Banks Resolution Fund Annual Report 2024

BULGARIAN NATIONAL BANK

145 YEARS

Banks Resolution Fund Annual Report 2024

BULGARIAN NATIONAL BANK

145 YEARS

Published by the Bulgarian National Bank
1, Knyaz Alexander I Square, 1000 Sofia
Tel.: (+359 2) 9145/1621
Fax: (+359 2) 980 2425, 02 980 6493

Printed in the BNB Printing Centre

Website: www.bnb.bg

The Banks Resolution Fund Annual Report for 2024
employs statistical data published as of 11 March 2025.

ISSN 2815-3901 (print)
ISSN 2738-8220 (online)

Contents

List of Abbreviations

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

Summary

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

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

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

Global economic activity remained resilient in 2024. The dynamics of global economic growth largely reflected the restrictive monetary policy of leading central banks, global resilient labour markets, sustainable growth in the US economy, the slowdown in China's economy, and geopolitical uncertainty. The downward trend in annual global inflation continued in 2024, but the decline was slower than that recorded in the previous year due to persistent services sector inflation. In view of the prospects for achieving the price stability objectives, the US and euro area central banks started to ease their monetary policies in 2024, with the European Central Bank (ECB) and the Federal Reserve reducing their key interest rates by 100 basis points each. The monetary policy measures undertaken by the two central banks and the change in market participants' expectations regarding future cuts in key interest rates led to a decline in yields and interest rates in the short-term maturity sectors and an increase in the long-term sectors of all asset classes in which BRF financial means could be invested.

In 2024, Bulgaria's real gross domestic product (GDP) rose by 2.8 per cent. The main driver of growth was household consumption, supported by the real wage growth, the increased government social payments and the rise in the number of employed persons. Annual consumer price inflation decelerated to 2.1 per cent at the end of 2024 (compared to 5.0 per cent in December 2023). The main factors contributing to lower inflation were the pass-through of the decreased international crude oil price to energy

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

[2] Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010 (OJ, L 225/1 of 30 July 2014).

product prices, the decline in industrial goods prices due to their lower import prices, and the base effect of high rates of price increases in 2023, mainly in the food group. At the same time, in the context of the domestic macroeconomic environment, rising unit labour costs and sustained strong private consumption continued to exert pro-inflationary pressure, their impact being most pronounced in the group of services.

In 2024, the banking sector in Bulgaria continued to operate in the context of an enhanced geopolitical uncertainty in the external environment and relatively favourable macroeconomic environment. Banking system's capital indicators and liquidity position remained stable. The amount of gross and net non-performing loans and advances continued to decrease, with the rate of decline slowing from that reported in 2023.

Credit activity remained high due to the simultaneous effect of factors on the credit supply and demand side. In order to reflect potential medium-term risks arising from credit dynamics in the housing loans segment, the BNB introduced requirements for loan-to-value and debt service-to-income ratios, and a maturity when originating and renegotiating loans secured by residential real estate. This measure is effective as of 1 October 2024 with the aim to strengthen the creditworthiness of borrowers in this segment and the resilience of the banking system.

Given the persistently high credit growth rates and the uncertainty in the economic environment, in 2024 a countercyclical capital buffer rate of 2.0 per cent was applied. As regards risks of a structural nature, banks in Bulgaria continued to maintain a systemic risk buffer set by the BNB Governing Council at 3 per cent of domestic risk-weighted exposures. The annual review of the buffer for other systemically important institutions (O-SIIs) carried out by the BNB Governing Council in 2024 identified six institutions for which the buffer rates have been set within the range from 0.5 per cent to 1.0 per cent in 2025.

In April 2024, the BNB Governing Council set the total amount of the annual contributions to the sub-fund for branches of third-country credit institutions for 2024 at BGN 106 thousand. As of 31 December 2024, the available financial means in this sub-fund amounted to BGN 1033 thousand.

In 2024, the Single Resolution Board (SRB) did not collect regular annual contributions to the SRF from credit institutions licensed in the Republic of Bulgaria as a result of reaching the target level[3] of the Fund at the end of 2023. In May 2024, based on SRB decision on the calculation of adjustments to individual *ex-ante* annual contributions, including two credit institutions licensed in the Republic of Bulgaria which submitted corrective data for 2023, the BNB Governing Council decided to adjust the amount of the funds in the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF, deducted from the obligations of those credit institutions for *ex-ante* contributions to the SRF for 2023, and to recover funds of BGN 97 thousand in the above mentioned sub-fund. As of 31 December 2024, financial means in the sub-fund dedicated for contributions to the SRF amounted to BGN 477,989 thousand.

[3] As defined in Article 69(1) of Regulation (EU) No 806/2014 at least 1 per cent of the amount of covered deposits of all credit institutions authorised in all of the participating Member States in the Single Resolution Mechanism.

In 2024, no resolution powers were exercised in respect of credit institutions or branches of third-country credit institutions licensed in the Republic of Bulgaria, and therefore no BRF financial means were spent on resolution actions or transfer of extraordinary contributions to the SRF.

