Banks Resolution Fund Annual Report 2023

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BULGARIAN NATIONAL BANK

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List of Abbreviations

APP	Asset Purchase Programme
ABRF	Administration of the Banks Resolution Fund
BNB	Bulgarian National Bank
BRF	Banks Resolution Fund
ECB	European Central Bank
EU	European Union
FOMC	Federal Open Market Committee
GDP	Gross Domestic Product
HICP	Harmonised Index of Consumer Prices
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
LBNB	Law on the BNB
LRRCIIF	Law on the Recovery and Resolution of Credit Institutions and Investment Firms
NSI	National Statistical Institute
OSII	Other systemically important institutions
SRB	Single Resolution Board
SRF	Single Resolution Fund
SRM	Single Resolution Mechanism

Summary

The Banks Resolution Fund (the BRF, the Fund) was established in 2015 under the Law on the Recovery and Resolution of Credit Institutions and Investment Firms[1] (LRRCIIF) as a national resolution financing scheme for credit institutions and branches of third-country credit institutions for which the Bulgarian National Bank (BNB) is a resolution authority within the meaning of Article 2 of the LRRCIIF. The Fund is not an autonomous legal entity.

The Fund consists of two sub-funds having different purposes and scope: a sub-fund established to finance the application of the resolution tools and powers under the LRRCIIF in relation to branches of third-country credit institutions; and a sub-fund established to raise contributions under Articles 69 to 71 of Regulation (EU) No 806/2014[2] and their transfer to the Single Resolution Fund (SRF).

International economic developments have an impact on the economic activity in Bulgaria, which is a determining factor for banking system performance and thereby for BRF activities related to raising and using its funds, as well as on decisions regarding the management of the Fund financial means through the profitability of financial assets in which these means are invested.

Global economic activity slowed in 2023. The dynamics of global economic growth largely reflected the tightening of monetary policy by leading central banks, the sustainable growth of US economy and the uneven recovery of China's economy following the lifting of the strict containment measures in Bulgaria. Global inflation moderated throughout the year, due to declines in energy and food prices, tightened monetary policies in the major advanced economies, as well as the recovery of supply chains for goods and commodities. In view of the downward trend in annual inflation in the United States and the euro area towards the Federal Reserve and the European Central Bank (ECB) targets, the two central banks first slowed down the pace of raising key interest rates, and in the second half of the year ended the tightening of their monetary policy carried out by raising interest rates. Restrictive monetary policies of the Federal Reserve and the ECB to curb inflation have led to increased yields and interest rates in all asset classes in which the BRF financial means can be invested.

Bulgaria's real gross domestic product (GDP) growth stood at 1.8 per cent in 2023, with private consumption and net exports making the largest positive contribution to it. Household consumption was underpinned by real wage rises, an increase in the number of persons employed and improving sentiments. Rising net fiscal transfers to households and increasing credit activity further supported private consumption growth. Annual inflation decreased from 14.3 per cent at the end of 2022 to 5.0 per

[1] Published in the Darjaven Vestnik, issue 62 of 14 August 2015.

[2] 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 (OJ, L 225/1 of 30 July 2014).

cent in December 2023, mainly driven by base effects related to the strong increase in consumer prices in 2022, as well as the fall in energy product prices in 2023. High rates of growth of private consumption and unit labour costs, which contributed to maintaining core inflation at a relatively high level, remained pro-inflationary factors.

In 2023, the banking system continued to operate in an environment of uncertainty and relatively high inflation. At the same time, inflationary pressures began to gradually weaken which, coupled with rising incomes, had a favourable impact on the dynamics of final consumption and economic activity. During the year, total banking loans and assets recorded double-digit growth, albeit at lower rates than in the previous year. The volume and share of non-performing loans and advances continued to decline, while the capital indicators and liquidity position of the banking sector remained stable.

In view of persistently high credit growth rates and uncertainty in the economic environment, the countercyclical capital buffer rate was raised to 2.0 per cent in 2022, effective as of 1 October 2023. With regard to structural risks, the annual review of the buffer for other systemically important institutions (OSII) carried out by the Governing Council of the BNB in 2023 identified six institutions as such whose buffer rates ranged from 0.5 per cent to 1.0 per cent in 2024. The biennial review of the systemic risk buffer in 2023 confirmed its level of 3 per cent of domestic risk-weighted exposures.

In April 2023, the BNB Governing Council set the total amount of the annual contributions to the sub-fund for branches of third-country credit institutions for 2023 at BGN 92 thousand. As of 31 December 2023, the available financial means in this sub-fund amounted to BGN 896 thousand.

In May 2023, the BNB Governing Council decided that the contributions of credit institutions licensed in the Republic of Bulgaria set by the Single Resolution Board (SRB) and due to the SRF for 2023, amounting to a total of BGN 22,508 thousand to be deducted from the financial means available in the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF, earmarked to raise contributions of credit institutions licensed in the Republic of Bulgaria and to be transferred to the SRF. As of 31 December 2023, the available financial means in this sub-fund amounted to BGN 463,078 thousand.

In 2023, no resolution powers were exercised in respect of credit institutions or branches of third-country credit institutions licensed in the Republic of Bulgaria and therefore, no BRF financial means were spent on resolution actions or transfer of extraordinary contributions to the SRF.

This Report presents the BNB functions and tasks related to the management of the Fund. It provides an annual review of the BRF development and performance in the context of the international environment, economic activity in Bulgaria and the state of the banking system. The Report also contains all components of the BRF financial statement as of 31 December 2023, presenting its assets and financial position, cash flows, financial performance and change in net assets, along with the report of the independent auditor.

The Annual Report of the Banks Resolution Fund for 2023 was adopted by the BNB Governing Council by Resolution No 164 of 11 April 2024.

I. Economic Activity in 2023

1. External Environment

Global economic activity slowed in 2023, with global real GDP increasing by 2.5 per cent year on year, compared with 3.0 per cent in 2022[3]. The dynamics of global economic growth largely reflected the tightening of monetary policy by leading central banks, the sustainable growth of the US economy and the uneven recovery of China's economy following the lifting of the country's stringent containment measures in late 2022 and early 2023. Factors supporting 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 raw materials. The deterioration in financing conditions resulted in a slowdown in private consumption and investment in developed market economies. Dynamics of the global economic indicator (global PMI[4]) signalled an increase in global economic activity mainly in services. The industrial sector experienced a decline throughout 2023, following lower demand and deteriorated financing conditions due to tighter monetary policies by leading central banks.

In 2023, US GDP rose by 2.5 per cent in real terms, compared with 1.9 per cent in 2022. This growth was mainly driven by private consumption and, to a lesser extent, by public sector consumption and investments and net exports. High private consumption in the country reflected resilient labour market and growth of household real disposable income.

The removal of containment measures in China contributed to the increase in economic activity 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 compared with 3.4 per cent in 2022. By final consumption expenditure component, lower private consumption and a decline in inventories contributed most to the subdued economic activity. Private consumption was affected by high inflation leading to a decline in households' real disposable income and by the deteriorated financing conditions as a result of the ECB's monetary policy tightening. At the same time, net exports had a larger contribution to growth due to the normalisation of energy commodities and lower demand for imported raw materials. Real GDP of Germany, which is Bulgaria's major trading partner, contracted by 0.3 per cent on an annual basis throughout the year, while for Italy, Bulgaria's 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.

[3] Based on the World Bank data as of 12 March 2024.

[4] Purchasing Managers' Index – the US Institute for Supply Management 's Purchasing Managers' Index.

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 goods and raw material 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 annual inflation rate stood at 2.6 per cent, compared with 5.4 per cent at the end of 2022. The decrease in inflation was mainly driven by the fall in durable goods prices on an annual basis and the decline of the inflation related to food, housing cost 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. At the same time, core inflation (excluding food, energy products, alcoholic beverages and tobacco) fell to 3.4 per cent in December (from 5.2 per cent in December 2022). Lower 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 increase in key interest rates and, in the second half of 2023, stopped tightening their monetary policy, which was carried out by raising interest rates, signalling a possible fall in key interest rates in 2024. In 2023, the FOMC raised the target range for the federal funds by a total of 100 basis points, while the ECB Governing Council raised the policy rates in the euro area by a total of 200 basis points. The two central banks continued to reduce the size of their balance sheets, limiting the reinvestments of maturing securities.

International financial market developments in 2023 continued to be driven mainly by major central banks' measures to curb inflation. The monetary policy measures taken by the Federal Reserve and the ECB led to a substantial rise in the US and euro area government bond yields in short-term maturity sectors. In March, significant tensions were observed in global financial markets after the failure 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 slowdown in inflation than anticipated by market participants in the euro area and the United States in the fourth quarter of 2023 confirmed their expectations that the ECB and the Federal Reserve interest rates had peaked in the current interest cycle. This strengthened expectations of a more recent fall in interest rates throughout 2024, which led to a marked decline in German and US government bond yields. In 2023, indicators measuring financial market volatility in the United States and Europe decreased compared with 2022, despite a short-lived increase in volatility in March.

The rise in the ECB deposit facility rate was the main factor driving a significant increase in €STR and deposit rates in the interbank money market in the euro area in 2023. The average value of €STR in 2023 rose to 3.21 per cent, from -0.01 per cent in 2022. The interest rate on unsecured deposits in the interbank market (EURIBOR) with a maturity of 3 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 6 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 respectively at the end of 2022.

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 difference between the yield on ten-year and two-year government bonds reached -38 basis points. The major factor behind the rise in German government bond yields in the short-term maturity sectors was the increase in key ECB interest rates. The surge in German government bond rates was contained in March by the financial turmoil at some major US regional banks, as well at the Swiss Bank, 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 for 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 has driven the decline in German government bond yields in October. As mentioned before, the increased expectations of a more recent ECB interest rate cuts in 2024 also contributed to the substantial decline in Germany's government bond yields in the fourth quarter. Yield spreads between euro area countries' and Germany's government bonds narrowed. Ten-year government bond yields of periphery euro area counties declined more relative to the corresponding German government bonds, owing to positive changes in the credit rating 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). Spreads of euro area core countries posted significantly weaker declines throughout the year. In France, the spread narrowed slightly by 1 basis point, while that of 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.

