BULGARIAN NATIONAL BANK

ANNUAL REPORT · 2020

Bulgarian National Bank

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

Under the provisions of the Law on the Bulgarian National Bank Article 1, paragraph 2 and Articles 50 and 51, I have the honour of presenting the Bank's Annual Report for 2020.

Dimitar Radev
Governor
of the Bulgarian National Bank

BNB Governing Council
Sitting from left to right: Lyudmila Elkova, Dimitar Radev, Elitsa Nikolova.
Standing from left to right: Kalin Hristov, Radoslav Milenkov, Nina Stoyanova, Nikolay Nenovsky.

BNB Governing Council

Dimitar Radev
Governor

Kalin Hristov
Deputy Governor
Issue Department

Nina Stoyanova
Deputy Governor
Banking Department

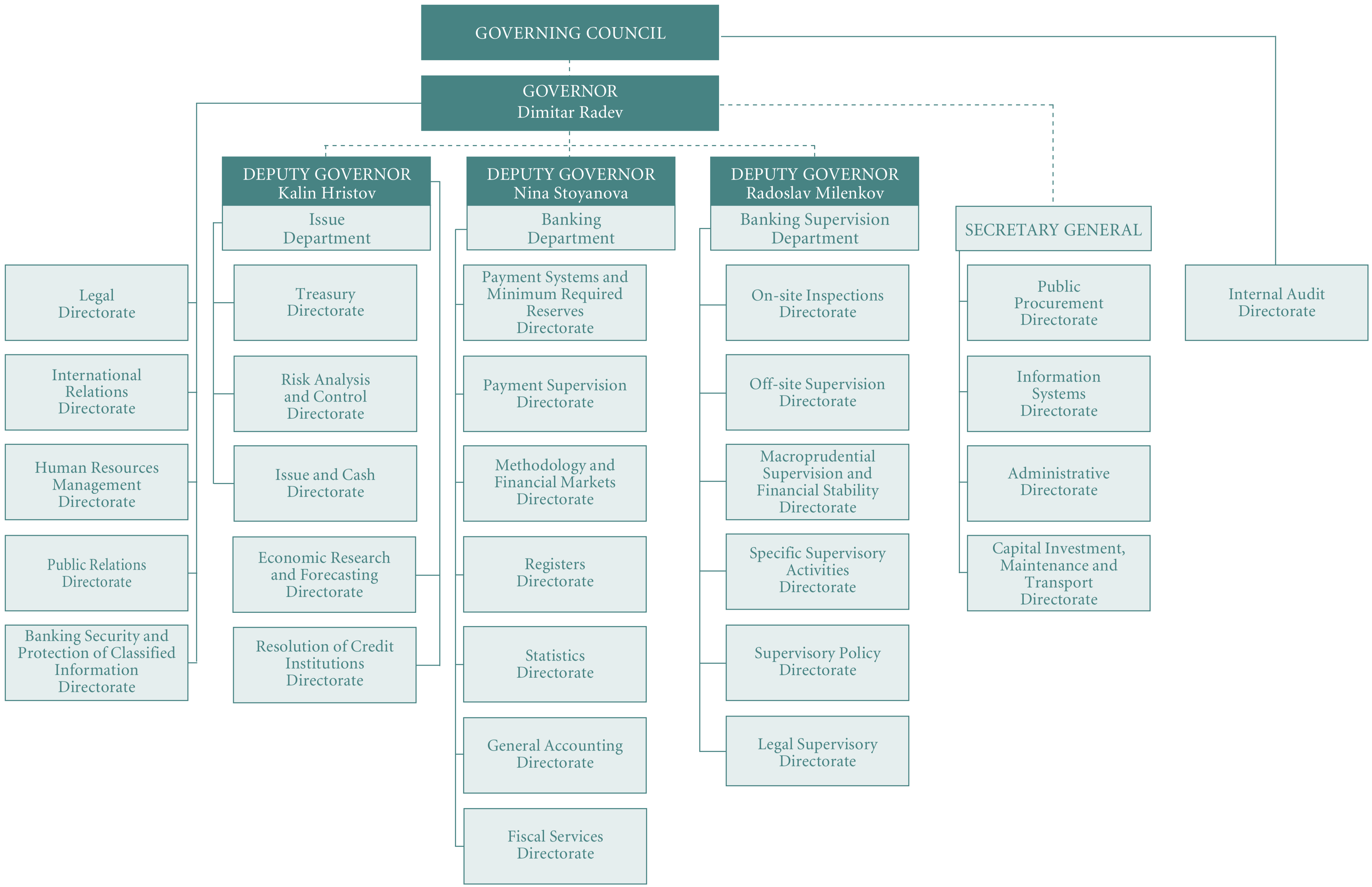
Radoslav Milenkov
Deputy Governor
Banking Supervision Department

Elitsa Nikolova

Lyudmila Elkova

Nikolay Nenovsky

Organisational Structure of the BNB
(as of 31 December 2020)



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Abbreviations

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

Summary

The Bulgarian National Bank conducts its policy taking into account the international situation and developments in the national economy. The BNB pursues its primary objective of price stability through maintaining national currency stability by adhering to the Law on the Bulgarian National Bank and applying its potential and capabilities effectively.

The Report covers the activities relating to the BNB's legal functions and duties as well as other Bank's business related to or supporting its functions and duties. As regards BNB's legal functions and duties, the activities of the Bank as a supervisory authority and resolution authority of credit institutions changed substantially over the reporting period. These changes arise from Bulgaria's accession to the Single supervisory mechanism (SSM) and the Single Resolution Mechanism by establishing close cooperation between the BNB and the ECB. The Report also contains BNB budget performance for 2020 and consolidated financial statements as of 31 December 2020 (audited). Information under Article 17, paragraph 5 of the Law on the Bulgarian National Bank concerning resolutions adopted by the BNB Governing Council in 2020 is included.

In 2020 global economic activity decreased by 3.5 per cent in real terms, as a result of the unprecedented measures imposed to contain the spread of the COVID-19 pandemic. Global industrial production declined by 4.6 per cent in 2020, while world trade recorded a 5.3 per cent decline, affecting all regions in the world, excluding China and some developed economies in Asia. Initially, a significant increase in the number of persons infected with the new coronavirus COVID-19 was registered in China, but then the pandemic spread quickly across the globe. The contraction of economic activity was more intense in the first half year, and containment measures had a stronger and continuous negative effect on the sector of services. Governments and central banks in the US and the euro area initiated large-scale fiscal and monetary policy measures to reduce the negative economic effects of the pandemic. Easing of containment measures in the third quarter of 2020 along with the effects of accommodative monetary and fiscal measures and decreasing COVID-19 cases contributed to the improvement of economic agent attitudes and global economic activity growth. Subsequently, the second coronavirus wave and resumption of stringent anti-epidemic measures in some developed economies over the last quarter of the year led to a slowdown in the ongoing recovery.

As a result of the measures to contain the spread of the disease, in the second quarter of 2020 the US labour market suffered the most severe negative shock in history, and real GDP reported an essential drop due to the dramatic decline in private consumption. Despite the significant rise in US economic activity over the third quarter, US real GDP in 2020 fell by 3.5 per cent on an annual basis. In China, the largest drop in real GDP was reported in the first quarter, followed by a resumption of economic activity recovery and real GDP growth of 2.3 per cent for the year. Euro area real GDP declined by 6.6 per cent in 2020, falling by 4.9 and 8.9 per cent year on year in Germany and Italy, which are among Bulgaria's major trade partners.

Global inflation slowed down significantly in 2020 due to falling goods and services prices in developed economies, following the strong decline in energy prices caused by weak demand for fuels amid stringent social distancing and restricted movement measures. The annual rate of inflation measured by the personal consumption expenditure price index slowed down in the US to 1.2 per cent (1.5 per cent in 2019) remaining under the target set by the Federal Open Market Committee (FOMC). Annual euro area inflation decelerated significantly, and deflation of -0.3 per cent was reported at the end of the year (1.3 per cent in December 2019), with energy price declines driving largely the fall in inflation.

In the context of a strong negative effect of the COVID-19 anti-epidemic measures on economic activity and a substantial deterioration in inflation projections, the central banks in the US and the euro area initiated comprehensive accommodative monetary policy measures. At two extraordinary meetings in March 2020, the US Federal Open Market Committee lowered the target range for the federal funds rate by 150 basis points to 0.00–0.25 per cent. In addition, extraordinary monetary policy measures were launched to include a resumption and extension of programmes applied for the last time during the financial crisis in 2008–2009 and introduction of a number of entirely new programmes to support the corporate debt market. The ECB Governing Council increased significantly asset purchases mainly under the newly established Pandemic Emergency Purchase Programme (PEPP). The terms and conditions on targeted longer-term refinancing operations (TLTRO-III) were significantly improved. Concurrently, swap lines between the ECB and the US Federal Reserve System were activated to provide dollar liquidity in the euro area. Over the year the ECB Governing Council left unchanged its key interest rates for the euro area. Temporary supervisory measures were launched to allow euro area banks to use part of their capital and liquidity buffers.

The increased uncertainty surrounding the economic effects of the measures to contain the spread of COVID-19 caused a very high volatility in global financial markets in the first quarter. The large-scale accommodative monetary and fiscal policy measures launched from March to the end of 2020 contributed globally to the significant decline in the financial market uncertainty and the recovery of financial asset prices. By end-year most US and euro area stock indices reached historical highs.

The spread of COVID-19 in 2020 and introduced global containment measures gave rise to significant negative effects on Bulgaria's economic activity in terms of weaker external demand and restrictions imposed on the operation of firms in certain economic sectors. In Bulgaria, more stringent containment measures were imposed at the end of the first and in the second quarters of 2020, followed by their partial easing over the third quarter and a new tightening at the end of the year. As a result, over the first quarter of 2020 quarterly growth of real GDP decelerated to 0.4 per cent, followed by a strong decline of -10.1 per cent in the second quarter, a partial recovery in economic activity of 4.3 per cent in the third quarter and a new slowdown in quarterly growth to 2.2 per cent at the end of the year. Overall for 2020, real GDP of Bulgaria decreased by 4.2 per cent. The countercyclical fiscal policy helped mitigate the deceleration in economic activity through increased net transfers to economic agents, employment protection programmes and higher government consumption and investment. The number of the people employed in the economy fell by 2.3 per cent on 2019 mainly due to their decline in sectors that were the most severely affected by the measures against the COVID-19: trade, transport, accommodation and food services activities. Social and economic measures launched by the government helped reduce the drop in the number of employed. The National Statistical Institute (NSI) Labour Force Survey shows that the unemployment rate rose to 5.2 per cent on average for 2020 (4.3 per cent in 2019), while Employment Agency data point to a rise in the level of registered unemployment to 7.4 per cent on average for 2020 (5.6 per cent in 2019). The non-legislative moratorium on loan repayments, as approved by the BNB, was an important factor for easing liquidity problems of firms and households over the year.

The economic effects of the COVID-19 spread and related containment measures led to a slowdown in the growth rate of consumer prices, with inflation reaching 0.0 per cent at the end of 2020 (3.1 per cent at the end of 2019). In December all main HICP components reported moderation in their growth rates or a fall in prices on an annual basis. Core inflation also slowed down to 0.5 per cent (1.8 per cent in December 2019) due mostly to the negative effects of containment measures and weaker household demand.

In 2020 non-government sector deposits in the banking sector grew at comparatively high rates (9.7 per cent at the end of 2020 matching their December 2019 growth) as a result of both the precautionary savings maintained by economic agents amid uncertain macroeconomic environment caused by the pandemic outbreak, and the postponement or inability of households to consume some goods and services and limited investment activity of corporations. The annual growth rate of loans to non-financial corporations and households slowed down to 4.5 per cent at the end of 2020 (against 7.4 per cent in December 2019), reflecting the impact of both demand and supply factors. The uncertainty surrounding future developments in the macro-economic environment and weak investment activity in Bulgaria throughout 2020 dampened private sector demand for credit. Concurrently, after the introduction of COVID-19 containment measures in Bulgaria banks tightened their credit standards and conditions, especially for corporate loans, reflecting their lower risk aversion and higher risk assessment.

In 2020 the cash based budget balance on the consolidated fiscal programme was negative at BGN -3532 million (-3.0 per cent of GDP). Budget automatic stabilisers' effects in the context of the crisis caused by the COVID-19 spread and government's discretionary measures to support the health system and cope with the economic consequences of COVID-19 (amounting to 2.4 per cent of GDP) were the main factors behind the realised budget deficit. At the end of 2020 fiscal reserve deposit funds amounted to BGN 8525 million (7.2 per cent of GDP), of which BGN 8026 million of deposits with the BNB.

The BNB continued managing gross international reserves conservatively, while as early as the first half of March, at the beginning of an unexpectedly rapid spread of coronavirus in the USA and Europe, a number of investment restrictions have been introduced in view of the uncertainty surrounding the magnitude and duration of the economic impact of the unprecedented measures to contain the spread of COVID-19 globally, and the increasing volatility on international financial markets. The introduced investment restrictions aimed and lead to a reduction in credit and market risks and to an increase in liquidity of international reserves. In mid-year after the gradual normalisation of international financial markets, most investment restrictions previously imposed were lifted resulting in recovery of the investment process in foreign reserve management. Concurrently, credit risk tolerance was lowered significantly compared with that of end-2019. Investment limits for maximum and minimum credit exposure by asset class and asset concentration limits to individual issuers and counterparties were modified more moderately. In addition, credit exposure to issuers of financial instruments from certain countries and groups of counterparties with relatively higher credit risk levels was prohibited. By end-2020 the market value of gross international reserves was EUR 30,848.2 million: up EUR 6012.6 million on the end of 2019 or 24.2 per cent growth on an annual basis. Over the reporting period the majority of assets continued to be invested in securities of highest credit quality comprising on average 56.5 per cent of total international reserves for the year. The annual average share of deposits amounted to 27.2 per cent and that of cash increased to 16.3 per cent, from 4.2 per cent by end-2019. Net income from international reserves management in 2020 was positive at EUR 226.06 million or 1.00 per cent net return for the period. The annual average share of monetary gold in the structure of gross international reserves rose to 7.91 per cent from 7.11 per cent in 2019, reflecting the gold price rise in euro over the reporting period and the acquisition by the BNB of 11,114 troy ounces of monetary gold exchange standard equivalent in early February 2020. Broken by component, net income comprised investment income which was negative at EUR -86.50 million, earnings from foreign exchange revaluation at EUR 257.43 million and net financial result of liabilities in the Issue Department balance sheet which was positive at EUR 55.13 million.

Implementing, operating, and overseeing efficient payment systems are important central bank functions. National payment systems functioned effectively and provided payment flow continuity. In 2020 RINGS, a real-time gross settlement system operated by the BNB, processed 84.7 per cent of payments in Bulgaria. RINGS payments numbered 1,017,152 (down 8.7 per cent on 2019), their value reaching BGN 1,094,557 million (up 0.1 per cent on 2019). The national system component of the Trans-European Automated Real-time Gross settlement Express Transfer system for the euro run by the BNB – TARGET2-BNB – processed 233,796 payments (down 15.7 per cent on 2019) for EUR 644,549 million (up 45.5 per cent on 2019). The Bank regulates and oversees payment system operators with settlement finality, payment service providers and electronic money issuers in Bulgaria. In 2020 three supervisory inspections were completed: one individual supervisory inspection of a payment service provider and two thematic inspections of payment service providers in Bulgaria, while four other inspections started: two individual inspections and two thematic inspections. Over the period the Bank continued one thematic supervisory inspection of payment service providers which was initiated in the previous review period. In 2020 the BNB granted one electronic money institution licence and refused a payment institution licence.

The Bank has a monopoly on banknote and coin issue in Bulgaria. Its currency is mandatorily acceptable as legal tender at face value without restriction. BNB issue and cash operations include: banknote printing, coin minting, accepting, delivering, repaying, processing, authenticity and fitness checking of Bulgarian banknotes and coins and foreign currency, exchanging damaged Bulgarian banknotes and coins, and scrapping unfit Bulgarian banknotes and coins. In 2020 the BNB put step-by-step the last three banknotes of the new series of BGN 5, BGN 10 and BGN 20 nominal value, issue 2020. The general appearance and main features of the banknotes are almost unchanged from those of the banknotes in circulation. The changes in the banknotes of the new series include mainly new security features. By the close of 2020 circulating banknotes numbered 547.7 million (legal tender) worth BGN 20,751.8 million. In a year their number rose 43.3 million (8.6 per cent) and their value BGN 2118.3 million (11.4 per cent). Coins in circulation (legal tender) numbered 2722.1 million, worth BGN 483.8 million by the close of 2020. Over the year their number rose by 123.4 million (4.7 per cent), and their value by BGN 24.1 million (5.2 per cent). The share of retained non-genuine Bulgarian banknotes and coins remained at very low levels: 0.00002 per cent and 0.000154 per cent of the total number of circulating banknotes and coins (legal tender) by the end of 2020. The BNB tested sorting machines and customer operated machines in line with identification and fitness standards into 11 credit institutions, five service providers and five representatives of machine producers under Ordinance No 18 on the Control over Quality of Banknotes and Coins in Cash Circulation.

In 2020 the banking sector in Bulgaria operated in an environment of sharp decline in economic activity caused by the unprecedented containment measures against the COVID-19 pandemic. The banking system in Bulgaria has met this economic shock with a strong capital and liquidity position ensuring business continuity and operational reliability of banks in financial mediation. Resilience and flexibility of the banking sector in the context of the dramatically worsened macroeconomic environment were underpinned by both recent years' policy of building up buffers and the measures adopted on 12 March 2020 by the BNB Governing Council to further strengthen bank capital and liquidity, including profit capitalisation of credit institutions and imposition of individual and aggregate limits on banks' foreign exposures in order to reduce credit risk and concentration risk in bank balance sheets. On 19 March the BNB Governing Council also decided to remove planned increases in the countercyclical capital buffer. Despite the economic shock in 2020 the ratio of non-performing loans in the banking system decreased due to the combined effect of the non-legislative moratorium on loan repayments as proposed by the Association of Banks in Bulgaria (ABB) and approved on 9 April by the BNB Governing Council, along with the sales and write-offs of non-performing loans over the period under review. In view of the continued effect of COVID-19 containment measures and in line with EBA's updated guidelines and ABB requests the moratorium on repayment of loans to banks was extended twice by the BNB Governing Council's resolutions of 9 July 2020 and 10 December 2020. Taking into account the deterioration of the financial position of some firms and households, affected by the measures against COVID-19, banks increased their credit risk assessments and responded by tightening lending standards and raising impairment charges. These additional costs coupled with lower operating income as a result of the prolonged period of low interest rates and deteriorated economic environment had an adverse effect on return on assets in the banking sector over the review period. In 2020 banks' liquid position improved with the liquidity coverage ratio exceeding significantly the regulatory requirement, driven by deposit growth over the year and BNB measures launched on 12 March to increase additionally banking system capital and liquidity. Banks' capital position also improved with capital ratios of all credit institutions exceeding regulatory requirements by end-year. This reflected available capital buffers accumulated before the economic shock, BNB's March measures, and the regulatory relief in response to the COVID-19 pandemic.

As from 1 October 2020 Bulgaria joined the Single Supervisory Mechanism (SSM) by establishing close cooperation between the BNB and the ECB pursuant to Decision (EU) 2020/1015 of the ECB of 24 June 2020. Under the close cooperation framework, since 1 October 2020 the ECB is responsible for the direct supervision of institutions determined as significant institutions *i.e.* UniCredit Bulbank AD, DSK Bank AD, United Bulgarian Bank AD, Eurobank Bulgaria AD, Raiffeisenbank (Bulgaria) EAD. Institutions determined as less significant institutions remain under the BNB's direct supervision. As from 1 October 2020, the BNB Deputy Governor in charge of the Banking Supervision Department, is the BNB's representative in the ECB's Supervisory Board, having the same rights and obligations as all other board members, including a voting right.

The process of banking sector consolidation continued during the reporting period, with Expressbank AD being transformed through a merger into DSK Bank EAD.

Within the Supervisory Review and Evaluation Process (SREP) the off-site supervision activity was focused on the current monitoring of credit institutions' risk profile. Follow-up of key risk indicators continued on a quarterly basis to determine the level and trends of risks assumed by banks and their effect on credit institutions' financial position. Supervisors carried out annual review and assessment of banks' Internal

Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) reports as of 31 December 2019. After 1 October 2020 SREP activities were focused on less significant institutions, which remain under the BNB's direct supervision.

The BNB's macroprudential policy played an important role an important role in mitigating the negative effects of the pandemic on banking sector's liquidity and capital position in terms of the recent years' consistent policy of building-up and preserving buffers in the banking system and the measures launched in March 2020 to maintain the resilience and flexibility of the banking sector amid a deteriorated macroeconomic activity. In 2020 the BNB's macroprudential supervision activities continued to be focused on a regular analysis of the banking risk profile covering asset quality, profitability level, capital adequacy and liquidity, and an assessment of cyclical and structural measures of the systemic risk which are the basis of introduced macroprudential instruments.

The BNB's control functions for compliance with the requirements of the Law on Measures against Money Laundering (LMML) and the Law on Measures against Financing of Terrorism (LMFT) by significant and less significant banks were maintained after Bulgaria's accession to the SSM. In the framework of specific supervisory activities, the interaction with the State Agency for National Security continued over the year, with BNB's teams conducting joint thematic inspections and full on-site inspections into particular banks. Activities related to the regulatory framework were aimed at implementing EBA Guidelines on legislative and non-legislative moratoria, on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis, and on supervisory reporting and disclosure requirements in compliance with the 'quick fix' of Regulation (EU) No 575/2013 in response to the COVID-19 pandemic. Over the reporting period new legislative amendments to the BNB's Ordinance No 7 on the organisation and risk management in banks, were drafted in order to bring the ordinance in line with the requirements arising from the accession of Bulgaria to the SSM by establishing close cooperation between the BNB and the ECB.

In 2020 the BNB acts as a resolution authority within two different legal frameworks. Part of the functions and tasks of the BNB as a resolution authority changed on the date on which the ECB decision on establishing close cooperation became applicable *i.e.* 27 July 2020. With effect from 1 October 2020, the date of establishing close cooperation with the ECB, the BNB performs functions and tasks as a resolution authority within the framework of the Single Supervisory Mechanism (SSM), while observing the direct application of Regulation (EU) No 806/2014. The main Bank activities as a resolution authority until 1 October 2020 focused on preparing, reviewing, and updating resolution plans. Until that date the BNB Governing Council adopted 2019 resolution plans of seven credit institutions that are not part of a group subject to supervision on a consolidated basis, and a resolution plan of a credit institution subject to supervision on a consolidated basis. In addition, the BNB jointly with the group-level resolution authority and other resolution authorities of EU subsidiary companies continued to work on assessing resolvability and reviewing resolution plans of five banking groups and their subsidiaries licensed in Bulgaria. Under the Law on the Recovery and Resolution of Credit Institutions and Investment Firms (LRRCIIF), in March 2020 the BNB Governing Council set the total amount of annual bank contributions to the Bank Resolution Fund (BRF) at BGN 157,876 thousand. In the first half of 2020, BNB experts worked actively on drafting the amendments to the Law on Payment Services and Payment Systems, transposing into Bulgarian legislation the provisions of Directive (EU) 2019/879. Between January and June 2020, the BNB as a resolution authority jointly with SRB representatives continued working on the preparation for the accession to the SSM and consequently to the Single Resolution Fund (SRF). With effect from 1 October 2020, as a direct consequence of the established close cooperation with the ECB, essential changes occurred in the powers, functions and tasks of the BNB as a resolution authority in relation to credit institutions licensed in Bulgaria. Credit institutions and groups established in the country subject to the ECB's supervisory powers, are included also in the scope of the SRB powers. In respect of the entities falling within the direct powers of the SRB, the BNB is replaced by the SRB in exercising the functions of a resolution authority and making decisions on all aspects of resolution. In its capacity as a resolution authority in respect of entities and groups which do not fall within the scope of the SRB powers, the BNB retains its powers in the field of resolution planning, resolvability assessments, removal of impediments to resolvability, early intervention measures, resolution decisions and actions if the resolution scheme does not provide for participation of the SRF. Although the BNB retains its leading role as a resolution authority in respect of entities that are less significant and are not cross-border groups within the meaning of Regulation (EU) No 806/2014, Republic of Bulgaria's participation in the SRM requires aligning the activities with the specificities of the legal framework of resolution within the SRM. With effect from 1 October 2020, the BNB is represented by the Deputy Governor heading the Issue Department in the Plenary Session and the Extended Executive Session, having the same rights and obligations as all other members, including a voting right. In addition, the BNB appointed representatives who will participate in the SRB structures at various levels. With effect from 27 July 2020 – the date of the ECB decision on establishing close cooperation – essential changes occurred in the functions and tasks of the BNB as a resolution authority regarding the BRF management. Since that date the BNB has been fully carrying out the current management of the BRF. Against this background, on 27 July 2020 the Management Board of the Bulgarian Deposit Insurance Fund (BDIF) transferred all accumulated funds to the BNB. In the context of the accession to the SRM, there was also a change in the financing sources of the BRF and use of the funds for resolution. To this end, under Article 134, paragraph 1 of the LRRCIIF two target sub-funds were established: a sub-fund for branches of third-country credit institutions and a sub-fund for contributions to the SRF. The function of determining and raising contributions by branches of third-country credit institutions and the target use of the funds under the LRRCIIF remains within the exclusive competence of the BNB, with collected funds transferred to the respective sub-fund. The function of determining the amount of the individual annual contributions and extraordinary contributions to the SRF is performed by the SRB and includes both credit institutions falling within the direct powers of the SRB, and those for which the BNB is a resolution authority. The SRB also takes all decisions on SRF budget and the use of the single fund to finance specific actions and resolution instruments. On 5 October 2020, on receipt of a MF's letter about the notification sent by the SRB on the initial contribution of the Republic of Bulgaria to the SRF, the BNB ordered the transfer of the initial contribution to the SRF by debiting the account of the respective sub-fund with the amount of BGN 158,457,942.54.

By participating in the committees and working groups of the European System of Central Banks (ESCB), the European Commission, the EU Council, the European Systemic Risk Board (ESCB), the European Banking Authority (EBA), and the national Council for European Affairs, the BNB contributed to formulating Bulgarian standpoints on key economic governance areas and the financial sector. Transmission channels of the impact of COVID-19 containment measures on the European economy, economic implications and measures to mitigate their effect were the main focus of EU committees and working groups in 2020. Over the year, following the ECB's opinion Law on Amendment to the Law of credit Institutions and Law on Amendment to the Law on the Bulgarian National Bank were adopted in the context of establishing close cooperation between the ECB and the BNB and the inclusion of the Bulgarian lev in the ERM II. ECB's decision of 24 June 2020 (ECB/2020/30) established close cooperation between the ECB and BNB as of 1 October 2020 transferring supervisory tasks to the ECB in conjunction with Council Regulation (EU) No 1024/2013 and conferring specific tasks concerning policies relating to the prudential supervision of credit institutions. On 10 July 2020, at the request of the Bulgarian authorities, the ERM II Committee consisting of finance ministers of the euro area Member States, the President of the ECB, and the finance minister and central bank governor of Denmark have decided to include the Bulgarian lev in the Exchange Rate Mechanism (ERM II). In accordance with Bulgaria's request, the ERM II Committee decided to set the central rate of the Bulgarian lev at the fixed rate of EUR 1 = BGN 1.95583, existing since 1997. The standard fluctuation band of plus or minus 15 per cent will be maintained around the central rate of the lev. At the request of Bulgaria's authorities Bulgaria joined the exchange rate mechanism with its existing currency board arrangement in place, as a unilateral commitment, thus placing no additional requirements to the ECB. The Bulgarian lev was included in the ERM II on 13 July 2020.

In 2020 the Bank continued to collect, compile and disseminate up-to-date data on its website and by regular communications with the ECB, Eurostat, the ESRB, the IMF, the BIS, and other national and international institutions. In 2020 following BNB General Council resolutions, ordinances on amendment to BNB Ordinance No 17 and Ordinance No 27 were adopted, introducing extended reporting requirements to banks for monetary and interest rate statistics.

The BNB maintains the Central Credit Register (CCR): an information system on customer debt to Bulgarian banks, other financial institutions, and payment and electronic money institutions extending loans under Article 19 of the Law on Payment Services and Payment Systems (LPSPS). In 2020 participants in the CCR conducted 8678 thousand electronic searches, against 9311 thousand searches by 31 December 2019. 2020 saw 17,111 applications for CCR statements of which 16,738 by individuals and 373 by legal entities.

The BNB also maintains a Register of Bank Accounts and Safe Deposit Boxes (RBASDB) with an electronic information system containing bank account numbers, holders and attorneys, data on account preservation orders, bank deposit box holders and attorneys. As of 31 December 2020 the Register logged 15.3 million active bank accounts from 15.6 million in December 2019 and 31.4 thousand safe deposit box hires from 32.4 thousand in December 2019 including records of 3.0 million new and 3.2 million closed accounts. In 2020 bodies and institutions entitled to Register's information system access conducted searches on 535,540 individuals compared to 685,645 individuals in 2019. Total applications for RBASDB statements numbered 2775, of which 2636 filed by individuals and 139 by legal entities. As of 31 December 2020, CCR received 1507 electronic applications for electronic services by individuals, and RBASDB 172 electronic applications for services from the Register.

Acting as fiscal agent and depository, the BNB maintains, develops and improves electronic systems for budget and fiscal reserve information servicing, auctions, settlement and securities trade servicing and keeps the Register of Special Pledges. In 2020 seven auctions for domestic government securities were organised *via* the Government Securities Auction System (GSAS). The total nominal value of domestic government securities offered for sale was BGN 1400 million and government securities sales volume was BGN 1200 million.

Economic research and projections support the Bank's management in making decisions and delivering economic policy stance. In the first half of 2020 Research Plan implementation addressed long-term macroeconomic effects of population decline and structural adjustments in the labour market, factors driving exports and imports dynamics, and links between Bulgaria's wage and inflation dynamics. Honing the basic model for BNB macroeconometric forecasting continued over the half year along with developing a risk management methodology in BNB's gross international reserves. In the start of 2020 changes were made to the BNB's analytical toolkit for assessing economic trends in Bulgaria in order to better take into account the specificities of the channels transmitting the impact of the economic shock arising from the spread of COVID-19 and develop simulations to identify and assess potential economic effects in various scenarios of pandemic development. Since October 2020 the BNB has started to issue its quarterly medium-term macroeconomic forecast for Bulgaria in separate publication entitled 'Macroeconomic Forecast'. The first volume of the new annual publication Annual of the Bulgarian National Bank saw light.

The main priorities in the field of human resource management included ensuring and maintaining a safe work environment at the BNB by timely designing and implementing COVID-19 containment measures and providing reorganisation of the working processes necessary for the smooth fulfilment of the BNB objectives, functions and tasks in the context of a pandemic. At the end of 2020 employees numbered 895, their total number remaining unchanged from the corresponding period of 2019. The BNB continued its remuneration policy, which relates wages to performance and given the COVID-19 spread, additional factors were taken into account, which involved changes in work organisation and performance of professional duties along with each employee's individual contribution to Bank objectives and tasks. Since the end of February 2020, the BNB has suspended all in-person training sessions, with gradually increasing participation in virtual training. Employees attended a number of work training and instructions in order to perform safely their duties during the COVID-19 pandemic. With students, the BNB continued providing career opportunities, encouraging knowledge acquisition and research.

BNB internal audit conforms to the International Standards for the Professional Practice of Internal Auditing, the Code of Ethics of Internal Auditors, ESCB Internal Auditor Committee Rules, and Audit Rules approved by the BNB Governing Council. There were ten audits in 2020. Audits sought objective assurance of risk management, control and management relevant to these activities to ensure effective attainment of objectives and tasks; reliability and integrity of financial and operational information; effective and efficient operations and programmes; asset safeguarding; legal, regulatory, internal rule, policy, procedure and contractual compliance.

The BNB budget underpins Bank performance. In 2020 the BNB spent BGN 102,893 thousand on maintenance or 86.9 per cent of approved budget, including currency circulation costs of BGN 33,294 thousand, BGN 29,405 thousand on materials, services, and depreciation and total staff costs of BGN 35,700 thousand. Expenditure on the Bank's investment programme in 2020 was BGN 23,351 thousand or 60.0 per cent of annual budget under this item.

Consolidated financial statements (audited) present the Bank's financial position as of 31 December 2020.

I. Economic Development in 2020

The External Environment

In 2020 global economic activity decreased by 3.5 per cent[1] in real terms, reflecting the unprecedented measures imposed to contain the spread of the COVID-19 pandemic. Initially, a significant increase in the number of persons infected with the new coronavirus was registered in China, but then the pandemic spread quickly across the globe. The contraction of economic activity was more pronounced in the first half year, and containment measures had a stronger and continuous negative effect on the sector of services. Governments and central banks in the US and the euro area initiated large-scale fiscal and monetary policy measures to reduce the negative economic effects of the pandemic. Easing of containment measures in the third quarter of 2020 along with the effects of accommodative monetary and fiscal measures and decreasing COVID-19 cases affected the improvement of economic agent attitudes and global economic activity growth. Subsequently, the second coronavirus wave and resumption of stringent anti-epidemic measures in some developed economies over the last quarter of the year led to a slowdown in the recovery. As a result of the measures to contain the spread of the disease, in the second quarter of 2020 the US labour market suffered the strongest historical negative shock, and real GDP reported an essential drop due to the dramatic decline in private consumption. Despite the significant rise in US economic activity over the third quarter, US real GDP in 2020 fell by 3.5 per cent on an annual basis. In China, the largest drop in real GDP was reported in the first quarter, and then economic activity began to recover and real GDP posted growth of 2.3 per cent for the year.

Major Macroeconomic Indicators

(per cent)

	Average annual real GDP growth			Inflation (end of year)			Unemployment rate (average annual)		
	2018	2019	2020	2018	2019	2020	2018	2019	2020
USA	3.0	2.2	-3.5	1.9	2.3	1.4	3.9	3.7	8.1
China	6.7	6.0	2.3	1.9	4.5	0.2	3.8	3.6	4.0
Europe									
EU	2.1	1.6	-6.2	1.6	1.6	0.2	7.3	6.7	7.2
Euro Area	1.9	1.3	-6.6	1.5	1.3	-0.3	8.2	7.5	8.0
United Kingdom	1.3	1.4	-9.9	2.0	1.4	0.8	4.1	3.8	4.5

Notes: The EU group currently consists of 27 Member States of the European Union, excluding the United Kingdom, which is not part of the EU as from 1 February 2020. Non-seasonally adjusted data on unemployment. No data on the average annual level of unemployment in the EU and the the euro area were published for the fourth quarter of 2020, and its level is therefore calculated based on available monthly data. The unemployment rate for the UK for all years is calculated on the basis of quarterly data.

Sources: Eurostat, Bureau of Economic Analysis (the USA), Bureau of Labor Statistics (the USA), Office of National Statistics (the UK), the National Bureau of Statistics of China, BNB computations. Data published as of 12 March 2021 are used.

Global industrial production declined by 4.6 per cent in 2020[2], with the largest historical decline observed on an annual basis in April. The volume of industrial output of developed economies dropped by 5.7 per cent on average for 2020, most pronounced

[1] Preliminary estimates based on IMF data: *World Economic Outlook Update*, January 2021.

[2] Based on CPB data: Netherlands Bureau for Economic Policy Analysis, 23 February 2021.

in Japan (-9.8 per cent) and the euro area (-8.0 per cent). In emerging market economies, the decrease in economic activity was significantly lower, and industrial production in China rose by 2.0 per cent for 2020. The world trade volume also posted a significant decline, reaching 5.3 per cent for the year[3], affecting all regions in the world, excluding China and some developed economies in Asia.

In 2020 real GDP of the euro area decreased by 6.6 per cent. The contraction of economic activity was most pronounced in the first six months of the year when measures of unprecedented magnitude and stringency were launched in euro area countries with the aim to contain the rapidly spreading first wave of the COVID-19 pandemic. After their partial easing in the third quarter, a strong recovery was observed in economic activity, though the rise in new COVID-19 cases over the fourth quarter and re-imposition of more localised anti-epidemic measures represented an additional negative economic shock concentrated largely in the services sector. By final consumption expenditure, the decline in euro area economic activity for 2020 was mainly driven by private consumption and fixed capital investments. In Germany, the main trading partner of Bulgaria, real GDP contracted by -4.9 per cent on an annual basis for 2020. Another important trading partner – Italy, one of the euro area countries most severely affected by the spread of the coronavirus, reported a drop in real GDP of -8.9 per cent from 2019. Despite the substantial economic shock, annual data show a relatively slight increase in the level of euro area unemployment[4] to 8.0 per cent, from 7.5 per cent in 2019 which could be explained by large-scale programmes initiated to protect employment.

In 2020 Brent crude fell significantly on an annual basis in both US dollars[5] (-33.9 per cent) and euro (-35.2 per cent). This drop was most pronounced in the first half year, reflecting the dramatic fall in oil demand due to the negative effects of launched anti-epidemic measures in response to the first wave of the COVID-19 spread worldwide. The price drop was partially limited by the agreements reached between the OPEC+ members on the largest output cuts in history. Temporary partial easing of anti-epidemic measures in leading economies and news of the development and approval of an effective vaccine against COVID-19 in the last quarter of 2020 had an additional effect on the oil price increase over the second half of the year. In 2020 food and metal prices rose on an annual basis in both dollars and euro. A strong rise in metal prices was reported over the second half of the year, mainly due to increased demand. Rising metal prices compensated entirely the price decline in the first half year when demand decreased due to a strong drop in global industrial output.

By end-2020 global inflation was 1.2 per cent[6] on an annual basis, its rate moderating significantly from the end of 2019 (2.1 per cent). In the USA, the annual rate of inflation measured by the personal consumption expenditure price index slowed to 1.2 per cent (1.5 per cent in 2019) and remained under the target set by the Federal Open Market Committee (FOMC). Annual euro area inflation decelerated significantly, and deflation of -0.3 per cent was reported at the end of the year (1.3 per cent in December 2019), with energy price declines driving largely the fall in inflation. Core inflation in the euro area (excluding food, energy, alcohol and tobacco products) also slowed down markedly, though remaining positive at 0.2 per cent (1.3 per cent in December 2019).

[3] Based on CPB data: Netherlands Bureau for Economic Policy Analysis, 23 February 2021.

[4] Unemployment data for the euro area are available on a monthly basis for the fourth quarter of 2020.

[5] Referred to as the US dollar below.

[6] Based on seasonally adjusted World Bank data as of 5 March 2021.

In the context of a strong negative effect of the COVID-19 anti-epidemic measures on economic activity and a substantial deterioration in inflation prospects, the central banks in the US and the euro area initiated sweeping accommodative monetary policy measures. At two extraordinary meetings in March 2020, the US Federal Open Market Committee lowered the target range for the federal funds rate by a total of 150 basis points to 0.00–0.25 per cent. In addition, extraordinary monetary policy measures were launched to include a resumption and extension of programmes applied for the last time during the financial crisis in 2008–2009 and establishment of entirely new programmes to support the corporate debt market.

The ECB Governing Council increased significantly asset purchases mainly under the newly established Pandemic Emergency Purchase Programme (PEPP). The terms and conditions on targeted longer-term refinancing operations (TLTRO-III) were significantly improved. Concurrently, swap lines between the ECB and the US Federal Reserve System were activated to provide dollar liquidity in the euro area. Over the year, the ECB Governing Council left unchanged its key interest rates for the euro area. Temporary supervisory measures were launched to allow euro area banks to use part of their capital and liquidity buffers.

The Bulgarian Economy

Before the beginning of the crisis caused by the spread of COVID-19, households and firms in Bulgaria operated in a favourable macroeconomic environment, and annual growth in real GDP exceeded 3.0 per cent for the fifth consecutive year. The improvement in economic activity over the period was mainly driven by private consumption in the context of rising employment, increased nominal labour income of households and a long-term downward trend in consumer credit rates. Government consumption and fixed capital investment also had an important contribution to the increase in economic activity amid concurrently improving public finance sustainability and rising absorption of EU cohesion and structural funds. Net exports made a rather negative contribution to the real GDP growth. The favourable macroeconomic developments along with negative demographic trends in Bulgaria contributed to the tightening in labour market conditions resulted in a sustainable increase in labour income and a decreased unemployment rate to a historically low level of 4.3 per cent on average for 2019.

The spread of COVID-19 in 2020 and introduced global containment measures gave rise to significant negative effects on Bulgaria's economic activity in terms of subdued external demand and restrictions imposed on the operation of firms in certain economic sectors.[7] In Bulgaria, more significant tightening of the containment measures occurred at the end of the first and in the second quarters of 2020, followed by their partial relaxation over the third quarter and a new tightening at the end of the year.[8] Reflecting these developments, over the first quarter of 2020 quarterly growth of real GDP decelerated to 0.4 per cent, followed by a strong decline of -10.1 per cent in the second quarter, a partial recovery in economic activity by 4.3 per cent in the third quarter and a new slowdown in quarterly growth to 2.2 per cent at the end of the year. Overall for 2020, real GDP of Bulgaria decreased by 4.2 per cent.

[7] COVID-19 containment measures included closure of schools and businesses in services, cancellation of public events, restrictions in gatherings, stay-at-home recommendations, temporary restrictions on internal movements, international travel controls, *etc.*

[8] From 13 March to 13 May 2020, a state of emergency was introduced, and on 14 May the Council of Ministers declared an emergency epidemic situation in Bulgaria in response to the spread of the COVID-19 pandemic and existing immediate danger to the life and health of the public.

The countercyclical fiscal policy helped mitigate the deceleration in economic activity through increased net transfers to economic agents, employment protection programmes[9] and higher government consumption and investment. The non-legislative moratorium on loan repayments, as approved by the BNB, was an important factor for alleviation of liquidity problems of firms and households.

Broken by final consumption expenditure component, the decrease in real GDP for 2020 was largely driven by the negative contribution of net exports and, to a lesser degree, decreased inventories in the economy and the negative contribution of fixed capital investment. Final consumption posted growth in real terms, underpinned by a strong increase in government consumption and a slight rise in consumer expenditure of households.

The negative contribution of net exports in 2020 was driven by the higher annual rate of decline in exports of goods and services than that of imports. The decline in exports reflected the strong drop in external demand for Bulgarian goods and services. At the same time, negative effects on imports were partially limited by the reported growth in domestic final consumption. The stronger drop in exports compared to imports of services was additionally affected by the fact that Bulgaria is a net exporter of tourist and transport services, which were among the sectors most severely hit by the COVID-19 pandemic. Changes in inventories were another component with a negative contribution to economic activity dynamics, possibly reflecting disrupted deliveries under the influence of the COVID-19 containment measures. BNB estimates[10] show that declines in gross fixed capital formation in real terms reflected entirely lower volumes of private investments. Potential factors pushing down private investments were deteriorated prospects of demand for Bulgarian goods and services, the heightened uncertainty about the economic environment development and decreased capacity utilisation rates. Concurrently, data on general government investment for the first nine months of 2020 indicate a positive contribution of public investment to the change in gross fixed capital formation.

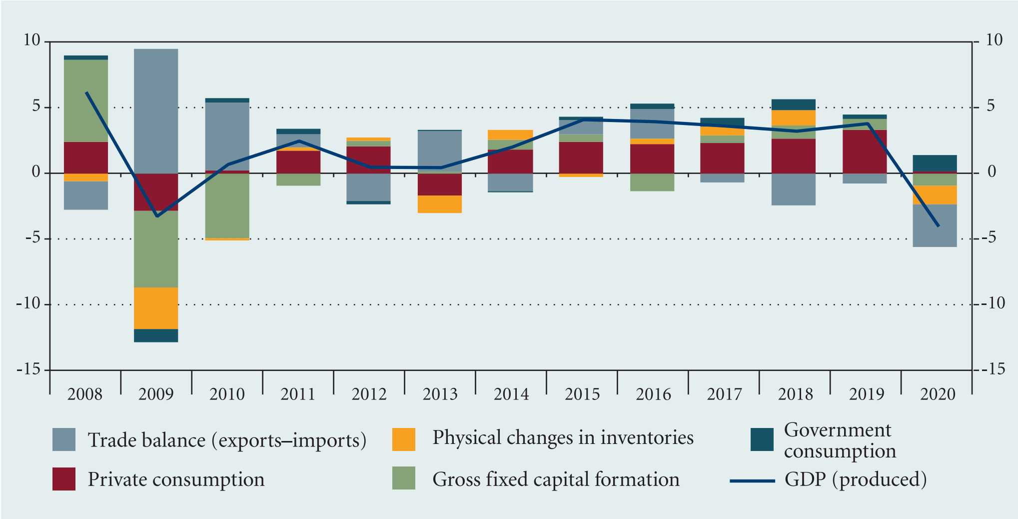
In 2020 private consumption rose by 0.2 per cent in real terms against 2019, with negative effects of the pandemic on households' financial position partly limited by the increase in compensation of employees for the total economy, net fiscal transfers of households and accumulated savings in the pre-crisis period. Government consumption grew by 7.5 per cent in real terms as a result mainly of growth in public wage costs and higher healthcare expenditure reflecting largely government measures to overcome the implications of the pandemic. Data on consolidated fiscal programme (CFP) performance for 2020 indicate positive growth in government's operating expenses as well.

[9] Government measures included subsidised employment (programmes, such as '60/40', 'Short-term support for employment in response to the COVID-19 pandemic', 'Employment for you' and 'Save me'), an increase in remunerations of the workers exposed to the highest risk of COVID-19 infection, payment of allowances to pensions and other social benefits.

[10] Private and government investment is assessed by available national accounts data on overall investment in the economy, quarterly non-financial accounts data on the general government sector and NSI reports on consolidated fiscal programme implementation.

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

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



Sources: the NSI, BNB calculations.

In 2020 gross value added for the total economy fell by -4.3 per cent in real terms, with economic activity declines reported in all major industries. Services and especially the sub-sectors of trade, transport, hotels and restaurants[11] had the largest negative contribution to the change in gross value added, reflecting the fact that they were directly affected by the introduced anti-epidemic measures. Value added contraction in industry was influenced by the drop in goods exports and weakening domestic demand, with decreased economic activity recorded in manufacturing and, to a less extent, construction. Lower value added in agriculture reflected NSI data on the quality of agricultural harvest in 2020, indicating a decline in the agricultural production over the year.[12]

Gross Value Added Change in Real Terms and Contribution by Industry

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

Sources: the NSI, BNB calculations.

[11] Specifically, the sub-sector of wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities under the economic activities classification at level A10.

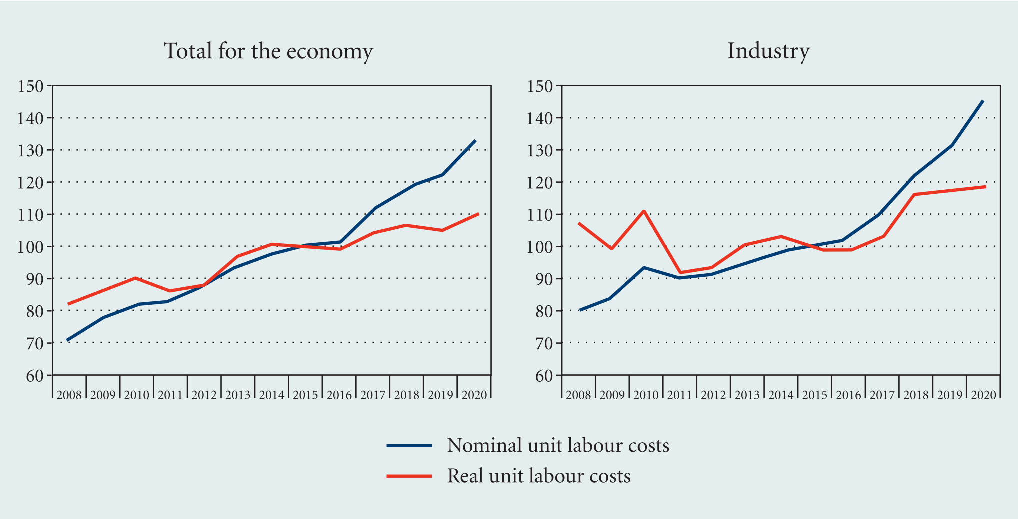
[12] According to the second NSI estimates from the Economic Accounts for Agriculture, the volume of agricultural output in 2020 was 12.0 per cent lower in real terms than that in 2019.

Decreased economic activity in Bulgaria over 2020 led to a reversal of the favourable trends in the labour market observed in recent years. The number of employed in the economy (based on NSI national accounts data) fell by 2.3 per cent from 2019 as a result of the decreased number of employed in the services sector (mainly in trade, transport and accommodation and food services) and in the processing industry. Social and economic measures launched by the government helped reduce the drop in the number of employed in the economy. The NSI Labour Force Survey shows that the unemployment rate rose to 5.2 per cent on average for 2020 (4.3 per cent in 2019), while Employment Agency data point to a rise in the level of registered unemployment to 7.4 per cent on average for 2020 (5.6 per cent in 2019). As a result of the declining number of persons in the labour force and the switch of part of active persons to inactivity, the participation rate of the 15–64 age group went down 1 percentage point to 72.2 per cent.

While the containment measures introduced in response to the pandemic led to a decreased number of hours worked *per* person, compensation of employees rose by 5.9 per cent in 2020, from 6.9 per cent in 2019. Factors underpinning growth in labour income were the increased minimum wage, higher wages of the public sector and of front-line employees in fighting the COVID-19 and a larger drop in employed in the sectors with lower than average remuneration.[13] Growth in nominal wage *per* employee for the total economy moderated to 5.4 per cent in 2020 (6.8 per cent in 2019) due to the weaker rise in services wages, while the growth rate of real wage[14] remained unchanged from 2019, amounting to 4.2 per cent.

Unit Labour Costs

(moving average, 2015 = 100)



Sources: the NSI, BNB calculations.

A smaller drop in the number of employed in the economy compared to the decrease in economic activity reflected in a -1.9 per cent decline in labour productivity[15] over 2020. Both services and industry contributed to this decline. Decreased labour productivity and continuous growth in compensation of employees led to an accelerating growth rate in nominal unit labour costs to 7.9 per cent, from 3.5 per cent in 2019.

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[13] The decrease of employees in trade, transport and accommodation and food services occupying the largest share of employed in the services sector was essential for the effect of the above factor.

[14] Real wage is obtained after deflating nominal wage by HICP.

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

A significant rise was recorded in the industry where growth reached 11.6 per cent (6.4 per cent in 2019). Real unit labour costs in the total economy rose by 4.5 per cent, compared to a decline of -1.7 per cent in 2019, with industry and services contributing to the reported growth.

Gross operating surplus for the total economy went up 0.2 per cent in 2020 (growth of 9.1 per cent in 2019), with services in the general government sub-sector[16] having the main positive contribution to this. Gross operating surplus in the rest economic sectors fell by 3.6 per cent from 2019, driven entirely by services, especially the sub-sector of trade, transport and accommodation and food services. At the same time, gross operating surplus in industry and agriculture increased from 2019.

In 2020 GDP deflator recorded a 3.3 per cent increase on an annual basis, though lower than in 2019. Growth moderation or a year-on-year decline in deflators was reported in all main final use components, with the largest annual drop observed in goods imports (-5.9 per cent) and services exports (-4.6 per cent). The rate of change in private consumption deflator was 0.5 per cent, representing a significant slowdown from 2019 (2.0 per cent).

Prior to the onset of the COVID-19 crisis, domestic consumer prices[17] followed an upward trend with an accelerating rate. The groups of services, food and energy products had the main positive contribution to inflation in the 2017–2019 period in the context of strong consumer demand, growth in agriculture production costs[18] and rising oil international prices in euro. An important factor for the increased food prices in 2019 was the spread of African swine fever worldwide and in Bulgaria, which limited strongly supply of meat and meat products.

The economic effects of the COVID-19 spread and related containment measures led to a slowdown in the growth rate of consumer prices, with annual inflation reaching 0.0 per cent at the end of 2020 (3.1 per cent at the end of 2019). In December all main HICP components reported moderation in their growth rates or a fall in prices on an annual basis. Energy products (excluding those with administratively controlled prices) had an essential negative contribution to headline inflation by end-year, reflecting lower prices of transport fuels (down -17.3 per cent) as a result of the strong oil price decline. The positive contribution of food to headline inflation declined throughout the year, due to decreased prices of unprocessed food. The downward dynamics in unprocessed food inflation was mainly driven by the sub-group of vegetables (as a result of lower import prices[19] of these products) and meat and meat products characterised by an exhausted effect of the dramatic rise in prices over 2019 after the African swine fever spread.

Core inflation[20] in 2020 also slowed down from the end of the previous year to reach 0.5 per cent (1.8 per cent in December 2019) due mostly to the negative effects of containment measures and weaker household demand. Core inflation dynamics reflected primarily deflation reported in accommodation services, motor vehicles, clothing and footwear along with significantly moderating growth rates in prices of package holidays. Decreased prices of heating and, to a lower extent, of natural gas limited the growth rate of administratively controlled prices on an annual basis com-

[16] General government, education, and human health and social work activities sector under A10 breakdown of economic activities.

[17] The analysis is based on the Harmonised Index of Consumer Prices (HICP).

[18] NSI data on price indices of goods and services intended for current consumption in agriculture are used in the analysis.

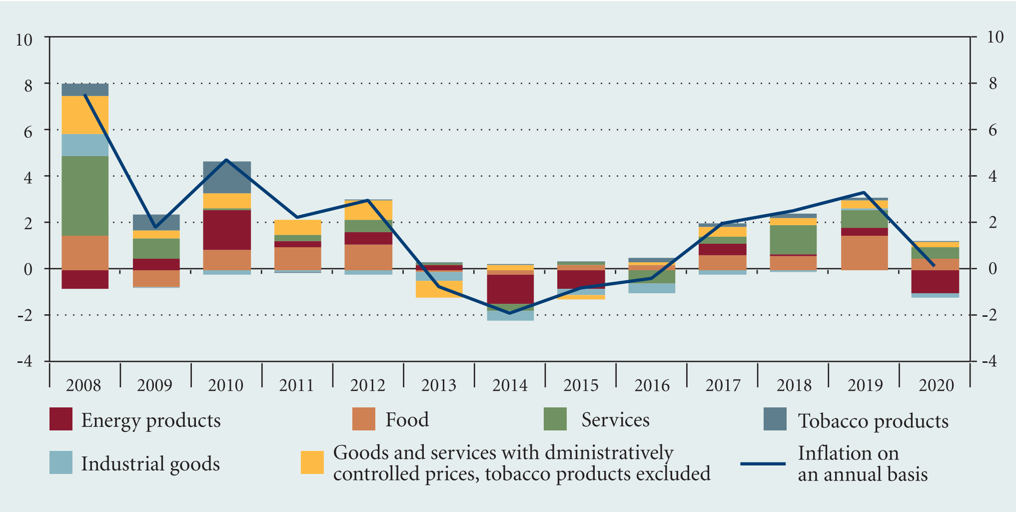
[19] The analysis employs NSI and Commodity Exchange and Wholesale Markets State Commission data.

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

pared to December 2019, reflecting the contract between Bulgargaz EAD and OOO Gazprom Export to cut the price of supplied natural gas since April 2020 and declines in international prices due to the spread of COVID-19. Sub-groups of administratively controlled prices with more substantial contributions to overall inflation by end-2020 were electricity, medicines and pharmaceuticals.

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

(per cent, percentage points)



Sources: the NSI, BNB calculations.