This Report presents the BNB functions and tasks related to the Fund management. It provides an annual review of the BRF development and performance in the context of the international environment, economic activity in Bulgaria and the state of the banking system. The Report contains also all components of the BRF financial statement as of 31 December 2024, presenting its assets and financial position, cash flows, financial performance and change in net assets, along with the report of the independent auditor.

The Annual Report of the Banks Resolution Fund for 2024 was adopted by the BNB Governing Council by Resolution No 162 of 17 April 2025.

I. Economic Activity in 2024

1. External Environment

Global economic activity remained resilient in 2024, posting a moderate growth. Developed market economies continued to grow at rates similar to those of the previous year, while growth rates of developing market economies slowed down somewhat. Dynamics of global economic indicator (global PMI)[4] showed a steady increase in global economic activity mainly in services and a stagnation in manufacturing. Over the year, global real GDP rose by 2.6 per cent on an annual basis, compared with 2.7 per cent in 2023.[5] Labour market conditions remained favourable globally, with the unemployment rate falling further to 5.5 per cent in 2024, from 5.7 per cent in 2023.[6] At the same time, geopolitical uncertainty related to the wars in Ukraine and the Middle East continued to weigh negatively on global economic growth.

In 2024, economic activity in the United States remained relatively high, with GDP rising by 2.8 per cent in real terms, in comparison with 2.9 per cent in 2023. The main factors behind this were the resilient labour market, which contributed to accelerated growth in private consumption, as well as stronger investment growth and sustained growth in public consumption and investments.

In China, economic activity slowed down on an annual basis in 2024 to 5.0 per cent, from 5.4 per cent in 2023, mainly driven by weaker domestic demand due to structural problems in the residential property development sector in the country.

Euro area real GDP growth accelerated to 0.9 per cent on an annual basis, compared to 0.4 per cent in 2023. By final consumption expenditure component, inventories, which posted a weaker decline, had the main positive contribution to the acceleration of economic activity, along with increased government and private consumption. Investments had a significant negative contribution to growth, mainly influenced by geopolitical uncertainty, weak external demand and tight financing conditions as a result of the ECB's monetary policy. The services sector contributed most to economic growth in 2024, while the downward trend in manufacturing slowed down. The euro area labour market remained resilient. Despite the continuing downward trend in employment growth, the unemployment rate continued to decline, averaging 6.4 per cent over the reporting period, compared to 6.6 per cent in 2023.

In 2024, the downward trend in annual global inflation continued, reaching 2.9 per cent in December, from 3.8 per cent at the end of 2023. The tight monetary policy in major advanced economies was the main driver of the slowdown in inflation, which decreased at a slower pace than in the previous year due to persistent inflation in the services sector.

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

[5] Based on the World Bank data as of 11 March 2025.

[6] Based on the World Bank data as of 11 March 2025.

In 2024, US annual inflation, measured by the personal consumption expenditure price index, remained above the target of 2.0 per cent set by the Federal Open Market Committee (FOMC). Declining annual inflation slowed down from the previous year reaching 2.6 per cent in December 2024, from 2.7 per cent at the end of 2023. Inflation fluctuations over the year were mainly driven by transport fuel prices and their contribution to headline inflation. Core inflation in the United States (excluding food and energy products) also moderated slightly in 2024, to stand at 2.9 per cent in December, from 3.0 per cent at the end of 2023.

Annual consumer price inflation slowed down to a greater extend in the euro area than in the United States, reaching 2.4 per cent at the end of 2024, from 2.9 per cent at the end of 2023. At the same time, core inflation (excluding food, energy, alcohol and tobacco products) went down to 2.7 per cent in December 2024 (from 3.4 per cent at the end of the previous year). Food, which posted lower inflation, contributed most to the decline in euro area annual inflation. The contribution of gas and electricity prices to headline inflation has increased significantly due to the gradual phasing-out of measures taken in previous years to contain rising prices of these energy sources.

In view of the prospects for achieving the price stability objectives, the US and euro area central banks started to ease their monetary policies in 2024. The ECB began cutting its key interest rates in June 2024, lowering the deposit facility rate by a total of 100 basis points to 3.00 per cent. The Federal Reserve also cut the federal funds rate corridor by a total of 100 basis points to 4.25–4.50 per cent, but, owing to more persistent US inflation, the FOMC started the cycle later *i.e.* in September 2024. Interest rates remained the main instrument in the conduct of monetary policy by the Federal Reserve and the ECB, while the reduction in central banks' balance sheets was secondary.

International financial market dynamics in 2024 continued to be driven mainly by the monetary policy of the Federal Reserve and the ECB and the new interest rate cycle of reference rate cuts they have initiated. The monetary policy measures taken by the two central banks led to a decline in US and euro area government bond yields in short-term maturity sectors of up to about two years. In long-term sectors, yields increased, reflecting market participants' expectations of a slower decline in interest rates by the ECB and the Federal Reserve compared to what was expected at the end of 2023. US and European stock indices increased in 2024, driven by rising stock prices of technology companies and easing of the monetary policy of the Federal Reserve and the ECB. Over the period, indices measuring stock market volatility in the United States and Europe increased compared with 2023. Additional factors affecting financial market volatility in the course of the year were geopolitical tensions in the Middle East and Ukraine, France's political instability and uncertainty about the future US economic and trade policy.