Yield dynamics across the remaining asset classes, in which BRF financial means could potentially be invested pursuant to the Law on the BNB,[5] was also predominantly upward over 2023, following the increase in ECB's key interest rates.

[5] Published in the Darjaven Vestnik, issue 46 of 10 June 1997.

2. Economic Activity in Bulgaria

In 2023, Bulgaria's real GDP growth was 1.8 per cent[6] (3.9 per cent in 2022). By final consumption expenditure component, private consumption and net exports had the main positive contribution to the growth, while changes in inventories contributed negatively to the real GDP dynamics. Changes in 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, as well as through rising capital expenses. Other factors with a positive effect on private consumption were the increase in credit activity and negative, albeit to a lesser extent compared to 2022, interest rates on household deposits in real terms, which have contributed to the comparatively high propensity of households to consume. The acceleration in economic activity over 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.

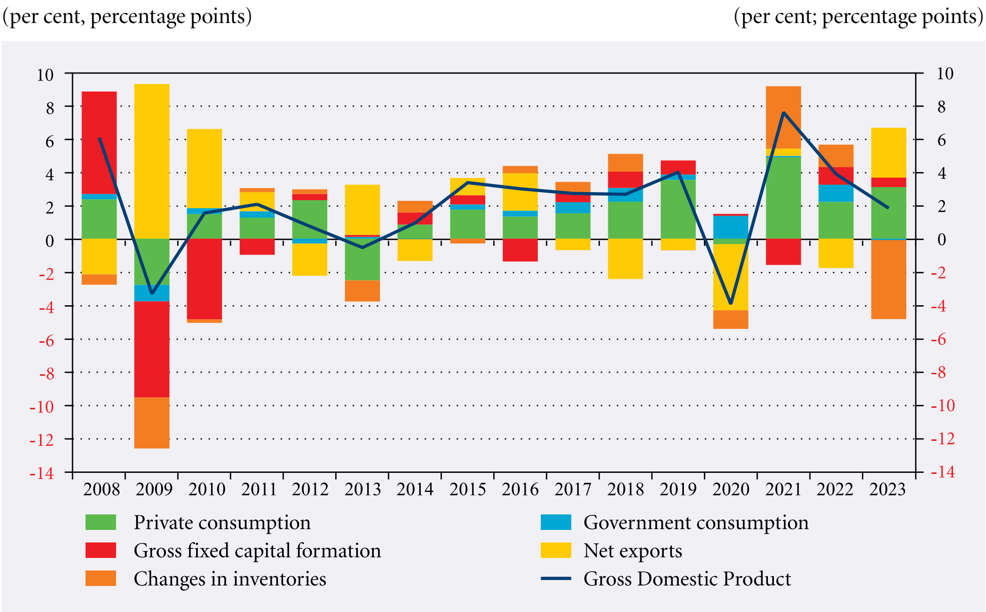
In 2023, nominal labour income retained its trend to grow at a rate higher than that of consumer prices. The main factors weighing on wage growth were stronger labour demand in the context of growing economic activity and preserved significant labour shortages, as well as increases in the public sector wages and in the minimum wage 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. Rising net fiscal transfers to households and accelerated credit activity further supported private consumption growth. Gross fixed capital formation posted 3.3 per cent growth in real terms, with public investments contributing to this, according to the BNB's estimates[7], while private investments had a negative contribution. The increase in public investments was supported by the implementation of nationally financed projects, as well as by the completion of projects with European financing following the closure of the 2014–2020 programming period. Factors dampening private investments in 2023 included a deterioration in the prospects for external demand, continued rises in investment goods prices, the availability of spare capacities in some industrial sub-sectors, and reported year-on-year decline in the sales of new dwellings. Potential factors behind the decreased inventories in the economy included the improved functioning of global supply chains and declines in the prices of main raw

[6] Non-seasonally adjusted data. The analysis employs preliminary data of the National Statistical Institute (NSI) published on 8 March 2024.

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

materials and finished products in international markets. Net exports had a positive contribution to real GDP growth in 2023, driven by a stronger decline in imports (by 6.3 per cent) compared to exports (by 1.9 per cent) of goods and services. The downward dynamics of imports can be explained by the decline in firms' holdings of raw materials, materials and finished products, which are characterised by a high import content. The decline in exports was entirely determined by trade in goods, consistent with the 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. In 2023, government consumption decreased by 0.4 per cent in real terms and had a low negative contribution to the real GDP change.

Chart 1. GDP Rate of Change in Real Terms and Contributions by Final Consumption Expenditure Component

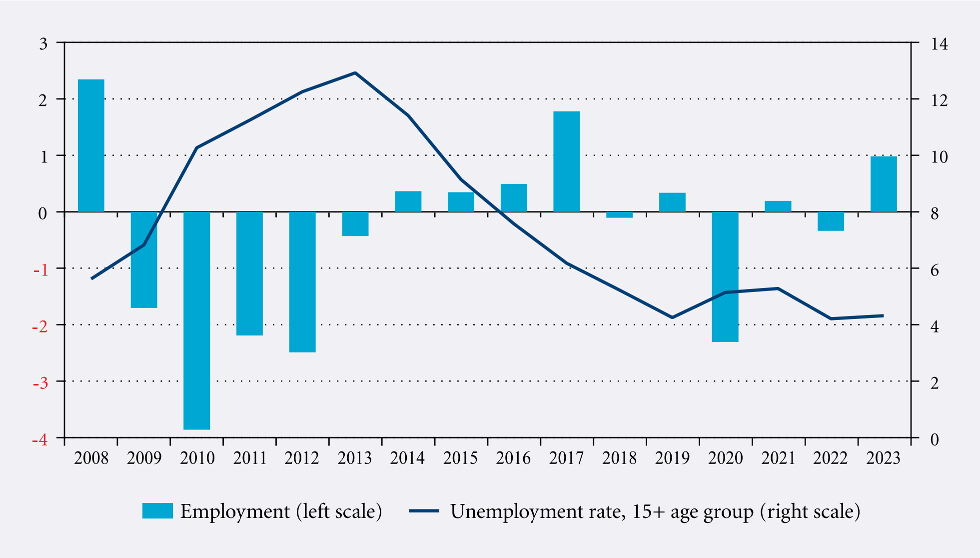


Sources: NSI, BNB calculations.

In terms of the trends across economic sectors, gross value added increased by 0.8 per cent in 2023, with the services sector having the main positive contribution, followed by industry, while agriculture recorded a decline. Within services, growth in value added was observed in all sub-sectors, excluding '*professional, scientific and technical activities*' and '*arts, entertainment and recreation*', with the sub-sector '*trade, transport, accommodation*' and food service activities contributing most positively to this. In industry, growth in value added was recorded in both manufacturing and construction. 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.

Chart 2. Rate of Change in Employment and Unemployment Rate

(per cent, on an annual basis) (per cent of labour force)



Source: NSI.

Increased economic activity in Bulgaria had a favourable effect on the labour market in 2023, with the number of employees and hours worked increasing by 1.0 per cent each on an annual basis. The services sector, particularly the sub-sectors '*general government, education, human health and social work activities*' and '*trade, transport, accommodation and food service activities*' had the major positive contribution to the employment growth. The number of persons employed in construction also increased, while agriculture and manufacturing reported declines. Based on NSI's Labour Force Survey data, the unemployment rate was 4.3 per cent[8] in 2023 (4.2 per cent in 2022).

In 2023, annual growth of non-government sector's deposits followed a downward trend, reaching 9.5 per cent in December (14.3 per cent at end-2022). This declining dynamics was driven by the significant slowdown in the growth in non-financial corporations' deposits to 9.0 per cent at end-2023 (26.6 per cent as of December 2022). The decrease in the growth in nominal retail trade volumes and reported declines in the nominal turnover of the industrial sector contributed to the slower growth rate of corporate deposits throughout the year. Annual growth in household deposits accelerated to 11.0 per cent in December 2023 (8.3 per cent at the end of 2022), supported mainly by rising labour income and retained preferences of households for saving in deposits despite the low levels of deposit interest rates. As a result of persistently high liquidity and significant inflows of attracted funds into the banking system, the pass-through of the effects of ECB's monetary policy tightening to the interest rates on household deposits in Bulgaria remained very limited in 2023. These factors also restrained the effect of the BNB's increase in the Minimum Reserve Requirements (MRR) rate since

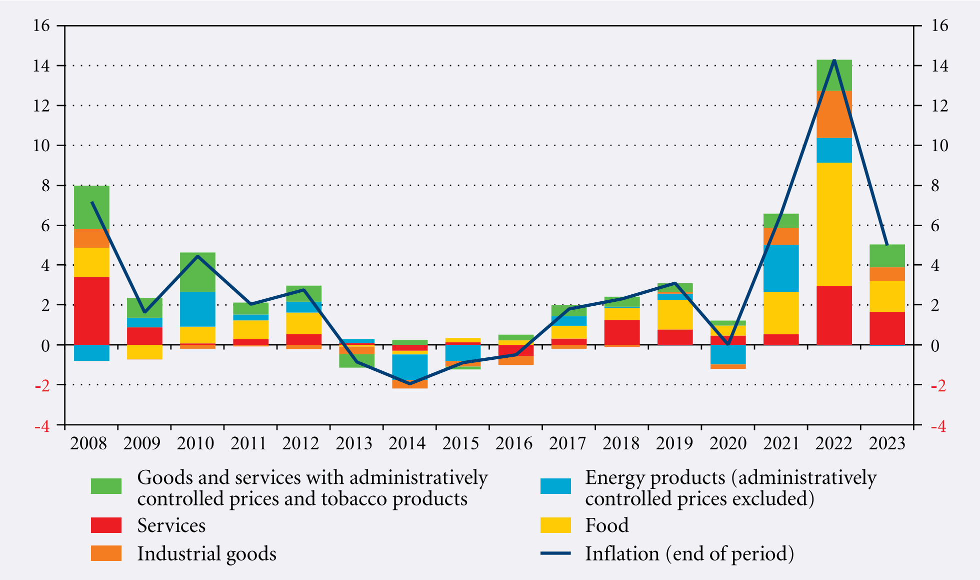
[8] Data refer to the age group of 15 and over.

mid-2023[9] aiming to withdraw part of the excess liquidity in the banking system and tighten internal monetary conditions.

