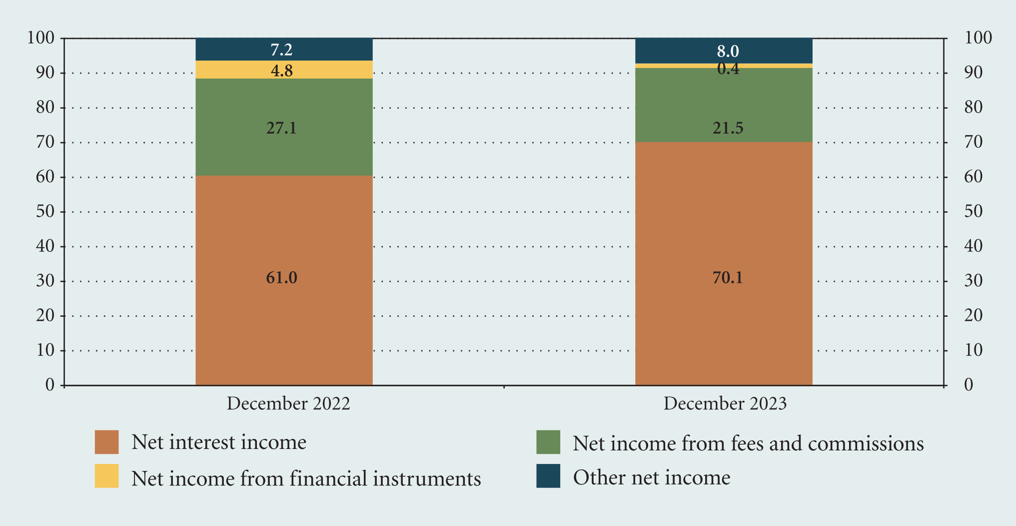
Source: BNB.

Total net operating income increased by BGN 1.6 billion from end-December 2022 (30.3 per cent) to BGN 6.9 billion. In its structure, the share of net interest income was 70.1 per cent (61.0 per cent by end-2022) its amount increasing by BGN 1.6 billion (49.9 per cent) to BGN 4.8 billion. Compared to the end of 2022, interest income went up by BGN 2.2 billion (61.6 per cent) to BGN 5.9 billion under the influence of the growth in gross interest-bearing assets[64] and higher interest rate levels. Over the same period, interest expenditure rose by BGN 628 million (155.0 per cent) to BGN 1.0 billion at the end of 2023. The net interest margin indicator was 3.58 per cent, compared with 2.64 per cent at the end of December 2022. Return on interest-bearing assets increased to 4.35 per cent (compared with 2.97 per cent as of 31 December 2022). The price of interest liabilities measured at amortised cost (containing deposits, bonds issued and other financial liabilities) also rose: to 0.45 per cent at the end of December 2023 (from 0.13 per cent a year earlier).

[64] Interest-bearing assets are the sum of debt securities and loans and advances (excluding those to central banks) at gross value, to which net other demand deposits were added from 30 June 2020.

Net Operating Income Structure

(per cent)



Source: BNB.

Compared to 2022, fee and commission income rose by BGN 111 million (6.3 per cent) to BGN 1.9 billion by end-2023, and fee and commission expenditure grew by BGN 61 million (18.7 per cent) to BGN 387 million. Net income from fees and commissions rose by BGN 50 million (3.5 per cent) to BGN 1.5 billion, its share in net operating income falling to 21.5 per cent, from 27.1 per cent at end-2022.

By the end of 2023, other net income reached BGN 551 million, up BGN 171 million (45.1 per cent) compared to 31 December 2022, its share in total net operating income increasing to 8.0 per cent. For the same period, net income from financial instruments decreased by BGN 225 million (89.3 per cent) to BGN 27 million at the end of the year.

The cost to income ratio[65] of the banking system improved to 39.3 per cent as of 31 December 2023 (46.2 per cent a year earlier) due to the increase in net operating income. On an annual basis, operating expenditure (administrative and depreciation costs) increased by a total of BGN 253 million (11.2 per cent) to BGN 2.5 billion as of end-2023, and bank expenses reported under the item of cash contributions to resolution funds and deposit guarantee schemes grew by BGN 11 million (5.4 per cent) to BGN 206 million.

The ratio of impairment charges to total net operating income fell to 5.9 per cent at the end of 2023 (11.2 per cent by end-2022). Impairment costs of financial assets not measured at fair value through profit or loss were BGN 409 million, or BGN 187 million (31.3 per cent) less than those reported in 2022.

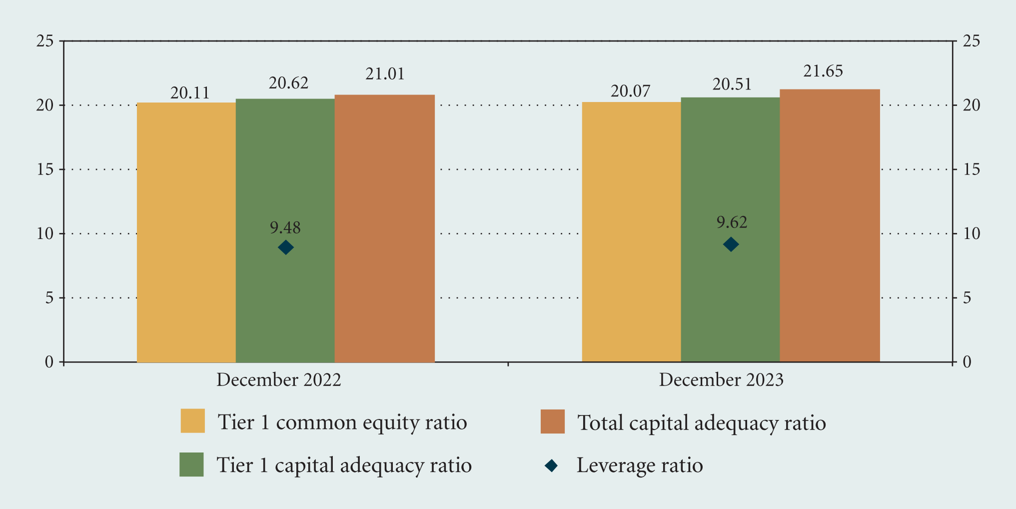
In 2023, the capital position of the banking system remained stable, with capital ratios exceeding significantly minimum regulatory requirements and capital buffers applied. Compared to 31 December 2022, total regulatory equity of the banking system rose by BGN 2.5 billion (15.6 per cent) to BGN 18.2 billion. Tier 1 capital amounted to BGN 17.2 billion and Common Equity Tier 1 (CET1) capital was BGN 16.8 billion.

Capital adequacy ratios remained at levels similar to those reported at the end of 2022, significantly exceeding regulatory requirements. As of 31 December 2023, CET1 ratio was 20.07 per cent, Tier 1 capital ratio – 20.51 per cent, and total capital adequacy ratio – 21.65 per cent, respectively (compared to 20.11, 20.62 and 21.01 per cent at the end of 2022).

[65] The cost-to-income ratio is the sum of administrative expenditure, depreciation costs and (from June 2020) costs on resolution funds and deposit guarantee schemes relative to the net operating income.

Selected Capital Indicators

(per cent)



Source: BNB.

Total risk exposures picked up BGN 9.1 billion (12.2 per cent) to BGN 83.9 billion at end-2023. This reflected growth in risk-weighted exposures for credit risk – by BGN 9.0 billion (12.9 per cent), which reached BGN 78.2 billion at the end of 2023. Their share in the structure of total risk exposures rose to 93.2 per cent (compared to 92.6 per cent at end-2022). Exposures to corporations, retail exposures, and exposures to the central government sector and central banks had the main contribution to this increase. In 2023, exposures to central governments and central banks of Member States, where such exposures are denominated and funded in the local currency of another Member State, ceased to be zero-weighted. Compared to the end of 2022, risk exposures for operational risk (up by BGN 190 million, 3.6 per cent) increased to BGN 5.5 billion, as their share in total risk exposures decreased to 6.6 per cent at the end of 2023 (compared to 7.1 per cent a year earlier). Exposures for position, currency and commodity risks (up by BGN 7 million, 3.5 per cent) also rose to BGN 203 million, but their share of total risk exposures remained insignificant at 0.2 per cent.

In 2023, all banks met the regulatory requirements and buffers applied.[66] With effect from 1 January 2023, the countercyclical capital buffer rate was raised from 1.0 per cent to 1.5 per cent and from 1 October 2023, to 2.0 per cent, which resulted in a substantial increase in the capital required for this buffer. Total for the banking system, at the end of 2023, the capital above the regulatory minimum under Pillar 1 was BGN 11.4 billion, up BGN 1.7 billion (17.7 per cent) from the end of 2022. The capital in excess of the requirements under Pillar 1, Pillar 2 and the applicable buffers was BGN 3.3 billion and continued to exceed the volume of net non-performing exposures, thus ensuring additional coverage of the banks' items appearing to be a source of potential residual credit risk in their balance sheets.

Banking system's aggregated leverage ratio[67] (when a fully phased-in definition of Tier 1 capital is applied) was 9.62 per cent (from 9.48 per cent by end-2022). In 2023, the total risk exposure (formed by bank assets, off-balance sheet items, derivatives, securities financing transactions and standard purchases and sales with pending settlement)

[66] For more information on the effective capital buffer rates, see the BNB website under the Banking Supervision section, Capital Buffers sub-section.

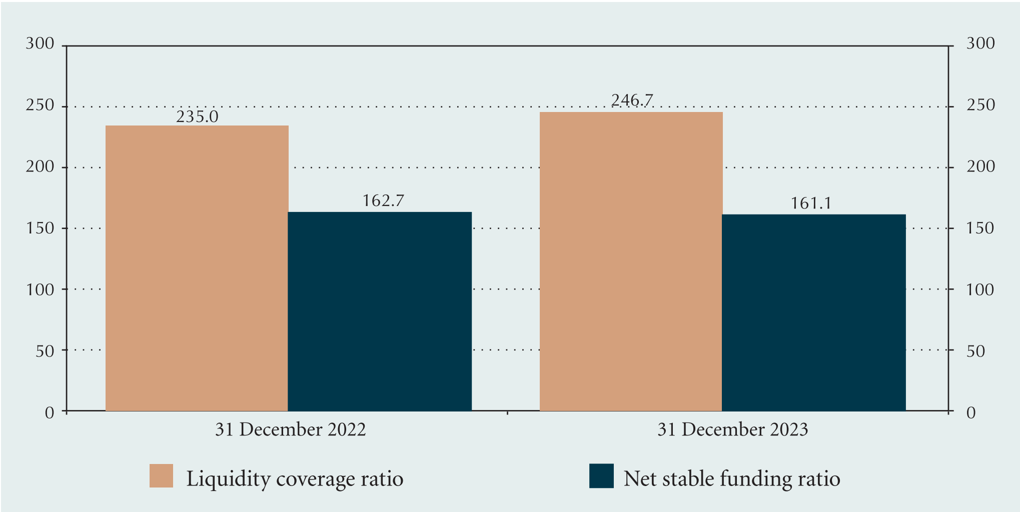
[67] The regulatory requirement for a leverage ratio (when a fully phased-in definition of Tier 1 capital is applied) is introduced in compliance with Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/2013, with effect from 28 June 2021. 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 3 per cent rate is defined in compliance with the Basel III regulatory framework.

increased at a slower pace than Tier 1 capital, which predetermined the improvement in the ratio. End-2023 ratio shows high capital coverage of the total risk exposure and a low level of indebtedness of the banking system. Over the year, all banks in Bulgaria reported a leverage ratio exceeding the minimum regulatory requirement of 3.0 per cent.

Banking system's liquidity position remained stable, with liquidity coverage ratios (LCR)[68] of all credit institutions exceeding significantly the minimum regulatory requirement of 100 per cent. At the end of 2023, the liquidity coverage ratio of the banking system was 246.7 per cent, against 235.0 per cent at the end of 2022. The liquidity buffer (the ratio numerator) increased by BGN 7.0 billion (15.3 per cent) to BGN 53.0 billion. The two main components of the liquidity buffer also rose: reserves in the central bank with an option of withdrawal (up by BGN 4.5 billion, 20.1 per cent) to BGN 27.1 billion and assets in the central government (up by BGN 2.4 billion, 14.0 per cent) to BGN 19.6 billion. Coins and banknotes grew by BGN 99 million (3.3 per cent) to BGN 3.1 billion, while assets in the central bank fell by BGN 705 million (25.3 per cent) to BGN 2.1 billion. As a result of developments in 2023, the share of reserves in the central bank with an option of withdrawal in the liquidity buffer was 51.0 per cent, that of assets in the central government 36.9 per cent and that of coins and banknotes 5.8 per cent (compared to 49.0, 37.3 and 6.4 per cent as of end-2022). The combined share of the three most liquid positions in the liquidity buffer at the end of 2023 was 60.7 per cent (compared to 61.5 per cent by 31 December 2022). Net liquidity outflows (the denominator of the liquidity coverage ratio) were BGN 21.5 billion at the end of 2023, increasing by BGN 1.9 billion (9.8 per cent) from the end of 2022.

Selected Liquidity Indicators

(per cent)



Source: BNB.

Loan-to-deposit ratio (LTD)[69] for the banking system increased from the end of 2022 from 68.1 to 71.2 per cent, driven by the higher growth rate of the credit portfolio (13.3 per cent) compared to the deposit portfolio (8.4 per cent).

The aggregate net stable funding ratio (NSFR)[70] was 161.1 per cent (162.5 per cent at the end of 2022), with all banks in Bulgaria adhering to the minimum regulatory

[68] The liquidity coverage ratio indicates the extent to which available high-quality liquid assets of credit institutions cover the estimated total net cash outflows that would materialise for 30 days under liquidity stress scenario.

[69] The ratio is calculated excluding central banks and credit institutions sectors.

[70] The net stable funding ratio illustrates the extent to which credit institutions' liabilities and own funds items can ensure funding for their exposures over a one-year horizon.

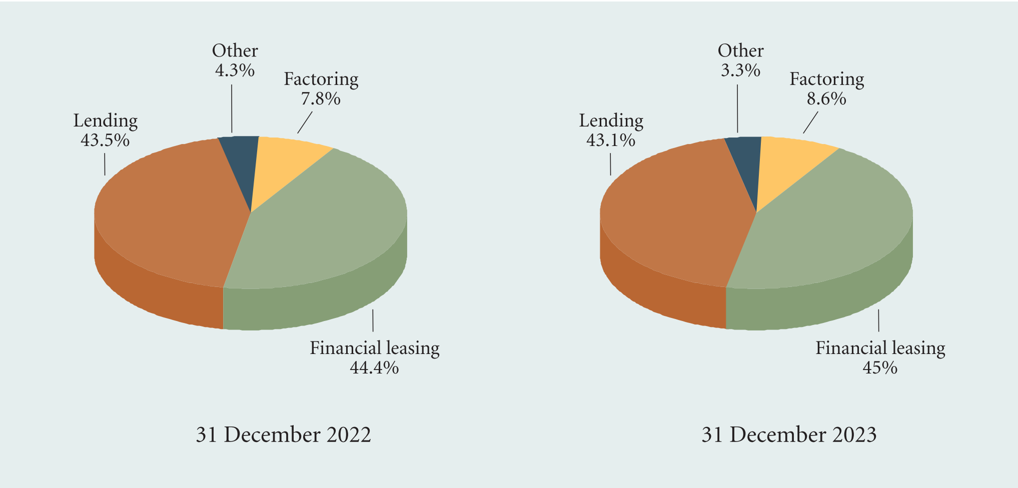
requirement of 100 per cent.[71] Available stable funding (the NSFR nominator) was BGN 135.4 billion and required stable funding (the NSFR denominator) BGN 84.1 billion (BGN 119.6 billion and BGN 73.5 billion, respectively, by end-2022).

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

As of 31 December 2023, non-bank institutions entered in the Register under Article 3a of the LCI numbered 239, including 13 financial institutions from EU Member States conducting activities on the territory of the Republic of Bulgaria *via* a branch or directly (under Articles 24 and 27 of the LCI) and two funds established under the procedure of the Law on the Bulgarian Development Bank.

At the end of 2023, total assets of this sector increased by 20.03 per cent to BGN 15.2 billion, with total assets of the 20 largest non-bank financial institutions comprising 76 per cent of sector's total assets.

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



Source: BNB.

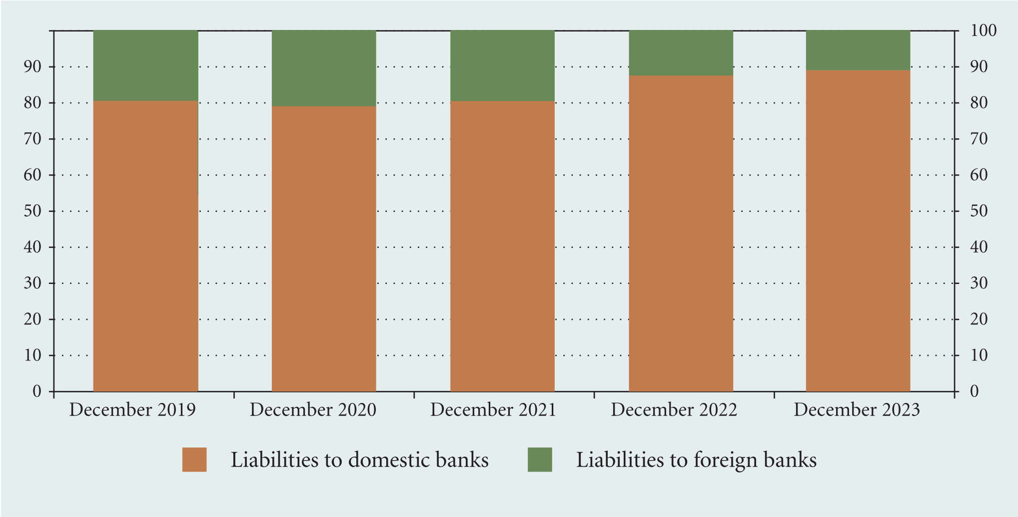
Gross credit portfolio of financial institutions that includes claims on loans and financial leasing increased year on year by 22.2 per cent to BGN 14.3 billion. Performing loans as of 31 December 2023 comprised 91.6 per cent of sector's portfolio. Non-performing loans and advances rose by 23.1 per cent on an annual basis, reaching BGN 1.6 billion as of 31 December 2023. Accumulated impairment for the credit portfolio grew by 16.08 per cent over the year, reflecting the increase in impairment for performing loans.

Attracted funds in the sector increased by 25.4 per cent compared to 2022, reaching BGN 11.8 billion, and funds from banks were BGN 8 billion (compared to BGN 6.6 billion for the previous year). The upward trend in the share of attracted funds from domestic banks persisted in 2023, and they occupied 88 per cent of all attracted bank resources.

[71] 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.

Structure of Attracted Funds from Banks

(per cent)



Source: BNB.

Profit from the activities of financial institutions in 2023 was BGN 401 million. At the end of the year, return on assets (ROA) was 2.6 per cent and return on equity (ROE) – 14.6 per cent. Sector's equity grew by 4.4 per cent on an annual basis, reaching BGN 2.7 billion. The capital position of the 20 largest financial institutions continued to provide half of the sector's own funds.

Banking Supervision's Activity

As part of the Single Supervisory Mechanism (SSM), which Bulgaria joined by establishing close cooperation between the ECB and the BNB from 1 October 2020, the BNB performs its supervisory functions in relation to banks in Bulgaria in full compliance with the requirements of the national, European and international legal and prudential framework. The BNB implements all guidelines, instructions, analytical and methodological requirements of the ECB as the national competent authority for less significant institutions (LSIs) and participates with its representatives in the joint supervisory teams through which the ECB supervises systemic institutions at the SSM level. Within the framework of its mandate, the BNB applies a continuous microprudential process regarding the business model and risk appetite of each bank, in order to control the availability of sufficient capital and reserves for addressing risks arising from bank operations. In accordance with its macroprudential mandate, the BNB conducts assessments of the processes and trends in the banking sector, on the basis of which it develops and applies its macroprudential policy and instruments intended to prevent and mitigate the systemic risk and avoid the spillover and contagion of adverse effects to make the sector a prerequisite and a factor for sustainable economic growth.

Off-site Supervision

Supervisory Review and Evaluation Process and Current Monitoring of Credit Institutions' Risk Profile

As part of the Supervisory Review and Evaluation Process (SREP), the analysis and assessment of the financial performance continued in 2023 along with monitoring of the trends in the risk profile of credit institutions and holding companies. Ongoing supervisory monitoring focused on dynamics in the values of key risk indicators in applying the SSM methodology, while conducting regular communication with banks in the framework of the supervisory dialogue to obtain additional information and clarify the reasons for significant changes in supervisory reports, including for liquidity buffers and attracted funds on a daily basis. Conclusions on the level of exposure of credit institutions to capital and liquidity risks were reflected in quarterly surveys of banks and holding companies and in annual assessments of the financial performance of foreign bank branches.

In line with the annual supervisory programme, meetings were held with the members of banks' management and supervisory boards, risk management and internal control units, as well as with representatives of external audit firms auditing banks and third country branches. Supervisors carried out a regular annual review of banks' reports on Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidly Adequacy Assessment Process (ILAAP) for 2022 and on their funding plans covering the 2023–2025 period. The process of reviewing and assessing the updated versions of the recovery plans of less significant institutions continued to determine the degree of feasibility and to implement the recommendations made by the BNB. Implementation of the targets set by banks to reduce NPLs in their strategies and operational plans was also monitored. There was a supervisory dialogue with credit institutions in relation to capital plans and dividend payments. In 2023, SREP reports on LSIs were finalised with a reference date of 31 December 2021. SREP assessments of LSIs, as well as the set additional own funds requirements and recommendations were adopted by the BNB Governing Council. Work continued with regard to SREP of LSIs with a reference date of 31 December 2022.

Work on Drafting Opinions and Follow-up of Supervisory Measures

In 2023, opinions were issued on assessments of the possibility of paying dividends, inclusion of interim and/or annual profits as an element of the capital base and of an increase in Tier 1 capital of several institutions. Opinions were also prepared on the procedure for converting bond issues and on BNB's approval for inclusion into Common Equity Tier 1. Implementation of supervisory measures, recommendations and corrective actions taken as a result of conducted supervisory inspections were followed up. Regulatory compliance analysis of changes in the statutes of banks and an assessment of the suitability of members of management and supervisory boards and persons holding key positions were carried out.

Close Cooperation within the Single Supervisory Mechanism

In 2023, BNB representatives continued to participate in the ECB's Joint Supervisory Teams within the established close cooperation. During the meetings of the risk teams, issues were discussed concerning the priorities and approach to assessing the risks applicable to European banks and subsidiaries operating in Bulgaria. Draft reports on the financial position of Bulgarian subsidiary banks (classified as systemically significant institutions according to the ECB methodology) were prepared with a reference date of 31 December 2022. Meetings of supervisory colleges were also held to discuss draft joint decisions on capital and liquidity as of 31 December 2022 and on 2021 recovery plans of the European banking groups, part of which the four significant institutions (Bulgarian subsidiaries) are. Joint supervisory decisions were adopted at the end of 2023, and additional capital requirements were defined to be maintained by significant institutions in 2024. Opinions were issued to pre-coordinate the selection of external auditors and analyses on outsourcing and changes in the fixed to variable remuneration ratio. With regard to joint procedures with the ECB related to the approval for a merger of a significant institution into another, opinions and analyses were prepared on the financial performance and future development strategy of the merged bank. Over the period under review, an opinion was also prepared on the impact of the acquisition of business of one of the branches operating in Bulgaria by a significant institution, whereby branch's activities were terminated. Participation in the Joint Supervisory Teams also included communication on the approval procedures for members of management and supervisory boards and key function holders. Supervisory dialogues took place within these teams on dividend distribution intentions, assessing the capital adequacy developments of relevant banks. Regular meetings were also held with significant institutions' management bodies to discuss financial results and risk appetite and control framework.

BNB's Banking Supervision Department continued its cooperation with German supervisory authorities on joint decisions on capital and liquidity and recovery plans of subsidiaries.

Regular meetings were held between representatives of the BNB and the ECB unit responsible for monitoring less significant institutions in Bulgaria (CountryDesk Bulgaria*)*. Discussions over the year covered issues and topics related to the SREP, main risks, developments in banks' financial performance and the current macroeconomic situation.

Working Formats under the SSM to the ECB

Among the topics discussed within the SSM's Capital Adequacy Expert Group were the overlapping of elements of the ICAAP assessment and capital risk control, the provision of a platform to the joint supervisory teams for capital projections, the integration of the minimum requirement for own funds and eligible liabilities into the monitoring of capital adequacy and the analysis of good practices for capital allocation within a banking group.

The Business Model & Profitability Expert group discussed topics and projects on changes to the SREP methodology, business model and profitability analysis tools, digitalisation assessments, analyses of banks with weaknesses in the business model and a horizontal analysis of corporate investment banking in the SSM.

On-site Inspections

In 2023, supervisory inspections were carried out in banks subject to direct supervision by the ECB (under the established regime of close cooperation between the ECB and the BNB), as well as in banks for which the BNB is a directly responsible supervisor. The checks initiated in the previous year were completed, and new checks started according to the approved annual inspection plan.

The scope and intensity of the on-site inspections carried out by a BNB team at significant institutions under the direct supervision of the ECB were agreed within a centralised process organised by the ECB and aligned with SSM's priorities for high-risk areas.

Internal governance and risk management in lending were inspected in a significant bank, including the independence and effectiveness of risk management and control functions, the role of the management body in developing and monitoring the implementation of the credit risk strategy. Supervisory findings[72] based on reviewed documentation, established business practices and workshops mainly related to documentation gaps in the internal framework and its implementation mechanisms, allocation of operational roles and responsibilities, as well as technical weaknesses. The inspection

[72] A 'finding' in supervisory reports is any non-compliance, weakness or omission committed by a bank, as well as violations of applicable regulations.

findings by level of impact, according to a scale approved by the ECB, are evenly distributed between 'high impact', 'moderate impact' and 'low impact'[73].

Another ECB inspection covered credit risk management in the retail banking segment, with the aim of reviewing and assessing the organisational framework and functioning of the internal mechanisms for managing and controlling consumer credit risk, including the identification of risk-increasing signals, collection rates and write-offs of problematic loans. This inspection resulted in 'low' and 'moderate' supervisory findings. These mainly related to organisational weaknesses and insufficient documentation of processes and procedures, potentially undermining the effectiveness of some actions in managing problematic loans.

The scope and topics of supervisory inspections at banks directly supervised by the BNB were determined following a review and analysis of proposals received in ongoing supervision, reflecting areas of increased supervisory engagement upon implementing the SREP. Two inspections launched in 2022 and three in 2023 covered aspects related to credit risk and credit concentration risk. Two of these inspections covered also areas associated with counterparty credit risk and market risk stemming from financial instruments measured at fair value. One of them also included a check on the aggregation of risks in the ICAAP.

On-site inspections which started in 2022 reviewed and assessed the process for approving credit transactions, monitoring, assessing and classifying credit exposures, managing non-performing exposures, and the quality of reporting for regulatory purposes related to the reporting of these risks. Most of the weaknesses identified by these inspections concerned the incorrect and/or late identification and reporting of information, incorrect interpretation of regulatory requirements affecting the assessment of the level of credit risk, classification of credit exposures and the quality of reporting for regulatory purposes. Another significant part of the shortcomings related to unsynchronised internal rules, gaps and weaknesses in the process of documenting business processes and approaches to implementing regulatory requirements, unclear allocation of roles and responsibilities, and technical weaknesses.

The internal models team continued to maintain its day-to-day communication with representatives of ECB's Joint Supervisory Teams responsible for domestic banks applying internal models to assess credit risk for regulatory purposes. In addition, given the close cooperation with the ECB, local activities and tasks were carried out in connection with ECB's Supervisory Board decisions, a review of supervisory duties related to joint decisions, a preliminary assessment of documentation on submitted applications, participation in regular meetings, *etc.* Over the review period, an inspection mandated by the ECB was launched on a submitted application for material changes to the internal models applied in a leading bank. Documentary checks were carried out on two applications for non-substantial changes to the internal rating models of the *ex-ante* notification type.

As part of the process of close cooperation between the BNB and the ECB, members of the supervisory teams participated in specialised ECB working groups, whose role is to ensure an interaction within the SSM with regard to the implementation and development of work processes and tasks in various areas relevant to internal models, on-site inspections, and planning and coordination of supervisory inspections. Other supervisory team members participated in ECB working groups on supervisory strategy and risk, supervisory methodologies, an assessment of credit risk methodologies, application of supervisory measures and sanctions. A supervisory team representative participated in a separate network of the national competent authorities, a forum for presenting

[73] According to the classification of the ECB Supervisory Guide to On-site Inspections and Internal Model Investigations.

information and discussions on a further development of modules and functionalities of the single information system for managing supervisory business processes within the SSM (IMAS).

Macroprudential Supervision

BNB's macroprudential mandate is exercised through supervision over credit institutions and the banking system on the basis of continuous monitoring, identification and assessment of systemic risks. The analysis focused on both inherent risks of the banking system and developments in the economic environment in which banks operate. The analysis of the banking system's risk profile covers both key business lines and key regulatory risks – asset quality, profitability level, capital adequacy and liquidity, and an assessment of cyclical and structural measures of systemic risk which form the basis of introduced macroprudential instruments. Up-to-date information on banking system developments is disclosed through monthly press releases, and major analytical conclusions are included in the BNB's quarterly publication 'Banks in Bulgaria'.