The decrease in the ECB's deposit facility rate was the main driver of the decrease in unsecured deposit rates in the interbank market in 2024. By 31 December 2024, the €STR decreased to 2.91 per cent from 3.88 per cent at the end of 2023. The trading volume of overnight deposits in the unsecured euro area money market declined in 2024, with the daily average for the year reaching EUR 52.7 billion (compared with

EUR 60.9 billion in 2023). The interest rate on unsecured deposits in the interbank market (EURIBOR) with a maturity of 3 months declined at the end of 2024 to 2.71 per cent (compared to 3.91 per cent at the end of 2023) and interest rates on deposits with a maturity of 6 months and 12 months decreased to 2.57 per cent and 2.46 per cent respectively, from 3.86 per cent and 3.51 per cent respectively at the end of 2023.

In 2024, German government bond yields declined significantly across the maturity sectors of up to and including three years and rose across longer-term maturity sectors. German government two-year bond yield declined by 32 basis points to 2.08 per cent, and ten-year yield rose by 34 basis points to 2.36 per cent. These developments led to an increase in the slope of the German government bond yield curve, measured by the difference between ten- and two-year bond yields, by 66 basis points to 33 basis points by the end of 2024. The main factor behind the decline in German government bond yields in the short-term maturity sectors was the decisions of the ECB Governing Council meetings in June, September, October and December to cut the deposit facility rate by 25 basis points. Market participants' expectations of a slower than expected at the end of 2023 ECB interest rates cut and of a rise in US government bond yields contributed to the growth in long-term maturity sector yields. The change in market expectations towards a slower decline in ECB interest rates was driven by positive data on economic activity in the euro area, persistent inflation rates and ECB Governing Council members' statements that expectations of rate cuts in the beginning of the second quarter of 2024 were premature. The increase in yields in the long-term maturity sectors was curbed by the increased demand for low-risk assets due to political uncertainty in France, geopolitical tensions in the Middle East and Ukraine and concerns that the possible imposition of tariffs on imports of goods from the European Union (EU) in the United States by the new US presidential administration will have a negative impact on euro area economic activity. Yield spreads between the sovereign bonds of euro area countries mostly declined in 2024. More pronounced volatility and an increase in spreads were observed in June in the week following the European Parliament elections, when France announced early elections. In the second half of the year, France faced a political crisis with early parliamentary elections and a lack of a stable government to strengthen country's fiscal position. This led to a decrease in France's credit rating and its outlook by major rating agencies, which was also reflected in France's ten-year yield spread widening by 29 basis points over the year. Ten-year government bond spreads of other euro area countries narrowed over the year, with euro area periphery countries experiencing a larger contraction due mainly to positive macroeconomic developments in the respective countries, positive rating news in many countries, as well as the easing of the ECB's monetary policy.

In 2024, yield dynamics of the remaining asset classes in which BRF financial means could be potentially invested pursuant to the Law on the Bulgarian National Bank (LBNB)[7], was also downward in short-term maturity sectors and upward in long-term maturity sectors, following the dynamics of benchmark yield curves against which these financial instruments are traded.

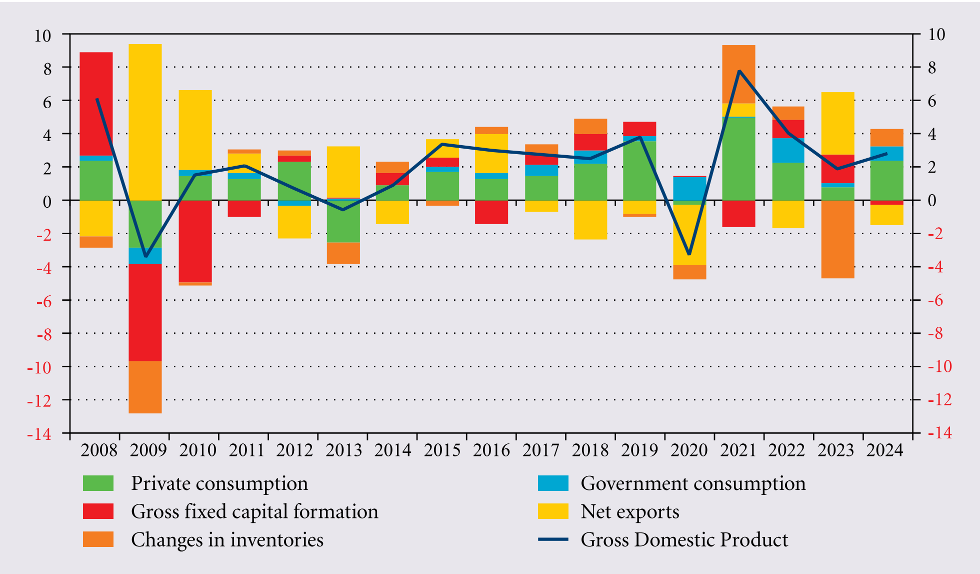
[7] Published in the Darjaven Vestnik, issue 40 of 10 June 1997.