In the period after the global financial and economic crisis of 2008–2009, Bulgaria's external position tended to improve along with a gradual decline in the current account deficit. Since 2013 the surplus formed on the current account has increased to reach 3.0 per cent of GDP in 2019. Factors behind these trends included sustainable growth in exports at rates higher than those of external demand, high savings rates in the economy, lower foreign direct investment inflows and lower imports of investment goods associated with more moderate investment activity as a whole.

In 2020 Bulgaria's foreign trade flows on the balance of payments were strongly affected by negative economic effects of the global COVID-19 spread. The effect was in terms of contracted flows in goods and services trade and BNB measures launched in March 2020 to further strengthen bank capital and liquidity with a view to limiting the negative effects of the pandemic on the banking system and economic activity.[21]

According to preliminary balance of payments data, in 2020 the positive balance on the current account was EUR 67.5 million (0.1 per cent of GDP), declining significantly from 2019. The surplus fall reflected mainly a drop in the positive balance on services trade unlike the lower surplus on net secondary income being of less significance. The lower trade balance deficit and reduced net primary income deficit limited the decline in the positive current account deficit.

The reduced surplus in net services for 2020 compared to 2019 was a result of the stronger decline in nominal services exports than services imports. This was largely attributable to the fact that Bulgaria is a net exporter of tourist and transport services, which were among the sectors most severely hit by the spread of the COVID-19 pandemic. Services exports posted a decline of 32.3 per cent on an annual basis, reflecting the significantly lower number of visits of foreign nationals to Bulgaria compared

[21] For further details, see Chapter VI.

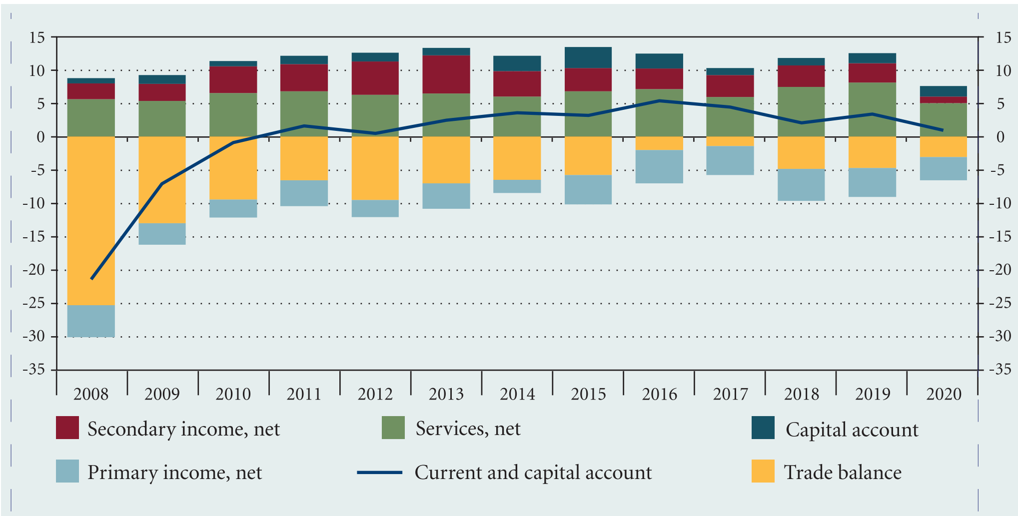
with the previous year. Services imports dropped by 23.1 per cent, with travel and transport services contributing most significantly. Contraction of the positive balance on net secondary income was largely due to reported lower remittances from Bulgarian citizens working abroad.

Positive terms of trade for Bulgaria contributed to the reduction of trade balance deficit in 2020. The year saw a larger decline in import prices of goods than in export prices, driven by an essential drop in oil prices due to the fact that Bulgaria is a net importer of oil products. The significantly lower amount of paid dividends and distributed profit to non-residents was the main factor for the contraction of the deficit on net primary income. Banks had a decisive role for lower outflows under this item since they did not distribute dividends due to the measure launched by the BNB in March 2020 to capitalise entire banking system profits. BOP capital account surplus rose slightly from 2019, reflecting primarily higher transfers under EU operational programmes and the lack of outflows on capital transfers of the general government sector for the year.

As a result of flow dynamics on individual current and capital account items described above, in December 2020 the total current and capital account surplus decreased significantly from 2019, with contraction in the surplus on net services contributing most significantly. As a share of GDP, in 2020 total current and capital account balance was 1.7 per cent (4.5 per cent of GDP in 2019).

Current and Capital Account Flow Dynamics and Contributions of Individual Components

(per cent of GDP)



Sources: the BNB, the NSI, BNB calculations.

In 2020 the balance of payments financial account reported a deficit of EUR 2046 million (-3.4 per cent of GDP), from a EUR 3222.5 million surplus (5.3 per cent of GDP) in the previous year. The negative financial account balance reflected declines in banks' foreign assets as a result of BNB's measures announced in March to boost liquidity of banks through a decrease in their foreign exposures and the growth in liabilities of the general government sector due mainly to the Eurobond issue[22] in international capital markets. Preliminary balance of payments data for 2020 put direct investment liabilities (reporting direct investment into Bulgaria) at

[22] On 15 September 2020, Bulgaria issued two tranches of bonds to the amount of EUR 1.25 billion with maturities of ten and 30 years, respectively.

EUR 599.4 million, representing a large drop from 2019 (EUR 1471.6 million), due mainly to decreased liabilities related to share capital.

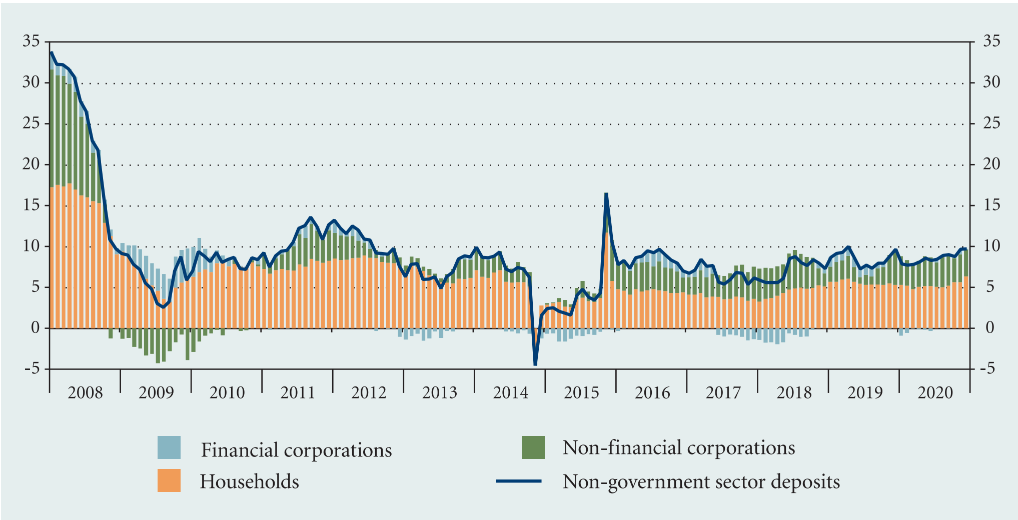
As a result of net current, capital, and financial account flows, BNB international reserves rose by EUR 5793.9 million in 2020, according to the balance of payments data (valuation adjustments and revaluations excluded), with growth reflecting mainly BNB measures intended to increase further liquidity and capital of the banking system. If changes in international reserves on the BNB Issue Department balance sheet are taken into account, including valuation adjustments and price revaluations, by end-December 2020 they grew by EUR 6012.6 million from the end of 2019.

In December 2020 Bulgaria's gross external debt rose by EUR 1646.4 million from the end of 2019 to EUR 36.8 billion, or 60.7 per cent of GDP. The general government sector contributed most strongly to the increase in gross external debt due to Eurobonds issued by the Bulgarian government in international capital markets. The increase in Bulgaria's gross external debt as of end-2020 was partly limited by the decrease in banks' and other sectors' foreign debt.

High levels of liquidity and capital adequacy of Bulgaria's banking system, reflecting largely the consistent macroprudential measures of the BNB over the years, contributed to the formation of good initial terms for the banking system immediately before the COVID-19 crisis.

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

(per cent, percentage points)



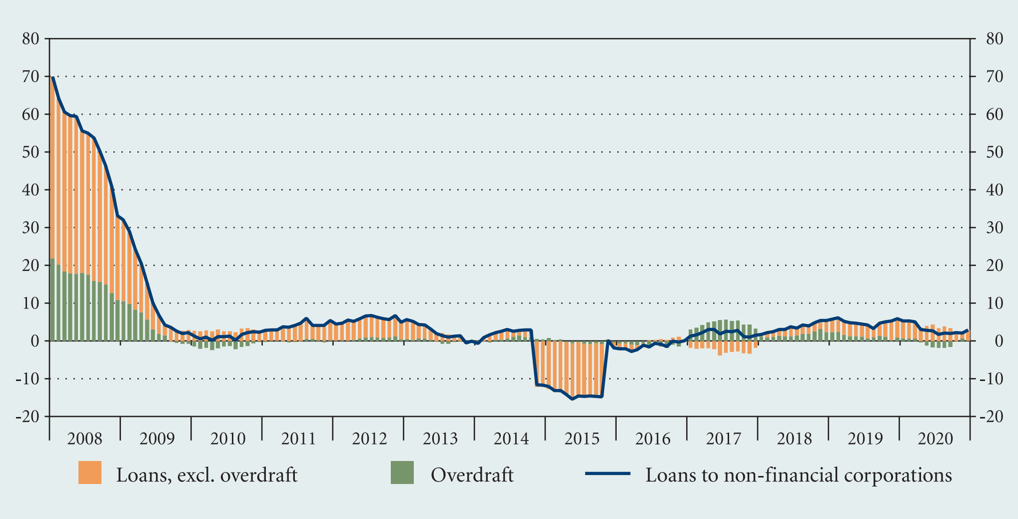
Note: The annual growth rate of non-government sector deposits in November 2015 reflects the exhausted base effect of KTB removal as a reporting unit from the monetary statistics in November 2014.

Source: the BNB.

Since the beginning of 2020, the annual growth of non-government sector's deposits has tended to accelerate gradually, driven mainly by the strengthening growth rate of household deposits reaching 9.7 per cent in December. Major factors behind household deposits dynamics were forced savings formed as a result of limited possibilities for making certain expenses during the state of emergency and consequently maintenance of precautionary savings in the context of an uncertain macroeconomic environment caused by the pandemic and deferred consumption of some goods and services by households. In 2020 deposits of non-financial corporations continued growing at comparatively high rates as a result mainly of limited investment activity of corporations, with their annual growth rate reaching 10.5 per cent at end-2020.

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

(per cent, percentage points)



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

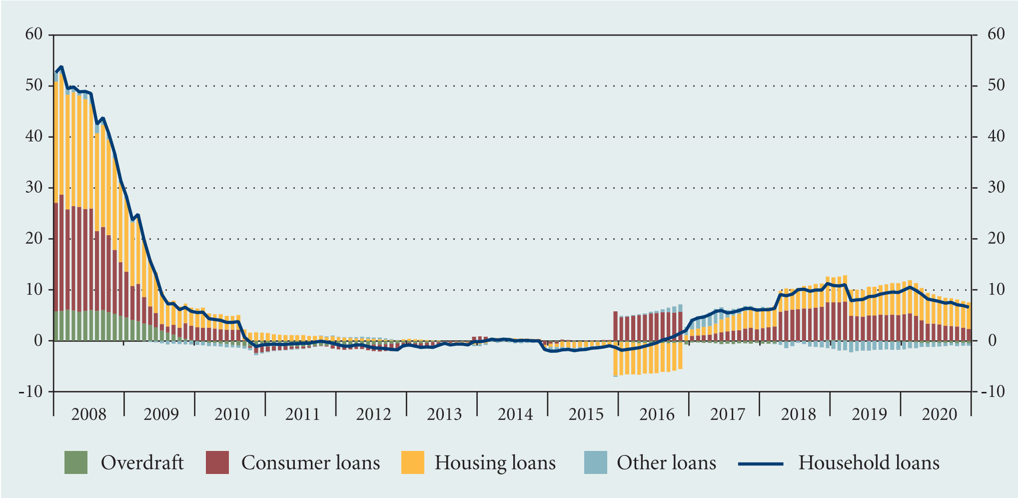
Source: the BNB.

The annual growth rate of loans to non-financial corporations and households has followed a downward trend since March 2020 under the simultaneous effect of both demand and supply factors. Weakening demand for loans by the private sector reflected mainly the increased uncertainty in the macroeconomic environment as a result of the COVID-19 pandemic. Tightening of bank credit standards and conditions had an additional effect on deceleration of credit activity over the year. At the same time, interest rates on new corporate and housing loans continued to decline slightly compared to achieved historical levels, while new consumer rates rose somewhat. The option used by corporations and households to reschedule liabilities payable to banks under the non-legislative moratorium approved by the BNB was a potential factor supporting credit growth. Another factor contributing to this, though to a comparatively lesser degree, were disbursed bank loans guaranteed by the Bulgarian Development Bank under a government's measure in support of vulnerable firms and households. By end-2020 the annual growth rate of non-financial corporations' credit dropped to 3.0 per cent (5.9 per cent in December 2019), and that of household credit decelerated to 6.6 per cent (9.5 per cent in December 2019). Broken by individual types of household credit, consumer loans reported comparatively larger slowdown, while housing credit moderation was relatively weaker.

BNB quarterly lending survey shows declining corporation and household credit demand in 2020, more pronounced in the first half year. The main factor considered by banks as a driver for lower demand for corporate loans was reduced demand for bank resources for investment purposes, while the worsened macroeconomic environment was a decisive factor for households. Concurrently, demand for credit resources was supported by the need to ensure working capital and inventories for firms, and by the low level of interest rates and needed first home or additional property purchases along with favourable housing market prospects for households. Over the second half year a recovery in demand for housing loans was reported, tending to increase over the fourth quarter.

Annual Household Credit Growth and Contributions by Loan Type

(per cent, percentage points)



Source: the BNB.

On the supply side, in 2020 banks reported tightening in corporate and household lending standards, largely in the first half of the year and, to a lesser degree, in the second half. According to banks, more stringent conditions were introduced for both firms and households, as well as for collateral requirements, premia for riskier loans and the maximum amount and term of loans. Partial easing in household credit conditions over the second half year referred to the credit maximum amount and term and interest rates and spreads. Banks report that the main driver for credit policy tightening (credit standards and conditions) over the year was the lower risk appetite of banks and increased risk assessments.

In 2020 the liquidity position of the banking system was further strengthened, with the important contribution of the package of measures adopted in March by the BNB to preserve banking system sustainability and increase its resilience in the context of pandemic-driven negative effects on domestic economic activity. By end-December the liquidity coverage ratio (LCR)[23] rose to 279.0 per cent (269.9 per cent by end-2019).

In asset management, over the year banks reported a substantial rise of their reserves with the BNB mainly in terms of higher excess reserves[24], while growth in claims on the non-government sector and in securities portfolios was comparatively lower. At the same time, foreign assets of banks went down BGN 3.4 billion from December 2019, and net foreign assets declined by BGN 3.0 billion. Excess reserve growth and decreased foreign assets of banks were mainly under the influence of the BNB measures to address the COVID-19 pandemic.

Banks' transactions with the BNB in reserve currency (euro) are their main instrument for lev liquidity management under Bulgaria's currency board. This takes advantage of the main currency board function: buying and selling levs for euro at

[23] The liquidity coverage ratio for the banking system is calculated as the ratio of the liquidity buffer to net liquidity outflows. For further information on liquidity reporting requirements, see the BNB quarterly Banks in Bulgaria.

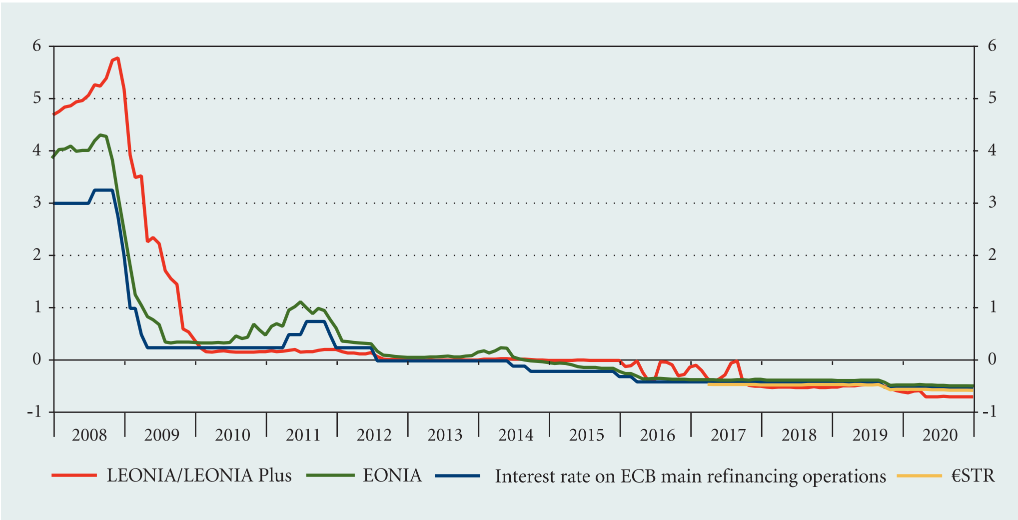
[24] For details, see Chapter IV.

the fixed exchange rate under the Law on the Bulgarian National Bank.[25] In 2020 the BNB sold EUR 1.46 billion net to banks.[26]

Interest rate dynamics in the interbank lev money market as of end of March 2020 was influenced by the BNB package of measures. The significant increase in liquidity maintained largely as excess reserves with the BNB reflected in a sizeable decrease in traded volumes in the interbank money market due to the lack of any need to ensure additional liquidity. In April a 70 per cent decline was reported in traded volumes compared to March. Interbank money market transactions amounted to BGN 21.6 billion, down 48.6 per cent from 2019. Deposits comprised 82.4 per cent of turnover and repos 17.6 per cent, respectively. Overnight transactions continued to dominate deposit transactions between banks at 85.2 per cent. In April LEONIA Plus[27] index reached a historically lowest value of -0.68 per cent (down 12 basis points from March), approaching the level of excess reserves' rate (-0.70 per cent)[28] and remaining broadly unchanged until the end of the year. Due to a more essential decrease in LEONIA Plus index than in €STR during the year, in December 2020 the negative spread between the two indices expanded from the same period of 2019 to reach 12 basis points.

Overnight Interbank Money Market Rates

(per cent)



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

Sources: the BNB, the ECB.

With budget surpluses in the 2016–2018 period, a minimum cash-based deficit in 2019,[29] consolidated debt of the general government sector at 20.2 per cent of GDP

[25] See here Chapter II.

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

[27] LEONIA Plus (LEv OverNight Interest Average Plus) is a reference rate of unsecured overnight deposit transactions in Bulgarian levs on the interbank market.

[28] The methodology for calculating interest rates on accounts with the BNB was changed upon a resolution of the BNB Governing Council, effective from 4 October 2017. According to this change, the BNB applies on bank excess reserves whichever is lower between 0 per cent and the ECB deposit facility rate minus 20 basis points.

[29] The reported budget deficit on the consolidated fiscal programme in 2019 was mainly a result of a one-off payment related to Bulgarian army modernisation.

in 2019 and low interest payments on debt servicing, Bulgaria's fiscal position before the COVID-19 crisis was favourable. Low debt burden and high liquidity buffers provided a fiscal space for the government to initiate discretionary measures intended to smooth the implications of the pandemic.

In 2020 the budget balance on the consolidated fiscal programme[30] was negative at BGN -3532 million (-3.0 per cent of GDP). Budget automatic stabilisers' effects in the context of the crisis caused by the COVID-19 spread and government's discretionary measures to support the health system and cope with the economic consequences of COVID-19 (to the amount of 2.4 per cent of GDP)[31] were the main factors behind the realised budget deficit.

The annual growth in CFP revenue and grants in 2020 was 0.6 per cent, driven mainly by the tax revenue dynamics and, to a lesser extent, by increased grants, while non-tax revenue had a negative contribution. Social and health insurance and personal income tax revenue contributed to the increase of tax revenue, while VAT and excise revenue had a negative contribution. Grants revenue growth reflected mainly redirected funds under EU operational programmes to address the consequences of the COVID-19 spread.

The annual growth of total CFP expenditure was 5.8 per cent in 2020, largely due to increased social and staff expenditure. The main factor behind the upward dynamics of social payments was the rise in pension expenses due to their indexation by 6.7 per cent since 1 July and supplement payments to pensions (amounting to BGN 50 for each pensioner *per* month) during the August to December period. The increased expenditure on unemployment benefits due to the increased number of unemployed and the minimum amount of the unemployment benefit along with the extended duration of its receipt since 1 October had an additional effect on the growth of social expenses.[32] Staff expenditure posted annual growth of 13.3 per cent, driven mainly by wage increases in the budget sector and an additional 30 per cent wage growth of the healthcare workers on the frontlines of the COVID-19 pandemic, announced at the end of July. Expenditure on subsidies rose by 31.9 per cent on an annual basis mainly as a result of the subsidised employment payments (the so-called 60/40 measure).

By the end of December 2020 the total amount of the fiscal reserve, including claims on EU funds over certified expenses, advances and other payments reached BGN 8645 million. Fiscal reserve deposit funds decreased slightly by BGN 40 million from the end of 2019, amounting to BGN 8525 million (7.2 per cent of GDP), of which BGN 8026 million of deposits with the BNB. At BGN 1197.7 million, the amount of domestic government securities was slightly higher than payments on matured bonds, resulting in positive net budget financing of BGN 184.9 million.[33] Positive external debt financing over the year resulted mainly from new tranches disbursed under loan agreements signed with the European Investment Bank and the Council of Europe Development Bank worth EUR 400 million along with bonds issued in international capital markets to the amount of EUR 2500 million.

Between mid-March and end-May 2020 Bulgarian Eurobonds yields in international capital markets rose from the end of 2019. This rise was affected by the significant increase in the global uncertainty as a result of the pandemic effects and the enhanced

[30] Based on monthly reports on cash-based performance of the 2020 budget, published on the Ministry of Finance website on 29 January 2021.

[31] LEONIA Plus (LEv OverNight Interest Average Plus) is a reference rate of unsecured overnight deposit transactions in Bulgarian levs on the interbank market.

[32] The minimum amount of unemployment benefit was raised from BGN 9 to BGN 12 *per* day, and the period of its receipt was extended from four to seven months.

[33] For more information on domestic government securities market, see Chapter XII.

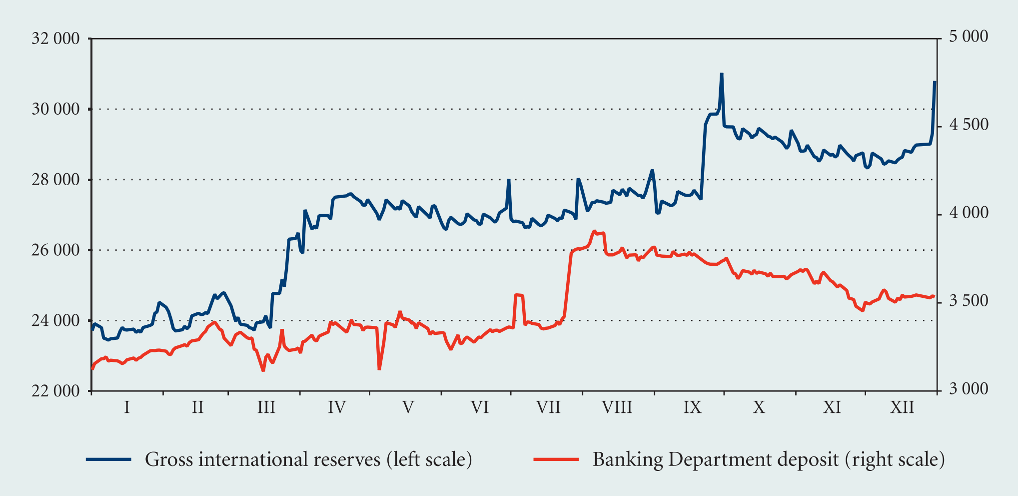
volatility of sovereign debt markets. From June 2020 to the end of the year Bulgarian bond yields followed a downward tendency, with declines observed in all maturities by end-December compared to December 2019, most pronounced in securities maturing in 2024 (32 basis points). A major external factor influencing the downward yield dynamics was the strong increase in ECB bond purchases which affected the whole market of euro-denominated fixed income securities. Bulgaria's credit rating upgrades by a leading international rating agency in the fourth quarter represents an internal factor with a potential additional pressure toward a decrease in Bulgarian government bond yields.

II. Gross International Reserves

The BNB manages its gross international reserves in line with the Law on the Bulgarian National Bank[34], investment constraints, business procedures and methodologies, and opportunities offered by international financial markets. BNB gross international reserves comprise the assets on the Issue Department's balance sheet. Their role is to provide complete cover for monetary liabilities under the fixed exchange rate of the lev to the euro provided for by the Law on the Bulgarian National Bank[35]. The excess of gross international reserves over monetary liabilities forms the Banking Department deposit item or the net value in the Issue Department's balance sheet[36].

Gross International Reserves and Banking Department Deposit in 2020

(EUR million) (EUR million)



Notes: The chart shows daily movements of the Issue Department balance sheet figure and the Banking Department deposit in the Issue Department balance sheet.

Source: the BNB.

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

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

[36] The Law on the BNB Article 28, paragraph 1 states that 'the aggregate amount of monetary liabilities of the BNB shall not exceed the lev equivalent of gross international reserves,' with the lev equivalent calculated on the basis of the fixed exchange rate.

The Amount and Structure of Gross International Reserves

By the end of 2020 the balance sheet value of gross international reserves was EUR 30,848.21 million: a total increase of EUR 6012.62 million[37] on end-2019 or an increase by 24.21 per cent of BNB foreign currency assets. Major factors affecting the market value of assets include income from reserve management, income from foreign currency revaluation, and external cash flow effects.

External Cash Flows in Foreign Currency

(EUR million)

	2019	2020
I. Euro purchases and sales		
At tills	-113	-267
With banks	395	-2,149
purchases from banks	60,351	45,452
sales to banks	-59,956	-47,601
Subtotal I	**282**	**-2,416**
II. Currency flows with banks, the MF, *etc.*		
Bank reserves (including minimum required reserves)	-907	3,625
Government and other depositors	393	4,009
Subtotal II	**-514**	**7,633**
Total I+II	**-232**	**5,217**

Source: the BNB.

External foreign currency flows amounting to EUR 5217 million net made the largest positive contribution to the international reserve increase in 2020. Of this, receipts into government and other budget organisations' accounts were EUR 4009 million. The bulk of these funds were from government securities issued by the Ministry of Finance on international financial markets in September 2020, worth EUR 2470 million, and the funds disbursed to Bulgaria on EU financing under various programmes. The funds on commercial banks' accounts with the BNB, where the minimum required reserves and excess reserves of banks are reported, also made a significant positive contribution of EUR 3625 million. Net sales of reserve currency by the BNB to commercial banks amounting to EUR 2416 million contributed negatively to the dynamics of external flows in 2020.

Over the review period the share of monetary gold, as part of gross international reserves, rose to 7.91 per cent on average compared with the average share of 7.11 per cent in 2019. The change in the share of gold pertains mainly to the significant rise in the gold price in euro by nearly 15 per cent in 2020 and the acquisition by the BNB in early February 2020 of 11,114 troy ounces of monetary gold exchange standard equivalent to just over 357 kg. The average share of euro-denominated assets in gross international reserves in 2020 was 91.44 per cent.

[37] Balances in banks' TARGET2 national system component accounts (worth EUR 989 million at the end of 2020), and the two tranches of SDR 611 million disbursed in August and September 2009 upon general SDR allocation by the IMF are not included in the analysis of changes in BNB gross international reserves below. For further details, see BNB Annual Report for 2009, p 26.

Currency Structure of Gross International Reserves

(per cent)

Currency	Issue Department balance sheet assets	
	2019	2020
EUR	92.13	91.44
USD	0.21	0.16
XAU	7.11	7.91
SDR	0.54	0.48
CHF	0.00	0.00

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

Source: the BNB.

Most assets in the structure by financial instrument continued to be invested in securities and deposits, albeit their share declined from 2019 at the expense of cash rises. The share of securities in gross international reserves amounted to 56.48 per cent on average for the period, that of deposits 27.22 per cent and cash accounted for 16.30 per cent.

Structure of Gross International Reserves by Financial Instrument

(per cent)

Financial instruments	2019	2020
Vault cash*	4.21	16.30
Deposits**	34.02	27.22
Securities**	61.77	56.48

Note: Average values calculated on a daily basis for the period.
* Account balances, payments, and monetary gold.
** Including instruments in foreign currency and gold.

Source: the BNB.

In 2020 most assets (averaging 77.7 per cent, up 10.6 percentage points on 2019) in the structure of international reserves by residual term to maturity continued to be invested into the maturity sector of up to one year (current accounts, short-term deposits in foreign currency and gold, and short-term securities). Investment into securities with residual term to maturity from five to ten years rose by 1.6 percentage points, while the share of investment in the maturity sectors from one to three years and from three to five years declined from 2019 by 10.2 and 2.0 percentage points respectively.

Structure of Gross International Reserves by Residual Term to Maturity

(per cent)

Maturity sectors	2019	2020
Up to a year	67.15	77.70
One to three years	25.68	15.49
Three to five years	7.08	5.08
Five to ten years	0.10	1.73
Over ten years	0.00	0.00

Note: Average values calculated on a daily basis for the period.

Source: the BNB.

Gross International Reserves Risk and Return

The Market Environment

The spread of COVID-19, the unprecedented anti-epidemic measures and the subsequent large-scale monetary and fiscal policy measures to mitigate economic implications of the pandemic globally were the major factors behind the strong fluctuations in international financial markets in 2020. The US Federal Reserve System and euro area central banks launched broad-based monetary policy measures intended to increase liquidity and ensure favourable financing conditions for governments, banks, corporations and households. Most of these measures were approved at extraordinary meetings of the management bodies of the relevant institutions. In the period from mid-January to mid-March 2020, market participants responded to the emerging health crisis through enhanced demand for low-risk assets, such as gold and government securities issued by countries with the highest credit ratings, and sales of shares. In mid-March, financial markets were extremely volatile due to uncertainty about the magnitude and duration of economic consequences for global financial stability as a result of the measures initiated against the spread of COVID-19. Demand for liquid funds by market participants increased significantly, resulting in mass sales of all types of assets, including shares, fixed income securities, precious metals and raw materials. Subsequently, the expansionary monetary and fiscal measures launched globally helped mitigate financial market uncertainty and volatility, and resume financial asset prices. By end-year most US and euro area stock indices reached their historical highs. In the second half of 2020 stock exchange volatility indices fell significantly, their levels continuing to exceed substantially the average values recorded in the last three years.

Central banks' policies

In 2020 the Federal Open Market Committee (FOMC) stepped in with a broad array of measures to mitigate financial and economic implications of the rapid spread of the coronavirus in the USA. At the extraordinary meetings of 3 and 15 March 2020 the FOMC decided to decrease the target range for the federal funds rate initially from 1.50–1.75 per cent to 1.00–1.25 per cent, and subsequently to 0.00–0.25 per cent. The Federal Reserve created additional programmes widening significantly beneficiary groups of credit facility measures, while at the same time resumed and expanded programmes which had been applied during the financial crisis in 2008–2009. Over the first half of the year a total of 11 programmes were announced, including such organised jointly with the US Department of Treasury, aimed at providing liquidity and extending loans to both financial institutions and municipalities and small, medium and large-scale enterprises in the USA. Measures were put in place to stabilise US dollar liquidity supply by activating, improving the terms and conditions and extending the access to a large number of swap lines with central banks. A new programme for purchasing US treasury securities and mortgage bonds with initial volume of purchases of USD 500 billion and USD 200 billion was launched. Later the restrictions on purchases were fully lifted and commercial mortgage-backed mortgage securities were added to eligible assets for purchase.

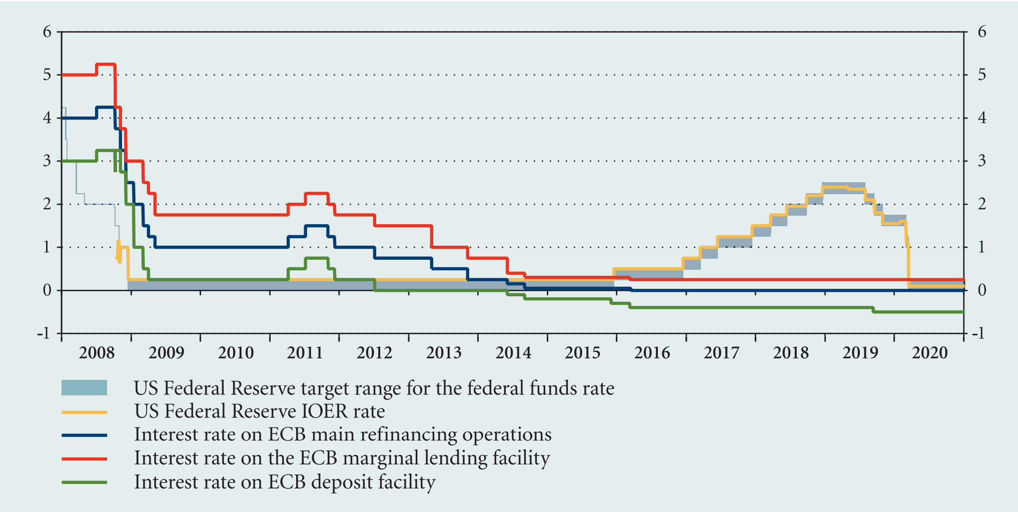
On 27 August FOMC announced the results of the review of monetary policy longer-run goals, which had started in the beginning of 2019. Three major changes were made. The first change implies transition from a symmetrical inflation target of 2 per cent to an average annual inflation rate of 2 per cent measured for a certain period of time (specified by FOMC members). Inflation will continue to be measured by the annual change in personal consumption expenditures price index (PCE), and in longer periods when inflation has been running persistently below 2 per cent, the monetary policy will likely aim to achieve inflation moderately above 2 per cent for some time. The second change concerns the FOMC employment target in the US economy. The Committee's policies will be based on assessments of the shortfalls of employment from its maximum level, rather than on positive or negative deviations from the maximum employment rate as it has been in the current policy. The third change provides for a launch of a regular in-depth public review of the monetary policy strategy, tools, and communication practice.

At FOMC September and December 2020 meetings the US Federal Reserve System made no changes, but reaffirmed maintenance of its accommodative monetary policy over a longer horizon. The Committee decided to retain purchases of US treasury securities in the amount of at least USD 80 billion *per* month and those of mortgage-backed securities of at least USD 40 billion *per* month until substantial further progress has been made toward the FOMC's maximum employment and price stability goals.

In 2020 total assets in the US Federal Reserve System balance sheet rose by USD 3.2 trillion from USD 4.17 trillion (19.4 per cent of GDP in 2019) as of 25 December 2019 to USD 7.36 trillion (35.2 per cent of GDP in 2020) as of 30 December 2020.

Key ECB and US Federal Reserve Interest Rates

(per cent)



Sources: the ECB; the Federal Reserve System.

The sharp slowdown in economic activity in the euro area in March 2020 as a result of the unprecedented measures taken to contain the spread of COVID-19 has caused a significant increase in uncertainty about the economic prospects in the short and medium term. The ECB launched broad-based monetary policy measures in response of the emerging COVID-19 crisis aimed mainly at maintaining the liquidity and financing conditions of governments, banks, households and corporations in the euro area. The measures included changes to asset purchase programmes, refinancing operations, swap/repo operations and supervisory requirements, while reference interest rates remained unchanged. As regards Asset Purchase Programmes (APP) on 12 March a temporary envelope of additional net asset purchases of EUR 120 billion was added until the end of the year. This measure was assessed as insufficient by market participants and failed to mitigate significantly financial market volatility, which required to launch additional monetary policy measures only a week later. After the

18 March extraordinary meeting the ECB Governing Council announced the launch of a new temporary asset purchase programme of private and public sector securities called the Pandemic Emergency Purchase Programme (PEPP). The new programme had an overall envelope of EUR 750 billion. Purchases will be conducted at least until the end of 2020. In June the envelope for the pandemic emergency purchase programme was additionally increased by EUR 600 billion and the term of the PEPP was extended until June 2021. Worsening economic situation in the euro area in the last months of 2020 and downward inflation developments were among the main reasons behind the ECB Governing Council decision of December 2020 to increase again the envelope for the PEPP by another EUR 500 billion to EUR 1850 billion until the end of March 2022 and, in any case, until it judged that the coronavirus crisis was over.

With regard to refinancing operations, through which euro area banks can borrow from the ECB against collateral, the Governing Council of the ECB decided to conduct extraordinary refinancing operations and eased the conditions on several occasions during the year. At its meeting on 12 March 2020 the ECB Governing Council decided to conduct temporarily, starting from 16 March, additional longer-term refinancing operations (LTROs) maturing on 24 June 2020. This is aimed at providing liquidity to banks at favourable terms to bridge the period until the targeted longer-term refinancing operation (TLTRO-III) in June 2020. On 12 March and 30 April 2020 the ECB Governing Council continuously improved the terms of TLTRO-III for the period from June 2020 to June 2021. The interest rate on the operations was lowered at 50 basis points below the average rate applied in the main refinancing operations. For banks that maintain their levels of credit provision, the rate applied in these operations was lowered at 50 basis points below the average interest rate on the deposit facility. The maximum total amount of funds to be borrowed in TLTRO-III operations was raised. In December 2020 the period over which more favourable terms will apply to the TLTRO-III was extended by twelve months, to June 2022. In addition, the Governing Council of the ECB decided that between June and December 2021, three additional operations will be conducted with an increased total amount of funds that counterparties are entitled to borrow.

In April 2020 the ECB Governing Council decided on conducting a new series of pandemic emergency longer-term refinancing operations (PELTROs). Initially, the series included seven additional refinancing operations commencing in May 2020 and maturing in a staggered sequence between July 2021 and September 2021. The interest rate was set at 25 basis points below the average rate on the main refinancing operations. In December 2020 it was decided that in 2021 four additional one-year PELTROs will be conducted on a quarterly basis.

In addition to the expanded volume and lower interest rates on refinancing operations collateral quality requirements for participation in these operations were eased. On 7 April 2020 the Governing Council of the ECB authorised the use of Greek government securities and credit claims as collateral in refinancing operations, while reducing collateral valuation haircuts on credit operations by 20 per cent. On 22 April the ECB announced that until September 2021 the quality requirements for eligible collateral used in refinancing operations in case of possible rating downgrades, resulting from the economic fallout from the pandemic, would be eased. In December the use of the measures to ease collateral requirements were extended until June 2022.

In addition to the initiated accommodative monetary policy measures some supervisory requirements were also softened. On 12 March the ECB Banking Supervision announced temporary capital relief for banks in the amount of EUR 120 billion and operational flexibility in application of supervisory measures. In September the ECB announced that euro area banks under its direct supervision may until 27 June 2021 exclude certain central bank exposures (coins, banknotes, deposits held at central banks) from the leverage ratio. In March 2020 the ECB asked banks not to pay dividends or buy back shares at least until the end of October 2020. In December this term was extended until the end of September 2021 but the recommendation provided for limited distribution of dividends and share buy-backs.

In March 2020 the ECB took coordinated action with other leading central banks to provide US dollar liquidity through swap lines with the US Federal Reserve System. In June 2020 the ECB set up a bilateral (reciprocal) swap and repo line arrangement to provide euro liquidity to non-euro area central banks, as well as an ESCB repo facility. In December 2020 all temporary swaps and repo lines with non-euro area central banks were extended until March 2022.

The ECB's large-scale monetary policy measures were reflected in a significant increase in the Eurosystem's balance sheet figure in 2020. As of 25 December 2020, the Eurosystem's balance sheet figure increased by 49.5 per cent compared to the end of 2019 to EUR 7015 billion, accounting for 58.8 per cent of euro area GDP in 2019 against 39.3 per cent of GDP at the end of the previous year. Compared with the end of 2019, the amount of ECB asset purchase programmes (APP) rose by EUR 330 billion to EUR 2917 billion. As of 25 December 2020 the Pandemic Emergency Purchase Programme (PEPP) amounted to EUR 756 billion. As a result of asset purchases and funds allotted in longer-term refinancing operations, worth EUR 1176 billion in 2020, the excess liquidity in the banking system rose by EUR 1709 billion as of 25 December compared with EUR 3425 billion at the end of 2019.

The increased excess of liquidity in the banking system of the euro area was the main factor behind the fall in money market rates. In 2020 the average value of the euro unsecured overnight rate, €STR, declined to -0.55 per cent, from -0.48 per cent in 2019. Deposit rates in the interbank money market in the euro area (EURIBOR) increased significantly in March and April 2020, falling thereafter to levels below the average value for 2019. The average one-month deposit interest rate was -0.50 per cent (down by 10 basis points *vis-à-vis* the average value for 2019), and interest rates on deposits with a maturity of 6 and 12 months fell to -0.36 and -0.30 per cent respectively (down by 6 and 9 basis points compared with the average values for 2019).

Euro Area and US Sovereign Bond Yield Curve

In 2020 German sovereign bond yields declined significantly across all maturity sectors. Compared to the end of 2019, two-year bond yields dropped by 10 basis points to 0.70 per cent, with ten-year yields falling by 38 basis points to -0.57 per cent. These developments led to a 29 basis point flattening in the German bond yield curve measured by the difference between ten and two-year yields. By the end of 2020 all German government bonds traded at negative yields. Over the period from the beginning of the year to 9 March German sovereign bond yields in all maturity sectors followed a downward trend, mostly in the longest term maturities. Bond yields dynamics over that period was mainly driven by stronger demand for low risk assets due to market participants' concerns about the dimension of the negative economic effects of COVID-19 spread. Lowered inflation expectations increased the likelihood that the ECB would launch additional monetary policy measures. After 10 March 2020 German sovereign bond yields rose sharply, mostly in long-term maturities. These developments reflected the closure of large positions in German sovereign bonds aimed at ensuring liquidity given the heightened uncertainty about the economic and financial consequences of COVID-19 containment measures. Depreciation of euro area government bonds, including German bonds, was driven by prevailing market participants' expectations that fiscal measures initiated by the governments to address effects caused by the coronavirus combined with the expected economic recession would adversely affect fiscal indicators of euro area countries. German government bonds depreciated further in mid-March reflecting also the euro area countries' proposal to issue joint government bonds to deal with COVID-19 aftermath.

The major factor behind German sovereign bond yields dynamics in the second quarter were asset purchases by the ECB, which mitigated the negative effects of the pandemic on euro area financial markets. Macroeconomic data released over the period, which were well below the consensus expectations of market analysts, also added to lower German sovereign bond yields. Concurrently, demand for low risk assets subsided due to slower spread of COVID-19 in Europe and the gradual easing of containment measures. Another factor that pushed down demand for German government bonds in the second quarter was the proposal to establish EU's Economic Recovery Fund.

In the third and fourth quarters of 2020 the yield of German government bonds varied within a comparatively narrow range. The main factor behind the dynamics of profitability in the second half of the year was the demand for low-risk assets due to the new rise in the number of COVID-19 cases in the euro area countries and the new measures initiated by governments to curb the spread of the disease. The demand for low-risk assets was limited due to the progress made in developing vaccines against COVID-19. The appreciation of the euro in the second half of the year limited the recovery of inflation expectations in the euro area and affected market participants' assessment of the likelihood that the ECB would initiate additional stimulating monetary policy measures. This resulted in a moderate appreciation of German government bonds over the period.

In 2020 government bond yield spreads of other euro area countries *vis-à-vis* German bond yields exhibited strong fluctuations. In the first quarter spreads widened sharply due to uncertainty about economic and fiscal effects of the measures initiated in Europe against the spread of COVID-19, and narrowed gradually and steadily over the rest of the year. At the end of 2020 government bond yield spreads of all euro area countries were lower than at the end of 2019. The strongest fall was reported in spreads on Italian government bonds: by 25 basis points in the two-year maturity sector and by 48 basis points in ten-year maturity sector. The spreads of French and Austrian government bonds in the ten-year sector decreased by 7 basis points each, and those of Dutch government bonds by 5 basis points. Spreads on government bonds of all euro area countries started to narrow more strongly after the ECB's temporary relief in capital requirements for market risk in mid-April, thus enhancing banks' capacity to buy government debt issued to counter the COVID-19 crisis. The ECB decision of 30 April to cut the interest rate on TLTRO-III operations, including on the new series of non-targeted pandemic emergency longer-term refinancing operations, also contributed to spread narrowing. The decline in spreads accelerated in the third quarter following the start of a gradual and relatively coordinated easing of the anti-epidemic measures. The agreement to set up an EUR 750 billion Next Generation EU Fund, including euro loans worth EUR 360 billion and grants worth EUR 390 billion for the countries most severely hit by the pandemic, also had a strong effect. At the end of 2020 progress made in development, testing and regulatory approval of vaccines against COVID-19 was another factor responsible for narrowed spreads.

Government Bond Yields in 2020

(per cent)

By the close of 2020 the slope of the US government bond yield curve, measured by the difference between ten- and two-year bond yields, rose 44 basis points on end-2019. The change reflected a stronger short-term yield fall (by 145 basis points to 0.12 per cent for the two-year maturity sector) and a comparatively smaller decrease in long-term yields (by 100 basis points to 0.91 per cent for the ten-year maturity sector). The dynamics of US government bond yields throughout the year reflected the developments in the COVID-19 pandemic and fiscal and monetary stimuli launched to mitigate its negative effects on the economy. The main factors behind the lower yield in short-term maturity sectors were the FOMC decisions on decreasing the federal funds target rate range by 150 basis points and the change announced in August in the FOMC monetary policy longer-run goals and strategy. Another factor was the investors' fears of a possible application of negative rates on US federal funds in April and early May, which were not supported but not completely excluded by FOMC members. The lower decline in US medium- and long-term government bond yields was mainly due to the reported progress in the development of vaccines against COVID-19 and incoming economic data from the USA, Europe and China, showing weaker than initially expected negative economic implications of the pandemic. Additional factors behind the dynamics in the second half of the year were related to the political debate on the fiscal policy and future fiscal stimuli in the USA, as well as the US presidential and parliamentary elections in early November.

Gold and Exchange Rates

In 2020 the US dollar depreciated by 8.9 per cent on the euro, mostly in the second and third quarters of the year and the USD/EUR exchange rate ranged from USD 1.07 to USD 1.23 per EUR 1 (from EUR 0.81 to EUR 0.94 per USD 1). The depreciation of the US dollar reflected the combined effect of a number of factors, including the higher yields of US government bonds as a result of the gradually improving economic data in the USA. Progress with regulatory approval of vaccines at the end of the year and more optimistic prospects for the global economy have strengthened market participants' risk appetite, which has also contributed to the depreciation of the US dollar. The political situation in the USA had an additional effect on market participants' expectations that the administration of the newly elected president will pursue policies, the effects of which would prompt a depreciation of the US dollar.

In 2020 the spot price of gold increased both in US dollars and euro by 25.1 per cent to USD 1898.7 and by 14.9 per cent to EUR 1554.2 *per* troy ounce. It moved within the relatively wide range of USD 1471 to USD 2064 and EUR 1353 to EUR 1737 *per* troy ounce. The gold price increased steadily throughout most months of the year driven by the enhanced demand for low-risk assets, increased prices of US government bonds and the US dollar depreciation. The change in the price of gold strongly correlated with the real yield of US government bonds as market participants perceived the two assets as alternative 'safe' assets in periods of heightened uncertainty and volatile financial markets. An additional factor behind the appreciated gold was the increased global money supply as a result of significant fiscal and monetary stimuli in the leading economies, which strengthened inflationary expectations among market participants.

The USD/EUR Exchange Rate in 2020

(EUR)

Troy Ounce Gold Price in US Dollars in 2020

(USD)

Troy Ounce Gold Price in Euro in 2020

(EUR)

Major Types of Risk

Net value risk in the Issue Department balance sheet in 2020, measured by the standard deviation of net return, was 13.20 per cent on an annual basis.

International reserve **interest rate risk** throughout the year, measured by reserves' average modified duration, was 0.74 years. The duration maintained was 0.12 years shorter than the average for 2019. The relative interest risk limit of investment portfolios was set on the basis of a tracking error at not more than 0.20 basis points annual relative yield volatility.

The Law on the BNB stipulation that the sum of the absolute values of open foreign currency positions[38] in currencies other than euro, SDR, and monetary gold, should not exceed 2 per cent of the market value of monetary liabilities in these currencies, constrained gross international reserve **currency risk**. There were minimal open positions in foreign currencies other than euro in the reporting period, with the open position in gold posing the main currency risk.

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

The BNB continued managing gross international reserve investment credit risk conservatively. In the first half of March the BNB undertook a number of additional investment restrictions aimed at reducing credit risk, given the significant volatility of financial markets caused by uncertainty about the economic implications of the measures against the spread of COVID-19 globally.

In the first half of March 2020, already at the onset of coronavirus spread, a number of investment restrictions were introduced in Europe to reduce credit and market risk, on the one hand, and to increase the liquidity of international reserves, on the other one. New investments were considerably limited, while maintaining only lowest risk investments. In mid-year after the gradual normalisation of financial markets, most restrictions previously imposed were lifted to allow the recovery of the investment process in foreign reserve management. Concurrently, credit risk taking remained subdued and investment limits for minimum and maximum credit exposures by asset class at balance sheet level, and concentration limits to individual issuers and counterparties were modified more moderately. In addition, credit exposure to certain issuers and counterparties from countries with increased credit risk affected more strongly by the spread of coronavirus was prohibited. This led to a significant reduction in the number of BNB issuers and counterparties whose financial instruments were eligible for investment of international reserves.

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

By the end of 2020 some 77 per cent of international reserves was invested into assets with the highest AAA long-term credit rating, indicating an increase by about 15 percentage points from the end 2019.

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

Return and Efficiency

Net income from assets in euro is the sum of three components: 1) income from gross international reserves investment in the original currency; 2) currency imbalance income[39]; and 3) liabilities expenditure/income. BNB income from international reserve investment was negative at EUR -86.50 million or -0.35 per cent yield for the period. This reflected mainly strongly negative interest rates on deposits with first class foreign banks and negative yields of euro-denominated high credit quality bonds in which most BNB international reserves are invested. Currency imbalance income for 2020 was positive at EUR 257.43 million. The income reflected mainly the increased market price of monetary gold in euro, including the acquisition by the BNB in early February of 11,114 troy ounces of monetary gold exchange standard. The October 2015 BNB interest policy made the net financial result from liabilities positive amounting to EUR 55.13 million in 2020, corresponding to 0.25 per cent annual yield. The above three components brought net returns from international reserve management of EUR 226.06 million: 1.00 per cent return[40] for 2020.

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

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

International Reserves Income and Return* in 2020

Period	Net income (EUR million)	Net return (per cent)	Income (EUR million)	Return (per cent)	Income (EUR million)	Return (per cent)	Expenditure (EUR million)	Return (per cent)
			on assets		on currency revaluation of assets and liabilities		on liabilities	
	(1)+(2)+(3)		(1)		(2)		(3)	
First quarter	77.18	0.35	-33.11	-0.15	100.17	0.45	10.12	0.05
Second quarter	203.63	0.82	-13.91	-0.06	202.97	0.81	14.57	0.06
Third quarter	27.19	0.11	-15.81	-0.06	28.59	0.11	14.41	0.06
Fourth quarter	-81.93	-0.29	-23.67	-0.09	-74.30	-0.27	16.04	0.08
Total	**226.06**	**1.00**	**-86.50**	**-0.35**	**257.43**	**1.10**	**55.13**	**0.25**

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

Source: the BNB.

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

Portfolio Return and Risk in 2020

Portfolio	Return		Volatility (risk)		Information ratio[3]
	Absolute (per cent)	Relative[1] (basis points)	Absolute (basis points)	Relative[2] (basis points)	
Investment 1, EUR	-0.39	2	31	5	0.46
Investment 2, EUR	-0.43	5	28	5	0.91
External manager A, EUR	0.01	22	106	32	0.70
External manager B, EUR	0.00	20	101	17	1.23
Liquid, EUR	-0.59	5	1	1	-
Liquid, XAU	0.00	-	0	-	-
Liquid, USD	0.47	11	7	6	-

[1] A portfolio's positive relative return is attained profit against benchmark return. Relative returns with a negative sign are interpreted as opportunity cost in portfolio management.
[2] Relative volatility (relative risk) against benchmark indicates the degree of deviation of portfolio risk characteristics from benchmark through active portfolio management. The risk is on an annual basis.
[3] Information ratio is the ratio between relative portfolio return and relative portfolio risk on an annual basis.

Source: the BNB.

To diversify management styles and cut operational risk, most euro-denominated assets continued being split into two investment portfolios with identical benchmarks and investment limits, managed by different BNB teams. By the end of 2020 international financial institution external managers managed some 3 per cent of gross international reserves and the benchmark of the portfolios managed by external managers was set by the BNB. Beside additional diversification, using external managers helped exchange expertise in international financial market assets management. Liquid portfolios were intended mainly to assist liquidity management and BNB foreign currency payment needs.

III. Payment Systems and Payment Oversight

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

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

– BISERA, for settling customer transfers at a designated time, operated by BORICA AD;
– BORICA, for servicing bank card payments in Bulgaria, operated by BORICA AD.

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

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

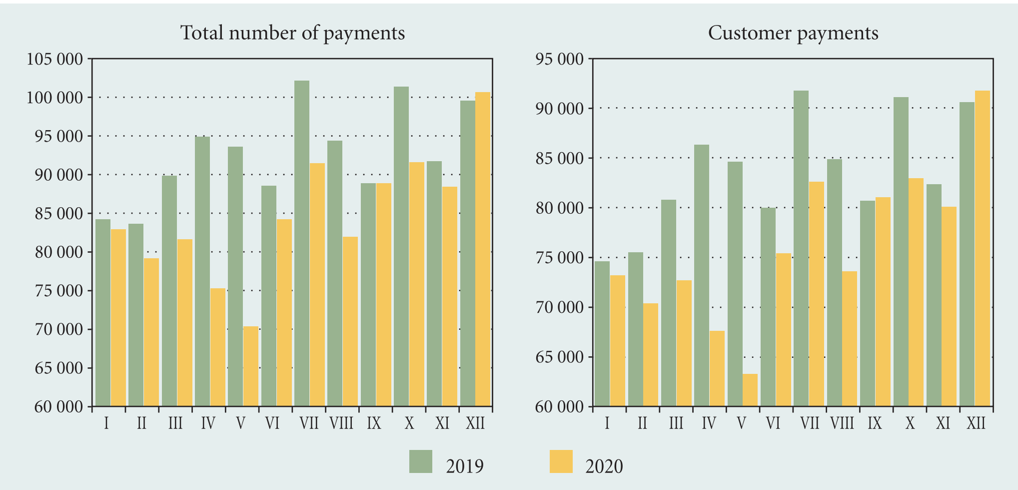
Bulgaria's securities settlement systems, where the cash leg is settled in payment systems run by the BNB, are the book-entry government securities settlement system, run by the BNB, and the book-entry securities registration and servicing system, run by the Central Depository AD.

Lev Payment Systems

In 2020 the RINGS real-time gross settlement system processed most lev payments in Bulgaria. On 31 December 2020 the BNB and 23 banks participated in RINGS.