As one of the macroprudential instruments used, the countercyclical capital buffer aims to preserve the banking system's ability to cope with adverse effects of the business and financial cycle by strengthening banks' capital positions. In the first nine months of 2023, this buffer was 1.5 per cent, applicable to credit risk exposures in the Republic of Bulgaria. Given the persistently high credit growth rates and uncertainty in the economic environment, the countercyclical capital buffer rate was raised to 2.0 per cent in September 2022, effective from 1 October 2023, taking into account the likelihood of exacerbating and accumulating risks to financial intermediation in view of the economic developments in the EU and their impact on the financial system[74]. The countercyclical capital buffer applicable from the first quarter of 2024 was kept at 2.0 per cent by decisions of the BNB Governing Council (of December 2022, March, June, September and December 2023). The decisions aim to strengthen the resilience of the banking system to a pressure on the profitability and capital position of the banking sector, driven by a potential increase in non-performing loans and their impairments.

As regards risks of a structural nature, the annual review of the buffer for other systemically important institutions (O-SIIs) carried out by the BNB Governing Council in 2023 identified six institutions for which the buffer rates in 2024 would be between 0.5 per cent and 1.0 per cent. The biennial review of the systemic risk buffer in 2023 confirmed its level of 3 per cent of local risk-weighted exposures.

In 2023, macroprudential priorities included a regular analysis of the risks stemming from lending collateralised by residential real estate. Based on detailed information from banks through a specialised reporting form[75] on newly granted loans to households collateralised by real estate, key indicators, such as the degree of collateralisation and maturity of the claim, degree of indebtedness and solvency of the debtor, were monitored.

In 2023, monitoring of banking system exposures to third countries continued, in line with reporting requirements under the recommendation of the European Systemic Risk Board (ESRB) on the recognition and setting of countercyclical buffer rates for exposures to third countries ((ESRB/2015/1). A periodic review was also carried out concerning exposures to European Economic Area (EEA) countries for which the application of macroprudential measures was required on a reciprocal basis with an

[74] See'Warning of the European Systemic Risk Board of 22 September 2022 on vulnerabilities in the Union financial system' (ESRB/2022/7).

[75] The specialised macroprudential form was introduced from the beginning of 2022 in line with the Recommendation of the European Systemic Risk Board on closing real estate data gaps (ESRB/2016/14, amended in 2019ESRB/2019/3.).

amendment to the ESRB Recommendationon on the assessment of cross-border effects and voluntary reciprocity for macroprudential policy measures (ESRB/2015/2)).

Systemic risks and vulnerabilities to the financial system, including those arising from residential and commercial real estate markets, macroprudential tools and policies in EEA countries and the preparation of scenarios for pan-European stress tests were discussed during regular participations in ESRB working groups on macroprudential analysis, macroprudential tools and stress testing in 2023.

Specific Supervisory Activities

To perform the functions of monitoring banks' compliance with the requirements of the Law on Measures against Money Laundering (LMML) and the Law on Measures against Financing of Terrorism (LMFT), the BNB completed four supervisory inspections in 2023, including of three less significant credit institutions and one joint inspection by the BNB and the State Agency of National Security Financial Intelligence Directorate of a bank branch. The focus of these inspections was determined on the basis of a risk-based approach and included an assessment of: internal rules; own risk assessment; the procedure for determining the origin of funds; categorisation of customers; fulfilment of the obligations as required by Chapter Two 'Due Diligence' of the Law on Measures Against Money Laundering and practical implementation of EBA Guidelines on policies and procedures in relation to compliance management and the role and responsibilities of the AML/CFT Compliance Officer[76] (EBA/GL/2022/05).

Four horizontal inspections at banks were also carried out during the year (two of them covering all credit institutions, one covering four banks and one covering 17 banks). These inspections focused on: a review of the timeliness, feasibility and relevance of the own risk assessment referred to in Article 98 of the Law on Measures Against Money Laundering; actions to limit the use of banks for terrorist financing purposes; implementing group policies and rules for branches and subsidiaries of banks in third countries; money laundering (ML) and terrorist financing (TF) risks in correspondent relationships. Results of completed inspections did not require application of supervisory measures. To improve the functioning of credit institutions, recommendations were made with regard to ML/TF prevention.

In addition, checks were performed, and responses to complaints, alerts and other information from citizens, legal entities or institutions were prepared. Bank employees continued to actively participate in the process of assessing requests for acquisitions of credit institutions and fit and proper assessments of management and key personnel of banks.

In 2023, guidelines were developed to identify beneficial owners of customers (including to identify attempts to hide beneficial ownership); systems for monitoring, verification of origin of funds and source of customer assets, for cross-border customers and operations; targeted financial sanctions related to terrorist financing, and techniques to avoid such sanctions. Guidelines for remote establishment of business relationships with bank customers were also drafted. To improve the effectiveness of ML/TF prevention, three meetings on topical issues were held with representatives of banks and other competent authorities in the field of LMML enforcement. Internal working documents and procedures were updated, and a new methodology for risk assessment of banks was developed.

In 2023, BNB staff participated in interinstitutional working groups at national level related to legislative acts, preparation of a national mechanism for defining policies for

[76] Anti-money laundering (AML)/combating the financing of terrorism (CFT).

coordination of ML/TF prevention measures, as well as in interinstitutional analysis and coordination teams on the national risk assessment, the assessment of the virtual assets sector and the TF risk assessment in the non-profit sector.

BNB experts worked on initiatives related to the report of the Fifth Evaluation Round of the Committee of Experts on the Evaluation of Anti-Money Laundering Measures (Moneyval). Although the report's findings and recommendations do not refer to processes in the banking system or to the activities of the BNB as a prudential authority in relation to the prevention of money laundering and terrorist financing, the BNB was involved with its expertise in the development of the follow-up procedures on monitoring of Bulgaria by the Financial Action Task Force (FATF). The BNB also participated in the Coordination and Cooperation Council established by Council of Ministers Decree No 101 of 14 July 2023, performing the overall monitoring and control and reporting on the progress and implementation of the measures and actions resulting from the recommendations to Bulgaria. In addition, the BNB took part in the development of the Strategy for Countering ML/TF in the Republic of Bulgaria in 2023–2027, adopted by Council of Ministers Decision No 586 of 31 August 2023, and the action plan thereto. Bank employees were lecturers in an organised three-day training in combating money laundering and terrorist financing with representatives from the Western Balkan countries under a programme funded by the EC for technical cooperation.

In relation to the BNB control functions under the Law on Real Estate Loans for Consumers (LRELC) and the application of the EBA guidelines in this area, three less significant, one significant credit institution and five non-bank financial institutions were inspected in 2023 along with a horizontal inspection in several credit intermediaries. Non-compliance with legal requirements was established in two of the inspected credit institutions regarding the rules and procedures applied in assessing the creditworthiness of consumers. The inspection concerning remunerations received by employees in all credit institutions shows that they comply with the requirements of the law. Minor shortcomings were found in professional training and competencies of creditors' and credit intermediaries' employees.

In the case of financial institutions, essential shortcomings in applying the requirements of the law related to the assessment of consumer creditworthiness were identified, resulting in guidance on how to remove them. Administrative penalty proceedings were initiated against one financial institution.

For the strict application of the Law on Bank Deposit Guarantee (LBDG), in 2023 targeted checks were carried out in two less significant institutions with a view to correctly determining the amount of guaranteed deposits used for calculation of the premium contribution and correct accounting forms. Insignificant discrepancies in determining the deposit base were established in the inspected credit institutions.

All complaints, questions and enquiries received during the year from customers of credit and financial institutions were subject to inspections, of which the persons were notified or directed to the relevant competent authority.

In 2023, 17 new Bulgarian and two EU Member State legal entities willing to act as credit intermediaries under the LRELC were registered. Five credit intermediaries were deleted from the register: two from EU Member States and three companies from Bulgaria. The analysis of the reporting information received from credit intermediaries during the year shows that they have a well-established market presence, which is a prerequisite for an increasing number of consumers of residential and mortgage loans to seek their services. During the period, Bank efforts continued to be focused on inspections of companies suspected of carrying out credit intermediation activities without registration.

In 2023, BNB's control over the operation of financial institutions entered in the Register under Article 3a of the LCI was intended to establish a clear and legal origin of the funds forming the institutions' registered capital, verify financial statements submitted to the BNB for calculating the essential activity of companies qualifying them as financial institutions and maintain at any time own funds of not less than BGN 1 million. Data and information accuracy upon entering in the Register under Article 3a of the LCI and changing registration circumstances continued to be regularly analysed. Control was also exercised to ensure compliance with the requirements for qualification, professional experience and reputation of the persons managing and representing a financial institution, and with the requirements for reliability, financial stability and reputation of the persons holding qualified interest in the capital of the company or are beneficial owners. The Financial Supervision Commission and the National Revenue Agency were informed about the established failures to comply with regulations on the operation of financial institutions. Inspections continued in relation to the conduct of business as a financial institution by companies without registration under Article 3a of the LCI.

In 2023, 14 new financial institutions with commercial registration in Bulgaria and one foreign financial institution were entered in the Register under Article 3a of the LCI. Eight financial institutions were deleted from the Register. The Bank rejected registration of two companies due to unclear origin or lack of evidence of own funds in generating contributions to the capital. At the request of three companies, a document review procedure for a submitted registration application was terminated.

Supervisory Information Service and IT Audit

With regard to implementing amendments to regulatory reporting requirements,[77] an impact analysis, an assessment of the changes to suptech products and changes in the core information system were carried out to ensure the receipt, processing and storage of supervisory reports. Amendments were introduced to automate the process of submitting supervisory reporting data to regulatory authorities. Functional and technical requirements for the procurement for changes to the core information system related to the introduction of the euro were analysed, verified and agreed. Existing products were updated and new ones were created on request of the units in the Banking Supervision Department.

BNB's activities related to supervisory information servicing, including collection, processing and storage of information, ensured the information required for supervisory processes and analytical purposes. A key element was the timely provision of the necessary data and information extraction. In addition to the standard suptech products provided by the core information system of the Banking Supervision Department, non-standard requests for information were executed in short terms.

In connection with the review of the risks in banks' information and communication technologies, the IT audit unit was fully equipped and the teams trained and certified at a high global level.[78]. A full-scope supervisory IT exercise was completed in two of the High Impact LSIs. Implementation of recommendations to banks from previous IT supervisory checks was followed up. Reports on the implementation of the recommendations with deadlines in 2023 showed that all of them (with very few exceptions) were fulfilled. During the year, there were two cyber attacks to banks, which were successfully neutralised. The BNB coordinated reporting of cyber incidents by supervised institutions and, after processing the reports, sent them to the SSM/ECB cyber incidents unit.

[77] Caused by changes in the regulatory framework (EBA Reporting Framework) – version 3.2. and 3.3.
[78] Certified Information Systems Auditor (CISA).

Work on Amending the Existing Basel III Regulatory Framework and Participation in Working Groups at European Level

In 2023, BNB Banking Supervision representatives actively participated in discussions at European level on the introduction in the Union of the so-called revised Basel III regulatory framework on capital requirements for credit institutions, with the aim of strengthening the regulation, supervision and risk management of the banking sector through:

- 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 minimum threshold for calculating the capital requirement (CRR III); and
- 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 (CRD VI), and amending Directive 2014/59/EU.

With regard to the European regulatory framework, work continued on standing committees and working groups to the EBA and the ECB where BNB experts took part at various levels in discussing and elaborating common supervision policies and standards, the assessment and convergence of national practices on the introduction and implementation of the EU prudential and supervisory framework.

In developing a draft regulatory technical standard for determining capital requirements for operational risk, in 2023 representatives of the Banking Supervision Department actively participated under the EBA's Sub Group on Operational Risk, and the BNB, through the Association of Banks in Bulgaria, sent an inquiry to credit institutions for discussion, comments on various EBA mandates concerning amendments to the operational risk framework, and updating the methodology for measuring and assessing operational risk, respectively.

Structural units in the Banking Supervision Department and the banking system were informed about upcoming changes to the reporting requirements under the reporting regulation or reporting requirements related to the Supervisory Review and Evaluation Process, as well as other developments arising from the activity within close cooperation with the ECB.

In relation to financial and supervisory reporting, BNB experts actively participated in implementing the reporting and data quality requirements. For this purpose, information on supervised entities in the ECB's Register of Institutions and Affiliates Data (RIAD) is maintained at the BNB. Regularly, letters were sent to credit institutions and financial holdings and mixed financial holding companies under Article 35a of the LCI regarding changes in reporting, accompanied by business cards containing reporting templates required under the reporting regulation.

In line with EBA Decision of 18 February 2021 on information required for the monitoring of Basel supervisory standards (QIS exercise), the BNB collects and transmits information to the EBA on a sample of credit institutions set out in Article 4 of the Decision. For the exercise, with a reference date of 31 December 2022, three Bulgarian banks – Bulgarian Development Bank EAD, First Investment Bank AD and Central Cooperative Bank AD – were included in the sample.[79] In 2023, Banking Supervision as a mediator between the EBA and designated banks took part in all stages of the exercise. Following a quality review of the data submitted by banks, the EBA included the three banks in the summarised results.

[79] Following the BNB Governing Council's decision granting an exemption from the approval of the financial holding company Invest Capital AD under Article 35a of the LCI, in the sample of institutions that will participate in the exercise in 2024, Central Cooperative Bank AD was replaced by Invest Capital AD, which is a parent institution in the EU, and reporting should be submitted on a consolidated basis for the holding company.

Work on Changes in the Existing Regulatory Framework at National Level

Pursuant to the amendments to the LCI (Darjaven Vestnik, issue 84 of 2023), definitions were introduced of 'close associate' of applicants for banking licenses and acquisition of qualifying holdings in credit institutions and of candidates for senior management positions.

Following the entry into force of the amendments to the LCI, draft ordinances[80] amending and supplementing the following secondary legislation were prepared:

– Ordinance No 2 of the BNB of 2006 on the Licenses, Approvals and Permissions Granted by the Bulgarian National Bank According to the Law on Credit Institutions (Ordinance No 2);

– BNB Ordinance No 10 of 2019 on the Organisation, Management and Internal Control of Banks (Ordinance No 10);

– Ordinance No 20 of the BNB of 2019 on the Requirements to the Members of the Management and Control Bodies of a Credit Institution and on the Assessment of the Suitability of Their Members and the Key Function Holders (Ordinance No 20).

Amendments to Ordinance No 2 and Ordinance No 20 further develop the framework for close associates. Ordinance No 2 lays down a procedure for applying the option provided for in Article 26(3)(2) of Regulation (EU) No 575/2013 introduced by Regulation (EU) 2019/876 on inclusion of subsequent issues of capital instruments in Common Equity Tier 1 (CET 1), applicable in addition to the existing prior authorisation regime.

Amendments to Ordinance No 10 and Ordinance No 20 introduce into national legislation the requirements of the Guidelines on compliance management policies and procedures and the role and responsibilities of the AML/CFT compliance officer under Article 8 and Chapter VI of Directive (EU) 2015/849 (EBA/GL/2022/05).

Amendments to Ordinance No 20 introduce an obligation for significant supervised entities established in the Republic of Bulgaria to use the ECB's Information Management System Portal (IMAS Portal) with regard to the procedures for assessing the reliability and suitability of the persons referred to in Articles 10, 11 and 11a of the LCI.

Following a proposal by the Bulgarian Deposit Insurance Fund, in November 2023, the BNB Governing Council adopted an Ordinance amending Ordinance No 33 on the Assignee's in Bankruptcy Remuneration. The main purpose of these amendments is to bring Ordinance No 33 in compliance with the amendments to the Law on Bank Bankruptcy approved after its adoption.

Application of the Regulatory Framework

Opinions were issued in 2023 on the prior approval of the inclusion of annual profits for 2022 and interim profits for 2023 in the capital of credit institutions, and on approval procedures for banks' regulatory capital instruments.

In accordance with Article 76, paragraph 4 of the LCI, each bank and branch in the Republic of Bulgaria of a credit institution established in a third country should coordinate in advance with the BNB their choice of auditors to carry out an independent financial audit of the annual financial statements on an individual and consolidated basis. In 2023, the full cycle of coordinating selection of banks' auditors and of T.C. Ziraat Bankası – Sofia Branch was implemented, including at the level of the ECB as the competent authority supervising designated significant institutions.

[80] Published in the Darjaven Vestnik, issue 12 of 9 February 2024.

On 12 January 2023, the BNB Governing Council adopted a decision to apply from 31 December 2022 Guidelines amending Guidelines EBA/GL/2018/10 on disclosure of non-performing and forborne exposures (EBA/GL/2022/13) issued by the EBA and published on its official website.

The amended Guidelines change only the scope of application of the current Guidelines on disclosure of information on non-performing and forborne exposures (EBA/GL/2018/10). In this regard, the scope of application of the Guidelines is limited to institutions that are not explicitly covered by the requirements of Implementing Regulation (EU) 2021/637 laying down implementing technical standards with regard to public disclosures by institutions classified as listed small and non-complex institutions and other non-listed institutions as defined in Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions.

On 26 April 2023, the BNB Governing Council adopted a decision to apply the EBA Guidelines issued under Article 84 (6) of Directive 2013/36/EU specifying criteria for the identification, evaluation, management and mitigation of the risks arising from potential changes in interest rates and of the assessment and monitoring of credit spread risk of institutions' non-trading book activities (EBA/GL/2022/14), issued by the EBA and published on its official website as of 30 June 2023, with the exception of the sections on credit spread that apply from 31 December 2023.

On 6 December 2023, the BNB Governing Council adopted a decision to apply Guidelines on the overall recovery capacity (ORC) in recovery planning (EBA/GL/2023/06) issued by the EBA and published on its official website. This decision was taken on the basis of Article 16, item 20 of the LBNB and Article 79a, paragraph 1, item 2 of the LCI. These Guidelines specify how banks should include in the recovery plans and group recovery plans the overall recovery capacity (ORC) in line with the requirements of the LRRCIIF and how competent authorities should assess banks' ORC in the context of the assessment of recovery plans and group recovery plans under the provisions of the LRRCIIF. The Guidelines will apply in Bulgaria from 7 December 2023.

Issuance of Licences, Permits, and Approvals

In 2023, there were no new bank operations licences or bank licensing procedures in Bulgaria[81].

An application was received concerning the acquisition of a qualifying holding of the capital of a credit institution under Article 28 of the LCI.

In March, April and October 2023, the BNB Governing Council adopted decisions exempting three parent financial holding companies from the requirement to obtain authorisation under Article 35a, paragraph 1 of the LCI. One approval was granted to a parent mixed financial holding company from a Member State in accordance with Article 35a, paragraph 5 of the LCI.

In 2023, the BNB Governing Council issued permissions related to own funds, as follows:

– to four banks, one of which significant, to include issues of shares into Common Equity Tier 1 (CET 1);

– to two banks to include their 2022 annual profits into Common Equity Tier 1 (CET 1);

[81] 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), a close cooperation mechanism was established between the two banks, and from 1 October 2020, the ECB, in accordance with Article 4(1)(a) of Regulation (EU) No 1024/2013, is the competent authority for authorisation of credit institutions, subject to specific rules reflecting the role of the national competent authority.

– to eight banks, two of which significant, to include their interim profits into Common Equity Tier 1 (CET 1);

– to two significant banks to include the amount borrowed in the form of a subordinated fixed-term loan in Tier 2 (T2) capital;

– to a bank to reduce its capital by withdrawal of the shares it acquired free of charge.

Six banks obtained approvals by the BNB Governing Council under Article 71, paragraph 5 to amend their statutes.

In 2023, as a result of a fit and proper assessment, 13 approvals for holding positions in the management and supervisory bodies of banks[82] were issued by resolutions of the BNB Governing Council (eight to less significant institutions and five to significant institutions following an instruction by the ECB) and 12 approvals to assess the suitability of key function holders in banks (seven to less significant institutions and five to significant institutions following an instruction by the ECB)[83].

From January to December 2023, 16 new EU credit institutions exercised the freedom to provide services in Bulgaria under the mutual recognition of passporting procedures through notices to the BNB from bank operation licensing supervisors. Thus, the number of First Time Free Services Notifications received in the BNB was 354.

As a result of the close cooperation between the ECB and the BNB[84], the following procedures for specific instructions from the ECB were implemented, leading to the adoption of national decisions by the BNB Governing Council and issuance of orders by the Deputy Governor heading the Banking Supervision Department:

– nine national decisions on issuing approvals for holding positions in management and supervisory bodies and for holding key positions in three significant credit institutions;

– two national decisions on issuing approvals for amendments to the statutes of two significant banks;

– 13 national decisions on invoicing of 2022 annual supervisory fees due to the ECB for the supervised entities and supervised groups established in Bulgaria;

– one national decision on merging of a significant bank into another;

– two national decisions on merging of subsidiary financial institutions into their significant parent institutions;

– a national decision to extend the period of compliance of an obligation set out in a specific ECB instruction and the national decision on internal models adopted pursuant to it – to one significant institution;

– nine national decisions in relation to own funds of three significant banks;

– two orders for conducting supervisory inspections in two significant banks;

– one national decision related to an approval of one significant institution for exclusion of exposures where an overall internal exposure is established;

– four national decisions on setting 2024 prudential requirements based on the annual supervisory review and evaluation process conducted by the ECB and other competent authorities with a reference date of 31 December 2022 concerning four significant institutions;

[82] Information on approvals issued pursuant to Article 11, paragraphs 1 and 3 of the LCI is available on the BNB website, Credit Institutions (Banking Sector), Registers.

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

[84] Decision (EU) 2020/1015 of the ECB, with effect from 27 July 2020.

– two national decisions on providing permissions to use internal models for calculating the capital requirements for credit risk to two significant institutions;

– one national decision to discontinue the classification as significant of a supervised entity and direct supervision over it by the ECB due to a merger into another significant bank.

In 2023, the BNB Banking Supervision Department registered and handled 111 specific complaints from bank customers.

VII. BNB Activities as a Resolution Authority for 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 central bank. As a result of the establishment of close cooperation with the ECB as of 1 October 2020, the BNB performs the function of a resolution authority within the framework of the Single Resolution Mechanism (SRM) and in close cooperation with the Single Resolution Board (SRB).

Credit institutions established in the Republic of Bulgaria in respect of which the ECB exercises all powers under Article 4 of Regulation (EU) No 1024/2013[85] fall within the direct powers of the SRB, which exercises the functions of a resolution authority and makes decisions regarding all aspects of resolution[86]. As the national resolution authority for the credit institutions under the direct remit of the SRB, the BNB participates and is represented in Internal Resolution Teams set up by the SRB[87], which perform tasks on drawing up resolution plans and taking decisions related to resolution. In the event that the SRB is the resolution authority for credit institutions or groups, respectively, it assumes the role of the BNB in cooperating with the resolution authorities of non-participating Member States, including in resolution colleges and European resolution colleges established under Directive 2014/59/EC[88]. In these cases, the BNB participates in resolution colleges as an observer.

In respect of credit institutions and groups established in the Republic of Bulgaria which do not fall under the direct remit of the SRB, the BNB adopts decisions on all aspects of resolution, taking into account its cooperation commitments with the SRB and the direct application in the Republic of Bulgaria of Regulation (EU) No 806/2014[89].

As part of the SRM, the Bulgarian National Bank is represented with a voting right in the management bodies of the SRB in the form of the Plenary session[90] and the Extended Executive Session[91] by the Deputy Governor heading the Issue Department.

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

In 2023, the activity of the BNB, as a resolution authority and a national resolution authority, focused primarily on organising and implementing the process of preparing, reviewing and updating resolution plans of credit institutions and monitoring the

[85] Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions.

[86] As of 31 December 2023, these are four credit institutions, namely DSK Bank AD, Eurobank Bulgaria AD, UniCredit Bulbank AD, and United Bulgarian Bank AD.

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

[88] 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.

[89] 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.

[90] Including permanent members of the SRB and representatives of all national resolution authorities within the SRM.

[91] It is composed of permanent SRB members and representatives of national resolution authorities in whose jurisdiction the entities subject to consideration and decision making are located.

implementation of intermediate target levels of minimum requirements for own funds and eligible liabilities (MREL) set for credit institutions.

In 2023, amendments to the LRRCIIF (Darjaven Vestnik, issue 8 of 25 January 2023) were introdiced by the Final Provisions of the Law on Amendment to the Law on Markets in Financial Instruments to implement the requirements of Regulation (EU) 2021/23[92]. The legal framework for recovery and resolution was complemented by the amendments to the LRRCIIF introduced by the Transitional and Final Provisions of the Law on Amendment of the Social Security Code (Darjaven Vestnik, issue 85 of 10 October 2023). These amendments to the LRRCIIF do not result in a change in the BNB function as a resolution authority and a national authority for the resolution of credit institutions.

In view of the accession to the SRM, in 2023 work on updating the BNB internal methodological framework related to the resolution function continued in the context of the integration of the SRB policy, insofar as they are applicable, taking into account national specificities.

In 2023, the Bank announced a procedure under Ordinance No 44 of the BNB on the inclusion in the list of independent valuers for carrying out valuations under Article 55 and Article 106 of the LCI with regard to credit institutions and groups for which the BNB is the resolution authority. In accordance with the procedure and time-limits laid down in the said Ordinance, the procedure and the establishment of the list of independent valuers will be completed in 2024.

Over the past year, the BNB continued preparing and updating[93] resolution plans of credit institutions falling within the direct powers of the BNB.[94]

At the end of 2023, the BNB Governing Council adopted resolution plans for 2022 for six credit institutions that are not part of a group subject to supervision on consolidated basis[95], as well as plans for the resolution of another six credit institutions subject to supervision on a consolidated basis[96]. In the case of eight credit institutions/groups, the resolution plans provide for the application of a resolution tool. In the remaining four cases, the conducted evaluations justify the liquidation of the business through insolvency proceedings as appropriate and feasible. In accordance with the BNB's procedural commitments under the SRM, the 12 resolution plans were submitted to the SRB for an opinion prior to their adoption by the BNB Governing Council. As part of this procedure, the SRB informed the BNB that it did not express an opinion of any of the resolution plans.[97] All resolution plans adopted include an analysis of the business model, an assessment of the critical functions for the credit institution concerned, an evaluation of the viability of winding up the business through insolvency proceedings, a public interest analysis of the extent to which each of the resolution objectives has been achieved and an assessment of resolvability. The assessment of resolvability examined the degree of credit institutions' compliance with the working priorities set by the BNB

---

[92] Regulation (EU) 2021/23 of the European Parliament and of the Council of 16 December 2020 on a framework for the recovery and resolution of central counterparties and amending Regulations (EU) No 1095/2010, (EU) No 648/2012, (EU) No 600/2014, (EU) No 806/2014 and (EU) 2015/2365 and Directives 2002/47/EC, 2004/25/EC, 2007/36/EC, 2014/59/EU and (EU) 2017/1132.

[93] 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.

[94] 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.

[95] Pursuant to Article 14, paragraph 1 of the LRRCIIF and Article 9 of Regulation (EU) No 806/2014.

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

[97] In accordance with Article 31(1) (d) of Regulation (EU) No 806/2014, an opinion on the draft plan is mandatory in the event that elements of the resolution plan are found to be in non-compliance with the aforementioned Regulation or with the SRB's general instructions.

in 2022. In parallel with the adoption of the resolution plans, the BNB Governing Council also reviewed and set the target levels of the minimum requirements for own funds and eligible liabilities (MREL) for credit institutions. Following a uniform approach based on the requirements and conditions of § 77, paragraph 7, in conjunction with paragraphs 1, 3 and 5 of the Transitional and Final Provisions of the Law on Amendment to the LRRCIIF[98] and taking into account the results of the individual assessments at the level of each credit institution[99] and the determination of the MREL, the BNB Governing Council decided to extend the transitional period for achieving the new MREL target by 3 to 18 months after 1 January 2024. The amendment of the transitional period is justified for seven credit institutions within the direct remit of the BNB.

The BNB, in its capacity as a resolution authority for a credit institution which is part of an EU cross-border group, participated as a member of the resolution college established by the group-level resolution authority. In the first half of 2023, within the statutory deadline, the members of the college reached a joint decision and adopted the group resolution plan for 2022. According to the plan, the subsidiary credit institution in Bulgaria was identified as a resolution entity[100], based on the identification of critical functions and the conclusion that the resolution objectives could not be achieved to the same extent if its activities were to be discontinued through insolvency proceedings. Within the same timeframe, the members of the college also reached a joint decision on setting out an MREL on an individual basis for the subsidiary credit institution in Bulgaria as a resolution entity.

In the course of reviewing and revising the resolution plans of the four credit institutions falling within the SRB's direct powers[101], in the first half of 2023, the BNB Governing Council adopted decision-voting positions of the SRB Extended Executive Session for the final approval of joint decisions on 2022 resolution plans of three cross-border groups with subsidiaries licensed in the Republic of Bulgaria, falling within the scope of SRB's powers, along with setting MREL for resolution entities and their subsidiary banks.[102]

The BNB did not support the draft decisions of the SRB's Extended Executive Session on the resolution plan and the resolvability assessment for 2022 and on the determination of MREL for the three cross-border groups falling under the direct remit of the SRB. The BNB expressed its reasoned disagreement with the resolution plan and resolvability assessment of the groups as regards the part relating to the approach for setting MREL for subsidiary banks licensed in the Republic of Bulgaria. The BNB's position as a national resolution authority was expressed within the framework of the Extended Executive Session of the SRB by the Deputy Governor in charge of the Issue Department as a BNB representative. Due to the lack of consensus and in accordance with the applicable legal framework, the SRB's draft decisions, which were not supported by the BNB, were adopted by the Executive Session comprising the permanent members of the SRB.

The resolution plans for 2022 of the three groups, part of which are credit institutions established in Bulgaria, on which joint decisions have been reached within resolution colleges organised by the SRB, include an assessment of banking group resolvability,

[98] Published in the Darjaven Vestnik, issue 12 of 2021.

[99] The above approach shall assess the need to extend the defined transitional periods in a way that takes into account the specificities of each credit institution and the market situation, while at the same time creating sufficient safeguards as to the resolvability of credit institutions for which the BNB is a resolution authority.

[100] Within the meaning of § 1, item 71a of the Additional Provisions of the LRRCIIF.