2. Economic Activity in Bulgaria

In 2024, Bulgaria's real GDP growth stood at 2.8 per cent[8] (compared to 1.9 per cent in 2023). By final expenditure component, private consumption, followed by changes in inventories and government consumption had the main positive contribution to the growth, while fixed capital investments and net exports contributed negatively to the real GDP dynamics. Labour market developments favoured economic activity by both increasing employment and rising real labour income, which supported growth in household consumption expenditure. Fiscal policy continued to exert a pro-cyclical effect and stimulated domestic demand through increases in social payments and compensation of employees in the public sector. Additional factors with a positive effect on private consumption were the high credit activity and negative real interest rates on household deposits, which contributed to the comparatively high propensity of households to consume. The external environment had a limiting effect on real GDP growth in 2024 amid subdued economic activity in Bulgaria's major trading partners.

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

(per cent, percentage points)



Sources: NSI, BNB calculations.

In 2024, nominal wages continued to grow at a rate higher than that of consumer prices. The main factors supporting the wage growth were stronger labour demand in the context of increasing economic activity, sustained significant labour shortages, as well as rising government sector wages and minimum wage increase since January 2024. Household consumption rose by 4.2 per cent in real terms, supported by wage

[8] Non-seasonally adjusted data. The analysis employs preliminary data of the National Statistical Institute (NSI) published on 7 March 2025.

growth, the increased number of employed people and improved household sentiment, measured by the consumer confidence indicator. Rising net fiscal transfers to households and high lending activity supported further private consumption growth. Gross fixed capital formation posted a 1.1 per cent decline in real terms, with public investment contributing to this, according to the BNB's estimates[9], while private investments had a positive contribution. Factors having a favourable effect on the growth of investment activity in the private sector over 2024 were the increased final consumption expenditure, sales of new dwellings and active supply of credit by banks. Net exports had a negative contribution to the real GDP change in 2024, driven by the fall in exports (by 0.8 per cent) in combination with the growth of goods and services imports (by 1.3 per cent). Both trade in goods and in services contributed to the decrease in exports. These developments can be explained by subdued economic activity in Bulgaria's main trading partners, declines in manufacturing firms assurance with orders from abroad, as weel as lower agricultural harvests and, hence, exports of cereals and oilseeds. The upward dynamics of imports was driven by the strong growth of private consumption and increased firms' inventories of commodities, raw materials and finished products, which are characterised by a high import content.

In terms of the trends across economic sectors, gross value added rose by 2.5 per cent in 2024, with the services sector having the main positive contribution, followed by industry, while agriculture recorded a decline. In the services sector, growth in value added was observed across all sub-sectors. As regards industry, real value added growth was recorded in both manufacturing and construction. Gross operating surplus at current prices total for the economy increased by 6.5 per cent in 2024, mainly reflecting the improvement in the financial performance of firms in services and, to a lesser extent, in manufacturing. Gross operating surplus in agriculture decreased.

Labour market conditions remained tight in 2024, with the number of employed rising on an annual basis by 1.1 per cent for a third consecutive year in the context of a shrinking labour force. Employment growth was mainly due to the services sector, in particular to the sub-sector trade, transport, accommodation and food service activities. The number of persons employed in construction also increased, while agriculture and manufacturing reported declines. NSI's Labour Force Survey data show that the unemployment rate remained at a very low historical level amounting to 4.2 per cent on average for the year.[10]

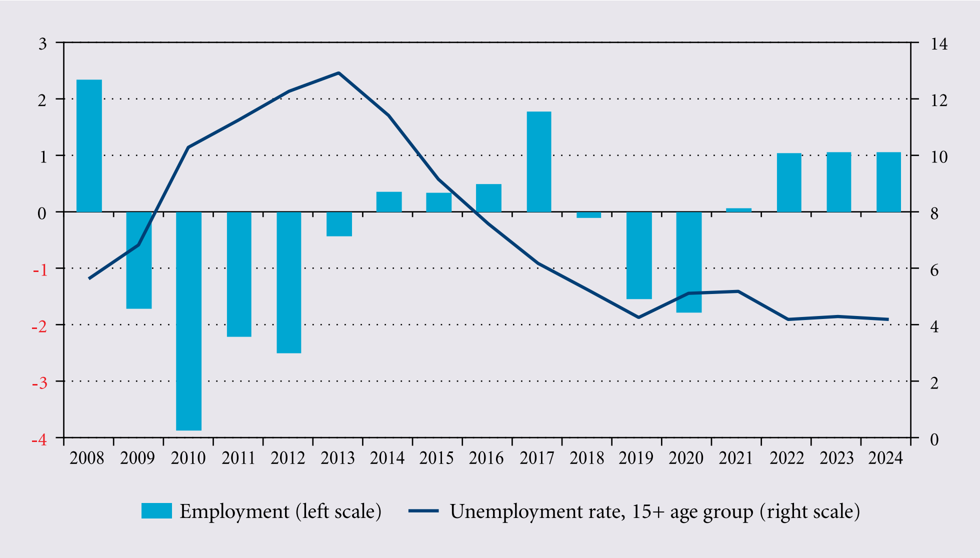
In 2024, the annual growth of non-government sector's deposits tended to slightly accelerate, reaching 10.1 per cent at the end of the year. This upward dynamics was largely driven by household deposits which continued to be supported by rising labour income and persistent household preferences for keeping their free funds mainly in the form of bank deposits, despite the low interest rate levels.