In 2023, annual growth of credit to the non-government sector remained high at 11.1 per cent as of December (12.2 per cent at the end of 2022). Growth in credit to non-financial corporations slowed down to 7.3 per cent, driven by a lower contribution of corporate overdraft, which reflected weaker demand for working capital financing and accumulation of inventories in the context of declining stocks in the economy. The annual growth rate of housing loans has followed an accelerating trend since the middle of the second quarter, reaching 20.5 per cent (17.9 per cent at the end of 2022). On the demand side, the main factors behind the growth of housing lending continued to be rising labour income, the remaining very low nominal interest rates on housing loans and maintained household preferences to purchase real estate as an alternative form of investment or saving. On the supply side, growth in housing loans was influenced by the ample liquidity in the banking sector, the sound capital position of banks and the competition between them. The annual growth rate of consumer loans was 12.3 per cent as of December 2023, remaining unchanged from the end of 2022.

Chart 3. Annual HICP Inflation Rate

(per cent; percentage points) (per cent; percentage points)



Sources: NSI, BNB calculations.

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 by weighting the corresponding elementary aggregates in the consumer basket.

[9] On 26 April 2023, the Governing Council of the BNB decided to increase the MRR rate on banks' attracted funds in two steps: as of 1 June 2023, the MRR rate on funds attracted from non-residents was raised from 5 to 10 per cent, and as of 1 July 2023, that on funds attracted from residents and non-residents, from 10 to 12 per cent.

Annual inflation measured by the HICP followed a downward trend in 2023 and stood at 5.0 per cent at the end of the year (compared with 14.3 per cent at the end of 2022). The main factors contributing to the inflation slowdown were the high base effect stemming from high growth rates of consumer prices in 2022, especially in the food and core components groups, as well as the year-on-year decline in energy prices as a result of downward price dynamics of these products on the international markets. On the domestic macroeconomic side, high rates of growth in private consumption and unit labour costs continued to exert a pro-inflationary pressure. These factors, combined with the unchanged profit margin policy of firms in 2023 compared with 2022, have contributed to the limited pass-through of falling key energy and agricultural commodity prices in international markets to final consumer prices in Bulgaria. Fiscal policy continued to have a pro-inflationary impact, with growth in social payments and compensation of employees in the public sector supporting growth in household disposable income and consumption and creating preconditions for retention of high inflation in more demand-sensitive HICP components, such as services. Concurrently, the gradual decline in overall 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 and consumer price increases. Core components had the highest positive contribution to inflation at the end of 2023, with inflation in this group remaining elevated and stood at 5.3 per cent, driven mainly by rises in services prices. The rate of increase in food prices was 6.0 per cent in December 2023, and this group also had a substantial positive contribution to headline inflation, despite declining major agricultural and energy commodity prices in international markets.

3. State of the Banking System

In 2023, the banking system continued to operate in an environment of uncertainty and relatively high inflation. At the same time, inflationary pressures began to gradually weaken, which, coupled with rising income, had a favourable impact on developments in final consumption and economic activity.

In 2023, loans and total banking assets recorded double-digit growth, albeit at lower rates than in the previous year. The volume and share of non-performing loans and advances continued to decline, while the capital indicators and the liquidity position of the banking sector remained stable.

In 2023, the transmission of monetary policy tightening in the euro area to interest rate levels in Bulgaria was relatively slow. High liquidity in the banking system and stable growth rates of deposits determined the low responsiveness of deposit interest rates to developments in the global interest rate cycle. Rising loan volumes had a positive impact on the banking sector's interest income and net interest income. This dynamics, along with lower impairment costs, underpinned the continued increase in credit institutions' profitability indicators.

In April 2023, the BNB took a decision to increase the MRR rate on funds attracted by banks from residents and non-residents to 12 per cent, with effect from 1 July 2023. The increase in MRR aimed to tighten monetary conditions in Bulgaria by absorbing part of the existing excess liquidity in the banking system, thus contributing to a deceleration in credit growth rates. The slowdown in credit activity was one of the factors behind a gradual decline in inflation rates through its influence on consumption financed by borrowed funds.

As one of the macroprudential instruments applied, the countercyclical capital buffer aims to preserve the banking system's ability to cope with the adverse effects of cyclical developments in the business and financial cycle by strengthening banks' capital positions. In the first nine months of 2023, this buffer rate 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 as of 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[10]. By decisions of BNB Governing Council (of December 2022, March, June, September and December 2023) the countercyclical capital buffer, applicable from the first quarter of 2024, was kept at 2.0 per cent. The decisions are aimed at strengthening the resilience of the banking system to pressure on the profitability and capital position of the banking sector, driven by a potential increase in non-performing loans (NPLs) and their impairments.

As regards risks of a structural nature, the banks in Bulgaria continued to maintain a systemic risk buffer set by the BNB Governing Council at 3 per cent of local risk-weighted exposures, with the biennial review of the systemic risk buffer in 2023 confirming its level. Under the annual review of the buffer for OSII, by a decision of the BNB Governing Council six banks were identified, for which the buffer rates would range from 0.50 to 1.00 per cent in 2024.

The capital position of the banking system remained stable in 2023 against the backdrop of growth in risk-weighted assets and higher capital requirements and buffers. By end-December 2023, the total capital adequacy ratio was 21.6 per cent, compared to 21.0 per cent by end-2022. The banking system's regulatory capital increased from the end of 2022 by 15.6 per cent (BGN 2.5 billion) to BGN 18.2 billion at the end of 2023. At the end of 2023, the leverage ratio[11] for the banking system came to 9.6 per cent (when a fully phased-in definition of tier 1 capital is applied) indicating a high capital coverage of the total exposure, with its level in all credit institutions significantly exceeding the minimum regulatory requirement of 3 per cent.

Attracted funds accumulated in the banking sector remained underpinned by the significant share of assets with high liquidity quality. The average liquidity coverage ratio for the banking system was 246.7 per cent as of end-2023 (with a minimum requirement of 100 per cent), increasing in comparison to its level as of end-2022 (235.0 per

[10] See: 'Warning of the European Systemic Risk Board of 22 September 2022 on vulnerabilities in the Union financial system' (ESRB/2022/7) (OJ, 2022 C 423/01 of 7 November 2022).

[11] With effect from 28 June 2021, the regulatory requirement for a leverage ratio (3 per cent) and for a net stable funding ratio (100 per cent) were 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.

cent). In 2023 all banks complied with the requirement for a net stable funding ratio (NSFR), with the banking sector's average level (161.1 per cent) significantly exceeding the regulatory minimum of 100 per cent.

The downward trend in the amount of non-performing loans and advances continued in 2023 along with their share in the total loans and advances. Write-offs and sales of loans, as well as growth in the gross loan portfolio, contributed to this. Against the backdrop of credit growth, the ratio of non-performing loans[12] to total loans and advances in the banking sector decreased to 3.6 per cent as of 31 December 2023 (4.5 per cent a year earlier).

The banking system's profit was BGN 3.4 billion as of 31 December 2023 (BGN 2.1 billion by end-December 2022). The increase in net interest income by BGN 1.6 billion (49.9 per cent) to BGN 4.8 billion at the end of the year was a determinant for the higher financial result. At the end of 2023, the total net operating income of the banking system reached BGN 6.9 billion, up by BGN 1.6 billion (30.3 per cent) compared to the end of 2022. At the same time, impairment costs of financial assets not measured at fair value through profit or loss decreased by BGN 187 million (31.3 per cent) compared to end-2022, amounting to BGN 409 million as of 31 December 2023. Banks' expenses on contributions to resolution funds and deposit guarantee schemes rose by BGN 11 million (5.4 per cent) to BGN 206 million at the end of 2023.

Table 1. **Key Indicators of the Banking System**[13]

Key indicators	December 2022	December 2023	Annual change (per cent)
Assets, BGN million	155,408	172,077	10.7
Assets as a share of GDP, per cent	92.6	93.7	-
Equity, BGN million	17,287	20,006	15.7
Profit, BGN million	2,070	3,403	64.4
Total capital adequacy ratio, per cent	21.0	21.6	-
Common equity tier 1 capital ratio, per cent	20.1	20.1	-
Capital surplus/deficit relative to capital requirements, including the combined buffer requirement*, BGN million	3,258	3,295	-
Capital surplus/deficit as a ratio to risk-weighted assets, per cent	4.4	3.9	-
Liquidity coverage ratio, per cent	235.0	246.7	-
Return on assets, per cent	1.3	2.0	-
Return on equity, per cent	12.0	17.0	-
Gross non-performing loans ratio**, per cent	4.5	3.6	-

* A 'combined buffer requirement' is a concept referred to in Article 2, paragraph 3 of BNB Ordinance No 8 of 27 April 2021 on Capital Buffers, the Combined Buffer Requirement, Restrictions on Distributions and the Guidance on Additional Own Funds.

** Definition of loans and advances applicable from June 2020 (cash balances at central banks and other demand deposits are excluded).

Source: BNB.

[12] Definition of loans and advances applicable from June 2020 (cash balances at central banks and other demand deposits are excluded).

[13] Based on updated supervisory statements on an individual basis as of end-December 2023, submitted by 23 February 2024.

II. Management of the Banks Resolution Fund

1. BNB Powers

The Banks Resolution Fund (BRF, the Fund) was established in 2015 under the Law on the Recovery and Resolution of Credit Institutions and Investment Firms as a national resolution financing arrangement. The Fund is not an autonomous legal entity.

Since 27 July 2020[14], as a result of the established close cooperation with the ECB[15] and joining the Single Resolution Mechanism (SRM), the Bulgarian National Bank in its capacity as a resolution authority is fully responsible for BRF administration and management, and collected financial means are allocated in two separate sub-funds having different purposes and scope:

- a sub-fund established to finance the application of the resolution tools and powers in relation to branches of third-country credit institutions (Article 134, paragraph 1, item 1 of the LRRCIIF): a sub-fund for branches of third-country credit institutions.