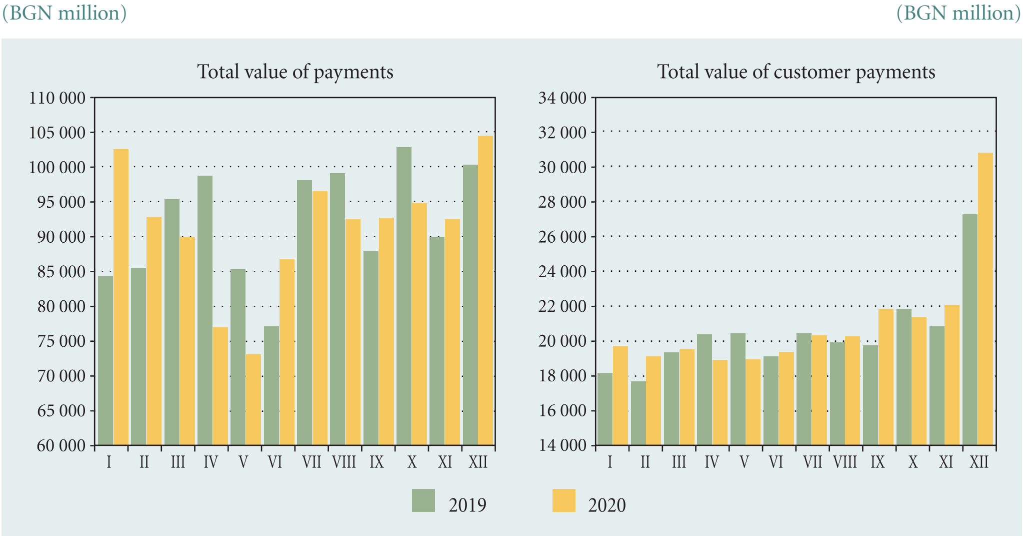
In 2020 RINGS processed payments worth BGN 1,094,557 million, up 0.1 per cent on 2019, their number reaching 1,017,152 or 8.7 per cent lower than in the prior year. There were 913,236 customer payments or 89.8 per cent of total payments for BGN 252,877 million (23.1 per cent of the total).

RINGS Payment Number in 2019 and 2020



Source: the BNB.

RINGS Payment Value in 2019 and 2020



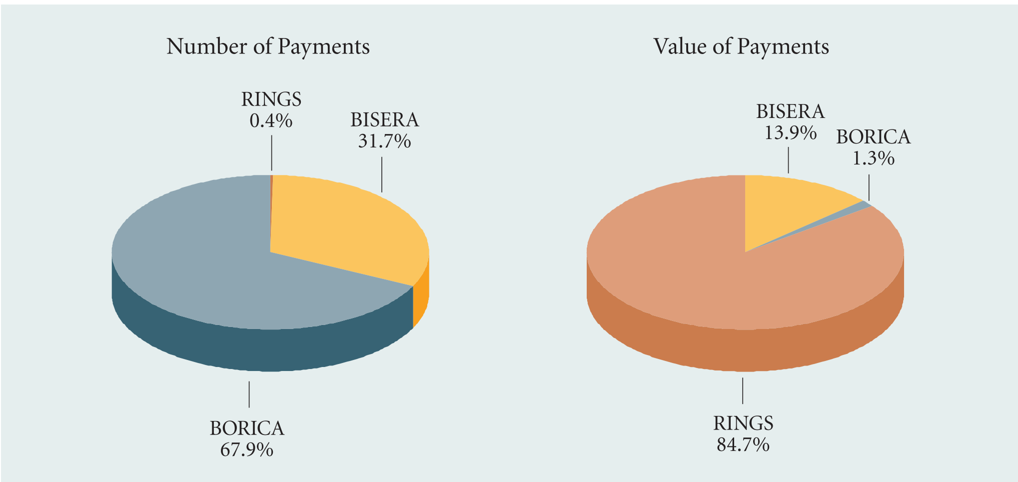
Source: the BNB.

The daily average value of payments *via* the system was BGN 4378 million and their daily average number was 4069. The daily value peak was BGN 9556 million, with a daily number peak of 7406.

In 2020, 69 per cent of payments by value were processed by noon and 87.7 per cent by 2:30 pm. The balance of 12.3 per cent went through by 5:30 pm. As regards system traffic, 82.7 per cent of RINGS payments were effected by 2:30pm. RINGS offered 99.96 per cent availability[41] in the period under review.

Lev payment distribution in Bulgaria by payment system saw no changes from 2019. Over the period under review RINGS processed 84.7 per cent of the payments effected in Bulgaria. Values around 80 per cent are deemed optimal for the operation of real-time gross settlement systems. RINGS also processed 0.4 per cent of the total number of lev non-cash payments in Bulgaria.

Distribution of Lev Payments in Bulgaria by Payment System in 2020



Source: the BNB.

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

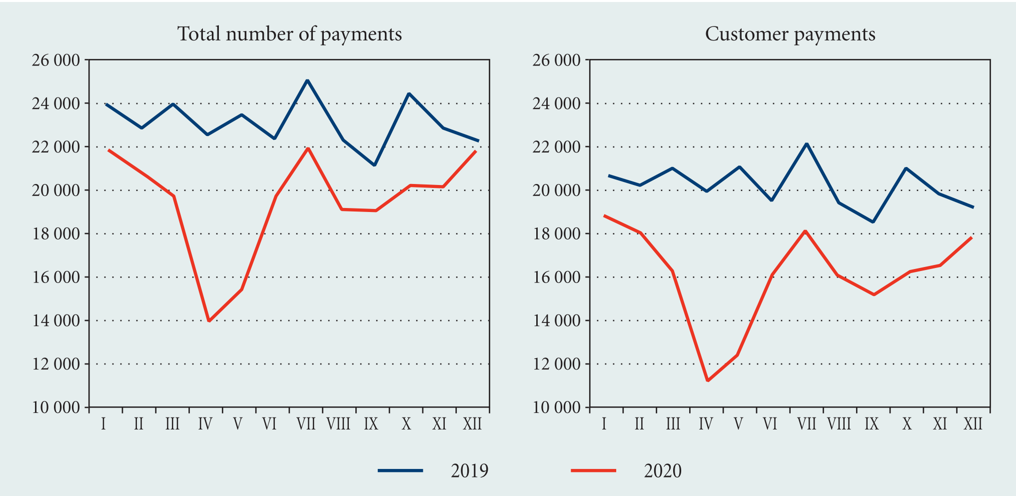
In 2020 BORICA processed 184.7 million of ATM and POS terminal payments, totalling BGN 17,382.1 million: a 2.9 per cent numerical and 0.1 per cent value rise on 2019.

In 2020 BISERA processed 86.1 million of payments totalling BGN 179,591.8 million. Compared with 2019 processed payments rose 2.2 per cent in number and 4 per cent in value.

Euro Payment Systems

TARGET2 settles gross euro payments in real time with central bank money. It is a Single Shared Platform (SSP) system, each participating and connected central bank responsible for its system component. From 1 February 2010, the BNB operates the TARGET2-BNB national system component and is responsible for the business relations of its participants and coordination with the European Central Bank and participant banks.

TARGET2-BNB Payment Number in 2019 and 2020



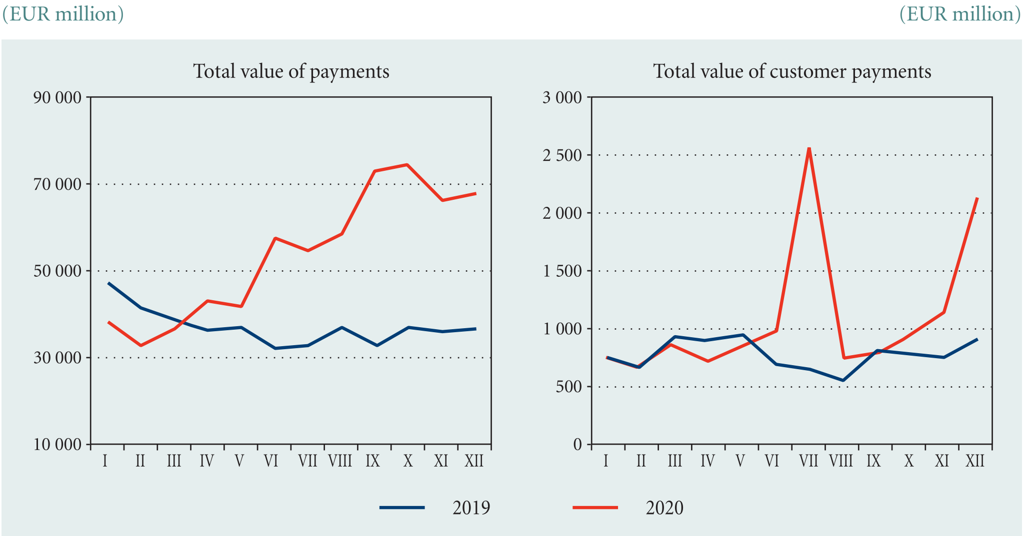
Source: the BNB.

As of 31 December 2020 the system included the BNB, 18 direct participant banks, four addressable BIC holders, and three ancillary systems: the BISERA7-EUR for settling customer transfers in euro at a designated time; the securities settlement system run by Central Depository AD and the BNBGSSS for government securities settlement at the BNB. [42]

In 2020 TARGET2-BNB processed 233,796 customer and interbank payments for EUR 644,549 million. Customer payments numbered 191,992 (82.1 per cent of the total number of payments) accounting for EUR 13,297 million (2.1 per cent of the total value of payments). Payment number fell 15.7 per cent and value rose 45.5 per cent on 2019.

[42] Updated list of TARGET2 participants in TARGET2-BNB is available on the BNB website: http://www.bnb.bg/PaymentSystem/PSTARGET2/PSTARGETList/index.htm.

TARGET2-BNB Payment Value in 2019 and 2020



Source: the BNB.

Payments by other system components to banks were 92.4 per cent of the number and 64.1 per cent of the value of national component payments. There were 910 daily average TARGET2-BNB payments, worth EUR 2508 million. The daily number peak of payments ordered by TARGET2-BNB participants was 1537, with a daily transaction value peak of EUR 6362 million.

The BISERA7-EUR ancillary system processes designated time customer euro transfers. As of 31 December 2020, 14 banks participated in BISERA7-EUR. Over the review period it processed 26,141 payments for EUR 214 million, up 27.2 per cent in number and 19.6 per cent in value on 2019.

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

Developing the Payment Services and Payment Systems Regulatory Framework

In 2020 amendments to the Law on Payment Services and Payment Systems (LPSPS) were adopted[43]. The amendments introduce the requirements of the EU legislation to the payment services regulatory framework arising from Directive (EU) 2015/2366, Regulation (EU) 2019/518, Delegated Regulation (EU) 2018/389 and Guidelines of the European Banking Authority EBA/GL/2018/05 and EBA/GL/2019/02. The legal framework on the effective payment oversight has been also improved and the changes made relate mostly to: authorisation of payment institutions and electronic money institutions and some aspects of the activity of these types of payment service providers; clearing and settlement of card-based payment transactions; an increase in the amount of fines and pecuniary sanctions in case of breaches; a prohibition on an entity conducting operations on providing payment services and/or issuing electronic money to use in its name, in its advertising or other activity words meaning performance of such activity, etc.

[43] Published in the Darjaven Vestnik, issue 13 of 2020.

Over the review period the BNB amended Ordinance No 3 of 18 April 2018 on the Terms and Procedure for Opening Payment Accounts, Executing Payment Transactions and Using Payment Instruments, and Ordinance No 16 of 29 March 2018 on Granting Licenses and Approvals, Entry into the Register under Article 19 of the Law on Payment Services and Payment Systems, and Requirements for the Activity of Operators of Payment Systems with Settlement Finality. The amendments to these ordinances include mainly the amendments to the Law on Payment Services and Payment Systems. The timescales for submitting a portion of the reporting information by payment service providers have been also updated.

In response to the dynamic development of communications, digital services, e-commerce and users' and business's legitimate need for fast, modern and convenient payment methods at any time in a 24-hour period, BORICA AD jointly with the BNB started actions under the project for implementation of lev instant payments up to BGN 100,000. Instant customer payments should be executed within seconds 24/7/365 in accordance with the European Payments Council's SEPA Credit Transfer Instant Scheme – SCT Inst. They will be settled by the means of prefinanced model through which participating banks will provide funds in advance for the instant payments on a special account in RINGS.

Over the reporting period the BNB and participants in the TARGET2-BNB national system component continued their preparation activities on joining the consolidated platform of TARGET services in line with the timeline approved by the ECB. Given the impact of the COVID-19 pandemic on the market participants' activities and SWIFT decision to delay migration of cross-border payments to ISO 20022 by one year, in July 2020 the ECB Governing Council decided to postpone the real-time start of the TARGET2 consolidated platform by a year to November 2022.

Payment Systems Oversight

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

In 2020 the BNB inspected a payment service provider licensed by the BNB to establish whether operations of the payment service provider and issuing electronic money institution comply with the requirements of the Law on Payment Services and Payment Systems, its implementing acts, the European legal framework, as well as with the requirements of the Law on Measures against Money Laundering and the Law on Measures against Financing of Terrorism. The Bank imposed supervisory measures on the provider. Over the review period the Bank started two inspections of a payment service providers to establish compliance of its activity with particular requirements of the Law on Measures against Money Laundering. The Bank inspected four institutions to find out whether they provided payment services and/or issued electronic money without due licence or registration.

In 2020 two thematic supervisory inspections of BNB licensed payment service providers was completed to establish compliance with the provisions of Regulation (EU) 2015/751[44] and Regulation (EU) No 260/2012[45]. The payment service providers

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

[45] Regulation (EU) No 260/2012 of the European Parliament and of the Council of 14 March 2012 establishing technical and business requirements for credit transfers and direct debits in euro.

certified the compliance of their operations with the provisions of both regulations. Therefore, no supervisory measures have been imposed. Over the review period the work on the thematic supervisory inspection of payment service providers in Bulgaria continued, intended to establish the compliance with the requirements of EBA Opinion on the deadline for the migration to strong customer authentication for e-commerce card-based payment transactions (EBA-Op-2019-11).

In 2020 the BNB started a thematic supervisory inspection of payment institutions and electronic money institutions licensed elsewhere in the EU and eligible to operate on the territory of the Republic of Bulgaria through a branch or an agent to establish the existence of central contact points under Article 9 of the LMML, the compliance of operations on providing payment services and issuing, distributing and redeeming electronic money with the requirements of the LMML, LMFT, as well as of Articles 4 and 5 of the LPSPS on information requirements and the rights and obligations in relation to the provision and use of services through a branch or an agent on the territory of the Republic of Bulgaria.

In 2020 a thematic supervisory inspection started to establish compliance with the requirement for separation of payment card scheme and processing entities under Article 7 of Regulation (EU) 2015/751 and Commission Delegated Regulation (EU) 2018/72[46].

Over the review period Myfin EAD was licensed to conduct activity as an electronic money institution, providing in addition payment services under Article 4, items 3, 4, 5 (sentence one), 7 and 8 of the LPSPS. The Bank declined one payment institution licence.

By the end of 2020 five payment institutions and six electronic money institutions were licensed by the BNB.

Over the review period, pursuant to the requirements of the LPSPS, the Governing Council took decisions on two notifications filed by service providers under Article 2, paragraph 3 of the LPSPS regarding offered payment instruments that can only be used in a restricted way.

In compliance with the requirements of Article 33, paragraph 6 of Delegated Regulation (EU) 2018/389[47] after consultation with the European Banking Authority (EBA) four payment service providers were exempted from the obligation to set up the contingency mechanism to the dedicated interface for access to payment accounts serviced by them, which are accessible online.

The past year saw these entries and deletions in/from registers of payment institutions and electronic money institutions licensed by the BNB:

– 331 agents were listed and 241 agents were delisted in the public register of licensed payment institutions and electronic money institutions operating in Bulgaria;
– three agents were listed and six agents were delisted in the public register of licensed payment institutions and electronic money institutions operating elsewhere in the EU.

The review period saw EU Member States competent authorities notifications of the following payment institutions, electronic money institutions and account

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

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

information service providers licensed elsewhere in the EU and eligible to operate in Bulgaria:

– for listing 132 payment institutions, electronic money institutions and account information service providers eligible to directly operate in Bulgaria and for delisting 32 payment institutions, electronic money institutions and account information service providers operating directly in Bulgaria;

– for listing one branch of an electronic money institution in Bulgaria;

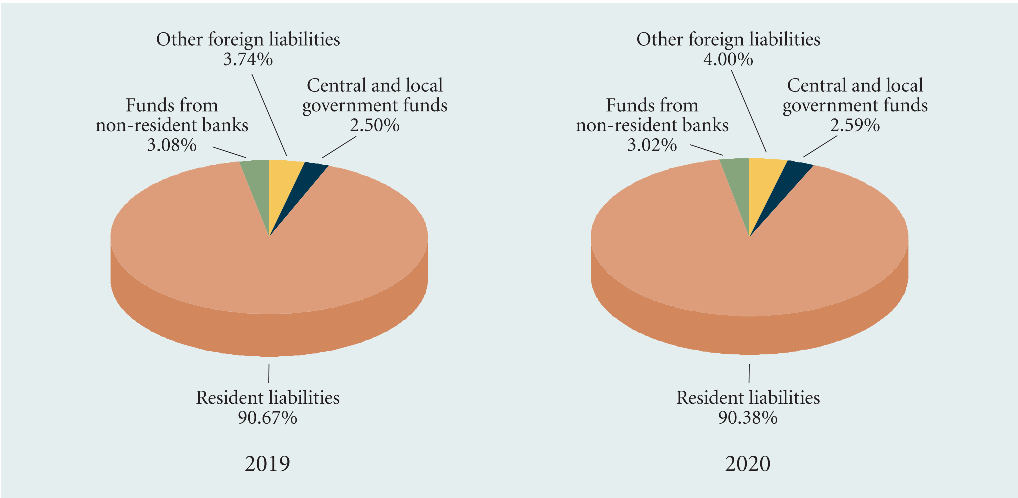
– for listing 110 agents and delisting 66 agents of payment institutions and electronic money institutions in Bulgaria.

The BNB enquired into 341 complaints submitted by members of the public and corporate payment service users. In 13 of them, the Bank issued instructions. The other cases involved no breaches of the Law on Payment Services and Payment Systems and its statutory instruments, or were resolved in favour of payment service users through correspondence.

IV. Banks' Reserves at the BNB

In 2020 the average daily value of banks' attracted funds for minimum reserve calculation purposes (excluding central and local government budget accounts) rose by 7.9 per cent from a year earlier. The average daily value of funds attracted from residents (excluding central and local government budget funds) grew by 7.6 per cent, and those from non-residents 11.1 per cent, funds attracted from non-resident banks increasing by 5.9 per cent. Funds attracted by banks from central and local budgets posted 12.0 per cent growth. The effective implicit ratio of minimum reserve requirements remained unchanged from the previous year at 9.4 per cent.[48] Reserve assets covering this ratio include funds in banks' BNB accounts (8.3 per cent) and half of cash balances designated as reserves (1.1 per cent).

Structure of Attracted Funds in the Banking System*



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

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

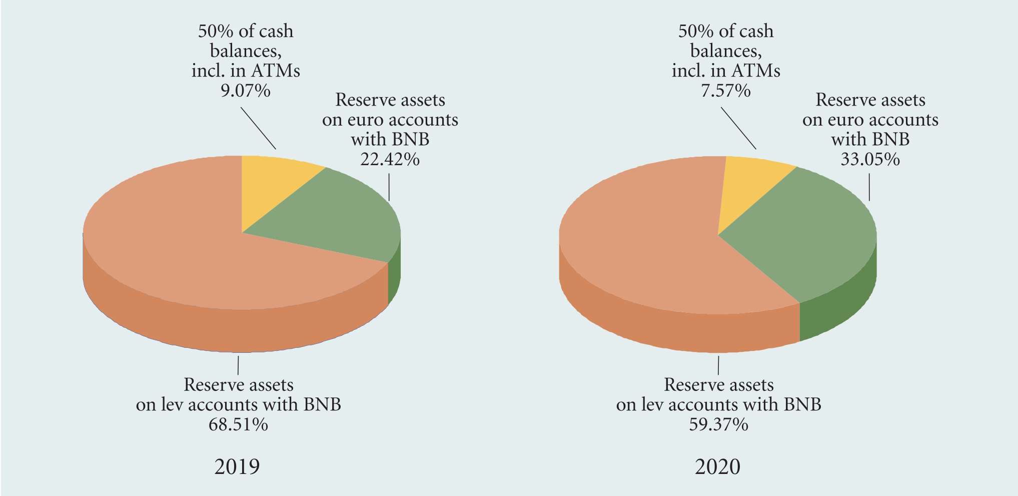
Source: the BNB.

Banks keep reserves in their own assets: BNB lev and euro accounts and half their cash balances, including in ATMs.[49] In 2020 the share of lev-denominated reserve assets was 59.4 per cent on an average daily basis, from 68.5 per cent a year earlier, while the share of euro reserve assets rose to 33.1 per cent, from 22.4 per cent in 2019. The share of cash balances designated as reserve assets, including in ATMs, fell from 9.1 per cent in 2019 to 7.6 per cent in 2020.

[48] BNB Ordinance No 21 on the Minimum Required Reserves Maintained with the BNB by Banks, effective from 4 January 2016, sets the minimum required reserves rate on funds attracted from residents at 10 per cent of the reserve base, those from non-residents at 5 per cent, and those from central and local government budgets at nil.

[49] Under Article 4 of Ordinance No 21 of the BNB.

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

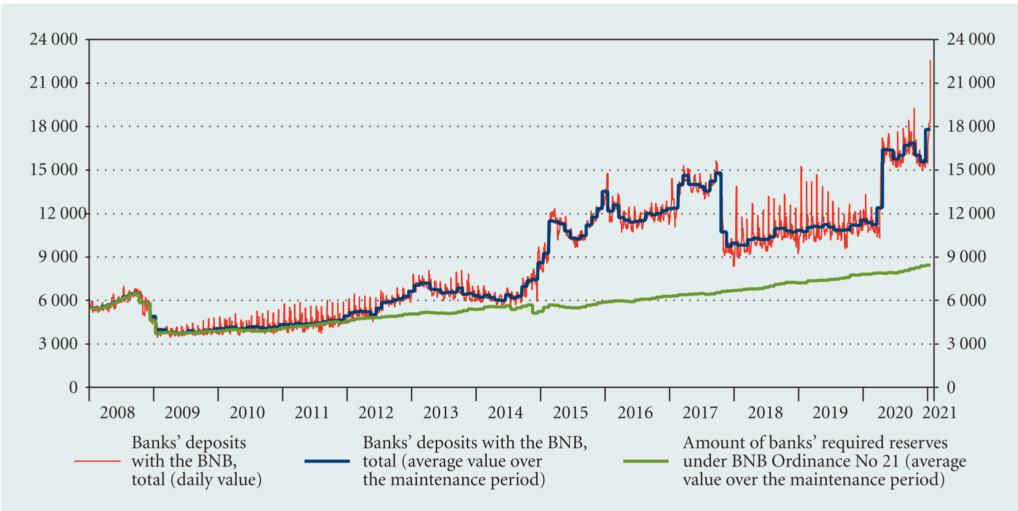


Source: the BNB.

Excess reserve interest[50] under BNB Ordinance No 21 remained at -0.70 per cent.[51] The average daily amount of bank excess reserves on BNB accounts rose by BGN 3.0 billion from 2019. The increase in bank excess reserves was concentrated in the beginning of the second quarter, reflecting mainly the package of measures introduced by the BNB in the context of the COVID-19 pandemic and intended to further strengthen bank capital and liquidity. Funds in banks' BNB Ordinance No 21 accounts exceeded minima by 62.4 per cent on an average daily basis, from 27.2 per cent in 2019.

Banks' Reserves at the BNB

(BGN million)



Source: the BNB.

[50] Ordinance No 21 Article 5, paragraph 1 defines excess reserves as funds exceeding the reserve requirement by more than 5 per cent holdings.

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

V. Currency in Circulation

The Bank has a monopoly on banknote and coin issue in Bulgaria. Banknotes and coins issued by the Bank are legal tender and are mandatorily acceptable as payment at full face value without restriction[52]. The Bank prints banknotes, mints coins, and keeps and scraps uncirculated or withdrawn currency.

In 2020 the BNB put step-by-step the last three banknotes of the new series of BGN 5, 10 and 20 nominal value, issue 2020. The general appearance and main features of the banknotes are almost unchanged from those of the banknotes in circulation. The changes in the banknotes of the new series include mainly new security features.

Pursuant to the LBNB Article 26, the BNB Governing Council decided to withdraw from circulation the commemorative coins issued in 2014 which ceased to be legal tender on 10 February 2020. They may be exchanged at BNB tills at face value with no limit to amounts and free of charge until 31 December 2021.

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

Banknotes and Coins in Circulation (Outside BNB Vaults)[53]

At the end of 2020 circulating currency reached BGN 21,241.0 million, up BGN 2136.1 million, or 11.2 per cent on the end of 2019. The value of banknotes in circulation was BGN 20,755.6, that of circulating coins BGN 483.8 million and the value of commemorative coins BGN 1.6 million, accounting for 97.71, 2.28 and 0.01 per cent respectively.

Circulating Cash outside BNB Vaults

(BGN million)

Source: the BNB.

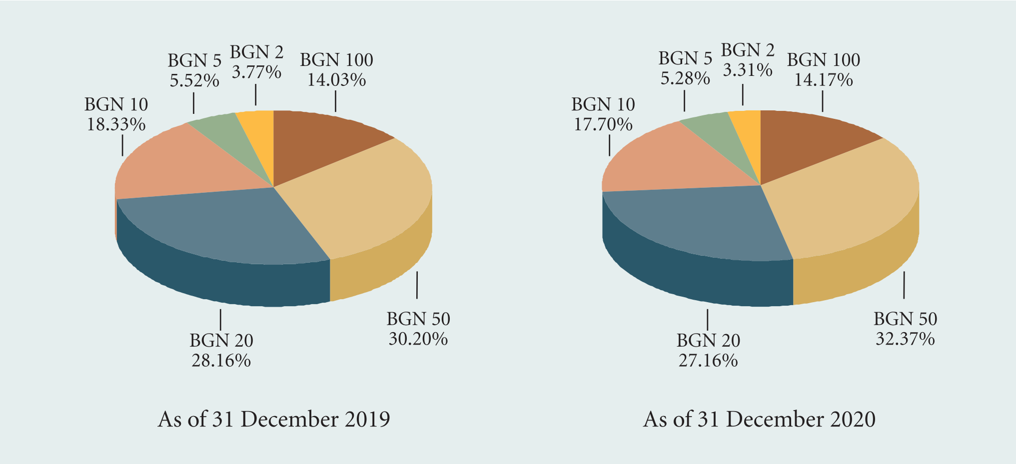
[52] Article 2, paragraph 5 and Article 25 of the Law on the BNB.

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

Banknotes and Coins in Circulation[54]

By the close of 2020 circulating banknotes numbered 547.7 million, worth BGN 20,751.8 million. In a year their number rose 43.3 million (8.6 per cent) and their value BGN 2118.3 million (11.4 per cent). As in recent years, faster growth in the number of high value banknotes (BGN 50 and 100) compared with other banknotes was sustained. The number of BGN 50 banknotes increased 25.0 million or 16.4 per cent and that of BGN 100 banknotes by 6.9 million or 9.7 per cent compared with 2019. These two denominations accounted for the major share in the annual increase in banknotes in circulation.

Individual Denomination Shares in the Total Number of Circulating Banknotes



Source: the BNB.

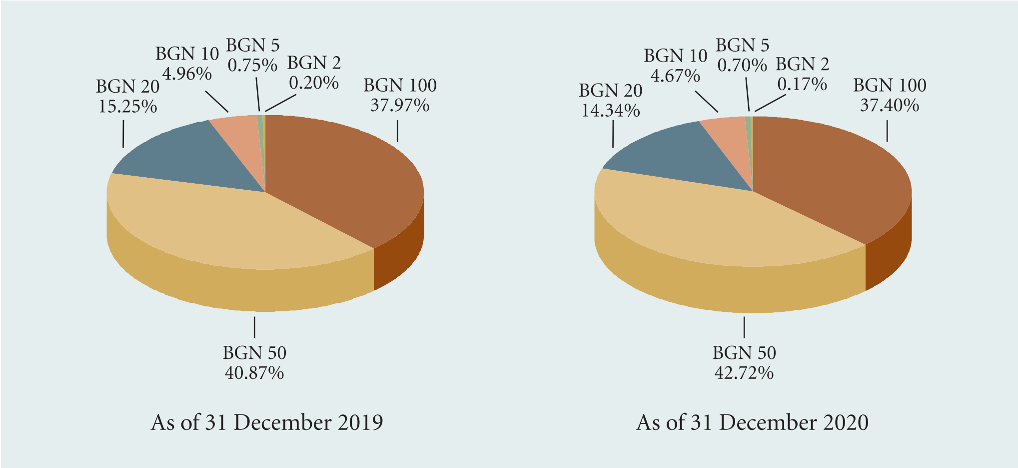
The BGN 50 banknote hold the largest share (32.37 per cent) in the total number of circulating banknotes at end-2020. The prior years' trend toward an increase in the shares of high value banknotes (in number) was sustained. Shares of BGN 50 and 100 banknotes rose by 2.17 and 0.14 percentage points over the past year. The shares of other banknotes fell, that of the BGN 20 dropping most strongly. The share of BGN 2 banknotes dropped further, reflecting the BGN 2 banknote's rollover with a coin.

By the end of 2020 the BGN 50 and BGN 100 banknotes held the largest shares (in value) in the structure of circulating banknotes: 42.72 and 37.40 per cent. Compared with end-2019 only the share of BGN 50 banknotes posted growth in value. The shares of all other banknote denominations fell, that of the BGN 20 dropping most strongly year on year. The lowest fall was recorded in the share of BGN 2 banknotes on an annual basis.

The average banknote circulating at the end of 2020 was worth BGN 37.89. In a year its value rose BGN 0.95 or 2.6 per cent, reflecting the higher growth rates in the number of BGN 50 and BGN 100 banknotes compared with other banknotes.

[54] Banknotes with nominal values of BGN 2, 5, 10, 20, 50 and 100, issued after 5 July 1999 – legal tender, and circulating coins with nominal values of BGN 0.01, 0.02, 0.05, 0.10, 0.20 and 0.50, and BGN 1 and 2, issued after 5 July 1999 – legal tender.

Individual Denomination Shares in the Total Value of Circulating Banknotes

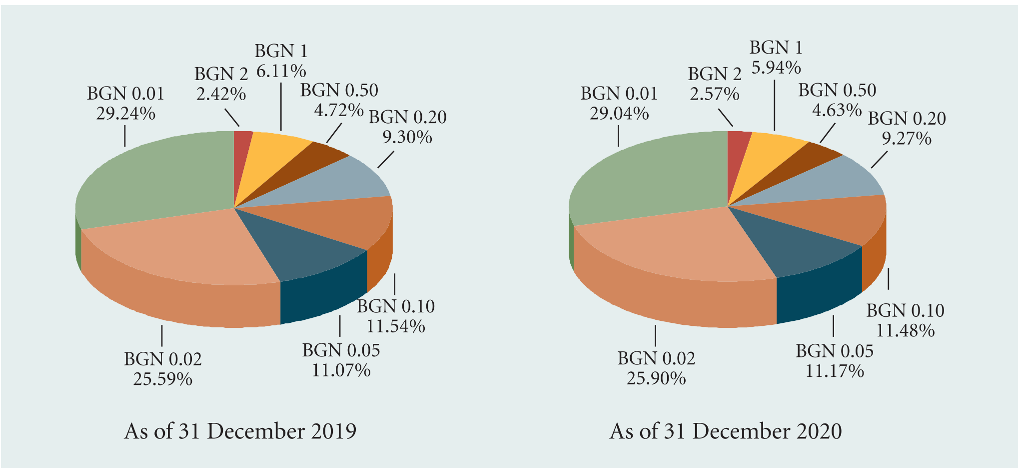


Source: the BNB.

In late 2020, 2722.1 million coins worth BGN 483.8 million nominal value were in circulation. Year on year their number rose by 123.4 million (4.7 per cent), and their value by BGN 24.1 million (5.2 per cent). The upward trend in the number of circulating coins continued. Year on year the number of BGN 0.01 and 0.02 coins rose most: by BGN 30.7 million (4.0 per cent) and 40.0 million (6.0 per cent). BGN 2 coins continued to grow at the highest rate in the currency circulation. In 2020 the number of BGN 2 coins rose 11.4 per cent, reaching 70.1 million at the close of the year. In 2020 the number of coins of BGN 0.05, 0.10, 0.20 and 0.50, and BGN 1 rose from 2.9 million to 16.3 million (from 1.8 to 5.7 per cent).

BGN 0.01 coins had the largest share of 29.04 per cent of total circulating coins at the end of the 2020, with 790.5 million coins of this nominal value outside BNB vaults by 31 December. The BGN 2 coins held the smallest share at 2.57 per cent. The numerical shares of BGN 0.02, 0.05 and BGN 2 coins rose on the end of 2019. Over the same period the share of other denominations fell.

Individual Nominal Value Shares in the Total Number of Circulating Coins



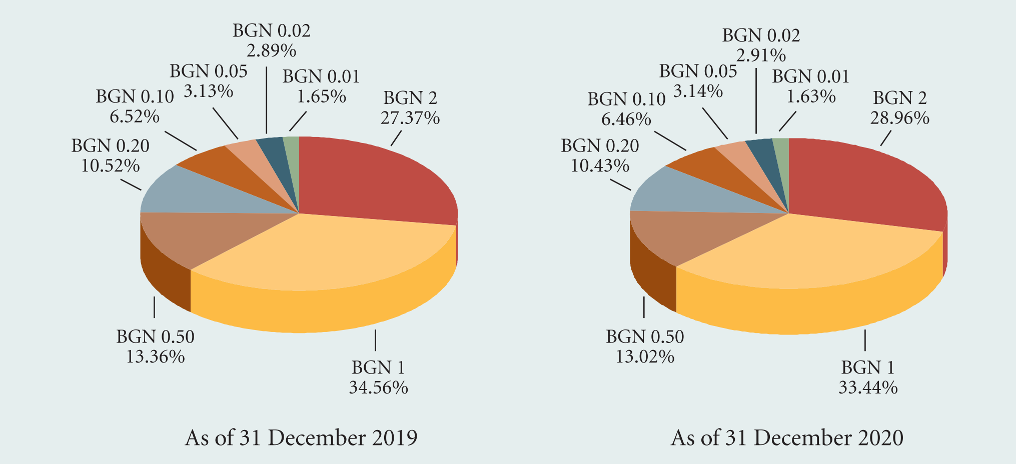
Source: the BNB.

At the end of 2020 the BGN 1 coin occupied the largest share at 33.44 per cent.

Structural changes in the nominal composition of circulating coins by value were mainly attributable to the continued rise of the BGN 2, the coin with the largest nominal value, in the currency circulation. Along with BGN 0.02 and BGN 0.05 these were the only ones whose shares reported growth in value, with BGN 2 coin rising most: by 1.59 percentage points. Shares of other coins posted a decline on end-2019, with BGN 1 and BGN 0.50 falling most strongly.

At the end of 2020 the average circulating coin matched its late 2019 level at BGN 0.18.

Individual Nominal Value Shares in the Total Value of Circulating Coins



Source: the BNB.

Non-genuine Banknotes and Circulating Coins

In 2020 the BNB National Analysis Centre (NAC) retained 843 non-genuine Bulgarian banknotes; of these 842 had entered into circulation: down 471 compared with those retained in 2019. The share of retained non-genuine banknotes was 0.000154 per cent of circulating banknotes (legal tender) by the end of 2020.

The BGN 20 banknote had the largest share of retained non-genuine banknotes at 49.47 per cent, followed by BGN 50 and 10 at 32.50 and 11.86 per cent. Non-genuine BGN 100, 5 and 2 banknotes' shares were 5.22, 0.59 and 0.36 per cent.

The retained non-genuine Bulgarian coins numbered 535; of these 393 had entered into circulation. The share of retained circulating non-genuine Bulgarian coins was also very small accounting for 0.00002 per cent of the total number of circulating coins by the end of 2020.

Evaluating suspect foreign banknotes and coins, in 2020 the BNB retained 4314 euro banknotes, 566 US dollar banknotes, and 160 other banknotes.

BNB Issue and Cash Operations

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

In 2020 producers supplied 130.0 million new banknotes and 192.9 million new coins, worth BGN 4222.8 million. The BNB issued four commemorative coins as provisioned in the Law on the BNB Article 25 paragraph 1 and the 2020 Minting Programme.[55]

In 2020 banks deposited BGN 17,734.2 million of cash, up BGN 563.6 million or 3.3 per cent on 2019. Over the same period, Bulgarian banknotes and coins, worth BGN 19,876.1 million, were withdrawn from the BNB: up BGN 927.0 million or 4.9 per cent in a year.

In 2020 banknotes recirculated through BNB tills an average of 1.6 times. Highest and lowest value banknotes returned less often, from 0.1 to 1.1 times; BGN 10 and BGN 20 banknotes returned more often at 3.3 and 2.5 times.

In 2020 banknote processing machines tested 792.2 million banknotes and 62.3 million coins. Compared with 2019, the number of processed banknotes increased by 1.4 per cent, while that of processed circulating coins decreased by 20.4 per cent. BGN 20 and 10 had the largest nominal value shares at 42.32 and 35.12 per cent, and coins of BGN 0.20, 0.50 and BGN 1 accounted for 14.79, 14.77 and 21.79 per cent.

Cash quality and integrity checks identified some 35.1 million banknotes as unfit for circulation, down 13.2 million (27.3 per cent) on 2019. BGN 10 and 20 had the largest shares of unfit banknotes at 35.26 and 34.39 per cent. The share of unfit banknotes processed in 2020 was 4.43 per cent. There were 1.1 million unfit coins, down 17.9 per cent in a year. The share of unfit coins processed in 2020 was 1.77 per cent.

In 2020 the BNB bought EUR 8.7 million of reserve currency, including EUR 8.6 million from budget organisations and EUR 0.1 million from individuals. BNB reserve currency sales were EUR 275.4 million, including EUR 3.8 million to budget organisations and EUR 271.6 million to individuals.

The BNB conducted a check into a credit institution to ensure compliance with Ordinance No 18 on the Control over Quality of Currency in Circulation and the instructions on its implementation. The BNB tested 144 sorting machines and customer operated machines in line with identification and fitness standards into 11 credit institutions, five service providers and five representatives of machine producers under Ordinance No 18.

[55] See the BNB website for new banknote and circulating and commemorative coin issues.

VI. Maintaining Banking System Stability and Protecting Depositor Interests

Assessment of the State of the Banking System[56]

In 2020 the banking sector in Bulgaria operated in an environment of sharp decline in economic activity caused by the unprecedented containment measures against the COVID-19 pandemic. The banking system in Bulgaria met this economic shock in a good condition, with a solid capital and liquidity position ensuring business continuity and operational reliability of banks in financial intermediation. Resilience and flexibility of the banking sector in the context of a dramatically worsened macroeconomic environment were underpinned by both recent years' policy of building up buffers and the measures adopted on 12 March 2020 by the BNB Governing Council to further strengthen banks' capital and liquidity, including profit capitalisation of credit institutions, imposition of individual and aggregate limits on banks' foreign exposures in order to reduce credit risk and concentration risk in bank balance sheets. On 19 March the BNB Governing Council also decided to remove planned increases in the countercyclical capital buffer. Despite the economic shock in 2020 the ratio of non-performing loans in the banking system decreased. This is due to the combined effect of the non-legislative moratorium[57] on loan repayments as proposed by the Association of Banks in Bulgaria (ABB) and approved on 9 April by the BNB Governing Council, and of the sales and write-offs of non-performing loans over the period under review. The moratorium on loan repayments gave credit institutions the possibility to allow borrowers affected by the crisis to defer payments avoiding reductions of obligations and automatic reclassification of loans falling within the moratorium scope of forborne or non-performing loans. On one hand, the effect of the moratorium increases the likelihood for firms and households which experience a temporary liquidity shortfall as a result of the measures against COVID-19, to continue to pay their loan obligations after the expiry of the loan repayment deferral period and the recovery in their cash flows. On the other hand, the effect of the moratorium hides the potential accumulation of credit risk in banks portfolios given the unlikeness to pay of some borrowers with deferred loan repayments subject to the moratorium after its expiry. Therefore, in view of the deterioration of the financial position of some firms and households, affected by the measures against COVID-19, banks increased their credit risk assessments, in particular by tightening of lending standards and raising impairment charges. These additional costs coupled with lower operating income as a result of a prolonged period of low interest rates and a deteriorated economic environment had an adverse effect on return on assets in the banking sector.

In 2020 banks' liquid position improved with the liquidity coverage ratio exceeding significantly the regulatory requirement despite the highly deteriorated macroeconomic environment. The ample banking system liquidity was driven by non-government deposit growth[58] over the year and BNB measures launched on 12 March intended to increase additionally banking system capital and liquidity.

Banks' capital position also remained stable with increasing capital ratios, which exceeded minimum regulatory requirements and combined capital buffer

[56] Based on individual supervisory statements as of end-December 2020, submitted by 22 February 2021 and as of end-December 2019, updated by 8 March 2021.

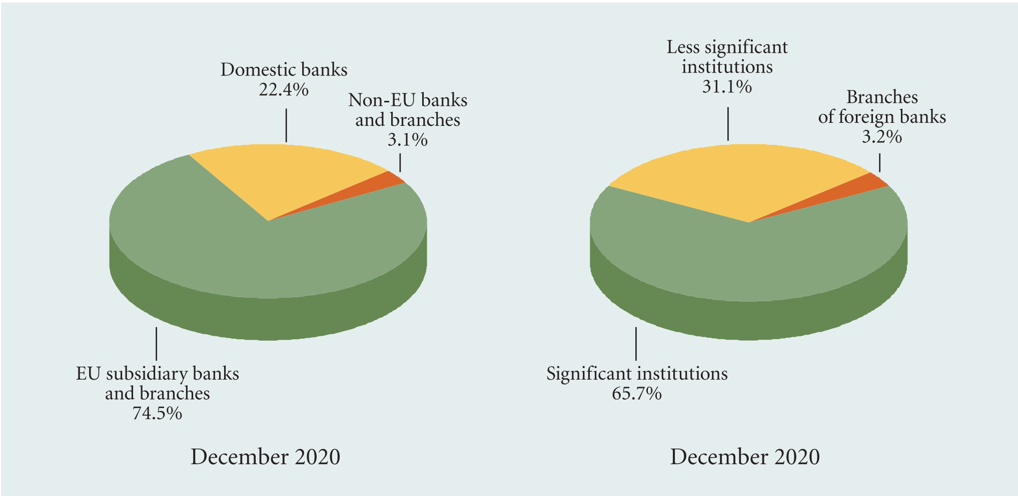
[57] See Macroprudential Supervision section.

[58] See Chapter 1.

requirement. This reflected available capital buffers accumulated before the economic shock, the BNB measures of 12 and 19 March[59], and the regulatory relief in response to the COVID-19[60] pandemic. The increase in regulatory capital and the decline in net non-performing loans and advances in 2020 ensured additional coverage of the items in banks' portfolios appearing to be a potential source of residual credit risk in bank balance sheets.

In 2020 banking system assets increased by BGN 9.7 billion (8.5 per cent), amounting to BGN 124.0 billion at the end of December, with a higher growth rate than that in 2019 (8.3 per cent, BGN 8.8 billion). Over the reporting period the amount of loans and advances declined, their share in the banking system assets dropping to 58.9 per cent. Following the increase in the most liquid item of cash, cash balances at central banks and other demand deposits, its share in the banking balance sheet figure reached 21.9 per cent at the end of the period. Over the year the share of debt securities in the banking system balance sheet rose by 23.3 per cent (an increase of BGN 3.3 billion), their share in the banking balance sheet figure amounting to 14.2 per cent. This reflected mainly the increased amount of securities purchased by banks and issued by general government sector.

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



Source: the BNB.

The process of banking sector consolidation continued during the reporting period, with Expressbank AD being transformed through a merger into DSK Bank AD and subsequently deleted from the Commercial Register on 30 April 2020. Reflecting continuing consolidation in the banking sector, the asset share of the five largest banks rose to 66.6 per cent[61] by end of 2020, compared to 62.2 per cent at the end of 2019. Broken by group, shares underwent no significant changes: the market share of local equity banks rose to 22.4 per cent (21.8 per cent a year earlier) and that of EU subsidiary banks and branches[62] dropped to 74.5 per cent (75.0 per cent as of

[59] See Resolution No 87 of the BNB Governing Council of 12 March and Resolution No 115 of the BNB Governing Council of 19 March.

[60] See Regulation (EU) 2020/873 of the European Parliament and of the Council of 24 June 2020 amending Regulations (EU) No 575/2013 and (EU) 2019/876 as regards certain adjustments in response to the COVID-19 pandemic (so called CRR – Capital Requirements Regulation – 'quick fix').

[61] Over the review period Expressbank AD was taken over by DSK Bank AD.

[62] Since August 2020 supervisory reporting data for Varengold Bank AG, Sofia Branch have been published.

31 December 2019). The market share of non-EU banks and branches reached 3.1 per cent at the end of the period. At the end of 2020 the assets of banks which are subject to direct supervision by the ECB since 1 October[63] account for 65.7 per cent of banking system's total assets, while in the case of less significant institutions this share amounts to 31.1 per cent.

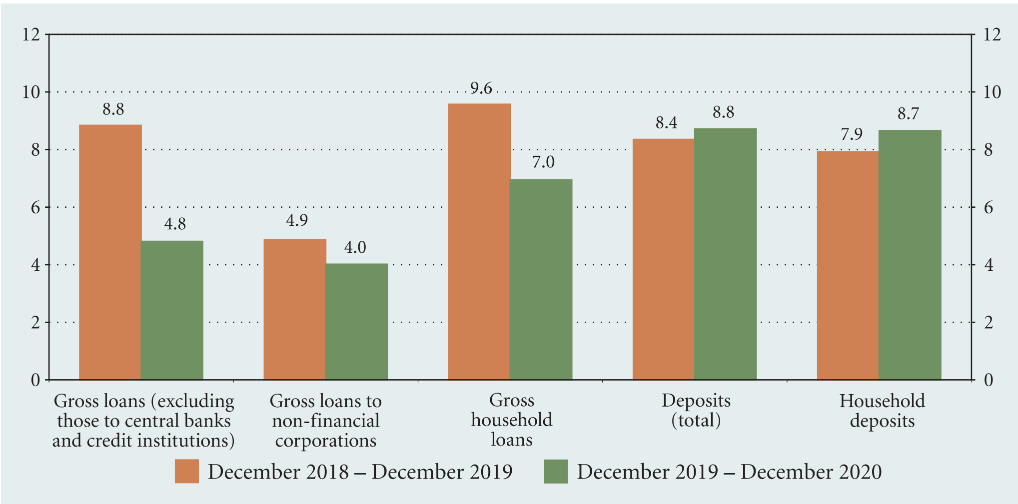
By end-December 2020 the gross credit portfolio of the banking system covering the sectors of non-financial corporations, households, other financial corporations and general government was BGN 69.5 billion. Over the year it grew by BGN 3.2 billion (4.8 per cent), which was lower than the increase of BGN 5.4 billion (8.8 per cent) reported in 2019. In its structure, loans to household rose most significantly in absolute terms by BGN 1.7 billion (7.0 per cent) for the 12 months of 2020. Loans to non-financial corporations went up BGN 1.5 billion (4.0 per cent), their share in the credit portfolio falling from 55.2 per cent to 54.7 per cent. Annual growth rate slowed down in both loans to corporations and households compared to the growth rate reported for 2019 (4.9 per cent and 9.6 per cent, respectively). Growth of loans secured on residential property (BGN 1.3 billion, 10.1 per cent) was lower than in 2019 (BGN 1.6 billion, 14.5 per cent), however, accounting for 39.5 per cent of credit portfolio's annual growth (29.3 per cent for 2019). Claims on other financial corporations also went up by BGN 85 million (1.9 per cent) while those on the general government sector dropped by BGN 36 million (3.8 per cent).

The share of gross loans and advances in levs accounted for 60.3 per cent at the end of the year. The share of euro-denominated gross loans and advances was 36.6 per cent and those in other currencies 3.1 per cent. Within the resident structure claims on residents occupied 89.4 per cent and on non-residents 10.6 per cent.

Dynamics of Selected Balance Sheet Indicators

(on an annual basis)

(per cent)



Source: the BNB.

Based on supervisory reports, over 2020 gross non-performing loans and advances decreased by BGN 387 million (6.3 per cent) to BGN 5.71 billion at the end of

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

December. Gross non-performing exposures[64] were BGN 5.72 billion and their share 4.8 per cent, against BGN 6.11 billion and 5.6 per cent on 31 December 2019. The ratios of non-performing loans in all main credit portfolio segments declined, which was mainly due to the effect of the non-legislative moratorium on loan repayments and bank operations including sales and write-offs of non-performing loans. As of 31 December 2020, 108,211 applications of gross balance sheet value of liabilities worth BGN 8760 million were filed under the Procedure for Deferral and Settlement of Liabilities Payable to Banks and their Subsidiaries – Financial Institutions, approved applications numbering 89,478 at a total gross amount of BGN 8074 million. Of this, household applications came to 94,705 and those of corporations 13,506. Consequently, 77,124 household applications, accounting for 81.4 per cent of the total number of applications filed in this segment, were approved and approved applications of corporations numbered 12,354 or 91.5 per cent. The gross balance sheet value of approved household applications amounted to BGN 1709 million (out of the applications filed for BGN 1940 million) and those of corporations BGN 6365 million (out of the applications filed for BGN 6819 million). The ratio of the gross balance sheet value of approved applications to the total credit exposure was 6.6 per cent for households and 16.7 per cent for corporations.

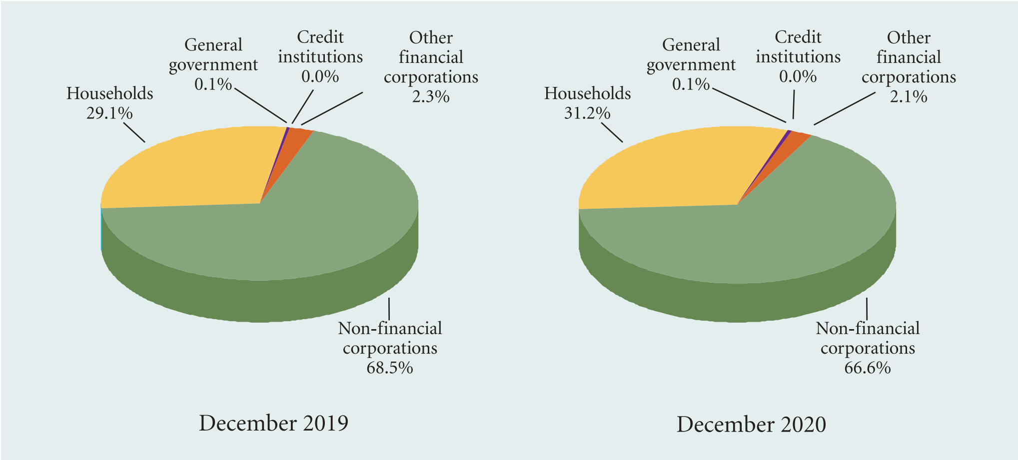
As of June 2020 Regulation (EU) 2020/429[65] modified the scope of reporting of gross loans and advances. According to the so-called 'narrow scope' gross loans and advances in the banking system amounted to BGN 76.7 billion by end-2020 and the ratio of non-performing loans calculated on that basis was 7.5 per cent (against 7.8 per cent a year earlier). According to the so-called 'broad scope', which also includes cash balances at central banks and other demand deposits, the total amount of gross loans and advances was BGN 101.1 billion by end-2020. The ratio of non-performing loans calculated on the basis of the broad scope fell to 5.7 per cent by end-2020, against 6.5 per cent at the end of December 2019.

In the structure of gross non-performing loans, loans to non-financial corporations continue to occupy the largest share of 66.6 per cent against 68.5 per cent in 2019. The share of non-performing loans dropped to 10.0 per cent (11.4 per cent by end-2019), reflecting an increase in total loans and a decline of 9 per cent in the non-performing part. Within gross loans to households, non-performing credit occupied 6.9 per cent (7.3 per cent by end-2019), with an increase recorded in their total volume and to a lesser extent in the non-performing part (0.5 per cent). Gross non-performing loan and advance impairment coverage came to 46.4 per cent by December 2020 from 48.3 per cent at the end of 2019.

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

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

Non-performing Loans and Advances by Sector

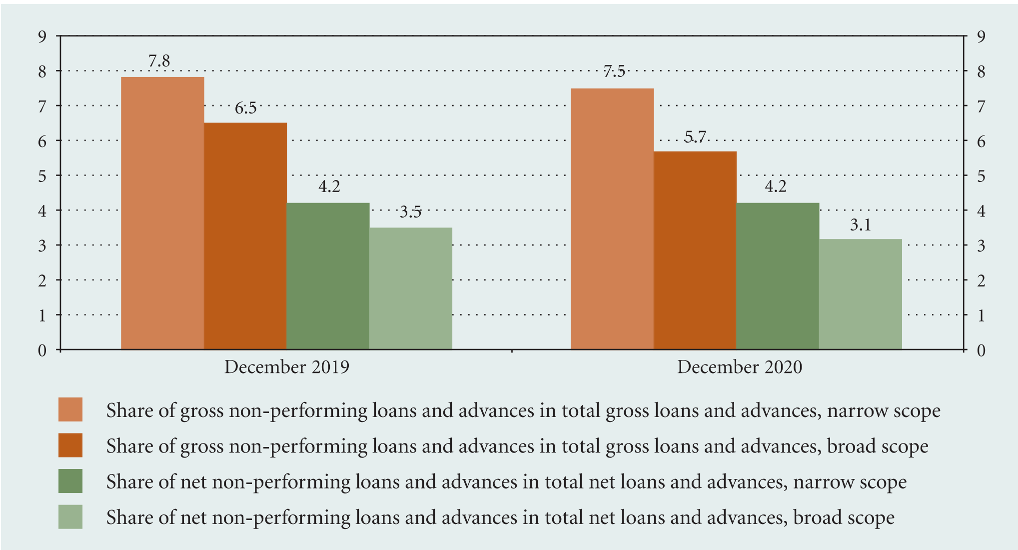


Source: the BNB.

The net value of non-performing loans and advances[66] was BGN 3.1 billion by end-December 2020. It reflects the potential residual credit risk in bank balance sheets, remaining entirely covered by the excess of capital over capital requirements and applicable capital buffers. The net value of non-performing loans and advances fell by 2.9 per cent (BGN 92 million) from the end of 2019, its ratio to net loans and advances by end-December 2020 reaching 3.1 per cent according to the broad scope of calculation against 3.5 per cent by end-December 2019. According to the narrow scope the ratio of net non-performing loans and advances by end-2020 remained at 4.2 per cent.

Non-performing Loans and Advances in Total Loans and Advances

(per cent)



Source: the BNB.