[9] The NSI does not provide official data on the breakdown of total investments into private and public investments in the economy. Private investment series is constructed by the BNB as a difference between total investments and the estimated amount of public investments on an accrual basis in real terms. Public investment estimates for January–September 2024 are based on quarterly non-financial accounts of the general government sector, published by the NSI, while data for the fourth quarter of 2024 are based on the Consolidated Fiscal Programme.

[10] Data refer to the 15+ age group.

Chart 2. Rate of Change in Employment and Unemployment Rate

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



Source: NSI.

Similarly to the upward phase of the euro area interest rate cycle from mid-2022 to mid-2024, when the transmission to interest rates for households in Bulgaria was limited due to high liquidity and competition in the banking sector, the transmission to household interest rates in the country during the new cycle of declining euro area reference rates remained also limited. In the non-financial corporations' sector, a decrease in the weighted average interest rate on new loans was reported in 2024. The stronger transmission of changes in the ECB monetary policy to interest rates in the non-financial corporations' sector in Bulgaria resulted from the higher share of foreign currency loans (mainly in euro) compared to the household sector, as well as from the linkage of interest rates on these loans to reference indices in the euro area interbank market.

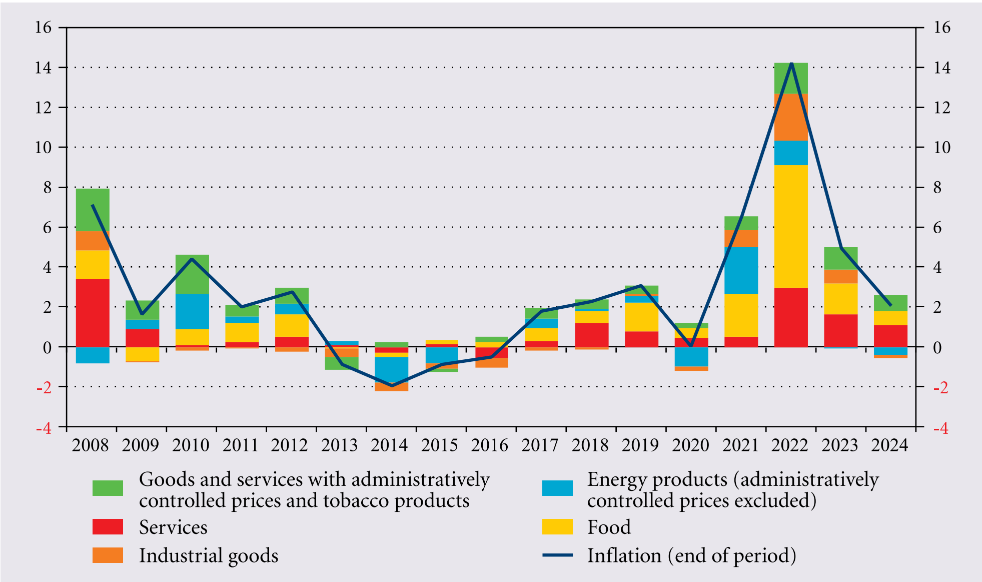
At the end of 2024, the annual growth of credit to households reached 20.8 per cent, reflecting mainly the contribution of housing loans, which reported an increase of 29.1 per cent on an annual basis.[11] Growing labour income and limited possibilities for investing savings accumulated in the economy amid negative real interest rates on deposits continued to be the main factors behind households' demand for housing loans. On the supply side, high credit activity continued to be supported by the competition among banks for a market share in housing and consumer lending segments, high liquidity in the banking system and banks' strong capital positions. These factors continued to contribute to the retention of interest rates on new housing loans at very low historical levels. Annual growth of credit to non-financial corporations was 10.1 per cent at the end of the year, with corporate overdraft contributing most to this growth.

[11] Higher growth of housing loans at the end of the year was partly due to the reclassification of consumer loans into housing loans, which was reflected in the December 2024 data.

Annual HICP inflation moderated to 2.1 per cent at the end of 2024 (5.0 per cent at the end of 2023). The main factors contributing to lower inflation were the pass-through of the decline in international crude oil price to energy product prices, cheaper industrial goods due to their lower import prices and the base effect of high price increases in 2023, mainly in the food group. At the same time, in the context of the domestic macroeconomic environment, rising unit labour costs and sustained strong private consumption continued to exert pro-inflationary pressure, their impact being most pronounced in the group of services. Fiscal policy also continued to be a pro-inflationary factor, and social payments, compensation of public sector employees and the minimum wage, which increased in recent years, contributed to the rise in household disposable income and consumption, creating a prerequisite for retention of high inflation in more demand-sensitive HICP components. By HICP sub-component, core components had the highest positive contribution to the overall inflation at the end of 2024, with the price increase in this group fully reflecting services inflation (4.6 per cent on an annual basis in December 2024), while industrial goods reported a slight price decline. The annual growth rate of prices of goods and services with administratively controlled prices and tobacco products also remained comparatively high at 3.9 per cent by end-2024. Despite decelerating food inflation, this group continued to have a significant positive contribution to the headline inflation, partly reflecting increased international agricultural commodity prices and higher import prices of some food products.