[101] On 10 April 2023, the process of legal merger of KBC Bank Bulgaria EAD into UBB AD was completed.

[102] 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 an 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.

an assessment of significant corporations and an analysis of their legal and financial structure, and of their business model, critical functions, preferred strategy and resolution tool, MREL calculations and an analysis of the tools serving to implement the MREL. The three subsidiary banks licensed in Bulgaria, part of the relevant banking groups, were determined as significant, and the critical functions they perform have been identified. An MREL was set out on an individual or a (sub)-consolidated basis in accordance with the approach taken by the SRB for each of the three subsidiary banks, that are not resolution entities, according to the strategy provided for in resolution plans of the relevant group.

In line with the schedule established by the SRB, within the framework of the ongoing review, update and adoption of resolution plans for 2023. In the fourth quarter of 2023, the Governing Council of the BNB adopted a position in relation to the voting on draft decisions of the SRB's Extended Executive Session for the approval of a resolution plan and the setting out of an MREL for a cross-border group with a subsidiary bank licensed in the Republic of Bulgaria for which there is no organised resolution college, given the lack of presence of the group in Member States outside the SRM. The BNB expressed its reasoned disagreement with the SRB's proposed approach to establishing an MREL for the subsidiary bank licensed in the Republic of Bulgaria. The position of the BNB as a national resolution authority was expressed by the Deputy Governor responsible for the Issue Department during the Extended Executive Session of the SRB. In the absence of a consensus on these cases, the SRB draft decisions were adopted by an Executive Session composed of the SRB permanent members.

On 13 April 2023, the BNB Governing Council adopted the Annual Report of the Banks Resolution Fund for 2022, which included the Performance Report[103] and BRF Financial Statements as of 31 December 2022. This was done under the BRF governance function. The audited annual statements of the Banks Resolution Fund for 2022 were published within legally set deadlines in the Darjaven Vestnik, issue 38 of 28 April 2023. Within the same period, the annual report presenting the Fund's activities and its assets, financial position, cash flows, financial result and changes in net assets, along with the report of the independent auditor[104] was published on the BNB website under the corresponding section.

For the purposes of the ongoing management of the BRF's financial means, in January 2023, the BNB Governing Council determined eligible classes of assets and investment restrictions for market and credit risks with regard to the possibility for BRF financial means to be invested through a structured indexed account (SIA) with the BNB. In 2023, the BNB Governing Council took decisions[105] to leave unchanged the applied investment strategy regarding BRF financial means, which continued to be kept on current accounts with the BNB and were 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 into account the expected returns and risk in the event of a choice of SIA, as well as the market situation at that time.

[103] It includes information and analyses concerning the dynamics and trends in the international environment, economic activity in Bulgaria and the state of the banking system, given their interconnectedness and determining role for BRF management activities, as well as information on the management of the Fund and the main indicators representing its performance in 2022.

[104] Ernst & Young Audit OOD, appointed by Resolution No 371 of the BNB Governing Council of 18 November 2021.

[105] In compliance with Article 6, paragraph 3 of the Internal Rules for Management of the BRF Financial Means approved by Resolution No 446 of 17 December 2020 of the BNB Governing Council, decisions on the selection of financial instruments, in which the financial means of each of the two sub-funds are to be invested, are taken by the BNB Governing Council on a quarterly basis on a proposal from the Deputy Governor heading the Issue Department.

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 as per Article 134, paragraph 1, item 1 of the LRRCIIF. In April 2023, the BNB Governing Council set the total amount of annual contributions by branches of third-country credit institutions to the BRF for 2023 at BGN 92 thousand. Funds were transferred to the account of 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 2023, funds collected in the sub-fund established to raise contributions by branches of third-country credit institutions amounted to BGN 897 thousand.

Contributions of credit institutions licensed in the Republic of Bulgaria for the purposes 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, collecting and transferring the contributions to the SRF. To this end, a separate earmarked sub-fund is used under Article 134, paragraph 1, item 2 of the LRRCIIF. In May 2023, the SRB determined the contributions for 2023 to be collected from the credit institutions licensed in the Republic of Bulgaria and transferred from the BNB to the SRF to a total amount of EUR 11,508 thousand, or BGN 22,508 thousand.[106] 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 LRRCIIF[107], the BNB Governing Council decided the contributions due by credit institutions to the SRF for 2023 to be deducted from the funds available in the earmarked sub-fund. Credit institutions were notified of their contributions set by the SRB to the SRF for 2023 and of the Governing Council's decision these contributions to be deducted from the funds available in the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF. Upon receipt of the notification, one credit institution chose to make use of the opportunity provided by the SRB for 22.5 per cent of the contribution due to be discharged by making an irrevocable payment commitment under the terms of an agreement concluded with the SRB.[108] On 29 June 2023, upon receipt of a payment notification by the SRB, the BNB made the respective payments[109], 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 2023, funds in the earmarked BRF sub-fund established to raise and transfer contributions of credit institutions to the SRF came to BGN 463,078 thousand.

In line with the SRB Decision[110], in early October 2023, the BNB sent a notification letter to the credit institutions licensed in the Republic of Bulgaria, informing them of the initiation of the procedure for determining the individual *ex ante* contributions to the SRF for 2024.

---

[106] Under the fixed exchange rate of 1.95583 levs *per* 1 euro.

[107] 'Upon a relevant notification by the Single Resolution Board with regard to an initial contribution, the resolution authority under Article 2, paragraph 1 shall order a transfer to the Single Resolution Board of a sum from the sub-fund under Article 134, paragraph 1, item 2 in accordance with Article 8 of the Agreement on the Transfer and Mutualisation of Contributions to the SRF. After the transfer of the funds, the remaining funds generated in the sub-fund under Article 134, paragraph 1, item 2, if any, shall be deducted from the obligations of the entities for future contributions to the Single Resolution Fund following a decision of the resolution authority until they are exhausted.'

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

[109] Transfer of contributions of credit institutions licensed in the Republic of Bulgaria to the SRF for 2023 and the separate transfer of the amount representing a collateral for an irrevocable payment commitment made by a credit institution licensed in the Republic of Bulgaria.

[110] 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 SRB for 2024.

VIII. Participating in the ESCB and EU Bodies

In 2023, EU bodies and institutions focused on taking measures to strengthen the Union's capacity, to be ready to act and to manage crises, to reform the EU economic governance framework and to harmonise further the rules on the functioning of the payment services market. BNB representatives participated actively in the discussions on the amendment of the EU regulatory framework for the banking sector and contributed to the drafting and coordination of national positions on 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 2023, the four ECB General Council meetings discussed issues related to economic developments and EU financial sector performance, the report on compliance with the ban on monetary financing by central banks and the report on the economic outlook and monetary policies of non-euro area Member States.

BNB representatives sat on 15 ESCB committees[111], 64 working groups, and the 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 took part in coordinating ECB opinions with regard to written consultations between EU Member States and the ECB on legislative bills, as well as proposals for EU legislation falling within ECB's field of competence.

During the reporting period, Bulgaria held written consultations with the ECB on the drafts of two laws amending the Law on Payment Services and Payment Systems and the Law amending the Law on Credit Institutions, as well as a draft of a new Law on the Bulgarian National Bank to become effective as of the date of Bulgaria's accession to the euro area. The BNB participated in the process of coordinating the ECB's opinions on the draft laws. At the end of the reporting period, the BNB submitted a draft Law on the introduction of the euro in the Republic of Bulgaria to the ECB for its opinion.

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

The BNB Governor and Deputy Governors are members of the ESRB General Board. At the two meetings of the General Board held in the first half of 2023, the General Board continued to discuss and update its assessment of the systemic risk in the light of the new risk environment resulting from high inflation, marked increases in interest rates and a heightened uncertainty about the macroeconomic outlook.

In the course of discussions held at its meetings in September and November 2023, the General Council agreed that risks to the stability of the financial system remain

[111] 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) and Human Resources Committee.

elevated and that the outlook for economic growth in the EU has deteriorated amid a high uncertainty. The General Board noted that the complicated macroeconomic environment may adversely affect the financial position of households and non-financial corporations against the background of more limited fiscal policy options to support these sectors. In addition, high volatility in global bond markets and the deteriorating geopolitical environment were reported as additional risks to the financial stability outlook in the EU. On the basis of the risk assessment, the General Board identified the following factors that could worsen the outlook for banking sector developments: an adverse macroeconomic environment, which may affect asset quality, in particular banks with high exposures to consumer loans and commercial real estate sector; the impact of banks' funding costs on their net interest income; the subdued demand for loans and the unfavourable economic growth outlook, which may lead to a decline in lending volumes to households and non-financial corporations. Against the background of the existing uncertainty, the General Board stressed that it is essential for micro- and macroprudential authorities to continue monitoring the impact of the evolving macroeconomic environment on financial stability in order to adjust their policies, where necessary.

The General Council also discussed the build-up of risks in the real estate sector given the systemic impact that adverse developments in this sector may exert on the real economy and the financial system. In the context of discussions, General Board members reported a continued decline in commercial real estate investment amid deteriorating business sentiment, an unfavourable outlook for profitability, rising financing costs and tightening credit standards. Members of the General Board agreed on the need to closely monitor existing and emerging vulnerabilities in the commercial real estate sector, given its important role for the financial stability of the EU. As regards residential real estate (RRE), the General Board noted a slowdown in the growth of cyclical risks in many European Economic Area (EEA) countries, as well as legitimate adjustments in house prices and mortgage lending in some of them. However, given the substantial level of accumulated vulnerabilities in most EEA countries, the importance to use the existing slowdown in RRE markets was underlined in order to implement structural reforms outside the scope of macroprudential policy that would remove upward pressures on house prices and incentives to household indebtedness. In addition, countries should improve the macroprudential toolkit, if necessary, to strengthen authorities' capacity to address vulnerabilities in RRE.

The General Board continued to discuss possible systemic implications for the developments in crypto-asset markets and policies to mitigate risks to financial stability. The need for authorities to have sufficient capacity to monitor spill-over channels to both the traditional financial sector and the crypto-asset sector was highlighted.

The ESRB continued to support the conduct of stress tests by the European supervisory authorities by providing, subject to approval by the ESRB General Board, the adverse scenario for the EU-wide banking stress test coordinated by the European Banking Authority in 2023, as well as scenarios for conducting a one-off analysis of a climate change scenario, in line with the 'Fit for 55' package.

In 2023, the General Board also discussed three interconnected macroprudential frameworks for managing risks stemming from climate change.

Over the review period, BNB representatives in the EBA and EC standing committees and working groups participated in discussions on liquidity management and crisis preparedness of banks; updating of regulations and technical standards, stress tests, criteria for the independence of competent authorities; risks and vulnerabilities of the banking sector in Europe; setting of additional capital requirements and recommendations for additional own funds. A report on convergence of supervisory practices for

2022 was presented and a survey involving national competent authorities, including the BNB, was carried out to monitor the extent to which the key topics set out in the 2023 Convergence Plan are reflected in national priorities and supervisory activities for less significant institutions. BNB officials also participated in the discussion of topics related to data quality and compliance with validation rules and the results of annual supervisory benchmarking, transparency and supervisory disclosure exercises. During the period, training was provided to representatives of European banking groups (including their Bulgarian subsidiaries) on issues related to supervisory reporting. An annual reporting calendar for 2024 was also approved.

The Ecofin Council and the 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 2023. The BNB Governor and a Deputy Governor attended the meeting. At the April meeting, discussions focused on the role of European financial markets in financing of next generation companies that will ensure future economic growth and jobs. Discussions looked into issues related to the financing of innovation, and the impact of the new economic situation characterised by increased financing costs and risk aversion. Measures needed to strengthen Europe's capital markets and to continue reforms aimed at building the Capital Markets Union, ensuring access to private capital for less established innovative companies, were also considered. At the second informal meeting of the EU's Economic and Financial Affairs Council in September, ministers and governors looked at the interaction between fiscal and monetary policy and how to achieve consistency between them with a view to implement common policy priorities. It was discussed how the available toolkit could address existing challenges and achieve divergent objectives in the short term: on the one hand, monetary policy should ensure a continued decline in inflation towards the medium-term inflation target and, on the other hand, fiscal policy should foster the recovery, support the most vulnerable groups amid declining purchasing power and encourage private investment to boost productivity and competitiveness. This should be done by ensuring fiscal sustainability, which is even more difficult in a context of high debt levels and higher interest rates due to tighter monetary policy and slowing economic growth.

A Deputy Governor represents the BNB on the Economic and Financial Committee. In 2023, discussions in the Committee were focused on developments in financial markets and risks to financial stability in the EU, with emphasis being placed on the impact of the interest rate environment and inflationary pressures. Among the topics discussed were also the activities related to the construction of the Capital Markets Union and regulatory cooperation in financial services with the United Kingdom, the United States and other third countries. The effects of the sanctions and restrictive measures imposed against the Russian economy and the importance of their effective implementation, including by preventing their circumvention, were also considered. There was broad support for the need to financially support the recovery of Ukraine and, in this regard, Committee members were regularly informed about the work aimed at using proceeds from immobilised Russian assets in accordance with international law and EU law. Committee members were briefed on Commission's positive assessment of the functioning of the Single Supervisory Mechanism and the areas to be addressed, including improved external communication and cooperation, as well as further harmonisation of the legal framework. In the context of discussions on the legislative package related to the review of crisis management and deposit insurance (CMDI) framework, proposals addressed the hierarchy of claims in bankruptcy, funding and involvement of deposit guarantee schemes in resolution and calibration of minimum requirements for own funds and eligible liabilities for small- and medium-sized banks.

The Committee continued its work on the preparation of international meetings through in-depth discussions on the EU's strategic priorities, as well as through coordination of the EU's position for G20 meetings and other international fora.

The Council of the EU continued to discuss the legislative measures aimed at building the regulatory framework for the completion of the Banking Union. In April 2023, the European Commission tabled a package of legislative proposals, *i.e.* the so-called package for the review of the bank crisis management and deposit insurance (CMDI) framework.[112] The proposed legislative measures are in line with the Eurogroup statement in an inclusive format on the future of the Banking Union of 16 June 2022. Under the statement, measures to complete the Banking Union propose a broader application of resolution tools, including in relation to small- and medium-sized banks, where funds are available for the effective use of resolution tools, as well as harmonisation of the use of funds of national deposit guarantee schemes in the resolution and crisis management processes. In December 2023, the Council of the EU and the European Parliament reached a political agreement on the proposal for a Directive of the European Parliament and of the Council amending Directive 2014/59/EU and Regulation (EU) No 806/2014 as regards certain aspects of the minimum requirement for own funds and eligible liabilities. On the remaining three proposals for EU legal acts, the Presidency of the Council of the EU presented a progress report and drafting proposals on some of the provisions. BNB experts assisted representatives of the Ministry of Finance in negotiating legislative proposals in the Financial Services and the Banking Union Working Party of the Council of the EU on matters falling within the remit of the central bank.

At the end of June 2023, the Commission presented three proposals for regulations in the so-called 'Single Currency Package', with BNB experts also taking part in the negotiations. The package aims to ensure the feasibility of the future European monetary system by preserving the possibility for individuals to pay with funds issued by a central bank. The proposal on the legal tender of euro banknotes and coins[113] aims to safeguard the role of cash and ensure its wide acceptance and easy access for citizens and businesses in the euro area. The other two proposals for regulations[114] set out the legal framework for a possible new digital form of the euro, which the ECB may issue in the future in addition to euro banknotes and coins. In December 2023, the Presidency of the Council of the EU presented a progress report on legislative proposals.

[112] The package is comprised of following legislative proposals:
- Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) No 806/2014 as regards early intervention measures, conditions for resolution and funding of resolution action, COM (2023) 226 final, 18.4.2023;
- Proposal for a Directive of the European Parliament and of the Council amending Directive 2014/59/EU as regards early intervention measures, conditions for resolution and financing of resolution action, COM/2023/227 final, 18.4.2023;
- Proposal for a Directive of the European Parliament and of the Council amending Directive 2014/49/EU as regards the scope of deposit protection, use of deposit guarantee schemes funds, cross-border cooperation, and transparency, COM/2023/228 final, 18.4.2023;
- Proposal for a Directive of the European Parliament and of the Council amending Directive 2014/59/EU and Regulation (EU) No 806/2014 as regards certain aspects of the minimum requirement for own funds and eligible liabilities, COM/2023/229 final, 18.4.2023.

[113] Proposal for a Regulation of the European Parliament and of the Council on the legal tender of euro banknotes and coins, COM(2023) 364 final, 28.06.2023.

[114] Proposal for a Regulation of the European Parliament and of the Council on the establishment of the digital euro, COM(2023) 369 final, 28.06.2023; Proposal for a Regulation of the European Parliament and of the Council on the provision of digital euro services by payment service providers incorporated in Member States whose currency is not the euro and amending Regulation (EU) 2021/1230 of the European Parliament and of the Council, COM(2023) 368 final, 28.06.2023.

In June, the EC prepared three new legislative proposals in the area of payment services.[115] The proposed new rules aim to further improve consumer protection and competition in electronic payments, as well as to allow consumers to share their data securely so that they can obtain a wider range of better and cheaper financial products and services. During the intensive negotiations initiated on the legislative proposals in the Working Party on Financial Services and the Banking Union of the Council of the EU, the Bulgarian National Bank actively participated through its representatives, who contributed to the elaboration and coordination of the national positions on the proposals.

In 2023, work continued on 2021 legislative amendments to the EU regulatory framework for the banking sector[116] with the aim to ensure the implementation of the Basel Committee on Banking Supervision (Basel III) international standards into EU law. 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. BNB representatives participated actively in the negotiations held in the EU Council's Financial Services and the Banking Union Working Party on proposals for amending Capital Requirements Directive and Regulation (CRR/CRD IV). Following tripartite meetings involving the European Parliament, the Council of the EU and the European Commission, a provisional agreement on the legislative proposals was reached in June 2023.

Over the review period, a progress was achieved in the negotiations on the 2022 proposal for a Regulation of the European Parliament and of the Council amending Regulations (EU) No 260/2012 and (EU) 2021/1230 as regards instant credit transfers in euro[117]. The proposal establishes common rules and requirements for the execution of instant credit transfers in euro in order to make these payments universally accessible, increase confidence in instant payments and create an integrated market for this type of transfers. In May 2023, in the course of negotiations in the Working Party on Financial Services and the Banking Union, in which representatives of the BNB participated, an agreement was reached on a position of the Council of the EU. In November 2023, the Council of the EU and the European Parliament reached a political agreement on the legislative proposal.

[115] Proposal for a Regulation of the European Parliament and of the Council on payment services in the internal market and amending Regulation (EU) No 1093/2010, COM(2023) 367 final; Proposal for a Directive of the European Parliament and of the Council on payment services and electronic money services in the Internal Market amending Directive 98/26/EC and repealing Directives 2015/2366/EU and 2009/110/EC, COM(2023) 366 final; Proposal for a Regulation of the European Parliament and of the Council on a framework for Financial Data Access and amending Regulations (EU) No 1093/2010, (EU) No 1094/2010, (EU) No 1095/2010 and (EU) 2022/2554, COM (2023) 360 final.

[116] The package is comprised of three legislative proposals:
- 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.

[117] Proposal for a Regulation of the European Parliament and of the Council amending Regulations (EU) No 260/2012 and (EU) 2021/1230 as regards instant credit transfers in euro, COM(2022) 546 final, 26.10.2022.

In 2023, the discussion on the Digital Finance Package[118], in which BNB experts also participated, has ended. The proposal for a regulation on markets in crypto-assets was finally approved and published in the Official Journal of the EU.[119]

In October 2023, the EC presented a proposal for a regulation that aims to rationalise licensing and registration of EU companies, in particular smaller benchmark administrators and benchmark users, and alleviate their administrative burden.[120] Representatives of the BNB actively participated in the meetings of the Working Party on Financial Services and the Banking Union of the Council of the EU and an agreement was reached on a position of the Council of the EU.

In October 2023, the EC presented a legislative framework on certain reporting requirements in the field of financial services and investment support[121]. The proposal, which was negotiated with the participation of representatives, aims to facilitate the sharing of reported data between authorities overseeing the EU financial sector.

In 2023, negotiations continued within the EU Council on the package of legislative proposals presented in 2021, aimed at strengthening the EU rules in the area of anti-money laundering and countering the financing of terrorism.[122] The Regulation on information accompanying transfers of funds and certain crypto-assets was finally approved by the Council and published in the Official Journal of the EU in June[123]. In December 2023, a preliminary agreement was reached in the course of negotiations with the European Parliament on the proposal for a Regulation establishing the Authority for Anti-Money Laundering and Countering the Financing of Terrorism. BNB representatives participated through their expertise and analysis in the technical negotiations

[118] The package is comprised of 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, 24.9.2020;
- 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.

[119] Regulation (EU) 2023/1114 of the European Parliament and of the Council of 31 May 2023 on markets in crypto-assets, and amending Regulations (EU) No 1093/2010 and (EU) No 1095/2010 and Directives 2013/36/EU and (EU) 2019/1937 (OJ L 150/40, 9.6.2023).

[120] Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) 2016/1011 as regards the scope of the rules on benchmarks, the use in the Union of benchmarks provided by an administrator located in a third country, and certain reporting requirements, COM(2023) 660 final, 17.10.2023.

[121] Proposal for a Regulation of the European Parliament and of the Council amending Regulations (EU) No 1092/2010, (EU) No 1093/2010, (EU) No 1094/2010, (EU) No 1095/2010 and (EU) 2021/523 as regards certain reporting requirements in the field of financial services and investment support, COM(2023) 593 final, 17.10.2023.

[122] 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, 20.7.2021;
- 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, 20.7.2021;
- 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, 20.7.2021.

[123] Regulation (EU) No 2023/2013 of the European Parliament and of the Council of 31 May 2023 on information accompanying transfers of funds and certain crypto-assets and amending Directive (EU) 2015/849 (OJ L 150/1, 9.6.2023).

on the proposals of the Working Party on Financial Services and the Banking Union of the EU Council.

In 2023, the Bank continued its intensive work on harmonising national legislation with European requirements. Bank experts took part in the drafting of a Law amending the Law on Payment Services and Payment Systems, stemming from the need to adapt the national legal framework governing payment supervision and provision of payment services to the measures laid down in the National Plan for the Introduction of the Euro in the Republic of Bulgaria. BNB experts also participated in the drafting of the Law amending the Law on the Recovery and Resolution of Credit Institutions and Investment Firms, introducing the requirements of Regulation (EU) 2022/2036[124] amending Directive 2014/59/EU,[125] as well as other amendments to the legal framework for the resolution of credit institutions and investment firms and the Law on Bank Bankruptcy. Representatives of the BNB also participated in the preparation of the draft Law on credit servicers and credit purchasers, which introduces the requirements of Directive 2021/2167/EU[126] in order to harmonise the measures and rules for credit servicing activities in respect of non-performing credit agreements.

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

[124] Regulation (EU) 2022/2036 of the European Parliament and of the Council of 19 October 2022 amending Regulation (EU) No 575/2013 and Directive 2014/59/EU as regards the prudential treatment of global systemically important institutions with a multiple-point-of-entry resolution strategy and methods for the indirect subscription of instruments eligible for meeting the minimum requirement for own funds and eligible liabilities (OJ L 275/1, 25.10.2022).

[125] 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.

[126] 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, 8.12.2021).

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 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 the issues of world economic developments and prospects, and international financial markets. At the Annual General Shareholder Meeting in late June 2023, the BIS Governors decided to pay a dividend to the BNB in the amount of SDR 2.3 million for 2023.

The BNB Governor represents Bulgaria as member on the IMF Board of Governors. Bulgaria's IMF quota is SDR 896.3 million or 10,422 voting shares: 0.21 per cent of IMF members' voting shares.

On 15 December 2023, the Board of Governors of the IMF concluded the 16th General Review of Quotas and approved a 50 per cent quota increase, which will bring the IMF resources to SDR 715.7 billion. The increase is distributed to all members in proportion to their existing quotas, and each member country will have to pay the increase of its quota upon completion of the national ratification procedures. The Republic of Bulgaria has been offered an increase of SDR 448.2 million, and thus Bulgaria's quota of SDR 896.3 million will amount to SDR 1344.5 million.

In May 2023, the BNB contributed USD 10,000 to support the activity of G30.

In 2023, the BNB continued to participate as a partner in the three-year programme for further strengthening of the central banks and supervisory authorities in the Western Balkans – candidates and potential candidates for EU membership. The programme is funded by the EU and is run together with the Deutsche Bundesbank and other central banks of the European System of Central Banks. In April 2023, an IT training was held in Sofia. Experts from the BNB with the support of the central banks of France, Spain, Romania, Slovakia, and the ECB delivered presentations and shared their experience with the participants. In October 2023, the BNB hosted a tree-day training in anti-money laundering and counter-terrorist financing. Experts from the BNB together with lecturers from the central banks of the Czech Republic, Slovakia, Lithuania and Hungary presented their experience and good practices.

In the context of bilateral cooperation, in 2003 requests were received from other national central banks and information was provided on various central banking topics. In November 2023, the BNB hosted a two-day meeting between representatives of the Banking Department and the National Bank of the Republic of North Macedonia. The main topics of discussions were the organisational structure and licensing process of electronic money institutions; off-site supervision and on-site inspections of payment institutions and electronic money institutions; transaction settlement models for domestic and international payments; and regulatory accountability.

In 2023, the BNB organised a General Assembly of the European Banknote Conference, which also hosted a conference on 'Evolution of Banknotes in the Digital World'. It was attended by representatives of central banks, banknote manufacturers, government agencies, suppliers and producers of banknote paper, manufacturers of security inks, banknote designers and specialised transport and banknote processing companies.

X. Statistics

The BNB prepares 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 Bank applies harmonised European standards based on 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 monetary[127] and interest statistics[128], external sector statistics[129], quarterly financial accounts statistics for all institutional sectors[130], statistics of non-bank financial institutions, including leasing companies and investment funds[131], specialised lenders, insurance and reinsurance undertakings[132] and pension funds.[133] 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 2023 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 international and national institutions. Over the year the amount of prepared statistical series was retained compared with 2022.

In 2023 all statistical data were published on the BNB website as scheduled.

In addition to the preparation 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 February 2023, the BNB Governing Council adopted amendments to Ordinance No 17 which changed the reporting requirements for lease companies, specialised lenders and securitisation vehicles in accordance with Guideline (EU) 2021/831 of the European Central Bank of 26 March 2021 on statistical information reported on financial intermediaries other than monetary financial institutions (ECB/2021/12). To this end, the Instructions to Ordinance No 17 on the provision of statistical information by lease companies, specialised lenders and securitisation vehicles have been updated and published.

[127] Pursuant to Regulation (EU) 2021/379 of the European Central Bank of 22 January 2021 on the balance sheet items of credit institutions and of the monetary financial institutions sector (recast) (ECB/2021/2).

[128] Pursuant 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) (ECB/2013/34).

[129] Pursuant 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 European Central Bank of 9 December 2011 on the statistical reporting requirements of the European Central Bank in the field of external statistics (ECB/2011/23) and the subsequent amendments thereto.

[130] Pursuant to 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 (ЕЦБ/2013/24) and subsequent amendments thereto.

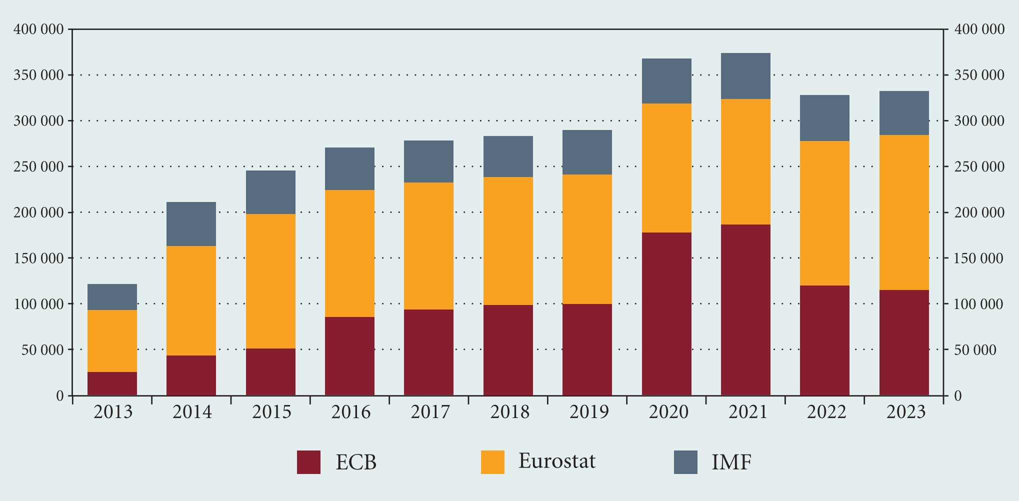
[131] Regulation (EU) No 1073/2013 of the European Central Bank of 18 October 2013 concerning statistics on the assets and liabilities of investment funds (recast) (ECB/2013/38).

[132] Pursuant to Regulation (EU) No 1374/2014 of the ECB of 28 November 2014 on statistical reporting requirements for insurance corporations (ECB/2014/50).

[133] Pursuant to Regulation (EU) 2018/231 of the ECB of 26 January 2018 on statistical reporting requirements for pension funds (ECB/2018/2).

Unique Time Series Sent to the ECB, Eurostat and the IMF

(number)



Source: BNB.

In 2023, lease companies and specialised lenders started to report information in line with the new requirements through the reporting forms developed by the BNB. Along with implementation of the requirements of ECB Regulations on reporting of these financial institutions, new reporting forms provide additional information for the purposes of compiling statistics on quarterly financial accounts, balance of payments and international investment position of Bulgaria.

In view of the amendments to ECB Guidelines on the Register of Institutions and Affiliates Data (RIAD), in 2023 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 the national level, these databases allow the BNB to fulfil its commitments to the ESCB in managing the data for Bulgaria in the Register of Institutions and Affiliates Database and the Centralised Securities Database (CSDB)[134].