Bank assets other than loans saw a maintained high share of liquid assets and an increase in debt securities. At the end of 2020 debt securities rose to a total of

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

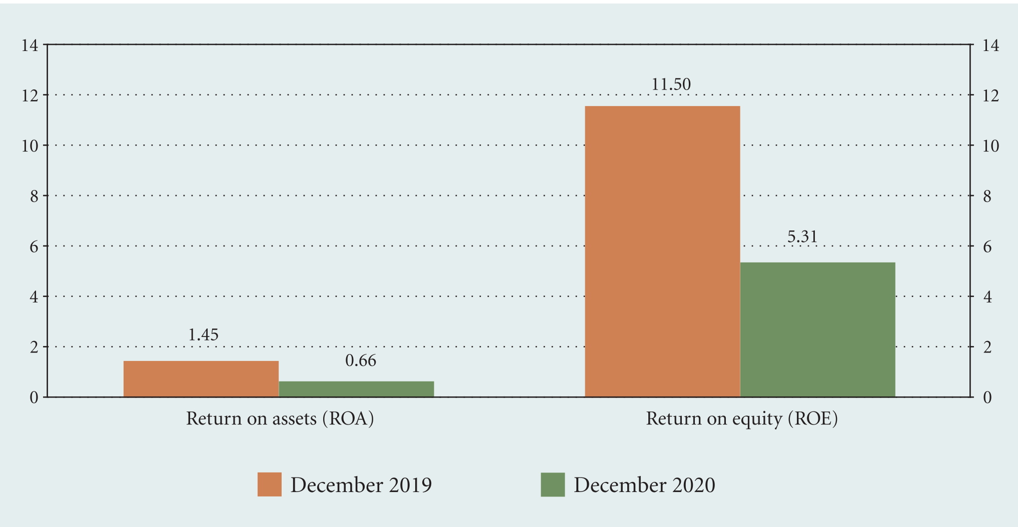
BGN 17.6 billion mainly due to the amount of securities purchased by banks and issued by general government sector. In bank balance sheets equity instruments amounted to BGN 503 million at the end of the reporting period.

In 2020 banking system liabilities reported deposits increase of BGN 8.5 billion or 8.8 per cent according to the supervisory reports reaching BGN 105.7 billion, their growth rate accelerating compared to 2019 (BGN 7.5 billion or 8.4 per cent). This growth was largely driven by household deposits, which rose by BGN 5.0 billion in 2020, their share amounting to 59.2 per cent of total deposits in 2020. Non-financial corporations' deposits increased to BGN 3.6 billion (12.6 per cent), posting a higher growth than that reported by 31 December 2019 (BGN 2.9 billion, 11.4 per cent). General government funds also increased compared with last year (up BGN 369 or 13.8 per cent), while deposits of credit institutions declined by BGN 296 million (-5.5 per cent) and so did other financial corporations (down BGN 122 million or -3.6 per cent). At the end of 2020 in the currency structure of total deposits the share of lev-denominated deposits amounted to 59.4 per cent, and that of euro-denominated and in other currencies was 33.5 per cent and 7.1 per cent, respectively. Within the resident structure the share of deposits from domestic sources by end-2020 was 92.3 per cent and that of non-residents 7.7 per cent.

Banking system balance sheet equity amounted to BGN 15.4 billion at end-December 2020, posting a higher growth of BGN 983 million (6.8 per cent) in 2020 compared to that in 2019 (BGN 470 million, 3.4 per cent). Balance sheet equity growth was mainly underpinned by retained profit in the system as a result of the measures adopted by the BNB Governing Council on 12 March 2020 and paid-up capital increase of BGN 870 million (19.1 per cent). Premium reserves increased by BGN 145 million (27.3 per cent) contributing positively to equity growth. Concurrently, a decline in 2020 profit and other reserves[67] and in accumulated other comprehensive income contributed negatively to the change in banking balance sheet equity.

Return on Assets and Return on Equity

(per cent)



Source: the BNB.

Banks' profit amounted to BGN 815 million at 31 December 2020 (against BGN 1.7 billion in 2019). Major factors behind profit decrease were the decline in all major income components and the increase in impairment charges of financial assets.

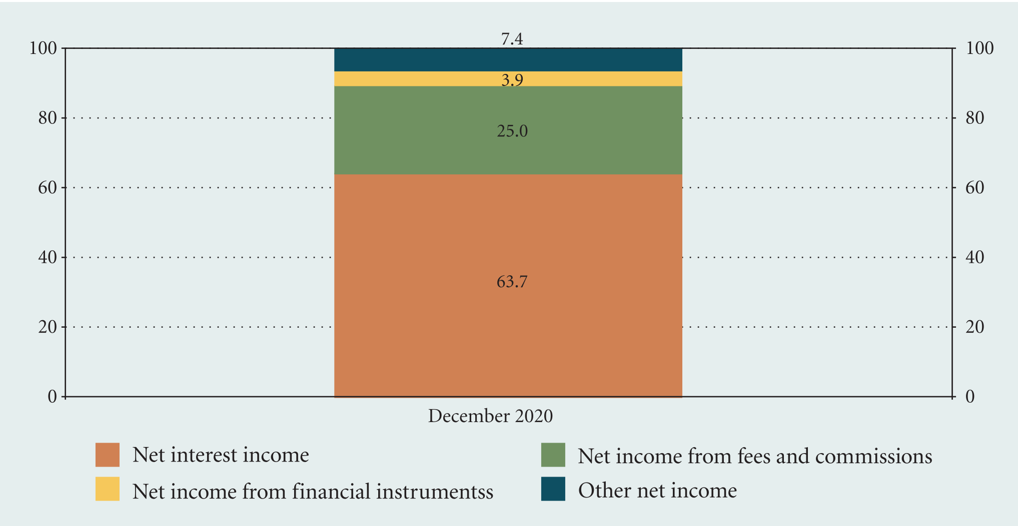
[67] Effect of Expressbank merger into Bank DSK.

Lower profits for 2020 and increasing assets and equity over the year were behind the lower values of return on assets (ROA) and return on equity (ROE) indicators. By end-2020 the return on assets ratio (ROA) was 0.66 per cent (1.45 per cent a year earlier) and the return on equity (ROE) 5.31 per cent (11.50 per cent by 31 December 2019).

The total net operating income[68] declined by BGN 84 million (-2.0 per cent) from 2019 to BGN 4.2 billion at the end of 2020. This development was driven by the lower amount of net interest income, net income from fees and commissions and net income from financial instruments. Net interest income, which is the major component of total net operating income, declined by BGN 81 million (-3.0 per cent), his share in the structure of the total net operating income amounting to 63.7 per cent at the end of December. Compared with the end of 2019, interest income dropped by BGN 27 million (-0.9 per cent), while interest expenditure rose by BGN 54 million (17.8 per cent). Compared to 2019 interest bearing assets increased, with return on interest bearing assets falling to 3.13 per cent (against 3.18 per cent as of 31 December 2019) as a result of interest income dynamics. In 2020 the cost of interest liabilities continued its downward trend to stand to 0.15 per cent (0.18 per cent at the end of 2019).

Net Operating Income Structure

(per cent)



Source: the BNB.

Net income from fees and commissions fell by BGN 67 million (-6.1 per cent), its share amounting to 25.0 per cent. Net income from financial instruments dropped by BGN 181 million (-53.0 per cent), occupying 3.9 per cent of total net operating income at the end of 2020. The efficiency ratio[69] was 54.3 per cent at the end of the period. Impairment charges incurred in 2020 amounted to BGN 0.9 billion, against BGN 0.5 billion for the previous year, while the impairment loss to net total operating income ratio rose to 21.1 per cent at the end of the year (11.1 per cent at end-2019).

[68] As of 30 June 2020 a methodological change in reporting the expenditure of the Bulgarian Deposit Insurance Fund and the Banks Resolution Fund was implemented. They have been so far reported in other operating expenditure, having an effect on total net operating income. According to the new reporting framework FINREP 2.9. introduced on 1 June 2020, this expenditure is reported in a new item line in the statement of profit or loss, after administrative expenses. Data and calculations for 2019 are in line with the methodology applied by end-2019.

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

In 2020 banking system's capital position remained stable with capital indicators improving compared to 31 December 2019, largely driven by the increase in banking system equity. The regulatory relief introduced over the year in response to the COVID-19 pandemic played a major role in reducing risk exposures. According to Regulation (EU) 2020/873[70] adopted by end-June, preferential risk weights are applied to exposures to central governments and central banks denominated in a currency other than the domestic currency. The modified risk weights contributed to the improved banks' capital position in 2020.

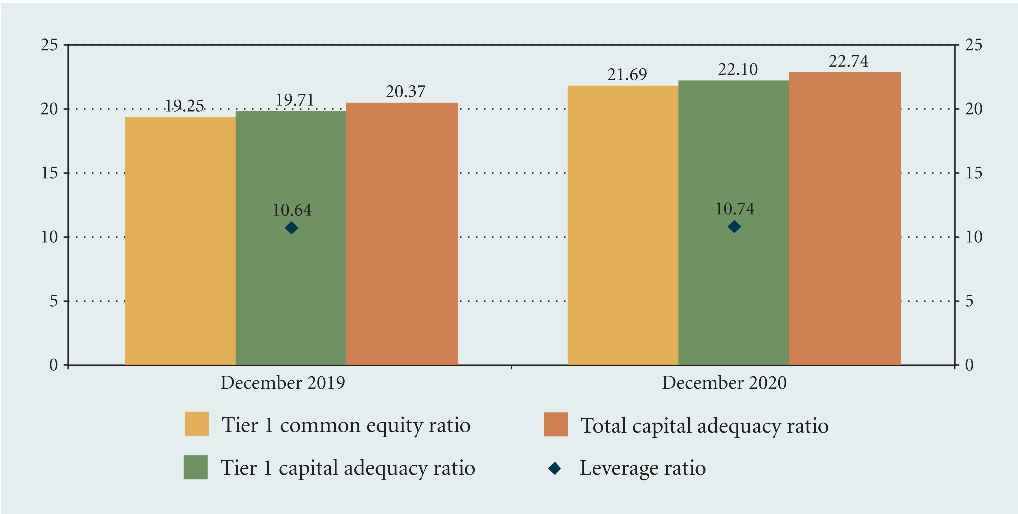
Banks' regulatory own funds grew by BGN 1.3 billion on an annual basis (9.7 per cent) coming to BGN 14.7 billion at the end of 2020. Tier one capital and common equity tier one capital amounted to BGN 14.3 billion and BGN 14.0 billion respectively.

Total risk exposures in 2020 fell by BGN 1.1 billion (-1.7 per cent) to BGN 64.5 billion at the end of the period. Risk weighted exposures for credit risk dropped by BGN 432 billion (-0.7 per cent) to BGN 59.0 billion.

The share of risk weighted exposures for credit risk in total risk exposures grew to 91.3 per cent at end-2020 from 90.4 per cent at end-2019. Risk exposures to operational risk also went down BGN 460 million (-8.0 per cent) with their share falling to 8.2 per cent (8.8 per cent at the end of 2019). Exposures to position, currency, and commodity risk also reported a decline of BGN 211 million (-44.1 per cent), their share falling from 0.7 per cent to 0.4 per cent.

Selected Capital Indicators

(per cent)



Source: the BNB.

As of 31 December 2020, as a result of the decrease in risk exposures and the increase in bank equity compared to 2019, common equity tier 1, tier 1 capital and total capital adequacy ratios reached 21.69 per cent, 22.10 per cent and 22.74 per cent against 19.25 per cent, 19.71 per cent, and 20.37 per cent at the end of 2019. At the end of 2020 banking system's leverage ratio (when a fully phased-in definition of tier one capital is applied) came to 10.74 per cent against 10.64 per cent at the end of 2019.

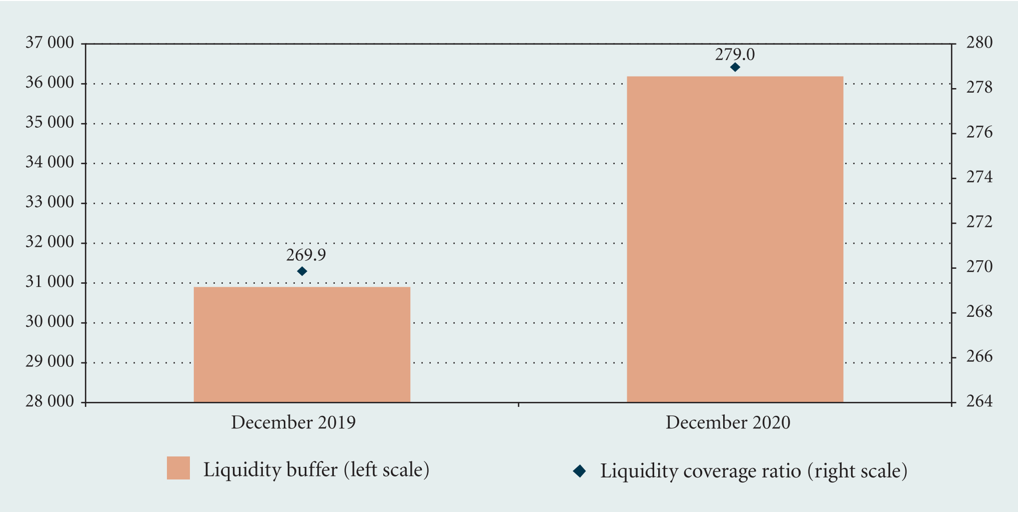
[70] Regulation (EU) 2020/873 of the European Parliament and of the Council of 24 June 2020 amending Regulations (EU) No 575/2013 and (EU) 2019/876 as regards certain adjustments in response to the COVID-19 pandemic (the so called CRR – Capital Requirements Regulation – 'quick fix').

By 31 December 2020 all banks met the regulatory requirements and buffers set[71]. The capital above the regulatory minimum under Pillar 1 was BGN 9.5 billion or by BGN 1.4 billion (17.1 per cent) higher than at the end of 2019. The capital exceeding the minimum regulatory requirements and the buffers rose by BGN 1.3 billion, (37.5 per cent) to BGN 4.6 billion by end-2020. The growth of regulatory capital and the decline in net non-performing exposures in 2020 ensured additional coverage of the items appearing to be a source of potential residual credit risk in bank balance sheets.

Banking system liquidity remained stable, with liquidity coverage ratios (LCT) of all credit institutions exceeding the minimum requirement of 100 per cent. Banking system liquidity coverage ratio rose to 279.0 per cent from 269.9 per cent by end-2019. Compared to the end of 2019, liquidly buffer (ratio numerator) went up by BGN 5.3 billion (17.1 per cent) to BGN 36.2 billion. The dynamics was mainly due to reserves in the central bank with an option for withdrawal which increased by BGN 8.0 billion (67.0 per cent) to BGN 20.1 billion, while their share in the liquidity buffer rose from 38.9 per cent to 55.4 per cent, as a result of BNB's measures of 12 March to reduce banks' foreign exposures in order to limit credit risk and concentration risk in bank balance sheets. The increased amount of this highly liquid component provided additional resources to the banking system to cope with the economic and financial effects of COVID-19 containment measures.

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

(BGN million) (per cent)



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

Source: the BNB.

Assets in the central government component fell by BGN 3.9 billion (- 23.8 per cent) on an annual basis to BGN 12.5 billion, its share dropping from 52.9 per cent to 34.4 per cent. The coins and banknotes component amounted to BGN 2.5 billion, increasing by BGN 212 million (9.4 per cent) from end-2019, its share in liquid assets falling from 7.3 per cent to 6.9 per cent. The assets in the central bank component grew by BGN 439 million to BGN 631 million, its share amounting to 1.7 per cent.

[71] For more information on the effective capital buffer rates, see the BNB website: http://www.bnb.en/BankSupervision/BSCapitalBuffers/index.htm.

The liquidity coverage ratio denominator (net liquidity outflows) posted an annual growth of BGN 1.5 billion (13.3 per cent) to BGN 13.0 billion at the end of the period. Loan-to-deposit ratio (LTD)[72] for the banking system declined on an annual basis from 72.2 per cent to 69.0 per cent driven by lower growth rate of loans (4.8 per cent) compared to that of deposits (9.6 per cent).

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

In 2020, 11 new companies were listed into the Register of Financial Institutions and six were deleted due to decline in significant business indicators below the statutory set limits or to termination of trading. Within the reporting year the BNB declined to register four companies as financial institutions, with the main reasons including unproven own funds in respect to the contributions to company's' capital or contradictory information in the submitted documents. By end-2020 the total number of financial institutions registered under Article 3a of the LCI was 213, including ten financial institutions from EU Member States conducting activities on the territory of the Republic of Bulgaria *via* a branch or directly (Articles 24 and 27 of the LCI) and a fund established under the procedure of the Law on the Bulgarian Development Bank.

The total amount of balance sheet assets of the sector reached BGN 9.8 billion[73], accounting for 7.9 per cent of banking system's assets by end-2020. The increase in the balance sheet figure was entirely due to increased lending and acquisition of credit claims by banks and other financial institutions. Consumer lending maintained its market share, while claims on financial leasing and housing and mortgage loans to individuals fell. The market share and number of leasing companies (44) slightly declined, while the activity of companies acquiring claims on loans from banks and financial institutions expanded (their balance sheet figure came close to BGN 1 billion). Lenders (135) maintained their market share. The 20 largest financial institutions' assets recorded in the BNB register under Article 3a of LCI continued to prevail in the sector, occupying 74.6 per cent.

Gross credit portfolio that includes claims on loans and financial leasing increased year on year by 5.2 per cent to BGN 8.5 billion. Despite the deteriorated macroeconomic environment the good quality of the portfolio was maintained by end-2020. The share of standard loans reached 78.4 per cent of sector's gross portfolio. Net leasing and credit portfolio including acquired claims on loans amounted to BGN 7.5 billion, maintaining low levels of credit risk. At the end of 2020 lease receivables led unimpaired assets at 52 per cent, followed by consumer loans at 30.6. By end-2020 the portfolio of the 20 largest financial institutions recorded in the BNB register under Article 3a of LCI comprised 74 per cent of total sector's portfolio.

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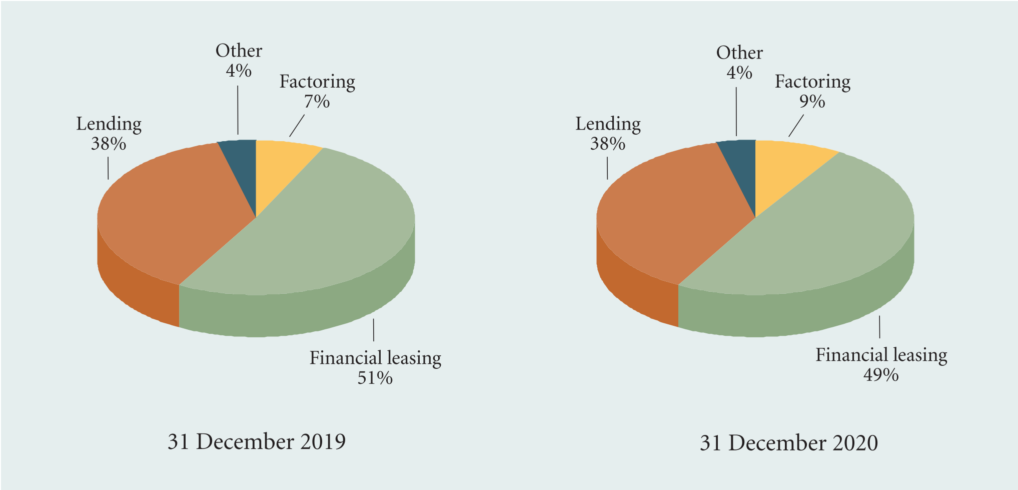
[72] The ratio is calculated excluding central banks and credit institutions sectors.

[73] Assets balance sheet figure as of 31 December 2020 is based on the assets of 203 financial institutions which have filed financial statements prepared under the procedure provided for in of Article 15, paragraph 1 of the BNB Ordinance No 26.

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

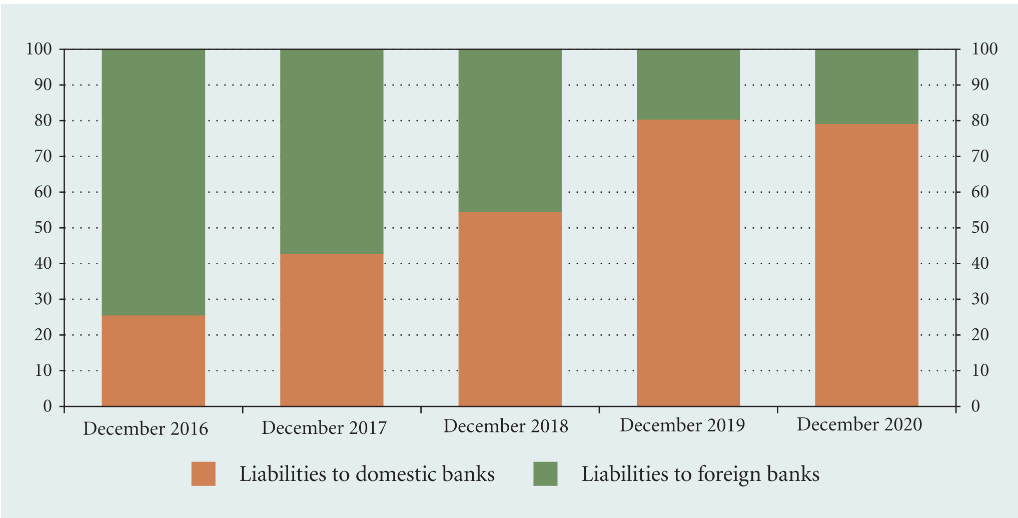


Breakdown of Financial Institutions' Assets by Type of Business in the Register under Article 3a of the LCI
Source: the BNB.

Attracted funds increased by 5.6 per cent on an annual basis to BGN 7.1 billion. Bank resources (BGN 5.0 billion) rose by 5.8 per cent over the reporting year, remaining a major source of funding of the institutions in the sector. In 2020 the sustainable upward trend in the share of attracted resources from domestic banks observed in the last years was reversed.

Structure of Attracted Funds from Banks

(per cent)



Source: the BNB.

Funds attracted from other financial institutions posted a decline of BGN 137 million. In 2020, the 20 largest financial institutions recorded in the BNB register under Article 3a of LCI, use 83.9 per cent of aggregate banking sector's financing and 91.8 per cent of aggregate banking resources used by the sector.

Amid a significant deterioration in the economic environment in 2020 sector's profits dropped by 17.8 per cent on an annual basis amounting to BGN 293 million. This decline was driven by the 2020 trend to a gradual increase in impairment charges, which reached BGN 537 million, exceeding by 23.5 per cent the impairment charges for the same period of 2019. Concurrently, the net interest income of lending companies had a positive contribution to sector's profit over the year. The 20 largest financial institutions comprised 44 per cent of sector's net financial result. At the end of December 2020 the return on assets ratio (ROA) fell to 2.9 per cent against 3.9 per cent by the end of 2019. The return on equity ratio (ROE) also dropped to 13 per cent.

Banking system equity grew by 4.8 per cent year on year, reaching BGN 2.2 billion, underpinned by the growth of companies own funds, coupled with the increasing number of newly registered financial institutions. The share of the 20 largest financial institutions in sector's equity accounted for 55.2 per cent at end-2020.

Banking Supervision's Activity

In 2020, the BNB supervised the activities of credit institutions within two different legal frameworks. A large part of the functions, responsibilities and tasks of BNB as a supervisory authority for credit institutions' activities in Bulgaria changed following Decision (EU) 2020/1015 of 24 June 2020 of the European Central Bank (ECB/2020/30), which established close cooperation between the ECB and the BNB as of 1 October 2020. As a result the Republic of Bulgaria joined the Single Supervisory Mechanism (SSM) and became a participating Member State within the meaning of Article 2, item 1 of Regulation (EU) No 1024/2013.[74]

SSM is the name of the banking supervision system in the EU. The SSM comprises the ECB and national supervisory authorities of participating Member States. Applicable to Member States outside the euro area is the so-called regime of close cooperation between the relevant national supervisory authority and the ECB, *i.e.* the mechanism established for Bulgaria. The main objectives of the SSM are to ensure the safety and soundness of the European banking system, to enhance financial integration and implementation of consistent supervision. The ECB exercises banking supervision in cooperation with the national authorities by establishing a common approach to ongoing supervision, pursuing harmonised supervisory activities and corrective measures and ensuring consistent implementation of regulations and supervisory policies. Under this regime the ECB has the powers to conduct supervisory review, on-site inspections and investigations, to issue or withdraw banking licenses, to assess the acquisition and disposal of qualified holdings by banks, to ensure compliance with the EU prudential rules, to set higher capital requirements (buffers) in order to counteract possible financial risks. The supervisory functions of the ECB are exercised by its Supervisory Board. By a decision of the BNB Governing Council, the BNB Deputy Governor in charge of the Banking Supervision Department, is the BNB's representative in the ECB's Supervisory Board, having the same rights and obligations as all other board members, including a voting right. The ECB's Supervisory Board drafts the decisions that are later adopted by the ECB's Governing Council, following the so-called non-objection procedure. The ECB's Governing Council also adopts other decisions on the SSM general framework, without applying the non-objection procedure. There is no Bulgarian representative in the ECB's Governing Council, as it consists of the members of the ECB's Executive Board and the governors of central banks of euro area Member States.

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

Under the close cooperation of 1 October 2020 the ECB is responsible for the direct supervision of institutions determined as significant institutions (SIs)[75], for issuance and revocation of licenses, approval of acquisition and disposal of classified holdings (general procedures) for all supervised entities established in Bulgaria. On 11 September 2020 the ECB announced the list of banks in Bulgaria which are designated as significant and are subject to direct supervision by the ECB. These are: UniCredit Bulbank AD, DSK Bank AD, United Bulgarian Bank AD, Eurobank Bulgaria AD and Raiffeisenbank Bulgaria EAD. The ECB is responsible for the supervision of the institutions determined as significant in all aspects of their activities, including off-site supervision, on-site inspections, the so-called horizontal functions: supervisory methodology, assessment of models, licenses, assessment of reliability and suitability of banks' management board members. As Bulgaria is not a euro area Member State and ECB' decisions are not legally binding, the BNB issues individual administrative acts regarding the significant institutions upon a request by the ECB and in full compliance with it. For the purposes of direct supervision of the banks designated as significant, the BNB has appointed sub-coordinators, and representatives of Joint Supervisory Teams who take part in all stages of the supervisory process. The Joint Supervisory Teams are responsible for the overall assessment of the risk, stability and vulnerability of each of the significant credit institutions. They also determine the relevant supervisory measures, as needed, including additional capital requirements under Pillar 2 of Basel II. The Joint Supervisory Teams assess the adequacy of the internal ratings of capital, liquidity, and the risks to them, the recovery plans, and the adequacy of the business model and corporate governance of each bank.

As from 1 October 2020 the ECB is responsible for the oversight of institutions designates as less significant institutions (LSIs) and for the general procedures applicable to all credit institutions. Direct supervision over institutions classified as less significant is exercised by the BNB, but in full harmonization of the supervisory process with that of the ECB. The BNB complies with the guidelines and requests issued by the ECB and pursues the necessary measures for the implementation of the ECB's legal acts under Regulation (EU) №1024/2013, including by issuing the necessary administrative acts. In this relation, the ECB exercises control over the implementation of all SSM guidelines and standards in the BNB's work, including with regard to the supervisory review and evaluation process and on-site supervisions. The ECB is conferred specific direct powers towards less significant institutions, in relation to the process of license issuance and revocation, approvals of acquisition and disposal of classified holdings in credit institutions, the issuance of general recommendations, guidelines and instructions, planning and carrying out of on-site inspections. The ECB may, where necessary, assume at any point of time the direct supervision over less significant institutions in order to ensure the consistent implementation of supervisory standards. For the purposes of supervision of less significant banks, a structure has been set up with the SSM, in which the BNB participates. Within this structure, the issues of supervision over less significant institutions of the SSM participating Member States are discussed. The participation in the Single Supervisory Mechanism also includes providing the ECB with all the information needed for the performance of the ECB's tasks, including information subject to banking and professional secrecy. The ECB collects fees for conducting its supervisory activities and this principle applies accordingly to the banks in Bulgaria

With its accession to the SSM, Bulgaria also gained access to the supervisory capacity of the ECB and of the other national supervisory authorities participating in the SSM.

[75] The criteria for determining whether banks are considered significant - and therefore under the ECB's direct supervision – are set out in the SSM Regulation and the SSM Framework Regulation.

The BNB's experts take part in the process of adopting draft decisions proposed by the ECB' Supervisory Board, which are subsequently submitted to the ECB Governing Council for decision. The BNB designated its representatives in the SSM supervisory architecture: in the joint supervisory teams, SSM working structures of the main areas of supervisory activity and analyses network to SSM. The beginning of the process required more than 30 new business areas to be covered where experts from Banking Supervision Department were involved. With regard to prudential supervision related policy issues, the BNB representatives participate in other committees and structures assisting the ECB's work in relation to the tasks conferred to it under Regulation (EU) № 1024/2013.

Off-site Supervision

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

Within the Supervisory Review and Evaluation Process (SREP) in 2020 the activity of the off-site supervision was focused on the current monitoring of credit institutions' risk profile. Follow-up of key risk indicators continued on a quarterly basis to determine the level and trends of risks assumed by banks and their effect on bank financial position. After 1 October 2020, when the close cooperation between the BNB and the ECB became effective, the focus of SREP-related activities was on less significant institutions. These activities covered analyses and comments on the developments of main financial and balance sheet banks' parameters. Conclusions were made on the degree of risks to capital: credit and concentration risks, market and operational risks, risks to liquidity and funding. Account was taken of credit institutions' positioning in the banking system by asset, liabilities and main business segments, including by specific indicators.

In 2020 the dialogue with credit institutions continued on reasons behind the changes in supervisory data for the relevant reporting periods. An aspect of the off-site supervision was daily monitoring of credit institutions' liquidity positions, in particular the dynamics of their liquidity buffers and attracted funds. Implementation of Resolution No 87 of the BNB Governing Council of 12 March 2020 on imposed macroprudential measures to domestic credit institutions, related to the economic impact of COVID-19 containment measures has been followed up. Banks' reports on the amount of net exposures to certain categories of counterparties to check compliance with limits imposed by the resolution were reviewed on a weekly basis. Over the whole period only one bank reported an excess of the limits, and therefore the BNB communicated regularly with it to remedy the infringement. Another off-site supervision priority was the review and analysis of bank monthly reports under the Procedure for Deferral and Settlement of Liabilities Payable to Banks and Their Subsidiaries – Financial Institutions in relation to the state of emergency enforced by the National Assembly on 13 March 2020, approved by the BNB Governing Council in line with EBA Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis (EBA/GL/2020/02). Over the year the BNB communicated actively with banks to establish the measures, which they have taken to ensure continuity of the business procedures and processes amid an emergency epidemic situation.

Supervisors carried out annual review and assessment of banks' Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) reports as of 31 December 2019. The conclusions of the expert evaluation are based on the implementation of ICAAP and ILAAP into the internal corporate governance framework, use of the results for the purposes of capital planning, institutions' liquidity needs forecasting and budgeting. According to EBA assessment criteria, assessments and conclusions of ICAAP and ILAAP reliability, efficiency, and comprehensiveness were taken into account in assigning supervisory scores for capital adequacy and liquidity adequacy. Banks' funding plans[76] with a reference date 31 December 2019 were reviewed covering projections of assets, liabilities and capital dynamics in a three-year horizon (2020–2022).

Work continued on reviewing and assessing regularly submitted recovery plans of banks designated by the ECB as less significant under Article 6, paragraph 1 of the Law on the Recovery and Resolution of Credit Institutions and Investment Firms (LRRCIIF). Banks were informed on the main conclusions, findings and recommendations to remediate deficiencies and improve plans' quality and applicability, while taking into account assessments in assigning a score for the internal corporate governance of each bank.

Work on Drafting Opinions and Follow-up of Supervisory Measures

In 2020 opinions were drafted on pre-approvals issued by the BNB to include 2019 annual profits in banks' capital. A request by a bank to distribute profits in the form of dividends was examined. However, in line with BNB Governing Council Resolution No 87 of 12 March 2020, the bank management was informed that there were no grounds to change the provision under Section I, item 1 of Resolution No 87.

The follow-up of the implementation of supervisory measures imposed to remove legal framework infringements and implement recommendations resulting from on-site inspections continued over the period. It was established that credit institutions took proper actions to implement most of the recommendations and remove infringements thereof.

Preparation and Establishment of Close Cooperation between the BNB and the ECB

In connection with the process of establishing close cooperation between the BNB and the ECB in the first half of 2020 a series of meetings with ECB representatives were held on the peculiarities of Bulgaria's accession process to the SSM. Discussions were focused on prioritisation, supervisory activities planning, resources allocation based on risk assessment, stages of the ongoing supervisory activities, including SREP, ICAAP and ILAAP review and assessment, recovery plans and interaction of the off-site supervision with the resolution authority of credit institutions within the BNB. The experts exchanged views on the structure, organisation, processes and regulatory framework of the supervisory policy of the BNB and the ECB, including the supervisory reporting and process of data quality assessment. Over the last quarter of 2020 there has been an intense interaction with the ECB representatives responsible for the oversight of less significant institutions in the country, which after 1 October 2020 remain under the BNB's direct supervision. In the course of the meetings, to each bank were presented risk profile and risk level assessment by specific area, including internal governance, business model, capital and liquid position, focusing on established deficiencies and weaknesses and the supervisory measures to address them.

[76] In relation to EBA Guidelines on harmonised definitions and templates for funding plans of credit institutions and European Systemic Risk Board Recommendation. The BNB reviewed all banks' funding plans in line with EBA Guidelines on harmonised definitions and templates for funding plans of credit institutions and European Systemic Risk Board Recommendation to ensure that all short and long-term objectives are realistic.

On-site Inspections

From January to March 2020 on-site inspections that started in 2019 continued and were finalised. The national epidemic situation since mid-March made it necessary to continue the operational work *via* remote access which delayed finalisation of conducted inspections and implementation of planned annual on-site inspections as a whole.

The scope and objectives of on-site inspections focused on the review and evaluation of credit risk management, concentration and operational risks, quality assessment of supervisory reporting relevant to these risks and prepared for supervisory purposes, ICAAP review and assessment to reflect such risks in terms of their prominence and projections within the time frame to which the ICAAP refers. At some of the inspected banks, the liquidity position management was reviewed and assessed in the context of placements in relevant banking/financial groups along with a quality review of the information used to draw up recovery plans.

The review and assessment of relevant risks covered the following main aspects: the quality of the internal framework for their management, including existing processes and systems for managing specific risk categories, internal control mechanisms, reporting for internal/management and regulatory purposes. During inspections the organisation, rules and methodologies to determine internal needs of capital resources were analysed, in order to establish whether the internal systems and processes of the relevant credit institutions are adequate and proportionate to the nature, size and complexity of their activity, whether they are consistent with the business strategies and risk management strategies and how to contribute to their implementation.

Supervisory assessments show that organisational structures and management information systems corresponded to activity's nature, volume and complexity and risk profile of banks inspected, while risk control functions helped its identification and business units management. Inspections did not identify material underestimation of credit risk in impairment coverage ratio corresponding to the risk assumed in the credit portfolio. The risk of credit concentrations varies among individual banks: from low concentrations and moderate ones which were close to average values for the relevant group of banks (according to the grouping for supervisory purposes) to single significant concentrations to the parent undertaking.

Inspection findings show a different level of operational risk across individual banks, which is reflected in the approaches to its management and reporting. According to the supervisory assessments, systems and mechanisms for operational risk management and control, applied by banks, are efficient. Partial weaknesses were detected as a result of insufficient human resources in activities relevant to identification and self-assessment of various aspects of operational risk.

In checking the quality of information used to develop recovery plans, no essential deviations were established in quantitative (input/processed/output) data, including in connection with measurement of early warning areas and indicator thresholds in which the need for recovery plan activation was examined and possibilities to apply recovery options (on a case-by-case basis) were considered.

Findings resulted in supervisory prescriptions to the inspected banks to improve credit, operational and liquidity risk management and ICAAP. In order to enhance operational control and efficiency in credit and operational risk management, prescriptions aimed at improving internal rules, procedures and business practices for allocating roles and responsibilities among individual business functions/units. Other recommendations referred to improving ICAAP by completing internal legal documentation on measuring risk categories and methodologies applied in ICAAP and stress testing framework reflecting the effect of credit, operational and liquidity risks.

Breaches of the regulatory framework related mainly to incorrect treatment of risk exposures for credit risk in regulatory reporting for measuring capital requirements, including recognising not eligible collateral, excluding undrawn amounts under framework contracts (off-balance sheet commitments), incorrect determining of risk weights and their reporting for regulatory purposes. Analyses show that breaches and related adjustments to capital requirements do not infringe the regulatory and prudential capital levels as determined by the BNB. Approvals of changes in internal models to determine regulatory capital for credit risk focused on checks concerning submitted applications for material changes in the internal ratings-based (IRB) approach in two banks. In this context, supervisory analyses and assessments were prepared in order to obtain a regulatory approval of these changes. Results of internal model investigations of one bank were used in joint decisions of supervisory colleges entitling the respective banking group and in particular the domestic subsidiary bank to implement the intended changes for the purposes of Pillar 1. Documentary checks were also performed and opinions were drafted related to notifications by three banks of insignificant changes reported prior to and after their introduction in applied internal models for assessing credit and operational risk.

Work *via* remote access to workplace required temporary changes in relation to on-site inspections. Over that period, the scope and methodology for calculating key risk indicators (KRI), used for analytical purposes in supervisory inspections were updated based on changes in EBA's KRI methodological guide and in view of optimising reporting for regulatory purposes developed by the EBA.

A study was carried out during the horizontal analysis of banks' business practices in Bulgaria related to the implementation of various aspects of EBA Guidelines on the management of interest rate risk arising from non-trading book activities. The banks' answers to the targeted questionnaire were analysed and summarizes in order to be subsequently used for regulatory purposes.

As of early October 2020 a significant part of the activities were in line with the transition to close cooperation with the ECB. This entailed a comprehensive and in-depth review of joint supervisory standards, recommendations and guidelines/instructions drafted by the EBA. The aim was to achieve convergence of supervisory practices in conducting on-site inspections in less significant institutions, which continue to be subject to BNB's direct supervision and to ensure consistency of results of inspections within the SSM. Checks on four applications for material changes filed by one bank, which have started before 1 October 2020 were completed, while draft reports were sent to enable their quality to be checked in line with the ECB standards. Documentary checks were also performed and opinions were drafted on notifications of insignificant changes reported prior to and after their introduction in internal models applied for assessing credit risk.

Macroprudential Supervision

The BNB's macroprudential supervisory action is performed based on periodic and targeted analyses of the risk profile of trends and risk profile of the banking sector. Analyses cover main risks to banking system's stability *i.e.* asset quality, capital adequacy and liquidity. Cyclical and structural measures of the systemic risk are assessed, with applying the relevant macroprudential instruments (capital buffers), where appropriate. To that end, a regular monitoring of the economic environment and factors impacting the activity and the state of the banking sector is implemented. The applied methodology is based on analytical techniques and a broad set of indicators consistent with EBA guidelines and ESRB recommendations.

In 2020 the BNB macroprudential policy was pursued in the context of a sharp and significant deterioration in the economic environment in Bulgaria, caused by the extraordinary measures to contain the spread of COVID-19. Bulgaria's banking system faced the economic shock with high liquidity levels and capital ratios which were significantly above regulatory requirements. Resilience and flexibility of the banking sector in the context of a dramatically worsened macroeconomic environment were underpinned by the policy of building-up and maintaining buffers and the measures adopted on 12 March 2020 by the BNB Governing Council to further strengthen bank capital and liquidity, including full profit capitalisation in the banking system and imposition of individual and aggregate limits on banks' exposures to foreign counterparties whose credit quality is likely to deteriorate. Based on estimates of a sharp and significant worsening in economic conditions internationally and in Bulgaria, the BNB Governing Council decided to repeal 2019 increases[77] in the countercyclical capital buffer and retain its level of 0.5 per cent. Measures taken in March were intended to maintain the built in capital buffers to provide loss-absorbing capacity in case of worsening credit portfolios; to limit credit risk and concentration risk in bank balance sheets; to maintain capital over the regulatory requirements and high liquidity allowing banks to maintain their lending activity.

The effects of the worsened economic environment on banks' credit portfolio quality were mitigated by the decision of the BNB Governing Council of 3 April 2020 on the application of EBA Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis (EBA/GL/2020/02). The Guidelines laid down a pan-European framework of temporary deferral of payments on creditworthy customers of banks experiencing temporary difficulties as a result of measures against the pandemic. Implementation of EBA rules on the moratorium on loan repayments gave the credit institutions the possibility to allow borrowers affected by crisis to defer payments, avoiding reductions of obligations and automatic reclassification of loans falling within the moratorium scope of forborne or non-performing loans. The measures are aimed both at easing borrowers and preserving the capacity of banks to provide loans. Based on EBA Guidelines the BNB requested from the commercial banks to propose for approval uniform draft rules of a non-legislative moratorium on bank loan repayments in the light of the COVID-19 situation. On 9 April 2020 the BNB Governing Council approved by a decision the Association of Banks in Bulgaria draft on a Procedure for Deferral and Settlement of Liabilities Payable to Banks and their Subsidiaries – Financial Institutions in relation to the state of emergency due to the COVID-19 pandemic enforced by the National Assembly on 13 March 2020, which represents a non-legislative moratorium within the meaning of the EBA Guidelines. The approved non-legislative moratorium allowed for a deferral of liabilities to banks on regularly serviced loans for a period of six months without modifying key parameters of loan agreements. Initially the deadlines set under the approved private moratorium were as follows:

- deadline for filing applications by bank clients for deferral of liabilities: 22 June 2020;
- deadline for banks to decide on these applications: 30 June 2020;
- deadline for deferral of bank clients' liabilities: 31 December 2020.

[77] Countercyclical capital buffer increases projected for 2020 and the first quarter of 2021 to 1.0 per cent and 1.5 per cent applicable to local credit risk exposures.

Taking into account the new spread of COVID-19 the heightened uncertainty and deteriorated prospects for economic activity in Bulgaria and worldwide, on 9 July 2020 the moratorium deadlines were extended again based on EBA Guidelines (EBA/GL/2020/08) which the BNB Governing Council decided to apply. On the same date it approved a request by the Association of Banks in Bulgaria for extending by three months the deadlines of the moratorium on payments as follows:

– deadline for filing applications by bank clients for deferral of liabilities: 23 September 2020;
– deadline for banks to decide on these applications: 30 September 2020;
– deadline for deferral of bank clients' liabilities: 31 March 2021.

Having analysed the effects of moratoria and the opportunities for normalising the economic activity and financial intermediation, on 21 September 2020 the EBA decided to phase out moratoria on payments after 30 September 2020. This automatically removed the legal basis for the BNB to approve new projects for moratoria on bank loan repayments.

In view of the significant second wave of COVID-19 and the resulting tightening of anti-epidemic measures in the EU countries, the EBA decided to renew the application of Guidelines EBA/GL/2020/02 on legislative and non-legislative loan repayments moratoria. On the basis of Guidelines EBA/GL/2020/15 amending Guidelines EBA/GL/2020/02 and in compliance with the requirements provided for therein, on 2 December 2020 the Governing Council of the BNB decided to implement them and on 10 December it approved the extension of the terms of validity of the procedure for deferral and settlement of payable liabilities to 31 March 2021 as proposed by the Association of Banks in Bulgaria, as follows:

– deadline for filing applications by bank clients for deferral of liabilities: 23 March 2020;
– deadline for banks to decide on these applications: 31 March 2020;
– deadline for deferral of bank clients' liabilities: 31 December 2021, but not more than 9 months and with respect to liabilities for which application for deferral has been filed before 30 September 2020 additional deferral of repayment is allowed, provided the total period of deferral does not exceed 9 months.

By the same decision of 10 December the BNB Governing Council decided to request banks to submit within 10 business days of this decision their operational plans based on which they assess the unlikeness to pay of borrowers with deferred loan repayments subject to the moratorium, after its expiry.

Regulatory relief in response to the COVID-19 pandemic was introduced over the year. According to Regulation (EU) 2020/873[78] adopted by end-June 2020, preferential risk weights are applied to bank exposures to central governments and central banks denominated in a currency other than the domestic currency. The changes resulting from the Regulation led to a decline in risk exposures and improvement in banks' capital exposure in 2020.

Annual review of other systemically important institutions (O-SII) and their capital buffer levels was also carried out over the year. In the context of the annual review, in line with the requirements of BNB Ordinance No 8 and EBA pan-European methodology eight systematically important institutions were identified with a total market

[78] Regulation (EU) 2020/873 of the European Parliament and of the Council of 24 June 2020 amending Regulations (EU) No 575/2013 and (EU) 2019/876 as regards certain adjustments in response to the COVID-19 pandemic (the so called CRR – Capital Requirements Regulation – 'quick fix').

share of more than 80 per cent of banking assets. Buffer level was set between 0.5 and 1.0 per cent.

The countercyclical capital buffer continued to be part of the comprehensive conservative supervisory policy of the BNB to strengthen the capital position of the banking sector to system shocks based on combined buffer requirement, including capital conservation buffer, systemic risk buffer and other systemically important institutions buffers[79], as well as additional capital requirements under Pillar 2. The decision to maintain the buffer level at 5 per cent in March was confirmed in the following quarters of 2020.

Supervisory information servicing during the review period focused on timely data provision by credit and financial institutions, and credit intermediaries. The new reporting framework and relevant exits were incorporated into the Single Data Depository/Banking Supervision Reports. In the context of close cooperation between the BNB and the ECB information flows were adapted in line with the new requirements.

Specific Supervisory Activities

The BNB's control functions for compliance with the requirements of the Law on Measures against Money Laundering and the Law on Measures against Financing of Terrorism by significant and less significant banks were maintained after Bulgaria's accession to the SSM and the establishment of close cooperation between the BNB and the ECB.

In 2020, due to extraordinary circumstances related to COVID-19, supervisory inspections were conducted fully remotely. The interaction with State Agency for National Security continued with joint thematic reviews being carried out into eight banks. BNB's teams conducted full on-site inspections in two banks.

Over the reporting period four thematic reviews were carried out on banks, related to risks identified in National and Supranational risk assessment and based on information from another competent authority. Following received complaints and signals 21 ad-hoc investigations were performed. Prescriptions were sent to banks' management to enhance the efficiency of customer identification and operations and transactions monitoring systems, and improve control functions in conducting due diligence. One bank was imposed a supervisory measure under the LCI and actions were undertaken in consultation with the ECB to publish administrative measures imposed on one significant bank by the State Agency of National Security Financial Intelligence Directorate.

The assessment of the banking sector based on inspections shows that bank systems developed to prevent money laundering and terrorism financing have been functioning reliably and that banks comply with statutory requirements.

Interaction between EU regulatory authorities continued through participation in a supervisory colleges to prevent money laundering, organised by the Dutch and French central banks. Actions within banking groups to improve the efficiency of risk monitoring and minimising systems were the focus of discussion.

The Bank checked the implementation of the Law on Bank Deposit Guarantee provisions on reporting guaranteed deposits at two credit institutions. Breaches in calculating deposit bases and guaranteed deposit amounts were found and recommendations for removing them made. The findings were communicated to the Bulgarian Deposit

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[79] For more information on capital buffers, see the BNB website: http://www.bnb.en/BankSupervision/BSCapitalBuffers/index.htm.

Insurance Fund and the relevant banks. Actions have been taken to address the deficiencies and implement the recommendations.

In the context of COVID-9 restrictions in 2020 the BNB control functions for compliance with the Law on Real Estate Loans for Consumers (LRELC) were performed through off-site inspections. The scope and objectives of examinations included a review of borrower creditworthiness rules adopted by creditors, borrowers compliance with the law and EBA guidelines, their enforcement, professional training systems and staff remuneration policies. The BNB inspected three banks and two financial institutions providing mortgage loans. It was established that the credit institutions have taken appropriate measures to apply adequate rules and procedures for assessing borrower creditworthiness. It has been estimated that employees' wages were compliant with the requirements laid down in the LRELC and EBA guidelines. Professional training of employees engaged in mortgage lending complied with legal requirements. Some deficiencies were established in the LRELC implementation by the inspected financial institutions, and recommendations for removing them made. Three financial institutions, which were inspected over the previous reporting period, received penalty orders.

Over the review period 19 new Bulgarian and two EU Member State legal entities willing to act as intermediaries under the LRELC were registered.

Administrative infringement notices were issued to two credit intermediaries for non-compliance with LRELC requirements.

During the same period 1104 entities were inspected and found to act as credit intermediaries without registration. In 17 per cent of them, there was incorrect information on their websites. The entities interacted with the relevant competent authorities to remove misstatements.

Three financial institutions were issued administrative infringement notices, and subsequently penalty orders for reporting incorrect data to the BNB under Ordinance No 26 and Ordinance No 22 of the BNB.

In relation with signals for fraud the BNB inspected ex officio several entities and exchanged correspondence with the Financial Supervision Commission, Sofia district prosecutor's office and National Revenue Agency.

As a result of a risk-based approach and verification of transactions with legal persons, two companies were found to act as financial institutions without registration, for which the BNB has initiated administrative action.

Issue of Licences, Permits, and Approvals

There were no new bank operations licences or bank licensing procedures in the past 2020.

Over the year two procedures for acquiring a qualifying holding in a bank under Article 28 of the LCI were opened. The procedure on the application filed by the Bulgarian Development Bank AD under Article 28, paragraphs 1 and 2 of the LCI to be issued an approval for the acquisition of a qualifying holding of over 20 but no more than 33 per cent of First Investment Bank AD equity was concluded in May with BNB Governing Council Resolution No 185 of 21.5.2020. The procedure on the application filed in April by Eurobank S.A., Greece and Eurobank Ergasias Services and Holdings S.A., Greece to be issued an approval under Article 28, paragraph 1 of the LCI for direct and indirect acquisition of a qualifying holding of 99 per cent of

Eurobank Bulgaria AD equity was concluded in July with BNB Governing Council Resolution No 263 of 21.7.2020.

A permit was granted by the BNB Governing Council Resolution No 239 of 9.07.2020 on application filed in May to transform Express Factoring EOOD through merger into DSK Bank AD under Article 29b, paragraph 2 of the LCI.

In 2020 following BNB General Council resolutions, five banks were allowed to include 2019 profits into Common Equity Tier 1 (CET1). Five other banks were allowed to include capital instruments in CET1. One bank was allowed to include an issue of bonds into additional tier 1 capital, and another to include an issue of convertible bonds into additional tier 2 capital.

Over the past year seven banks obtained approvals by the BNB Governing Council under Article 71, paragraph 3 of the LCI to amend their statutes. A bank obtained an approval by the BNB Governing Council to make personal changes in its management board and another one in its supervisory board.

Based on BNB Governing Council resolutions, supervisory measures were imposed on four banks for supervisory framework breaches in the past year. Three banks were asked to remove legal framework breaches and inconsistencies during on-site supervisory inspections.

Notifications of free provision of services by two Bulgarian credit institutions *i.e.* Investbank AD and TBI Bank EAD were sent to the supervisory authorities of the host Member States.

From January to December 2020 fifteen new EU Member State credit institutions exercised the freedom to provide services under the mutual recognition of single European passport through notifications to the BNB from their licensing authorities, on their intent to provide bank services in the Republic of Bulgaria, bringing the number of first time notifications received in the BNB to 353.

By the end of 2020 a branch of Bigbank AS, Estonia was established in Bulgaria under the single European passport. Bigbank AS – Bulgaria branch was recorded in the Commercial Register and the Register of Non-Profit Legal Entities of the Registry Agency on 19 November 2020.

As a result of the close cooperation between the BNB and the ECB established by Decision (EU) 2020/1015 of the ECB, effective as of 27 July two procedures on specific instructions by the ECB were conducted leading to the adoption by the BNB Governing Council of national decisions with regard to the respective supervised entities in full compliance with the instructions received. In the case of the first procedure, following the receipt of the instruction adopted by the ECB Governing Council on 28 August 2020 the BNB Governing Council adopted national resolutions to classify UniCredit Bulbank AD, DSK Bank AD, United Bulgarian Bank AD, Raiffeisenbank (Bulgaria) EAD and Eurobank Bulgaria AD as significant supervised entities within the meaning of Article 6, paragraph 4 of Council Regulation (EU) No 1024/2013 based on Article 40, paragraph 2 of Regulation (EU) No 468/2014 of the ECB, effective 1 October 2020, which the ECB as a competent authority will start to directly supervise as from the same date. In the case of the second procedure, by resolutions of 29 December 2020 the BNB Governing Council required the specified significant supervised entities to report supervisory information at recurring intervals (data collection process, related to the supervisory review and evaluation process), as defined in the annexes to the specific instructions.

In 2020 the BNB Banking Supervision Department also registered and handled 302 complaints from bank customers.

Activities on the Implementation of the Regulatory Framework and Supervisory Reporting

Activities on Implementing EBA Guidelines

On 3 April 2020 the BNB Governing Council decided to implement the EBA Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis (EBA/GL/2020/02). These guidelines introduce a temporary relief consisting in exemption of the obligation to reclassify exposures as forbearance or defaulted in case of a moratorium on bank loan repayments subject to strict conditions.

On 9 July 2020 the BNB Governing Council decided to implement the EBA Guidelines of 2 June 2020 on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis (EBA/GL/2020/07). The EBA Guidelines provide for a single coordinated approach to collect additional information to follow up the application of the above-mentioned EBA Guidelines of 2 April on legislative and non-legislative moratoria.

Other EBA Guidelines adopted by the BNB Governing Council to be implemented in view of mitigating the negative effects of the pandemic on the activities of credit institutions are as follows:

- EBA/GL/2020/11 – Guidelines on supervisory reporting and disclosure requirements in compliance with the CRR ‘quick fix’ in response to the COVID-19 pandemic;
- EBA/GL/2020/12 – Guidelines amending Guidelines EBA/GL/2018/01 on uniform disclosures under Article 473a of Regulation (EU) No 575/2013 (CRR) on the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds to ensure compliance with the CRR ‘quick fix’ in response to the COVID-19 pandemic.

Amendments to Regulations in Response to the COVID-19 Pandemic

The BNB experts who worked in the European Commission and the EU Council working groups contributed to the adoption of Regulation (EU) 2020/873 of the European Parliament and of the Council of 24 June 2020 amending Regulations (EU) No 575/2013 and (EU) 2019/876 as regards certain adjustments in response to the COVID-19 pandemic (the so called CRR – Capital Requirements Regulation – ‘quick fix’).

Macroprudential Measures to Address COVID-19 Effects on the Banking System

In the context of the macroprudential measures taken over the year and the private moratorium on loan repayments adopted by the BNB Governing Council in 2020, the BNB developed guidelines and reporting forms to be completed by credit institutions licensed to conduct bank operations in Bulgaria and foreign credit institutions’ branches.

At end-2020 the BNB joined the pan-European recommendation on credit institutions to limit dividend distributions and share buy-backs, with the ECB[80] and the

[80] Recommendation of the European Central Bank of 15 December 2020 on dividend distributions during the COVID-19 pandemic and repealing Recommendation ECB/2020/35 (ECB/2020/62).

ESRB[81] recommendations, and EBA statement[82] being extended until September 2020.[83]

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

The BNB drafted new legislative amendments to the BNB's Ordinance No 7 on the organisation and risk management of banks, intended to bring the ordinance in line with the requirements arising from the accession of Bulgaria to the SSM by establishing close cooperation between the BNB and the ECB. Amendments concern the requirements for materiality threshold for credit obligations past due under Article 178, paragraph 1(b) of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms as well as the exercise of choice and discretion.