Chart 3. Annual HICP Inflation Rate and Contribution of Major Goods and Services Groups to It

(per cent; percentage points)



Sources: NSI, BNB calculations.

*Notes:*This structure corresponds to the Eurostat classification; tobacco products and goods and services with administratively controlled prices are presented separately. The index of goods and services with administratively controlled prices is calculated by weighting the corresponding elementary aggregates in the consumer basket.

3. State of the Banking System

In 2024, the banking sector in Bulgaria continued to operate amid an enhanced geopolitical uncertainty in the external environment and a relatively favourable internal conditions. Banking sector's capital indicators and liquidity position remained stable. The amount of gross and net non-performing loans and advances continued to decline, albeit at a slower rate compared to that in 2023.

Credit activity remained high due to the simultaneous effect of credit supply and demand factors. Current interest rate levels and strong private consumption supported credit demand, and high liquidity in the banking system and stable capital position of banks stimulated supply of credit products. Prolonged periods of increased lending activity create prerequisites for a potential accumulation of medium-term risks in the banking system's balance sheet and an increase in indebtedness. In order to reflect potential medium-term risks arising from credit dynamics in the housing loans segment, the BNB introduced requirements for loan-to-value (LTV) and debt service-to-income (DSTI) ratios, and a maturity when originating and renegotiating loans secured by residential real estate (RRE). This measure is effective from 1 October 2024 with the aim to strengthen the creditworthiness of borrowers in this segment and the resilience of the banking system. It is subject to regular macroprudential monitoring and analysis as part of the overall supervisory toolkit (including the countercyclical buffer).

The countercyclical capital buffer is a macroprudential tool applied to improve the banking system's ability to cope with the adverse effects of the business and financial cycles. The countercyclical capital buffer rate set by the BNB Governing Council is 2 per cent, applicable to credit risk exposures in the Republic of Bulgaria, effective from 1 October 2023. Given the persistently high credit growth rates and the uncertainty in the economic environment, the buffer rate of 2.0 per cent was confirmed until the end of 2025 within the regular quarterly assessment process (by BNB Governing Council decisions of March, June and September 2024) and for the first quarter of 2026 (by a decision of the BNB Governing Council of December 2024). These decisions aim to strengthen the resilience of the banking system under pressure on the profitability and capital position, driven by a potential increase in non-performing loans and impairments.

As regards risks of a structural nature, banks in Bulgaria continued to maintain a systemic risk buffer set by the BNB Governing Council at 3 per cent of local risk weighted exposures. The 2024 annual review of the buffer for O-SIIs carried out by the BNB Governing Council identified six institutions for which the buffer rates in 2025 would be between 0.5 per cent and 1.0 per cent.

The capital position of the banking system in 2024 remained stable on the background of the growth in risk weighted assets. At the end of December 2024, the total capital adequacy ratio was 22.70 per cent against 21.73 per cent at the end of 2023. The banking system's own regulatory capital rose by 14.7 per cent (BGN 2.7 billion) to BGN 21.0 billion at the end of 2024. Over the same period, total risk exposures grew by 9.8 per cent (BGN 8.2 billion) to BGN 92.4 billion, with the main contribution of risk weighted exposures for credit risk recording an annual increase of BGN 7.5 billion (9.6 per cent). At the same time, their dynamics was affected by the renewed more favourable temporary treatment of risk weights for exposures to EU Member States' central governments and central banks, where these exposures are denominated and funded in the domestic currency of another Member State, introduced by Regulation (EU) No 2024/1623 of the European Parliament and of the Council of 31 May 2024 amending Regulation (EU) No 575/2013.[12] After the changes, risk weighted exposures to central governments and central banks at end-2024 decreased by BGN 1.3 billion compared to the end of 2023. The leverage ratio[13] for the banking system was 9.96 per cent on 31 December 2024 (when a fully phased-in definition of tier 1 capital is applied), indicating a high capital coverage of the total exposure, with all credit institutions reporting a level well above the minimum regulatory requirement of 3 per cent.

The aggregate liquidity coverage ratio was 241.1 per cent by end-2024, remaining close to its level of end-2023 (246.7 per cent). Attracted funds in the banking sector remained adequately covered by high quality liquid assets, with all credit institutions meeting the minimum liquidity coverage requirement of 100 per cent. In 2024, all banks complied with the requirement for a net stable funding ratio (NSFR), with banking sector's average level (165.2 per cent) significantly exceeding the regulatory minimum of 100 per cent.

Non-performing loans and advances at the end of 2024 decreased from the previous year, reflecting also write-offs and sales of loans. Concurrently, total loans and advances increased, and the ratio of gross non-performing loans[14] in total gross loans and advances fell to 3.16 per cent as of 31 December 2024 (3.62 per cent a year earlier).

Banking system profit was BGN 3.7 billion in 2024 (BGN 3.4 billion in 2023). At end-2024, total net operating income was BGN 7.9 billion, up BGN 962 million (13.9 per cent) compared to end-2023. For the same period, net interest income increased by BGN 723 million (14.9 per cent) to BGN 5.6 billion as of end-2024. Impairment costs of financial assets not measured at fair value through profit or loss were BGN 666 million, up BGN 273 million (69.7 per cent) compared to end-2023. Banks' expenses on contributions to resolution funds and deposit guarantee schemes rose by BGN 15 million (7.0 per cent) to BGN 221 million at the end of 2024.