  This sub-fund ensures a mechanism to finance resolution of branches of third-country credit institutions (outside the scope of the SRM). Its purpose is to limit to the maximum extent possible the use of public funds in case additional financing of resolution is needed.

- a sub-fund established to raise contributions under Articles 69–71 of Regulation (EU) No 806/2014 and their transfer to the SRF (Article 134, paragraph 1, item 2 of the LRRCIIF): a sub-fund for contributions to the Single Resolution Fund.

  This sub-fund is earmarked for raising contributions from the credit institutions licensed in the Republic of Bulgaria that fall within the scope of the SRM, and for their transfer to the SRF.

BNB decisions as a resolution authority for credit institutions, including those concerning the administration and management of the Fund, are taken by the Governing Council of the BNB.

Pursuant to the LRRCIIF, the BNB is responsible for the following main activities in relation to operational Fund governance: determining and raising annual and extraordinary contributions from branches of third-country credit institutions; concluding agreements for borrowing funds and other forms of support and provision of loans under the terms and conditions specified in Articles 141 and 142 of the LRRCIIF;

[14] From the moment of its establishment until that date, the Management Board of the Bulgarian Deposit Insurance Fund took decisions on the operational management of the BRF. Over this period, the BNB, as a resolution authority for credit institutions, had powers related to determination of contributions to the BRF and the use of its financial means for resolution purposes.

[15] Decision (EU) 2020/1015 of the European Central Bank of 24 June 2020 on the establishment of close cooperation between the European Central Bank and the Bulgarian National Bank (ECB/2020/30) (OJ L 224 I of 13 July 2020, p 1–3).

investing the funds of the BRF; fulfilling the obligations arising from the LRRCIIF in relation to the application of resolution tools requiring the establishment of companies whose capital is financed through the BRF funds; appointing a registered auditor to carry out an independent financial audit of the annual financial statements of the BRF; adopting and publishing the annual financial statements of the BRF.

The Bulgarian National Bank, as a national resolution authority within the meaning of Regulation (EU) No 806/2014, acts as a main contact point with the credit institutions established in the Republic of Bulgaria for the purpose of collecting the information required to determine the contributions to the SRF and submitting it to the SRB. In addition, the BNB is obliged to notify the credit institutions of the determined individual amount of their contributions to the SRF, to collect the contributions in the earmarked sub-fund of the BRF and to transfer the collected amounts to the SRF.

2. Sources of Funding

The BRF sources of funding include: annual and extraordinary contributions by banks and branches of third-country credit institutions; returns on the investment of the BRF funds; reimbursement of amounts used for resolution purposes under the terms set for the application of appropriate resolution tools and related income and compensation; and other sources.

Where the available financial means raised from annual and extraordinary contributions are not sufficient to cover the expenses incurred to finance resolution actions, the BRF may be replenished by borrowing or other forms of support from banks, financial institutions or other third parties in case such options are immediately accessible on reasonable terms.

3. Determination of Annual and Extraordinary Contributions

Contributions to resolution financing arrangements may be annual individual contributions, which each credit institution and a branch of a third-country credit institution is obliged to pay on an annual basis, as well as extraordinary contributions. The contributions are determined and raised under the procedure set out below for each of the two sub-funds, according to the powers of the authorities under the relevant resolution financing arrangement.

3.1. Sub-fund for Branches of Third-country Credit Institutions

Contributions to the sub-fund for branches of third-country credit institutions are determined by the BNB.

Individual annual contributions to this sub-fund are one-off annual fixed sums calculated by the BNB on the basis of the amount of covered deposits of branches of third-country credit institutions and the available financial means in the sub-fund under Article 134, paragraph 1, item 1 of the LRRCIIF. The terms and conditions for determining the amount of individual annual contributions of branches of third-country credit institutions to the BRF and their collection by the BNB are provided for in Ordinance No 41 of the BNB.[16]

Where the amount of the financial means accumulated in the sub-fund is not sufficient to cover the costs associated with the financing of the resolution, the BNB determines and raises extraordinary contributions from branches of third-country credit institutions pursuant to the provisions of the LRRCIIF.

3.2. Sub-fund for Contributions to the SRF

Individual annual contributions and extraordinary contributions to the SRF for all credit institutions licensed in the Republic of Bulgaria are determined by the SRB.

Principles and rules for determining the individual annual contributions and extraordinary *ex-post* contributions of credit institutions to the SRF are laid down in Regulation (EU) No 806/2014, Commission Delegated Regulation (EU) 2015/63[17] and Council Implementing Regulation (EU) 2015/81.[18] Annual contributions are calculated in accordance with the type, size and risk profile of an institution, as well as the target level of the funds which should be reached until 1 January 2024[19], *i.e.* at least 1 per cent of the amount of covered deposits of all credit institutions licensed in participating Member States. Credit institutions have the opportunity to meet their obligations related to annual *ex-ante* contributions by both cash and partially by undertaking irrevocable payment commitments[20] that are guaranteed entirely by a collateral of low risk assets.

It is a responsibility of the BNB, as a national resolution authority, to notify the credit institutions of the contributions determined by the SRB, as well as to raise and transfer the collected amounts to the SRF in accordance with the Agreement on the Transfer and Mutualisation of Contributions to the Single Resolution Fund[21].

[16] BNB Ordinance No 41 of 25 February 2021 on Determining the Amount of the Individual Annual Contributions of Branches of Third-country Credit Institutions to the Banks Resolution Fund, published in the Darjaven Vestnik, issue 23 of 19 March 2021.

[17] Commission Delegated Regulation (EU) 2015/63 of 21 October 2014 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regards to *ex-ante* contributions to resolution financing mechanisms (OJ, L 11 of 17 January 2015, p 44–64).

[18] Council Implementing Regulation (EU) 2015/81 of 19 December 2014 specifying uniform conditions of application of Regulation (EU) No 806/2014 of the European Parliament and of the Council with regard to *ex-ante* contributions to the Single Resolution Fund (OJ, L 15 of 22 January 2015, p 1–7).

[19] By the end of February 2024, the SRB is expected to disclose the outcome of its verification of reaching the target level of financial means in the SRF.

[20] The share of irrevocable payment commitments is specified in a decision of the SRB and in accordance with Article 70(3) of Regulation (EU) No 806/2014 – that share shall not exceed 30 per cent of the amount of annual contributions.

[21] Ratified by a law adopted by the 44th National Assembly on 8 November 2018 (published, Darjaven Vestnik, issue 96 of 2018, effective as of 24 November 2018).

4. Use of the BRF Financial Means

4.1. Use of Financial Means of the Sub-fund for Branches of Third-country Credit Institutions

Symmetrically to the power to determine the contributions in the sub-fund for branches of third-country credit institutions, the BNB takes decisions on using the financial means of the sub-fund for the purposes of the efficient application of resolution tools towards branches of third-country credit institutions.

4.2. Use of Financial Means of the Sub-fund for Contributions to the SRF

Financial means which are raised in this sub-fund are intended solely for a transfer to the SRF. Upon a decision of the SRB, SRF financial means are used for the purposes of resolution of credit institutions, including credit institutions falling within the direct powers of the BNB.

Within the resolution scheme, the SRB may use the SRF financial means only to the extent necessary to ensure the effective application of the resolution tools and solely for the purposes laid down in Regulation (EU) No 806/2014.

5. Investment of the BRF Financial Means

The BRF financial means are held in accounts with the BNB and are invested in accordance with the Law on the BNB in consistent compliance with the principles of security, liquidity and profitability. Investment decisions are taken by the BNB Governing Council, and financial means in individual sub-funds are invested separately (without mixing them).

The procedure under which the BNB, as a resolution authority, manages the BRF financial means and the interaction and tasks of the BNB structural units in relation to this activity are laid down in the Internal Rules for Management of the Banks Resolution Fund Financial Means[22] (Internal Rules).

The Internal Rules define eligible financial instruments for the purposes of BRF financial means management, taking into account the current status and expected developments of the economy and financial markets, as well as the possible approaches to the management of financial means in the two sub-funds, which the BNB: (a) in its capacity as a manager of the BRF may apply in accordance with the LRRCIIF, on the one hand; and (b) in its capacity as a provider of investment services to customers may offer according to the restrictions of the LBNB, on the other hand. Considering the above, the financial instruments defined as eligible for investing the Fund's financial means are a current account with the BNB and a structured index account with the BNB, which are opened and serviced according to the General

[22] Adopted by the BNB Governing Council by Resolution No 446 of 17 December 2020.

Terms and Conditions of the Bulgarian National Bank on Servicing Accounts of Banks, Budget Organisations and Other Customers.

As regards the structured index account financial instrument, the BNB Governing Council, on a proposal from the Deputy Governor in charge of the Issue Department, takes a decision on the eligible classes of assets and investment restrictions by type of risk. This decision is reviewed at least once a year.

The financial instrument, in which financial means of each of the two sub-funds may be invested, is chosen on a quarterly basis by the BNB Governing Council on a proposal from the Deputy Governor in charge of the Issue Department, accompanied by an analysis of the expected return and risk.

III. Key Indicators of BRF Performance in 2023

1. Contributions to the BRF in 2023

1.1. Contributions to the Sub-fund for Branches of Third-country Credit Institutions

In April 2023, the BNB Governing Council determined the total amount of annual contributions to the BRF sub-fund for branches of third-country credit institutions for 2023 at BGN 92 thousand and informed the contribution debtors. Funds were paid up to the sub-fund's account within the statutory time-limit (30 days from the date of notification).

In 2023, no circumstances have occurred that require extraordinary contributions to be raised from branches of third-country credit institutions in the sub-fund under Article 134, paragraph 1, item 1 of the LRRCIIF.

1.2. Contributions to the Sub-fund for Contributions to the SRF

In 2023, no funds were raised in the sub-fund for contributions to the SRF.