Work on Drafting the BNB Ordinance No 40 of 1 December 2020 on Determining the Amount of Fees to Cover Administrative Costs of the Bulgarian National Bank Arising from Supervisory and Resolution Functions (effective as of 1 January 2021)

In 2020 the BNB drafted and adopted an ordinance laying down the terms and methods for determining the amount of fees in relation to the BNB's administrative costs arising from its supervisory and resolution functions related to credit institutions. The ordinance's scope of application covers all credit institutions operating in Bulgaria.

Supervisory Reporting and Related Activities

In 2020 the existing supervisory database in BNB Banking Supervision Department was updated as a result of the changes in the European regulatory framework including a change in the business reporting template. One of the main priorities of the supervisory reporting was to ensure data quality of supervisory reports following the implementation of EBA reporting requirements related to COVID-19, and versions 2.9 and 2.10 of EBA reporting framework. The main fields of the database were completed with the required attributes of credit institutions in order to be subsequently entered in the Register of Institutions and Affiliates Database (RIAD) information system, related to the supervisory reporting for ECB.[84]

Bank Capital Activities

With regard to the BNB's work on drafting opinions on banks' capital, approvals for capital increase were issued to First Investment Bank AD and Investbank AD, as a result of the implementation of their capital plans after the asset quality review in

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[81] Recommendation of the European Systemic Risk Board of 15 December 2020 amending Recommendation ESRB/2020/7 on restriction of distributions during the COVID-19 pandemic (ESRB/2020/15).

[82] https://www.eba.europa.eu/eba-continues-call-banks-apply-conservative-approach-dividends-and-other-distributions-light-covid.

[83] The European regulators lifted their de facto ban on bank dividend while imposing strict limits on payments in order to help lenders preserve their financial capacity during the pandemic. The ECB Recommendation specifies that European banks should keep dividend and share buy-back amount to not more than 15 per cent of the their profit for 2019 and 2020 or 0.2 per cent of their capital adequacy.

[84] Work was also performed on the preparation of attributes related to reporting of credit institutions in the EBA information system (European Centralised Infrastructure of Data, *EUCLID*). This is in the context of the imminent introduction of a *sequential approach*, according to which the reporting of credit institutions to the competent supervisory authorities will be sent only to the ECB and the ECB will subsequently forward it to the EBA.

2019 and the stress test conducted by the ECB. The BNB approved the capital increase of the Bulgarian Development Bank AD.

Assessment of Capital Instruments Issued by Commercial Banks

In 2020 the BNB jointly with the EBA reviewed and assessed the capital instruments of three Bulgarian banks, which were issued before the entry into force of Regulation (EU) No 575/2013 and included in Common Equity Tier 1 (CET1). This assessment was made under Article 80 of above Regulation with the aim to analyse and examine the level of compliance of capital instruments included in CET1 with prudential requirements. The review comprised both relevant national legislation (the Law on Commerce, the Law on Credit Institutions and the Law on Bank Bankruptcy) and bank statutes. The review established that both national legislation and bank statutes comply with the requirements[85].

[85] The requirements of Article 28 of Regulation (EU) No 575/2013, Commission Delegated Regulation (EU) No 241/2014 of 7 January 2014 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for Own Funds requirements for institutions, the EBA Report on the Monitoring of CET1 instruments and all released EBA enquiries and responses related to CET1 instruments.

VII. BNB Activities on Resolution of Credit Institutions

The Bulgarian National Bank exercises the powers of resolution authority under the Law on the Recovery and Resolution of Credit Institutions and Investment Firms (LRRCIIF).

In 2020, the BNB acts as a resolution authority under two different legal frameworks. Part of the functions and tasks of the BNB as a resolution body changed on the date on which the ECB decision on establishing close cooperation became applicable[86] – 27 July 2020. With effect from 1 October 2020, the date of establishing close cooperation with the ECB, the BNB performs functions and tasks as a resolution authority within the framework of the Single Supervisory Mechanism (SSM), while observing the direct application of Regulation (EU) No 806/2014.[87]

The main Bank activities as a resolution authority until 1 October 2020 focused on preparing, reviewing, and updating resolution plans. Until this date, the BNB Governing Council adopted 2019 resolution plans of seven credit institutions that are not part of a group subject to supervision on a consolidated basis[88], and a resolution plan of a credit institution subject to supervision on a consolidated basis.[89] Information on the main elements of the resolution plan on an individualised basis was adopted in respect of one credit institution, part of an EU cross-border banking group.[90] All adopted resolution plans include identified critical functions for the relevant credit institution, an assessment of the adequacy of liquidation under insolvency proceedings, an analysis of the public interest in relation to the chosen resolution tool, *i.e.* a bail-in tool and an assessment of resolvability. In addition, with regard to the resolvability assessment, potential areas requiring further consideration were identified in order to specify potential and/or substantial impediments to resolvability. Liquidation under insolvency proceedings was assessed as not appropriate for all eight credit institutions' resolution plans, and an analysis of an appropriate resolution tool was therefore carried out. It was assessed that the application of the bail-in tool would better achieve the resolution objectives under Article 50, paragraph 2, items 1–5 of the LRRCIIF compared to the degree to which they would be achieved in insolvency proceedings. In this context and in accordance with Article 51, paragraph 7 of the LRRCIIF, it may be concluded that taking resolution actions by applying the approved tool is in the public interest. This tool provides for losses to be absorbed by shareholders and creditors, where the need of using extraordinary public financial support and its amount is kept implicitly to a minimum. Impediments to resolvability were analysed in the adopted resolution plans in terms of the chosen resolution tool, covering the following main areas: structure and operations; financial resources; information; legal matters. All credit institutions were informed on the key elements of their resolution plans. In addition, with regard to ensuring a resolvability assessment, the main

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

[87] 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.

[88] On the grounds of Article 14, paragraph 1 of the LRRCIIF.

[89] On the grounds of Article 19, paragraph 1 of the LRRCIIF.

[90] In the absence of a resolution college set up by the EU group-level resolution authority within which a joint decision to be reached regarding a group resolution plan in line with the effective regulatory framework.

objectives and priorities for credit institutions were established for the next period of resolution planning.

As a resolution authority of subsidiary banks of EU parent companies, the BNB participated in international resolution colleges for EU cross-border banking groups.[91] Until 1 October 2020, the BNB jointly with the group-level resolution authority and other resolution authorities of EU subsidiary companies continued to work on assessing resolvability and reviewing resolution plans of five banking groups and their subsidiaries licensed in Bulgaria. In the beginning of 2020 the last of a total of five joint decisions on a resolution plan was adopted, thus putting an end to the resolution planning for 2018 in all resolution colleges where the BNB is represented. In the meantime, the resolution college organised by the central bank of Hungary continued working on reviewing and updating a resolution plan of the group for 2019. In July 2020 a joint decision on the resolution plan was achieved along with a joint decision on a minimum requirement for own funds and eligible liabilities (MREL) for a parent undertaking and for other four subsidiary banks in the group. The updated resolution plan for 2019 includes assessments of banking group resolvability, significant corporations and a business model analysis, identified critical functions of significant corporations, and a preferred resolution strategy and resolution tool. The subsidiary bank licensed in Bulgaria, which is part of the banking group, was designated as significant with critical functions identified. Within the other four colleges organised by the SRB A review and update of the relevant group resolution plans for 2020 were launched in the first half of 2020.

Regular collection of updated information required for drafting and updating resolution plans was initiated in February 2020 by using standardised reporting.

After the required information was collected based on a consistent approach in preparing resolution plans for 2020 and applying a critical functions methodology, the functions of 19 credit institutions licensed in Bulgaria were assessed during the first six months of the year. Results of implementing the methodology identified less than ten critical functions at eight credit institutions, ten to 20 critical functions at six, and over 20 critical functions at three credit institutions. Two credit institutions did not provide functions that could be reasonably assessed as critical. Results of these calculations were comprehensively implemented in making the assessment for 2020, which involves choosing from resolution or liquidation under insolvency proceedings at an individual institution level, according to a methodology for considering actions on resolution and liquidation under insolvency proceedings of credit institutions. The results of applying this methodology justify resolution actions in 18 credit institutions with a view of their impact on the following areas: (1) functioning of the financial market and market confidence; (2) financial market infrastructures; (3) other financial institutions; and (4) the real economy. In two credit institutions, taking resolution actions is not justified given the insignificant impact which possible liquidation of these credit institutions would have on the above areas.

Over the second half year, the resolution plans of the remaining credit institutions continued to be updated within the BNB powers as a resolution authority based on 2020 results of the application of the above methodologies related to the analyses of key elements of resolution plans.

Under the LRRCIIF, in March the Governing Council set the total 2020 amount of annual bank contributions to the Banks Resolution Fund (BRF) at BGN 157,876 thousand. In April the sum was apportioned to individual banks commensurate with

[91] The BNB is represented in four resolution colleges organised by the Single Resolution Board (SRB) and in one college organised by the central bank of Hungary as a group-level resolution authority.

their risk profiles. All banks paid their due contributions into the BRF within the term set in the LRRCIIF, with accumulated funds exceeding BGN 701 million.

In the first half of 2020, BNB experts worked actively on drafting the amendments to the Law on Payment Services and Payment Systems, transposing into Bulgarian legislation the provisions of Directive (EU) 2019/879 of the European Parliament and of the Council of 20 May 2019 amending Directive 2014/59/EU as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms and Directive 98/26/EC (OJ L 150, 7.6.2019) (Directive (EU) 2019/879). This Directive is part of the so-called banking package, which makes a comprehensive review of the EU financial legislation aimed at reducing financial sector risks, enhancing its resilience and improving the resolution legal framework. Pursuant to Article 3(1) of Directive (EU) 2019/879, EU Member States make any amendments which may be necessary for transposing the Directive into national legislation by 28 December 2020.

Following the official letter sent on 29 June 2018 by the Minister of Finance and the BNB Governor concerning Bulgaria's participation in the SSM by establishing close cooperation with the ECB, work continued in the first half of 2020 to prepare the BNB for joining the SRM and consequently the Single Resolution Fund (SRF) as a direct consequence of the established close cooperation. Participation in the SSM and the SRF stems from the direct application of Regulation (EU) No 806/2014[92] in Bulgaria, with effect from the date of establishing close cooperation.

In January–September 2020, the BNB continued working jointly with SRB representatives on two building blocks of the joint action plan, including preparations for joining the SRF and preparing the bank resolution planning process after joining the SRM.[93] The BNB role in the first open block focused on technical and expert support to the SRB in terms of establishing the amount of the first contribution of Bulgaria to the SRF under the ratified agreement on the transfer and mutualisation of contributions to the SRF in establishing close cooperation with the ECB and joining the SRM.[94] In the first half year the BNB contributed actively to the SRB in ensuring required financial information from credit institutions with a view to setting the first Bulgaria's computation to the SRF. Work on the second building block of the action plan was intended to encompass joint actions with the SRB for BNB participation in the SRM related to identification of credit institutions falling within the scope of direct responsibilities and tasks of the SRB, familiarising the BNB with SRB procedures and division of responsibilities and tasks between the SRB and national resolution authorities within the SRM.

With effect from 1 October 2020 – the date set by the ECB for establishing close cooperation and consequently joining the SRM – essential changes occurred in the powers, functions and tasks of the BNB as a resolution authority in relation to credit institutions licensed in Bulgaria. Following the participation in the SRM, resolution rules for credit institutions which are applied by the SRB in cooperation with the Council, the Commission and the national resolution authorities are directly applicable on the territory of Bulgaria. The centralised resolution mechanism encompasses all banks operating on the territory of participating Member States and the allocation

[92] 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.

[93] Work on the first of the initially identified three blocks concerning the drafting and adoption of the required amendments to the legal framework ended in the first half of 2019 with the adoption of the Law amending the LRRCIIF by the National Assembly (published in the Darjaven Vestnik, issue 37 of 7 May 2019) introducing provisions for enforcement of Regulation (EU) No 806/2014.

[94] Law on Ratification of the Agreement on the Transfer and Mutualisation of Contributions to the Single Resolution Fund (adopted on 8 November 2018, published in the Darjaven Vestnik, issue 96 of 2018).

of functions and tasks between the SRB and national resolution authorities is in conformity with the allocation of the powers between the ECB and national supervisory authorities provided for in Regulation (EU) No 1024/2013[95]. Criteria for the allocation of functions within the SRM involve characteristics of the entities and the nature of functions. Resolution funding in the SRM is also centralised by establishing a Single Resolution Fund (SRF), in which institutions of participating Member Sates make *ex ante* contributions and, where necessary, *ex post* contributions.

Credit institutions and groups established in the Republic of Bulgaria, subject to ECB's supervisory powers, are included also in the scope of the SRB powers. Bank branches in the Republic of Bulgaria of third country credit institutions and bank branches in the Republic of Bulgaria of credit institutions established in non-participating Member States in respect of which the BNB would be a resolution authority in the cases under the LRRCIIF remain outside the scope of Regulation (EU) 806/2014.

In respect of the entities falling within the direct powers of the SRB, the BNB is replaced by the SRB in exercising the functions as a resolution authority and making decisions on all aspects of their resolution. Regarding these entities, the SRB replaces the BNB also in cooperating with resolution authorities of non-participating Member States, including in resolution colleges and European resolution colleges established under Directive 2014/59/EU.[96]

In its capacity as a resolution authority in respect of entities and groups which do not fall within the scope of the SRB direct powers, the BNB retains its powers in the field of resolution planning, resolvability assessments, removal of impediments to resolvability, early intervention measures, resolution decisions and actions if the resolution scheme does not provide for participation of the SRF. The BNB retains all its powers in line with the LRRCIIF in respect of entities outside the scope of Regulation (EU) No 806/2014.

With effect from 1 October 2020, as a result of the allocation of functions and tasks within the SRM, the BNB performs functions related to credit institutions' resolution as a resolution authority, on the one hand, and as a national resolution authority within the meaning of Regulation (EU) No 806/2014, on the other. As of the initial date of the close cooperation between the BNB and the ECB, there were five credit institutions in respect of which the SRB exercises direct powers.[97] The BNB is a national resolution authority in respect of these five institutions. With regard to this role, the BNB participates and is represented in Internal Resolution Teams[98] (IRT), which are set up by the SRB for each entity or group within the scope of the SRB direct powers and perform tasks on drawing up resolution plans and decisions.

Thirteen credit institutions (within the SRM) and a branch of a third country credit institution (outside the SRM) remain within BNB direct powers. In its capacity as a resolution authority in respect of entities and groups that are not in the scope of SRB powers, the BNB retains its powers in the field of resolution planning, resolvability assessments, removal of impediments to resolvability, early intervention measures, resolution decisions and actions if the resolution scheme does not provide

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

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

[97] DSK Bank AD, Eurobank Bulgaria AD, Raiffeisenbank (Bulgaria) EAD, UniCredit Bulbank AD, and United Bulgarian Bank AD.

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

for participation of the SRF. Although the BNB retains its leading role as a resolution authority in respect of entities that are less significant and are not cross-border groups within the meaning of Regulation (EU) No 806/2014, Bulgaria's participation in the SRM requires aligning the activities with the specificities of the legal framework of resolution within the SRM. To better synchronise the practices and guarantee consistent and uniform interpretation and application of the European legal framework, the SRB issues guidelines and general instructions to national resolution authorities in relation to the performance of their tasks and adoption of resolution decisions along with guidelines and instructions to the IRT. In addition, the SRB develops common policies and rules to be applied with a view to synchronisation of the analyses on drafting resolution plans and initiating resolution actions. Documents, depending on their nature and focus, are approved by the SRB management bodies in a Plenary Session,[99] an Extended Executive Session[100] or an Executive Session.[101]

Given the changed functions and tasks of the BNB as a resolution authority, in October 2020 the BNB Governing Council adopted and began implementing a Concept of Organising the Activities of the Bulgarian National Bank in the Single Resolution Mechanism (the Concept), whereby performance of the BNB's tasks as a national resolution authority and part of the SRM are to be integrated appropriately into the functions and structures of the BNB.

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 the Resolution of Credit Institutions (RCI) Directorate. In relation to changed BNB powers arising from the accession to the SRM, the adopted Concept provides for structural, functional and organisational changes to ensure performance of the new Directorate functions and adaptation of the existing ones. In line with the Concept, the BNB Governing Council adopted changes in the structure and increased the RCI Directorate staff as from 1 January 2021. Internal legal acts related to the resolution function were updated in October–December 2020. Following structural changes, amendments were approved in the Internal Operational Rules of the RCI Directorate. Under the new framework which provides for administrative costs arising from resolution functions to be financed by fees collected from credit institutions and branches of third-country credit institutions established in the Republic of Bulgaria, BNB Ordinance No 40 was approved on 1 December 2020 to determine the amount of fees to cover administrative costs of the BNB arising from supervisory and resolution functions[102] along with payment conditions and procedure.

With effect from 1 October 2020, the BNB is represented by the Deputy Governor heading the Issue Department in the SRB's management bodies: the Plenary Session and the Extended Executive Session, having the same rights and obligations as all other members, including a voting right. In addition, BNB representatives will participate in SRB sub-structures at various levels (committees, working groups and networks) supporting the activities of the SRB Plenary and Executive Sessions. With regard to resolution planning activities, with effect from the date of establishing close cooperation with the ECB, the BNB, as a national resolution authority in respect of the five credit institutions that are within the direct powers of the SRB, appointed representatives in the IRT of the relevant banking groups. Moreover, the BNB participation as a member in three resolution colleges set up by the SRB was terminated, and one of the colleges was closed as the grounds necessitating its existence have ceased

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

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

[101] It comprises only permanent members of the SRB.

[102] Published in the Darjaven Vestnik, issue 105 of 20 December 2020.

to exist. In addition, from 1 October 2020 the SRB replaced the BNB as a resolution authority for a subsidiary licensed in Bulgaria, in the resolution college set up by the central bank of Hungary. The BNB continued participating as an observer in resolution colleges under the IRT.

In the process of updating resolution plans of the five credit institutions within the SRB direct powers, in December 2020 the BNB Governing Council adopted decision-voting positions of the SRB Extended Executive Session for a preliminary approval of 2020 resolution plans of four cross-border groups with subsidiaries licensed in Bulgaria along with setting MREL for resolution entities and their subsidiary banks within the SRB powers.[103] The BNB supported draft decisions of the Extended Executive Session for three cross-border groups with subsidiaries in Bulgaria. The BNB did not support SRB draft decisions regarding the resolution plan and resolvability assessment of one of the groups within the SRB powers. The Bank expressed its disagreement with the resolution plan and resolvability assessment of the group as regards the part relating to identified critical functions of a subsidiary bank in Bulgaria and the approach for setting out subsidiary's MREL on an individual basis. The BNB did not support also an approval of a preliminary draft decision on setting out MREL of the parent undertaking as a resolution entity and of its subsidiaries, including the subsidiary bank in Bulgaria. The BNB's position as a national resolution authority was expressed within the framework of the Extended Executive Session of the SRB by the Deputy Governor in charge of the Issue Department as a BNB representative. Due to a lack of consensus and in accordance with the legal framework, the SRB draft decision, subject to the BNB objection, was adopted in the format of the SRB permanent members.

All preliminary approved four group resolution plans within the SRB direct powers include assessments of banking group resolvability, significant corporations and a business model analysis, identified critical functions of significant corporations, and a preferred resolution strategy and resolution tool. In addition, disclosed SRB policy for 2020[104] calls for binding MREL targets for 2020 on a consolidated basis for resolution entities and on an individual basis for relevant significant subsidiaries within the SRB's scope. With a view to SRB procedures for the purposes of setting MREL, by end-2020 the BNB exercised its right to designate one of the banks within the SRB's direct powers as a resolution entity, likely to pose a system risk in case of a default, and to submit a request to the SRB on implementing Article 12(4) of Regulation (EU) No 806/2014[105] with respect to a subsidiary, setting out a requirement for liabilities with equal ranking as part of the MREL at least equivalent to 13.5 per cent of the total risk exposure and 5 per cent of the total exposure measure.

The four subsidiary banks licensed in Bulgaria, part of the relevant banking groups, were determined as significant with identified critical functions. In addition, a binding MREL on a consolidated basis was provided for one of the subsidiary banks and on an individual basis for three of them, identified as significant. Final approvals of resolution plans and resolvability assessments of relevant groups, as well as final SRB decisions on setting out MREL of relevant entities within these groups are planned for the first half of 2021.

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

[104] https://srb.europa.eu/sites/default/files/srb_mrel_policy_2020.pdf.

[105] Council Regulation (EU) 2019/877 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 806/2014 as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms.

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

At the same time, the BNB continued working on updates of resolution plans of credit institutions within the scope of its powers. In October 2020 the BNB in its capacity as a resolution authority for ProCredit Bank (Bulgaria) EAD agreed to participate as a member in the resolution college of the ProCredit Holding group[106], set up by he group-level resolution authority.[107] This provided for the adoption of a resolution plan of the group, part of which the subsidiary in Bulgaria is. At the end of 2020 exchange of information began between the group-level resolution authority and the BNB to develop the group resolution group.

With effect from 27 July 2020 – the date of the ECB decision on establishing close cooperation – essential changes occurred in the functions and tasks of the BNB as a resolution authority regarding the BRF management. Established with the adoption of the LRRCIIF in 2015, the BRF was managed by the BDIF Management Board, which took decisions on its ongoing management. The BNB as a resolution authority of credit institutions has powers related to determination of the contributions to the BRF and use of its funds for resolution purposes. Since 27 July 2020, in line with effective amendments to the legal framework following the ECB decision, the BNB has fully assumed the ongoing management of the BRF. For the purposes of implementing its BRF management function, the BNB Governing Council issued internal rules for the management of BRF resources.

In the context of the accession to the SRM, there was also a change in the financing sources of the BRF and use of the funds for resolution. To this end, under Article 134, paragraph 1 of the LRRCIIF, two target sub-funds were established: a sub-fund for branches of third-country credit institutions and a sub-fund for contributions to the Single Resolution Fund. Changes also occurred in relation to the target level of the Fund and determination of the contributions to the BRF by individual sub-funds, as well as replenishment of the Fund by borrowing and other forms of support from banks, financial institutions or other entities, and to the powers of the relevant authorities. In line with the allocation of resolution powers between the SRB and the BNB, the function of determining and raising contributions by branches of third-country credit institutions and the target use of the funds under the LRRCIIF remain within the exclusive competence of the BNB, with collected funds transferred to the respective sub-fund. The function of determining the amount of individual annual contributions and extraordinary contributions to the SRF is performed by the SRB and covers both credit institutions falling within the direct powers of the SRB, and those for which the BNB is a resolution authority. The SRB also takes all decisions on SRF budget and the use of its funds to finance specific actions and resolution tools, including where the decisions concern resolution of a less significant institution, that does not fall within the SRB's direct powers.

On 27 July 2020, in line with § 56, paragraph 1 of the Transitional and Final Provisions of the Amendment to the LRRCIIF, the BDIF Management Board transferred to the BNB all funds available in the BRF. Following the transfer, these funds were allocated to the two target sub-funds.

[106] ProCredit Holding AG & Ko.KGaA and its subsidiaries fall within the scope of application of Directive 2014/59/EU.

[107] Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) (The German Federal Financial Supervisory Authority).

On 5 October 2020, on receipt of a MF's letter about the notification sent by the SRB on the initial contribution of the Republic of Bulgaria to the SRF,[108] the BNB ordered the transfer of the initial contribution by debiting the account of the respective sub-fund by the amount of BGN 158,457,942.54[109] in line with § 56, paragraph 2 of the Transitional and Final Provisions of the Amendment to the LRRCIIF.

For the period of BRF resources management (from the date of the transfer – 27 July 2020, to the end of 2020), the BNB made no changes to the investment strategy implemented by the BDIF. BRF resources are kept on current accounts with the BNB and are subject to the General Terms and Conditions of the Bulgarian National Bank on Servicing Accounts of Banks.

As of 31 December 2020 resources available in the sub-fund for branches of third-country credit institutions were BGN 615 thousand, while those in the sub-fund for contributions to the SRF reached BGN 540,539 thousand.

[108] Due under Article 8 of the Agreement on the Transfer and Mutualisation of Contributions to the Single Resolution Fund (ratified by a law adopted by the 44th National Assembly on 8 November 2018, Darjaven Vestnik, issue 96 of 2018, effective as of 24 November 2018). Pursuant to this provision, where a contracting party whose currency is not the euro becomes part of the SSM and the SRM, it transfers towards the SRF the amount of the contributions raised on its territory equal to that which would have been transferred by the contracting party concerned if it had participated in the SSM and the SRM since the date of enforcement of the Agreement.

[109] Under the fixed exchange rate of the lev to the euro.

VIII. Participating in the ESCB and EU Bodies

The work of EU bodies and institutions in 2020 was focused on the need for urgent and coordinated action by Member States to address socio-economic consequences of the COVID-19 pandemic. In its Communication 'Coordinated Economic Response to the COVID-19 Outbreak' of 13 March the EC outlined a plan for immediate measures to counter the economic consequences of the coronavirus[110]. As part of these measures, amendments to the prudential regulatory framework for credit institutions aimed at facilitating bank lending in the EU were approved, with BNB representatives taking an active part in the negotiations. The EU Council highlighted the need to continue work to deepen the Economic and Monetary Union, including the further strengthening of all elements of the regulatory framework for the completion of the Banking Union. At the June 2020 meeting the Eurogroup in an inclusive format agreed that the pandemic and its consequences had reinforced the need and importance of the initiative to complete the banking union.

The European System of Central Banks

The BNB Governor sits on the ECB General Council with EU central bank governors and the ECB President and Vice President. In 2020 the three video conference sessions of the ECB General Council focused on issues related to the economic development and EU financial sector performance, including the report on the economic outlook and monetary policies of non-euro area Member States, and the report on public finances. On 10 July the ECB General Council discussed Bulgaria's request to include the Bulgarian lev in the ERM II. The General Council of the ECB decided to support Bulgaria's request for the inclusion of the Bulgarian lev in the ERM II at a fixed central rate of the Bulgarian lev of 1 euro = 1.95583 levs, around which the standard range of plus or minus 15 per cent will be maintained. By the same decision the General Council of the ECB supported Bulgaria's request to join the exchange rate mechanism with its existing currency board arrangement in place, as a unilateral commitment, thus placing no additional obligations on the ECB.

The ECB General Council also approved the 2020 Convergence Report assessing the degree of economic convergence between Member States which have not adopted the euro and the compliance between their legislations and the Treaties.

BNB representatives sat on 14 ESCB committees,[111] 53 working groups, and the Human Resource Conference and Heads of Administration Conference. Bank representatives in ESCB bodies, committees and working groups helped elaborate ECB legal instruments on monetary and banking policy, payment and settlement systems, statistical reporting and research, and other central banking issues. The Bank also helped coordinate ECB standpoints in written consultations with EU Member States on legislative bills within ECB purview.

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[110] Communication 'Coordinated Economic Response to the COVID-19 Outbreak', COM (2020) 112 final, 13.3.2020.

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

During the review period Bulgaria consulted the ECB in writing on the draft Law amending the Law on Credit Institutions and the Law on the BNB. The amendments introduce provisions related to BNB powers to impose sanctions within the close cooperation and the official exchange rate of the Bulgarian lev.

In April 2020 the BNB Governing Council took note of the common parameters for a bilateral currency swap line between the BNB and the ECB providing euro liquidity in exchange of Bulgarian levs. Negotiations on the terms and conditions of the agreement started. On 9 July the BNB Governing Council approved a draft bilateral currency swap line between the BNB and the ECB, which was signed on 23 July.[112]

By Decision (EU) 2020/1015 of 24 June 2020 of the ECB (ECB/2020/30), effective as of 27 July, starting from 1 October 2020 the ECB established close cooperation with the BNB. As a result the Republic of Bulgaria joined the Single Supervisory Mechanism (SSM) and became a participating Member State within the meaning of Article 2, item 1 of Regulation (EU) No 1024/2013[113]. Following the accession to the SSM on 1 October 2020, the ECB is responsible for the direct supervision of five significant credit institutions in the Republic of Bulgaria and for common procedures for all supervised entities, as well as for the oversight of less significant credit institutions. The accession to the SSM results in an automatic joining to the SRM. The SRM has uniform rules for resolution of credit institutions, which are applied by the Single Resolution Board (SRB) in cooperation with the national resolution authorities. The centralised resolution mechanism encompasses all banks operating in participating Member States and the allocation of functions and tasks between the SRB and national resolution authorities is in conformity with the allocation of powers between the ECB and national supervisory authorities provided for in Regulation (EU) No 1024/2013. Funding of resolution in the SRM is also centralised by establishing a Single Resolution Fund (SRF), in which institutions of the participating Member Sates make *ex ante* contributions and, where necessary, *ex post* contributions.

On 22 December 2020 the ECB issued an opinion on the interaction between the Bulgarian National Bank and the European Central Bank within the framework of close cooperation in the Single Supervisory Mechanism on the basis of the consultation letter by the Minister of Finance of the Republic of Bulgaria related to the draft law amending the Law on Credit Institutions.

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

The BNB Governor and BNB Deputy Governor are members of the ESRB General Board. In the context of the COVID-19 pandemic, the General Council increased the number of its meetings in 2020 and focused its work on the consequences of the pandemic on the EU economy and financial system. At the meetings held in the first half of 2020 it was highlighted that a timely and coordinated response to the pandemic was decisive in achieving successful synergies between fiscal, monetary and regulatory policies. To this end, the General Council's discussions during the reporting period focused on the following five priority areas, in which coordination between EU bodies is of particular importance for maintaining financial stability: implications for the financial system of guarantee schemes and other fiscal measures to protect the real economy; financial market liquidity and implications for asset managers and insurers;

[112] See Resolution No 236 of the BNB Governing Council of 9 July 2020.

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

the impact of pro-cyclical downgrades of corporate bonds on markets and financial entities; system-wide restraints on dividend payments, share buybacks and other payouts; liquidity risks arising from margin calls.

At two extraordinary meetings in May, the ESRB General Board discussed and took action in the five priority areas to ensure the ability of the European financial system to withstand the economic implications of the measures against the spread of COVID-19, as well as to prevent possible further losses of economic capacity and jobs. These included establishment of an EU-wide framework to monitor the financial stability implications as a result of the measures in support of EU economies and adoption of a recommendation introducing minimum requirements for national monitoring of the measures applied by the Member States and establishing a framework for reporting to the ESRB. The General Board identified investment funds that have significant exposures to corporate debt and real estate assets as particularly high-priority areas for enhanced scrutiny from a financial stability perspective. Taking into account that the economic disruptions caused by the pandemic could trigger credit rating downgrades in the corporate bonds sector due to the systemic increase in credit risk, the General Board decided to coordinate a top-down analysis, with the European Supervisory Agencies and the European Central Bank, to assess the impact of a common scenario of large-scale downgrades across all parts of the financial sector (banks, investment funds, insurers, pension funds and financial markets). As regards the system-wide restraints on dividend payments, the General Board supported the actions taken so far by the ECB, the EBA, the European Insurance and Occupational Pensions Authority and national authorities and issued a Recommendation on restriction of distributions during the COVID-19 pandemic. This Recommendation intends to ensure that financial institutions have sufficient capital and capacity to cover losses, to soften the impact of the COVID-19 related crisis, and thus help the gradual recovery of the European economy.

At the June meeting the ESRB General Board discussed the channels through which the COVID-19 pandemic could severely affect the EU financial system and its capacity to provide financial services to the real economy and revised its assessment of systemic risks to take account of the latest changes in the economic environment. The risk of widespread defaults in the real economy, especially among firms and households, was classified as a serious systemic risk to the EU financial stability. The General Board assessed as heightened risks related to the difficult macroeconomic environment in which banks, insurers and pension funds operated, risks related to government budget financing and high debt levels, and those ensuing from instability and lack of financial market liquidity. The General Board also highlighted that all the above sources of systemic risk are interlinked and can become aggravated if there is a second wave of the pandemic or the economic recovery is delayed.

At its meetings in September and December 2020 the General Board of the ESRB continued to discuss the impact of the COVID-19 pandemic on the EU economy and the financial system. The General Board members again shared the view that the main source of systemic risk in the EU originates from the negative impact of the pandemic on economic activity that may give rise to widespread defaults in the private sector and their feedback effects on the EU financial system. At the same time it was noted that the measures to protect the real economy in response of the pandemic have been essential to mitigate the impact of the crisis on households and firms, as well as to contain a spillover from the non-financial private sector to the banking system.

At its meeting in September the General Board highlighted that the difficult macroeconomic environment, together with an uncertain economic outlook and the low interest rate environment, poses significant challenges to financial institutions, particularly in relation to profitability and asset quality. These challenges might be aggravated if the increased credit, market and liquidity risk, as well as the funding risk materialise. Taking into account that the broad-based use of a unified identifier to unambiguously identify entities participating in financial operations is decisive for ensuring financial stability, the General Board discussed and issued Recommendation on the Use of Legal Entity Identifier.

At its December meeting the General Board also discussed the financial stability implications of fiscal measures to protect the real economy from the COVID-19 pandemic. The General Board confirmed the significance of the fiscal support measures for lending, as well as the heterogeneity of support programmes across different countries, reflecting country-specific vulnerabilities, differences in the impact of the crisis from country to country and differences in national financial systems.

Bearing in mind the fact that the recovery path of the economy is still facing important challenges and the resilient financial system is key to providing vital services to the real economy, the General Board decided to revise and extend the Recommendation on restriction of distributions during the COVID-19 pandemic issued in May. The amendments recommend that relevant authorities request banks, investment firms, insurance and reinsurance companies to refrain from distributions of dividends and repurchase of shares which have the effect of reducing the quantity or quality of own funds, unless these financial institutions apply extreme caution in carrying out distributions and the resulting reduction does not exceed the conservative threshold set by their competent authority.

The General Board approved the adverse scenario for the European Banking Authority's 2021 EU-wide stress test.

In compliance with the ESRB General Board recommendations to which the BNB is an addressee, the BNB prepared and submitted reports on the actions initiated in response of the recommendations in accordance with the timelines as specified in the relevant recommendations.

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

In 2020 the main discussions in supervisory colleges of European bank groups and their subsidiaries, where the BNB participates, focused on the pragmatic approach and the supervisory review and evaluation process with a reference date 30 June 2020. Risks to banking operations related to economic implications from the measures against the spread of COVID-19 and the actions taken by Bulgarian institutions to mitigate those risks.

In terms of specific supervisory activities, BNB representatives continued to participate actively in the meetings of the EBA and EC committees and working groups where anti-money laundering and countering terrorist financing, and consumer protection and financial innovation measures were discussed. As a result of the discussions the methods of supervision in these areas were updated. Interaction between EU regulatory authorities continued through participation in a supervisory college to prevent money laundering and countering terrorist financing, organised by the central banks of the Netherlands and France. Actions initiated by banking groups to improve the efficiency of risk monitoring and minimising systems were the focus of discussion in the supervisory college.

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

The Ecofin Council and Economic and Financial Committee (EFC)

On 10 July at the request of the Bulgarian authorities, the finance ministers of the euro area Member States, the President of the ECB, and the finance minister and central bank governor of Denmark have decided to include the Bulgarian lev in the Exchange Rate Mechanism (ERM II). The European Commission has been involved in the decision-making process and the Economic and Financial Committee has been consulted. In accordance with Bulgaria's request, the ERM II Committee decided to set the central rate of the Bulgarian lev at the fixed rate of EUR 1 = BGN 1.95583, which has existed since 1997. The standard fluctuation band of plus or minus 15 per cent will be observed around the central rate of the lev. At the request of Bulgaria's authorities Bulgaria joined the exchange rate mechanism with its existing currency board arrangement in place, as a unilateral commitment, thus placing no additional obligations to the ECB. The Bulgarian lev was included in the ERM II on 13 July 2020.

In 2020 the EC adopted a banking package[114] aimed at facilitating bank lending to households and businesses in the EU to mitigate the negative economic effects of COVID-19 containment measures. The changes to the Capital Requirements Regulation[115] introduced targeted 'quick fix' amendments to the EU's banking prudential rules in order to maximise the ability of credit institutions to lend and absorb losses related to the pandemic and to help banks be more resilient and better prepared to deal with potential difficulties. During the negotiations held within the Council on the package of measures, the BNB representatives proposed to include in the regulatory texts relief related to the treatment of banks' exposures to government bonds denominated in the currency of another Member State, which have been reflected in the approved text of the Regulation.[116]

In the context of the exceptional circumstances associated with the pandemic, in 2020 the work continued on the technical aspects of the legislative proposal for the creation of a European Deposit Insurance Scheme (EDIS) as part of the measures for further risk sharing in the banking system and building Banking Union's third pillar in the EU. In line with the conclusions of the Eurogroup, in an inclusive format, as from June 2020 four videoconference meetings of the temporary High Level Working Group were held on strengthening of the banking union. Key issues relevant to deepening of the banking union were discussed, including measures to improve the crisis management framework, to strengthen the integration of the banking sector in the EU, to make changes to the regulatory treatment of government debt exposures.

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[114] The package is comprised of: Commission Interpretative Communication on the application of the accounting and prudential frameworks to facilitate EU bank lending – Supporting businesses and households amid COVID-19, COM (2020) 169 final, 28/04/2020; Proposal for a Regulation of the European Parliament and of the Council amending Regulations (EU) No 575/2013 and (EU) 2019/876 as regards adjustments in response to the COVID-19 pandemic, COM (2020) 310 final, 28/04/2020.

[115] Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p. 1).

[116] Regulation (EU) 2020/873 of the European Parliament and of the Council of 24 June 2020 amending Regulations (EU) No 575/2013 and (EU) 2019/876 as regards certain adjustments in response to the COVID-19 pandemic (OJ L 204, 26.6.2020, p. 4).

Parameters of building an EDIS was also discussed at a technical level. BNB representatives provided expertise to the representatives of the Ministry of Finance in the sub-groups to the High Level Working Group.

In tripartite negotiations in 2020, the European Commission, the Council and the European Parliament agreed on the proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) 2016/1011 as regards the exemption of certain third country foreign exchange benchmarks and the designation of replacement benchmarks for certain benchmarks in cessation. The proposed regulation, negotiated with the participation of BNB experts, aims at providing powers to ensure the continued implementation of contracts or financial instruments in the event of cessation of a benchmark of systemic importance in the Union.

On 24 September 2020 the EC adopted a new digital finance package[117] intended to boost EU's competitiveness in the financial sector, providing consumers with access to innovative financial products, while at the same time ensuring consumer protection and financial stability. BNB representatives took part in the negotiations on the package in the Financial Services Working Group to the EU Council contributing with their expertise to the preparation and coordination of the national positions on dossiers.

In 2020 the Bank continued its work on harmonising national legislation with European requirements. Bank's experts took part in drafting the amendments to the Law on Credit Institutions intended to transpose the requirements of Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation, and to make changes aimed at improving the regulatory framework and established supervisory mechanisms. BNB experts participated in drafting the amendments to the Law on Payment Services and Payment Systems, transposing into the national legislation the requirements in Directive (EU) 2019/879 of the European Parliament and of the Council of 20 May 2019 amending Directive 2014/59/EU as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms and Directive 98/26/EC.

A Deputy Governor represents the BNB on the Economic and Financial Committee. In the beginning of the reporting period, the Committee's discussions focused on deepening the Economic and Monetary Union, strengthening the Banking Union and reviewing progress and priorities in building the Capital Markets Union. The topics discussed included the economic and financial aspects of the European Green Deal, the free movement of capital and the factors determining the environment at low interest rates. At the meetings views continued to be exchanged on the economic challenges and risks to financial stability, focusing on the effects of the low interest rate environment on the EU economy and financial sector. Developments in government debt markets were also discussed, as well as the multilateral action plan proposed by the EC with particular measures to be taken towards better implementation, supervision and coordination of the EU's anti-money laundering and countering the

[117] The package is comprised of following documents:
- Digital Finance Strategy (COM (2020) 591 final);
- Retail Payments Strategy (COM (2020) 592 final);
- Proposal for a Regulation on Markets in Crypto-assets (COM(2020) 593 final);
- Proposal for a Regulation on a pilot regime for market infrastructures based on distributed ledger technology (DLT) (COM (2020) 594 final);
- Proposal for a Regulation on digital operational resilience (COM (2020) 595 final);
- Proposal for a Directive amending Directive 2006/43/EC, Directive 2009/65/EC, Directive 2009/138/EU, Directive 2011/61/EU, Directive EU/2013/36, Directive 2014/65/EU, Directive (EU) 2015/2366 and Directive EU/2016/2341 (COM(2020) 596 final).

financing of terrorism framework. After the outbreak of the COVID-19 pandemic, the Committee's work has focused mainly on topics directly related to the effects on the EU economy and financial stability caused by the measures against the spread of the virus, as well as on timely pan-European and national measures to recover the economic activity in the Union.

In the second half of 2020 the Committee gradually resumed discussions on topics which had been temporarily discontinued after the onset of the COVID-19 pandemic. The ongoing work on the action plan to encourage the Union's capital markets and the forthcoming steps to strengthen the banking union were among the topics discussed. Progress has also been made in combating money laundering and terrorist financing, with the members of the Committee agreeing on the criteria for determining the competences of the European Anti-Money Laundering Authority. The action plan to address non-performing loans was also among discussed issues. The members agreed that the private sector should be involved in addressing non-performing loans at an early stage, exchanging views on possible measures. The members of the Committee also discussed the legislative negotiations on the draft regulation establishing a Recovery and Resilience Facility and the role of the Committee in the implementation of the facility. The new digital finance package presented by the European Commission, which aims to boost Europe's competitiveness and innovation in financial services, was also discussed. The members of the Committee highlighted the importance of adopting a technology-neutral approach and striking a balance between entering innovation and tackling the risks associated with the use of new technologies. The new temporary support to mitigate unemployment risks in an emergency (SURE), developments in international markets and the consequences of BREXIT were also discussed.

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

IX. International Relations

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

The Bulgarian National Bank holds equity in the Bank for International Settlements (BIS). The BNB Governor sat on BIS central bank governors' regular meetings: a major forum for cooperation and debate on world economic developments and prospects, and international financial markets. At the Annual General Shareholder Meeting in late June 2020, the BIS Governors decided not to pay dividend in 2020 due to unfavourable conditions caused by the COVID-19 pandemic.

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

The BNB jointly with other national central banks of the ESCB and the ECB participated in the technical cooperation programme with central banks and supervisory authorities of countries in the Western Balkans – EU candidates and potential candidates: Albania, Bosnia and Herzegovina, Montenegro, the Republic of North Macedonia, Serbia and Kosovo financed by the EU and managed by the Deutsche Bundesbank. Over the first half of 2020 BNB experts delivered lectures to beneficiaries on financial stability. Consultation and work continued on the implementation of bilateral activities agreed with the central bank of the Republic of Kosovo on preventing money laundering and terrorist financing, which are carried out remotely.

In April 2020 the BNB contributed USD 10,000 to support the Group of Thirty.

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

X. Statistics

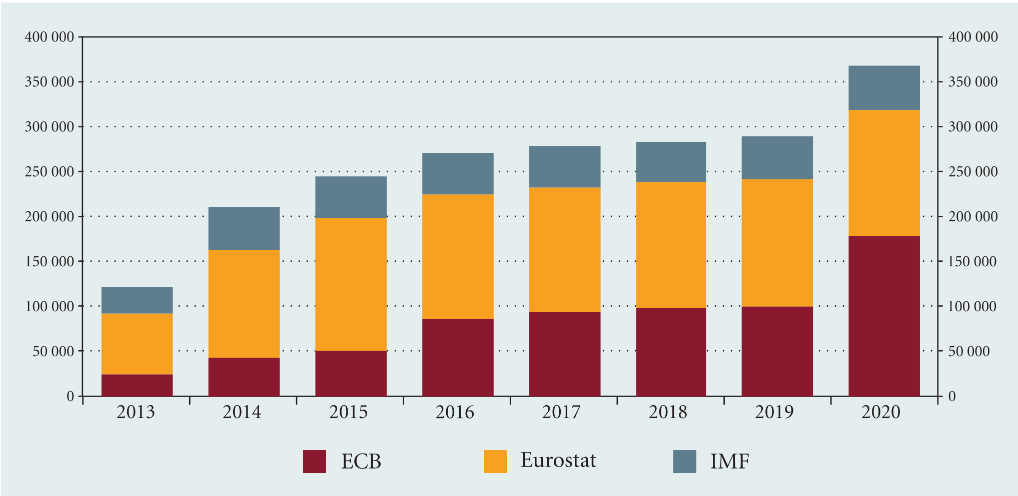
The BNB compiles statistical information under Article 42 of the Law on the Bulgarian National Bank and as ESCB member under Article 5 of the Statute of the ESCB and the ECB. The Bank applies harmonised European standards based on international statistical methodology of relevant leading institutions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

The BNB collects, processes, analyses and disseminates official monetary[118] and interest[119] statistics, external sector statistics[120], quarterly financial account statistics for all institutional sectors[121], statistics on non-bank financial institutions, including leasing companies and investment funds[122], specialised lenders, and insurance and reinsurance undertakings[123].

Compiled statistical data are also used for economic research and forecasting, financial stability analyses, major BNB operations and a number of foreign publications and reports like the ECB and Eurostat statistical database, the ECB Annual Report, the Convergence Report, and the Macroeconomic Imbalance Procedure Scoreboard.

Individual Time Series Provided to the ECB, Eurostat and the IMF

(number)



Source: the BNB.

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

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

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

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

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

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

In 2020 despite the COVID-19 pandemic and the containment measures launched, the Bank continued to collect, compile and disseminate up-to-date data on its website and by regular communications with the ECB, Eurostat, the ESRB, the IMF, the BIS and other national and international institutions. The amount of statistics sent to international institutions grew significantly, with the number of individual time series provided to the ECB, Eurostat and IMF reaching 367 thousand in 2020 compared with 289 thousand in 2019.

In 2020 all statistical data were published on the BNB website as scheduled.

In addition to the compilation of statistical data, the BNB continued to actively participate in a number of national, European and international fora discussing and solving methodological issues in statistics. All statistical data published by the BNB were accompanied by the relevant metadata which were periodically revised where necessary.

In early 2020 the Governing Council of the BNB adopted an Ordinance on Amendment of BNB Ordinance No 17. In line with the said amendments and the relevant change to the reporting forms and instructions on the content and procedure for providing information, the BNB adopted extended reporting requirements to banks for monetary and interest rate statistics. In addition to the latest ECB regulations, the need for additional information for national consumers to be used for analysis purposes was also taken into account changing the requirements.

In December 2020 the BNB Governing Council adopted an Ordinance on Amendment of BNB Ordinance No 27 of 13 March 2014 on the Balance of Payments Statistics, International Investment Position and Securities Statistics. The amendments provide for additional reporting requirements for securities statistics. Some practices used in the process of work were regulated, aimed at refining the rules for the participants in the process of providing statistical information and improving work processes. In addition, the BNB prepared and published updated reporting forms and instructions on the content and procedure for providing information on the balance of payments statistics, international investment position and securities statistics.

In line with ESCB priorities and objectives, and amendments to ECB Guidelines on the Register of Institutions and Affiliates Data (RIAD) the statistical database continued to be developed and improved in 2020, including individual reference data at the BNB: the Register of Domestic Economic Agents and the Bulgarian securities database. In 2020 with the inclusion of Bulgaria in the Single Supervisory Mechanism (SSM), all reference data required for supervisory purposes for credit institutions and related entities were reported in the RIAD[124]. Along with analytical options at national level, these databases allow the BNB to fulfil its commitments to the ESCB in managing the data for Bulgaria in the Register of Institutions and Affiliates Database and the Centralised Securities Database (CSDB)[125]. The register contains reference information on credit institutions, money market funds, financial vehicle corporations, investment funds and their management companies, payment service providers and payment system operators, insurance and reinsurance companies, pension funds, and holding companies and head offices. In 2020 non-financial corporations, issuers of securities, completed reporting in stages. This allowed RIAD issuer reference data to link with CSDB securities data. In 2020 the Bank continued volunteering to help ESCB national central banks identify and supplement RIAD reference information on resident institutional unit, parties to credit relations, as part of the AnaCredit project

[124] Pursuant to Guideline (EU) 2020/497 of the ECB of 20 March 2020 on the recording of certain data by national competent authorities in the Register of Institutions and Affiliates Data (ECB/2020/16).

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

(Analytical credit datasets, AnaCredit)[126] on granular credit and credit risk data. The BNB actively participated in the ECB Securities Holdings Statistics project (SHS)[127] which is important for both gathering various statistical data and analysing financial stability.

The Bank continued developing and elaborating the Integrated Statistical Information System (ISIS) and the Information System for Monetary and Interest Rate Statistics (ISMIS). They automate management, improve the reliability and high quality of statistical information the BNB receives, processes and disseminates and greatly reduce the administrative burden on individuals and legal entities by offering electronic submission of statistical reports and declarations. In line with the new reporting requirements for monetary and interest statistics, in early 2020 new reporting forms were introduced in ISIS and a new portal for submission of information to the system was designed for providing, verifying, converting data and communicating the BNB about their quality. The BNB attaches great importance to the quality of the statistical data compiled by it. It follows the principles of the Public Commitment on European Statistics by the European System of Central Banks, based on the fundamental principles of UN official statistics. The Bank took part in ESCB and European Statistical System reports on quality assessment measuring compliance with these principles of central bank statistical products and national statistical institutes through set indicators: accessibility and clarity, punctuality, reliability, comparability and coherence. The published reports ensure transparency and allow for a comparative analysis of the quality of these statistical products for all EU Member States.

In mid-May 2020 the ECB published the annual reports on the quality of macroeconomic statistical data compiled by the BNB. At the end of July 2020 the ECB and Eurostat published their sixth joint Annual Report on the quality of statistical data underpinning the indicators used in the macroeconomic imbalances procedure, including BNB statistics on the balance of payments, the international investment position, and quarterly financial accounts. The BNB as coordinator for Bulgaria also adheres to the requirements of the IMF Data Quality Assessment Framework, part of the Special Data Dissemination Standard Plus (SDDS Plus) which Bulgaria has joined. In the context of the commitments to the IMF upon accession to this standard, in 2020 the requirement to include information on the general government total gross debt was met.

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

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

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

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

The Central Credit Register

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

On 31 December 2020, 220 institutions under Article 56, paragraph 1 of the LCI submitted information to the CCR, of which 24 banks, 193 financial institutions, two payment institutions and an electronic money institution. Over the year 11 new financial institutions enrolled and four financial institutions, a payment institution and two banks left due to their merger in successor banks.

On 31 December 2020 the CCR listed 5825 thousand loans from 5844 thousand a year earlier, with a balance sheet exposure of BGN 87,154 million from BGN 83,718 million a year earlier. Borrowers numbered 2514 thousand, of whom 2281 thousand individuals, 100 thousand legal entities, 125 thousand non-residents not registered at Bulgarian addresses or BULSTAT/PIK coded, and 8 thousand self-employed persons practising liberal professions or crafts.

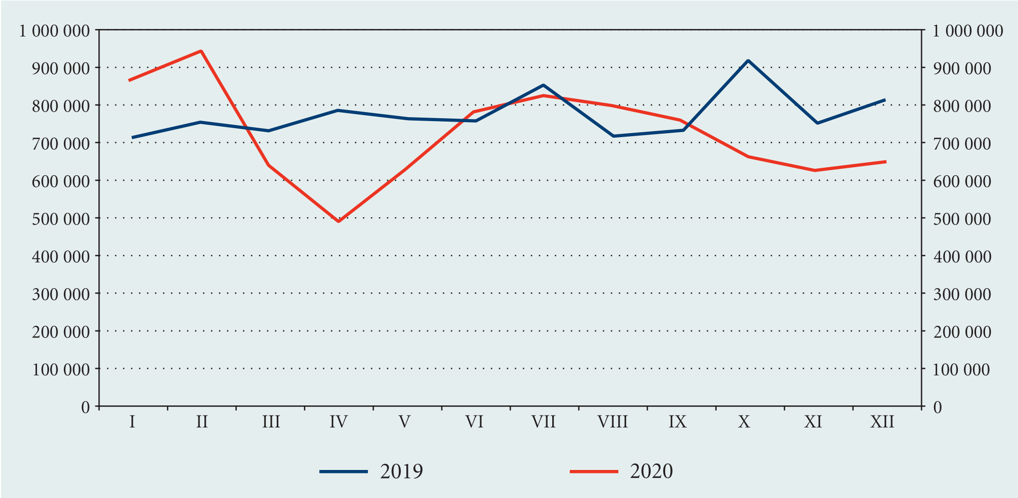
As of 31 December 2020 residual debt of up to BGN 5 thousand predominated with natural persons (58.4 per cent), while debts of BGN 5 thousand to 50 thousand predominated with legal entities (32.9 per cent).

Article 56, paragraph 3 of the LCI grants CCR information access to the State National Security Agency, the Financial Supervision Commission, the National Revenue Agency, the Inspectorate to the Supreme Judicial Council and other bodies designated by the Law. Technical conditions necessary for authorised bodies to gain electronic access to the system are available. On 31 December 2020 institutions and bodies under Article 56, paragraph 3 of the LCI conducted 8678 thousand electronic searches in the CCR or 99.8 per cent of all searches carried out over the year. In 2019 institutions and bodies under Article 56, paragraphs 1 and 3 of the LCI conducted 9311 thousand electronic searches or 99.7 per cent of all searches.

In 2020 bodies and institutions entitled to Register access under Article 56a, paragraphs 1 and 3 of the Law on Credit Institutions conducted searches on 8681 thousand individuals. The average monthly number of searches on individuals was 723 thousand. In 2019 the total number of searches was 9314 thousand and the average monthly number 776 thousand.

Searches by Participants in the CCR Information System (Monthly)

(number)

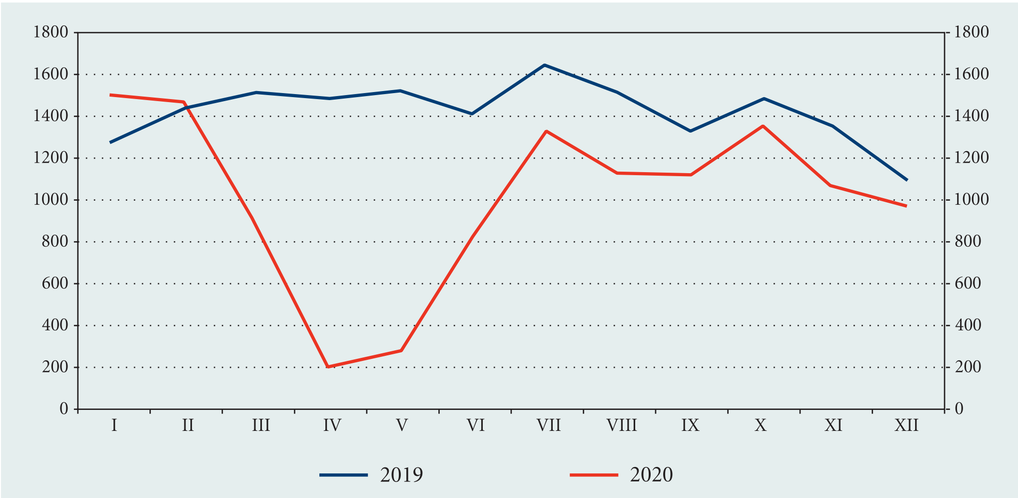


Source: the BNB.

BNB Ordinance 22 on the Central Credit Register grants individuals (including for probate purposes) and legal entities access to debt information. There were 12,202 paper applications for CCR statements: 11,878 by individuals and 324 by legal entities. 2019 saw 17,111 applications for CCR statements of which 16,738 by individuals and 373 by legal entities.

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

(number)



Source: the BNB.