[12] As per Regulation (EU) No 2024/1623 of the European Parliament and of the Council of 31 May 2024 amending Regulation (EU) No 575/2013, amending Article 500a, for the reporting periods from 30 June 2024 to 31 December 2024, credit institutions may apply a 0 per cent risk weight to exposures to central governments and central banks of EU Member States where these exposures are denominated and funded in the domestic currency of another Member State (as of 31 March 2024, the risk weight applied to the exposure values is 50 per cent of the risk weight assigned to these exposures in accordance with Article 114(2). The Regulation was published in the EU Official Journal on 19 June 2024, with certain amendments applicable from 9 July 2024.

[13] With effect from 28 June 2021, regulatory requirements for a leverage ratio (3 per cent) and for a net stable funding ratio (100 per cent) were introduced in compliance with Regulation (EU) No 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/2013.

[14] According to a definition of loans and advances applicable from June 2020 (cash balances and other demand deposits are excluded).

Table 1. **Key Indicators of the Banking System**[15]

Key indicators	December 2023	December 2024	Annual change (per cent)
Assets, BGN million	172,090	191,585	11.3
Assets as a share of GDP, per cent	92.9	94.4	-
Equity, BGN million	20,025	23,168	15.7
Profit, BGN million	3,428	3,705	8.1
Total capital adequacy ratio, per cent	21.73	22.70	-
Common equity tier 1 capital ratio, per cent	20.15	21.03	-
Capital surplus/deficit relative to capital requirements, including the combined buffer requirement*, BGN million	3,605	4,910	-
Capital surplus/deficit as a ratio to risk-weighted assets, per cent	4.3	5.3	-
Liquidity coverage ratio, per cent	246.7	241.1	-
Return on assets, per cent	1.99	1.93	-
Return on equity, per cent	17.12	15.99	-
Gross non-performing loans ratio**, per cent	3.6	3.2	-

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

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

Source: BNB.

[15] Based on updated supervisory statements on an individual basis as of end-December 2023 and end-December 2024, submitted by 19 February 2025.

II. Management of the Banks Resolution Fund

1. BNB Powers

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

Since 27 July 2020[16], as a result of established close cooperation with the ECB[17] and joining the Single Resolution Mechanism (SRM), the Bulgarian National Bank in its capacity as a resolution authority is fully responsible for BRF administration and management, and collected financial means are allocated in two separate sub-funds having different purposes and scope:

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

  This sub-fund ensures a mechanism to finance resolution of branches of third-country credit institutions (outside the scope of the SRM). Its purpose is to limit to the maximum extent possible the use of public funds at national level in case additional financing of resolution is needed;
- a sub-fund established to raise contributions under Articles 69–71 of Regulation (EU) No 806/2014 and their transfer to the SRF (Article 134, paragraph 1, item 2 of the LRRCIIF): a sub-fund for contributions to the Single Resolution Fund.

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

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

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

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

[17] Decision (EU) 2020/1015 of the European Central Bank of 24 June 2020 on the establishment of close cooperation between the European Central Bank and the Bulgarian National Bank (ECB/2020/30) (OJ L 224I of 13.07.2020, p. 1).

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

The Bulgarian National Bank as a national resolution authority within the meaning of Regulation (EU) No 806/2014 acts as a main contact point with the credit institutions established in the Republic of Bulgaria for the purpose of collecting the information required to determine the contributions to the SRF and its submission to the SRB. In addition, the BNB is obliged to notify the credit institutions of the determined/recalculated[18] individual amount of their contributions to the SRF, to collect the contributions in the earmarked sub-fund of the BRF and to transfer the collected amounts to the SRF.

2. Sources of Funding

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

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

3. Determination of Annual and Extraordinary Contributions

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

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

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

Individual annual contributions to this sub-fund are one-off annual fixed sums calculated by the BNB on the basis of the amount of covered deposits of branches of third-country credit institutions and available financial means in the sub-fund under Article 134, paragraph 1, item 1 of the LRRCIIF. The terms and conditions for determining the amount

[18] Within an ongoing procedure for determining the contributions to the SRF, credit institutions may submit corrective reporting forms for data submitted in previous procedures. In these cases, the SRB recalculates the relevant bank's contribution to the SRF for the period for which corrective data are submitted.

of individual annual contributions of branches of third-country credit institutions to the BRF and their collection by the BNB are provided for in Ordinance No 41 of the BNB.[19]

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

3.2. Sub-fund for Contributions to the SRF

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

Principles and rules for determining the individual annual contributions and extraordinary *ex-post* contributions of credit institutions to the SRF are laid down in Regulation (EU) No 806/2014, Commission Delegated Regulation (EU) 2015/63[20] and Council Implementing Regulation (EU) 2015/81[21]. Annual contributions are calculated in accordance with the type, size and risk profile of an institution, as well as the target level of the funds, accounting for at least 1 per cent of the amount of covered deposits of all credit institutions licensed in participating Member States. Credit institutions have the opportunity to meet their obligations related to annual *ex-ante* contributions by both cash and partially by undertaking irrevocable payment commitments[22] that are guaranteed entirely by a collateral of low risk assets.