In 2023 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)[135] 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)[136] which is important for both gathering various statistical data and analysing financial stability.

[134] Pursuant 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).

[135] Pursuant to Regulation (EU) 2016/867 of the ECB of 18 May 2016 on the collection of granular credit and credit risk data (ECB/2016/13).

[136] Pursuant 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 its subsequent amendments, ECB Guideline of the European Central Bank of 22 March 2013 concerning statistics on holdings of securities (ECB/2013/7) and the subsequent amendments thereto, Recommendation of the European Central Bank of 2 August 2016 on the data quality management framework for statistics on holdings of securities (ECB/2016/24).

In 2023, work continued on the development of the BNB Integrated Information System, which will ensure optimisation and integration of information flows, and a single data entry point for statistics, reporting with regard to credit institutions' resolution activities, and supervisory reporting. The BNB continued its work on 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 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. In mid-May 2023, the ECB published an annual report[137] on the analysis of the quality of the quarterly financial accounts. The BNB as a 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. At the end of 2023, a bilateral agreement on cooperation, strategic partnership and exchange of information was signed between the NSI and the BNB intended to ensure optimal coherence and effectiveness, coordination of interaction at the operational and strategic level.

In late February 2023, the BNB attended the regular ECB and Eurostat experts' mission for notification tables on the deficit/surplus and general government debt, hosted by the NSI. In March 2023, the BNB also participated in the first mission of the OECD in Bulgaria. At the meeting, the BNB presented to OECD representatives the main sources of information and specificities in compiling data on balance of payments statistics, services and national financial accounts statistics by institutional sector, monetary and interest rate statistics. Over the year, the BNB continued to work on the set action points in cooperation with the NSI experts.

[137]Euro area and national quarterly financial accounts – Quality report 2022 (europa.eu).

XI. 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.

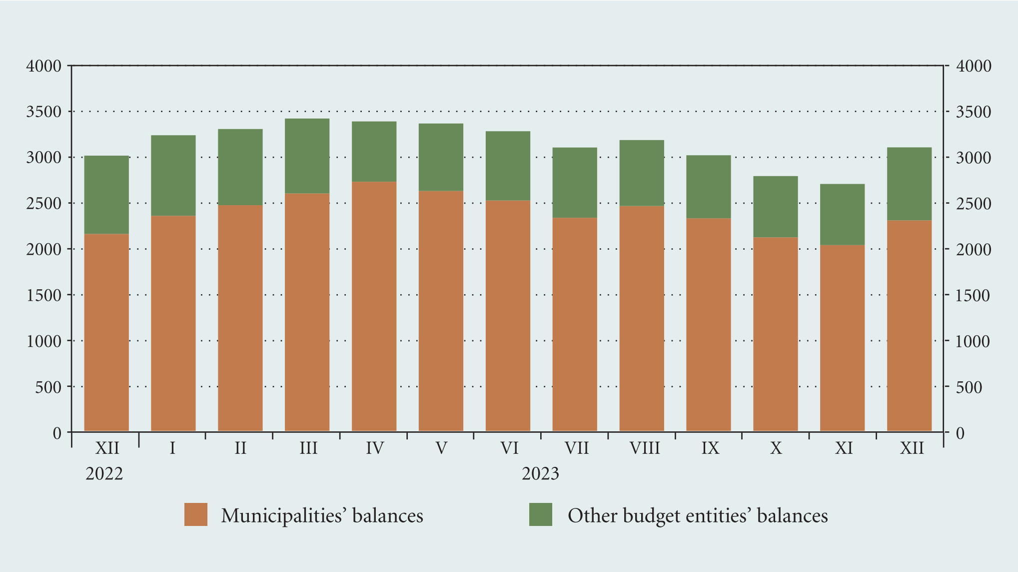
Revenue raised in 2023 from system participants under the Tariff of Fees and Commissions Charged on Processing Government Securities Transactions and from the MF under LBNB Article 43 was BGN 1547.8 thousand, from BGN 2846.7 thousand last year.

Information Service

Providing state budget information under the MF contract involved issuing 1077 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 13,337.5 million[138], down 7.2 per cent compared to 31 December 2022. At end-2023, 76.3 per cent (BGN 10,183.2 million) was in BNB accounts and the rest (BGN 3154.4 million) with 15 domestic banks.

Budget Entities' Accounts with Domestic Banks (BNB excluded)

(BGN million)



Source: BNB.

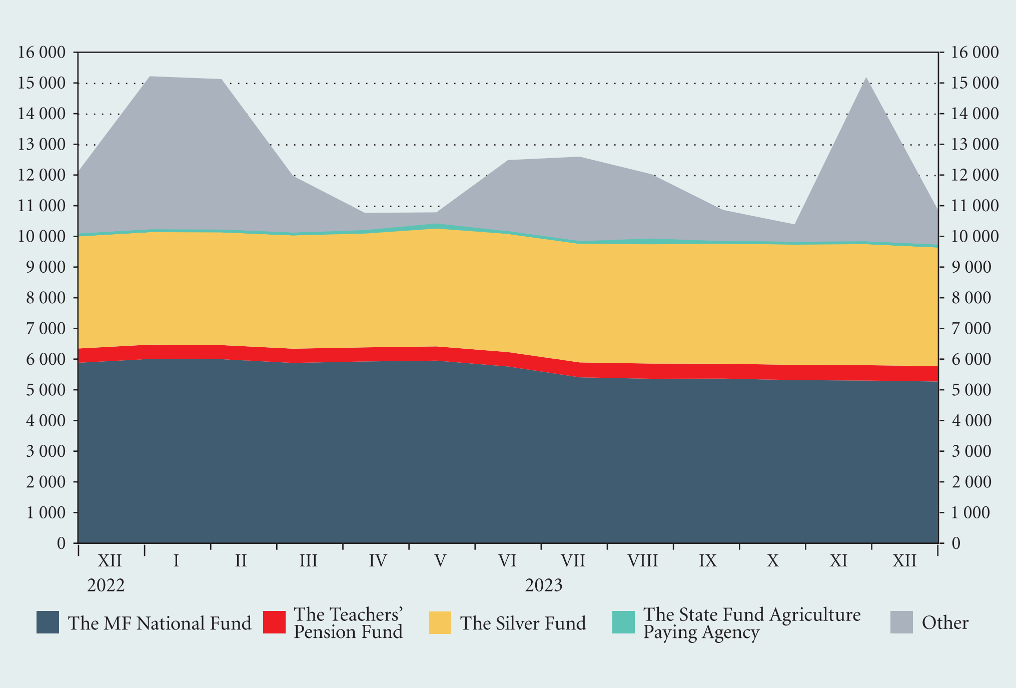
By the end of 2023, budget entities' account balances outside the central bank rose by 3.0 per cent, from 31 December 2022, of which 72.1 per cent at five banks.

[138] Foreign currency account balances are recalculated in levs at the BNB exchange rate on 31 December 2023.

Approximately 81.4 per cent of total budget funds at the BNB and domestic banks formed the fiscal reserve's[139] liquidity portion:[140] BGN 10,856.0 million on 31 December 2023. Of this, BGN 9675.1 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 in 2023

(BGN million)



Source: BNB.

In 2023, reported information on budget entities' operations and securing of funds from banks was updated in accordance with the requirements of the joint instructions of the BNB and MF: DDS No 04/28.03.2022 (No BNB-35283/28.03.2022) and DDS No 05/30.06.2023 (No BNB-73682/30.06.2023).

Servicing Government Securities Trading

In line with the MF issuing policy, in 2023 no auctions for the sale of government securities were organised and conducted *via* the GSAS system.

The ESROT system registered corporate event payments on behalf and for account of the issuer to a total amount of BGN 466.9 million [141], or an increase of BGN 51.6 million (12.4 per cent) on the corresponding period of 2022. On 31 December 2023, the 15 circulating MF issues had an overall nominal value of BGN 10,615.4 million[142], down 3.2 per cent on 2022. Bond currency structure did not change, with BGN-denominated issues redeemable in levs occupying the largest share of 95.7 per cent, followed by

[139] According to the Law on Public Finance Additional Provisions § 1, item 41.

[140] Comprises the balances of all Bulgarian budget entities' bank accounts, excluding municipalities and their budget spending units and excluding holdings reported on L/C and technical accounts.

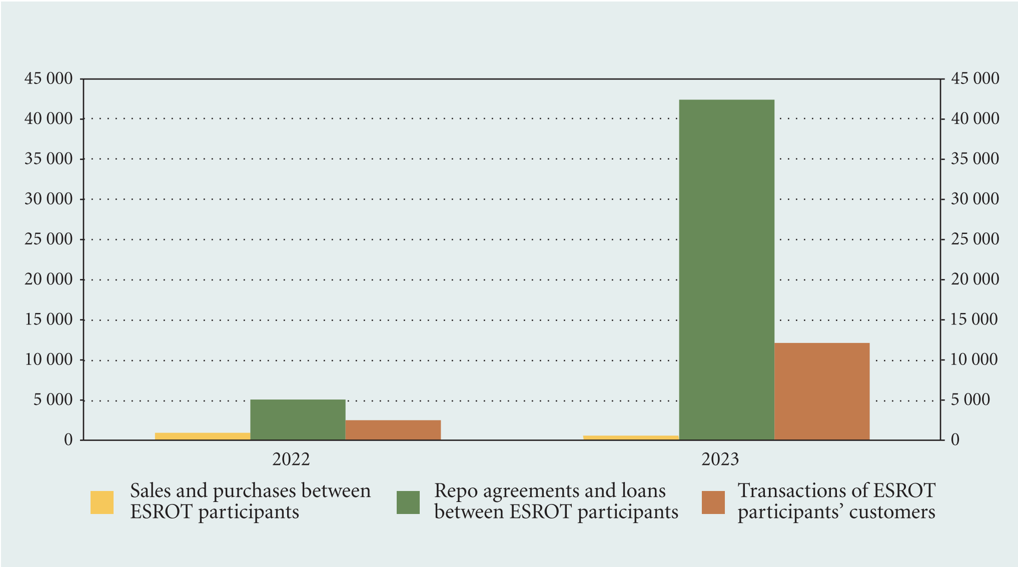
[141] The lev equivalent of payments on foreign currency denominated government securities issues was calculated at the BNB rate on the date of payment.

[142] The lev equivalence of government securities issues denominated in foreign currency is calculated on the basis of the BNB rate for 31 December 2023.

EUR-denominated issues redeemable in euro at 4.3 per cent. The maturity structure did not change from end-2022, with medium- and long-term government bond issues in circulation comprising 41.7 per cent and 58.3 per cent.

Volume of Transactions in Tradable Government Securities in 2022 and 2023

(BGN million)



Source: BNB.

In 2023, the total nominal value of government securities transactions registered in ESROT was 55,218.6 million, up 580.8 per cent on 2022.

Repo transactions had the largest share at 77.2 per cent, including one-day ones (43.4 per cent), mostly in lev-denominated government securities. Bond sales and purchases amounted to BGN 277.9 million. Of this, transactions between ESROT participant banks came to BGN 64.9 million. The volume of transactions between ESROT participants and customers was BGN 11,847.1 million, and that between participants' customers [143] amounted to BGN 460.2 million.

Reflecting government securities trade, secondary government bond market liquidity ratio[144] was 5.3 for 2023 against 0.7 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 ratio[145] reaching 100 per cent.

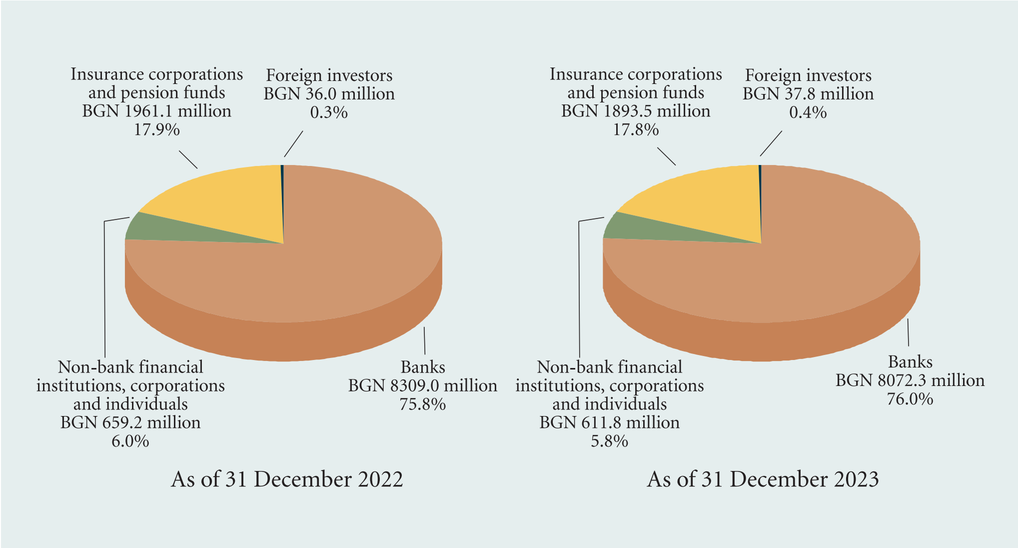
Over the review period, ESROT blocking and unblocking operations in domestic government securities related to securing funds in budget entities' bank accounts under the Law on Public Finance and the Law on Special Pledges totalled BGN 25,578.9 million, from BGN 6026.5 million for 2022.

[143] The ESROT system registered no transactions between customers of the same participant.

[144] The 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.

[145] 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: BNB.

Compared with end-2022, investments in government securities at the end of 2023 posted an increase in foreign investor portfolios (up BGN 1.8 million) and a decrease in portfolios of banks (down BGN 236.7 million), insurance corporations and pension funds (down BGN 67.6 million), and in investments in government securities in portfolios of non-bank financial institutions, corporations and individuals (down BGN 47.4 million). This changed the share of individual government bond holder categories as of 31 December 2023 to: 76.0 per cent with banks; 17.8 per cent with insurance corporations and pension funds, 5.8 per cent with non-bank financial institutions, corporations and individuals, and 0.4 per cent with foreign investors, from 75.8, 17.9, 6.0 and 0.3 per cent as of 31 December 2022.

Over the review period, the ESROT offered 100.0 per cent availability,[146] with no call for contingency rules for interaction between systems operated by the BNB.

As of 31 December 2023, there were 521 accounts in the government securities settlement system under BNB Ordinance No 31 on Government Securities Settlement. Of them, 15 were for government securities of the issuer (the MF), 211 for participants' own government securities portfolios, 122 for encumbered bonds, and 173 for participants' customers. Account nominals tallied with the amount of outstanding issues at BGN 10,615.4 million.[147]

System Development

Following an approval by the ECB Governing Council, on 11 September 2023, the BNB as an owner and operator of the Government Securities Depository (GSB) at the BNB successfully joined the TARGET2-Securities (T2S) Eurosystem's securities settlement platform. Migration to T2S is a result of the joint work of the BNB and the Eurosystem, which started in 2021, and was in line with the implementation of the commitments

[146] The ratio of time when the system is operational to scheduled operating time.

[147] The lev equivalence of government securities issues denominated in foreign currency is calculated on the basis of the BNB exchange rate valid for 31 December 2023.

under the National Plan for the Introduction of the Euro in the Republic of Bulgaria. Participation of the GSD in T2S will help improve the accessibility of EU investors to Bulgarian government securities denominated in euro.

Due to the accession to T2S, the BNB Governing Council amended MF and BNB Ordinance No. 5 on the Terms and Procedure for Acquisition, Redemption and Trade in Government Securities, and Ordinance No 31 of the BNB on Government Securities Settlement. These regulations provide for the changes ensuing from the accession to T2S and came into force on 11 September 2023.

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

The Central Credit Register

The BNB keeps 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, as well as to investors granting project loans through a crowdfunding service provider, excluding foreign financial institutions conducting activities directly on the territory of the Republic of Bulgaria (institutions under 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 the credit indebtedness of customers in real time and includes data on the current loan status, arrears on active and repaid loans for a five-year retrospective period, on new loans, co-borrowers and loan guarantors.

As of 31 December 2023, 249 institutions under Article 56, paragraph 1 of the LCI submitted information to the CCR, of which 26 banks, 223 non-bank financial institutions, including two payment institutions and one electronic money institution. In 2023, 15 new financial institutions were included in and seven were deleted from the CCR information system.

As of 31 December 2023, the CCR listed 6642 thousand loans, from 6362 thousand a year earlier, with a balance sheet exposure of BGN 117,416 million, from BGN 105,254 million as of 31 December 2022. Borrowers numbered 2603 thousand, of whom 2379 thousand individuals, 109 thousand legal entities, 111 thousand non-residents not registered at Bulgarian addresses or BULSTAT/PIK coded, and 4000 self-employed persons practising liberal professions or crafts.

By currency type, as of 31 December 2023, lev-denominated loans accounted for the largest share of loans listed in the CCR at 72.87 per cent, followed by euro-denominated loans at 26.32 per cent.

As of 31 December 2023, according to the agreed repayment terms and the balance sheet exposure of credit liabilities, the proportion of debt repayable over three years was the highest: 87 per cent.

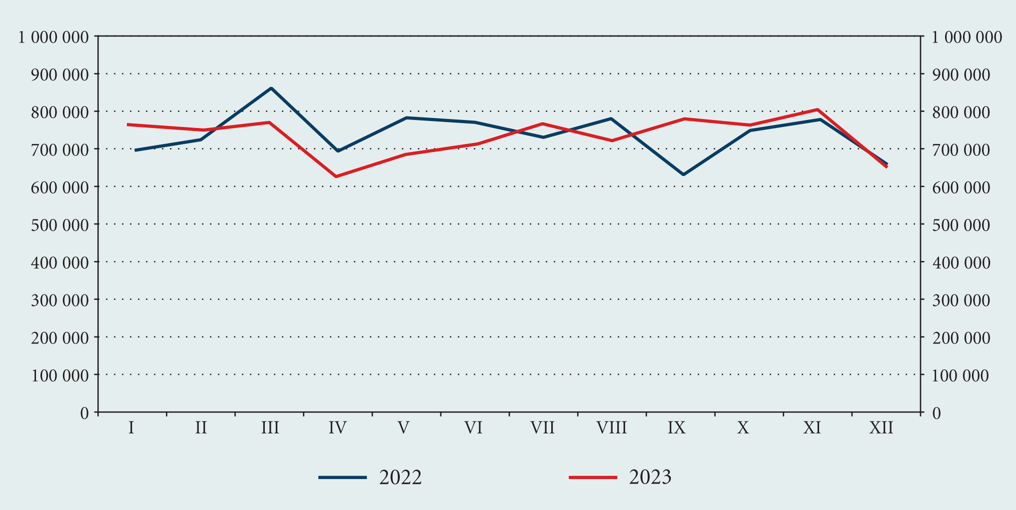
As of 31 December 2023, residual debt on loans of up to BGN 5000 predominated with individuals (54.2 per cent), while debts of BGN 5000 to BGN 50,000 predominated with legal entities (30.2 per cent).

Article 56, paragraph 3 of the LCI 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, 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.

As of 31 December 2023, a total of 8798 thousand persons were consulted in the CCR IS by the institutions and bodies with the right of access under Article 56, paragraphs 1 and 3 of the LCI. The average number of persons checked *per* month was 733,000 (8858 thousand on 31 December 2022, with average number of 738,000 individuals).

Monthly CCR Searches by Institutions and Bodies under Article 56, Paragraphs 1 and 3 of the Law on Credit Institutions

(number)

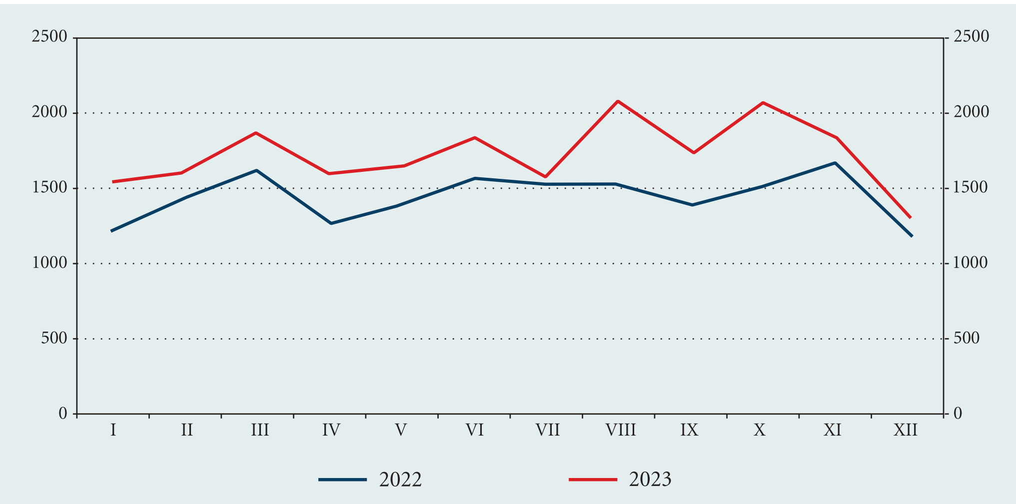


Source: BNB.

BNB Ordinance No 22 on the Central Credit Register grants individuals (including for probate purposes) and legal entities access to debt information. There were 20,842 paper applications for CCR statements in 2023: 19,969 by individuals (of whom 3790 foreign citizens, or 19 per cent of all individuals), 844 by legal entities, and 29 under Article 21a of Ordinance No 22 on the CRC for obtaining information under Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016.[148] In 2022, there were 17,379 applications for CCR statements: 16,947 by individuals and 432 by legal entities.

Monthly CCR Searches Based on Paper Applications by Individuals and Legal Entities

(number)



Source: BNB.

[148] Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation).

BNB provides CCR electronic services to individuals holding a qualified certificate for electronic signatures issued by a certification service provider under the Electronic Document and Certification Services Law. In 2023, access to CCR electronic services was also provided through the Single Portal for Access to Electronic Administrative Services, administrated by the Ministry of E-Governance. Fees charged for electronic services accounted for 50 per cent of those submitted on paper. As of 31 December 2023 there were 4835 electronic applications for CCR statements by individuals (3835 electronic applications as of 31 December 2022).

As a result of the amendments made to statutory requirements on Register operation, the CCR continuously improves and develops, with new functionalities and current changes and improvements being introduced to the CCR information system.

The Register has upgraded its technical architecture, including upgrading the user interface used to a higher version of the software platform and ensuring redundancy to support the continuity of business services from the CCR, hardware consolidation and a single database, and upgraded operating systems. The CCR IS modernisation allows for upgrading, modification, development of the system and integration with other systems, which is a major factor helping to achieve efficiency in the aggregation and provisions of information on credit indebtedness from/to participants and to the BNB. This ensures the smooth functioning of the system, the possibility of expanding the range of services provided by the CCR, enhancing security in terms of participants' access to the information system, as well as with regard to personal data in accordance with the requirements of Regulation (EU) 2016/679 of the European Parliament and of the Council on the protection of individuals with regard to the processing of personal data.

The CCR cooperates with the World Bank under the Business Ready (B-READY) project, with the ECB, the IMF, and other international bodies providing periodical information for research, statistical analyses and annual studies.

Working meetings are periodically held with representatives of the bodies and institutions with the right to access to the Register intended to improve the processes of providing information by the BNB. Representatives of the CCR take part in working meetings with other interested parties under an OECD project on the strategic development and improvement of instruments for the prevention and counteraction of corruption, as well as in an inter-service task force on the self-assessment of the Republic of Bulgaria associated with the implementation of the Ten Global Principles for Fighting Tax Crime as recommended by the OECD.

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, correspondingly five years from the date of terminating a safe deposit box contract.

As of 31 December 2023, 37 institutions under Article 3 of Ordinance No 12 on the RBASDB submitted information to the Register, of which 27 banks, including the BNB, two payment institutions and eight electronic money institutions.

As of 31 December 2023, the Register logged 14.87 million active bank accounts (14.65 million as of 31 December 2022) and 850.80 thousand payment accounts (BGN 738.87 thousand as of 31 December 2022) kept by payment institutions and electronic money institutions along with 34.93 thousand safe deposit box hires (32.59 thousand as of 31 December 2022), including records of 2.90 million of new accounts and 2.60 million of closed accounts.

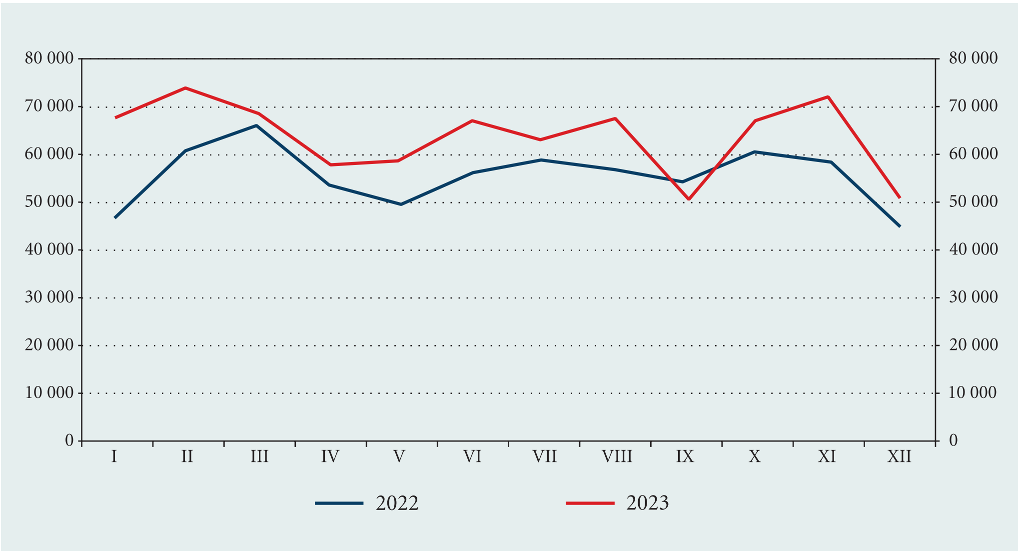
In 2023, the RBASDB information system held details of 681.90 thousand account preservation orders and 587 thousand accounts with rescinded preservation orders, from 640 thousand placed and 528 thousand rescinded preservation orders as of 31 December 2022.

Pursuant to Article 56a, paragraph 3 of the LCI, the Register grants 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 Protection of the European Union Financial Interests Directorate, the State Agency for National Security, the National Revenue Agency, the Committee for Combating Corruption, 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.

As of 31 December 2023, bodies and institutions entitled to access under the Law on Credit Institutions Article 56a, paragraph 3 conducted searches on 766,814 individuals, with the average monthly number of searches reaching 63,901 (from 668,085 searches as of 31 December 2022, and the average monthly number of searches of 55,674). In 2023, electronic searches accounted for 760,660, or 99 per cent of all searches in the Register for the year, including 3048 for a beneficial owner of a titleholder. In 2022, 660,797 electronic searches were conducted, or 98.90 per cent of all searches.

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

(number)

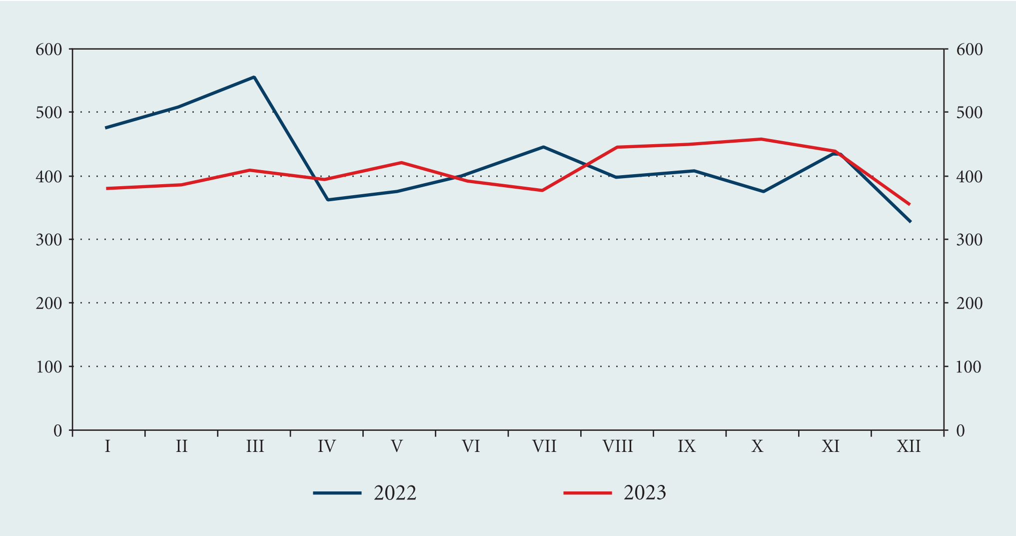


Source: BNB.

BNB Ordinance No 12 on the RBASDB grants individuals (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 2023, there were 4921 paper applications for CCR statements: 4747 by individuals and 174 by legal entities. There were 5094 applications for RBASDB statements in 2022, of which 4879 by individuals and 215 by legal entities. From 2022, the BNB provides statements to individuals under Article 12a of Ordinance No 12 on the RBASDB for obtaining information pursuant to Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016.

Monthly RBASDB Searches Based on Paper Applications by Individuals and Legal Entities

(number)



Source: 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. In 2023, access to RBASDB electronic services was also provided through the Single Portal for Access to Electronic Administrative Services. Fees charged for electronic services accounted for 50 per cent of those submitted on paper. As of 31 December 2023, there were 567 electronic applications for RBASDB statements by individuals (320 electronic applications as of 31 December 2022).

Incoming data into the Register Information System correspond to the compulsory set of information as set out in Article 32a(3) of Directive (EU) 2015/849[149] by collecting also additional information under paragraph 4, which allows to identify in due time any individual or legal entity. The RBASDB development uses the best EU practices in creating and operating bank account registers.