BNB provides CCR electronic services to natural persons holding a qualified certificate for electronic signatures issued by a certification service provider under the Electronic Document and Certification Services Law. Fees charged for electronic services account for 50 per cent of those submitted on paper. As of 31 December 2020 there were 1507 electronic applications for CCR statements by individuals (913 electronic applications as of 31 December 2019).

The CCR operates on three user interfaces based on advanced data processing technologies. CCR information was essential for institutions under Article 56, paragraph 1 of the LCI to assess borrower creditworthiness before lending.

The Register exchanges information with other European credit registers to improve its technological and methodological performance. CCR information compiling and maintenance follows relevant best practice.

As a result of the amendments made to the Bulgarian legislation on Register operation, the CCR continuously improves and develops with new functionalities and current changes and improvements being introduced to the CCR Information System.

The CCR cooperates with the World Bank under the Doing Business project, with the ECB, the IMF, and other international bodies for research, statistical analyses and annual studies.

The Register of Bank Accounts and Safe Deposit Boxes

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

On 31 December 2020, 32 institutions under Article 3 of Ordinance No 12 on the RBASDB submitted information to the Register, of which 26 banks, including the BNB, two payment institutions and four electronic money institution, and two banks left due to their merger in successor banks.

With effect from 10 September 2020,[128] payment institutions and electronic money institutions submit information to the information system of the RBASDB about customers' payment accounts. As of 31 December 2020 there were 346 thousand payment accounts with a number or an IBAN.

As of 31 December 2020 the Register logged 15.26 million active bank accounts and 31.39 thousand safe deposit box hires, from 15.56 million and 32.40 thousand as of 31 December 2019, including records of 3.02 million new accounts and 3.18 million closed accounts.

As of 31 December 2020 the RBASDB information system held details of 565 thousand account preservation orders and 402 thousand accounts with rescinded preservation orders, from 768 thousand and 337.8 thousand placed as of 31 December 2019.

Article 56a, paragraph 3 of the Law on Credit Institutions grants Register information access to judicial authorities (Courts, the Prosecutor's Office, and criminal investigation authorities), the Ministry of the Interior National Police General Directorate, the General Directorate for Combating Organised Crime and Ministry of Interior regional directorates, the State Agency for National Security, the National Revenue Agency, the Committee for Combating Corruption and the Withdrawal of Illegally Acquired Property, the Customs Agency, banks, the Financial Supervision Commission, as well as to private and state bailiffs in enforcement proceedings, and other bodies listed in the Law. Technical conditions necessary for authorised bodies and institutions to gain electronic access to the system are available. As of 31 December 2020, 528.8 thousand electronic searches were conducted in the RBASDB or 98.23 per

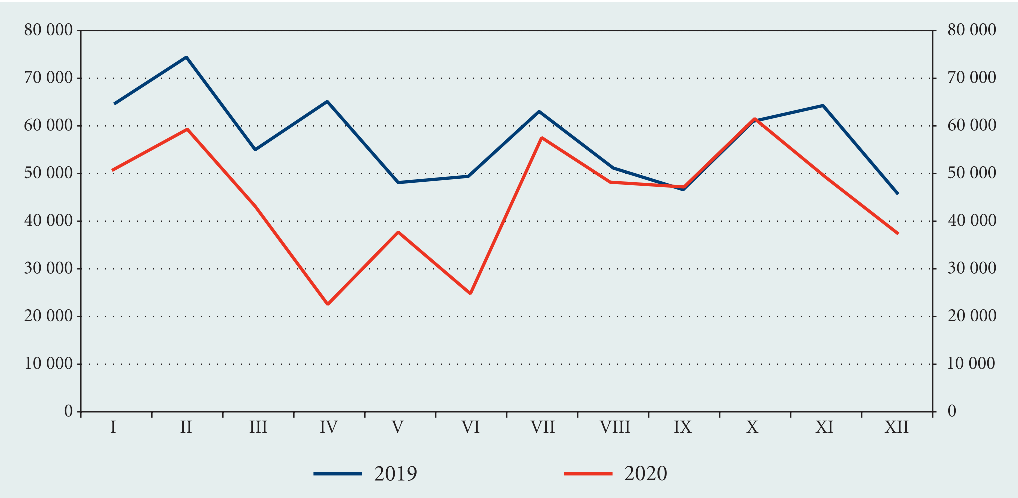
[128] Ordinance on Amendment of BNB Ordinance No 12 on the RBASDB, published in the Darjaven Vestnik, issue 100 of 2019.

cent of all searches for the year. In 2019, 678.4 thousand electronic searches were conducted or 98.5 per cent of all searches.

In 2020 bodies and institutions entitled to access under Article 56a, paragraph 3 of the LCI conducted searches on 535,540 individuals. The average monthly number of searches on individuals was 44,628. In 2019 the total number of searches was 685,645 and the average monthly number 57,137.

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

(number)



Source: the BNB.

BNB Ordinance No 12 on the RBASDB grants natural persons (including for probate purposes) and legal entities access to information on available bank and payment accounts and safe deposit box hires. In 2020, 2667 applications in paper form for RBASDB disclosures were filed: 2553 by individuals and 114 by legal entities. 2019 saw 2775 applications for RBASDB statements, of which 2636 by individuals and 139 by legal entities.

RBASDB Searches Based on Submitted Applications (Monthly)*

(number)

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

Source: the BNB.

The BNB provides RBASDB electronic services to natural persons holding a qualified certificate for electronic signatures issued by a certification service provider under the Electronic Document and Certification Services Law. Fees charged for electronic services account for 50 per cent of those submitted on paper. As of 31 December 2020, there were 172 electronic applications for RBASDB statements by individuals (135 electronic applications as of 31 December 2019).

The RBASDB continuously improves and develops using the best EU practices in creating and operating bank account registers. To boost data quality and reliability, incoming information is analysed and the RBASDB changed and improved. New functionalities and current changes and improvements are being introduced to the Register information system following amendments to the European Union law and national legislation.

XII. The Fiscal Agent and State Depository Function

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

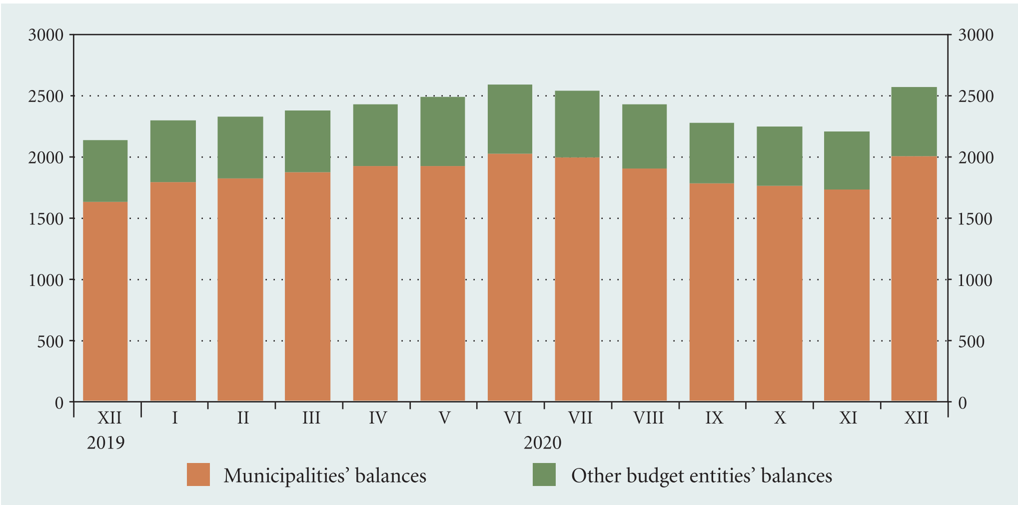
Revenue raised in 2020 from system participants under the Tariff of Fees and Commissions Charged on Processing Government Securities Transactions and from the MF under LBNB Article 43 was BGN 2238.6 thousand, from BGN 2121.6 thousand last year.

Information Service

Providing state budget information under the MF contract involved issuing 989 summarised standard statements on budget entity operations and balances at the BNB and Bulgarian banks *via* the IOBFR system. Summarised information sets the overall balance of budget entities' accounts (including municipalities) at BGN 10,601.0 million[129], up 3.5 per cent on 31 December 2019. At end-2020, BGN 8026.1 million or 75.7 per cent was in BNB accounts and the rest (BGN 2574.9 million) with 16 domestic banks.

Budget Entities' Accounts with Domestic Banks (BNB excluded)

(BGN million)



Source: the BNB.

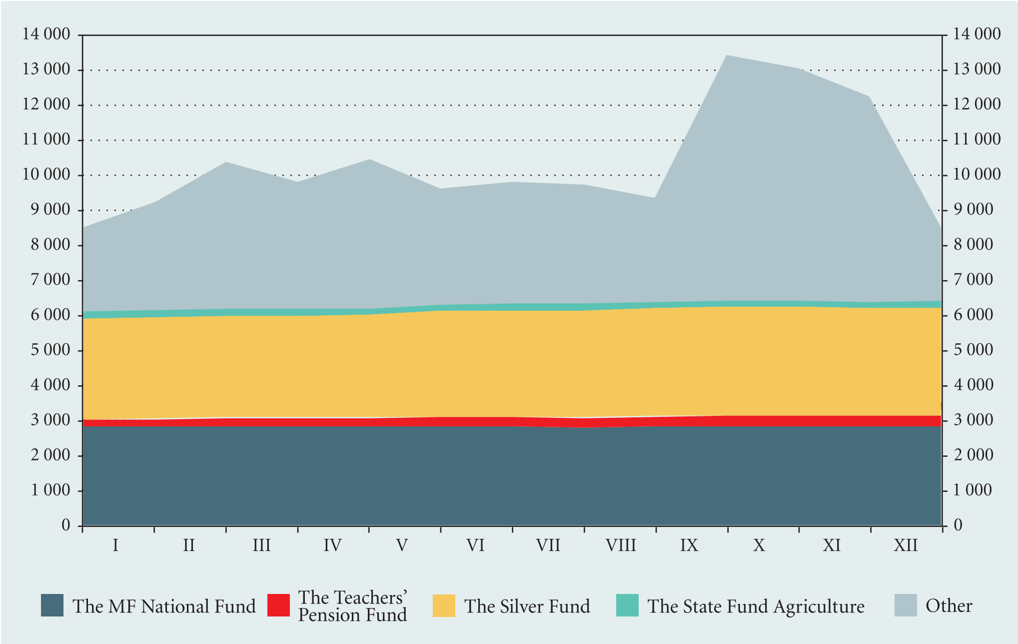
Budget entities' account balances outside the central bank rose by 20.3 per cent on end-2019, of which 73.1 per cent at five banks.

[129] Foreign currency account balances are recalculated in levs at the BNB exchange rate on 31 December 2020.

Approximately 80.2 per cent of total budget funds at the BNB and other domestic banks formed the fiscal reserve's[130] liquidity portion[131]: BGN 8506.9 million on 31 December 2020. Of this, BGN 6416.7 million was allocated to earmarked funds: the State Fund for Guaranteeing the Stability of the State Pension System (the Silver Fund), the MF National Fund, the State Fund Agriculture – Paying Agency, and the Teachers' Pension Fund.

Structure of Bank Account Balances within the Fiscal Reserve Scope

(BGN million)



Source: the BNB.

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

Servicing Government Securities Trading

The MF issuing policy in 2020 involved seven auctions for domestic government securities *via* the GSAS system. Two lev-denominated government securities issues were offered: a five-year medium-term issue at 0.01 per cent annual interest rate and a 10.5-year long-term issue at 0.5 per cent annual interest rate. The average weighted residual term to maturity of these issues was seven years and four months.

The total nominal value of domestic government securities offered for sale was BGN 1400 million. About 83 per cent of bids were by banks (BGN 2023.1 million) with BGN 416.4 million by non-bank institutions. Government bond sales volume was BGN 1200 million, or 85.7 per cent of scheduled volume[132]. Primary dealer

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

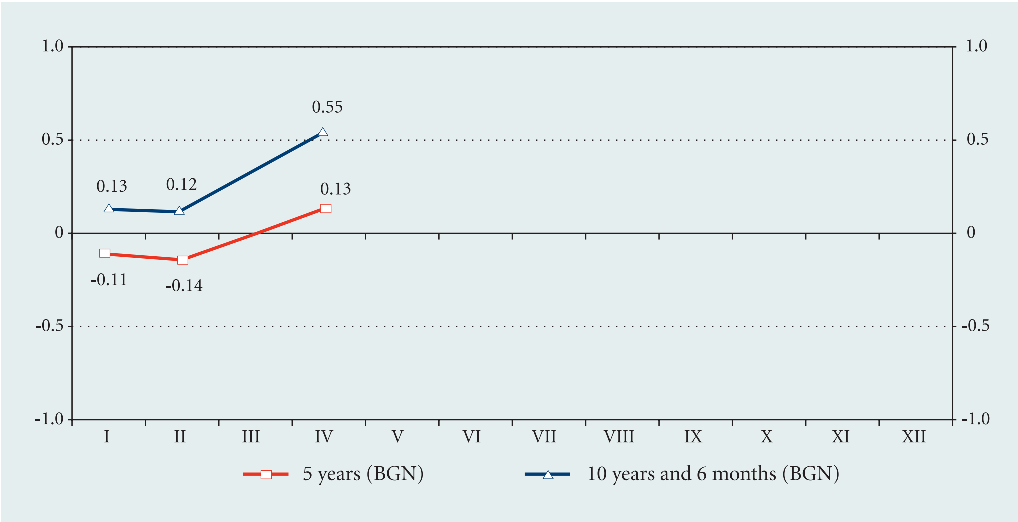
[131] Comprises the balances of all Bulgarian budget entities' bank accounts, excluding municipalities and their budget spending units.

[132] The MF rejected all bids at an auction conducted in April 2020.

banks[133] bought nearly 74 per cent of all sold bonds. Average annual yields of five-year and 10.5-year issues were -0.04 and 0.27 per cent, respectively.

Average Annual Yield Attained at Domestic Government Securities Auctions in 2020

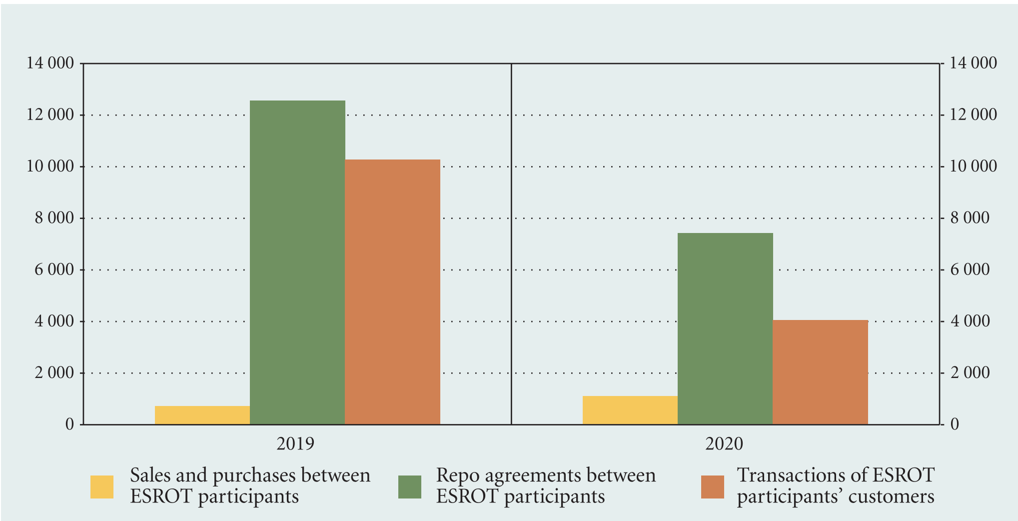
(per cent)



Source: the BNB.

Volume of Transactions in Tradable Government Securities

(BGN million)



Source: the BNB.

ESROT registered corporate event payments on behalf and for the account of the issuer to a total amount of BGN 1192.9 million, up BGN 76.4 million[134] (6.8 per cent) on the corresponding period of 2019. The 15 circulating MF issues had an overall nominal value of BGN 5643.6 million[135] or 3.0 per cent more than on 31 December 2020. Bond currency structure did not change, with BGN-denominated issues redeemable in levs with the largest share at 86.9 per cent, followed by EUR-denominated issues redeemable in euro at 13.1 per cent. The maturity structure underwent

[133] Nine primary dealers were selected under MF and BNB Ordinance No 15 as of 31 December 2020.

[134] The lev equivalence of payments on foreign currency denominated government securities issues is calculated at the BNB rate on the date of payment.

[135] The lev equivalence of government securities issues denominated in foreign currency is shown at the BNB rate for 31 December 2020.

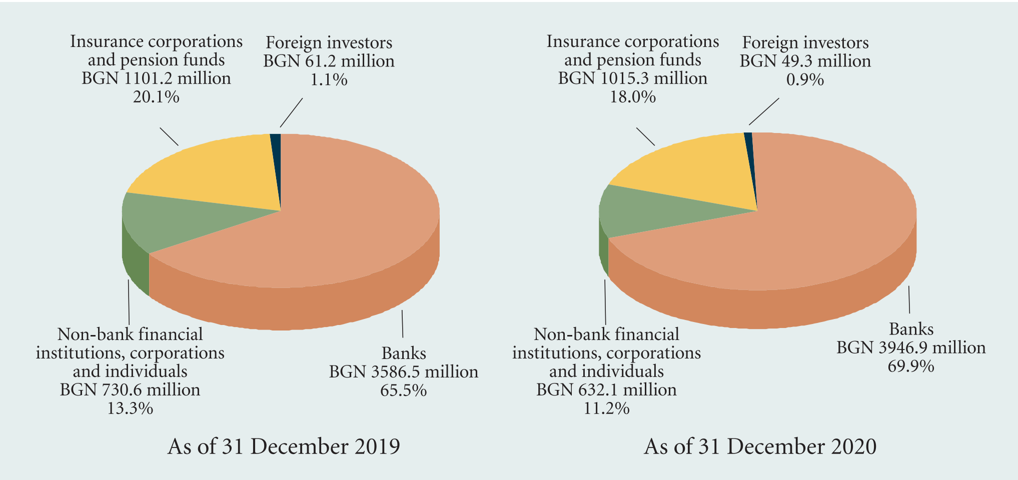
no changes from end-December 2019, medium and long-term bonds comprising 14.2 and 85.8 per cent.

Repos had the largest share at 59.9 per cent, including one day ones (39.8 per cent), mostly in lev-denominated government securities. Government securities sale and purchase transactions totalled BGN 970.3 million. Of this, transactions between ESROT participants came to BGN 320.0 million, those between participants and customers were BGN 3280.0 million. Transactions between ESROT participants' customers[136] amounted to BGN 709.8 million.

Reflecting government securities trade, secondary government bond market liquidity ratio[137] was 2.2 against 4.3 in the previous year. In 2020 ESROT participants encountered no problems and provided government bonds and cash in levs and euro for the delivery *versus* payment (DvP) settlement of government securities transactions, with the averaged settlement ratio[138] reaching 100 per cent.

Over the review period ESROT blocking and unblocking operations in domestic government securities related to securing funds in budget entities' bank accounts under the Law on Public Finance and the Law on Special Pledges totalled BGN 4961.3 million, from BGN 4498.0 million for 2019.

Holders of Government Securities Issued in the Domestic Market



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

Source: the BNB.

The end of 2020 saw a year-on-year increase in government securities investments in bank portfolios (by BGN 360.4 million) and a decline in those in the rest categories of holders, *i.e.* insurance corporations and pension funds (by BGN 85.9 million), non-bank financial institutions, corporations and individuals (by BGN 98.5 million) and foreign investors (by BGN 11.9 million). This changed the share of individual government bond holder categories as of 31 December 2020 to: 69.9 per cent with banks; 18.0 per cent with insurance corporations and pension funds, 11.2 per cent

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

[137] The liquidity ratio is the ratio between the volume of secondary market government bond transactions concluded over a year and the volume of circulating government securities by that year's end.

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

with non-bank financial institutions, corporations and individuals, and 0.9 per cent with foreign investors, from 65.5, 20.1, 13.3 and 1.1 per cent as of 31 December 2019.

Over the review period the ESROT offered 99.9 per cent availability[139] with no call for contingency rules for interaction between systems operated by the BNB.

On 31 December 2020 there were 585 accounts in the government securities settlement system under BNB Ordinance No 31 on Government Securities Settlement. Of them, 15 were for government securities of the issuer (the MF), 235 for participants' own government securities portfolios, 135 for encumbered bonds, and 200 for participants' customers. Account nominals tallied with the amount of outstanding issues at BGN 5643.6 million.[140]

Projects and System Development

Over the review period the Bank continued its work on coordinating the changes to the IOBFR system for budget and fiscal reserve information servicing related to the MF and BNB new instruction on the implementation of Article 152 of the Law on Public Finance to replace the current instruction DDS No 09 of 31 July 2015 on banks' periodic statements of budget entities' operations and funds and daily securing of funds in these accounts.

With regard to the 'Instruction on preparing and providing information for regulation and control over registration of secondary market transactions in government securities' approved by the Minister of Finance and the Governor of the BNB in the beginning of the year, government securities sub-depository banks provided the regular information. Therefore, no joint on-site inspection had to be carried out under Ordinance No 15 of the MF and BNB.

In line with the Principles for financial market infrastructures issued by the Committee for Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO), and with the Standards for Securities Clearing and Settlement Systems adopted by the ESCB, to ensure a fair, effective and transparent market of government securities, protect investors' interests and reduce to a minimum risks in registration and settlement of government securities:

- the work continued on preparing changes to the Government Securities Registration and Settlement System at the BNB, ensuing from the Project for the BNB and participants of the TARGET2-BNB national system component joining the consolidated platform of TARGET services, as well as from the requirements of Regulation (EU) No 909/2014 and settlement discipline regulatory technical standards;
- with regard to the ECB project for integration of European financial markets through developing harmonised processes for managing collateral, corporate actions and invoicing, a National Group for Bulgaria continued informing market participants about the requirements and timeline for the implementation of standards.

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

[140] The lev equivalence of government securities issues denominated in foreign currency is shown at the BNB rate for 31 December 2020.

XIII. Research

Economic research, Bulgarian economic development analyses, and macroeconomic forecasts prepared by BNB experts support the Bank management decisions and economic policy formulation. Specialised research under the 2019–2020 BNB Research Plan supported Bank operations by analysing specific economic processes and issues and improving available forecasting and modelling tools.

Honing the basic model for BNB macroeconometric forecasting continued in 2020 along with developing a risk management methodology for BNB's gross international reserves. The speed and magnitude of the economic shock arising from the spread of COVID-19 required changes to be made already in the first quarter of 2020 to the analytical toolkit for assessing economic developments in Bulgaria. In view of the rapidly changing pandemic and economic situation, econometric models were developed using a set of high-frequency data for a timely and constantly updated assessment of economic activity dynamics in Bulgaria available long before the publication of national accounts data for the corresponding period. The basic forecasting model was adapted to better take into account the specificities of propagation channels of the unprecedented economical shock and used for simulations to identify and assess potential economic effects in various options for pandemic development. Some of these simulation results were published in the BNB quarterly Economic Review research topics.

Since October 2020 the BNB has started to issue its quarterly medium-term macroeconomic forecast for Bulgaria in separate publication entitled 'Macroeconomic Forecast'. More frequent and timely publication of the BNB macroeconomic forecast contributed to the public awareness, improving the quality of public debate on a number of economic issues. In 2020 highlights entitled 'Dynamics of private consumption in Bulgaria between January and September 2020' were published in the Macroeconomic Forecast.

The BNB quarterly Economic Review provides information about Bulgaria's economic development, analyses of the balance of payments flow dynamics, monetary aggregates, their link with the development of the real economy, and their bearing on price stability. The Economic Review also analyses external developments directly affecting the Bulgarian economy. It carries quantitative assessments of anticipated short-term developments in a set of key macroeconomic indicators. The Review also carries the results of BNB analyses of particular economic issues as highlights and research topics. The year saw publication of highlights and research topics on the following items:

– analysis of the financial situation of firms and households in the 2008–2019 period;
– main transmission channels of the COVID-19 pandemic to economic activity in Bulgaria;
– impact of the COVID-19 crisis on public finances;
– monetary policy measures in the Euro Area and the United States related to the COVID-19 pandemic;
– main parameters of the 2021–2023 budgetary framework.

Research Plan implementation addressed macroeconomic effects of population decline and structural adjustments in the labour market in the long run, factors driving exports dynamics, and links between Bulgaria's wage and inflation dynamics.

Research results featured in technical reports and Bank seminars for experts from relevant bodies, academia, and non-governmental organisations.

In 2020 the BNB continued to encourage the research potential of Bulgarian economic science and practice in the area of macroeconomics and finance through its Discussion Papers research series. The BNB Publications Council reviewed four new submissions for publication in its Discussion Papers research series, of which two were subsequently published: *The Theory of Emission Economy: The Bolshevik Roots of the Modern Monetary Theory* by Nikolay Nenovsky and *The Effects of Austerity, Growth and Inflation Shocks on Government Debt: The Case of Bulgaria* by Martina Makarieva.

In 2020 the first edition of the new annual publication *Annual of the Bulgarian National Bank* saw light. The *Annual of the Bulgarian National Bank* is an electronic issue presenting double-blind peer-reviewed papers already published in the BNB topical publication Discussion Papers whose authors have agreed to be included in the *Annual*. The *Annual* publication is produced with a view to its inclusion into the National Reference List of Contemporary Bulgarian Scientific Publications with Scientific Review of the National Centre for Information and Documentation to the Ministry of Education and Science of the Republic of Bulgaria.

XIV. Human Resource Management

In 2020 main priorities in the field of human resource management related to ensuring and maintaining a safe work environment at the BNB by timely and implementing COVID-19 containment measures and providing reorganisation of the working processes required for the smooth fulfilment of the BNB objectives, functions and tasks in the context of a pandemic.

In order to achieve these priority objectives, the BNB set up a working group whose main task is to monitor and analyse the information from state institutions and media, as well as to propose measures and actions to the BNB Governor with a view to preventing and curbing the potential COVID-19 spread among Bank employees. Containment measures required for ensuring and maintaining a safe work environment were introduced at the BNB. In compliance with statutory requirements, applicable internal acts on health and safety at work were updated. Instructions were drafted and approved to promote safety at work under existing conditions and prevent the spread of COVID-19 among BNB employees. The risk assessment at the workplace was also updated. Over the review period, employees attended a number of work training courses in order to perform safely their duties during the COVID-19 pandemic.

In line with the implementation of the new legislation resulting from the amendments to the Labour Code introduced by the adopted Law on the Measures and Actions during the State of Emergency declared by the National Assembly on 13 March 2020, BNB's applicable internal acts were supplemented and updated. To comply with statutory requirements and recommendations of the health authorities to limit physical contact between people and to ensure the necessary distance, a timely organisation providing remote work opportunities was set up at the BNB, which led to a change in the overall working process. Employees working at the BNB buildings performed their current duties in strict compliance with the containment measures. To ensure business continuity, the BNB established groupings in teams, some of the employees working on-site, others performing their duties remotely. Acting as a responsible and caring employer, in 2020 the BNB continued its efforts to maintain an attractive working environment, creating adequate conditions to retain highly qualified professionals and attracting new strongly motivated employees, while pursuing a stimulating salary system.

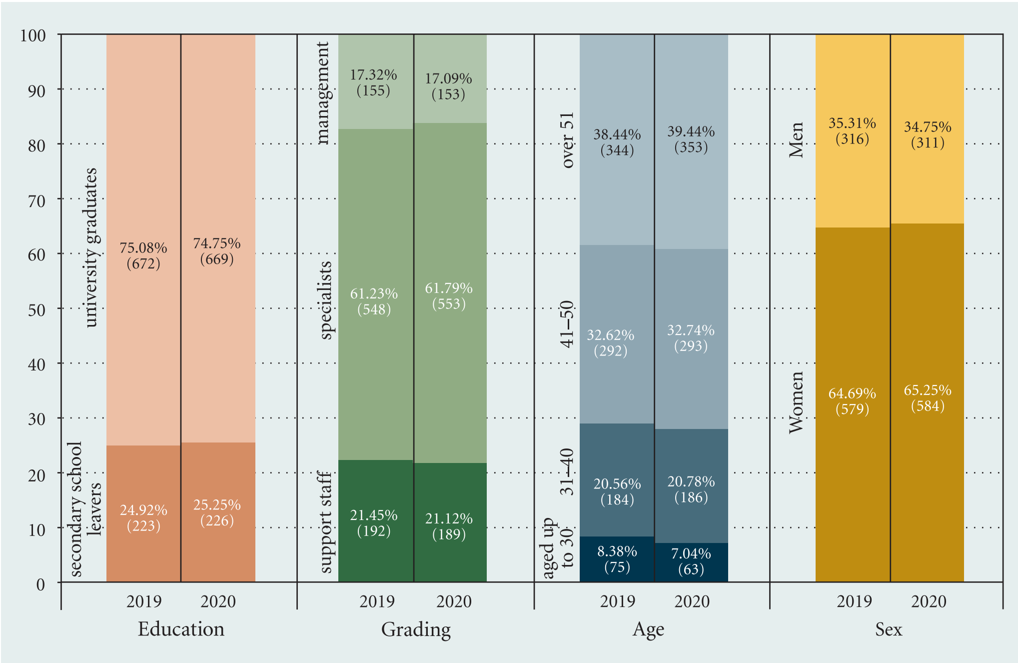
By the end of 2020 the number of employees did not change from end-2019 (895 employees). Forty-four employees left in 2020 against 61 in 2019. In the review period fifteen employees retired (22 a year earlier). As a result, staff turnover decreased by 1.9 percentage points from 2019 to 4.9 per cent. Forty-three new employees joined, against 72 in 2019. Three of them covered long-term absences, and four replacement employees were appointed to permanent positions.

The Bank advertised 28 vacancies (from 37 in 2019), attracting 700 applicants (over 800 in 2019). New employees were selected in the context of an emergency epidemic situation, and therefore, most of the written tests and interviews with candidates were undertaken remotely.

Staff educational attainments and qualifications remained broadly unchanged. University graduates led the staff educational structure at 75 per cent, as in the previous year. The number of employees with doctorates increased from 29 by end-2019 to 32 by 31 December 2020. The staff grading structure remained broadly unchanged, specialists having the largest share at 61.79 per cent, followed by support staff (21.12 per cent) and management (17.09 per cent). No significant changes occurred in the age structure compared to 2019. The shares of employees aged up to 30 fell by slightly above 1 percentage point from the previous year and that of 31 to 40 year and between 41 and 50 year olds rose slightly. Employees over 51 rose by 1 percentage point from 2019. The staff structure by sex remained almost unchanged from the previous year: women at some 65 per cent and men at 35 per cent.

Staff Structure as of 31 December of the Respective Year

(per cent, number)



Source: the BNB.

Employees' career development through internal mobility ensured an efficient experience exchange across business areas and knowledge and skill acquisition. Over the year 36 employees moved to other internal structural units or were redeployed to other positions. Three BNB employees worked on ECB short-term assignments.

The BNB continued its remuneration policy, which relates wages to performance. Given the COVID-19 spread, determination of remuneration took into account changes in work organisation and performance of professional duties along with each employee's individual contribution to Bank objectives and tasks.

Containment measures had an essential effect on staff training and qualification activities, causing in the beginning of the pandemic an interruption of the attendance and participation in various training forms, so far held almost entirely on-site. Training organisers began gradually offering on-line courses and seminars which enabled BNB employees to resume participation. Most internal bank training courses were carried out on-line concerning issues, such as upgrades of technological systems, information and cybersecurity training, protection and measures against money laundering. Bank employees had the opportunity to take part in specialised courses and seminars in Bulgaria and abroad in both on-site and on-line format. Training courses and seminars focused on law and procurement, accounting and internal audit, human resource management and information security.

Due to the emergence and spread of COVID-19, training organisers abroad stopped offering on-site courses and seminars, with part of previously planned arrangements submitted in an on-line format. Light registration procedures, removed restrictions on the number of participants and the possibility of participating from a secure and comfortable site led to stronger interest in international training. International courses and seminars in which BNB employees took part focused mainly on banking supervision, financial stability, prudential regulations and resolution of credit institutions.

On-line English courses in the autumn of 2020 were attended by 42 employees. Interest in distance learning and certification programmes was sustained, with five employees participating in financial analysis and internal audit programmes. Additional opportunities were created for staff to maintain its professional qualifications acquired through successful participation in certification programmes, maintained membership in certifying organisations, extended certificate validity, participation in discussions and access to specialised scientific materials. Over the year, 15 employees, of whom three reading for doctors', seven for masters', and five for bachelors' degrees, boosted their educational attainments without discontinuing work. Information systems training focused on presenting innovations in network and communication technologies, along with information technical maintenance in personal data protection.

With students, the BNB continued providing career opportunities and encouraging knowledge acquisition and research. In 2020 the Bank took part in three career student and young professional fora. During the on-line events, BNB career development programmes were presented: working and recruitment conditions, scholarship contests, internship opportunities offered by the Bank and guest researcher financing programme. Twenty-three applicants enquired into the annual postgraduate scholarship programme: seven for doctors' and 16 for masters' degrees. Following an open competition, the Bank awarded one doctor's and three master's degree scholarships. Due to the need to take action on introducing anti-epidemic measures and protecting the safety of employees and visitors, the BNB traineeships programme for 2020 began later than usual, with a distance learning provided to a trainee.

XV. BNB Internal Audit

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

In 2020 there were ten audits: six under the annual Internal Audit Directorate Programme approved by the BNB Governing Council, three under the ESCB Internal Auditors Committee Programme and one ad-hoc audit assignment in connection with the implementation of Article 35, paragraph 1, item 1 of the Ordinance on the Minimum Requirements for Network and Information Security to the Cybersecurity Law.

Audits sought objective assurance of risk management, control and management of inherent risks to provide:

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

Audits under Annual Internal Audit Directorate Programme

BNB Functions	Audits
Supervision and financial stability	Comprehensive review of adequacy and efficiency of the activity carried out by the Off-site Supervision Directorate
Communications: activities related to organisation of summits and events	Protocol and external communication
Tracking performance	Follow-up on recommendations from past audits under Internal Audit Directorate Programme
Financial accounting and financial statements	BNB Consolidated Financial Statements as of 30 June 2020
Bank services to government and public organisations	Fiscal services. Government agent
Banknotes and coins	Banknote and coin distribution

Source: the BNB.

Ad-hoc Audit Assignment in Connection with the Implementation of Article 35, Paragraph 1, Item 1 of the Ordinance on the Minimum Requirements for Network and Information Security to the Cybersecurity Law

BNB Functions	Audits
Information and communication technologies	Verification of the compliance with the requirements of statutory regulations and adopted cybersecurity standards

Source: the BNB.

Audits under the ESCB Annual Internal Auditors Committee Programme

BNB Functions	Audits
Tracking performance	Follow-up on recommendations from past audits under the ESCB Annual Internal Auditors Committee Programme
Internal Audit	Quality assessment of BNB Internal Audit activities
Information and communication technologies	IT service functioning and management

Source: the BNB.

XVI. BNB 2020 Budget Implementation

The Governing Council adopted the BNB budget by Resolution No 392 of 29 November 2019. This report on the Bank's budget comprises two sections pursuant to the adopted by it Internal Rules on Drafting, Implementing, and Reporting the BNB Budget: BNB Operating Expenditure and Investment Programme. The Bank adheres to environmental protection requirements.

Operating Expenditure

In 2020 the BNB spent BGN 102,893 thousand or 86.9 per cent of budget.

Currency circulation cost BGN 33,294 thousand or 95.6 per cent of budget and 32.4 per cent of Bank operating expenditure. New banknotes cost BGN 15,682 thousand and minting BGN 16,973 thousand, of which BGN 14,815 thousand on circulating coins. The BNB Governing Council 2020 Commemorative Coin Programme cost BGN 2158 thousand. New banknote and coin design cost BGN 37 thousand. This included four 2021 commemorative coin design competitions. Expenditure on spare parts and repair of machines for servicing circulating banknotes and coins was BGN 70 thousand and on cash processing consumables BGN 106 thousand. Premise rentals for Bank issue and cash operations cost BGN 425 thousand.

Materials, services, and depreciation cost BGN 29,405 thousand: 74.9 per cent of budget and 28.3 per cent of operating expenditure.

Materials expenditure was BGN 1803 thousand: 81.7 per cent of approved annual budget and 1.8 per cent of all operating expenditure. Inventory costs (BGN 1092 thousand) and hygiene materials (BGN 280 thousand) occupied the largest share in this group. The Bank spent BGN 199 thousand on office consumables.

External services cost BGN 17,305 thousand or 74.5 per cent of budget and 16.8 per cent of Bank operating expenditure. Software maintenance subscriptions at BGN 4185 thousand, Bloomberg, Reuters, and other systems at BGN 1213 thousand, mandatory TARGET2 modules at BGN 1153 thousand and Borica AD subscriptions at BGN 587 thousand held a significant share in this group. Equipment maintenance subscriptions cost BGN 1829 thousand. Property and refuse collection levies cost BGN 1427 thousand. Mail, telephone and fax cost BGN 718 thousand. Electric bills were BGN 808 thousand and heating and water cost BGN 227 thousand. Property insurance expenses were BGN 102 thousand. Security and fire protection cost BGN 2892 thousand. Major building maintenance cost BGN 763 thousand for the reporting period. Judicial protection and other legal services cost BGN 268 thousand and health and safety at work and special clothing BGN 293 thousand. Consultancy services cost BGN 304 thousand, including costs for analysis of the currency reserve management system by Wall Street Systems Sweden A.B. and technical evaluation in the context of BNB joining the consolidated platform of TARGET services, and for migration of all business flows from FastWork to Alliance Access.

Depreciation cost BGN 10,297 thousand or 74.5 per cent of annual budget and 10.0 per cent of operating expenditure.

Payroll, including social and healthcare, cost BGN 35,700 thousand or 99.2 per cent of approved budget and 34.7 per cent of Bank's total operating expenditure. The BNB reported BGN 1813 thousand of current retirement obligations and unused paid leave under IAS 19 Employee Benefits.

Social expenditure was BGN 2193 thousand: 92.8 per cent of budget and 2.1 per cent of Bank's operating expenditure.

Miscellaneous administrative expenditure was BGN 436 thousand: 16.4 per cent of budgeted funds and 0.4 per cent of total operating expenditure. Inland travel worth BGN 32 thousand involved mainly regional cash centre logistics and checks. Foreign travel unrelated to BNB participation in the ESCB and other EU bodies cost BGN 25 thousand. The annual BNB Staff Education and Professional Training Programme cost BGN 261 thousand. Employees took part in professional courses and seminars held in Bulgaria and abroad by EU central banks and international financial institutions which after the first quarter were carried out in an on-line format. They participated in distant learning, and foreign language courses.

The BNB spent BGN 1865 thousand: 56.9 per cent of budget and 1.8 per cent of operating expenditure. The annual European Banking Authority membership fee was BGN 1562 thousand. BNB representatives sat on ESCB committees and working groups and other EU bodies, travel costing BGN 75 thousand and training BGN 150 thousand. The annual contribution of the Centralised Securities Database was BGN 135 thousand.

The BNB Investment Programme

Expenditure on the Bank's investment programme in 2020 was BGN 23,351 thousand or 60.0 per cent of annual budget.

New construction, refurbishment and modernisation cost BGN 11,154 thousand: 85.1 per cent of budget and 47.8 per cent of investment programme.

Funds spent on the Plovdiv cash and information centre investment project amount to BGN 11,154 thousand, including: BGN 10,113 thousand on construction; BGN 484 thousand on delivery and installation of vault doors, special reinforcement and protective equipment; BGN 332 thousand on delivery and installation of armoured protection and glazing; BGN 91 thousand on consideration and approval of a detailed design; BGN 66 thousand on consultancy within the meaning of Article 166 of the Law on Spatial Planning; BGN 53 thousand on author's supervision over investment design of general purpose sites; BGN 15 thousand on construction of external connections to the water supply and sewerage network.

Machine and equipment, vehicle, and other equipment investment cost BGN 3507 thousand: 46.8 per cent of budget and 15.0 per cent of investment programme expenditure.

Cash operations equipment cost BGN 1156 thousand and Printing Centre equipment BGN 265 thousand. Security systems upgrades amounted to BGN 70 thousand. The BNB spent BGN 53 thousand on purchasing other equipment, including: BGN 30 thousand on office equipment and BGN 23 thousand on holiday centre equipment. The BNB Transport Development Programme for 2018–2020 cost BGN 470 thousand on four new vehicles with specialised police equipment for escort of specialised transport of valuables and freight.

Information system development cost BGN 8681 thousand: 47.5 per cent of budget and 37.2 per cent of investment programme.

Software expenditure was BGN 3857 thousand, including BGN 264 thousand for licence purchases and BGN 3593 thousand for upgrades.

Hardware cost BGN 4824 thousand, mainly for updating and expanding existing computer and communications equipment.

Investment spending on ESCB membership was BGN 9 thousand for purchasing licences for DARWIN, the ESCB system for document storing and exchange.

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

The incomplete use of funds under the investment program results from the state of emergency due to the spread of COVID-19, thus delaying the completion of Plovdiv Cash Centre construction. Therefore, funds allocated for the acquisition of machines and equipment intended for Plovdiv Cash Centre were re-programmed for 2021.

BNB Budget Implementation as of 31 December 2020

Indicator	Report 31 December 2020 (BGN thousand)	Budget 2020 (BGN thousand)	Implementation (per cent)
Section I. Operating expenditure	**102,893**	**118,375**	**86.9**
Currency circulation expenditure	33,294	34,837	95.6
Materials, services, and depreciation expenditure	29,405	39,263	74.9
Staff expenditure	35,700	35,973	99.2
Social expenditure	2,193	2,364	92.8
Other administrative expenditure	436	2,663	16.4
BNB expenditure on ESCB membership	1,865	3,275	56.9
Section II. Investment programme	**23,351**	**38,889**	**60.0**
Expenditure on construction, refurbishment, and modernisation	11,154	13,105	85.1
Machines, equipment, vehicles, and other equipment	3,507	7,488	46.8
Expenditure on BNB computerisation	8,681	18,287	47.5
Investment related to ESCB membership	9	9	100.0

Source: the BNB.

XVII. BNB Consolidated Financial Statements for the Year Ended 31 December 2020

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Independent auditor's report

To the Governing Council of
The Bulgarian National Bank

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Bulgarian National Bank and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Bulgarian National Bank and its subsidiaries as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Basis for Opinion

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

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

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

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

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

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

We have nothing to report in this regard.

Responsibilities of Management for the Consolidated Financial Statements

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

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

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

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

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

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

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

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Report on Other Legal and Regulatory Requirements

Additional Matters to be Reported under the Accountancy Act

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

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

Based on the procedures performed, our opinion is that:

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

Audit Firm Ernst & Young Audit OOD:

Nikolay Garnev	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

27 April 2021

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

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

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

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

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

Dimitar Radev
Governor of the Bulgarian National Bank

Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2020

(BGN'000)

	Note	2020	2019
Interest income	7	254,840	259,637
Interest expense	7	(87,600)	(74,527)
Net interest income		**167,240**	**185,110**
Fee and commission income		8,393	8,354
Fee and commission expense		(5,033)	(4,797)
Net fee and commission income		**3,360**	**3,557**
Net (losses)/gains from financial assets and liabilities reported at fair value in the profit or loss or measured at amortised cost	8	205,555	380,529
incl. provisions for expected credit losses		-	*(5,961)*
Other operating income	9	47,249	48,951
Total income from banking operations		**423,404**	**618,147**
Administrative expenses	10	(127,713)	(128,032)
Profit/(loss) for the period		**295,691**	**490,115**
Other comprehensive income			
Other comprehensive income that can be reclassified into profit or loss at a future point in time		-	-
Other comprehensive income that cannot be reclassified into profit or loss at a future point in time		*31,036*	*2,019*
Other comprehensive income, total		**31,036**	**2,019**
Total comprehensive income for the period		**326,727**	**492,134**
Profit attributable to:			
Equity holder of the Bank		296,900	489,787
Non-controlling interest		(1,209)	328
Profit/(loss) for the period		**295,691**	**490,115**
Total comprehensive income attributable to:			
Equity holder of the Bank		327,936	491,806
Non-controlling interest		(1,209)	328
Total comprehensive income for the period		**326,727**	**492,134**

The accompanying notes on pages 135 to 171 form an integral part of the Consolidated Financial Statements.

Consolidated Statement of Financial Position for the Year Ended 31 December 2020

(BGN'000)

	Note	2020	2019
ASSETS			
Cash and deposits in foreign currency	11	33,559,145	14,546,049
Gold, instruments in gold, and other precious metals	12	4,003,321	3,535,690
Financial assets at fair value through profit or loss	13	22,599,646	30,333,703
Financial assets at fair value in other comprehensive income	14	2,116,084	2,215,901
Tangible assets	15	163,824	150,771
Intangible assets	16	8,783	6,229
Other assets	17	88,884	92,847
Total assets		**62,539,687**	**50,881,190**
LIABILITIES			
Banknotes and coins in circulation	18	21,241,038	19,104,920
Liabilities to banks and other financial institutions	19	23,518,532	14,462,625
Liabilities to government institutions and other borrowings	20	8,646,875	8,853,715
Borrowings against Bulgaria's participation in international financial institutions	21	3,235,232	3,394,229
Other liabilities	22	771,674	265,627
Total liabilities		**57,413,351**	**46,081,116**
EQUITY			
Capital	23	20,000	20,000
Reserves	23	5,102,244	4,774,773
Non-controlling interest	24	4,092	5,301
Total equity		**5,126,336**	**4,800,074**
Total liabilities and equity		**62,539,687**	**50,881,190**

The accompanying notes on pages 135 to 171 form an integral part of the Consolidated Financial Statements.

Consolidated Statement of Cash Flows for the Year Ended 31 December 2020

(BGN'000)

	Note	2020	2019
OPERATING ACTIVITIES			
Net profit		295,691	490,115
Adjustments			
Dividend income	9	(12,346)	(4,701)
Depreciation	15, 16	13,930	13,970
(Profit)/loss on disposal of tangible assets		153	(2)
(Profit) on financial assets and liabilities arising from market movements		(422,766)	(623,043)
(Profit)/loss of associates		170	(4,063)
Other adjustments		(4,171)	6,014
Net cash flow from operating activities before changes in operating assets and liabilities		**(129,339)**	**(121,710)**
Change in operating assets			
(Increase) in gold, instruments in gold and other precious metals		(31,005)	(4,209)
(Increase)/decrease in financial assets at fair value through profit or loss		7,695,584	(4,226,730)
(Increase) in other assets		(3,028)	(2,249)
Change in operating liabilities			
Increase in banknotes and coins in circulation		2,136,118	1,779,445
Increase/(decrease) in due to banks and other financial institutions		9,055,907	(804,589)
(Decrease) in due to government institutions and other liabilities		(206,840)	(1,865,712)
Increase/(decrease) in other liabilities		506,047	(28,805)
Net cash inflow/(net cash outflow) from operating activities		**19,023,444**	**(5,274,559)**
INVESTMENT ACTIVITIES			
Acquisition of tangible and intangible assets		(29,685)	(11,614)
Dividends received		12,346	4,701
(Net cash outflow) from investing activities		**(17,339)**	**(6,913)**
FINANCING ACTIVITIES			
Payments to the state budget		-	-
Net cash inflow/(net cash outflow) used in financing activities		-	-
Net increase/(net decrease) in cash and cash equivalents		**19,006,105**	**(5,281,472)**
Cash and cash equivalents at beginning of period		**14,600,189**	**19,881,661**
Cash and cash equivalents at the end of period	11, 17	**33,606,294**	**14,600,189**
Cash flows from interest and dividends			
Interest received		251,320	240,465
Interest paid		(81,999)	(73,415)

The accompanying notes on pages 135 to 171 form an integral part of the Consolidated Financial Statements.

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2020

(BGN'000)

	Capital	Revaluation of non-monetary assets	Special and other reserves	Total capital and reserves	Non-controlling interest	Total equity
Balance as at 1 January 2019	**20,000**	**135,282**	**4,147,787**	**4,303,069**	**4,973**	**4,308,042**
Profit for the period	-	-	489,787	489,787	328	**490,115**
Other comprehensive income:						
other income	-	(95)	2,114	2,019	-	**2,019**
Other comprehensive income, total	-	(95)	2,114	2,019	-	**2,019**
Total comprehensive income for the period	-	(95)	491,901	491,806	328	**492,134**
Contributions by and distributions to owners:						
contribution to the budget of the Republic of Bulgaria	-	-	-	-	-	-
dividend paid by subsidiaries to minority shareholders	-	-	(102)	(102)	-	**(102)**
Transactions with owners, total	-	-	(102)	(102)	-	**(102)**
Balance as at 31 December 2019	**20,000**	**135,187**	**4,639,586**	**4,794,773**	**5,301**	**4,800,074**
Balance as at 1 January 2020	**20,000**	**135,187**	**4,639,586**	**4,794,773**	**5,301**	**4,800,074**
(Loss)/profit for the period	-	-	296,900	296,900	(1,209)	**295,691**
Other comprehensive income:						
other income	-	5,134	25,902	31,036	-	**31,036**
Other comprehensive income, total	-	5,134	25,902	31,036	-	**31,036**
Total comprehensive income for the period	-	5,134	322,802	327,936	(1,209)	**326,727**
Contributions by and distributions to owners:						
contribution to the budget of the Republic of Bulgaria	-	-	-	-	-	-
dividend paid by subsidiaries to minority shareholders	-	-	(465)	(465)	-	**(465)**
Transactions with owners, total	-	-	(465)	(465)	-	**(465)**
Balance as at 31 December 2020	**20,000**	**140,321**	**4,961,923**	**5,122,244**	**4,092**	**5,126,336**

The accompanying notes on pages 135 to 171 form an integral part of the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

1. Statute and Principal Activities

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

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

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

With effect from the date on which the ECB decision[141] on establishing close cooperation becomes applicable, *i.e.* 27 July 2020, the Banks Resolution Fund (BRF) is managed by the BNB. The decisions on the BRF management are taken by the BNB Governing Council.

The Governing Council of the BNB approved the consolidated financial statements, set out on pages 125 to 171, on 27 April 2021.

2. Applicable Standards

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

3. Basis of Preparation

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

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

[141] 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 Българска народна банка (Bulgarian National Bank) (ECB/2020/30) within the meaning of Article 2, item 1 of Council Regulation (EU) No 1024/2013.

Use of estimates and judgements

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

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

Judgements

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

Assumptions and estimation uncertainties

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

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

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

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

Determination of expected credit losses on deposit receivables

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

Loss on non-performance is a judgement for damages that the Bank would suffer in the event of default. It is based on the difference between the contractual cash flows and the cash flows that the Bank expects to receive. Significant judgement is needed in determining the time and amount of expected cash flows. The management uses judgements based on historical experience of losses on assets with an inherent credit risk and on objective circumstances of impairment similar to those in the portfolio in calculating future cash flows.

In determining the amount of expected credit losses, the Bank uses forward-looking information on expected future changes in certain economic conditions and indicators, as well as assumptions about how changes in these indicators would affect the probability of default.

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

Fair value of financial instruments

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

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

New and amended standards and clarifications as of 1 January 2020

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

IFRS 3 Business Combinations (Amendments): Definition of a Business

The amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. These amendments which were issued on 22 October 2018 and adopted by the EU on 21 April 2020, are published in the Official Journal of the EU on 22 April 2020. These amendments clarify the minimum requirements for a business and narrow the definition of a business. They also remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive and introduce an optional fair value concentration test. Adoption of these amendments has not impacted the financial position or performance of the Bank.

Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'Material'

The amendments adopted by the EU on 29 November 2019 and published in the Official Journal of the EU on 10 December 2019 are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. The amendments also clarify that materiality will depend on the nature or magnitude of information. After analysing the impact of these amendments, the Bank came to a conclusion that they have no material effect on its financial position or performance.

The Conceptual Framework for Financial Reporting

IASB published the revised Conceptual Framework for Financial Reporting on 29 March 2018, which is effective for annual periods beginning on or after 1 January 2020. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for developing consistent accounting policies and understanding and interpreting the standards. The mains amendments introduced in the revised Conceptual Framework for financial reporting are related to measurement, including factors, which should be considered when choosing measurement basis, and to presentation and disclosure conception, including income and expenses which should be classified in 'other comprehensive income'. The Conceptual Framework also provides updated definition of asset and liability and criteria for their recognition in the financial statements. The conceptual framework for financial reporting was adopted by the EU on 29 November 2019 and published in the Official Journal of the EU on 6 December 2019. Adoption of these amendments has no material impact on the financial position or performance of the Bank.

Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7

The amendments are effective for annual periods beginning on or after 1 January 2020 and retroactive application is required. Earlier application permitted. In September 2019, the IASB issued Amendments to IFRS 9, IAS 39 and IFRS 7, thus completing phase 1 to address the effects of the interest rate benchmark reform on financial reporting. Phase 2 will focus on issues which might arise when the interest rate would be replaced by an alternative risk-free rate. These amendments solve problems that arise in the course of replacing the existing interest rate benchmark with an alternative interest rate. Effects on specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement which require future-oriented analysis are taken into account. The amendments provide temporary relief from applying specific hedge accounting requirements directly affected by interest rate benchmark reform. The amendments allow hedge accounting to continue in the uncertainty period until the replacement of existing benchmarks with alternative risk-free rates. Changes have been made to IFRS 7 Financial Instruments: Disclosure according to which additional information about the uncertainties in hedging arising from the reform is required. These amendments were adopted by the EU on 15 January 2020 and published in the Official Journal of the EU on 16 January 2020. After analysing and assessing the amendments, the Bank considers that they have no material effect on its financial position or performance.

Adoption of these new standards and clarifications and amendments to the existing standards did not result in changes in the BNB accounting policy. The effect of IFRS 9 Financial Instruments is disclosed in note 5(m) and 5(n).

4. Basis of Consolidation

Subsidiaries

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

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

Associates

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

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

Transactions eliminated on consolidation

All receivables and payables, income and expenses, as well as intragroup profits, resulting from intercompany transactions within the group, are eliminated, except where these are immaterial.

5. Significant Accounting Policies

a) Income recognition

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

b) **Recognition of assets and liabilities**

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

International Financial Reporting Standards do not require presentation of assets in a specified balance sheet format and may be designated as underlying assets (tangible fixed assets, intangible fixed assets, inventories, investment property, asset acquisition loans, and impairment of assets) and assets that are classified as financial instruments.

c) **Financial instruments**

The Bank may recognise a financial asset or liability in its balance sheet only in case where it becomes a party to the contractual terms of the financial instruments used. The Bank derecognises a financial asset from its balance sheet:

- when it loses control over the contractual rights to the financial asset;
- when the obligation stated in the contract is repaid or cancelled or expired.

i) Classification

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

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

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

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

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

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

ii) Recognition

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

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

iii) Amortised cost measurement

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

iv) Fair value measurement and disclosure principles

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

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

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

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

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

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

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

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

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

v) Derecognition

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

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

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

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

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

vi) Offsetting

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

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

vii) Impairment of assets

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

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

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

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

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

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

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

d) Gold and other precious metals

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

Monetary gold

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

e) Equity investments

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

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

f) Property, plant, equipment and intangible assets

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

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

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

i) Subsequent costs

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

ii) Depreciation and amortisation

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

(per cent)

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

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

iii) Recoverable amount of assets

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

iv) Reversals of impairment

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

v) Derecognition and sales

An item of property, plant or equipment is derecognised from the Bank's balance sheet at the time of its sale or when the asset is definitively disposed of and no other economic benefits are expected. Gains or losses arising from derecognition or disposal of tangible fixed assets are determined as the difference between the sale proceeds and the carrying amount of the asset and are recognised as income or expense in the statement of comprehensive income. Tangible fixed assets withdrawn from active use and held for sale are reported at their carrying amount at the date when the asset is retired from active use.

vi) Inventories

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

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

At the end of the reporting period, the net realisable value of inventories is valued, and if it is lower than the supply, the difference is related to current expenses. For each subsequent reporting period, a new estimate of net realisable value is made. If during the relevant reporting period, there are conditions for an increase in the value of the inventory, its recovery is up to the amount that it had before the decrease. This reversal of the book value is accounted for as an increase in inventories and as other current income.

g) Foreign exchange

Gains and losses arising in foreign currencies are translated to BGN at the official rates of exchange on the transaction date. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the official exchange rate of the Bank on that day. Foreign currency gains and losses resulting from the revaluation of monetary assets and liabilities are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currency are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Outstanding forward contracts in foreign currency are marked to market. The gains and losses on revaluation of outstanding forward contacts are recognised in profit or loss.