Pursuant to § 56, paragraph 2 of the Transitional and Final Provisions of the Law on Amendment of the LRRCIIF, funds available in the sub-fund were used for fulfilment of the obligations of the credit institutions licensed in the Republic of Bulgaria for annual contributions to the SRF for 2023 (for further information see 3.2. Use of Financial Means of the Sub-fund for Contributions to the SRF).

In 2023, the BNB did not receive any request from the SRB for raising extraordinary contributions to the SRF from credit institutions licensed in the Republic of Bulgaria.

2. Investment of the BRF Financial Means

Taking into account the current state and trends in the development of the economy and financial markets, as well as the results of the quarterly analyses of the expected return and risk in determining the financial instrument in which the BRF funds to be invested, in 2023 the BNB Governing Council maintained the implemented investment strategy, and the financial means of the sub-fund for branches of third-country credit institutions and of the sub-fund for contributions to the SRF continued to be held in current accounts with the BNB. These accounts are subject to the General Terms and Conditions of the Bulgarian National Bank on Servicing Accounts of Banks, Budget Organisations and Other Customers, and are remunerated at the applicable standard annual interest rate on current accounts valid for the relevant periods. In 2023, interest income amounting to BGN 13,131 thousand was accrued and received on the Fund's resources, of which BGN 24 thousand – for the sub-fund for branches of third-country credit institutions and BGN 13,107 thousand – for the sub-fund for contributions to the SRF. In 2023, no interest expense was recorded as a result of the investment of the Fund's resources.

As at 31 December 2023, the Fund's assets consist entirely of cash in levs held in current accounts with the BNB.

3. Use of the BRF Financial Means

3.1. Use of Financial Means of the Sub-fund for Branches of Third-country Credit Institutions

In 2023, the BNB exercised no resolution powers in respect of branches of third-country credit institutions, hence, no funds of this sub-fund were spent. In addition, over the period under review no requests for loans to other resolution financing arrangements were received.

3.2. Use of Financial Means of the Sub-fund for Contributions to the SRF

In relation to the contributions to the SRF, set by the SRB for 2023, due by the credit institutions licensed in the Republic of Bulgaria, in May 2023 the BNB Governing Council decided contributions amounting to BGN 22,508 thousand (EUR 11,508 thousand) to be deducted from the financial means available in the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF. The decision stems from the possibility provided for in § 56, paragraph 2 of the Transitional and Final Provisions of the Law on Amendment of the LRRCIIF[23] and the availability of the necessary funds in the BRF earmarked sub-fund. In 2023, funds from the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF in the amount of BGN 22,238 thousand (EUR 11,370 thousand) were transferred to the SRF representing the difference between the total amount of annual contributions due to the SRF and the amount of annual contribution partially executed by one credit institution by undertaking an irrevocable payment commitment to the SRB[24]. In 2022, the funds transferred from the sub-fund to the SRF came to BGN 34,082 thousand (EUR 17,426 thousand).

Over the reporting period the BNB did not receive any request from SRB for raising and transferring extraordinary contributions to the SRF.

[23] '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. Following the transfer of the financial means, the other financial means raised in the sub-fund under Article 134, paragraph 1, item 2, if any, are deducted from the obligations of institutions for future contributions to the Single Resolution Fund upon a decision of the resolution authority until their exhaustion.'

[24] The irrevocable payment commitment is fully collateralised by the beneficiary credit institution's cash. The LRRCIIF does not provide for the possibility the funds in the respective earmarked sub-fund to be used for collateralisation of irrevocable commitments.

4. Financial Means Available in the BRF Sub-funds as of 31 December 2023

The financial means of the BRF as of 31 December 2023 amounted to BGN 463,974 thousand, including BGN 896 thousand – in the sub-fund for branches of third-country credit institutions and BGN 463,078 thousand – in the sub-fund for contributions to the SRF.

The outstanding amount in the sub-fund for contributions to the SRF is due to changes in the legal framework in 2020 related to Bulgaria's participation in the SRM, the direct application of Regulation (EU) No 806/2014 and the resulting change in resolution financing arrangements. The main differences in the regulatory requirements before and after joining the SRM, leading to the outstanding amount, are as follows:

- two times lower target level of financial means in the SRF: 1 per cent of the amount of the covered deposits within the SRM, compared to the BRF target level prior to the amendments to the legal framework – 2 per cent of the amount of the covered deposits;
- the SRB approach applied in determining the annual contributions of small credit institutions in the form of a lump-sum, which results in determining a lump-sum for a larger number of credit institutions licensed in the Republic of Bulgaria;
- the SRB approach applied in calculating risk adjustments for credit institutions licensed in the Republic of Bulgaria, also in the context of their positioning in relation to institutions, for which the SRB calculates risk adjustments within the SRM;
- application by the SRB of specific adjustments in the initial period of accumulation of financial means in the SRF.

IV. Organisation of the Operational Implementation of the BRF-related Activities at the BNB and Participation in the SRB Structures

1. Units Assisting the BNB Governing Council in Relation to the BRF Management Function

In accordance with Article 2, paragraph 2 of the LRRCIIF, the BNB Governing Council has determined a dedicated structural unit, which assists it in exercising the resolution function, namely Resolution of Credit Institutions Directorate. Administration of the Banks Resolution Fund (ABRF) Division to the Directorate implements and coordinates all activities that concern BRF administration and management, including the use of specialised services provided by other units within BNB, mainly related to reporting and investment of BRF financial means. The division supports the processes related to decision-making by the BNB Governing Council for determining and collecting contributions to the sub-fund for branches of third-country credit institutions and their spending, where necessary, in line with the financing of resolution measures. In addition, the ABRF is responsible for implementation of the commitments related to the coordination with the SRB of activities concerning the SRF, and provision of technical assistance within the framework of determining and raising annual and extraordinary contributions from banks, control over the fulfilment of banks' obligations to pay in the contributions to the BNB and the transfer of the contributions to the SRF.

The administrative costs arising from the resolution function, including those related to the BRF management, are financed by fees collected from the credit institutions and the branches of third-country credit institutions established in the Republic of Bulgaria. The terms and procedures for determining and collecting these fees are laid down in the BNB Ordinance No 40[25].

2. Participation in the Single Resolution Board

Within the Single Resolution Mechanism, the Bulgarian National Bank, as a resolution authority, participates in SRB structures relevant to the SRF management. The BNB is represented in the SRB Plenary Session and Extended Executive Session by the Deputy Governor in charge of the Issue Department, with the same rights and obligations as all other members, including voting rights.

[25] 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 Functions (published, Darjaven Vestnik, issue 105 of 11 December 2020).

With regard to the SRB sub-structures of the SRF, the BNB participates in the Single Resolution Fund Committee. The Committee does not have a decision-making mandate but is established for organisational purposes, as a platform for exchange of information and technical assistance to the SRB management bodies in taking decisions on the determination of contributions to the SRF and the investment policy.

V. Events Occurred after the Date of the Financial Statements

On 15 February 2024, following the completion of the verification of the target level of the Single Resolution Fund, the Single Resolution Board publicly announced[26] that the funds available in the SRF at 31 December 2023 had reached the required target level of at least 1 per cent of the amount of guaranteed deposits in credit institutions authorised in Member States participating in the Single Resolution Mechanism, as defined in Article 69(1) of Regulation (EU) No 806/2014. The press release also states that no regular annual contributions to the SRF will be collected in 2024 and that contributions would only be raised in case of specific circumstances or resolution actions involving the use of SRF funds. It is specified that, under normal circumstances, the verification of the target level of the SRF to confirm the maintained level of 1 per cent of the amount of covered deposits of the credit institutions within the scope of the SRM will be carried out annually. Subject to the outcome of this verification, the SRB will resume the regular collection of contributions to the SRF and inform the institutions accordingly.

There are no other events occured after the date of preparation of the annual financial statements of the BRF that require additional disclosure or adjustments thereto.

[26] For more details, see the press release of 15 February 2024 on the Single Resolution Board's website.

VI. Projected Future Developments

The second sentence of § 56, paragraph 2 of the Transitional and Final Provisions of the Law on Amendment of the LRRCIIF stipulates that after the transfer of the funds to the SRF, the remaining funds, if any, accumulated in the sub-fund for contributions in the SRF, following a decision of the BNB, are deducted from the obligations of the institutions for future contributions to the SRF, until they are exhausted.

At the date of preparation of this report, there are no expected cash outflows in 2024 from the sub-fund referred to in Article 134, paragraph 1, item 2 of the LRRCIIF in relation to the deduction of institutions's liabilities for regular contributions to the SRF in 2024.

VII. Financial Statements as of 31 December 2023

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 Banks Resolution Fund's financial position and performance for the period.

The financial statements of the Banks Resolution Fund approved by the BNB Governing Council are prepared in accordance with the International Financial Reporting Standards adopted by the European Union.

The Governing Council of the BNB is responsible for maintaining proper accounting records to disclose with reasonable accuracy at any time the financial position of the Fund. It has overall responsibility for the financial means of the Fund.

Dimitar Radev

Governor

of the Bulgarian National Bank

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Independent auditor's report

To the Governing Council of The Bulgarian National Bank

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Banks Resolution Fund (the Fund), which comprise the statement of financial position as at 31 December 2023, and the Statement of Operations, Statement of Changes in Net Assets and Statement of Cash Flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December 2023, and of its financial performance and its 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 Financial Statements* section of our report. We are independent of the Fund 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 financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the requirements of the IFAA and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 Financial Statements

Management is responsible for the preparation and presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 Fund'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 Fund'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 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. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves true and fair presentation.

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

Report on Other Legal and Regulatory Requirements

Additional Matters to be Reported under the Accountancy Act

In addition to our responsibilities and reporting in accordance with ISAs, described above in the *Information Other than the Financial Statements and Auditor's Report Thereon* section, in relation to the 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.