The work of the RBASDB is constantly evolving and improving to enhance the quality and reliability of the information collected and maintained. Working meetings are periodically held with representatives of the bodies and institutions with the right to access to the Register intended to improve the processes of providing information by the BNB. Representatives of the RBASDB take part in working meetings with other interested parties under an OECD project on the strategic development and improvement of instruments for the prevention and counteraction of corruption, as well as in an inter-service task force on the self-assessment of the Republic of Bulgaria associated with the implementation of the Ten Global Principles for Fighting Tax Crime as recommended by the OECD.

[149] Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No 648/2012 of the European Parliament and of the Council, and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC.

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. Implementing the BNB Research Plan for 2023–2024, studies were focused on topics related to the macroeconomic effects of decreasing population, factors behind the dynamics of volumes and interest rates on consumer and housing loans, public debt sustainability, as well as the inertia of inflation in Bulgaria.

In 2023, honing the basic model for BNB macroeconometric forecasting and simulating the effects of economic shocks continued along with developing a risk management methodology in BNB's gross international reserves. The simulation model was further developed by adding new channels necessary to quantify the potential macroeconomic effects of raising banks' minimum required reserves with the BNB.

Part of the results from BNB analytical and forecasting activities were published in the Bank's quarterly editions *Economic Review* and *Marcroeconomic 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. External developments directly affecting the Bulgarian economy were also analysed. The publication carries quantitative assessments of anticipated short-term developments in a set of key macroeconomic indicators. The Review also carries the results of BNB analyses of particular economic issues as highlights and research topics. In the first half of 2023, a research topic entitled *Transmission of the ECB Monetary Policy to Interest Rates in Bulgaria. Assessment of Potential Effects of the Increase in Minimum Required Reserve Rate on Key Macroeconomic Indicators* was published. The BNB quarterly *Macroeconomic Forecast* provides annual projections of major macroeconomic indicators for Bulgaria in the current and next two years.

XIV. Human Resource Management

In 2023, the main priorities in human resource management at the BNB focused on provision of competitive working conditions and a favourable working environment for the effective implementation of the Bank's objectives, functions and tasks. In view of labour market shortages, especially in the highly skilled employees segment, the active representation and promotion of the BNB as a leading employer for financial and economic careers continued to be among the key priorities in 2023. A variety of platforms were used to advertise vacancies, while the Bank further developed its cooperation with university career centres in order to reach a wide range of graduates and recently graduated young professionals interested in central banking activities. In 2023, BNB participated in five career counselling and development forums for students and young professionals, where attendees were provided with detailed information about the Bank's recruitment processes and working conditions, as well as about its internship, fellowship and guest researcher programmes. These initiatives have established themselves as well-known for offering in-depth academic training and innovative research opportunities.

In 2023, 58 job advertisements were published by the BNB, some of them offering for more than one vacant position. The BNB onboarded 78 newcomers, five of whom covering for long-term absences. Forty-seven employees left, of whom 14 due to retirement. Over the review period, staff turnover was 5 per cent, down by 1.2 percentage points compared to the previous year. At the end of 2023, employees numbered 938: up 3.1 per cent from end-2022.

In staff educational attainment structure, the share of employees with tertiary education was 78.5 per cent, 0.8 percentage points higher than in 2022. The number of employees who have obtained PhD degree was 34 (32 in 2022). In the structure of staff by category, specialists held the largest share at 63 per cent, followed by support staff (18.7 per cent) and management (18.3 per cent). Employees aged above 51 retained the largest share (50 per cent) in the age structure, followed by the 41–50 year olds (29.4 per cent) and 31–40 year olds (20.5 per cent). The lowest share was that of employees aged up to 30 (5.1 per cent).

The salary setting policy continued to build on ensuring competitive pay levels, providing opportunities to attract and retain highly skilled and motivated employees, given the country's current labour market characteristics and trends. Remuneration was based on the established principle of performance linking, taking into account each employee's contribution to Bank's tasks and goals. Other factors in determining remuneration included the professional and career progression of employees.

Training and qualification opportunities continue to be major incentives for the comprehensive and efficient entry and inclusion of employees in the BNB corporate culture and for strengthening confidence in the institution's policies and activities related to professional development, work motivation and long-term careers. The approved annual schedule offered employees a wide range 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 training, and courses for specific responsibilities.

New employees engaged in induction training familiarising them with the Bank's corporate culture, topical tasks, internal rules, and general administrative procedures. In 2023, a number of internal training sessions were held in relation to operational risk management and business continuity, the development of new functionalities in the Register of Bank Accounts and Safe Deposit Boxes, and the control of unauthorised checks in the Central Credit Register. BNB staff training courses in Bulgaria focused mainly on trends in money laundering and terrorist financing risk assessments, implementation of the Law on Protection of Persons, Reporting Information, or Publicly Disclosing Information about Breaches (Whistleblowers Protection Act), audit of the elements of sustainable development, audit related to health, safety at work and well-being of employees, public procurement procedures, amendments to employment and personal data protection legislation. The main topics of the international courses and seminars attended by BNB staff were banking supervision, financial stability, prudential regulations and resolution of credit institutions, as well as payment and settlement systems, economic modelling and forecasting, statistics and others. The majority of foreign language training was focused on participation in English language courses, with the objective of maintaining the previously achieved levels of proficiency and further developing conversational and communication skills with a business focus. In light of the heightened risk of cyber-attacks, the main objectives of the IT training were to raise the skills and awareness of all employees who use the BNB's information assets, as well as to familiarise employees with the functions and tasks related to the global interbank payment system and the current threats to information security.

Over the reporting period, ten employees, of whom two graduating with masters' degrees, boosted their educational attainments without discontinuing work. Seven BNB employees took part in three vocational training and certification programmes focusing on financial analyses, information systems audit and personal data protection. Employees who have obtained certificates had the opportunity to maintain their professional qualifications by keeping their membership in certifying organisations, extended certificate validity, participation in discussions and access to specialised scientific materials.

Internal mobility approaches are used as additional opportunities for career development, improvement of employees' professional qualification and experience and expertise exchange at the Bank. As a result, 18 employees moved to other business areas. The various forms of short-term expert exchanges with the ESCB and the SSM provided the conditions for nine BNB employees to work in European banking and supervisory institutions on short-term contracts.

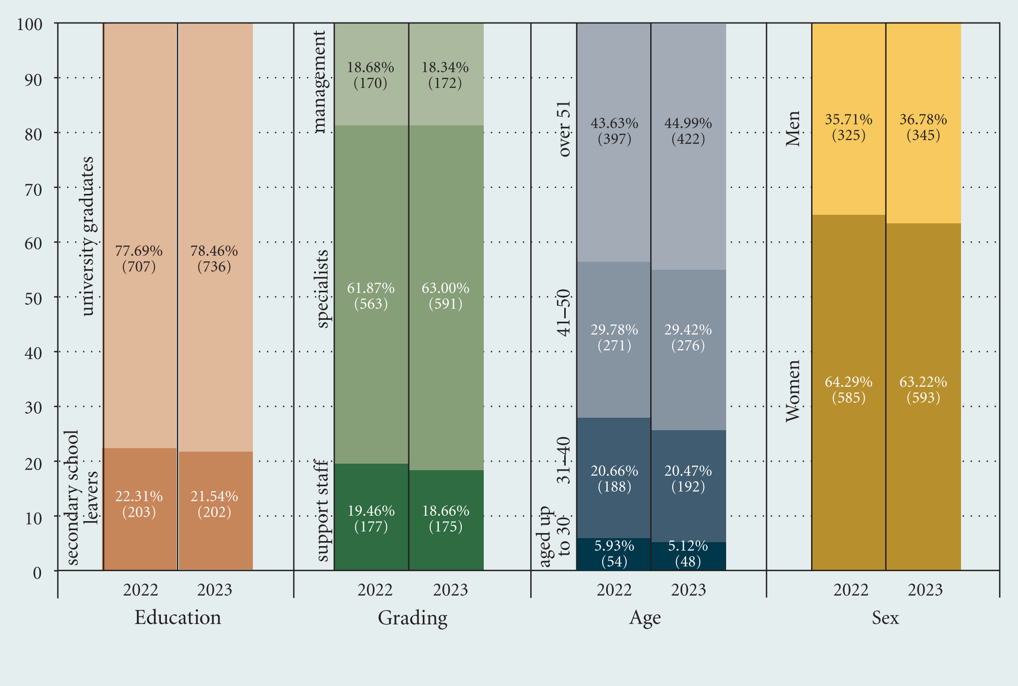
Ensuring health and safety at work also continued to be prioritised in managing human resources. Necessary actions were taken to prevent occupational hazards, inform and train employees to perform their work duties safely and discuss relevant measures and activities in the Working Conditions Committee to ensure occupational health and safety. To maintain an up-to-date level of health and safety knowledge and skills on working conditions, training of the staff responsible for their implementation was organised.

Twenty-five applicants enquired into the annual postgraduate scholarship programme: 8 for doctors' and 17 for masters' degrees. Following a competition, a comprehensive assessment was conducted for each candidate. Based on the results thereof, the BNB Governing Council decided not to award BNB scholarships in 2023.

As usual, the BNB's internship programme started in June, and six students were accepted for participation. The trainees worked on topics related to forecasting crude oil prices and residential loans dynamics, the joint work between the BNB and the ECB in the context of close cooperation in the SSM, the supervisory review and assessment of credit institutions, the application of machine learning algorithms in financial data analysis, and research on the relationship between social and political stability and economic growth.

Staff Structure as of 31 December of the Respective Year

(per cent, number)



Source: 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 2023, there were twelve audits: six under the annual Internal Audit Directorate Programme approved by the BNB Governing Council and six under the ESCB Internal Auditors Committee Programme.

Audits sought objective assurance of adequate and effective risk management, control and governance inherent in the activities concerned to ensure:

- effective attainment of objectives and tasks/attainment of strategic objectives of the organisation;
- reliability and completeness of financial and operational information;
- effective and efficient operations and programmes;
- safeguarding assets;
- legal, regulatory, internal rule, policy, procedure, and contractual observance.

Audits under the Annual Internal Audit Directorate Programme

BNB Functions	Audits
Preparation of monetary policy	Economic research and forecasts
Information and communication technologies	Review of the plan for implementing the recommendations under the report of Deloitte Consortium for assessing the state of IT and processes at the BNB
Intra-agency services	Review of the current state and the programme of new construction, refurbishment, and modernisation of BNB properties, including BNB investment intents
Financial Accounting and Financial Statements	BNB Consolidated Financial Statements as of 30 June 2023
Information and communication technologies	Verification of the compliance with the requirements of statutory regulations and adopted cybersecurity standards
Internal audit	Follow-up on recommendations from past audits

Source: BNB.

In 2023, the BNB Chief Auditor organised and coordinated the Internal Audit Directorate work with the BNB External Auditor, and also provided assistance to the audit team from the Bulgarian National Audit Office.

In 2023, the BNB Internal Audit continued to submit opinions on draft internal regulations concerning major BNB functions.

The Internal Audit experts participated in professional training courses organised within the ESCB or by the Institute of Internal Auditors in Bulgaria and other organisations aimed at timely familiarisation with the latest guidelines and professional practices. Training courses were tailored to the needs and requirements for qualification enhancement, knowledge and skills of the auditors and had a beneficial effect in performing audit tasks.

Audits under the ESCB Annual Internal Auditors Committee Programme

BNB Functions	Audits
Internal audit	Follow-up on recommendations from past audits under the ESCB Annual Internal Auditors Committee Programme
Supervision and financial stability	On-site inspections
Statistics	Quarterly financial accounts
Planning, control, and organisation	Business continuity management
Information and communication technologies	IT (cyber) security performance focusing on annual self-assessment
Payment and securities settlement systems	Operation of TARGET services with a focus on T2

Source: BNB.

XVI. BNB Budget Implementation in 2023

The Governing Council adopted the BNB budget by Resolution No 461 of 22 December 2022. The report on the Bank's budget implementation comprises two sections pursuant to the Governing Council Internal Rules on Drafting, Implementing, and Reporting the BNB Budget: BNB Operating Expenditure and Investment Programme. The Bank adheres to environmental protection requirements.

BNB Operating Expenditure

In 2023, the BNB spent BGN 132,817 thousand on operating expenses, or 50.0 per cent of the relevant section's approved annual budget.

Currency circulation cost BGN 29,757 thousand, or 22.8 per cent of approved annual budget for this item and 22.4 per cent of Bank operating expenditure budgeted for the reporting period. This item includes new banknotes costs of BGN 8035 thousand and minting expenses of BGN 21,250 thousand, of which BGN 9553 thousand on circulating coins. The BNB Governing Council 2023 Commemorative Coin Programme cost BGN 11,697 thousand. Expenses on currency processing consumables came to BGN 106 thousand and on machine spares and servicing BGN 75 thousand. New banknote and coin design accounted for BGN 61 thousand. Premise rentals for Bank issue and cash operations cost BGN 229 thousand.

The Bank spent BGN 37,210 thousand on *materials, services and depreciation*: 62.2 per cent of approved budget under this item and 28.0 per cent of Bank's operating expenditure.

Materials expenditure was BGN 908 thousand: 31.0 per cent of approved annual budget under this item and 0.7 per cent of all operating expenditure for 2023. Vehicle fuel and spares (BGN 311 thousand) and office consumables (BGN 230 thousand) occupied the largest share in this group. The Bank spent BGN 184 thousand on hygiene materials. Inventories cost BGN 82 thousand.

External services costs were BGN 22,085 thousand, or 67.4 per cent of annual item budget and 16.6 per cent of all Bank operating expenditure over the reporting period. Software maintenance subscriptions at BGN 5359 thousand, Bloomberg, Reuters, and other systems at BGN 1582 thousand, BORICA AD subscriptions at BGN 250 thousand and mandatory TARGET2 modules at BGN 785 thousand held the highest share in this group. Equipment maintenance subscriptions cost BGN 2243 thousand. Property and refuse collection levies cost BGN 1426 thousand and mail, telephone and telex, BGN 1102 thousand. Electric bills were BGN 1597 thousand and heating and water cost BGN 333 thousand. The Bank paid BGN 5359 thousand for security and fire protection contracts. Major building maintenance cost BGN 1501 thousand. Judicial protection and other legal services cost BGN 494 thousand and health and safety at work and special clothing BGN 233 thousand. Consultancy services were BGN 221 thousand, including costs on the assessment of the resilience of the BNB SWIFT infrastructure and ensuring redundancy and continuity of the SWIFT products and services. Property insurance expenses were BGN 77 thousand.

Depreciation for 2023 cost BGN 14,217 thousand, or 58.9 per cent of the approved annual budget and 10.7 per cent of total BNB operating expenditure for the reporting period.

Payroll, including social and healthcare expenses, came to BGN 59,123 thousand, or 95.2 per cent of approved budget and 44.5 per cent expenses of Bank's total operating expenditure. The BNB reported BGN 3192 thousand of current retirement obligations and unused paid leave under IAS 19 Employee Benefits.

Social expenditure was BGN 2635 thousand: 83.4 per cent of approved annual budget and 2.0 per cent of Bank's operating expenditure for 2023.

Other administrative expenditure was BGN 1076 thousand: 27.3 per cent of budgeted funds and 0.8 per cent of total operating expenditure. Inland travel worth BGN 101 thousand involved mainly regional cash centre logistics and checks. Foreign travel unrelated to BNB participation in the ESCB and other EU bodies cost BGN 287 thousand. The annual BNB Staff Education and Professional Training Programme came to BGN 523 thousand. Bank employees took part in professional courses and seminars held in Bulgaria and abroad, organised by EU central banks and international financial institutions, some of which were carried out in an on-line format. They participated in distant learning and foreign language courses.

The BNB spent BGN 3016 thousand on ESCB participation: 49.2 per cent of approved budget and 2.3 per cent of operating expenditure for 2023. The annual fee for European Banking Authority membership was BGN 1885 thousand. BNB representatives sat on ESCB committees and working groups and other EU bodies, which cost BGN 599 thousand. The annual maintenance for the ESCB teleconference system (*TSC*) was BGN 153 thousand from 1 January 2016 to 27 March 2023, the annual contribution to the Centralised Securities Database was BGN 142 thousand, the participation of the BNB as a member of the Eurosystem Procurement Coordination Office (EPCO) BGN 99 thousand and BGN 30 thousand for maintenance of the Securities Holdings Database (*SHSDB*), *etc.*

The BNB Investment Programme

The Bank spent BGN 14,192 thousand on its investment programme for 2023, or 14.6 per cent of annual item budget.

Over the review period, BGN 3374 thousand went to finance new construction, refurbishment and modernisation: 35.8 per cent of approved budget under this item and 23.8 per cent of investment programme expenditure.

In 2023, machines and equipment, vehicle and other equipment investment came to BGN 1138 thousand: 2.5 per cent of approved annual budget and 8.0 per cent of all investment programme expenditure for the reporting period.

Cash operations equipment cost BGN 304 thousand. Security systems equipment amounted to BGN 68 thousand. The purchase of other equipment amounted to BGN 766 thousand, including BGN 562 thousand on air-conditioners, BGN 124 thousand on rolling shutters for safety vault doors, metal vaults, fire-resistant and other rolling shutters, BGN 44 thousand on document shredders and on personal document readers; BGN 12 thousand on equipment for the construction of a connection between a fuel tank and a diesel generator at the BNB building in Sofia, BGN 24 thousand on vacuum cleaners, pressure washers, pumps, pallet and platform trucks, *etc.*

Information and communication system development cost BGN 9673 thousand: 22.5 per cent of approved annual budget and 68.2 per cent of all investment programme expenses in 2023.

Software expenditure was BGN 9268 thousand, including BGN 1747 thousand for licence purchases and BGN 7521 thousand for upgrades of the existing systems.

Hardware cost BGN 405 thousand, mainly for updating and expanding existing computer and communications equipment.

Investment spending on ESCB membership was BGN 7 thousand.

BNB budget implementation and fund take-up under both sections were continuously monitored.

The implementation of the investment programme involved public tendering, contractor selection, and project implementation. Some procurement procedures were completed at the end of the reporting period, and contract implementation has started with payments thereon planned for 2024. In the reporting period, the budget under the Section 'Investment Programme' was over-implemented compared to the previous year.

At the same time, the process of acquisition of new real estate in Varna for the purpose of constructing a new BNB Cash Centre was completed during the year. An analysis of the two significant groups of investment expenditure was carried out during the year: costs related to the development of the Bank's IT systems and costs related to new construction, refurbishment and modernisation and expenditure related to the acquisition of machines, equipment and vehicles. Based on this analysis, the priorities for developing different functionalities in the existing information systems were defined and some of the projects declared were postponed to 2024. Part of the investment intentions for refurbishment and modernisation was changed, and thus planned funds remained unused.

BNB Budget Implementation as of 31 December 2023

Indicators	Report 31 December 2023 (BGN thousand)	Budget 2023 (BGN thousand)	Implementation (per cent)
Section I. Operating expenditure	**132,817**	**265,727**	**50.0**
Currency circulation expenditure	29,757	130,557	22.8
Materials, services, and depreciation expenditure	37,210	59,838	62.2
Staff expenditure	59,123	62,104	95.2
Social expenditure	2,635	3,159	83.4
Other administrative expenditure	1,076	3,935	27.3
BNB expenditure related to ESCB membership	3,016	6,134	49.2
Section II. Investment programme	**14,192**	**97,469**	**14.6**
Construction, refurbishment, and modernisation expenditure	3,374	9,426	35.8
Expenditure on machines, equipment, vehicles, and other equipment	1,138	45,045	2.5
BNB information systems expenditure	9,673	42,951	22.5
BNB expenditure on ESCB membership	7	47	14.9

Source: BNB.

The Bulgarian National Bank continues to actively work on issues related to euro adoption as national currency, with this expenditure having an indirect effect on the overall implementation of the 2023 BNB budget.

Due to the changed date of euro adoption as national currency from 1 January 2024 to 1 January 2025, a larger portion of the expenditure planned in the BNB budget for 2023 on circulation costs, acquisition of machinery, equipment, transport vehicles, and other equipment and on IT system development was not incurred in 2023 and was included in the BNB budget for 2024.

XVII. BNB Consolidated Financial Statements as of 31 December 2023

Building a better working world

Ernst & Young Audit OOD
Polygraphia Office Center
47A Tsarigradsko Shose Blvd., floor 4
1124 Sofia, Bulgaria

Tel: +359 2 81 77 100
Fax: +359 2 81 77 111
ey.com

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 (the Group), which comprise the consolidated statement of financial position as at 31 December 2023, 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 material 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 (the Group) as at 31 December 2023, 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 (the Group) 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.

EY
Building a better working world

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' (the Group)'s 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.

EY
Building a better working world

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' (the Group)'s 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' (the Group)'s 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 (the Group) 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 (the Group) 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.

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

EY
Building a better working world

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

26 April 2024

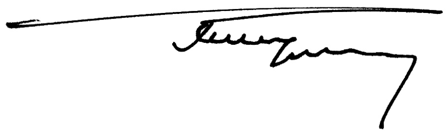
Translation in English of the official Auditor's report issued in Bulgarian.

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 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, which 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.



Dimitar Radev

Governor of the Bulgarian National Bank

Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2023

(BGN'000)

	Note	2023	2022
Interest income	7	1,868,769	290,906
Interest expense	7	(523,035)	(178,818)
Net interest income		**1,345,734**	**112,088**
Fees and commission income		39,191	33,772
Fees and commission expense		(5,121)	(3,830)
Net fees and commission income		**34,070**	**29,942**
Net gains/(losses) from financial assets and liabilities reported at fair value in the profit or loss or measured at amortised cost	8	541,807	(46,966)
incl. provisions for expected credit losses under IFRS 9		-	*(5,640)*
Other operating income	9	61,502	38,345
Total income from banking operations		**1,983,113**	**133,409**
Administrative expenses	10	(167,218)	(149,479)
Profit/(loss) for the period		**1,815,895**	**(16,070)**
Other comprehensive income			
Other comprehensive income that can be reclassified into profit or loss at a future point in time		-	-
Other comprehensive income that cannot be reclassified into profit or loss at a future point in time		*10,352*	*248*
Other comprehensive income, total		**10,352**	**248**
Total comprehensive income for the period		**1,826,247**	**(15,822)**
Profit/(loss) attributable to:			
Equity holder of the Bank		1,815,670	(16,037)
Non-controlling interest		225	(33)
Profit/(loss) for the period		**1,815,895**	**(16,070)**
Total comprehensive income attributable to:			
Equity holder of the Bank		1,826,052	(15,789)
Non-controlling interest		195	(33)
Total comprehensive income for the period		**1,826,247**	**(15,822)**

The accompanying notes on pages 127 to 163 form an integral part of the consolidated financial statements.

Consolidated Statement of Financial Position as of 31 December 2023

(BGN'000)

	Note	2023	2022
ASSETS			
Cash and deposits in foreign currency	11	37,181,812	58,746,308
Gold, instruments in gold, and other precious metals	12	4,848,005	4,413,760
Financial assets at fair value through profit or loss	13	39,793,187	11,800,033
Financial assets at fair value in other comprehensive income	14	2,184,218	2,249,339
Tangible assets	15	176,121	177,011
Intangible assets	16	14,815	9,415
Other assets	17	72,475	66,659
Total assets		**84,270,633**	**77,462,525**
LIABILITIES			
Banknotes and coins in circulation	18	29,462,056	27,425,373
Liabilities to banks and other financial institutions	19	30,403,721	26,791,395
Liabilities to government institutions and other borrowings	20	11,071,114	11,677,755
Borrowings against Bulgaria's participation in international financial institutions	21	5,412,128	5,551,650
Other liabilities	22	1,083,120	1,003,955
Total liabilities		**77,432,139**	**72,450,128**
EQUITY			
Capital	23	20,000	20,000
Reserves	23	6,814,751	4,988,849
Non-controlling interest	24	3,743	3,548
Total equity		**6,838,494**	**5,012,397**
Total liabilities and equity		**84,270,633**	**77,462,525**

The accompanying notes on pages 127 to 163 form an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows for the Year Ended 31 December 2023

(BGN'000)

	Note	2023	2022
OPERATING ACTIVITIES			
Net profit/(loss)		1,815,895	(16,070)
Adjustments			
Dividend income	9	(10,224)	(11,834)
Depreciation	15, 16	19,375	18,699
Loss on disposal of tangible assets		13,618	128
(Profit) on financial assets and liabilities arising from market movements		(640,476)	(125,941)
(Profit) of associates		(2,634)	(959)
Other adjustments		13,499	57
Net cash flow from operating activities before changes in operating assets and liabilities		**1,209,053**	**(135,920)**
Change in operating assets			
Decrease/(increase) in gold, instruments in gold and other precious metals		(2,309)	2,512
Decrease/(increase) in financial assets at fair value through profit or loss		(27,859,679)	7,123,645
(Increase)/decrease in other assets		(1,181)	4,298
Change in operating liabilities			
Increase in banknotes and coins in circulation		2,036,683	2,728,696
Increase in due to banks and other financial institutions		3,612,326	2,477,485
Increase/(decrease) in due to government institutions and other liabilities		(606,641)	2,145,837
Increase in other liabilities		79,165	92,675
(Net cash outflow)/net cash inflow from operating activities		**(21,532,583)**	**14,439,228**
INVESTMENT ACTIVITIES			
Acquisition of tangible and intangible assets		(37,502)	(20,426)
Dividends received		10,224	11,834
(Net cash outflow) from investing activities		**(27,278)**	**(8,592)**
FINANCING ACTIVITIES			
Payments to the state budget		-	-
Net cash inflow/(net cash outflow) used in financing activities		-	-
Net increase in cash and cash equivalents		**(21,559,861)**	**14,430,636**
Cash and cash equivalents at beginning of period		**58,771,656**	**44,341,020**
Cash and cash equivalents at the end of period	11, 17	**37,211,795**	**58,771,656**
Cash flows from interest and dividends			
Interest received		1,448,481	225,843
Interest paid		(500,560)	(162,641)

The accompanying notes on pages 127 to 163 form an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Equity for the Year Ended December 2023

(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 2022	**20,000**	**141,103**	**4,863,741**	**5,024,844**	**3,581**	**5,028,425**
(Loss) for the period	-	-	(16,037)	(16,037)	(33)	**(16,070)**
Other comprehensive income:						
other income	-	*4,633*	*(4,385)*	*248*	-	***248***
Other comprehensive income, total	-	4,633	(4,385)	248	-	**248**
Total comprehensive income for the period	-	4,633	(20,422)	(15,789)	(33)	**(15,822)**
Contributions by and distributions to owners:						
contribution to the budget of the Republic of Bulgaria	-	-	-	-	-	-
dividend paid by subsidiaries to minority shareholders	-	-	*(206)*	*(206)*	-	*(206)*
Transactions with owners, total	-	-	(206)	(206)	-	**(206)**
Balance as at 31 December 2022	**20,000**	**145,736**	**4,843,113**	**5,008,849**	**3,548**	**5,012,397**
Balance as at 1 January 2023	**20,000**	**145,736**	**4,843,113**	**5,008,849**	**3,548**	**5,012,397**
Profit for the period	-	-	1,815,670	1,815,670	225	**1,815,895**
Other comprehensive income:						
other income	-	*(1,008)*	*11,390*	*10,382*	*(30)*	***10,352***
Other comprehensive income, total	-	(1,008)	11,390	10,382	(30)	**10,352**
Total comprehensive income for the period	-	(1,008)	1,827,060	1,826,052	195	**1,826,247**
Contributions by and distributions to owners:						
contribution to the budget of the Republic of Bulgaria	-	-	-	-	-	-
dividend paid by subsidiaries to minority shareholders	-	-	*(150)*	*(150)*	-	*(150)*
Transactions with owners, total	-	-	(150)	(150)	-	**(150)**
Balance as at 31 December 2023	**20,000**	**144,728**	**6,670,023**	**6,834,751**	**3,743**	**6,838,494**

The accompanying notes on pages 127 to 163 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 public sector enterprises;
- 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 levs in excess of the Bulgarian lev equivalent of the gross international reserves;
- The Bank acts as the fiscal agent and depository for the state.

With effect from the date on which the ECB decision[150] 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 for the year ending 31 December 2023, set out on pages 123 to 163, on 26 April 2024.

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

[150] Decision (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 Council 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; the 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, including for future periods.

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.

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 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 result 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. Summarised Information on Accounting Policies Applied

a) Income recognition

Interest income and expenses 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 clients is recognised when the Bank has fulfilled its performance obligations by transferring the promised services to the client. 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 since the entry into force of IFRS 15.

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

Interest income and expenses 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 rate 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 recognised 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 held 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 in accounting registers and relevant records for recognition in the asset revaluation surplus 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, and impairment of assets) and assets that are 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 stated in the contract is repaid or cancelled or expired.

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, debt instruments and investment. The assets in this group are measured, as follows:

- deposits – at amortised cost;
- debt instruments – 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 are amortised for each individual item and are recognised in the Bank's income statement. Interest is calculated and recognised on a daily basis in the Bank's statement of comprehensive income.

iv) Fair value measurement in other comprehensive income

The Bank measures its debt instruments at fair value in other comprehensive income where both conditions are satisfied:

- the financial asset is held within a business model for the purposes of collecting contractual cash flows and for its sale; and
- according to the contractual terms of the financial asset, on specified dates they give rise to cash flows representing only payments of principal or interest.

In respect of financial assets accounted for in other comprehensive income, the interest income, foreign exchange revaluations and impairment losses or their recovery are recognised in profit or loss and calculated in a similar manner as financial assets measured at amortised cost. Other changes in the fair value of these financial assets are recognised in other comprehensive income. Upon their derecognition, the cumulative change in the fair value recognised in other comprehensive income is included in profit or loss.

v) Measurement of financial assets designated as such at fair value in other comprehensive income (equity instruments)

The Bank has irrevocably classified in this category its equity investments (not traded on the stock exchange) designated at fair value through other comprehensive income because they qualify as equity under IAS 32 Financial Instruments: Presentation and are not held for trading purposes. Classification is determined on an individual instrument basis.