The exchange rates of the major foreign currencies as of 31 December 2020 and 31 December 2019 are as follows:

Currency	31 December 2020	31 December 2019
US dollar	1: BGN 1.59386	1: BGN 1.74099
Euro	1: BGN 1.95583	1: BGN 1.95583
Special drawing rights	1: BGN 2.29559	1: BGN 2.40749
Gold	1 troy ounce: 3011.82	1 troy ounce: 2656.13

h) Taxation

The Bank is not subject to income tax from its core activities. Income tax from subsidiaries for the period comprises current tax and deferred tax. Current tax comprises tax payable calculated on the basis of the expected taxable income for the period, using the effective tax rate or the current one at the reporting date. Deferred tax is derived using the balance sheet liability method on all temporary differences between the amounts used for taxation purposes and the carrying amounts of assets and liabilities.

The deferred tax is calculated using tax rates which are expected to be applied for the period of asset realisation or liability settlement. The effect of changes in the tax rates on the deferred tax is recorded in the statement of comprehensive income up to the amount already charged or reported directly as other comprehensive income.

A deferred tax asset is recognised to the extent that is probable that future taxable profits will be available against which the unused tax losses or tax credit can be utilised. The deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

i) Provisions

Provisions related to ongoing legal cases or other obligations are reported when the Bank has assumed a legal or constructive obligation as a result of some past events, the repayment of which is likely to be associated with lost economic benefits. Provisions are charged only when the Bank is able to reliably determine the size of future outgoing cash flows.

j) Profit distribution policy of the Bank

The Bank's policy of distribution of profit from banking operations is defined in the Law on the BNB. Internal rules for preparation of financial statements and accounting policies were adopted upon a resolution of the Governing Council effective from 1 January 2007, which are in compliance with Article 36, paragraphs 1 and 2 of the Law on the BNB. According to these rules, the Bank allocates to special reserves unrealised net gains and losses arising from revaluation of assets and liabilities denominated in foreign currency or gold. According to the requirements of Article 8, paragraph 2 of the Law on the BNB, the Bank sets aside 25 per cent of the excess of its annual revenue over its annual expenditure into a Reserve Fund. According to Article 8, paragraph 3 of the Law on the BNB, after the allocation to the Reserve Fund, the Bank may allocate reserves to cover market risk losses and other reserves upon a resolution of the Governing Council. Subsequent to the allocation of reserves as required by the Law on the BNB, the Bank stipulates the remainder to be paid into the State Budget. The distribution of excess of revenue over expenditure is set out in note 23.

k) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash in hand, current accounts and time deposits with maturities of less than three months.

l) Employee benefits

The Bank has the obligation to pay certain amounts to each employee who retires in accordance with the requirements of Article 222, § 3 of the Labour Code in Bulgaria. According to these Labour Code requirements, on termination of the employment contract of an employee who has become entitled to retirement, the employer is obliged to pay him/her compensation amounting to twice his/her gross monthly salary. If, at the date of retirement, the employee has been employed by the Bank for ten or more years, the amount of the compensation is six gross monthly salaries. As at the date of the statement of financial position, the Bank's management estimates the approximate amount of the potential expenditures for all employees based on an actuarial report using the projected unit credit method. The estimated amount of the obligation and the main assumptions, on the base of which the estimation of the obligation has been made, are disclosed to the Financial Statements in note 10.

Termination benefits

Termination benefits are recognised as an expense when the Bank is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Bank has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under a short-term cash bonus or profit-sharing plans if the Bank has a present constructive obligation to pay this amount as a result of past services provided by the employee, and the obligation can be estimated reliably. The Bank recognises as a liability the undiscounted amount of the estimated costs related to annual leave expected to be paid in exchange for the employee's service for the period completed.

m) IFRS 9 Financial Instruments

The approach introduced by IFRS 9 regarding the financial assets classification is based on the combination of the contractual cash flow characteristics and the business model within which the asset is managed, determined the model used by the Bank where all covered by the IFRS 9 assets are recognised by using amortised cost or fair value, depending on the business model and the characteristics of their cash flows. Initially, the Bank recognised financial assets and liabilities at the acquisition price, which is the fair price paid at acquisition. For the purposes of subsequent measuring of financial assets the BNB uses the following business models:

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

The evaluation whether cash flows of debt instruments consist only of the principal and interest is based on the facts and circumstances of the initial recognition of assets.

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

The Bank reports the expected credit losses on financial assets at amortised cost, calculated on the basis of the methodology adopted by the BNB Governing Council.

n) **IFRS 16 Leases**

The Bank's application of IFRS 16 after 1 January 2019 had no impact on the Bank's financial position or performance for 2019. The Bank has adopted IFRS 16 under the modified retrospective method.

For new contracts after 1 January 2020 the Bank by assesses whether a specific contract is a lease or contains lease components.

The Bank applies the practical relief as provided for by the standard and has elected to account for short-term leases of plant and equipment (leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option) and applies the lease of low-value assets recognition exemption to leases of office furniture that is considered to be of low value. Lease payments for short-term leases and leases of low-value assets are recognised as expenses on a linear basis over the term of the lease.

The amendments to IFRS 16 issued in May 2020 by the International Accounting Standards Board related to Covid-19-rent concessions, did not result in changes in the leases and/or remuneration, where the Bank is a contractual party. Subsidiaries do not take into account rent concessions as lease modifications related to COVID-19.

o) **New standards and clarifications issued but not yet effective and not early adopted**

Already published standards which are not yet in effect or have not been previously applied by the Bank at the date of these financial statements are briefly presented below. It is disclosed how reasonably they are expected to impact disclosures, the financial position or performance when the Bank adopts these standards for the first time. It is expected to happen when they come into force.

IFRS 17: Insurance Contracts, Including Amendments to IFRS 17

On 25 June 2020 the IASB issued Amendments to IFRS 17 to defer the date of its initial application, and to IFRS 4 to change the extension of the temporary exemption from applying IFRS 9 Financial instruments. The amendments to IFRS 4 defer the requirement to apply IFRS 9 to annual periods beginning on or after January 1, 2023 reporting periods beginning on or after 1 January 2023 with earlier application permitted. Retroactive application is required. IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully reflects these contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of the entities. The standard has not been yet endorsed by the EU and is not applicable to the Bank.

Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current – Deferral of Effective Date

On 23 January the IASB issued Amendments to IAS 1 Presentation of Financial Statements (Amendments) to clarify the criteria for the classification of liabilities as current or non-current. They clarify:

1. what is meant by a right to defer settlement of a liability;
2 that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period;
3. that the classification of liability is unaffected by management expectations about whether an entity will exercise its right to defer settlement of a liability; and
4. the situations that are considered settlement of a liability (refers to the transfer to the counterparty of cash, equity instruments, other assets or services).

On 15 July 2020 the IASB published a second draft of Classification of Liabilities as Current or Non-current – Deferral of Effective Date (Proposed Amendment to IAS 1) proposing to defer the effective date of the amendments to IAS 1 to annual reporting periods beginning on or after 1 January 2023. The standard has not yet been endorsed by the EU.

Amendments to IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets; Annual Improvements 2018–2020

On 14 May 2020 the IASB published amendments to:

1. IFRS 3 Business Combinations: reference to the Conceptual Framework is updated;

   The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.
2. IAS 16 Property, Plant and Equipment: the amendment relates to proceeds before the intended use regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management;
3. IAS 37 Provisions, Contingent Liabilities and Contingent Assets: amendment regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous;
4. Annual improvements 2018–2020: the pronouncement contains amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter, IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities, and IAS 41, Agriculture – Taxation in fair value measurements, as a result of the annual improvements project.

The amendments, which are all effective for annual periods beginning on or after 1 January 2022, have not yet been endorsed by the EU. The Bank will analyse and assess the impact of the amendments on its financial position or performance.

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

On 27 August 2020 the IASB published Interest Rate Benchmark Reform to IFRS 9, IFRS 39, IFRS 7, IFRS 4 and IFRS 16, representing the finalisation of Phase 2 related to the project for replacement of the existing interest rate benchmark with alternative benchmark rate. The amendments complement Interest Rate Benchmark Reform – Phase 1 (Amendments to IFRS 9, IAS 39 and IFRS 7) published in September 2019 (Phase 1, amendments), and focus on the effects on financial reporting when replacing the old interest rate with an alternative benchmark interest rate as a result of the reform. The amendments in Phase 2 deal with:

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

The amendments are effective for annual periods beginning on or after 1 January 2021 and have not yet been endorsed by the EU. The Bank will analyse and assess the impact of the amendment on its financial position or performance.

Amendments to IFRS 4 Insurance Contracts – Deferral of IFRS 9

On 25 June 2020 the IASB published Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4). The amendments to IFRS 4 extend the expiry date of the temporary exemption from applying IFRS 9 until 2023 in order to align the effective date of IFRS 9 with the new IFRS 17. The amendments to IFRS 4 which aim to address the temporary accounting consequences of the different effective dates of IFRS 9 Financial Instruments and the forthcoming IFRS 17 Insurance Contract.

The amendments which are effective from 1 January 2021, were adopted by the EU on 15 December 2020 and published in the Official Journal of the EU on 16 December 2020. They are not applicable to the Bank.

6. Financial Risk Management Policy Disclosure

a) Introduction and overview

Introduction to the financial risk management policy

The Bank is exposed to the following types of risk in relation to the financial instruments operations:

- credit risk;
- liquidity risk;
- market risk;
- operational risk.

This note provides information on the Bank's goals, exposures to each of the above types of risk and the policies and processes for risk measurement and management.

General provisions of risk management

In the process of management of the gross international reserves, the Bank aims to achieve high security and liquidity of the assets, first, and then to maximise returns in the situation of the current global financial markets. Its investment strategy depends mainly on the specific functions of the Bank operating under a currency board arrangement and in full compliance with the requirements of the Law on the BNB.

The major portion of BNB's international reserves is invested in assets of comparatively low credit risk, such as discount and coupon securities issued by highly rated issuers (governments, government agencies or supranational financial institutions), and short-term foreign currency or gold deposits placed with first-rate foreign banks. The remaining portion is held in SDRs on BNB accounts with the IMF and in monetary gold kept in the Bank's vaults.

A specialised international reserves risk management unit is responsible for preparing and submitting for approval a draft of strategic asset structuring, setting up benchmark for the international reserves and investment management limits. On a quarterly basis, an overall review is made of the changes in the market conditions, the amount and structure of international reserves, and if required, the investment limits and model portfolios (benchmarks) are updated. The monitoring of underlying limits, rules, and procedures is undertaken on a daily basis. Reports are regularly prepared for both the needs of international reserves operating management and providing updated information to the Bank's management.

All approved financial instruments and asset classes, in which the BNB may invest, are specified in internal documents. The documents define the main portfolios and the respective model portfolios (benchmarks), all limits for credit, interest rate, currency and operational risk, contains a list of approved debt instrument issuers which the BNB may invest in, and a list of the foreign financial institutions which are counterparties of the Bank.

The international reserves management is governed by a business procedure and rules of behaviour regulating the performance of the functions and tasks of the main structural units involved in the process.

b) **Credit risk**

The BNB is exposed to credit risk through its trading operations and investment activities and in cases where it acts as an intermediary on behalf of the government or other public institutions. The Bank assumes credit risk also in operations of purchases and sales of foreign currency with banks. In general, this credit risk is associated with the probability of insolvency of a BNB's counterparty or the insolvency of an issuer, in whose debt instruments the Bank has invested its own funds. The credit risk in managing BNB's gross international reserves is assessed in line with the requirements in Article 28, paragraph 3 of the Law on the BNB. According to these requirements, the BNB may invest international reserves in debt instruments issued by foreign governments, central banks, other foreign financial institutions or international financial organisations whose debts are rated with one of the top two grades by two internationally recognised credit rating agencies and are payable in freely convertible currency in line with an internally developed methodology as per the requirements of Article 28 of the LBNB.

According to these requirements, the approved types of financial instruments for investment of funds in managing the international reserves are as follows:

- investment programmes with central banks;
- automatic borrowings/lending of securities with the main depository;
- tri-party repo agreements with specially designated counterparties of the BNB carried out through the Bank's main depository as a third party;
- deposits in foreign currency (time deposits and funds on current accounts) with BNB counterparties, including central banks or supranational financial institutions;
- deposits in gold (time deposits and funds on current accounts) with BNB counterparties, including central banks or supranational financial institutions;
- commercial securities (of up to one year term to maturity), issued by governments or government guaranteed institutions, supranational financial institutions, specialised financial agencies, banks, and other financial institutions;
- bonds issued by governments or government guaranteed institutions, supranational financial institutions, specialised financial agencies, banks and other financial institutions – issuers of covered bonds. All bonds must be with a one-off payment of their face value on the maturity date and without any embedded option;
- purchases and sales of foreign currency with a value date of up to two business days;
- purchases and sales of banknotes in foreign currency (euro) and their subsequent storage with investment goals and for the purposes of performance of the currency board functions.

Two basic types of limits are set which are calculated on the basis of the market value of foreign currency reserves: (i) a maximum or minimum limit on the weight of each asset class in the Issue Department balance sheet, and (ii) an individual maximum acceptable exposure of the BNB to a country, including an individual exposure to an issuer/counterparty (concentration limit).

Over the year, in the context of COVID-19, the BNB continued its conservative risk management policy concerning gross international reserve investment and imposed a number of additional investment restrictions to reduce credit and market risk, on the one hand, and, to increase the liquidity of international reserves, on the other. During the reporting period the limits for maximum and minimum credit exposure by asset class at balance sheet level and the concentration limits to individual issuers and counterparties were modified more conservatively. Detailed information on the subject is disclosed in Chapter II Gross international Reserves.

c) Liquidity risk

Liquidity risk arises in the funding of the Bank's core activities and in the management of its positions. It is primarily manifested in two aspects: the first aspect is risk for the Bank of being unable to meet its obligations when due and the second aspect comprises the risk of its being unable to sell an asset on international markets at a fair value within an appropriate time frame in compliance with the respective market conventions.

The BNB is striving to maintain a balance between the maturity of attracted funds and that of assets by means of investments in financial instruments of a different maturity structure. The instruments for attracting funds, which are provided to customers on the liability side, are mainly deposit/investment accounts and settlement accounts. The Bank maintains a minimum level of liquidity by type of currency on a daily basis to ensure all BNB payments in foreign currency. To better manage the risk arising from liquidation of positions in financial instruments, the latter are grouped by liquidity rank subject to the level of difficulty (*i.e.* discount from the fair value), at which they could be sold on the market in time of crisis. Limits are set for the different types of financial instruments based on the liquidity ranks.

As part of its overall liquidity risk management strategy, the Bank has defined requirements for the management of a portfolio of liquid assets denominated in euro and for maintaining assets denominated in other currencies for the purposes of meeting its cash inflows and outflows.

The Bank's financial assets and liabilities, analysed by residual term to maturity from the date of the statement of financial position to the date of any subsequent agreement or contractual maturity, are as follows:

(BGN'000)

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Undefined maturity	Total
As of 31 December 2020							
Financial assets							
Cash and deposits in foreign currency	31,340,560	2,221,409	-	-	-	(2,824)	33,559,145
incl. provisions for expected credit losses under IFRS 9	-	-	-	-	-	*(2,824)*	*(2,824)*
Gold, instruments in gold, and other precious metals	4,003,321	-	-	-	-	-	4,003,321
incl. provisions for expected credit losses under IFRS 9	-	-	-	-	-	-	-
Financial assets at fair value through profit or loss	882,298	1,582,863	11,976,168	7,315,297	843,020	-	22,599,646
Financial assets at fair value in other comprehensive income	225,258	-	-	-	-	1,890,826	2,116,084
Other assets	33,696	13,361	70	-	-	-	47,127
Total financial assets	**36,485,133**	**3,817,633**	**11,976,238**	**7,315,297**	**843,020**	**1,888,002**	**62,325,323**
Financial liabilities							
Banknotes and coins in circulation	-	-	-	-	-	21,241,038	21,241,038
Liabilities to banks and other financial institutions	23,518,532	-	-	-	-	-	23,518,532
Liabilities to government institutions and other borrowings	8,646,875	-	-	-	-	-	8,646,875
Borrowings against Bulgaria's participation in international financial institutions	-	-	-	-	-	3,235,232	3,235,232
Total financial liabilities	**32,165,407**	**-**	**-**	**-**	**-**	**24,476,270**	**56,641,677**
Asset-liability maturity mismatch	**4,319,726**	**3,817,633**	**11,976,238**	**7,315,297**	**843,020**	**(22,588,268)**	**5,683,646**

(BGN'000)

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Undefined maturity	Total
As of 31 December 2019							
Financial assets							
Cash and deposits in foreign currency	14,551,307	-	-	-	-	(5,258)	14,546,049
incl. provisions for expected credit losses under IFRS 9	-	-	-	-	-	*(5,258)*	*(5,258)*
Gold, instruments in gold, and other precious metals	3,536,393	-	-	-	-	(703)	3,535,690
incl. provisions for expected credit losses under IFRS 9	-	-	-	-	-	*(703)*	*(703)*
Financial assets at fair value through profit or loss	2,272,836	1,807,443	10,718,201	15,470,000	65,223	-	30,333,703
Financial assets at fair value in other comprehensive income	236,239	-	-	-	-	1,979,662	2,215,901
Other assets	38,428	15,564	128	-	-	-	54,120
Total financial assets	**20,635,203**	**1,823,007**	**10,718,329**	**15,470,000**	**65,223**	**1,973,701**	**50,685,463**
Financial liabilities							
Banknotes and coins in circulation	-	-	-	-	-	19,104,920	19,104,920
Liabilities to banks and other financial institutions	14,462,625	-	-	-	-	-	14,462,625
Liabilities to government institutions and other borrowings	8,853,715	-	-	-	-	-	8,853,715
Borrowings against Bulgaria's participation in international financial institutions	-	-	-	-	-	3,394,229	3,394,229
Total financial liabilities	**23,316,340**	**-**	**-**	**-**	**-**	**22,499,149**	**45,815,489**
Asset-liability maturity mismatch	**(2,681,137)**	**1,823,007**	**10,718,329**	**15,470,000**	**65,223**	**(20,525,448)**	**4,869,974**

The outstanding contractual maturities of the Bank's financial liabilities are as follows:

(BGN'000)

	Book value	Gross nominal outgoing cash flow	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years
As of 31 December 2020							
Banknotes and coins in circulation	21,241,038	21,241,038	-	-	-	-	21,241,038
Liabilities to banks and other financial institutions	23,518,532	23,518,532	23,518,532	-	-	-	-
Liabilities to government institutions and other borrowings	8,646,875	8,646,875	8,646,875	-	-	-	-
Borrowings against Bulgaria's participation in international financial institutions	3,235,232	3,235,232	-	-	-	-	3,235,232
	56,641,677	**56,641,677**	**32,165,407**	**-**	**-**	**-**	**24,476,270**
As of 31 December 2019							
Banknotes and coins in circulation	19,104,920	19,104,920	-	-	-	-	19,104,920
Liabilities to banks and other financial institutions	14,462,625	14,462,625	14,462,625	-	-	-	-
Liabilities to government institutions and other borrowings	8,853,715	8,853,715	8,853,715	-	-	-	-
Borrowings against Bulgaria's participation in international financial institutions	3,394,229	3,394,229	-	-	-	-	3,394,229
	45,815,489	**45,815,489**	**23,316,340**	**-**	**-**	**-**	**22,499,149**

d) Market risk

Market risk

All financial instruments are subject to market risk, *i.e.* the risk of impairment as a result of changes in the market conditions. The instruments are evaluated on a daily basis at fair market value which best reflects current financial market conditions for the respective type of financial instruments. The Bank manages its portfolios in response to changing market conditions and to changes in the liability structure of Issue Department balance sheet. Market risk exposure is managed in accordance with the risk limits specified in the document Investment Limits and Benchmarks for the Management of the Gross International Reserves.

The table below presents one important measure of market risk, *i.e.* Value at Risk (VaR). VaR is an indicator of the maximum loss throughout a certain period of time (holding period) and with a certain probability (called a confidence level or confidence interval). The VaR used in this report is based on a 95 per cent confidence level and a one-day holding period.

To calculate the overall risk, currency risk and interest rate risk, the empiric distributions, derived from time series of 30 daily observations of total income, currency income and interest income of assets, respectively have been used. The correlation between the currency and interest rate risk is also presented. For each of the parameters, the value as of the last date for the period, the average value for the whole period and the minimum and maximum values have been calculated.

(BGN'000)

	As of 31 December 2020	Average	Maximum	Minimum
Currency risk	(35,449)	(58,094)	(107,024)	(14,356)
Interest rate risk	(5,698)	(8,483)	(34,555)	(2,115)
Correlation (per cent)	0.10	0.14	0.64	(0.42)
Overall risk	**(36,964)**	**(61,379)**	**(136,979)**	**(15,984)**
	As of 31 December 2019	Average	Maximum	Minimum
Currency risk	(23,316)	(24,083)	(39,695)	(6,305)
Interest rate risk	(5,564)	(4,214)	(11,728)	(1,032)
Correlation (per cent)	0.50	0.46	0.87	(0.13)
Overall risk	**(28,656)**	**(26,116)**	**(48,405)**	**(9,029)**

Interest rate risk

The Bank's operations are subject to the risk of interest rate fluctuations, which impact the prices of interest-earning assets (including investments) and interest-bearing liabilities. Modified duration is used as a key measurement for absolute interest rate risk. It measures the effect of the change in the market value of an asset (liability) in percentage points in response to a 1 basis point (1/100th of 1 per cent) change in the interest rate levels. In addition, portfolios' technical parameters such as protuberance (convexity), duration in a fixed point of the yield curve, *etc.* are monitored on a daily basis. For each portfolio held by the BNB, the interest rate risk is limited by a model portfolio (benchmark) and by the investment limits for a maximum deviation of the modified duration of the portfolio from that of the respective benchmark. The relative interest risk limit of investment portfolios has been set on the basis of the risk measure *i.e.* relative yield volatility measure.

Assets and liabilities with floating interest rates involve the risk of changes in the base which serves to determine the interest rates.

(BGN'000)

	Total	Floating rate instruments	Fixed rate instruments		
			Up to 1 month	From 1 to 3 months	Over 3 months
As of 31 December 2020					
Interest-earning assets					
Cash and deposits in foreign currency	27,371,483	24,876,619	271,675	2,223,189	-
Gold, instruments in gold, and other precious metals	-	-	-	-	-
Financial assets at fair value through profit or loss	22,730,574	393,652	884,643	1,586,044	19,866,235
Financial assets at fair value in other comprehensive income	225,258	-	225,258	-	-
Other interest-earning assets	47,127	33,696	-	13,361	70
Total	**50,374,442**	**25,303,967**	**1,381,576**	**3,822,594**	**19,866,305**
Interest-bearing liabilities					
Liabilities to banks and other financial institutions	23,518,532	-	23,518,532	-	-
Liabilities to government institutions and other borrowings	6,987,891	6,987,891	-	-	-
Borrowings against Bulgaria's participation in international financial institutions	1,402,320	1,402,320	-	-	-
Total	**31,908,743**	**8,390,211**	**23,518,532**	**-**	**-**
Interest-bearing asset/liability gap	**18,465,699**	**16,913,756**	**(22,136,956)**	**3,822,594**	**19,866,305**
As of 31 December 2019					
Interest-earning assets					
Cash and deposits in foreign currency	12,490,270	2,267,045	10,223,225	-	-
Gold, instruments in gold, and other precious metals	2,094,291	-	2,094,291	-	-
Financial assets at fair value through profit or loss	30,502,301	392,770	2,289,696	1,813,407	26,006,428
Financial assets at fair value in other comprehensive income	236,238	-	236,238	-	-
Other interest-earning assets	54,120	38,428	-	15,564	128
Total	**45,377,220**	**2,698,243**	**14,843,450**	**1,828,971**	**26,006,556**
Interest-bearing liabilities					
Liabilities to banks and other financial institutions	14,462,625	-	14,462,625	-	-
Liabilities to government institutions and other borrowings	5,814,041	5,814,041	-	-	-
Borrowings against Bulgaria's participation in international financial institutions	1,470,677	1,470,677	-	-	-
Total	**21,747,343**	**7,284,718**	**14,462,625**	**-**	**-**
Interest-bearing asset/liability gap	**23,629,877**	**(4,586,475)**	**380,825**	**1,828,971**	**26,006,556**

For managing interest rate risk and the band of interest rate changes, the sensitivity of financial assets and liabilities to various standard and non-standard interest rate movement scenarios are monitored.

The standard scenarios include the following changes in yield curves: (i) a 100 basis points instant parallel increase; (ii) a 100 basis points instant parallel decrease; (iii) a 50 basis points parallel increase in the yield curves for a period of 12 months; and (iv) a 50 basis points parallel decrease in the yield curves also for a period of 12 months. The second two scenarios assume that the change in yields takes place at the beginning of the period, and over the one-year period the yield curve remains unchanged.

The analysis of the sensitivity of the Bank's assets (to first approximation) to changes in interest rates, assuming a constant spread of assets and liabilities and parallel shifts in the yield curves of the relevant assets, is as follows:

(BGN'000)

	100 basis points intra-day instant parallel increase	100 basis points intra-day instant parallel decrease	50 basis points parallel increase in the beginning of the period	50 basis points parallel decrease in the beginning of the period
As of 31 December 2020	(291,821)	291,821	(270,348)	(420,786)
As of 31 December 2019	(400,664)	400,664	(207,830)	(201,529)

Currency risk

For the Bank, a currency risk exists where there is a mismatch between the currency structure of assets and that of liabilities. The Bank is exposed to currency risk when entering into transactions in financial instruments denominated in foreign currencies other than the euro.

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

To minimise currency risk, there is a limit to the mismatches between the currency structure of assets and that of liabilities. According to Article 31, paragraph 3 of the Law on the BNB, the total market value of assets in a foreign currency other than the euro, SDR and monetary gold, may not deviate by more than +/-2 per cent from the market value of the liabilities denominated in these currencies.

(BGN'000)

	31 December 2020	31 December 2019
Assets		
Bulgarian lev and euro	55,028,862	43,683,048
US dollar	66,830	79,635
Japanese yen	239	158
Pound sterling	484	294
SDR	3,489,124	3,660,357
Gold	3,953,565	3,457,041
Other	583	657
	62,539,687	**50,881,190**
Liabilities, capital and reserves		
Bulgarian lev and euro	59,086,884	47,245,649
US dollar	67,472	81,478
Japanese yen	-	1
Pound sterling	-	-
SDR	3,385,286	3,553,285
Other	45	777
	62,539,687	**50,881,190**
Net position		
Bulgarian lev and euro	(4,058,022)	(3,562,601)
US dollar	(642)	(1,843)
Japanese yen	239	157
Pound sterling	484	294
SDR	103,838	107,072
Gold	3,953,565	3,457,041
Other	538	(120)

e) Using accounting judgements and assumptions

The Governing Council of the BNB discusses the development, selection and disclosure of critical accounting policies and assumptions, as well as their application.

These disclosures supplement the notes to the financial risk management.

Management's major priorities in the next few years will still be to maintain monetary and financial system stability in the country, keep the Bank's stable liquidity position and improve continuously Bank's valuation methods and techniques, international reserves management and control on international financial markets.

1) Determination of fair values

The determination of fair values of financial assets and liabilities for which there is no observable market price requires the use of valuation techniques described in the accounting policy. For financial instruments that trade infrequently and whose price is not transparent, the fair value is less objective and requires an expert's judgement depending on liquidity, concentration, market factors uncertainty, pricing assumptions, and other risks affecting the particular instrument.

2) Valuation of financial instruments

The Bank measures the fair value of financial instruments using the following hierarchy of methods:

- **Level 1**: quoted market price or closing price for positions for which there is a reliable market;
- **Level 2**: valuation techniques based on observable market information about the yield curve; This category of methods is used to measure debt securities for which there is no reliable market.
- **Level 3**: valuation techniques, where inputs on financial assets and liabilities are not based on observable market data.

The fair values of financial assets and liabilities traded in international financial markets for which there is available market information are based on market quotations or closing market prices. The use of observable market prices and information reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. The availability of actual market prices and information varies depending on products and markets and changes because of specific events and the general conditions of financial markets. The Bank determines the fair values of all other financial instruments for which there are no current market quotes by using a valuation technique based on a net present value. The net present value is computed by means of market yield curves and credit spreads, where necessary, for the relevant instrument. The purpose of the valuation techniques is to determine a fair value which reflects the price of the financial instrument on the reporting date.

The Bank has established a control framework with respect to the measurement of fair values. The fair values of financial instruments controls are set by a specialised risk analysis and control unit. Specific controls include: checking the actual price information; regular reviews of current valuation models and, if necessary, development, approval and introduction of new valuation models; follow-up verification by means of analysis and comparison of data from various information sources, *etc.*

The table below analyses financial instruments reported at fair value using valuation models. The data does not include equity instruments reported at acquisition cost (note 14).

(BGN'000)

	Level 1 Quoted market prices on active markets	**Level 2** Valuation techniques (using market data)	Total
31 December 2020			
Cash and deposits in foreign currency	33,559,145	-	33,559,145
incl. provisions for expected credit losses under IFRS 9	*(2,824)*	-	*(2,824)*
Gold, instruments in gold, and other precious metals	4,003,321	-	4,003,321
incl. provisions for expected credit losses under IFRS 9	-	-	-
Financial assets at fair value through profit or loss	17,027,954	5,571,692	22,599,646
Total	**54,590,420**	**5,571,692**	**60,162,112**
31 December 2019			
Cash and deposits in foreign currency	14,546,049	-	14,546,049
incl. provisions for expected credit losses under IFRS 9	*(5,258)*	-	*(5,258)*
Gold, instruments in gold, and other precious metals	3,535,690	-	3,535,690
incl. provisions for expected credit losses under IFRS 9	*(703)*	-	*(703)*
Financial assets at fair value through profit or loss	28,407,813	1,925,890	30,333,703
Total	**46,489,552**	**1,925,890**	**48,415,442**

Financial instruments not measured at fair value, but by applying a level of the fair value hierarchy where a fair value measurement is categorised, are analysed as follows:

(BGN'000)

	Level 1 Quoted market prices on active markets	**Level 2** Observable inputs other than quoted prices	Total
31 December 2020			
Liabilities to banks and other financial institutions	-	23,518,532	23,518,532
Liabilities to government institutions and other borrowings	-	8,646,875	8,646,875
Borrowings against Bulgaria's participation in international financial institutions	-	3,235,232	3,235,232
Total	-	**35,400,639**	**35,400,639**
31 December 2019			
Liabilities to banks and other financial institutions	-	14,462,625	14,462,625
Liabilities to government institutions and other borrowings	-	8,853,715	8,853,715
Borrowings against Bulgaria's participation in international financial institutions	-	3,394,229	3,394,229
Total	-	**26,710,569**	**26,710,569**

The fair value of liabilities to banks and other financial institutions and of liabilities to government institutions is approximately equal to the reporting value as they are short-term.

The fair value of the liabilities for participation in international financial institutions is approximately equal to their reporting value as they are interest-free and of undefined maturity.

f) Maturity structure of assets and liabilities

The Bank's assets and liabilities, analysed by residual term to maturity from the date of the statement of financial position to the date of any subsequent agreement or contractual maturity, are as follows:

(BGN'000)

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Undefined maturity	Total
As of 31 December 2020							
Financial assets							
Cash and deposits in foreign currency	31,340,560	2,221,409	-	-	-	(2,824)	33,559,145
incl. provisions for expected credit losses under IFRS 9	-	-	-	-	-	*(2,824)*	*(2,824)*
Gold, instruments in gold, and other precious metals	4,003,321	-	-	-	-	-	4,003,321
incl. provisions for expected credit losses under IFRS 9	-	-	-	-	-	-	-
Financial assets at fair value through profit or loss	882,298	1,582,863	11,976,168	7,315,297	843,020	-	22,599,646
Financial assets at fair value in other comprehensive income	225,258	-	-	-	-	1,890,826	2,116,084
Tangible assets	-	-	-	-	-	163,824	163,824
Intangible assets	-	-	-	-	-	8,783	8,783
Other assets	33,696	13,361	70	-	-	41,757	88,884
Total financial assets	**36,485,133**	**3,817,633**	**11,976,238**	**7,315,297**	**843,020**	**2,102,366**	**62,539,687**
Financial liabilities							
Banknotes and coins in circulation	-	-	-	-	-	21,241,038	21,241,038
Liabilities to banks and other financial institutions	23,518,532	-	-	-	-	-	23,518,532
Liabilities to government institutions and other borrowings	8,646,875	-	-	-	-	-	8,646,875
Borrowings against Bulgaria's participation in international financial institutions	-	-	-	-	-	3,235,232	3,235,232
Other liabilities	-	-	-	-	-	771,674	771,674
Total financial liabilities	32,165,407	-	-	-	-	25,247,944	57,413,351
Asset-liability maturity mismatch	**4,319,726**	**3,817,633**	**11,976,238**	**7,315,297**	**843,020**	**(23,145,578)**	**5,126,336**
As of 31 December 2019							
Financial assets							
Cash and deposits in foreign currency	14,551,307	-	-	-	-	(5,258)	14,546,049
incl. provisions for expected credit losses under IFRS 9	-	-	-	-	-	*(5,258)*	*(5,258)*
Gold, instruments in gold, and other precious metals	3,536,393	-	-	-	-	(703)	3,535,690
incl. provisions for expected credit losses under IFRS 9	-	-	-	-	-	*(703)*	*(703)*
Financial assets at fair value through profit or loss	2,272,836	1,807,443	10,718,201	15,470,000	65,223	-	30,333,703
Financial assets at fair value in other comprehensive income	236,239	-	-	-	-	1,979,662	2,215,901
Tangible assets	-	-	-	-	-	150,771	150,771
Intangible assets	-	-	-	-	-	6,229	6,229
Other assets	38,428	15,564	128	-	-	38,727	92,847
Total financial assets	**20,635,203**	**1,823,007**	**10,718,329**	**15,470,000**	**65,223**	**2,169,428**	**50,881,190**
Financial liabilities							
Banknotes and coins in circulation	-	-	-	-	-	19,104,920	19,104,920
Liabilities to banks and other financial institutions	14,462,625	-	-	-	-	-	14,462,625
Liabilities to government institutions and other borrowings	8,853,715	-	-	-	-	-	8,853,715
Borrowings against Bulgaria's participation in international financial institutions	-	-	-	-	-	3,394,229	3,394,229
Other liabilities	-	-	-	-	-	265,627	265,627
Total financial liabilities	**23,316,340**	**-**	**-**	**-**	**-**	**22,764,776**	**46,081,116**
Asset-liability maturity mismatch	**(2,681,137)**	**1,823,007**	**10,718,329**	**15,470,000**	**65,223**	**(20,595,348)**	**4,800,074**

7. Interest Income and Expense

(BGN'000)

	31 December 2020	31 December 2019
Interest income		
- securities	133,610	194,599
– deposits	121,009	65,002
– other	221	36
	254,840	**259,637**
Interest expense		
– deposits	87,600	74,527
– other	-	-
	87,600	**74,527**

Interest income includes interest paid of BGN 101,248 thousand on current accounts of BNB customers as a result of using negative reference interest rates (as of 31 December 2019: BGN 31,912 thousand).

As at 31 December 2020 there were no interest expenses paid on government and other organisations' deposits in foreign currencies (BGN 1833 thousand as of 31 December 2019).

Interest expenses paid on deposits include interest paid of BGN 72,683 thousand (31 December 2019: BGN 54,284 thousand) on deposits and current accounts with foreign correspondent banks as a result of using negative reference interest rates.

In addition BGN 8316 thousand interest paid on the technical account of the national system component TARGET2-BNB at the ECB are included (as of 31 December 2019: BGN 3657 thousand).

Over the review period the interest rate on the Eurosystem's deposit facility set by the ECB Governing Council remained unchanged. The interest rate remained fixed at -0.50 per cent over the reporting period.

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

(BGN'000)

	31 December 2020	31 December 2019
Net (losses) from operations in securities	(187,792)	(256,402)
Net gains/(losses) from operations in foreign currency	(888)	2,042
Net revaluation gains/(losses) on futures	110	(154)
Net revaluation gains/(losses) on securities	(38,473)	(13,192)
Net revaluation gains/(losses) on foreign currency assets and liabilities	(4,028)	1,037
Net revaluation gains on gold	436,626	647,198
Provisions for expected credit losses	-	-
	205,555	**380,529**

Net gains/(losses) from financial assets and liabilities carried at fair value through profit or loss as at 31 December 2020 were largely attributable to revaluation of gold of BGN 436,626 thousand due to an increase in the market price of gold from BGN 2656.13 per troy ounce as of 31 December 2019 to BGN 3011.82 as of 31 December 2020, or an increase by 13.39 per cent.

Net losses from operations in securities amounted to BGN 187,792 thousand. The main factors for net losses were the negative yields at which euro-denominated high credit quality bonds were traded, and the fact that usually these securities are purchased at significant premium above their face value, with the coupon yield being relatively low or zero to offset the negative market revaluation of the securities from the time of purchase to their maturity or sale.

During the reporting period the market yield on the securities remained at very low negative levels and investment in securities and holding them to maturity presumed negative returns. In the short-term maturity sectors, into which the BNB primarily invested international reserves, represented by the German benchmark two-year bonds, market yields decreased by about 10 basis points which was relevant to a large extent to yields on securities of other permitted issuers of euro-denominated bonds. The net effect from revaluation of securities resulting from all market movements was negative: BGN 38,473 thousand.

9. Other operating income

(BGN'000)

	31 December 2020	31 December 2019
Income from subsidiaries	29,407	36,401
Income from associates	(170)	4,063
Income from sale of coins	3,138	1,194
Dividend income	12,346	4,701
Other income, net	2,528	2,592
	47,249	**48,951**

Dividend income includes dividends from BNB's participation in the BNB Printing Works AD amounting to BGN 10,346 thousand, the Bulgarian Mint EAD of BGN 77 thousand, BORICA AD of BGN 1445 thousand, the Cash Service Company AD of BGN 478 thousand. For the purpose of the consolidated financial statement the dividends received from the BNB Printing Works AD and the Bulgarian Mint EAD are eliminated.

In 2020 the BNB has not received dividend payment for its equity stake in the Bank for International Settlements (BIS).

The other net income includes financial income from subsidiaries of BGN 1149 thousand, income from reallocated remuneration from the ECB in relation to TARGET2 of BGN 897 thousand.

10. General Administrative Expenses

(BGN'000)

	31 December 2020	31 December 2019
Staff expenditure	46,146	42,227
Administrative expenses	64,150	66,644
Depreciation	13,930	13,970
Other expenses	3,487	5,191
	127,713	**128,032**

The number of employees of the Bank and its subsidiaries is 1145 as of 31 December 2020 (31 December 2019: 1160), including the BNB staff of 895 (31 December 2019: 895).

Staff expenditure includes salaries, social and health insurance costs charged under the local legislation provisions as of 31 December 2020, and social activities costs, respectively for the BNB: BGN 37,894 thousand (31 December 2019: BGN 34,506 thousand), for the BNB Printing Works AD: BGN 5711 thousand (31 December 2019: BGN 5090 thousand), and for the Bulgarian Mint EAD: BGN 2541 thousand (31 December 2019: BGN 2631 thousand).

Staff expenditure includes expenses for remunerations paid to the BNB Governing Council members of BGN 1358 thousand as of 31 December 2020 (31 December 2019: BGN 1256 thousand), presented as follows:

(BGN'000)

	31 December 2020	31 December 2019
Total gross remuneration expenses*	1,358	1,256
including bonuses up to established threshold in accordance with Article 23, paragraph 3 of the LBNB by BNB Governing Council's resolution of 30 July 2015**	407	384
Expenses on BNB Governing Council members' retirement/ termination benefits	36	136
Total gross remuneration paid to the BNB Governing Council members	**1,394**	**1,392**

* Remunerations are before taxation.
** https://www.bnb.bg/AboutUs/PressOffice/POPressReleases/POPRDate/PR_20150730_1_EN

With the adoption of the BNB budget for 2020, the amount of monthly remunerations of the Governing Council members is determined, as follows: Governor – BGN 17,888; Deputy Governors – BGN 15,332; other Governing Council members – BGN 5111.

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

(BGN'000)

	31 December 2020	31 December 2019
Defined benefit liabilities as of 1 January	**3,684**	**3,311**
Plan benefits paid	(270)	(350)
Current service cost	484	437
Interest expense	11	20
Re-measurements	4	(2)
Actuarial (gain)/loss arising from experience adjustment	308	104
Actuarial (gain) arising from change in demographic assumptions	112	-
Actuarial loss arising from change in financial assumptions	(2)	164
Actuarial loss recognised in expenses	-	-
Defined benefit liabilities as at 31 December	**4,331**	**3,684**

Costs recognised in profit and loss

(BGN'000)

	31 December 2020	31 December 2019
Current service cost	484	437
Interest expense	11	20
Actuarial losses	4	-
Re-measurements	-	-
Total	**499**	**457**

Actuarial Assumptions

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

(per cent)

	31 December 2020	31 December 2019
Discount interest rate as at 31 December	0.20	0.19
Future salary growth	5.00	5.00

(BGN'000)

Distribution of BNB staff liabilities (subsidiaries excluded) by residual term	31 December 2020	31 December 2019
Up to 1 year	735	494
From 1 to 3 years	350	466
From 3 to 5 years	395	321
From 5 to 10 years	658	549
Over 10 years	1,274	1,034
Total	**3,412**	**2,864**

Administrative expenses include the BNB's currency circulation expenses of BGN 33,294 thousand as of 31 December 2020 (31 December 2019: BGN 30,779 thousand) and international audit expenses of BGN 104 thousand (31 December 2019: BGN 104 thousand).

From 27 July 2020 to 31 December 2020 the Bank did not have to incur and report administrative expenses related to Banks Resolution Fund management. As of 31 December 2020 no administrative expenses have been charged on its accounts.

As a result of the COVID-19 pandemic and the restrictions introduced over the reporting period there was a need to adjust the planned funds on the 2020 Bank's budget indicators and the adjustments were made in implementing the budgetary procedure.

11. Cash and Deposits in Foreign Currency

(BGN'000)

	31 December 2020	31 December 2019
Cash in foreign currency	6,196,585	2,077,206
Current accounts in other banks	24,855,855	2,267,233
incl. provisions for expected credit losses under IFRS 9	*(2,168)*	*(34)*
Deposits in foreign currency	2,506,705	10,201,610
incl. provisions for expected credit losses under IFRS 9	*(656)*	*(5,224)*
	33,559,145	**14,546,049**

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

(BGN'000)

	31 December 2020	31 December 2019
Euro area residents		
In EUR	25,022,408	7,095,125
incl. provisions for expected credit losses under IFRS 9	*(2,666)*	*(3,390)*
In other currencies	-	-
incl. provisions for expected credit losses under IFRS 9	-	-
	25,022,408	**7,095,125**
Non-euro area residents		
In EUR	7,068,859	5,891,877
incl. provisions for expected credit losses under IFRS 9	*(142)*	*(1,838)*
In other currencies	1,467,878	1,559,047
incl. provisions for expected credit losses under IFRS 9	*(16)*	*(30)*
	8,536,737	**7,450,924**
	33,559,145	**14,546,049**

Time deposits in foreign currency with correspondents with counterparty's credit rating graded by at least two of the six internationally recognised credit rating agencies – Standard&Poor's, Fitch Ratings, Moody's, DBRS, R&I and JCRA, are disclosed below:

(BGN'000)

	Counterparty short-term credit rating	31 December 2020	31 December 2019
Investment graded deposits by the counterparty's credit rating	*A-1+*	660,803	1,172,338
	incl. provisions for expected credit losses under IFRS 9	*(67)*	*(252)*
	A-1	1,832,114	9,028,464
	incl. provisions for expected credit losses under IFRS 9	*(589)*	*(4,972)*
		2,492,917	**10,200,802**

The disclosure by credit rating does not include demand deposits with external managers.

The BNB maximum exposure to credit risk is equivalent to the book value of cash on current accounts and deposits.

12. Gold, instruments in Gold, and Other Precious Metals

	31 December 2020		31 December 2019	
	'000 troy ounces	BGN'000	'000 troy ounces	BGN'000
Gold bullion in standard form	513	1,545,193	513	1,362,709
Gold deposits in standard form	800	2,408,372	788	2,093,588
incl. provisions for expected credit losses under IFRS 9		-		*(703)*
Gold in other form	16	47,017	16	41,959
Other precious metals		2,739		37,434
		4,003,321		**3,535,690**

Gold in standard form includes gold held for safekeeping with a depository and deposits. Deposits in gold are held with banks whose liabilities are rated with one of the two highest ratings given by two internationally recognised rating agencies.

Gold in other form includes commemorative gold coins of BGN 47,017 thousand.

Other precious metals include silver commemorative coins of BGN 164 thousand and platinum commemorative coins of BGN 2575 thousand.

As a result of the completion of a financial swap transaction with the Bank for International Settlements, Basel, the gold deposits in standard form item increased by 11,113.6 troy ounces and the other precious metals items decreased by the revaluation of scrap silver coins at market prices amounting to BGN 34,459 thousand, allocated in a revaluation reserve.

13. Financial Assets at Fair Value through Profit and Loss

(BGN'000)

Securities at fair value through profit or loss	31 December 2020	31 December 2019
Foreign treasury bills, notes and bonds	22,599,646	30,333,703
Total	**22,599,646**	**30,333,703**

Securities comprise of both coupon and discount securities denominated in euro. The coupon interest of the EUR-denominated securities was 0.60 per cent as of 31 December 2020 (31 December 2019: 0.74 per cent).

The securities issued by foreign governments and other issuers or relevant issuers with credit rating graded by at least two of the six internationally recognised credit rating agencies – Standard&Poor's, Fitch Ratings, Moody's, DBRS, R&I and JCRA, are disclosed as follows:

(BGN'000)

	Issue/issuer credit rating	31 December 2020	31 December 2019
Investment graded securities by the issue/issuer credit rating	*AAA*	21,298,193	28,013,765
	AA+	596,384	224,223
	AA	705,069	2,033,570
	AA-	-	4,091
	A+	-	54,499
	A	-	3,555
		22,599,646	**30,333,703**

14. Financial Assets at Fair Value in Other Comprehensive Income

(BGN'000)

	31 December 2020	31 December 2019
Republic of Bulgaria's quota in the IMF	2,057,537	2,157,833
Equity investments in international financial institutions	30,798	30,868
Investments in associates	27,749	27,200
	2,116,084	**2,215,901**

The Republic of Bulgaria's quota in the IMF is SDR 896,300 thousand (31 December 2019: SDR 896,300 thousand). BGN 225,258 thousand of the Republic of Bulgaria's quota in the IMF represents the reserve tranche held with the IMF (31 December 2019: BGN 236,238 thousand). The IMF pays remuneration (interest) to those members who have a remunerated reserve tranche position, at an average rate of 0.2 per cent (31 December 2019: 0.99 per cent).

Equity investments in international financial institutions include the equity investment in the Bank for International Settlements (BIS), and 25 per cent of the equity investment in the BIS is paid up. As of 31 December 2020 the current value of SDR 10,000 thousand shares amounted to BGN 22,956 thousand, while as of 31 December 2019 it was BGN 24,075 thousand (ref. note 28). The capital subscribed, but not paid-in has an option to be paid in within three months upon a decision of the BIS Board of Governors.

Equity investments in international financial institutions do not exceed 10 per cent of the subscribed share capital of the respective institution.

Investments in international financial institutions also include BNB's participation in the ECB. As of 1 January 2007 (when the Republic of Bulgaria joined the EU), the Bulgarian National Bank has a share in the ECB capital. As at 31 December 2020 the amount of the BNB paid-up share in the ECB capital is EUR 3991.2 thousand or BGN 7806 thousand.

Pursuant to Article 28 of the Statute of the ESCB and the ECB, only ESCB NCBs are entitled to participate in the ECB capital. Capital subscription follows the requirements and the key set forth in Article 29 of the Statute of the ESCB and of the ECB, *i.e.* the share of each NCB in the ECB capital is determined in percentage and corresponds to the share of the respective Member State in the EU's total population and GDP (in equal proportions). The percentage is adjusted every five years and whenever a new Member State joins the EU. The latest adjustment (eighth) took place on 1 February 2020 following the withdrawal of the United Kingdom from the EU. As of 31 December 2020, the BNB's capital share in the ECB subscribed capital key is 0.9832 per cent, which corresponds to EUR 106,431.5 thousand.

As a non-euro area NCB, the BNB is required to pay up the minimum percentage of its subscribed capital in the ECB, which is pursuant to Article 47 of the Statute of the ESCB and of the ECB (as set out by the ECB General Council) and represents the BNB contribution to the ECB operational costs. From 29 December 2010 this percentage amounts to 3.75 per cent. Unlike euro area NCBs, the BNB is not entitled to the ECB's distributable profit, nor is it required to fund any loss of the ECB. Upon joining the euro area, the BNB will be required to pay up the remaining 96.25 per cent of its capital subscription to the ECB, which is EUR 102,440.3 thousand.

The Bank exercises substantial influence on the financial and operational policies of the associated companies listed below, and its investments in domestic companies are as follows:

Associates	Share-holding, per cent	Principal activity
BORICA AD	36.11	Interbank card payments
Cash Services Company AD	25.00	Handling of sealed parcels of Bulgarian coins and banknotes transferred from the BNB and the banks

15. Tangible Assets

The fair value of land and buildings is categorised as Level-3 fair value based on the input data for the given assessment technique.

For the remaining asset classes – Plant and Machinery, Equipment, Vehicles, Fixtures and Fittings, the fair value is considered to be their present value on the Bank's balance sheet as most of them were bought in the last four years and their book value is close to their fair value.

When revaluating tangible fixed assets the Bank derecognises the accrued depreciation at the expense of the gross book value of the assets and their net value is recalculated against the revalued amount. As of 31 December 2020 the assets with a right of use contain BGN 62 thousand regarding the purchase of a vehicle by the Bulgarian Mint EAD under the financial lease conditions.

(BGN'000)

	Land and buildings	Plant and equipment	IT equipment	Office equipment	Right of use asset	Other equipment (including motor vehicles)	Assets under construction	Total
As of 1 January 2020	**184,211**	**93,129**	**50,824**	**9,934**	**-**	**9,359**	**6,560**	**354,017**
Additions	-	1,985	21	79	62	9	22,405	24,561
Disposals	-	(1,001)	(51)	(26)	-	-	(130)	(1,208)
Transfers	-	3,658	4,771	152	-	470	(9,051)	-
Revaluation	-	-	-	-	-	-	-	-
As of 31 December 2020	**184,211**	**97,771**	**55,565**	**10,139**	**62**	**9,838**	**19,784**	**377,370**
Depreciation and impairment loss								
As of 1 January 2020	(66,760)	(72,776)	(47,603)	(8,849)	-	(7,258)	-	(203,246)
Charge for the period	(5,224)	(3,183)	(2,239)	(128)	(9)	(577)	-	(11,360)
On disposals	-	983	51	26	-	-	-	1,060
Revaluation	-	-	-	-	-	-	-	-
As of 31 December 2020	(71,984)	(74,976)	(49,791)	(8,951)	(9)	(7,835)	-	(213,546)
Net book value as of 31 December 2020	112,227	22,795	5,774	1,188	53	2,003	19,784	163,824
Net book value as of 31 December 2019	117,451	20,353	3,221	1,085	-	2,101	6,560	150,771

(BGN'000)

	Land and buildings	Plant and equipment	IT equipment	Office equipment	Right of use asset	Other equipment (including motor vehicles)	Assets under construction	Total
As of 1 January 2019	**184,096**	**92,828**	**49,982**	**10,047**	**-**	**8,754**	**2,591**	**348,298**
Additions	42	1,329	20	17	-	6	6,996	8,410
Disposals	-	(1,424)	(993)	(205)	-	(38)	-	(2,660)
Transfers	73	396	1,815	75	-	637	(3,027)	(31)
Revaluation	-	-	-	-	-	-	-	-
As of 31 December 2019	**184,211**	**93,129**	**50,824**	**9,934**	**-**	**9,359**	**6,560**	**354,017**
Depreciation and impairment loss								
As of 1 January 2019	(61,537)	(71,030)	(45,982)	(8,892)	-	(6,792)	-	(194,233)
Charge for the period	(5,223)	(3,170)	(2,614)	(162)	-	(503)	-	(11,672)
On disposals	-	1,424	993	205	-	37	-	2,659
Revaluation	-	-	-	-	-	-	-	-
As of 31 December 2019	**(66,760)**	**(72,776)**	**(47,603)**	**(8,849)**	**-**	**(7,258)**	**-**	**(203,246)**
Net book value as of 31 December 2019	**117,451**	**20,353**	**3,221**	**1,085**	**-**	**2,101**	**6,560**	**150,771**
Net book value as of 31 December 2018	**122,559**	**21,798**	**4,000**	**1,155**	**-**	**1,962**	**2,591**	**154,065**

In applying IAS 16 Property, Plant and Equipment and BNB's Internal Rules for Financial Statements and Accounting Policy, as of December 2013 a review was made of the book value of tangible fixed assets stated in the Bank's balance sheet. The fair value of land and buildings was determined by an external, independent and licensed assessor of recognised professional qualification and experience in assessing property of location and category similar to the assessed ones. As of 31 December 2020, the fair value of land and buildings did not differ materially from their book value as at the same date; therefore, it is considered that the present value of land and buildings on the Bank's balance sheet fairly reflects their market value. The carrying amount of fully amortised tangible fixed assets as of 31 December 2020 was BGN 87,298 thousand (31 December 2019: BGN 86,189 thousand).

16. Intangible Assets

(BGN'000)

	Software	Other intangible assets	Development costs	Total
As of 1 January 2020	**56,975**	**180**	**481**	**57,636**
Additions	326	14	4,784	5,124
Disposals	(5)	-	-	(5)
Transfers	3,026	-	(3,026)	-
As of 31 December 2020	**60,322**	**194**	**2,239**	**62,755**
Depreciation and impairment loss				
As of 1 January 2020	**(51,239)**	**(168)**	**-**	**(51,407)**
Charge for the period	(2,565)	(5)	-	(2,570)
On disposals	5	-	-	5
As of 31 December 2020	**(53,799)**	**(173)**	**-**	**(53,972)**
Net book value as of 31 December 2020	**6,523**	**21**	**2,239**	**8,783**
Net book value as of 31 December 2019	**5,736**	**12**	**481**	**6,229**

As of 31 December 2020 software includes licenses purchased by the BNB to the total amount of BGN 208 thousand (31 December 2019: BGN 1027 thousand), and software products to the amount of BGN 2818 thousand (31 December 2019: BGN 925 thousand).