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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 management report referring to the financial year for which the financial statements have been prepared is consistent with those financial statements.
b) The 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	Milka Natcheva-Ivanova
Legal Representative and	Legal Representative and
Registered Auditor in charge of the audit	Registered Auditor in charge of the audit

Sofia, Bulgaria

15 April 2024

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

Statement of Operations for the Year Ended 31 December 2023

(BGN'000)

	Notes	31 December 2023	31 December 2022
Annual contributions, including	5	92	98
in the sub-fund under Article 134, paragraph 1, item 1 of the LRRCIIF		*92*	*98*
in the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF		-	-
Transfer from the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF to the account of the Single Resolution Fund	5	(22,238)	(34,082)
Interest expense on accounts, including	6	-	(2,026)
in the sub-fund under Article 134, paragraph 1, item 1 of the LRRCIIF		-	*(3)*
in the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF		-	*(2,023)*
Interest income on accounts, including	6	13,131	1,377
in the sub-fund under Article 134, paragraph 1, item 1 of the LRRCIIF		*24*	*2*
in the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF		*13,107*	*1,375*
Net interest income/(expenses)		13,131	(649)
Result for the year		**(9,015)**	**(34,633)**

The accompanying notes on pages 39 to 55 form an integral part of the Financial Statements.

Statement of Financial Position as of 31 December 2023

(BGN'000)

	Notes	31 December 2023	31 December 2022
ASSETS			
Cash at bank, including	7	463,974	472,989
in the sub-fund under Article 134, paragraph 1, item 1 of the LRRCIIF		*896*	*780*
in the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF		*463,078*	*472,209*
TOTAL ASSETS		**463,974**	**472,989**
LIABILITIES		-	-
NET ASSETS		**463,974**	**472,989**

The accompanying notes on pages 39 to 55 form an integral part of the Financial Statements.

Statement of Cash Flows for the Year Ended 31 December 2023

(BGN'000)

	Notes	31 December 2023	31 December 2022
Cash flows from operating activities			
Cash receipts from banks as annual contributions		92	98
in the sub-fund under Article 134, paragraph 1, item 1 of the LRRCIIF		*92*	*98*
in the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF		-	-
Transfer from the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF to an account of the Single Resolution Fund		(22,238)	(34,082)
Net cash flows from operating activities		***(22,146)***	***(33,984)***
Cash flows from investing activities			
Payments related to cash		-	(2,026)
in the sub-fund under Article 134, paragraph 1, item 1 of the LRRCIIF		-	*(3)*
in the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF		-	*(2,023)*
Proceeds related to cash		13,131	1,377
in the sub-fund under Article 134, paragraph 1, item 1 of the LRRCIIF		*24*	*2*
in the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF		*13,107*	*1,375*
Net cash flows from investing activities		***13,131***	***(649)***
(Decrease) in cash flows during the year		**(9,015)**	**(34,633)**
Cash and cash equivalents at the beginning of the period		**472,989**	**507,622**
in the sub-fund under Article 134, paragraph 1, item 1 of the LRRCIIF		*780*	*683*
in the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF		*472,209*	*506,939*
Cash and cash equivalents at the end of the period	7	**463,974**	**472,989**
in the sub-fund under Article 134, paragraph 1, item 1 of the LRRCIIF		*896*	*780*
in the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF		*463,078*	*472,209*

The accompanying notes on pages 39 to 55 form an integral part of the Financial Statements.

Statement of Changes in Net Assets for the Year Ended 31 December 2023

(BGN'000)

	Notes	Net assets
Balance as at 1 January 2022		**507,622**
Result for the year		(34,633)
Total comprehensive result		(34,633)
Balance as at 31 December 2022	7	**472,989**
Balance as at 1 January 2023	7	**472,989**
Result for the year		(9,015)
Total comprehensive result		(9,015)
Balance as at 31 December 2023	7	**463,974**

The accompanying notes on pages 39 to 55 form an integral part of the Financial Statements.

NOTES to the Annual Financial Statements

1. General Information

The Banks Resolution Fund (the BRF, the Fund) was established under the Law on the Recovery and Resolution of Credit Institutions and Investment Firms[1] (LRRCIIF).

The address of the BRF head office is: 1, Knyaz Alexander I Square, 1000 Sofia, Bulgaria.

The activities of the Banks Resolution Fund are governed by the LRRCIIF and the Law on the Bulgarian National Bank (LBNB).

With effect from 27 July 2020, the management of the BRF is performed by the BNB, and decisions related to the BRF management are taken by the BNB Governing Council. The BRF is not an autonomous legal entity.

The composition of the BNB Governing Council as of 31 December 2023 is as follows:

- Dimitar Radev – Governor of the BNB;
- Andrey Gurov – Deputy Governor, head of the Issue Department and member of the Governing Council of the BNB;
- Petar Chobanov – Deputy Governor, head of the Banking Department and member of the Governing Council of the BNB;
- Radoslav Milenkov – Deputy Governor, head of the Banking Supervision Department and member of the Governing Council of the BNB;
- Lyudmila Elkova – member of the Governing Council of the BNB;
- Prof. Nikolay Nenovsky, D.Sc. – member of the Governing Council of the BNB;
- Iliya Lingorski – member of the Governing Council of the BNB.

The composition of the BNB Governing Council as of 31 December 2022 is as follows:

- Dimitar Radev – Governor of the BNB;
- Kalin Hristov – Deputy Governor, head of the Issue Department and member of the Governing Council of the BNB;
- Nina Stoyanova – Deputy Governor, head of the Banking Department and member of the Governing Council of the BNB;
- Radoslav Milenkov – Deputy Governor, head of the Banking Supervision Department and member of the Governing Council of the BNB;
- Lyudmila Elkova – member of the Governing Council of the BNB;
- Prof. Nikolay Nenovsky, D.Sc. – member of the Governing Council of the BNB;
- Iliya Lingorski – member of the Governing Council of the BNB.

The BRF is designed as a special-purpose fund. Its financial means are raised through contributions from the banking system and are intended solely to provide financing for resolution actions and to limit, to the maximum extent possible, the use of public funds.

[1] Published in the Darjaven Vestnik, issue 62 of 14 August 2015.

According to Article 134, paragraph 1 of the LRRCIIF, the Fund consists of two sub-funds having different purposes and scope:

- a sub-fund established to finance the application of the resolution tools and powers in relation to branches of third-country credit institutions (a sub-fund for branches of third-country credit institutions);
- a sub-fund established to raise contributions under Articles 69–71 of Regulation (EU) No 806/2014 and their transfer to the SRF (a sub-fund for contributions to the SRF).

The financial means of the BRF are reported on accounts with the BNB and are invested in accordance with the LBNB. With effect from 27 July 2020, investment decisions are taken by the BNB Governing Council, and the financial means in the individual sub-funds are invested separately, with no mixture being allowed.

2. Applicable Standards

The financial statements of the Fund have been prepared in accordance with the International Financial Reporting Standards adopted in the European Union (IFRS adopted in the EU).

3. Accounting Policies

3.1 Basis of Preparation

The financial statements are presented in thousands of Bulgarian levs (BGN thousand), the Fund's functional currency.

The financial statements of the BRF are prepared:

- in accordance with the historical cost principle;
- in compliance with the going concern principle, implying that the Fund will continue to exist in the foreseeable future.

3.2 Summarised Information on Accounting Policies Applied

In preparing its financial statements, the BRF applies the accounting policies disclosed below.

a) Income

The main sources of income from the BRF's activity are:

1. annual and extraordinary contributions from banks and branches of third-country credit institutions;
2. returns on the investment of the BRF financial means;
3. reimbursement of amounts received by the BRF used for resolution purposes under the terms provided in the application of appropriate resolution tools and related income and compensation;
4. income from contracts for borrowings and other forms of support and the provision of loans on terms and conditions specified in Articles 141 and 142 of the LRRCIIF;
5. other sources.

Income is recognised in the statement of operations on the date of occurrence of the event.

The Fund reports the income from contributions as 'other operating income'. In case of failure to pay an annual contribution within the period prescribed by law, the BNB charges interest for the period of delay on the amount due at the statutory rate. Accrued and repaid interest is presented as 'other net income' in the statement of operations.

Where the available financial means accumulated in the BRF are not sufficient to cover the costs associated with the financing of the resolution, extraordinary contributions are raised from the banks, which have to be paid in full and within the period set up by a resolution of the BNB Governing Council.

As from 1 October 2020, the BNB may determine extraordinary contributions only for the branches of third-country credit institutions. In 2023 and 2022, no extraordinary contributions were raised.

Interest income and expenses are recognised in the statement of operations using the effective interest rate method, with all commissions, received or paid, or discounts that are a component part of the effective interest rate being included in its calculation.

The effective interest rate is determined on the initial recognition of the financial instrument and does not change thereafter.

b) Expenses

The main expenses from the BRF activity are related to:

1. investment of the financial means of the Fund in accordance with the Law on the BNB and the Internal Rules for Management of the BRF financial means;
2. application of resolution tools in accordance with Article 137 of the LRRCIIF;
3. a transfer of financial means to the Single Resolution Fund from the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF in accordance with Article 8 of the Agreement on the Transfer and Mutualisation of Contributions to the Single Resolution Fund. Following the transfer of the resources, the other resources raised in the sub-fund under Article 134, paragraph 1, item 2 are deducted from the obligations of institutions for future contributions to the Single Resolution Fund upon a decision of the BNB Governing Council until their exhaustion;
4. other expenses.

Expenses are recognised when incurred on an accrual basis.

c) Investment Income

Investment income includes interest income and income from sale and revaluation of financial instruments carried at fair value in profit or loss.

Financial means of the Banks Resolution Fund may be invested in accordance with the LBNB.

d) Financial Instruments

IFRS 9 introduces an approach to the classification of financial assets based on contractual cash flow characteristics and the business model for managing them. All recognised financial assets within the IFRS 9 scope are subsequently carried at amortised cost or fair value in profit or loss or in other comprehensive income, depending on the business model and the characteristics of their cash flows.

Classification

The BRF classifies its financial instruments depending on the nature and purpose of the financial assets and liabilities at the date of their acquisition and determines the classification at the date of their initial recognition in the statement of financial position. The Fund 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 cash flows under the models applied by the Fund are solely payments of principal and interest.