Gains and losses from these financial assets are never recognised in the profit or loss of the Bank. Dividends are recognised as other operating income in the income statement when the right to payment is established.

Equity instruments designated as such at fair value through other comprehensive income are not subject to an impairment test.

vi) 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 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 a 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 positions in a group of financial assets and financial liabilities, it is exposed to market risks and a 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. These 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.

vii) 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 a 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 in the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

viii) 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.

ix) 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 a loss expected by the management, 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.

x) 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.

xi) 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 or discount is amortised for each individual item and is recognised in the Bank's statement of comprehensive income. Interest is calculated and 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 losses' 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

Expenses 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. Gains and losses on revaluation of outstanding forward contacts are recognised in profit or loss.

The exchange rates of the major foreign currencies as of 31 December 2023 and 31 December 2022 are, as follows:

Currency	31 December 2023	31 December 2022
US dollar	1: BGN 1.76998	1: BGN 1.83371
Euro	1: BGN 1.95583	1: BGN 1.95583
Special Drawing Rights	1: BGN 2.37545	1: BGN 2.44037
Gold	1 troy ounce: BGN 3648.48	1 troy ounce: BGN 3323.11

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, and where a reliable assessment can be made of the amount of the obligation. Provisions are charged only when the Bank is able to reliably determine the size of future outgoing cash flows. Expenses on provisions are presented in the income statement, net of the amount of expenses reimbursed. When the effect of time differences in the value of money is material, provisions are discounted, and the increase in the provision resulting from the passage of time is presented as a financial expense.

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 resolution 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 decision 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 basis of which the estimation of the obligation has been made, are disclosed 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 and 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, 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.

m) Leases

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 of low-value assets are recognised as expenses on a linear basis over the term of the lease.

For each new contract, 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.

n) **Amendments to Accounting Policies and Disclosures**

Standards/amendments that have entered into force and have been adopted by the European Union

The accounting policies adopted by the Bank are consistent with those applied in the previous financial year, except for the following IFRSs and amendments to IFRSs.

Amendments to IAS 1: Presentation of Financial Statements and the Practice Statement under IFRS 2: Disclosure of Accounting Policies

The amendments are effective for periods beginning on or after 1 January 2023 and are applied prospectively. The amendments aim to improve the disclosure of accounting policies and provide guidance on the application of materiality judgements to accounting policies disclosures. The amendments to IAS 1 replace the requirement to disclose 'significant accounting policies' with a requirement to disclose 'material accounting policy information'.

Guidance and illustrative examples are added in Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures.

The BNB Governing Council revised its accounting policy disclosures and implemented the disclosure requirements for material accounting policy information. The amendments have not materially affected the Bank's accounting policies.

Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates

The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied to 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 applied retrospectively to 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 amendments were adopted by the EU on 2 March 2022 and published in the Official Journal of the EU on 3 March 2022. The amendments did not lead to any changes in the Bank's accounting policies.

Amendments to IAS 12 Income Taxes: Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction

The amendments limit the scope of initial recognition exemption and provide further clarity on the initial recognition exemptions in line with IAS 12. The amendments specify how entities should account for deferred tax relating to assets and liabilities arising from a single transaction, such as leases or decommissioning obligations. The amendments clarify that, where the payments governing a liability are recognised for tax purposes, it is a matter of assessment, in the light of the applicable tax law, whether those deductions may relate to the liability recognised for tax purposes or to the related asset. As amended, initial recognition exemptions no longer apply to transactions that give rise to equal taxable and deductible temporary differences. It is only applicable if recognition of a lease asset and lease liability (or decommissioning obligation and component of an asset subject to decommissioning) gives rise to taxable and deductible temporary differences that are not equal.

The amendments, effective for annual periods beginning on or after 1 January 2023, were adopted by the EU on 11 August 2022 and published in the Official Journal of the EU on 12 August 2022. The amendments do not affect the Bank's financial statements.

Amendments to IAS 12 Income Taxes: International Tax Reform – Pillar Two Model Rules

The amendments apply immediately upon their publication, but certain disclosure requirements apply at a later stage. In December 2021, the Organisation for Economic Co-operation and Development (OECD) released the Pillar Two Model Rules to ensure that large multinational enterprises would be subject to a 15 per cent minimum tax rate. On 23 May 2023, the IASB issued International Tax Reform – Pillar Two Model Rules – Amendments to IAS 12. The amendments introduce a mandatory temporary exception to the accounting for deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules and disclosure requirements for affected entities on potential exposure to Pillar Two income taxes. For the periods in which the legislation in Pillar Two has been endorsed (in a nutshell), but has not yet taken effect, the amendments require the disclosure of some or reasonably measurable information that helps users of the financial statements to understand an entity's exposure arising from income taxes under Pillar Two. In order to comply with these requirements, the entity is required to disclose qualitative and quantitative information on its exposure to Pillar Two income taxes at the end of the reporting period. Disclosure of a current tax expense related to Pillar Two income taxes and disclosures relating to periods prior to the entry into force of the legislation are mandatory for annual reporting periods beginning on or after 1 January 2023 but are not required for interim periods ending on or before 31 December 2023.

The amendments do not affect the Bank's financial statements.

o) **Issued standards/amendments adopted by the European Union not yet in force and not early adopted**

Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current

The amendments apply to annual periods beginning on or after 1 January 2022, retrospectively, in accordance to IAS 8. Earlier application is permitted. The amendments to IAS 1 aim to clarify the criteria for classifying liabilities as current or non-current. The amendments clarify: the significance of the right to defer settlement; the requirement for such a right to exist at the end of the reporting period; that a management's intention does not affect the classification of liabilities as current or non-current; and that a counterparty's choices that involve a transfer of the entity's own equity instruments do not affect the classification of liabilities as current or non-current. The amendments also state that only the conditions that an entity must comply with at or before the reporting date will affect the classification of liabilities. Additional disclosures are also required for non-current liabilities arising from loan commitments subject to conditions to be met within 12 months after the reporting period.

The Bank will analyse and assess the impact of the amendments on its financial position or performance.

Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback Transaction

In September 2022, the IASB issued amendments to IFRS 16 Leases: Lease liability in a sale and leaseback transaction The amendments are intended to improve the requirements that the seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction under IFRS 16 by not changing the accounting for leases unrelated to this transaction. In particular, the seller-lessee determines the 'lease payments' or 'adjusted lease payments' in such a way that it does not recognise any gain or loss related to the right of use that it retains. The application of these requirements does not prevent the seller-lessee from recognising in profit or loss any gain or loss related to the partial or total termination of the lease. The seller-lessee applies the amendment retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of the initial application – the beginning of the annual reporting period in which the company applied IFRS 16 for the first time. The amendments are effective for annual periods beginning on or after 1 January 2024, with earlier application permitted. The Bank will analyse and assess the impact of the new amendments on its financial position or performance.

p) **Standards/amendments not yet effective and not adopted by the European Union**

Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments – Disclosures: Supplier Finance Arrangements

The amendments complement the requirements already set out in the IFRS and require the entities to provide information on the conditions of supplier finance arrangements. Furthermore, the entities are required to disclose at the beginning and at the end of the reporting period the carrying amounts of financial liabilities under the supplier finance arrangements and the line items in which those liabilities are presented; as well as the carrying amounts of financial liabilities and the line items for which finance providers have already settled the corresponding trade payable. Furthermore, entities should disclose the type and effect of non-cash changes in the carrying amounts of supplier finance arrangement financial liabilities, which prevent the carrying amounts of the financial liabilities from being comparable. The amendments also require entities to disclose at the beginning and at the end of the reporting period the range of payment due dates for financial liabilities owed to the finance providers and for comparable trade payables that are not part of those arrangements. The amendments, which are all effective for annual periods beginning on or after 1 January 2024, have not yet been endorsed by the EU. The Bank will analyse and assess the impact of the amendments on its financial position or performance.

Amendments to IAS 21: The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability

The amendments clarify how the entity has to assess whether a currency is exchangeable and how to determine the spot exchange rate when exchangeability is lacking. A currency is deemed exchangeable into another currency when an entity is able to obtain the other currency within a time frame allowing for a normal administrative delay and through a market or exchange mechanism in which the exchange transaction would create enforceable rights and obligations. If a currency could not be exchangeable into another currency, an entity should estimate the spot exchange rate at the measurement date. The objective of an entity in estimating the spot exchange rate is to reflect the rate that would have applied to an orderly exchange transaction at the measurement date between market participants in the prevailing economic conditions. The amendments note that the entity may use an observable exchange rate without adjustment or any other estimation technique. The amendments have not yet been endorsed by the EU. The Bank will analyse and assess the impact of the amendments on its financial position or performance.

Amendments in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of these amendments indefinitely, pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. The Bank will analyse and assess the impact of the 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 BNB 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 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 2023, the BNB continued to pursue conservative policy in terms of credit risk management in the investment of gross international reserves, ensuring a high degree of safety and liquidity of reserves. During the year, some investment restrictions were modified to take account of market events. Given the deterioration in depositor confidence in US and Swiss banks following the turmoil in the banking sectors of both countries, investments in certain asset classes and towards some BNB counterparties were preventively restricted in the second half of March. Measures taken by US and Swiss regulators to restore the stability of the banking sector in these countries have reduced risk in the financial markets, and therefore some of the investment restrictions imposed were lifted in mid-2003.

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

By end-2023 the exposure to credit risk remained limited and approximately 63 per cent of international reserves were invested into assets with the highest AAA long-term credit rating.

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 the risk for the Bank of being unable to meet its obligations when due and the second aspect comprises the risk for the BNB of being unable to sell an asset on international markets at a fair value within an appropriate time 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 the overall liquidity risk management strategy, the Bank maintains a liquidity portfolio denominated in euro and 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 2023							
Financial assets							
Cash and deposits in foreign currency	34,205,479	2,589,138	393,343	-	-	(6,148)	37,181,812
incl. provisions for expected credit losses under IFRS 9	-	-	-	-	-	*(6,148)*	*(6,148)*
Gold, instruments in gold, and other precious metals	4,848,884	-	-	-	-	(879)	4,848,005
incl. provisions for expected credit losses under IFRS 9	-	-	-	-	-	*(879)*	*(879)*
Financial assets at fair value through profit or loss	3,288,566	9,472,883	26,610,228	421,510	-	-	39,793,187
Financial assets at fair value through profit and loss in other comprehensive income	233,094	-	-	-	-	1,951,124	2,184,218
Other assets	29,973	-	-	-	-	-	29,973
Total financial assets	**42,605,996**	**12,062,021**	**27,003,571**	**421,510**	**-**	**1,944,097**	**84,037,195**
Financial liabilities							
Banknotes and coins in circulation	-	-	-	-	-	29,462,056	29,462,056
Liabilities to banks and other financial institutions	30,403,721	-	-	-	-	-	30,403,721
Liabilities to government institutions and other borrowings	11,071,114	-	-	-	-	-	11,071,114
Borrowings against Bulgaria's participation in international financial institutions	-	-	-	-	-	5,412,128	5,412,128
Total financial liabilities	**41,474,835**	**-**	**-**	**-**	**-**	**34,874,184**	**76,349,019**
Asset–liability maturity mismatch	**1,131,161**	**12,062,021**	**27,003,571**	**421,510**	**-**	**(32,930,087)**	**7,688,176**
As of 31 December 2022							
Financial assets							
Cash and deposits in foreign currency	56,356,359	2,403,284	-	-	-	(13,335)	58,746,308
incl. provisions for expected credit losses under IFRS 9	-	-	-	-	-	*(13,335)*	*(13,335)*
Gold, instruments in gold, and other precious metals	4,414,858	-	-	-	-	(1,098)	4,413,760
incl. provisions for expected credit losses under IFRS 9	-	-	-	-	-	*(1,098)*	*(1,098)*
Financial assets at fair value through profit or loss	1,968,945	4,136,281	5,481,778	204,814	8,215	-	11,800,033
Financial assets at fair value through profit and loss in other comprehensive income	239,464	-	-	-	-	2,009,875	2,249,339
Other assets	25,274	-	-	-	-	70	25,344
Total financial assets	**63,004,900**	**6,539,565**	**5,481,778**	**204,814**	**8,215**	**1,995,512**	**77,234,784**
Financial liabilities							
Banknotes and coins in circulation	-	-	-	-	-	27,425,373	27,425,373
Liabilities to banks and other financial institutions	26,791,395	-	-	-	-	-	26,791,395
Liabilities to government institutions and other borrowings	11,677,755	-	-	-	-	-	11,677,755
Borrowings against Bulgaria's participation in international financial institutions	-	-	-	-	-	5,551,650	5,551,650
Total financial liabilities	**38,469,150**	**-**	**-**	**-**	**-**	**32,977,023**	**71,446,173**
Asset–liability maturity mismatch	**24,535,750**	**6,539,565**	**5,481,778**	**204,814**	**8,215**	**(30,981,511)**	**5,788,611**

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 2023							
Banknotes and coins in circulation	29,462,056	29,462,056	-	-	-	-	29,462,056
Liabilities to banks and other financial institutions	30,403,721	30,403,721	30,403,721	-	-	-	-
Liabilities to government institutions and other borrowings	11,071,114	11,071,114	11,071,114	-	-	-	-
Borrowings against Bulgaria's participation in international financial institutions	5,412,128	5,412,128	-	-	-	-	5,412,128
	76,349,019	**76,349,019**	**41,474,835**	-	-	-	**34,874,184**
As of 31 December 2022							
Banknotes and coins in circulation	27,425,373	27,425,373	-	-	-	-	27,425,373
Liabilities to banks and other financial institutions	26,791,395	26,791,395	26,791,395	-	-	-	-
Liabilities to government institutions and other borrowings	11,677,755	11,677,755	11,677,755	-	-	-	-
Borrowings against Bulgaria's participation in international financial institutions	5,551,650	5,551,650	-	-	-	-	5,551,650
	71,446,173	**71,446,173**	**38,469,150**	-	-	-	**32,977,023**

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 2023	Average	Maximum	Minimum
Currency risk	(58,646)	(44,142)	(68,252)	(12,136)
Interest rate risk	2,494	947	(5,192)	2,722
Correlation (per cent)	(0.07)	0.16	0.80	(0.57)
Overall risk	**(53,681)**	**(39,421)**	**(67,589)**	**(6,524)**
	As of 31 December 2022	**Average**	**Maximum**	**Minimum**
Currency risk	(56,731)	(49,775)	(102,275)	(27,669)
Interest rate risk	369	(6,496)	(14,673)	809
Correlation (per cent)	(0.45)	0.19	0.59	(0.45)
Overall risk	**(52,714)**	**(51,459)**	**(106,823)**	**(25,065)**

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.* the 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 2023					
Interest-earning assets					
Cash and deposits in foreign currency	36,877,105	25,194,135	8,705,918	2,585,886	391,166
Gold, instruments in gold, and other precious metals	2,921,392	-	2,921,392	-	-
Financial assets at fair value through profit or loss	39,435,166	-	3,238,285	9,377,498	26,819,383
Financial assets at fair value through profit and loss in other comprehensive income	233,094	-	233,094	-	-
Other interest-earning assets	29,973	22,973	7,000	-	-
Total	**79,496,730**	**25,217,108**	**15,105,689**	**11,963,384**	**27,210,549**
Interest-bearing liabilities					
Liabilities to banks and other financial institutions	30,403,721	-	30,403,721	-	-
Liabilities to government institutions and other borrowings	7,760,248	7,760,248	-	-	-
Borrowings against Bulgaria's participation in international financial institutions	3,491,766	3,491,766	-	-	-
Total	**41,655,735**	**11,252,014**	**30,403,721**	-	-
Interest-bearing asset/liability gap	**37,840,995**	**13,965,094**	**(15,298,032)**	**11,963,384**	**27,210,549**
As of 31 December 2022					
Interest-earning assets					
Cash and deposits in foreign currency	56,849,483	47,775,271	6,673,900	2,400,312	-
Gold, instruments in gold, and other precious metals	2,658,850	-	2,658,850	-	-
Financial assets at fair value through profit or loss	11,859,208	260,683	1,982,051	4,149,307	5,467,167
Financial assets at fair value through profit and loss in other comprehensive income	239,464	-	239,464	-	-
Other interest-earning assets	25,344	15,777	9,497	-	70
Total	**71,632,349**	**48,051,731**	**11,563,762**	**6,549,619**	**5,467,237**
Interest-bearing liabilities					
Liabilities to banks and other financial institutions	26,791,395	-	26,791,395	-	-
Liabilities to government institutions and other borrowings	7,230,396	7,230,396	-	-	-
Borrowings against Bulgaria's participation in international financial institutions	3,587,195	3,587,195	-	-	-
Total	**37,608,986**	**10,817,591**	**26,791,395**	-	-
Interest-bearing asset/liability gap	**34,023,363**	**37,234,140**	**(15,227,633)**	**6,549,619**	**5,467,237**

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 2023	(146,150)	146,150	2,936,654	2,385,034
As of 31 December 2022	(41,330)	41,330	1,500,608	914,397

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 levs, 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 2023	31 December 2022
Assets		
Bulgarian lev and euro	73,757,247	67,171,825
US dollar	9,762	76,473
Japanese yen	13	214
Pound sterling	4	150
SDR	5,710,264	5,849,844
Gold	4,793,343	4,363,889
Other	-	130
	84,270,633	**77,462,525**
Liabilities, capital and reserves		
Bulgarian lev and euro	78,672,469	71,659,056
US dollar	10,026	76,958
Japanese yen	1	1
Pound sterling	-	-
SDR	5,588,085	5,726,461
Other	52	49
	84,270,633	**77,462,525**

(BGN'000)

Net position		
Bulgarian lev and euro	(4,915,222)	(4,487,231)
US dollar	(264)	(485)
Japanese yen	12	213
Pound sterling	4	150
SDR	122,179	123,383
Gold	4,793,343	4,363,889
Other	(52)	81

e) Using accounting judgements and assumptions

The Governing Council of the BNB discusses the development, selection and disclosure of information about the accounting policies and assumptions used, 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 applied 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 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 controls 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 2023			
Cash and deposits in foreign currency	37,181,812	-	37,181,812
incl. provisions for expected credit losses under IFRS 9	*(6,148)*	-	*(6,148)*
Gold, instruments in gold, and other precious metals	4,848,005	-	4,848,005
incl. provisions for expected credit losses under IFRS 9	*(879)*	-	*(879)*
Financial assets at fair value through profit or loss	19,839,157	19,954,030	39,793,187
Total	**61,868,974**	**19,954,030**	**81,823,004**
31 December 2022			
Cash and deposits in foreign currency	58,746,308	-	58,746,308
incl. provisions for expected credit losses under IFRS 9	*(13,335)*	-	*(13,335)*
Gold, instruments in gold, and other precious metals	4,413,760	-	4,413,760
incl. provisions for expected credit losses under IFRS 9	*(1,098)*	-	*(1,098)*
Financial assets at fair value through profit or loss	11,165,747	634,286	11,800,033
Total	**74,325,815**	**634,286**	**74,960,101**

Financial instruments measured at amortised cost are classified within the fair value hierarchy, as follows:

(BGN'000)

	Level 1 Quoted market prices on active markets	Level 2 Observable inputs other than quoted prices	Total
31 December 2023			
Liabilities to banks and other financial institutions	-	30,403,721	30,403,721
Liabilities to government institutions and other borrowings	-	11,071,114	11,071,114
Borrowings against Bulgaria's participation in international financial institutions	-	5,412,128	5,412,128
Total	-	**46,886,963**	**46,886,963**
31 December 2022			
Liabilities to banks and other financial institutions	-	26,791,395	26,791,395
Liabilities to government institutions and other borrowings	-	11,677,755	11,677,755
Borrowings against Bulgaria's participation in international financial institutions	-	5,551,650	5,551,650
Total	-	**44,020,800**	**44,020,800**

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 2023							
Financial assets							
Cash and deposits in foreign currency	34,205,479	2,589,138	393,343	-	-	(6,148)	37,181,812
incl. provisions for expected credit losses under IFRS 9	-	-	-	-	-	*(6,148)*	*(6,148)*
Gold, instruments in gold, and other precious metals	4,848,884	-	-	-	-	(879)	4,848,005
incl. provisions for expected credit losses under IFRS 9	-	-	-	-	-	(879)	(879)
Financial assets at fair value through profit or loss	3,288,566	9,472,883	26,610,228	421,510	-	-	39,793,187
Financial assets at fair value through profit and loss in other comprehensive income	233,094	-	-	-	-	1,951,124	2,184,218
Tangible assets	-	-	-	-	-	176,121	176,121
Intangible assets	-	-	-	-	-	14,815	14,815
Other assets	29,973	-	-	-	-	42,502	72,475
Total financial assets	**42,605,996**	**12,062,021**	**27,003,571**	**421,510**	**-**	**2,177,535**	**84,270,633**
Financial liabilities							
Banknotes and coins in circulation	-	-	-	-	-	29,462,056	29,462,056
Liabilities to banks and other financial institutions	30,403,721	-	-	-	-	-	30,403,721
Liabilities to government institutions and other borrowings	11,071,114	-	-	-	-	-	11,071,114
Borrowings against Bulgaria's participation in international financial institutions	-	-	-	-	-	5,412,128	5,412,128
Other liabilities	-	-	-	-	-	1,083,120	1,083,120
Total financial liabilities	**41,474,835**	**-**	**-**	**-**	**-**	**35,957,304**	**77,432,139**
Asset–liability maturity mismatch	**1,131,161,**	**12,062,021**	**27,003,571**	**421,510**	**-**	**(33,779,769)**	**6,838,494**
As of 31 December 2022							
Financial assets							
Cash and deposits in foreign currency	56,356,359	2,403,284	-	-	-	(13,335)	58,746,308
incl. provisions for expected credit losses under IFRS 9	-	-	-	-	-	*(13,335)*	*(13,335)*
Gold, instruments in gold, and other precious metals	4,414,858	-	-	-	-	(1,098)	4,413,760
incl. provisions for expected credit losses under IFRS 9	-	-	-	-	-	*(1,098)*	*(1,098)*
Financial assets at fair value through profit or loss	1,968,945	4,136,281	5,481,778	204,814	8,215	-	11,800,033
Financial assets at fair value through profit and loss in other comprehensive income	239,464	-	-	-	-	2,009,875	2,249,339
Tangible assets	-	-	-	-	-	177,011	177,011
Intangible assets	-	-	-	-	-	9,415	9,415
Other assets	25,274	-	-	-	-	41,385	66,659
Total financial assets	**63,004,900**	**6,539,565**	**5,481,778**	**204,814**	**8,215**	**2,223,253**	**77,462,525**
Financial liabilities							
Banknotes and coins in circulation	-	-	-	-	-	27,425,373	27,425,373
Liabilities to banks and other financial institutions	26,791,395	-	-	-	-	-	26,791,395
Liabilities to government institutions and other borrowings	11,677,755	-	-	-	-	-	11,677,755
Borrowings against Bulgaria's participation in international financial institutions	-	-	-	-	-	5,551,650	5,551,650
Other liabilities	-	-	-	-	-	1,003,955	1,003,955
Total financial liabilities	**38,469,150**	**-**	**-**	**-**	**-**	**33,980,978**	**72,450,128**
Asset–liability maturity mismatch	**24,535,750**	**6,539,565**	**5,481,778**	**204,814**	**8,215**	**(31,757,725)**	**5,012,397**

7. Interest Income and Expense

(BGN'000)

	31 December 2023	31 December 2022
Interest income		
– securities	900,360	62,523
– deposits	968,026	228,372
– other	383	11
	1,868,769	**290,906**
Interest expense		
– deposits	523,035	178,815
– other	-	3
	523,035	**178,818**

In 2023 the deposit facility rate remained positive. At the end of the reporting period, following the ECB Governing Council's decision, effective from 20 September 2023, the rate on the deposit facility was raised to a record high of 4.0 per cent for the tenth consecutive time.

The Bulgarian National Bank also raised its interest rates on accounts with the BNB.

As at 31 December 2023, as a result of these changes, interest income on current accounts and deposits includes interest income on deposits and current accounts with foreign correspondent banks resulting from the application of positive reference interest rates, amounting to BGN 968,026 thousand (31 December 2022: BGN 107,369 thousand). As of 31 December 2022, interest income on deposits and current accounts of BNB customers as a result of using negative reference interest rates amounted to BGN 57,927 thousand.

As of 31 December 2023, the BNB did not report interest expenses on current accounts and deposits, including interest paid on deposits and current accounts with foreign correspondents as a result of using negative reference interest rates (31 December 2022: BGN 93,408 thousand). Interest expenses on deposits and current accounts of BNB customers as a result of using positive reference interest rates amounted to BGN 523,035 thousand (31 December 2022: BGN 34,302 thousand).

BGN 8700 thousand interest paid on the technical account of the national system component TARGET2-BNB at the ECB (as of 31 December 2022: BGN 10,534 thousand) are included as a result of using positive reference interest rates.

As at 31 December 2023 and as of 31 December 2022 there were no interest expenses paid on government and other organisations' deposits in foreign currency.

8. Net Gains/(Losses) from Financial Assets and Liabilities at Fair Value through Profit or Loss

(BGN'000)

	31 December 2023	31 December 2022
Net (losses) from operations in securities	(20,961)	(210,016)
Net gains/(losses) from operations in foreign currency	(713)	(1,072)
Net revaluation gains/(losses) on futures	328	(328)
Net revaluation gains/(losses) on securities	133,475	(72,707)
Net revaluation (losses)/gains on foreign currency assets and liabilities	(2,258)	688
Net revaluation gains on gold	431,936	241,929
Provisions for expected credit losses	-	(5,460)
	541,807	**(46,966)**

Net gains/(losses) from financial assets and liabilities carried at fair value through profit or loss as at 31 December 2023 were largely attributable to revaluation of gold of BGN 431,936 thousand due to an increase in the market price of gold, from BGN 3323.11 *per* troy ounce as of 31 December 2022 to BGN 3648.48 as of 31 December 2023, or an increase by 9.8 per cent.

Over the reporting period, German government bond yields in the sector below two years increased significantly and declined in the longer-term maturity sectors (including the two-year sector). Similar dynamics was observed in the yields of the other authorised issuers of euro-denominated bonds. Most of the BNB securities have a maturity of significantly below one year and for them the increases in the short end of the yield curve were favourable because following their maturity they were reinvested at higher yields. For longer-term bonds, the decline in yields was also positive, as it led to an increase in their market value.

Net losses from operations in securities amounted to BGN 20,961 thousand (31 December 2022: BGN 210,016 thousand).

The net effect from revaluation of securities resulting from all market movements in 2023 was positive: BGN 133,475 thousand. It was also driven by the yield to maturity.

9. Other Operating Income

(BGN'000)

	31 December 2023	31 December 2022
Income from subsidiaries	41,144	33,048
Income from associates	2,634	959
Income from sale of coins	6,343	20,461
Dividend income	10,224	11,834
Other income, net	1,157	1,404
IAS 37 Provisions	-	(29,361)
	61,502	**38,345**

In 2023, the BNB received a dividend payment from BNB's participation in BNB Printing Works AD amounting to BGN 3338 thousand and BORICA AD of BGN 1444 thousand.

In 2023, the BNB received a dividend payment of BGN 5441 thousand for its equity stake in the Bank for International Settlements (BIS).

Other net income includes financial income from subsidiaries of BGN 447 thousand, income from reallocated remuneration from the ECB in relation to TARGET2 of BGN 203 thousand.

In 2023 the amount of accrued provisions pursuant to IAS 37 was updated in relation to lawsuits filed against the BNB relating to alleged compensation for delayed payment of deposits or for challenging transfers by customers of Corporate Commercial Bank AD (in bankruptcy), ref. note 28.

10. General Administrative Expenses

(BGN'000)

	31 December 2023	31 December 2022
Staff expenditure	72,354	61,290
Administrative expenses	71,138	66,274
Depreciation	19,375	18,699
Other expenses	4,351	3,216
	167,218	**149,479**

The number of employees of the Bank and its subsidiaries is 1184 as of 31 December 2023 (31 December 2022: 1152), including the BNB staff of 938 (31 December 2022: 910).

Staff expenditure include salaries, social and health insurance costs charged under the local legislation provisions as at 31 December 2023, and social activities costs, respectively for the BNB: BGN 61,758 thousand (31 December 2022: BGN 52,294 thousand), for the BNB Printing Works AD: BGN 7591 thousand (31 December 2022: BGN 6615), and for the Bulgarian Mint EAD: BGN 3005 thousand (31 December 2022: BGN 2381 thousand).

Staff expenditure includes expenses for remunerations paid to the BNB Governing Council members of BGN 1749 thousand as of 31 December 2023 (31 December 2022: BGN 1547 thousand), presented as follows:

(BGN'000)

	31 December 2023	31 December 2022
Total gross remuneration expenses*	1,749	1,547
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**	524	462
Expenses on BNB Governing Council members' retirement/ termination benefits, including under Article 224 of the Labour Code	273	19
Total gross remuneration paid to the BNB Governing Council members	**2,022**	**1,566**

* Remunerations are before taxation.
** For more information see the BNB Press Release of 30 July 2015: https://bnb.bg/AboutUs/PressOffice/POPressReleases/POPRDate/PR_20150730_1_EN.

With the adoption of the BNB budget for 2023, the amount of monthly remunerations of the Governing Council members is set as follows: Governor – BGN 23,036; Deputy Governors– BGN 19,745; other Governing Council members – BGN 6582.