(BGN'000)

	Software	Other intangible assets	Development costs	Total
As of 1 January 2019	**54,732**	**174**	**272**	**55,178**
Additions	1,037	6	2,161	3,204
Disposals	(746)	-	-	(746)
Transfers	1,952	-	(1,952)	-
As of 31 December 2019	**56,975**	**180**	**481**	**57,636**
Depreciation and impairment loss				
As of 1 January 2019	**(49,691)**	**(164)**	**-**	**(49,855)**
Charge for the period	(2,294)	(4)	-	(2,298)
On disposals	746	-	-	746
As of 31 December 2019	**(51,239)**	**(168)**	**-**	**(51,407)**
Net book value as of 31 December 2019	**5,736**	**12**	**481**	**6,229**
Net book value as of 31 December 2018	**5,041**	**10**	**272**	**5,323**

As of 31 December 2019 software includes licenses purchased by the BNB to the total amount of BGN 1027 thousand (31 December 2018: BGN 1303 thousand), and software products to the amount of BGN 925 thousand (31 December 2018: BGN 1365 thousand).

17. Other Assets

(BGN'000)

	31 December 2020	31 December 2019
Cash held by subsidiaries with local banks	47,149	54,140
Investments of subsidiary undertakings in joint ventures and associates	10,973	11,077
Commemorative coins for sale	444	388
Inventories	24,728	23,127
Accounts receivable	2,613	1,553
Deferred charges	1,428	1,135
Other receivables	1,549	1,427
	88,884	**92,847**

Cash held by subsidiaries with local banks comprise BGN 40,871 thousand of BNB Printing Works AD and BGN 6278 thousand of Bulgarian Mint EAD.

Investments of subsidiary undertakings in joint ventures and associates include a non-monetary contribution in the form of banknote production equipment to the capital of François-Charles Oberthur Group with which BNB Printing Works AD has established a joint venture for banknote production.

18. Banknotes and Coins in Circulation

(BGN'000)

	31 December 2020	31 December 2019
Banknotes in circulation	20,755,549	18,637,279
Coins in circulation	485,489	467,641
	21,241,038	**19,104,920**

19. Liabilities to Banks and Other Financial Institutions

(BGN'000)

	31 December 2020	31 December 2019
Demand deposits from banks and other financial institutions		
– in BGN	14,048,687	13,434,604
– in foreign currency	9,469,845	1,028,021
	23,518,532	14,462,625

Demand deposits include BGN 8,482,329 thousand representing the required reserves, which all local banks are required to maintain on accounts with the BNB (31 December 2019: BGN 7,816,332 thousand).

On 26 November 2015 the Governing Council of the Bulgarian National Bank adopted a new Ordinance No 21 on the Minimum Required Reserves Maintained with the Bulgarian National Bank which came into force as of 4 January 2016. It removed the recognition of banks' funds in the TARGET2-BNB national system component as a component of reserve assets.

Pursuant to Article 46 of BNB Ordinance No 16 of 29 March 2018 this position includes also the banks' participation in the Guarantee Mechanism for Settlement of Payments of the participants in the system operated by BORICA AD and processing card related payments, amounting to BGN 167,847 thousand (31 December 2019: BGN 166,848 thousand). Pursuant to Article 46, paragraph 3 the participation in the Guarantee Mechanism shall be included in the amount of reserve assets of the respective participant, taking into account the compliance with the obligation to maintain minimum required reserves with the BNB.

20. Liabilities to Government Institutions and Other Borrowings

(BGN'000)

	31 December 2020	31 December 2019
Current accounts		
– in BGN	4,962,210	6,451,412
– in foreign currency	3,684,665	2,402,303
Time deposit accounts	-	-
	8,646,875	8,853,715

Government's accounts in national and foreign currency with the Bank comprise funds held on behalf of the state budget and other government organisations. The Bank applies interest rates in line with the General Terms and Conditions of the BNB on accepting cash deposits and servicing accounts of banks, budget organisations and other customers adopted by a resolution of the BNB Governing Council of 26 November 2015 and amended by a resolution of the BNB Governing Council of 14 November 2019. As from 18 November 2019, the Bank does not open and service time deposit accounts of the government and other government institutions in accordance with the General Terms and Conditions of the Bulgarian National Bank on servicing accounts of banks, budget organisations and other customers.

21. Borrowings against Bulgaria's Participation in International Financial Institutions

The borrowings against Bulgaria's participation in the IMF as of 31 December 2020 amount to BGN 1,827,136 thousand, or SDR 795,933 thousand (31 December 2019: BGN 1,916,201 thousand, or SDR 795,933 thousand).

Borrowings from the IMF are denominated in SDRs. Borrowings related to Bulgaria's quota in the IMF are non-interest bearing with no stated maturity. This note includes account No 1 and account No 2 of the IMF in levs amounting to BGN 5533 thousand (31 December 2019: BGN 5440 thousand).

The Bank's borrowings from the IMF of the general and special allocation of SDRs amount to SDR 474,586,534 and SDR 136,289,102 respectively. Repayment will take place on IMF's demand. Under Article XX of IMF Statute, the Bank receives interest on the existing SDRs and pays a fee on its borrowings from the general and special allocation at the same interest rate.

22. Other Liabilities

(BGN'000)

	31 December 2020	31 December 2019
Funds of EU institutions and bodies	18,211	2,656
Funds of the Banks Resolution Fund	541,154	-
Salaries and social security payable	6,319	5,199
Deferred income	1,336	1,330
Other liabilities	204,654	256,442
	771,674	265,627

Funds of EU institutions and bodies include European Commission's funds and European Investment Bank's funds. Pursuant to Article 9 of Council Regulation No 1150 of 2000 and Bulgaria's participation in the funding of the EU budget, the Bank opened accounts of the European Commission. As of 31 December 2020 the funds on these accounts were BGN 18,211 thousand (31 December 2019: BGN 2656 thousand).

As from 27 July 2020 in line with the requirements of § 56, paragraph 1 of the Transitional and Final Provisions of the Amendment of the LRRCIIF, the Bulgarian National Bank as a resolution authority of credit institutions is the holder of the funds transferred by the BDIF and available in the Banks Resolution Fund. As of 31 December 2020 the funds amounted to BGN 541,154 thousand.

23. Capital and Reserves

The capital of the Bank is determined by the Law on the BNB and amounts to BGN 20,000 thousand.

Non-monetary asset revaluation reserves comprise the net change in fair value of property, equity investments and other non-monetary assets.

Pursuant to Article 36 of the Law on the Bulgarian National Bank, unrealised gains/losses arising from the revaluation of assets and liabilities denominated in foreign currencies or gold are transferred to a special reserve account and form special reserves.

Other reserves include 25 per cent of the annual excess of revenue over expenditure after the allocation to special reserves and reserves established upon a resolution of the BNB Governing Council.

As of 31 December 2020 profit distribution in accordance with the profit distribution policy disclosed in note 5 (j) is as follows:

(BGN'000)

	31 December 2020	31 December 2019
Profit/(loss) for the period	**295,691**	**490,115**
Allocation to special reserve under Article 36 of the LBNB:		
Unrealised (profit)/loss from gold revaluation	(436,626)	(647,198)
Unrealised (profit)/loss from revaluation of financial assets at fair value through profit or loss	38,473	13,192
Unrealised (profit)/loss from foreign currency revaluation	888	(1,037)
Other unrealised (profit)/loss	(38,297)	795
Result after allocation to special reserve including:	**(139,871)**	**(144,133)**
Allocation (from)/to Reserve Fund under Article 8 of the LBNB	*(153,569)*	*(153,203)*
Result from consolidation and non-controlling interest	*13,698*	*9,070*
Allocation to a special purpose fund under Article 8 of the LBNB	-	-
Planned contribution to the state budget	-	-

24. Non-controlling Interest

The BNB Printing Works AD is a joint-stock company with two shareholders: the BNB and the State represented by the Ministry of Finance. The BNB holds 95.6 per cent of the company's capital and the government holds the remaining 4.4 per cent of the company's capital.

25. Monetary Liabilities and Gross International Reserves

(BGN'000)

	31 December 2020	31 December 2019
Gross international reserves		
Cash and foreign currency denominated deposits	33,559,145	14,546,049
Monetary gold and other instruments in gold	3,953,565	3,456,338
Security investments	22,599,646	30,333,703
Equity investments and quota in the IMF	225,258	236,238
	60,337,614	**48,572,328**
Monetary liabilities		
Banknotes and coins in circulation	21,241,038	19,104,920
Liabilities to banks and other financial institutions	22,569,436	13,372,652
Liabilities to government institutions	8,021,347	8,101,121
Other liabilities	1,592,837	1,845,223
	53,424,658	**42,423,916**
Surplus of gross international reserves over monetary liabilities	6,912,956	6,148,412

Interest receivable and interest payable are carried to the relevant financial assets and liabilities.

Monetary gold and other instruments in gold are revalued on a daily basis based on the euro fixing of the London Bullion Market closing price.

26. Related Party Transactions

Bulgarian Government

International Monetary Fund

As of 31 December 2020, the Republic of Bulgaria has not received funds under IMF agreements.

The Republic of Bulgaria's quota in the IMF is secured by promissory notes jointly signed by the Bank and the government (ref. note 21).

Government bank accounts

As of 31 December 2020 government budget organisations have bank accounts with the Bank (ref. note 20).

Fiduciary activities

In accordance with the Law on the BNB and under the terms agreed upon with the Minister of Finance, the BNB acts as an agent in government or government-guaranteed debts. With regard to this role, the BNB performs agent and central depository services related to the administration and management of government securities issued by the Ministry of Finance. The Bank receives commission for providing these services. These government securities are not assets or liabilities of the BNB and are not recognised in its consolidated statement of financial position. The Bank is not exposed to any credit risk relating to government securities as it does not guarantee them. As of 31 December 2020, the par value of the government securities held in custody was BGN 5644 million (31 December 2019: BGN 5479 million).

27. Subsidiaries Included in Consolidated Financial Statements

(per cent)

Ownership interest	31 December 2020	31 December 2019
Bulgarian Mint EAD	100	100
BNB Printing Works AD (ref. note 24)	95.6	95.6

The net income from subsidiaries for the reporting period comprises net profit of BGN 108 thousand from the Bulgarian Mint EAD (31 December 2019: BGN 77 thousand) and BGN 5456 thousand from the BNB Printing Works AD (31 December 2019: BGN 7444 thousand).

28. Commitments and Contingencies

1) Participation in the Bank for International Settlements

The Bank holds 8000 shares of the capital of the BIS, each amounting to SDR 5000. Twenty-five per cent of the equity investment in the BIS is paid up. The capital subscribed but not paid in is with the option to be paid in within three months following a decision of the BIS Board of Governors. As of 31 December 2020 the contingent amount is BGN 68,868 thousand (31 December 2019: BGN 72,225 thousand).

2) IMF quota

The IMF quota is secured by promissory notes jointly signed by the Bank and the government of the Republic of Bulgaria amounting to BGN 1,955,768 thousand.

3) Capital commitments

As of 31 December 2020 the Bank has committed to BGN 4063 thousand to purchase non-current assets (31 December 2019: BGN 13,274 thousand).

4) Other commitments and liabilities

There are no other outstanding guarantees, letters of credit or commitments to purchase or sell either gold, other precious metals or foreign currency.

5) Other contingent liabilities

The BNB is being sued in relation to alleged compensation for delayed payment of deposits above the guaranteed amount or for challenging money transfers by customers of Corporate Commercial Bank AD (in bankruptcy) to a total amount of around BGN 115 million (December 2019: BGN 108 million). Currently, in Bulgaria there is no settled case-law on similar issues. Court proceedings are at an early stage and most of them have been stayed pending the ruling of the Bulgarian courts on questions referred for a preliminary ruling.

Two court proceedings have been instituted against the BNB before a Federal Court of the State of New York in relation to alleged compensation of USD 400 million for actions of Corporate Commercial Bank AD (in bankruptcy) conservators appointed in 2014. Both cases are at an early stage, and the question of the federal court's jurisdiction has not yet been determined.

Therefore and based on available information on both cases, the Bank's management considers that no reliable assessment of the likely outcome of legal proceedings could be made and, consequently, no provisions for these contingent liabilities should be made.

29. Events Occurred after the Reporting Date

On 12 February 2021 amendments to the LBNB were published[142]. The BNB Governing Council assesses the amendments to the Law as a non-adjusting event as regards the financial statements for the year ended 31 December 2020.

There are no events after the reporting date that require additional disclosure or adjustments to the Bank's Financial Statements.

[142] Darjaven Vestnik, issue 12 of 12 February 2021.

Information under Article 17, Paragraph 5 of the LBNB Concerning Resolutions Adopted by the BNB Governing Council in January–December 2020

Reporting and Budget

RESOLUTION No 36 of 31 January

The BNB Governing Council took note of the Decision of the European Central Bank on the national central banks' percentage shares in the key for subscription to the European Central Bank's capital and repealing Decision (EU) 2019/43.

RESOLUTION No 128 of 7 April

The BNB Governing Council approved the report on the implementation of the BNB budget for 2019.

RESOLUTION No 137 of 9 April

The BNB Governing Council approved the BNB Annual Report for 2019 on first reading.

RESOLUTION No 153 of 27 April

The BNB Governing Council approved the BNB Annual Report for 2019.

RESOLUTION No 206 of 11 June

The BNB Governing Council adopted amendments to the General Terms and Conditions of the BNB on accepting cash deposits and servicing bank accounts, budget organisations and other customers in accordance with the attached text, effective from 1 July 2020.

RESOLUTION No 418 of 1 December

The BNB Governing Council adopted Ordinance on Determining the Amount of Fees to Cover Administrative Costs of the BNB Arising from Supervisory and Resolution Functions.

RESOLUTION No 334 of 29 September

The BNB Governing Council approved the report on the implementation of the BNB budget as of 30 June 2020.

RESOLUTION No 363 of 29 October

The BNB Governing Council approved the BNB Report for January–June 2020 on first reading.

RESOLUTION No 364 of 29 October

The BNB Governing Council approved the BNB Budget for 2021 on first reading.

RESOLUTION No 367 of 29 October

The BNB Governing Council took note of the draft Law amending the LBNB and the justification thereto.

RESOLUTION No 398 of 19 November

The BNB Governing Council approved the BNB Report for January–June 2020.

RESOLUTION No 417 of 1 December

The BNB Governing Council approved the draft BNB Budget for 2021.

RESOLUTION No 451 of 17 December

The BNB Governing Council adopted amendments to the General Terms and Conditions of the BNB on servicing bank accounts, budget organisations and other customers, effective from 1 January 2021.

Gross International Reserves

RESOLUTION No 9 of 16 January

The BNB Governing Council took note of the selected benchmark for dynamic asset allocation in the first quarter of 2020.

RESOLUTION No 74 of 27 February

The BNB Governing Council took note of the International Reserve Management Report in 2019.

RESOLUTION No 138 of 9 April

The BNB Governing Council took note of the selected benchmark for dynamic asset allocation in the second quarter of 2020.

RESOLUTION No 152 of 23 April

The BNB Governing Council took note of the common parameters for a bilateral currency swap line between the BNB and the European Central Bank (ECB) as proposed by the ECB and gave its consent for conducting negotiations with the ECB on the terms and conditions of a bilateral currency swap line agreement.

RESOLUTION No 189 of 28 May

The BNB Governing Council took note of the International Reserve Management Report in the first quarter of 2020.

RESOLUTION No 236 of 9 July

The Governing Council approved the Draft *Euro-Bulgarian Lev SWAP Agreement* and assigned to the Governor to sign on behalf of the BNB *Euro-Bulgarian Lev SWAP Agreement* with the ECB.

RESOLUTION No 258 of 17 July

The BNB Governing Council took note of the selected benchmark for dynamic asset allocation in the third quarter of 2020.

RESOLUTION No 341 of 29 September

The BNB Governing Council took note of the International Reserve Management Report in the second quarter of 2020.

RESOLUTION No 375 of 29 October

The BNB Governing Council took note of the selected benchmark for dynamic asset allocation in the fourth quarter of 2020.

RESOLUTION No 445 of 17 December

The BNB Governing Council set the risk tolerance for 2021 related to the Bank's gross international reserves.

Payment Systems and Payment Oversight

RESOLUTION No 3 of 15 January

The Governing Council decided that OMV Bulgaria OOD should be entered in the Register under Article 19 of the LPSPS as a service provider under Article 2, paragraph 3 of the LPSPS.

RESOLUTION No 43 of 7 February

The Governing Council decided that Petrol AD should be entered in the Register under Article 19 of the LPSPS as a service provider under Article 2, paragraph 3 of the LPSPS.

RESOLUTION No 44 of 13 February

The Governing Council took note of the Annual Report of the Conciliation Committee for 2019.

The Governing Council took note of the Annual Report of the Sectoral Conciliation Commission on Financial Services for 2019.

RESOLUTION No 70 of 27 February

The Governing Council took note of the calculated average amount of fees charged by banks on services under Appendix 1 to Article 34 of Ordinance No 3 of the BNB on current accounts as of 31 December 2019 in relation to Article 120, paragraph 6 of the LPSPS and Article 35, paragraph 2 of Ordinance No 3 of the BNB.

RESOLUTION No 71 of 27 February

The Governing Council licensed Myfin EAD (under incorporation) to operate as an electronic money institution.

RESOLUTION No 119 of 24 March

The Governing Council suggests that the BNB starts applying Guidelines amending Guidelines EBA/GL/2018/05 on fraud reporting under the Payment Services Directive (PSD2) (EBA/GL/2020/01 of 22 January 2020), issued by the EBA and published on its website, to reporting of payment transactions initiated and executed from 1 July 2020.

RESOLUTION No 129 of 7 April

The Governing Council of the BNB adopted Ordinance on Amendment of Ordinance No 16 of the BNB of 29 March 2018 on Granting Licenses and Approvals, Entry into the Register under Article 19 of the LPSPS, and Requirements to the Activity of Operators of Payment Systems with Settlement Finality.

RESOLUTION No 130 of 7 April

The Governing Council of the BNB adopted Ordinance on Amendment of Ordinance No 3 of 18 April 2018 on the Terms and Procedure for Opening Payment Accounts, Executing Payment Transactions and Using Payment Instruments.

RESOLUTION No 210 of 12 June

The Governing Council suggests that the BNB starts implementing as of 30 June 2020 EBA Guidelines on ICT and security risk management (EBA/GL/2019/04 of 28 November 2019) issued by the EBA and published on its official website.

RESOLUTION No 319 of 4 September

The BNB Governing Council approved the draft Law amending the LPSPS.

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Between January and December 2020 the Governing Council of the BNB took one resolution to refuse the granting of payment institution license and 11 resolutions related to the imposition of supervisory measures, performed supervisory inspections and other approvals, authorisations and actions on administrative procedures.

Circulation of Banknotes and Coins

RESOLUTION No 10 of 16 January

The Governing Council set the price at which the silver commemorative coin 'Kukeri' of the Bulgarian Customs and Traditions series, issue 2020, will be sold at BNB tills.

RESOLUTION No 26 of 31 January

The Governing Council approved a List of selling prices of banknotes and coins sold by the BNB at prices other than their nominal value.

RESOLUTION No 27 of 31 January

Pursuant to LBNB Article 26, the BNB Governing Council withdrew from circulation commemorative coins issued in 2014 which ceased to be legal tender as of 10 February 2020. They may be exchanged at BNB tills at face value with no limit and no charge until 31 December 2021.

RESOLUTION No 91 of 12 March

The BNB Governing Council decided to put into circulation as of 11 May 2020 a partially gold-plated silver commemorative coin '100 Years of University of National and World Economy'.

RESOLUTION No 92 of 12 March

The BNB Governing Council decided to put into circulation as of 12 June 2020 as legal tender a banknote of BGN 10 nominal value, issue 2020.

RESOLUTION No 118 of 24 March

The BNB Governing Council decided to put into circulation as of 4 September 2020 as legal tender a banknote of BGN 5 nominal value, issue 2020.

RESOLUTION No 122 of 26 March

The partially gold-plated silver commemorative coin '100 Years of University of National and World Economy', issue 2020, will be sold at BNB tills at BGN 72.

RESOLUTION No 223 of 23 June

The BNB Governing Council adopted the Commemorative Coin and Banknote Production Programme for 2021.

The BNB Governing Council took note of the Preliminary Commemorative Coin and Banknote Production Programme for 2022 and 2023 as a basis for preparing annual programmes.

RESOLUTION No 259 of 17 July

The Governing Council approved a List of selling prices of banknotes and coins sold by the BNB at prices other than their nominal value.

RESOLUTION No 260 of 17 July

The BNB Governing Council decided to put into circulation on 7 December 2020 a golden commemorative coin 'The Nativity' of the 'Bulgarian Iconography' series.

RESOLUTION No 286 of 13 August

The BNB Governing Council took note of the availability and developments in the BNB Strategic Stock of Banknotes for 2019.

RESOLUTION No 342 of 29 September

The golden commemorative coin 'The Nativity', issue 2020, will be sold at BNB tills at BGN 1300.

RESOLUTION No 343 of 29 September

The BNB Governing Council decided to withdraw from circulation the banknotes of BGN 2 nominal value, issued in 1999 and 2005, which ceased to be legal tender as of 1 January 2021.

They may be exchanged at BNB tills at face value with no limit to amounts, fees, or limits in time.

RESOLUTION No 377 of 29 October

The BNB Governing Council set the final ranking in the anonymous competition for the silver commemorative coin '200 Years since the Birth of G. S. Rakovski' and chose the design by Plamen Chernev and Preslav Chernev. It also determined coin specifications.

RESOLUTION No 378 of 29 October

The BNB Governing Council set the final ranking in the anonymous competition for the silver commemorative coin 'Nestinarstvo' and chose the design by Elena Todorova and Todor Todorov. The coin will be minted after adjusting the graphic and plastic design for the reverse of the coin. It also determined coin specifications.

RESOLUTION No 400 of 19 November

The BNB Governing Council set the final ranking in the anonymous competition for the silver commemorative coin '100 Years of National Academy of Music' and chose the design by Stoyan Dechev and Martin Yordanov. The coin will be minted after adjusting the graphic and plastic design for the reverse of the coin. It also determined coin specifications.

RESOLUTION No 401 of 19 November

The BNB Governing Council set the final ranking in the anonymous competition for the gold-plated silver commemorative coin 'Khan Omurtag' of the 'Medieval Bulgarian Rulers' series and chose the design by Evgeniya Tsankova and Orlin Ivanov. It also determined coin specifications.

RESOLUTION No 449 of 17 December

The Governing Council approved General Terms for Exchanging Banknotes and Coins at an Announced Value, effective as of 1 January 2021.

The Governing Council approved amendments to Appendix No 1 to the BNB Fees for Exchanging Banknotes and Coins to the Tariff of the Fees Charged by the BNB for Exchanging Banknotes and Coins, effective as of 1 January 2021.

RESOLUTION No 450 of 17 December

The BNB Governing Council decided to withdraw from circulation the banknotes of BGN 2 nominal value, issued in 1999 and 2005, and to be put up for sale for numismatic purposes at a price other than their nominal value as of 4 January 2021.

The BGN 2 banknote, issued in 1999 and 2005, will be sold at BNB tills at BGN 3.60.

Maintaining Banking System Stability and Protecting Depositor Interests

RESOLUTION No 12 of 16 January

The Governing Council approved the Draft Joint Decision of the BNB, the ECB, the central banks of Romania, the Czech Republic and Hungary supervising Raiffeisen Bank International AG (RBI) and its subsidiaries.

RESOLUTION No 13 of 16 January

The Governing Council approved the Draft Joint Decision of the BNB, the central banks of Hungary, Romania, Croatia and Slovakia on determining the adequacy of liquidity of OTP Bank Nyrt. and its subsidiaries.

The Governing Council approved the Joint Decision of the BNB, the central banks of Hungary, Romania, Croatia and Slovakia on determining the adequacy of own funds and the required own funds to be maintained by OTP Bank Nyrt. and its subsidiaries.

RESOLUTION No 32 of 31 January

The BNB Governing Council took note of the Supervisory Review of Banks Report as of 30 June 2019.

RESOLUTION No 33 of 31 January

The Governing Council approved the Draft Joint Decision of the BNB, the ECB, the central banks of Romania, the Czech Republic and Hungary supervising Raiffeisen Bank International AG (RBI) and its subsidiaries.

RESOLUTION No 34 of 31 January

The Governing Council approved the Draft Joint Decision of the German Federal Financial Supervisory Authority, the central banks of Germany and Romania, and the BNB on determining the adequacy of liquidity of ProCredit Holding Group and its subsidiaries.

The Governing Council approved the Draft Joint Decision of the German Federal Financial Supervisory Authority, the central banks of Germany and Romania, and the BNB on determining the adequacy of own funds and the required own funds to be maintained by ProCredit Holding Group and its subsidiaries.

RESOLUTION No 53 of 13 February

The Governing Council approved the Draft Joint Decision of the BNB, the central banks of Hungary, Romania, Croatia and Slovakia on an assessment of OTP Bank Plc. and its subsidiaries group recovery plan (June 2019).

RESOLUTION No 63 of 27 February

The Governing Council decided to authorise the transformation through merger of Expressbank AD into the DSK Bank AD pursuant to Article 262 of the Law on Commerce.

RESOLUTION No 67 of 27 February

The Governing Council approved the Draft Joint Decision of the ECB, the BNB, the central banks of the Czech Republic, Romania, Croatia and Hungary on an assessment of UniCredit Group and its subsidiaries group recovery plan (30 September 2019).

RESOLUTION No 68 of 27 February

The Governing Council approved the list of persons eligible to be appointed assignees in bankruptcy of a bank under Article 44, paragraph 2 of the Law on Bank Bankruptcy.

RESOLUTION No 87 of 12 March

The Governing Council ordered the credit institutions licensed to conduct bank activities in the country, and foreign credit institutions' branches operating in the country not to distribute the profit for 2019; not to distribute the elements of own funds as defined in Part Two, Title I of Regulation (EU) No 575/2013, based on financial result from previous years; not to exceed the set limits on net exposures to certain categories of counterparties; to bring down their exposures to certain categories of counterparties to the set limits within specific time limits.

RESOLUTION No 104 of 13 March

The Governing Council approved the Draft Joint Decision of the ECB, the BNB, the central banks of the Czech Republic and Hungary on an assessment of KBC Group and its subsidiaries group recovery plan (30 September 2019).

RESOLUTION No 107 of 17 March

The Governing Council approved the Draft Joint Decision of the BNB and the ECB on determining the adequacy of liquidity and the adequacy of own funds, and the required own funds to be maintained by Eurobank S.A. and its subsidiaries.

RESOLUTION No 108 of 17 March

The Governing Council approved the Draft Joint Decision of the BNB and the ECB on an assessment of Eurobank Ergasias S.A. group recovery plan submitted in September 2019.

RESOLUTION No 112 of 19 March

The Governing Council approved the Draft Joint Decision of the ECB, the BNB, the central banks of the Czech Republic, Romania, Croatia and Hungary on an assessment of Raiffeisen Bank International Group and its subsidiaries group recovery plan for 2019.

RESOLUTION No 115 of 19 March

The Governing Council repealed Decision No 104 of 28 March 2019 and Decision No 438 of 20 December 2019 and kept the countercyclical buffer rate at 0.5 per cent effective from 1 October 2019 as set by BNB Resolution No 236 of 25 September 2018.

RESOLUTION No 127 of 3 April

The Governing Council suggests that the BNB complies with EBA Guidelines (EBA/GL/2020/02) on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis.

RESOLUTION No 132 of 7 April

The BNB Governing Council took note of the Report on the State of the Banking System (fourth quarter of 2019).

The BNB Governing Council took note of the publication of Banks in Bulgaria (October–December 2019).

RESOLUTION No 143 of 9 April

The BNB Governing Council approved the Association of Banks in Bulgaria draft on the Procedure for Deferral and Settlement of Liabilities Payable to Banks and Their Subsidiaries – Financial Institutions in relation to the state of emergency as a result of the COVID-19 pandemic enforced by the National Assembly on 13 March 2020, representing a non-legislative moratorium within the meaning of EBA Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis (EBA/GL/2020/02 of 2 April 2020).

RESOLUTION No 154 of 27 April

The Governing Council suggests that the BNB starts implementing as of 25 May 2020 Joint guidelines on cooperation and information exchange for the purpose of Directive (EU) 2015/849 between competent authorities supervising credit and financial institutions (JC/2019/81 of 16 December 2019), issued by the European Supervisory Authorities.

RESOLUTION No 210 of 12 June

The Governing Council suggests that the BNB starts implementing as of 30 June 2020 EBA Guidelines on ICT and security risk management (EBA/GL/2019/04 of 28 November 2019) issued by the EBA and published on its official website.

RESOLUTION No 217 of 23 June

The Governing Council decided to set the countercyclical capital buffer rate applicable to credit risk exposures in the Republic of Bulgaria at 0.5 per cent for the third quarter of 2020.

RESOLUTION No 218 of 23 June

The BNB Governing Council approved the draft Law amending the LCI.

RESOLUTION No 225 of 23 June

The Governing Council approved the Draft Joint Decision of the BNB, the ECB and the central banks of the Czech Republic, Hungary and Romania supervising Raiffeisen Bank International AG (RBI) and its subsidiaries on granting an authorisation at individual and group level to make significant changes to the internal ratings-based models.

RESOLUTION No 228 of 25 June

The Governing Council suggests that the BNB starts applying Guidelines amending Recommendations EBA/REC/2015/01 on the equivalence of confidentiality regimes (EBA/GL/2020/03 of 15 April 2020).

RESOLUTION No 241 of 9 July

The Governing Council decided that the BNB starts applying the Guidelines amending Guidelines EBA/GL/2020/02 on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis (EBA/GL/2020/08).

The BNB Governing Council approved by Resolution No 143 of 9 April 2020 the Association of Banks in Bulgaria draft on the Procedure for Deferral and Settlement of Liabilities Payable to Banks and Their Subsidiaries – Financial Institutions in relation to the state of emergency as a result of the COVID-19 pandemic enforced by the National Assembly on 13 March 2020, representing a non-legislative moratorium within the meaning of EBA.

The BNB Governing Council decided that the BNB starts publishing monthly aggregated information on the filed and approved applications for deferral of liabilities under the Procedure for Deferral and Settlement of Liabilities Payable to Banks and Their Subsidiaries.

RESOLUTION No 242 of 9 July

The Governing Council suggests that the BNB complies with EBA Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis (EBA/GL/2020/07) from the date of this Decision.

RESOLUTION No 252 of 17 July

The BNB Governing Council decided that the BNB will be represented in the ECB Supervisory Board by the BNB Deputy Governor heading the Banking Supervision Department.

The BNB Governing Council decided that the BNB's representative will participate and exercise the voting right in the adoption by the ECB of instructions with regard to the identification of significant supervised entities established in the Republic of Bulgaria.

RESOLUTION No 261 of 17 July

The BNB Governing Council took note of the Report on the State of the Banking System (first quarter of 2020).

The BNB Governing Council took note of the publication of Banks in Bulgaria (January–March 2020).

RESOLUTION No 264 of 17 July

The Governing Council suggests that the BNB starts implementing as of 1 September 2020 Guidelines on the determination of the weighted average maturity (WAM) of the tranche in accordance with Article 257(1)(a) of Regulation (EU) No 575/2013 (EBA/GL/2020/04 of 4 May 2020).

RESOLUTION No 265 of 17 July

The Governing Council suggests that the BNB starts implementing as of 30 June 2021 Guidelines on loan origination and monitoring (EBA/GL/2020/06).

RESOLUTION No 277 of 10 August

The Governing Council does not object for Joint Decisions on determining the adequacy of liquidity and the adequacy of own funds of OTP Bank Nyrt. and its subsidiaries in 2019 to be updated bilaterally between the central banks of Hungary and Slovenia under Article 20(2) of Regulation (EU) No 710/2014.

RESOLUTION No 290 of 13 August

The Governing Council suggests that the BNB complies with EBA Guidelines (EBA/GL/2020/10 of 23 July 2020) on the pragmatic 2020 supervisory review and evaluation process in light of the COVID-19 crisis (EBA/GL/2020/10 of 23 July 2020).

RESOLUTION No 326 of 10 September

The Governing Council suggests that the BNB starts applying Guidelines on supervisory reporting and disclosure requirements in compliance with the 'quick fix' of Regulation (EU) No 575/2013 in response to the COVID-19 pandemic (EBA/GL/2020/11)

The Governing Council suggests that the BNB starts applying Guidelines amending Guidelines EBA/GL/2018/01 on uniform disclosures under Article 473a of Regulation (EU) No 575/2013 as regards transitional arrangement for mitigating the impact of the introduction of IFRS9 on own funds to ensure compliance with the 'quick fix' of Regulation (EU) No 575/2013 in response to the COVID-19 pandemic (EBA/GL/2020/12).

RESOLUTION No 335 of 29 September

The Governing Council set the countercyclical capital buffer rate applicable to credit risk exposures in the Republic of Bulgaria at 0.5 per cent for the fourth quarter of 2020.

RESOLUTION No 336 of 29 September

The BNB Governing Council took note of the Report on the State of the Banking System (second quarter of 2020).

The BNB Governing Council took note of the publication of Banks in Bulgaria (April–June 2020).

RESOLUTION No 357 of 8 October

The Governing Council suggests that the BNB starts applying as of 1 January 2022 Guidelines on credit risk mitigation for institutions applying the IRB approach with own estimates of loss given defaults (LGDs) (EBA/GL/2020/05).

RESOLUTION No 361 of 15 October

The Governing Council suggests that the BNB starts applying as of 1 January 2022 Guidelines on the treatment of structural FX positions under Article 352(2) of Regulation (EU) No 575/2013 (CRR) (EBA/GL/2020/09 of 1 July 2020).

RESOLUTION No 365 of 29 October

The BNB Governing Council set as other systemically important institutions the following banks: UniCredit Bulbank AD, DSK Bank AD, First Investment Bank AD, United Bulgarian Bank AD, Eurobank Bulgaria AD, Raiffeisenbank Bulgaria EAD, Bulgarian Development Bank AD, Central Cooperative Bank AD.

The BNB Governing Council set buffer rates for other systemically important institutions on an individual and consolidated basis.

RESOLUTION No 397 of 16 November

The BNB Governing Council approved the draft Law amending the LCI.

RESOLUTION No 409 of 20 November

The Governing Council approved the Joint Decision of the BNB, the ECB, the central banks of Italy, Croatia, the Czech Republic, Hungary and Romania on determining the adequacy of liquidity and the adequacy of own funds, and the required own funds to be maintained by UniCredit S.p.A. and its subsidiaries.

RESOLUTION No 410 of 19 November

The Governing Council approved the Joint Decision of the BNB and the ECB on determining the adequacy of liquidity and the adequacy of own funds, and the required own funds to be maintained by Eurobank Ergasias S.A. and its subsidiaries.

RESOLUTION No 411 of 19 November

The Governing Council approved the Joint Decision of the BNB, the ECB, the central banks of Croatia, the Czech Republic, Hungary and Romania on determining the adequacy of liquidity and the adequacy of own funds, and the required own funds to be maintained by Raiffeisen Bank International AG and its subsidiaries.

RESOLUTION No 412 of 19 November

The Governing Council approved the Joint Decision of the BNB, the ECB, the central banks of the Czech Republic and Hungary on determining the adequacy of liquidity and the adequacy of own funds, and the required own funds to be maintained by KBC Bank NV and other subsidiaries of KBC Group NV.

RESOLUTION No 425 of 2 December

The Governing Council suggests that the BNB complies with Guidelines amending Guidelines EBA/GL/2020/02 on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis (EBA/GL/2020/15).

RESOLUTION No 433 of 10 December

The BNB Governing Council approved the Association of Banks in Bulgaria draft on a Procedure for Deferral and Settlement of Liabilities Payable to Banks and their Subsidiaries – Financial Institutions in relation to the state of emergency due to the measures enacted by the authorities of the Republic of Bulgaria to contain the COVID-19 pandemic and its impact.

The BNB Governing Council decided that banks should be required to submit within 10 working days from this Decision their operational plans defined in paragraph 17(a) of EBA Guidelines EBA/GL/2020/15.

RESOLUTION No 440 of 10 December

The Governing Council set the countercyclical capital buffer rate applicable to credit risk exposures in the Republic of Bulgaria at 0.5 per cent for the first quarter of 2021.

RESOLUTION No 441 of 17 December

The Governing Council adopted Ordinance on Amendment of Ordinance No 7 of the BNB on Organisation and Risk Management of Banks on first reading.

RESOLUTION No 442 of 17 December

The BNB Governing Council adopted Ordinance on Amendment of Ordinance No 29 of the BNB on Establishing the Procedure for Financing the Administrative Expenses of the Bulgarian Deposit Insurance Fund.

RESOLUTION No 443 of 17 December

The BNB Governing Council took note of the Report on the State of the Banking System (third quarter of 2020).

The BNB Governing Council took note of the publication of Banks in Bulgaria (July–September 2020).

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Over the January to December 2020 period the Governing Council of the BNB adopted:

46 resolutions pursuant to Article 11, paragraphs 1 and 3 of the LCI on approval for holding a position of a member of management body of a credit institution;

- 19 resolutions related to supervisory reviews pursuant to Article 79c of the LCI;
- 20 resolutions pursuant to Article 76, paragraph 4 of the LCI on coordinating the choice of an auditor of a credit institution;
- 59 resolutions related to the imposition of supervisory measures, performed supervisory inspections and other approvals, authorisations and actions on administrative procedures.
- five resolutions pursuant to Article 26(2) in conjunction with Article 26(1)(c) of Regulation (EU) No 575/2013 concerning inclusion of credit institution's net profit in Common Equity Tier 1 capital;
- ten resolutions under Article 71, paragraph 3 in conjunction with paragraph 1, item 6 of the LCI on an approval of amendments to the Articles of Association of a credit institution.

BNB Activities on Resolution of Credit Institutions

RESOLUTION No 6 of 16 January

The BNB Governing Council approved the resolution plan of First Investment Bank AD for 2019.

RESOLUTION No 7 of 16 January

The BNB Governing Council approved the resolution plan of Municipal Bank AD for 2019.

RESOLUTION No 8 of 16 January

The BNB Governing Council approved the resolution plan of Investbank AD for 2019.

RESOLUTION No 25 of 31 January

The BNB Governing Council took note of the 'Summarised information and analysis on the final draft resolution plans of Raiffeisen Bank International AG and on the work of resolution colleges in the process of planning the resolution in 2018.'

The BNB Governing Council approved a 'Joint decision on a resolution plan and assessment of the resolvability of Raiffeisen Bank International AG in 2018'.

The BNB Governing Council adopted a joint decision on minimum requirements for own funds and eligible liabilities for 2018 of Raiffeisen Bank International AG at group-level resolution, on a subconsolidated basis for Tatra banka, a.s., Raiffeisenbank, a.s., Prague, and Raiffeisen Bank S.A., Bucharest, on an individualised basis for Raiffeisen Bank Zrt., Budapest, Raiffeisen Bausparkasse Gesellschaft m.b.H. and Raiffeisen stavební spořitelna, a.s.".

RESOLUTION No 47 of 13 February

The BNB Governing Council approved the resolution plan of Bulgarian-American Credit Bank AD for 2019.

RESOLUTION No 48 of 13 February

The BNB Governing Council approved the resolution plan of Central Cooperative Bank AD for 2019.

RESOLUTION No 90 of 12 March

The Governing Council of the BNB set the annual banking system contribution to the Bank Resolution Fund for 2020 at BGN 157,876,116.

RESOLUTION No 117 of 24 March

The BNB Governing Council amended the methodology setting the total amount of individual annual contributions by third country banks and branches to the Bank Resolution Fund.

RESOLUTION No 139 of 9 April

The BNB Governing Council took note of the information provided by the Bulgarian Deposit Insurance Fund on the annual accounts of the Bank Resolution Fund for the year ending 31 December 2019.

RESOLUTION No 149 of 22 April

The BNB set the individual annual contributions of credit institutions and branches of third country credit institutions to the Bank Resolution Fund for 2020.

RESOLUTION No 219 of 23 June

The BNB Governing Council approved the draft Law amending the LRRCIIF.

RESOLUTION No 220 of 23 June

The BNB Governing Council approved the results from applying a methodology setting out critical functions of credit institutions and branches for which the BNB is the resolution authority in 2020.

RESOLUTION No 221 of 23 June

The BNB Governing Council approved the resolution plan of International Asset Bank AD for 2019.

RESOLUTION No 222 of 23 June

The BNB Governing Council approved the resolution plan of TBI Bank EAD for 2019.

RESOLUTION No 237 of 9 July

The BNB Governing Council took note of the information on the main elements of the resolution plan of ProCredit Bank EAD for 2019 on an individualised basis.

RESOLUTION No 238 of 9 July

The BNB Governing Council took note of the summarised information on resolution colleges and preparation of group resolution plans for 2019 and 2020.

RESOLUTION No 257 of 17 July

The BNB Governing Council took note of the 'Summarised information and analysis on the final draft resolution plans of OTP Group in the process of planning the resolution in 2019.'

The BNB Governing Council approved a joint decision on a resolution plan and assessment of the resolution potential of OTP Group in 2019.

The BNB Governing Council approved a joint decision on the minimum requirement for own funds and eligible liabilities on a consolidated basis for OTP Bank Nyrt. and on an individualised basis for OTP Bank Nyrt., OTP Lakástakarék Zrt., Merkantil Bank Zrt., OTP Bank Romania S.A. and OTP Banka Slovensko a.s. in 2019.

RESOLUTION No 268 of 23 July

The BNB Governing Council decided to open earmarked accounts, one account for each of the sub-funds, under Article 134, paragraph 1, items 1 and 2 of the LRRCIIF with the BNB with account holder the BNB.

RESOLUTION No 281 of 13 August

The BNB Governing Council amended the methodology for considering actions on resolution and liquidation under insolvency proceedings of credit institutions for which the BNB is the resolution authority.

RESOLUTION No 282 of 13 August

The BNB Governing Council approved the results from applying a methodology for considering actions on resolution and liquidation under insolvency proceedings of credit institutions for which the BNB is the resolution authority for 2020.

RESOLUTION No 283 of 13 August

The BNB Governing Council allocated resources of the Banks Resolution Fund on 14 August 2020, with a value date 17 August 2020, as follows:

1. BGN 616,504.58 to the account of the sub-fund established to finance the application of the resolution tools and powers in relation to branches of third-country credit institutions with account holder the BNB.
2. BGN 700,263,345.15 to the account of the sub-fund established to raise contributions of the credit institutions under Articles 69 to 71 of Regulation (EU) No 806/2014 and their transfer to Single Resolution Fund.

RESOLUTION No 284 of 13 August

The BNB Governing Council approved the resolution plan of Allianz Bank Bulgaria AD for 2019.

RESOLUTION No 333 of 17 September

The BNB Governing Council appointed the Deputy Governor in charge of the Issue Department as a member of the Single Resolution Board as a BNB representative.

RESOLUTION No 350 of 2 October

The BNB Governing Council ordered the amount of EUR 81,018,259.53 to be transferred to the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF to the Single Resolution Fund.

RESOLUTION No 373 of 29 October

The BNB does not apply the simplified requirements when preparing resolution plans to credit institutions for which the BNB is a resolution authority.

The BNB Governing Council approved the results from applying Chapter Two of the Internal Rules for the Application of Simplified Requirements in the Preparation of Resolution Plans of Credit Institutions falling within the direct powers of the Single Resolution Board.

The BNB Governing Council does not propose to the Single Resolution Board the application of simplified requirements to credit institutions falling within the direct powers of the Single Resolution Board.

RESOLUTION No 374 of 29 October

The BNB in its capacity as a resolution authority for ProCredit Bank (Bulgaria) EAD agreed to participate as a member in the resolution college of the ProCredit Holding group set up by the group-level resolution authority.

RESOLUTION No 385 of 3 November

The BNB Governing Council took note of the 'Summarised information and analysis on the final draft resolution plan and assessment of the resolution potential of Eurobank Ergasias Services and Holdings S.A. and on the work of internal resolution team in the process of planning the resolution in 2020.' The BNB did not support the draft decision of the Single Resolution Board on a resolution plan and resolvability assessment of Eurobank Ergasias Services and Holdings S.A. (Eurobank Group) and expressed its disagreement with the resolution plan and resolvability assessment of Eurobank Group as regards the part relating to identified critical functions of Eurobank Bulgaria AD and the approach for setting out MREL of Eurobank Bulgaria AD on an individual basis.

RESOLUTION No 399 of 19 November

The BNB Governing Council requests the Single Resolution Board to apply Article 12d(4) of Regulation (EU) 806/2014 amended by the Regulation (EU) 2019/877 in respect to Raiffeisenbank Bulgaria EAD.

RESOLUTION No 431 of 10 December

The BNB Governing Council took note of the 'Summarised information and analysis on the draft resolution plan and assessment of the resolution potential of Raiffeisen Bank International and on the work of internal resolution team in the process of planning the resolution in 2020.'

As regards draft resolution plan of Raiffeisen Bank International for 2020, the BNB Governing Council agreed on the approval of:

a) draft joint decisions on setting a minimum requirement for own funds and eligible liabilities of resolution entities and their subsidiaries;
b) draft group resolution plan for 2020 of parent undertaking and its subsidiaries;
c) draft joint decision on group resolution plan for 2020 of parent undertaking and its subsidiaries.

RESOLUTION No 432 of 10 December

The BNB Governing Council took note of the 'Summarised information and analysis on the draft resolution plan and assessment of the resolution potential of UniCredit S.p.A. and on the work of internal resolution team in the process of planning the resolution in 2020.'

As regards draft resolution plan of UniCredit S.p.A. for 2020, the BNB Governing Council agreed on the approval of:

a) draft joint decision on setting a minimum requirement for own funds and eligible liabilities of resolution entity and relevant subsidiaries;

b) draft group resolution plan for 2020 of parent undertaking and its subsidiaries.

RESOLUTION No 435 of 17 December

The BNB Governing Council took note of the 'Summarised information and analysis on the draft resolution plan and assessment of the resolution potential of KBC Group N.V. and on the work of internal resolution team in the process of planning the resolution in 2020.'

As regards draft resolution plan of KBC Group N.V. for 2020, the BNB Governing Council agreed on the approval of:

a) draft joint decision on setting a minimum requirement for own funds and eligible liabilities (MREL) of resolution entity and its subsidiaries that are relevant legal entities;

b) draft group resolution plan for 2020 of parent undertaking and its subsidiaries.

Statistics

RESOLUTION No 69 of 27 February

The BNB Governing Council adopted Ordinance on Amendment of BNB Ordinance No 17 of 29 March 2018 on the Monetary and Interest Rate Statistics and Financial Accounts Statistics.

RESOLUTION No 419 of 1 December

The BNB Governing Council adopted Ordinance on Amendment of BNB Ordinance No 27 of 13 March 2014 on the Balance of Payments Statistics, International Investment Position and Securities Statistics, effective as of 1 January 2021.

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

RESOLUTION No 40 of 6 February

The BNB Governing Council took note of the draft Law amending Article 56a of the LCI.

RESOLUTION No 51 of 13 February

On the grounds of Article 56a, paragraph 8 of the LCI, the BNB Governing Council adopted Ordinance on Amendment of Ordinance No 12 of 29 September 2016 on the Register of Bank Accounts and Safe Deposit Boxes.

RESOLUTION No 52 of 13 February

On the grounds of Article 56a, paragraph 4 of the LCI, the BNB Governing Council adopted Ordinance on Amendment of Ordinance No 22 of 16 July 2009 on the Central Credit Register.

RESOLUTION No 176 of 14 May

The BNB Governing Council adopted Ordinance on Amendment of Ordinance No 12 of 29 September 2016 on the Register of Bank Accounts and Safe Deposit Boxes.

RESOLUTION No 403 of 19 November

The BNB Governing Council adopted Ordinance on Amendment of Ordinance No 22 on the Central Credit Register, effective as of 1 December 2020.

RESOLUTION No 404 of 19 November

The BNB Governing Council adopted Ordinance on Amendment of Ordinance No 12 on the Register of Bank Accounts and Safe Deposit Boxes, effective as of 1 December 2020.

RESOLUTION No 452 of 17 December

The BNB Governing Council adopted Ordinance on Amendment of Ordinance No 22 of 16 July 2009 on the Central Credit Register.

The BNB Governing Council decided that fees for statements in the Register of Bank Accounts and Safe Deposit Boxes should remain unchanged in 2021.

Research

RESOLUTION No 54 of 13 February

The BNB Governing Council took note of the assessments of developments in major macroeconomic indicators in the first and second quarters of 2020 along with BNB forecasts of major macroeconomic indicators for 2019–2021 (based on data as at 20 December 2019) to be published in the Economic Review quarterly, issue 4 of 2019.

RESOLUTION No 75 of 27 February

The BNB awarded three master's degree scholarships in 2020.

The BNB awarded one doctor's degree scholarship in 2020.

RESOLUTION No 204 of 11 June

The BNB Governing Council took note of the assessments of developments in major macroeconomic indicators in the second and third quarters of 2020 to be published in the Economic Review quarterly, issue 1 of 2020.

RESOLUTION No 288 of 13 August

The BNB Governing Council took note of the assessments of developments in major macroeconomic indicators in the third and fourth quarters of 2020 along with BNB forecasts of major macroeconomic indicators for 2020-2022 to be published in the Economic Review quarterly, issue 2 of 2020.

RESOLUTION No 344 of 29 September

The BNB Governing Council launched a periodical publication of the BNB 'Macroeconomic Forecast' and decided its first issue to be published in October 2020.

RESOLUTION No 345 of 29 September

The BNB Governing Council approved the BNB Publications Council Report for 2019.

RESOLUTION No 354 of 8 October

The BNB Governing Council took note of the BNB forecasts of major macroeconomic indicators for 2020–2022 (based on data as of 25 September 2020) to be published in the Macroeconomic Forecast, September 2020.

RESOLUTION No 376 of 29 October

The BNB Governing Council took note of the assessments of developments in major macroeconomic indicators in the fourth quarter of 2020 and first quarter of 2021 to be published in the Economic Review quarterly, issue 3 of 2020.

BNB Internal Audit

RESOLUTION No 177 of 14 May

The BNB Governing Council approved Chief Auditor's Report on the activity of the BNB Internal Audit for 2019 with annotations made.

RESOLUTION No 383 of 29 October

The BNB Governing Council adopted the Annual Plan of the BNB Internal Audit for 2021 and the updated strategy on the activity of the BNB Internal Audit for the period until 2023.

Resolutions Related to Companies in Which the BNB Holds Participation

RESOLUTION No 164 of 4 May

The BNB Governing Council approved the audited and certified Annual Financial Statements of the Bulgarian Mint EAD and Bulgarian Mint Report for 2019 and distributed Bulgarian Mint EAD net profit of BGN 76,997.58 as a dividend to the sole owner of the capital.

The BNB Governing Council granted discharge to the members of the Board of Directors for their activities in 2019. The Governing Council took note of the Business Plan of Bulgarian Mint EAD for 2020.

RESOLUTION No 169 of 7 May

The BNB Governing Council gave its consent the Executive Director of the BNB Printing Works AD to vote at the ordinary General Meeting of Shareholders of Oberthur Fiduciaire AD on: adoption of the Report of the Board of Directors for the activity of Oberthur Fiduciaire AD in 2019; adoption of audited and certified Annual Financial Statements of Oberthur Fiduciaire AD for 2019; profit distribution in the amount of BGN 4,202,939.08, as follows: 1/10 of the profit to be separated in the Reserve Fund of the entity, while the remaining profit including BGN 63,378.83 of retained profit from the last year to be distributed as a dividend to shareholders in the amount of BGN 4.20 *per* share; granting discharge to the members of the Board of Directors of the entity for their activities in 2019; selection of ERNST & YOUNG AUDIT OOD as entity's auditor for 2020, 2021 and 2022.

RESOLUTION No 183 of 21 May

The BNB Governing Council gave its consent the BNB Governor to authorise a representative of the BNB to vote at the annual General Meeting of Shareholders of the BNB Printing Works AD on: adoption of the Report of the Board of Directors for the activity of the BNB Printing Works AD in 2019; adoption of audited and certified Annual Financial Statements of the BNB Printing Works AD for 2019; granting discharge to the members of the Board of Directors of the entity for their activities in 2019; entity's profit distribution in the amount of BGN 7,444,482.51, as follows: 1/10 of the profit to be allocated to the Reserve Fund and the remaining profit to be distributed to shareholders, including BGN 4,111,103.58 profit of the BNB Printing Works AD from past years; dismissal of Board of Directors members of the BNB Printing Works AD and election of new Board of Directors members of the BNB Printing Works AD for three-year terms.

RESOLUTION No 184 of 21 May

The BNB Governing Council gave its consent the BNB Governor to authorise a representative of the BNB to vote at the ordinary General Meeting of Shareholders of Cash Services Company AD on: adoption of the Report of the Board of Directors for the activity of Cash Services Company AD in 2019; adoption of audited and certified Annual Financial Statements of Cash Services Company AD for 2019; entity's profit distribution in the amount of BGN 1,331,387.23, as follows: 10 per cent of the profit to be allocated to the Reserve Fund, the sum of BGN 24,723 to be provisioned for future obligations to retiring staff and the remaining profit including BGN 852,358.97 of retained profit from past years to be distributed as a dividend of BGN 1,912,500 to shareholders, or BGN 153 dividend *per* (one) share; granting discharge to the members of the Board of Directors of the entity for their activities in 2019; selection of specialised auditing company AFA OOD to audit and certify the Annual Financial Statements of Cash Services Company AD for 2020; granting discharge to Tzvetanka Georgieva Mintcheva as a member of the Board of Directors of Cash Services Company AD and election of Ivaylo Rusinov Glavchovski as a member of the Board of Directors of Cash Services Company AD.

RESOLUTION No 278 of 13 August

The BNB Governing Council gave its consent the BNB Governor to authorise a representative of the BNB to vote at the ordinary General Meeting of Shareholders of BORICA AD on: adoption of the Report of the Board of Directors for the activity of BORICA AD in 2019 and of audited and certified Annual Financial Statements of BORICA AD for 2019; entity's profit distribution in the amount of BGN 9,813,764.26, as follows: BGN 4,000,241.44 of net profit of BORICA AD for 2019 to be paid as a dividend to shareholders in proportion to their shares, BGN 3,000,000 of net profit of BORICA AD for 2019 to remain as retained profit, BGN 2,813,522.82 of net profit of BORICA AD for 2019 to be allocated to Additional General Reserves, granting discharge to the members of the Board of Directors of BORICA AD for their activities in 2019; amendment of Article 7, item 6 of BORICA AD Statute; selection of specialised auditing company Deloitte Audit OOD as an auditor to audit and certify the Annual Financial Statements of BORICA AD for 2020.

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In the January–December 2020 period the Governing Council of the BNB adopted resolutions on internal rules of the Bank (10 resolutions), public procurements and contracts[143] (20 resolutions), and organisation of the Bank activities (111 resolutions, including 30 resolutions on the organisation of banking supervision's activities and 26 resolutions on the organisation of credit institution resolution).

[143] Detailed information on procurement procedures is available on the BNB website, Public Procurement: http://www.bnb.bg/AboutUs/index.htm.

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