When classifying financial assets, the Fund uses the following categories:

1. *financial assets measured at amortised cost*: including cash and cash equivalents; contributions under Article 137, paragraph 1, item 5 and receivables under Article 57, paragraph 6 of the LRRCIIF;
2. *financial assets measured at fair value through profit or loss*: in case of a purchase and acquisition of assets or ordinary shares under Article 137, paragraph 1, items 2 and 3 of the LRRCIIF;
3. *financial assets measured at fair value through other comprehensive income*: in case of a purchase and acquisition of assets or ordinary shares under Article 137, paragraph 1, items 2 and 3 of the LRRCIIF.

Financial liabilities arise as a result of obligations assumed by the BRF for contributions according to funding plans in resolution of credit institutions, under loan agreements and other agreements, under which the Fund is obliged to pay amounts and transfer funds. Following the initial recognition, the Fund classifies its financial liabilities in the category '*financial liabilities measured at amortised cost*'.

As of 31 December 2023 and as of 31 December 2022, financial instruments of the BRF are cash on accounts with the BNB. Cash is qualified as financial assets measured at amortised cost, amounting to BGN 463,974 thousand as of 31 December 2023 (31 December 2022: BGN 472,989 thousand), including:

- BGN 896 thousand (BGN 780 thousand as of 31 December 2022) of the sub-fund for branches of third-country credit institutions;
- BGN 463,078 thousand (BGN 472,209 thousand as of 31 December 2022) of the sub-fund for contributions to the SRF.

As of 31 December 2023 and as of 31 December 2022, the Fund had no commitments leading to incurrence of financial liabilities.

Recognition and Subsequent Measurement

Financial instruments are recognised in the statement of financial position on 'the date of settlement' of a deal regarding which BRF is a party to a financial instrument-related contract. Initially, financial instruments are recognised at the acquisition price, which is the fair price paid/received at acquisition. Transaction costs are included in the acquisition cost of financial assets.

Following the initial recognition, financial assets are measured at fair or amortised cost depending on their business model for managing them and their initial classification:

1. *financial assets measured at amortised cost*: assets carried at amortised value are recognised in the statement of financial position, with current interest income/expenses being recognised in the statement of operations using the effective interest rate method;
2. *financial assets measured at fair value through other comprehensive income* are recognised as another component of BRF's net assets in the statement of operations and are included in the 'comprehensive result' item disclosed in the statement of changes in net assets for the respective period. In case of a sale and/or write-off of debt investments, the accumulated effects are recognised currently in the statement of operations as 'investment income';
3. *financial assets measured at fair value through profit or loss*: the assets are revalued on ongoing basis, and the effect of revaluation is included in the statement of operations.

Financial liabilities which arise as a result of BRF's assumed obligations for contributions in accordance with the funding plans in resolution of credit institutions are measured at amortised value based on the effective interest rate method.

Impairment

Debt instruments which are not carried at fair value through profit or loss are reviewed as of the date of each financial statements to determine whether there is evidence of impairment. Impairment is recognised where a significant and/or permanent decrease in the fair value of a certain asset exists compared to its initially recognised value.

The Fund uses judgements based on historical experience of losses on assets with an inherent credit risk and on objective circumstances of impairment in calculating future cash flows.

Derecognition

Financial assets or a part of them are derecognised from the statement of financial position, when the Fund:

- realises economic gains from contractual rights; or
- loses control over the right to realise economic gains from the contract; or
- the time period of this right has expired; or
- waives that right.

Financial liabilities are derecognised from the BRF statement of financial position, when:

- the obligation is repaid; or
- the obligation is cancelled; or
- the time period to perform the obligation has expired.

Fair Value Measurement

The fair values of financial instruments measured at amortised cost in profit/loss are disclosed in note 8.

Fair value is the price that would be received to sell an asset or paid to transfer a liability between market participants as at the measurement date, and the principal or best market must be available. The measurement of the fair value of an asset or liability is based on assumptions that market participants would make in pricing the asset or liability supposing that they act in their best economic interest.

All assets and liabilities that are measured at fair value or that require disclosure at fair value in the financial statements are grouped into categories according to the fair value hierarchy, as described below, based on the lowest level of inputs used that have a significant influence in measuring the fair value as a whole:

- level 1 – quoted (unadjusted) prices in active markets for identical assets or liabilities are used;
- level 2 – valuation methods are applied where the lowest level of inputs used, significant to the fair value measurement, are directly or indirectly observable;
- level 3 – valuation methods are used in which the lowest level of inputs used, significant to the fair value measurement, are unobservable.

The Fund's management reviews the categorisation of assets and liabilities that are regularly measured at fair value at the relevant level of the fair value hierarchy (based on the lowest level of inputs used that have a significant impact in measuring the fair value as a whole) as of the end of the reporting period and determines the need of transfers from one level to another.

For the purpose of disclosure of fair value and classes of assets and liabilities used by the Fund, according to their nature, characteristics and risk at the relevant level of the fair value hierarchy described above, see note 8.

Cash and Cash Equivalents

In the statement of financial position, cash and cash equivalents are presented at amortised cost calculated by using the effective interest method, *i.e.* including accrued interest.

For the purpose of the statement of cash flows, cash and cash equivalents consist of current accounts and accounts with agreed maturities of up to three months.

Property, Plant, Equipment and Intangible Assets

The Banks Resolution Fund uses property, plant, equipment and intangible assets presented in the consolidated financial statements of the Bulgarian National Bank.

Taxation

The BRF is not an autonomous legal entity and, therefore, tax obligations arising from its activities are obligations of the legal entity that manages it. As of 27 July 2020, the date from which the BRF management is performed by the BNB, taxation of BRF activities complies with the Law on the Bulgarian National Bank.

3.3 Amendments to Accounting Policies and Disclosures

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

The adopted accounting policies are consistent with those applied in the previous reporting year, except for the following IFRSs and amendments to IFRSs that have been adopted by the Fund from 1 January 2023:

IFRS 17 Insurance Contracts

The standard is effective for annual periods beginning on or after 1 January 2023. This is a comprehensive new accounting standard on insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 applies to all types of insurance contracts, as well as to certain guarantees and investment contracts with discretionary participation features. The standard which was adopted by the EU on 19 November 2021 and published in the Official Journal of the EU on 23 November 2021 is not applicable to the BRF.

Amendments to IFRS 17 Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information

The objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers and that establishes the principles for the recognition, measurement, presentation and disclosure of all types of insurance contracts, as well as of certain guarantees and financial instruments considered to be investment contracts with discretionary participation. The accounting model is complemented by specific adaptations for contracts with direct participation features (variable fee approach) and a simplified approach (premium allocation approach), mainly for short-term contracts.

On 9 December 2021, the IASB issued amendments to IFRS 17 to add a transitional 'classification overlay' option to remove potential mismatches between financial assets and liabilities of insurance contracts in the comparative information presented on initial application of IFRS 17. An entity applying the classification overlay to a financial asset shall present the comparative information as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset. The amendments adopted by the EU on 8 September 2022 and published in the Official Journal of the EU on 9 September 2022, with effect from 1 January 2023, are not applicable to the BRF.

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

The amendments are effective for annual periods starting on or after 1 January 2023. The amendments provide guidance on the application of materiality judgements to accounting policies disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant accounting policies' with a requirement to disclose 'material accounting policy information'. In addition, guidance and illustrative examples are added in Practice Statement 2 to assist in the application of the materiality concept when making judgements about accounting policy disclosures.

The Fund's management accepted changes in accounting policy disclosures without changing the policy.

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 occur on or after the beginning of that period. The amendments introduce a new definition of accounting estimates that qualify as monetary amounts in financial statements with an element of uncertainty unless they result from the correction of prior period error. In addition, the amendments clarify what are changes in accounting estimates and how they are distinguished from changes in accounting policies and corrections of errors. 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 to the standard did not lead to changes in the accounting policies of the Fund.

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

The amendments are effective for annual periods beginning on or after 1 January 2023. They narrow the scope and further clarify the exceptions to initial recognition under IAS 12, determining how companies should account for the deferred tax related to assets and liabilities arising from a single transaction, such as leases and 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, on initial recognition, 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.

These amendments were adopted by the EU on 11 August 2022 and published in the Official Journal of the EU on 12 August 2022. These amendments are not applicable to the BRF.

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 introducing a 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 the 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 a company's exposure arising from income taxes under the Pillar Two. In order to comply with these requirements, the company 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 are not applicable to the Fund.

4. Standards issued but not yet effective and not early adopted

4.1 Standards/amendments that have not yet entered into force and have been adopted by the European Union

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. These amendments clarify: the meaning of right to defer settlement of a liability; the requirement that such a right exists at the end of the reporting period; that management's intentions do not affect classification of liabilities as current or non-current; that choices by a counterparty, that result in settlement by 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 Fund's management 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

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. These amendments, which are all effective for annual periods beginning on or after 1 January 2024, are not applicable to the BRF.

4.2 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 are effective for annual periods beginning on or after 1 January 2024 and complement the requirements already included in IFRS 7 and require companies to disclose:

- the terms and conditions of the supplier finance arrangement;
- the carrying amounts at the beginning and the end of the reporting period of supplier finance arrangement financial liabilities and the line items in which those liabilities are presented;
- the carrying amounts of financial liabilities and the line items for which the finance providers have already settled the corresponding trade payables.

Companies 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 companies 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 have not yet been endorsed by the EU. The Fund 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 apply to annual periods beginning on or after 1 January 2025, with earlier application permitted. The amendments clarify how the company has to assess whether a currency is exchangeable and how to determine the spot exchange rate when exhchangeability 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 an 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 BRF 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 Fund will analyse and assess the impact of the amendments on its financial position or performance.

5. Annual Contributions

In line with Article 136, paragraph 1, item 1 of the LRRCIIF and Article 3 of Ordinance No 41 of the BNB[2], on 13 April 2023 the BNB Governing Council set the individual annual contributions of branches of third-country credit institutions for 2023 at the total amount of BGN 92 thousand (2022: BGN 98 thousand). Annual contributions were paid up to the sub-fund for branches of third-country credit institutions within the statutory term.