Staff retirement liabilities calculated based on actuarial valuation and pursuant to IAS 19 'Employee Benefits' are presented, as follows:

(BGN'000)

	2023	2022
Defined benefit liabilities as of 1 January	**5,800**	**5,066**
Plan benefits paid	(379)	(269)
Current service cost	749	652
Interest expenses	137	17
Remeasurements	-	-
Actuarial (gain)/loss arising from experience adjustment	799	377
Actuarial (gain)/loss arising from change in demographic assumptions	(3)	150
Actuarial (gain)/loss arising from change in financial assumptions	(116)	(183)
Actuarial loss recognised in expenses	3	(10)
Defined benefit liabilities as at 31 December	**6,990**	**5,800**

Costs recognised in profit or loss

(BGN'000)

	31 December 2023	31 December 2022
Current service cost	749	652
Interest expense	137	17
Actuarial losses	-	(10)
Remeasurements	3	-
Total	889	659

Actuarial Assumptions

The key actuarial assumptions as at the Financial Statements date are the following (weighted average):

(per cent)

	31 December 2023	31 December 2022
Discount interest rate as at 31 December	4.03	1.85
Future salary growth	9.00	7.00

(BGN'000)

Distribution of BNB staff liabilities (subsidiaries excluded) by residual term	31 December 2023	31 December 2022
Up to 1 year	1,041	788
From 1 to 3 years	733	623
From 3 to 5 years	667	494
From 5 to 10 years	1,200	953
Over 10 years	2,350	2,094
Total	**5,991**	**4,952**

Administrative expenses include the BNB's currency circulation expenses of BGN 29,757 thousand as of 31 December 2023 (31 December 2022: BGN 30,154 thousand) and international audit expenses of BGN 110 thousand (31 December 2022: BGN 110 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 (amended; Darjaven Vestnik, issue 83 of 2022). The total amount of fees to cover the administrative costs of the BNB arising from the function of the resolution of credit institutions amounts to BGN 3012 thousand.

11. Cash and Deposits in Foreign Currency

(BGN'000)

	31 December 2023	31 December 2022
Cash in foreign currency	246,348	1,857,761
Current accounts in other banks	25,232,339	47,794,839
incl. provisions for expected credit losses under IFRS 9	*(3,431)*	*(9,379)*
Deposits in foreign currency	11,703,125	9,093,708
incl. provisions for expected credit losses under IFRS 9	*(2,717)*	*(3,956)*
	37,181,812	**58,746,308**

Cash and deposits in foreign currencies with correspondents are disclosed, as follows:

(BGN'000)

	31 December 2023	31 December 2022
Euro area residents		
In EUR	27,254,384	49,403,242
incl. provisions for expected credit losses under IFRS 9	*(5,430)*	*(12,194)*
In other currencies	-	-
incl. provisions for expected credit losses under IFRS 9	-	-
	27,254,384	**49,403,242**
Non-euro area residents		
In EUR	6,360,349	5,628,087
incl. provisions for expected credit losses under IFRS 9	*(718)*	*(1,110)*
In other currencies	3,567,079	3,714,979
incl. provisions for expected credit losses under IFRS 9	-	*(31)*
	9,927,428	**9,343,066**
	37,181,812	**58,746,308**

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 2023	31 December 2022
Investment graded deposits by the counterparty's credit rating	*A-1+*	6,217,801	2,938,166
	incl. provisions for expected credit losses under IFRS 9	*(987)*	*(551)*
	A-1	5,469,547	6,135,496
	incl. provisions for expected credit losses under IFRS 9	*(1,730)*	*(3,405)*
		11,687,348	**9,073,662**

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 2023		31 December 2022	
	'000 troy ounces	BGN'000	'000 troy ounces	BGN'000
Gold bullion in standard form	513	1,871,827	513	1,704,898
Gold deposits in standard form	801	2,920,636	800	2,657,893
incl. provisions for expected credit losses under IFRS 9		*(879)*		*(1,098)*
Gold in other form	15	53,178	15	48,435
Other precious metals		2,364		2,534
		4,848,005		**4,413,760**

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 53,178 thousand (BGN 48,435 thousand as of 31 December 2022).

Other precious metals include silver commemorative coins of BGN 42 thousand and platinum commemorative coins of BGN 2322 thousand (BGN 2491 thousand as of 31 December 2022).

13. Financial Assets at Fair Value through Profit and Loss

(BGN'000)

Securities at fair value through profit or loss	31 December 2023	31 December 2022
Foreign treasury bills, notes and bonds	39,793,187	11,800,033
Total	**39,793,187**	**11,800,033**

Securities comprise of both coupon and discount securities denominated in euro. The coupon interest of the EUR-denominated securities was 0.06 per cent as of 31 December 2023 (31 December 2022: 0.22 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 2023	31 December 2022
Investment graded securities by the issue/issuer credit rating	*AAA*	25,127,320	10,053,350
	AA+	8,443,622	958,323
	AA	5,715,576	788,360
	A	506,669	-
		39,793,187	**11,800,033**

The BNB maximum exposure to credit risk is equivalent to the book value of securities reported at fair value through profit or loss.

14. Financial Assets at Fair Value in Other Comprehensive Income

(BGN'000)

	31 December 2023	31 December 2022
Republic of Bulgaria's quota in the IMF	2,129,116	2,187,303
Equity investments in international financial institutions	31,596	32,246
Investments in associates	23,506	29,790
	2,184,218	**2,249,339**

The Republic of Bulgaria's quota in the IMF is SDR 896,300 thousand (31 December 2022: SDR 896,300 thousand). The reserve tranche on the Republic of Bulgaria's quota in the IMF was BGN 233,094 thousand (31 December 2022: BGN 239,464 thousand). The IMF pays remuneration (interest) to those members that have a remunerated reserve tranche position, at an average rate of 3.81 per cent (31 December 2022: 1.17 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 the BIS is paid up. As of 31 December 2023 the current value of 10,000 thousand shares in SDR amounts to BGN 23,755 thousand while as of 31 December 2022 it was BGN 24,404 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 of 31 December 2023 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 following the withdrawal of the United Kingdom from the EU. As of 31 December 2023, 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. From 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.

In 2023, the fixed capital of Mint AD was increased from BGN 1,260,000 to BGN 20,000,000 by issuing 18,740 new ordinary, registered voting shares with a nominal value of BGN 1000 per share. The increase was made through a cash contribution of BGN 9,821,000 and at the expense of a reserve set up in previous years.

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	Shareholding, 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 2023, the assets with a right of use were BGN 15 thousand (31 December 2021: BGN 28 thousand) regarding the purchase of a vehicle by the Bulgarian Mint EAD under the financial lease conditions.

(BGN'000)

	Land and buildings	Plant and equipment	IT equipment	Office equipment	Right of use asset	Other equipment (including motor vehicles)	Assets under construction	Total
As of 1 January 2023	**199,452**	**109,639**	**55,893**	**9,763**	**62**	**8,116**	**15,814**	**398,739**
Additions	-	21,647	17	12	-	2	6,423	28,101
Disposals	-	(302)	(4,777)	(195)	-	-	(13,603)	(18,877)
Transfers	2,911	1,287	660	73	-	133	(5,064)	-
Revaluation	-	-	-	-	-	-	-	-
As of 31 December 2023	**202,363**	**132,271**	**51,793**	**9,653**	**62**	**8,251**	**3,570**	**407,963**
Depreciation and impairment loss								
As of 1 January 2023	(82,057)	(75,394)	(48,580)	(8,645)	(34)	(7,018)	-	(221,728)
Charge for the period	(5,697)	(5,348)	(3,884)	(127)	(13)	(319)	-	(15,388)
On disposals	-	301	4,777	196	-	-	-	5,274
Revaluation	-	-	-	-	-	-	-	-
As of 31 December 2023	**(87,754)**	**(80,441)**	**(47,687)**	**(8,576)**	**(47)**	**(7,337)**	**-**	**(231,842)**
Net book value as of 31 December 2023	**114,609**	**51,830**	**4,106**	**1,077**	**15**	**914**	**3,570**	**176,121**
Net book value as of 31 December 2022	**117,395**	**34,245**	**7,313**	**1,118**	**28**	**1,098**	**15,814**	**177,011**
As of 1 January 2022	**196,235**	**111,652**	**57,173**	**9,862**	**62**	**8,111**	**6,983**	**390,078**
Additions	-	1,239	25	29	-	1	15,925	17,219
Disposals	-	(2,023)	(7,190)	(173)	-	-	(85)	(9,471)
Transfers	-	1,075	5,885	45	-	4	(7,009)	-
Revaluation	3,217	(2,304)	-	-	-	-	-	913
As of 31 December 2022	**199,452**	**109,639**	**55,893**	**9,763**	**62**	**8,116**	**15,814**	**398,739**
Depreciation and impairment loss								
As of 1 January 2022	(77,380)	(76,019)	(51,600)	(8,688)	(21)	(6,659)	-	(220,367)
Charge for the period	(5,710)	(4,598)	(4,170)	(130)	(13)	(359)	-	(14,980)
On disposals	-	1,966	7,190	173	-	-	-	9,329
Revaluation	1,033	3,257	-	-	-	-	-	4,290
As of 31 December 2022	**(82,057)**	**(75,394)**	**(48,580)**	**(8,645)**	**(34)**	**(7,018)**	**-**	**(221,728)**
Net book value as of 31 December 2022	**117,395**	**34,245**	**7,313**	**1,118**	**28**	**1,098**	**15,814**	**177,011**

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 2023, 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 value of land and buildings on the Bank's balance sheet fairly reflects their market value. The carrying amount of fully amortised tangible fixed assets as of 31 December 2023 was BGN 81,261 thousand (31 December 2022: BGN 80,595 thousand).

16. Intangible Assets

(BGN'000)

	Software	Other intangible assets	Development costs	Total
As of 1 January 2023	**64,891**	**168**	**1,408**	**66,467**
Additions	-	-	9,401	9,401
Disposals	(2,611)	(4)	-	(2,615)
Transfers	10,573	-	(10,573)	-
As of 31 December 2023	72,853	164	236	73,253
Depreciation and impairment loss				
As of 1 January 2023	**(56,898)**	**(154)**	-	**(57,052)**
Charge for the period	(3,982)	(5)	-	(3,987)
On disposals	2,597	4	-	2,601
As of 31 December 2023	**(58,283)**	**(155)**	-	**(58,438)**
Net book value as of 31 December 2023	**14,570**	**9**	**236**	**14,815**
Net book value as of 31 December 2022	**7,993**	**14**	**1,408**	**9,415**

As of 31 December 2023, software includes licenses purchased by the BNB to the total amount of BGN 3417 thousand (31 December 2022: BGN 1048 thousand), and software products to the amount of BGN 7155 thousand (31 December 2022: BGN 1091 thousand).

(BGN'000)

	Software	Other intangible assets	Development costs	Total
As of 1 January 2022	**65,205**	**179**	**361**	**65,745**
Additions	19	2	3,186	3,207
Disposals	(2,472)	(13)	-	(2,485)
Transfers	2,139	-	(2,139)	-
As of 31 December 2022	64,891	168	1,408	66,467
Depreciation and impairment loss				
As of 1 January 2022	**(55,653)**	**(162)**	-	**(55,815)**
Charge for the period	(3,714)	(5)	-	(3,719)
On disposals	2,469	13	-	2,482
As of 31 December 2022	**(56,898)**	**(154)**	-	**(57,052)**
Net book value as of 31 December 2022	**7,993**	**14**	**1,408**	**9,415**
Net book value as of 31 December 2020	**9,552**	**17**	**361**	**9,930**

As of 31 December 2022, software includes licenses purchased by the BNB to the total amount of BGN 1048 thousand (31 December 2021: BGN 4872 thousand), and software products to the amount of BGN 1091 thousand (31 December 2021:BGN 1044 thousand).

17. Other Assets

(BGN'000)

	31 December 2023	31 December 2022
Cash held by subsidiaries with local banks	29,983	25,348
Investments of subsidiary undertakings in joint ventures and associates	11,275	10,701
Commemorative coins for sale	396	499
Inventories	23,841	25,874
Accounts receivable	4,441	1,455
Deferred charges	2,219	1,528
Other receivables	320	1,254
	72,475	66,659

Cash held by subsidiaries with local banks comprise BGN 21,617 thousand of BNB Printing Works AD and BGN 8366 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 2023	31 December 2022
Banknotes in circulation	28,869,984	26,865,628
Coins in circulation	592,072	559,745
	29,462,056	**27,425,373**

19. Liabilities to Banks and Other Financial Institutions

(BGN'000)

	31 December 2023	31 December 2022
Demand deposits from banks and other financial institutions		
– in BGN	28,204,004	16,192,314
– in foreign currency	2,199,717	10,599,081
	30,403,721	**26,791,395**

Demand deposits include BGN 15,448,125 thousand representing the required reserves, which all local banks are required to maintain on accounts with the BNB (31 December 2022: BGN 10,773,020 thousand).

The allocation of minimum required reserves of commercial banks in the BNB is in accordance with the BNB Ordinance No 21 of 26 November 2015, as last amended in Darjaven Vestnik No 42 of 2023, effective as of 1 July 2023.

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 2,738,220 thousand (31 December 2022: BGN 203,211 thousand).

20. Liabilities to Government Institutions and Other Borrowings

(BGN'000)

	31 December 2023	31 December 2022
Current accounts		
– in BGN	7,426,285	8,148,860
– in foreign currency	3,644,829	3,528,895
	11,071,114	**11,677,755**

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 15 June 2023. 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 2023, obligations to pay interests of BGN 19,427 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 2023 amount to BGN 1,890,699 thousand, or SDR 795,933 thousand (31 December 2022: BGN 1,942,371 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 levs amounting to BGN 5402 thousand (31 December 2022: BGN 5617 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.

22. Other Liabilities

(BGN'000)

	31 December 2023	31 December 2022
Funds of EU institutions and bodies	358,214	305,103
Funds of Banks Resolution Fund	463,974	472,989
Salaries and social security payable	9,727	8,696
Deferred income	1,401	1,424
Other Liabilities	249,804	215,743
	1,083,120	**1,003,955**

Funds of EU institutions and bodies' include European Commission's funds and European Investment Bank's funds. Pursuant to Article 9 of Council Regulation (EC, Euratom) 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 2023, the funds on these accounts were BGN 358,214 thousand (31 December 2022: BGN 305,103 thousand).

As from 27 July 2020, in line with the requirements of § 56, paragraph 1 of the Transitional and Final Provisions of the Law on Amendment to 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's accounts. As of 31 December 2023, the funds amounted to BGN 463,974 thousand (31 December 2022: BGN 472,989 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 2023, profit distribution in accordance with the profit distribution policy disclosed in note 5 (j) is as follows:

(BGN'000)

	31 December 2023	31 December 2022
Profit/(loss) for the period	**1,815,895**	**(16,070)**
Allocation to special reserve under Article 36 of the LBNB:		
Unrealised (profit)/ from gold revaluation	(431,936)	(241,929)
Unrealised loss from revaluation of financial assets at fair value through profit or loss	(133,475)	72,707
Unrealised (profit)/loss from foreign currency revaluation	2,258	1,072

(BGN'000)

Other unrealised loss/(gain)	(328)	(1,432)
Result after allocation to special reserve including:	**1,252,414**	**(185,652)**
Allocation (from)/to Reserve Fund under Article 8 of the LBNB	*310,760*	*(191,073)*
Result from consolidation and non-controlling interest	*9,375*	*5,421*
Allocation to a special purpose fund under Article 8 of the LBNB	*272,279*	-
Planned contribution to the state budget	*660,000*	-

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 government holds the remaining 4.4 per cent of the company's capital.

25. Monetary Liabilities and Gross International Reserves

(BGN'000)

	31 December 2023	31 December 2022
Gross International Reserves		
Cash and foreign currency denominated deposits	37,181,812	58,746,308
Monetary gold and other instruments in gold	4,792,463	4,362,791
Security investments	39,793,187	11,800,033
Equity investments and quota in the IMF	233,094	239,464
	82,000,556	**75,148,596**
Monetary liabilities		
Banknotes and coins in circulation	29,462,056	27,425,373
Liabilities to banks and other financial institutions	29,609,376	25,638,156
Liabilities to government institutions	10,197,108	11,319,236
Other liabilities	2,026,564	1,816,861
	71,295,104	**66,199,626**
Surplus of gross international reserves over monetary liabilities	10,705,452	8,948,970

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 2023, 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 2023, 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 2023, the par value of the government securities held in custody was BGN 10,615 million (31 December 2022: BGN 10,965 million).

Oberthur Fiduciaire AD

BNB Printing Works AD, as a company with a significant holding (holds 30 per cent of company's shares), and the Bulgarian National Bank (a majority owner of Printing Works of BNB AD), as related parties of the company, carried out sales and/or purchases of services and materials at contract prices with the company in 2023.

27. Subsidiaries Included in Consolidated Financial Statements

(per cent)

Ownership interest	31 December 2023	31 December 2022
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 the net result of BGN 1708 thousand from the Bulgarian Mint EAD (31 December 2022: BGN 586 thousand) and profit of BGN 5033 thousand from the BNB Printing Works AD (31 December 2022: BGN 3876 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 5,000. Twenty-five per cent of the equity investment in the BIS is paid up. The capital subscribed but not paid in is with the option to be paid in within three months following a decision of the BIS Board of Governors. The contingent amount as of 31 December 2023 is BGN 71,264 thousand (31 December 2022: BGN 73,211 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 1,909,569 thousand.

3) Capital commitments

As of 31 December, 2023 the Bank has committed to BGN 18,999 thousand to purchase non-current assets (31 December 2022: BGN 8677 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 around BGN 48.1 million (31 December 2022: BGN 73.6 million).

Based on the Bank's assessment of the likely outcome of the legal proceedings, in 2023 provisions amounting to BGN 12,738 thousand were made pursuant to IAS 37 (2022: BGN 29,361 thousand). Assessments are periodically revised in order to reflect developments on all legal disputes and the circumstances related thereto.

In 2022, two identical cases against the BNB before a Federal Court of the State of New York were closed with final decisions of the federal court due to lack of jurisdiction. They were related to alleged compensation of about USD 200 million each for actions of Corporate Commercial Bank AD (in bankruptcy) conservators appointed in 2014.

29. Events That Occurred after the Reporting Date

The Law on the Bulgarian National Bank (the new Law on the BNB), adopted on 1 February 2024 by the 49th National Assembly, was published on 13 February 2024 in the Darjaven Vestnik, issue 13. It aims to ensure the legal integration of the Bulgarian National Bank into the Eurosystem upon the introduction of the euro as the currency of the Republic of Bulgaria. The new Law on the BNB shall enter into force on the day of the introduction of the euro, except for a few provisions that should ensure the preparation of the BNB for the introduction of the euro. It provides for the statutory capital of the BNB to be EUR 1 billion. In order to ensure the implementation of this provision, the Governing Council of the BNB has adopted a resolution on the establishment of a special purpose fund 'Increase in the BNB statutory capital'. The implementation of the other provisions of the new law will have an impact on the accounting policy and financial reporting of the Bulgarian National 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 2023

Reporting and Budget

RESOLUTION No 146 of 13 April

The Report on the Implementation of the Budget of the Bulgarian National Bank for 2022 was approved at first reading.

RESOLUTION No 147 of 13 April

The BNB Annual Report for 2022 was approved at first reading.

RESOLUTION No 164 of 26 April

The BNB Governing Council approved the report on the implementation of the BNB budget for 2022 to be included in the Bank's Annual Report for 2022.

RESOLUTION No 165 of 26 April

The BNB Annual Report for 2022 was approved.

RESOLUTION No 340 of 20 July

The BNB Governing Council determined the individual amount of fees to cover administrative costs of the BNB for 2022 arising from supervisory and resolution functions.

RESOLUTION No 438 of 18 October

The BNB Governing Council determined an estimated individual amount of fees to cover administrative costs of the BNB for 2023 arising from supervisory and resolution functions.

RESOLUTION No 476 of 2 November

The Report on BNB Budget Implementation as of 30 June 2023 was approved.

RESOLUTION No 477 of 2 November

The BNB Report for January–June 2023 was approved on first reading.

RESOLUTION No 496 of 22 November

The BNB Report for January–June 2023 was approved.

RESOLUTION No 497 of 22 November

The BNB Budget for 2024 was approved.

RESOLUTION No 565 of 21 December

The BNB Governing Council approved the draft BNB Budget for 2024.

Minimum Required Reserves

RESOLUTION No 166 of 26 April

Ordinance on Amendment of BNB Ordinance No 21 on Minimum Required Reserves Maintained with the Bulgarian National Bank by Banks was approved.

Gross International Reserves

RESOLUTION No 5 of 12 January

The BNB Governing Council took note of the selected benchmark for dynamic asset allocation in the first quarter of 2023.

RESOLUTION No 95 of 7 March

The BNB Governing Council took note of the International Reserve Management Report in 2022.

RESOLUTION No 169 of 26 April

The BNB Governing Council took note of the selected benchmark for dynamic asset allocation in the second quarter of 2023.

RESOLUTION No 219 of 18 May

The BNB Governing Council took note of the International Reserve Management Report in the first quarter of 2023.

RESOLUTION No 304 of 4 July

The BNB Governing Council took note of the selected benchmark for dynamic asset allocation in the third quarter of 2023.

RESOLUTION No 422 of 26 September

The BNB Governing Council took note of the International Reserve Management Report in the second quarter of 2023.

RESOLUTION No 451 of 18 October

The BNB Governing Council took note of the selected benchmark for dynamic asset allocation in the fourth quarter of 2023.

RESOLUTION No 510 of 22 November

The BNB Governing Council took note of the International Reserve Management Report in the third quarter of 2023.

RESOLUTION No 575 of 21 December

The BNB Governing Council set the risk tolerance for 2024 related to the Bank's gross international reserves.

Payment Systems and Payment Oversight

RESOLUTION No 70 of 23 February

The BNB 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 of 18 April 2018 on the Terms and Procedure for Opening Payment Accounts, Executing Payment Transactions and Using Payment Instruments on current accounts as of 31 December 2022 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 67 of 23 February

The BNB Governing Council took note of the Annual Report of the Conciliation Commission for 2022.

The BNB Governing Council took note of the Annual Report of the Sectoral Conciliation Commission on Financial Services for 2022.

RESOLUTION No 226 of 18 May

The Governing Council of the BNB adopted an Ordinance on Amendment of 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 518 of 22 November

The Governing Council licensed Cash Express Service OOD, a financial house with registered office and head office in 1000 Sofia, Sredets district, 22 Venelin Str., ap. 5, to provide payment services under Article 4, item 6 of the LPSPS.

***

Between January and December 2023, the BNB Governing Council adopted one resolution on an application for approval, three resolutions on licence applications/amendments, and 11 resolutions regarding other payment oversight powers.

Cash Circulation

RESOLUTION No 19 of 24 January

The BNB Governing Council took note of the availability and developments in the BNB Strategic Stock of Banknotes for 2022.

RESOLUTION No 20 of 24 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.

As of 1 February 2023, commemorative banknotes of BGN 20 nominal value, issued in 2005, will be put for sale for numismatic purposes at a price other than their nominal value.

The BGN 20 commemorative banknotes, issue 2005, will be sold at BNB tills at BGN 31.20 (thirty-one levs and twenty stotinkas).

RESOLUTION No 40 of 7 February

The BNB Governing Council decided to withdraw from circulation commemorative coins issued in 2017, which ceased to be legal tender on 20 February 2023.

Commemorative coins issued in 2017 will be exchangeable at BNB tills at nominal value with no limit on the quantity free of charge until 31 December 2024.

RESOLUTION No 41 of 7 February

The price at which the silver commemorative coin '100 Years since the Formation of the Bulgarian Olympic Committee', issue 2023, will be sold at the BNB tills is BGN 132 (one hundred and thirty-two) levs.

RESOLUTION No 121 of 29 March

The BNB Governing Council decided to put into circulation, as of 21 August 2023, a copper commemorative coin '125 Years since the Birth of Dimitar Talev' of the Bulgarian Artists series.

RESOLUTION No 249 of 1 June

The price at which the copper commemorative coin '125 Years since the Birth of Dimitar Talev', issue 2023, will be sold at BNB tills is BGN 54 (fifty-four levs).

RESOLUTION No 250 of 1 June

The BNB Governing Council decided to put into circulation, as of 25 September 2023, a gold commemorative coin '100 Years of the Faculty of Theology'.

RESOLUTION No 266 of 15 June

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 267 of 15 June

The BNB Governing Council adopted the Commemorative Coin and Banknote Production Programme for 2024.

The BNB Governing Council took note of the Preliminary Commemorative Coin and Banknote Production Programme for 2025 and 2026 as a basis for preparing annual programmes.

RESOLUTION No 332 of 20 July

The BNB Governing Council approved amendments to the General Terms and Conditions of the Bulgarian National Bank for Exchanging Banknotes and Coins at an Announced Value, the General Terms and Conditions of the Bulgarian National Bank for Organising or Assisting in Training of Employees Working with Banknotes and Coins under Ordinance No 18 of the BNB and the Tariff of the Fees Charged by the Bulgarian National Bank for Exchanging Banknotes and Coins, effective as of 1 August 2023.

RESOLUTION No 333 of 20 July

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 334 of 20 July

The gold commemorative coin '100 Years of the Faculty of Theology', issue 2023, will be sold at BNB tills at BGN 1470 (one thousand four hundred and seventy levs).

RESOLUTION No 335 of 20 July

The BNB Governing Council decided to put into circulation on 20 November 2023 a partially gold-plated silver commemorative coin 'Tsar Mikhail III Shishman' of the Medieval Bulgarian Rulers series.

RESOLUTION No 336 of 20 July

'Virgin Mary – Golden Apple' will be minted according to the approved artistic design made by the Bulgarian Mint EAD.

The BNB Governing Council determined specifications for the four types of gold commemorative coins 'Virgin Mary – Golden Apple', issue 2024, with nominal values of BGN 10, 20, 50 and 100.

RESOLUTION No 458 of 18 October

The partially gold-plated silver commemorative coin 'Tsar Mikhail III Shishman', issue 2023, will be sold at BNB tills at BGN 144 (one hundred and forty-four levs).

RESOLUTION No 459 of 18 October

The BNB Governing Council decided to put into circulation on 2 January 2024 a gold commemorative coin 'Virgin Mary – Golden Apple' with a nominal value of BGN 10.

RESOLUTION No 460 of 18 October

The BNB Governing Council decided to put into circulation on 2 January 2024 a gold commemorative coin 'Virgin Mary – Golden Apple' with a nominal value of BGN 20.

RESOLUTION No 461 of 18 October

The BNB Governing Council decided to put into circulation on 2 January 2024 a gold commemorative coin 'Virgin Mary – Golden Apple' with a nominal value of BGN 50.

RESOLUTION No 462 of 18 October

The BNB Governing Council decided to put into circulation on 2 January 2024 a gold commemorative coin 'Virgin Mary – Golden Apple' with a nominal value of BGN 100.

RESOLUTION No 463 of 18 October

The BNB Governing Council set the final ranking in the anonymous competition for the gold commemorative coin 'St. Peter and St. Paul' of the Bulgarian Iconography series, issue 2024, and chose the design by Plamen Chernev and Preslav Chernev. It also determined coin specifications.

RESOLUTION No 464 of 18 October

The BNB Governing Council set the final ranking in the anonymous competition for the silver commemorative coin '100 Years of Athletics in Bulgaria', issue 2024, and chose the design by Silviya Borisova. It also determined coin specifications.

RESOLUTION No 465 of 18 October

The BNB Governing Council set the final ranking in the anonymous competition for the silver commemorative coin '200 Years since the Publication of the Fish Primer' of the Bulgarian National Revival series, issue 2024, and chose the design by Vasilena Stancheva. It also determined coin specifications.

RESOLUTION No 466 of 18 October

The BNB Governing Council set the final ranking in the anonymous competition for the silver commemorative coin 'The Bulgarian Bagpipe' of the Bulgarian Customs and Traditions series, issue 2024, and chose the design by Svetlin Balezdrov and Stoyan Dechev. It also determined coin specifications.

RESOLUTION No 483 of 2 November

The BNB Governing Council set the final ranking in the anonymous competition for the copper commemorative coin '125 Years since the Birth of Pancho Vladigerov' of the Bulgarian Artists series, issue 2024, and chose the design by Svetlin Balezdrov. It also determined coin specifications.

RESOLUTION No 512 of 22 November

The price at which the gold commemorative coin 'Virgin Mary – Golden Apple' with a nominal value of BGN 10, issue 2024, will be sold at BNB tills is BGN 1438 (one thousand four hundred and thirty-eight levs).

RESOLUTION No 513 of 22 November

The price at which the gold commemorative coin 'Virgin Mary – Golden Apple' with a nominal value of BGN 20, issue 2024, will be sold at BNB tills is BGN 2611 (two thousand six hundred and eleven levs).

RESOLUTION No 514 of 22 November

The price at which the gold commemorative coin 'Virgin Mary – Golden Apple' with a nominal value of BGN 50, issue 2024, will be sold at BNB tills is BGN 3823 (three thousand eight hundred and twenty-three levs).

RESOLUTION No 515 of 22 November

The price at which the gold commemorative coin 'Virgin Mary – Golden Apple' with a nominal value of BGN 100, issue 2024, will be sold at BNB tills is BGN 5057 (five thousand fifty-seven levs).

Maintaining Banking System Stability and Protecting Depositor Interests

RESOLUTION No 7 of 12 January

The BNB complies with the Guidelines amending Guidelines EBA/GL/2018/10 on disclosure of non-performing and forborne exposures (EBA/GL/2022/13) issued by the European Banking Authority and published on its official website.

RESOLUTION No 54 of 14 February

The BNB Governing Council authorised the transformation of KBC Bank Bulgaria EAD, with registered office and head office in Sofia, Losenets district, Expo 2000, 55 Nikola Vaptsarov Blvd., by merger into United Bulgarian Bank AD, with registered office and head office in Sofia, Triaditsa district, No 89B Vitosha Blvd.