In 2023 no contributions were raised in the sub-fund for contributions to the SRF. In relation to a decision of the SRB of 2 May 2023 on determining the annual *ex-ante*

[2] BNB Ordinance No 41 of 25 February 2021 on Determining the Amount of the Individual Annual Contributions of Branches of Third-country Credit Institutions to the Banks Resolution Fund.

contributions of credit institutions to the SRF for 2023[3], the BNB Governing Council, taking account of available financial means in the earmarked sub-fund for contributions to the SRF and on the basis of the possibility provided for in the LRRCIIF[4], made a decision the contributions due for 2023 to the SRF by the credit institutions licensed in the Republic of Bulgaria to be deducted from the financial means available in the earmarked sub-fund.

In 2023, as in 2022, no extraordinary contributions from the respective contribution debtors were determined and raised.

6. Income/Expenses

In 2023 funds from the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF in the amount of BGN 22,238 thousand were transferred to the SRF, representing the part of the total amount of the annual *ex-ante* contributions for 2023 due by the credit institutions licensed in the Republic of Bulgaria to the SRF, which was executed in cash. In 2022 the funds transferred from the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF to the SRF amounted to BGN 34,082 thousand.

The Fund earns interest income on its current account funds amounting to BGN 13,131 thousand (31 December 2022: BGN 1377 thousand), of which BGN 24 thousand on the sub-fund for branches of third-country credit institutions (31 December 2022: BGN 2 thousand) and BGN 13,107 thousand on the sub-fund for contributions to the SRF (31 December 2022: BGN 1375 thousand), applying reference interest rates in accordance with the General Terms and Conditions of the Bulgarian National Bank on Servicing Accounts of Banks, Budget Organisations and Other Customers.

In 2023, the Fund did not report interest expenses on its current accounts with the BNB, as defined in the General Terms and Conditions of the Bulgarian National Bank on Servicing Accounts of Banks, Budget Organisations and Other Customers. As of 31 December 2022 interest expenses amounted to BGN 2026 thousand, of which BGN 3 thousand on the sub-fund for branches of third-country credit institutions and BGN 2023 thousand on the sub-fund for contributions to the SRF.

Costs related to the BRF management are part of the BNB administrative costs arising from the resolution function, that are financed by fees collected from credit institutions and branches of third-country credit institutions established in the Republic of Bulgaria. The terms and procedures for determining and collecting these fees are

[3] SRB Decision (SRB/ES/2023/23) of 2 May 2023 on the calculation of the 2023 *ex-ante* contributions to the Single Resolution Fund for 2023.

[4] The second sentence of § 56, paragraph 2 of the Transitional and Final Provisions of the Law on Amendment of the LRRCIIF stipulates that after the transfer of the funds to the SRF, the remaining funds, if any, accumulated in the sub-fund for contributions in the SRF, following a decision of the BNB, are deducted from the obligations of the institutions for future contributions to the SRF, until they are exhausted.

laid down in the BNB Ordinance No 40[5]. The total amount of administrative costs arising from the resolution function should be disclosed in the annual financial statements of the BNB for the relevant financial year.

Over the reporting period, the Fund has no other sources of income.

At the reporting date the BRF has no outstanding obligations related to interest or other payments.

7. Cash and Cash Equivalents

(BGN'000)

	31 December 2023	31 December 2022
Cash in levs, including	**463,974**	**472,989**
in the sub-fund under Article 134, paragraph 1, item 1 of the LRRCIIF	*896*	*780*
in the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF	*463,078*	*472,209*
	463,974	**472,989**

As of 31 December 2023 and as of 31 December 2022, the financial means of both sub-funds are held in separate earmarked current lev accounts with the BNB under 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 and as of 31 December 2022, the Fund has no outstanding obligations.

8. Financial Risk Management

After 27 July 2020 the Bank Resolution Fund's financial means are invested in compliance with the Law on the Bulgarian National Bank and the Internal Rules for Management of the Financial Means of the Banks Resolution Fund adopted by the BNB Governing Council.

The BNB Governing Council takes decisions regarding the investment of the financial means of the BRF in consistent compliance with the principles of security, liquidity and profitability.

The financial means in the individual sub-funds of the BRF are invested separately, with no mixture being allowed.

[5] 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 Functions.

The structure of BRF's financial assets and liabilities as at 31 December 2023 and as at 31 December 2022 by category is as follows:

(BGN'000)

	31 December 2023	31 December 2022
Financial assets		
The Financial assets measured at amortised cost category		
Cash and cash equivalents, including	463,974	472,989
in the sub-fund under Article 134, paragraph 1, item 1 of the LRRCIIF	*896*	*780*
in the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF	*463,078*	*472,209*
	463,974	**472,989**

The analysis of financial instruments, measured at fair value at the end of the reporting period, classified by levels within the fair value hierarchy where a fair value measurement is categorised, is as follows:

(BGN'000)

	Level 1	Level 2	Level 3	Total
31 December 2023				
Financial assets measured at amortised cost				
Cash and cash equivalents, including:	463,974	-	-	463,974
in the sub-fund under Article 134, paragraph 1, item 1 of the LRRCIIF	*896*	-	-	*896*
in the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF	*463,078*	-	-	*463,078*
	463,974	-	-	**463,974**
31 December 2022				
Financial assets measured at amortised costs				
Cash and cash equivalents, including:	472,989	-	-	472,989
in the sub-fund under Article 134, paragraph 1, item 1 of the LRRCIIF	*780*	-	-	*780*
in the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF	*472,209*	-	-	*472,209*
	472,209	-	-	**472,209**

As of 31 December 2023 and as of 31 December 2022 the Banks Resolution Fund has no financial liabilities.

Market risk

1. Currency risk

Currency risk exists where there is a mismatch between the currency structure of assets and that of liabilities.

With the introduction of the currency board arrangement in Bulgaria and the fixing of the Bulgarian currency to the euro, the financial statements, prepared in Bulgarian levs, are affected by movements in the exchange rate of the lev against the currencies other than the euro.

The Banks Resolution Fund's financial means were not exposed to currency risks as of 31 December 2023 and as of 31 December 2022, as the financial instruments possessed by it are in Bulgarian levs.

2. Price risk

As of 31 December 2023 and as of 31 December 2022, the Banks Resolution Fund has no financial instruments exposed to price risk.

3. Interest rate risk

Interest risk relates to the risk of interest rate fluctuations, which may impact the future cash flows of assets (investments) and interest-bearing liabilities.

The structure of the financial instruments depending on the nature of agreed cash flows is presented in the table below.

(BGN'000)

	Floating rate instruments	Fixed rate	Interest-free	Total
31 December 2023				
Financial assets				
Cash and cash equivalents, including:	463,974	-	-	463,974
in the sub-fund under Article 134, paragraph 1, item 1 of the LRRCIIF	*896*	-	-	*896*
in the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF	*463,078*	-	-	*463,078*
	463,974	-	-	**463,974**
31 December 2022				
Financial assets				
Cash and cash equivalents, including:	472,989	-	-	472,989
in the sub-fund under Article 134, paragraph 1, item 1 of the LRRCIIF	*780*	-	-	*780*
in the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF	*472,209*	-	-	*472,209*
	472,989	-	-	**472,989**

Credit and liquidity risk

Credit risk is mostly the risk for the BRF of being unable to collect its receivables within an appropriate time frame. When determining how much the credit risk is increased compared to the initial recognition of the asset, the BNB Governing Council uses all reasonable and supportable information that is available.

Loss given default is a judgement for damages that the Fund would suffer in the event of default. It is based on the difference between the contractual cash flows and the cash flows that the Fund is expected to receive.

The Banks Resolution Fund's maximum exposure to credit risk is equivalent to the book value of cash on the accounts of both sub-funds.

Liquidity risk primarily manifests in two aspects: the first risk is the risk of the Fund being unable to meet its obligations when due, and the second aspect comprises the risk 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.

As of 31 December 2023 and as of 31 December 2022, the Banks Resolution Fund's cash is available on its accounts with the Bulgarian National Bank.

The Fund's financial instruments, analysed by residual term to maturity from the date of the statement of financial position to the date of 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	Total
31 December 2023						
Financial assets						
Cash and cash equivalents, including:	463,974	-	-	-	-	463,974
in the sub-fund under Article 134, paragraph 1, item 1 of the LRRCIIF	*896*	-	-	-	-	*896*
in the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF	*463,077*	-	-	-	-	*463,077*
	463,974	-	-	-	-	**463,974**
31 December 2022						
Financial assets						
Cash and cash equivalents, including:	472,989	-	-	-	-	472,989
in the sub-fund under Article 134, paragraph 1, item 1 of the LRRCIIF	*780*	-	-	-	-	*780*
in the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF	*472,209*	-	-	-	-	*472,209*
	472,989	-	-	-	-	**472,989**

9. Events Occurred after the Reporting Date

On 15 February 2024, following the completion of the verification of the target level of the Single Resolution Fund, the Single Resolution Board publicly announced[6] that the funds available in the SRF on 31 December 2023 had reached the required target level of at least 1 per cent of the amount of guaranteed deposits in credit institutions authorised in Member States participating in the Single Resolution Mechanism, as defined in Article 69(1) of Regulation (EU) No 806/2014. The press release also states that no regular annual contributions to the SRF will be collected in 2024 and that contributions would only be raised in case of specific circumstances or resolution actions involving the use of SRF funds. It is specified that, under normal circumstances, the verification of the target level of the SRF to confirm the maintained level of 1 per cent of the amount of covered deposits of the credit institutions within the scope of the SRM will be carried out annually. Subject to the outcome of this verification, the SRB will resume the regular collection of contributions to the SRF and inform the institutions accordingly.

There are no events after the reporting date that require additional disclosure or adjustments to the financial statements of the Banks Resolution Fund.

[6] For more details, see the press release of 15 February 2024 on the Single Resolution Board's website.

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The sculptural composition by Kiril Shivarov depicting Hermes and Demeter on the southern façade of the Bulgarian National Bank building is used in cover design.