RESOLUTION No 86 of 28 February

The BNB Governing Council agreed with the draft decision of the Single Resolution Board granting prior authorisations for the reduction by replacing eligible liabilities instruments under Article 78a(1)(a) of Regulation (EU) No 575/2013 in relation to a written application from KBC Group N.V. regarding KBC Group N.V. and KBC Bank N.V.

RESOLUTION No 110 of 21 March

The BNB Governing Council agreed with the SRB draft decision to grant prior authorisation for the reduction without replacement of eligible liabilities instruments under Article 78a(1)(b) of Regulation (EU) No 575/2013, in relation to a written application by KBC Ireland Plc.

RESOLUTION No 111 of 24 March

The BNB Governing Council expressed its disagreement with the draft proposal of the Single Resolution Board on setting a preliminary minimum requirement for own funds and eligible liabilities (MREL) on an individual basis for DSK Bank AD.

RESOLUTION No 112 of 28 March

The BNB Governing Council disagreed with the draft decision of the Single Resolution Board on the approval of a joint decision on a group resolution plan for 2022 and assessment of KBC Group N.V. and its subsidiaries' resolvability and on setting the minimum requirement for own funds and eligible liabilities of the resolution entity KBC Group N.V. and its subsidiaries, including United Bulgarian Bank AD.

RESOLUTION No 108 of 20 March

The BNB Governing Council set the countercyclical capital buffer rate applicable to credit risk exposures in the Republic of Bulgaria at 2.0 per cent in the second quarter of 2024.

RESOLUTION No 128 of 29 March

The BNB Governing Council took note of the Report on the State of the Banking System (fourth quarter of 2022).

It also took note of the publication 'Banks in Bulgaria (October – December 2022)'.

RESOLUTION No 175 of 26 April

The Bulgarian National Bank applies as of 30 June 2023 the Guidelines issued on the basis of Article 84(6) of Directive 2013/36/EU specifying criteria for the identification, evaluation, management and mitigation of risks arising from potential changes in interest rates and of the assessment and monitoring of credit spread risk, of institutions' non-trading book activities (EBA/GL/2022/14) issued by the European Banking Authority and published on its official website, except for the sections relating to credit spread that apply as of 31 December 2023.

RESOLUTION No 231 of 18 May

The BNB complies, as of 2 October 2023, with the Guidelines on the use of Remote Customer Onboarding Solutions under Article 13(1) of Directive (EU) 2015/849 (EBA/GL/2022/15) issued by the European Banking Authority and published on its official website.

RESOLUTION No 276 of 15 June

The BNB Governing Council took note of the Report on the State of the Banking System (first quarter of 2023).

It also took note of the publication 'Banks in Bulgaria (January – March 2023)'.

RESOLUTION No 293 of 15 June

The BNB Governing Council set the countercyclical capital buffer rate applicable to credit risk exposures in the Republic of Bulgaria at 2.0 per cent in the third quarter of 2024.

RESOLUTION No 367 of 24 August

The Governing Council complies, as of 3 November 2023, 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 (EBA/GL/2023/03), and Guidelines on policies and controls for the effective management of money laundering and terrorist financing (ML/TF) risks when providing access to financial services (EBA/GL/2023/04) issued by the European Banking Authority and published on its official website.

RESOLUTION No 410 of 26 September

The BNB Governing Council adopted Ordinance on Amendment of BNB Ordinance No 20 of 2019 on the Requirements to the Members of the Management and Control Bodies of a Credit Institution and on the Assessment of the Suitability of Their Members and the Key Function Holders.

RESOLUTION No 411 of 26 September

The BNB Governing Council set the countercyclical capital buffer rate applicable to credit risk exposures in the Republic of Bulgaria at 2.0 per cent in the fourth quarter of 2024.

RESOLUTION No 412 of 26 September

The BNB Governing Council took note of the Report on the State of the Banking System (second quarter of 2023).

The BNB Governing Council took note of the publication 'Banks in Bulgaria' (April–June 2023).

RESOLUTION No 440 of 18 October

Under Article 4, paragraph 2, item 2 of the Law on Bank Deposit Guarantee, Valery Georgiev Dimitrov is appointed Deputy Chairman of the Management Board of the Bulgarian Deposit Insurance Fund for a term of four years.

RESOLUTION No 441 of 18 October

The BNB Governing Council set six other systemically important institutions (O-SII): UniCredit Bulbank AD, United Bulgarian Bank AD, DSK Bank AD, Eurobank Bulgaria AD, First Investment Bank AD and Invest Capital AD pursuant to Article 9, paragraph 11, in relation to paragraphs 1 and 3 and in compliance with the criteria set out in Article 9, paragraph 7 of BNB Ordinance No 8 and the pan-European methodology set out in the guidelines of the European Banking Authority.

The BNB Governing Council set the buffer rate applicable to the total risk exposure amount for O-SII pursuant to Article 11, paragraphs 1 and 3 of BNB Ordinance No 8 on an individual and consolidated basis. In accordance with Article 11, paragraph 4 of BNB Ordinance No 8, the publication of the decision shall be made one month after the notification to the European Systemic Risk Board.

RESOLUTION No 544 of 6 December

As of 7 December 2023, the BNB complies with the Guidelines on overall recovery capacity in recovery planning (EBA/GL/2023/06) issued by the European Banking Authority and published on its official website.

RESOLUTION No 554 of 7 December

The systemic risk buffer rate was set at 3 per cent for all banks, applicable to all risk exposures in Bulgaria.

RESOLUTION No 567 of 21 December

The BNB Governing Council took note of the Report on the State of the Banking System (third quarter of 2023).

The BNB Governing Council took note of the publication 'Banks in Bulgaria' (July– September 2023).

RESOLUTION No 569 of 21 December

The BNB Governing Council set the countercyclical capital buffer rate applicable to credit risk exposures in the Republic of Bulgaria at 2.0 per cent for the first quarter of 2025.

***

In the January to December 2023 period, the Governing Council of BNB adopted:

- 26 resolutions pursuant to Article 11, paragraphs 1 and 3 of the LCI regarding approval 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 related to them;
- 45 resolutions related to the supervisory review and evaluation process pursuant Article 79c of the LCI;
- 14 resolutions under Article 76, paragraph 4 of the LCI on coordinating the choice of an auditor of a credit institution;
- one resolution in connection with an administrative procedure for granting prior approval for the acquisition of a qualifying holding under Article 28 of the LCI;
- 48 resolutions on performed supervisory inspections and other approvals, authorisations and actions on administrative procedures;
- 36 resolutions related to own funds;
- 12 resolutions under Article 71, paragraph 5 of the LCI on the approval of amendments to the Articles of Association of a credit institution.

BNB Activities on Resolution of Credit Institutions

RESOLUTION No 6 of 12 January

The BNB Governing Council determined eligible classes of asset and investment restrictions for market and credit risk and the permitted issuers for each of the asset classes when deciding to invest BRF financial means in the SIA with the BNB for 2023.

RESOLUTION No 74 of 23 February

The BNB Governing Council approved the resolution plan of ProCredit Bank (Bulgaria) EAD for 2021 on an individual basis.

RESOLUTION No 78 of 23 February

The Bulgarian National Bank, as the resolution authority for credit institutions, will comply with the Guidelines for institutions and resolution authorities to complement the resolvability assessment in the transfer strategies (Transferability guidelines) (EBA/GL/2022/11) adopted by the European Banking Authority and published on its official website, as of 1 January 2024.

RESOLUTION No 25 of 24 January

The financial means of the sub-fund under Article 134, paragraph 1, item 1 of the LRRCIIF shall continue to be held in a current account with the BNB for the 1 February – 30 April 2023 period.

The financial means of the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF shall continue to be held in a current account with the BNB for the 1 February – 30 April 2023 period.

RESOLUTION No 138 of 5 April

The BNB Governing Council approved a joint decision on the resolution plan of ProCredit Holding AG & Co. KgaA and its subsidiaries for 2022 and on setting a minimum requirement for own funds and eligible liabilities for ProCredit Bank (Bulgaria) EAD as a resolution entity on an individual basis.

RESOLUTION No 140 of 10 April

The BNB Governing Council disagreed with the draft decision of the Single Resolution Board to approve a joint decision on a group resolution plan for 2022 and an assessment of the resolvability of UniCredit S.p.A. and its subsidiaries and on setting the minimum requirement for own funds and eligible liabilities of UniCredit S.p.A. and its subsidiaries, including UniCredit Bulbank AD as a resolution entity.

RESOLUTION No 149 of 13 April

The BNB Governing Council adopted the Annual Report of the Banks Resolution Fund for 2022.

RESOLUTION No 150 of 13 April

The BNB Governing Council determined the annual contributions of branches of third country credit institutions to the Banks Resolution Fund for 2023 in the amount of BGN 92,162.08.

RESOLUTION No 170 of 26 April

The financial means of the sub-fund under Article 134, paragraph 1, item 1 of the LRRCIIF shall continue to be held in a current account with the BNB for the 1 May – 31 July 2023 period.

The financial means of the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF shall continue to be held in a current account with the BNB for the 1 May – 31 July 2023 period.

RESOLUTION No 172 of 26 April

The BNB Governing Council decided to implement SRB decision SRB/EES/2022/205 setting a minimum requirement for own funds and eligible liabilities 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 221 of 18 May

The BNB Governing Council pursuant to § 56, paragraph 2 of the Transitional and Final Provisions of the Law on Amendment of the Law on the Recovery and Resolution of Credit Institutions and Investment Firms (LRRCIIF) and notification by the Single Resolution Board (SRB) on the SRB Decision of 2 May 2023 on the determination of the annual *ex-ante* contributions of credit institutions to the Single Resolution Fund 2023 (SRB/ES/2023/23) decided to deduct funds available in the sub-fund referred to in Article 134, paragraph 1, item 2 of the LRRCIIF from the obligations of credit institutions to pay *ex-ante* contributions to the Single Resolution Fund for 2023.

RESOLUTION No 223 of 18 May

The BNB Governing Council decided to implement SRB decision SRB/EES/2022/209 on setting a minimum requirement for own funds and eligible liabilities with regard to UniCredit Bulbank AD, in line with the relevant provisions of the Law on the Recovery and Resolution of Credit Institutions and Investment Firms.

RESOLUTION No 240 of 19 May

The Bulgarian National Bank refrains from approving SRB draft decisions to grant a general prior authorisation for the reduction of eligible liabilities instruments pursuant to Article 78a(1), second sub-paragraph of Regulation (EU) No 575/2013 in connection with a written application by Eurobank S.A.

RESOLUTION No 248 of 1 June

The Bulgarian National Bank, as a resolution authority of credit institutions, intends to comply with the Guidelines to resolution authorities on the publication of the write-down and conversion and bail-in exchange mechanic (EBA/GL/2023/01) adopted by the European Banking Authority and published on its official site, as of 1 January 2025.

RESOLUTION No 299 of 26 June

The BNB Governing Council agreed with the SRB draft decision to grant prior authorisation for the reduction without replacement of eligible liabilities instruments under Article 78a(1)(b) of Regulation (EU) No 575/2013, in relation to a written application by KBC Ireland Plc.

RESOLUTION No 327 of 20 July

Pursuant to Article 9, paragraph 1 in conjunction with § 3 of the Transitional and Final Provisions of Ordinance No 44 of the BNB of 28 July 2022 on the Terms and Procedure for Selection of Independent Valuers under Article 55a of the Law on the Recovery and Resolution of Credit Institutions and Investment Firms (LRRCIIF), the BNB announced a procedure on inclusion in the list of independent valuers for carrying out valuations under Articles 55 and 106 of the LRRCIIF in relation to credit institutions and groups, for which the Bulgarian National Bank is the resolution authority.

RESOLUTION No 331 of 20 July

The financial means of the sub-fund under Article 134, paragraph 1, item 1 of the LRRCIIF shall continue to be held in a current account with the BNB for the 1 August – 31 October 2023 period.

The financial means of the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF shall continue to be held in a current account with the BNB for the 1 August – 31 October 2023 period.

RESOLUTION No 349 of 27 July

The BNB Governing Council agreed with the draft decision of the Single Resolution Board granting prior authorisation for the reduction by replacing eligible liabilities instruments under Article 78a(1)(b) of Regulation (EU) No 575/2013, in relation to a written application from the United Bulgarian Bank AD.

RESOLUTION No 421 of 26 September

The BNB does not apply the simplified requirements when preparing resolution plans for 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 432 of 2 October

The Governing Council disapproved the draft decision of the Single Resolution Board on an approval of a joint decision on a resolution plan and assessment of OTP Bank Plc. group resolvability and on setting MREL with regard to OTP Bank Plc. and its subsidiary DSK Bank AD.

RESOLUTION No 450 of 18 October

As of 1 January 2024, the Bulgarian National Bank, as a resolution authority for credit institutions, will comply with Guidelines amending Guidelines EBA/GL/2022/01 on improving resolvability for institutions and resolution authorities under Articles 15 and 16 of Directive 2014/59/EU (Resolvability Guidelines) to introduce a new section on resolvability testing (EBA/GL/2023/05) adopted by the European Banking Authority and published on its official website.

RESOLUTION No 452 of 18 October

The financial means of the sub-fund under Article 134, paragraph 1, item 1 of the LRRCIIF shall continue to be held in a current account with the Bulgarian National Bank for the 1 November 2023 – 31 January 2024 period.

The financial means of the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF shall continue to be held in a current account with the BNB for the 1 November 2023 – 31 January 2024 period.

RESOLUTION No 454 of 18 October

The Governing Council decided to implement the Single Resolution Board Decision SRB/EES/2022/295 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 475 of 26 October

The Governing Council disagreed with the draft decision of the Single Resolution Board on the conditional approval of a resolution plan and assessment of Eurobank Ergasias Services and Holdings S.A. group resolvability (Eurobank Group) and on setting out MREL of Eurobank S.A. as a resolution entity and of its subsidiaries, including Eurobank Bulgaria AD.

RESOLUTION No 533 of 27 November

The BNB Governing Council agreed with the draft decision of the Single Resolution Board granting prior authorisations for the reduction by replacing eligible liabilities instruments under Article 78a(1)(a) of Regulation (EU) No 575/2013 in relation to a written application from KBC Group N.V. regarding KBC Group N.V. and KBC Bank N.V.

RESOLUTION No 534 of 29 November

The BNB Governing Council disapproved a draft joint decision on a resolution plan and resolvability assessment of UniCredit S.p.A. (UniCredit Group) on a preliminary basis and on setting out MREL of the UniCredit Group as a resolution entity and its subsidiaries, including UniCredit Bulbank AD.

RESOLUTION No 535 of 5 December

The BNB Governing Council agreed with the draft decision of the Single Resolution Board granting a general prior authorisation for the reduction of eligible liabilities instruments under Article 78a(1), second sub-paragraph of Regulation (EU) No 575/2013, in relation to a written application from UniCredit S.p.A.

RESOLUTION No 556 of 12 December

The BNB Governing Council agreed with the draft decision of the Single Resolution Board granting prior authorisation for the reduction by replacing eligible liabilities instruments under Article 78a(1)(b) of Regulation (EU) No 575/2013, in relation to a written application from Eurobank S.A.

RESOLUTION No 577 of 21 December

The BNB Governing Council approved the resolution plan of D Commerce Bank AD for 2022.

It set a minimum requirement for own funds and eligible liabilities for D Commerce Bank AD.

RESOLUTION No 578 of 21 December

The BNB Governing Council approved the resolution plan of Texim Bank AD for 2022.

It set a minimum requirement for own funds and eligible liabilities for Texim Bank AD.

RESOLUTION No 579 of 21 December

The BNB Governing Council approved the resolution plan of Tokuda Bank AD for 2022.

It set a minimum requirement for own funds and eligible liabilities for Tokuda Bank AD.

RESOLUTION No 580 of 21 December

The BNB Governing Council approved the resolution plan of Bulgarian-American Credit Bank AD for 2022.

It set a minimum requirement for own funds and eligible liabilities for Bulgarian-American Credit Bank AD.

RESOLUTION No 582 of 21 December

The BNB Governing Council decided to implement the SRB decision (SRB/EES/2023RPC/69) 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 592 of 28 December

The BNB Governing Council approved the resolution plan of First Investment Bank AD (FIB Group) for 2022.

It set a minimum requirement for own funds and eligible liabilities for First Investment Bank AD on a consolidated basis.

RESOLUTION No 593 of 28 December

The BNB Governing Council approved the resolution plan of the Central Cooperative Bank AD group (the CCB bank) for 2022.

It set a minimum requirement for own funds and eligible liabilities for Central Cooperative Bank AD on a consolidated basis.

RESOLUTION No 594 of 28 December

The BNB Governing Council approved the resolution plan of Investbank AD for 2022.

It set a minimum requirement for own funds and eligible liabilities for Investbank AD.

RESOLUTION No 595 of 28 December

The BNB Governing Council approved the resolution plan of International Asset Bank AD for 2022.

It set a minimum requirement for own funds and eligible liabilities for International Asset Bank AD.

RESOLUTION No 596 of 28 December

The BNB Governing Council approved the resolution plan of Bulgarian Development Bank EAD (BDB Group) for 2022.

It set a minimum requirement for own funds and eligible liabilities for Bulgarian Development Bank EAD on a consolidated basis.

RESOLUTION No 597 of 28 December

The BNB Governing Council approved the resolution plan of Allianz Bank Bulgaria AD for 2022.

It set a minimum requirement for own funds and eligible liabilities for Allianz Bank Bulgaria AD.

RESOLUTION No 598 of 28 December

The BNB Governing Council approved the resolution plan of Municipal Bank AD for 2022.

It set a minimum requirement for own funds and eligible liabilities for Municipal Bank AD.

RESOLUTION No 599 of 28 December

The BNB Governing Council approved the resolution plan of the TBI Financial Services B.V. group, the Netherlands (TBI Group) for 2022.

It set a minimum requirement for own funds and eligible liabilities for TBI Bank EAD on a consolidated basis, consistent with the group level resolution.

The Fiscal Agent and State Depository Function

RESOLUTION No 371 of 24 August

The BNB Governing Council adopted Ordinance on Amendment of Ordinance No 5 of the MF and the BNB on the Terms and Procedure for Acquisition, Registration, Redemption and Trade in Government Securities.

RESOLUTION No 372 of 24 August

The BNB Governing Council adopted Ordinance on Amendment of BNB Ordinance No 31 on Government Securities Settlement.

Research

RESOLUTION No 18 of 24 January

The BNB Governing Council took note of the BNB forecast of key macroeconomic indicators for 2022–2024 (prepared on the basis of data as of 30 December 2022) to be published in the Macroeconomic Forecast (December 2022).

RESOLUTION No 42 of 7 February

The BNB Governing Council decided not to award master's degree scholarships in 2023.

The BNB Governing Council decided not to award doctor's degree scholarships in 2023.

RESOLUTION No 73 of 23 February

The BNB Governing Council took note of the assessments of developments in major macroeconomic indicators in the first and second quarters of 2023 to be published in the Economic Review, issue 4 of 2022.

RESOLUTION No 118 of 29 March

The Governing Council of the BNB took note of the BNB Research Plan for 2021–2022 and the BNB Research Plan for 2023–2024.

RESOLUTION No 167 of 26 April

The BNB Governing Council took note of the BNB forecast of key macroeconomic indicators for 2023–2025 (prepared on the basis of data as of 31 March 2023) to be published in the Macroeconomic Forecast (March 2023).

RESOLUTION No 220 of 18 May

The BNB Governing Council took note of the assessments of developments in major macroeconomic indicators in the second and third quarters of 2023 to be published in the Economic Review, issue 1 of 2023.

RESOLUTION No 326 of 20 July

The BNB Governing Council took note of the BNB forecast of key macroeconomic indicators for 2023–2025 (prepared on the basis of data as of 30 June 2023) to be published in the Macroeconomic Forecast (June 2023).

RESOLUTION No 375 of 24 August

The BNB Governing Council took note of the analysis of the major economic developments and the assessments of dynamics in the main macroeconomic indicators in the third and fourth quarters of 2023 to be published in the Economic Review, issue 2 of 2023.

RESOLUTION No 455 of 18 October

The BNB Governing Council took note of the analysis of the major economic developments and the assessments of developments in main macroeconomic indicators in the fourth quarter of 2023 and first quarter of 2024 to be published in the Economic Review, issue 3 of 2023.

RESOLUTION No 511 of 22 November

The BNB Governing Council took note of the BNB forecast of key macroeconomic indicators for 2023–2025 (prepared as of 10 November 2023) to be published in the Macroeconomic Forecast (November 2023).

BNB Internal Audit

RESOLUTION No 26 of 24 January

The BNB Governing Council adopted the Annual Activity Programme of the Internal Audit Directorate for 2023 and an updated strategy on the activities of the Directorate for the period up to 2025.

RESOLUTION No 273 of 15 June

The BNB Governing Council approved Chief Auditor's Report on the activity of the BNB Internal Audit Directorate for 2022.

General Meetings

RESOLUTION No 21 of 24 January

The BNB Governing Council decided to terminate the office of Elitsa Nikolova as a member of the Board of Directors of Bulgarian Mint EAD and to elect Lyudmila Elkova as a member of the Board of Directors of Bulgarian Mint EAD for a term of office until the expiration of the term of office of the members of the Board of Directors appointed by Decision No 104 of 15 April 2022 of the BNB Governing Council, the sole owner of the capital of Bulgarian Mint EAD.

RESOLUTION No 109 of 20 March

The BNB Governing Council gave its consent to the Executive Director of the BNB Printing Works AD to vote at the Annual General Meeting of Shareholders of Oberthur Fiduciaire AD on: the adoption of the Report of the Board of Directors on the activities of the company in 2022, certified by the registered auditor Ernst & Yang Audit OOD and the auditor's report; the allocation of the profit for 2022 of BGN 1,392,111, as follows: 1/10 of the profit to be allocated to the company's Reserve Fund, while the remaining part, including BGN 120,680 of retained profit from past years, to be distributed as a dividend to the shareholders at a dividend rate of BGN 1.50 *per* share, in proportion to their shares in company's capital; granting discharge to the members of the Board of Directors of the entity for their activities in 2022; termination of office of Kalin Dobrev as member of the Board of Directors and his discharge for the period during which he held office; election of Velizar Stoyanov Valchev as member of the Board of Directors on a proposal from the shareholder Oberthur Fiduciaire SAS.

RESOLUTION No 217 of 18 May

The BNB Governing Council approved the audited and certified annual financial statements of Bulgarian Mint EAD for 2022 and the Report of Bulgarian Mint EAD for 2022. The BNB Governing Council approved the independent auditor report of the AFA OOD on the audit of the annual financial statements of Bulgarian Mint EAD for 2022. The BNB Governing Council decided that the net profit of Bulgarian Mint EAD for 2022 in the amount of BGN 586 thousand should be allocated as retained earnings of Bulgarian Mint EAD, with no dividend being distributed to the sole owner of the capital. The BNB Governing Council granted discharge to the members of the Board of Directors of Bulgarian Mint EAD Elitsa Nikolova, Stefan Tsvetkov and Alexander Chobanov for their activities in 2022 and discharged Elitsa Nikolova for her activities in 2023.

RESOLUTION No 218 of 18 May

The BNB Governing Council gave its consent to the BNB Governor to authorise a representative of the BNB to vote at the ordinary General Meeting of Shareholders of BORICA AD on: the adoption of the Report of BORICA AD on the activities for 2022 and the approval of the annual financial statements of BORICA AD for 2022; the approval of auditor's Report on the audit of the annual financial statements of BORICA AD for 2022 and the adoption of the BORICA AD Audit Committee Report for 2022; the distribution of BORICA AD's profit for 2022 as follows: BGN 4,000,241.44 should be paid from the net profit of BGN 7,422,108.51 for 2022, in the form of a dividend to shareholders in proportion to their shares and the remainder of their net profit for 2022 to be allocated to 'Additional general reserves'; discharge of the members of the Board of directors of the company: Kalin Hristov, Tsvetanka Mincheva, Tamas Hak-Kovacs, Tatyana Ivanova, Nikola Bakalov, Georgi Konstantinov, Peter Slavov, Nikolay Spassov and Miroslav Vichev for their activities in 2022, as well as discharge of former members of the Board of Directors Yuri Genov, Petya Dimitrova, Nedelcho Nedelchev and Georgi Zamanov for their activities in 2022; terminated the term of office of Georgi Konstantinov from the Board of Directors of the company and elected Nikola Kedev as member of the Board of Directors of the company with a term of office of 21 June 2025; the selection of company's auditor – the specialised auditing company AFA OOD to audit and certify the Annual Financial Statements of BORICA AD for 2023.

RESOLUTION No 246 of 1 June

The BNB Governing Council gave its consent to the Governor to authorise a representative of the BNB to vote at the Annual General Meeting of Shareholders of the BNB Printing Works AD on: adoption of the Report of the Board of Directors on the activities of the company for 2022; the approval of the annual financial statements of BNB Printing Works AD for 2022, certified by the specialised audit company HLB Bulgaria OOD; discharge of the members of the Board of Directors of the company for their activities in 2022; distribution of the profit for 2022 in the amount of BGN 3,875,586.47, as follows: 1/10 of the profit to be allocated to the Reserve Fund, while the remaining part of BGN 3,488,027.82 for 2022 to be distributed as a dividend to shareholders in proportion to the shares of company's capital; re-election of the members of the company's Board of Directors: Radoslav Milenkov, Tania Georgieva and Krasimir Mihov for a term of office of three years from the date of expiry of the term of office of the current Board of Directors; determination of the monthly remuneration for the members of the Board of Directors who will not be entrusted with the management of the company.

RESOLUTION No 264 of 15 June

The BNB Governing Council gave its consent to the Governor to authorise a representative of the BNB to vote at the Annual General Meeting of Shareholders of the Cash Services company AD on: the adoption of the Report of the Board of Directors on the activities of the Cash Services Company AD for 2022; the approval of the 2022 annual financial statements of the Cash Services Company AD; the adoption of the Report of the independent auditor – Grant Thornton OOD, on the audit of the annual financial statements of the Company for 2022; adoption of the Board of Directors' proposal on the distribution of the Company's profit for 2022 in the amount of BGN 1,682,280.84 as follows: 10 per cent of the profit to be allocated to the Reserve Fund and the remaining amount of BGN 1,514,052.76 to be allocated as retained earnings of the Cash Services Company AD, with no dividend being distributed to shareholders; discharge of the members of the Board of Directors of the company: Kalin Hristov, Emil Hristov, Tatyana Ivanova, Ivailo Glavchovski, Irina Martseva, Anna Manolova and Vladimír Vlaev for their activities in 2022, as well as of the former member of the Board of Directors Ivaylo Mateev for his activities in 2022; adoption of a resolution to transform Cash Services Company – Incasso EAD through merger into Cash Services Company AD, with the Cash Services Company AD becoming the general legal successor of Cash Services Company – Incasso EAD and Cash Services Company – Incasso EAD is dissolved without liquidation; approval of the Agreement for transformation of Cash Services Company – Incasso EAD through merger into Cash Services Company AD.

RESOLUTION No 265 of 15 June

The BNB Governing Council decided to increase the capital of Bulgarian Mint EAD through own funds (funds from Reserve Fund and Other Reserves Fund) and a monetary contribution of the Bulgarian National Bank, the sole proprietor of company's capital, from BGN 1,260,000 to BGN 20,000,000 by issuing new 18,740 ordinary, registered physical shares with voting rights, with a nominal value of BGN 1000 (one thousand) which are subscribed and acquired by the BNB at nominal value; the BNB Governing Council also adopted amendments to the Statute of the Bulgarian Mint EAD.

RESOLUTION No 392 of 7 September

The BNB Governing Council gave its consent to the Executive Director of the BNB Printing Works AD to vote at the extraordinary General Meeting of Shareholders of Oberthur Fiduciaire AD on the election of Ernst & Young Audit OOD as auditor of the financial statements of Oberthur Fiduciaire AD for the 2023–2025 period.

RESOLUTION No 437 of 11 October

The BNB Governing Council gave its consent to the BNB Governor to authorise a representative to vote at the extraordinary General Meeting of Shareholders of the Cash Services Company AD on the termination of office of Kalin Hristov as a member of the Board of Directors of the Cash Services Company AD and the election of Andrey Gurov as a member of the Board of Directors of the Cash Services Company AD with a term of office until the expiration of the term of office of the members of the Board of Directors elected by the General Meeting of Shareholders of the Cash Services Company AD held on 15 June 2022, and on determination of the remuneration for the newly elected member of the Board of Directors.

RESOLUTION No 491 of 6 November

The BNB Governing Council gave its consent to the BNB Governor to authorise a representative to vote at the extraordinary General Meeting of Shareholders of BORICA AD on the termination of office of Tatyana Ivanova and Kalin Hristov, election of Peter Ruben and Radoslav Milenkov as members of the Board of Directors of BORICA AD with a term of office of the newly elected members until 21 June 2025, and determination of the remuneration for the newly elected members.

RESOLUTION No 509 of 22 November

The BNB Governing Council gave its consent to the Executive Director of the BNB Printing Works AD to vote at the extraordinary General Meeting of Shareholders of Oberthur Fiduciaire AD on the termination of office of Nina Stoyanova and her discharge, and the election of Petar Chobanov 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 of the company.

***

Between January and December 2023, the BNB Governing Council adopted resolutions on approval of internal rules of the Bank (11 resolutions), public procurement and contracts[151] (25 resolutions) and organisation of the Bank's activities (226 resolutions, including 34 resolutions on banking supervision's activities, 35 resolutions on the organisation of credit institution resolution activities, four resolutions on the organisation of payment supervision activities, and 74 resolutions on information on the implementation of the National Plan for the Euro Introduction within the competence of the BNB).

[151] Detailed information on procurement procedures is available on the BNB website, Public Procurement in Centralised Automated Electronic Public Procurement Information System (CAIS EOP), (www.eop.bg).

ISSN 2367-492X (online)

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.