It is a responsibility of the BNB, as a national resolution authority, to notify the credit institutions of the contributions determined by the SRB, as well as to raise and transfer the collected amounts to the SRF in accordance with the Agreement on the Transfer and Mutualisation of Contributions to the Single Resolution Fund.[23]

4. Use of the BRF Financial Means

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

Symmetrically to the power to determine the contributions in the sub-fund for branches of third-country credit institutions, the BNB takes decisions on using the

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

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

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

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

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

financial means of the sub-fund for the purposes of the efficient application of resolution tools towards branches of third-country credit institutions.

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

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

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

5. Investment of the BRF Financial Means

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

The procedure under which the BNB, as a resolution authority, manages the BRF financial means and the interaction and tasks of the BNB structural units in relation to this activity are laid down in the Internal Rules for Management of the Banks Resolution Fund Financial Means[24] (Internal Rules).

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

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

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

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

6. Main Types of Risk

Risk management focuses on minimising potential negative effects that may affect the financial position of the BRF. In the course of its ordinary activities, the Fund is exposed to the following main financial risks related to financial instruments used in managing the financial means of each of the two BRF sub-funds:

6.1. Market risk

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

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

The Banks Resolution Fund's financial means were not exposed to currency risks as of 31 December 2024, as the financial instruments possessed by it are in Bulgarian levs.

Price risk: price risk is the risk of a decrease in the value of the investment as a result of adverse changes in market price levels.

As of 31 December 2024, the Banks Resolution Fund has no financial instruments exposed to price risk.

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

6.2. Credit and liquidity risk

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

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

Liquidity risk primarily manifests in two aspects: the first aspect is the risk of the Fund being unable to meet its obligations when due, and the second aspect comprises the risk of being unable to sell an asset on international markets at a fair value within an appropriate time frame in accordance with the respective market conventions.

As of 31 December 2024, the Banks Resolution Fund's cash is held in its accounts with the BNB, applying interest rates determined in accordance with the General Terms and Conditions of the Bulgarian National Bank on Servicing Accounts of Banks, Budget Organisations and Other Customers.

Detailed information on the management of financial risks, to which the BRF is exposed, is provided in Annex 8 of Chapter VII 'Financial Statements as of 31 December 2024'.

III. Key Indicators of BRF Performance in 2024

1. Contributions to the BRF in 2024

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

In April 2024, the BNB Governing Council determined the total amount of annual contributions to the BRF sub-fund for branches of third-country credit institutions for 2024 at BGN 106 thousand and informed the contribution debtors thereof. Funds were paid up to the sub-fund's account within the statutory time-limit (30 days from the date of notification).

In 2024, no circumstances have occurred that require extraordinary contributions to be raised from branches of third-country credit institutions in the sub-fund under Article 134, paragraph 1, item 1 of the LRRCIIF.

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

In 2024, no funds were raised in the sub-fund for contributions to the SRF.

On 15 February 2024, the SRB disclosed on its website[25] that no regular annual contributions to the SRF will be collected in 2024 as a result of reaching the target level of the Fund at the end of 2023 and that contributions would only be raised in case of specific circumstances or resolution actions involving the use of SRF funds. Accordingly, within the procedure for determining the individual annual contributions to the SRF for 2024, the SRB only followed its procedure for the recalculation of the individual annual *ex-ante* contributions of the institutions that submitted corrective data in respect of previous procedures[26].

In May 2024, following a notification by the SRB of a decision on the calculation of adjustments to individual *ex-ante* annual contributions, including two credit institutions licensed in the Republic of Bulgaria which submitted corrective data for 2023, the BNB Governing Council decided to adjust the amount of the funds in the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF deducted from the obligations of those credit institutions for *ex-ante* contributions to the SRF for 2023, and to recover funds of BGN 97 thousand in the earmarked sub-fund. Recovered funds received on 28 May 2024 into the account of the earmarked sub-fund are subject to use in accordance with the provisions of § 56, paragraph 2 of the Transitional and Final Provisions of the Law on Amendment of the LRRCIIF.

[25] See Single Resolution Fund: no expected contribution in 2024 as target level reached, press release, SRB, 15 February 2024.

[26] Procedures for determining individual annual *ex-ante* contributions for the period 2016–2023.

Between 1 January and 31 December 2024, the BNB did not receive any decision of the SRB on determining and raising contributions due to the SRF for 2024 by credit institutions licensed in the Republic of Bulgaria.

2. Investment of the BRF Financial Means

Taking into account the current state and trends in the development of the economy and financial markets as well as the results of the quarterly analyses of the expected return and risk in determining the financial instrument in which the BRF funds to be invested, in 2024 the BNB Governing Council maintained the implemented investment strategy, and the financial means of the sub-fund for branches of third-country credit institutions and of the sub-fund for contributions to the SRF continued to be held in current accounts with the BNB. These accounts are subject to the General Terms and Conditions of the Bulgarian National Bank on Servicing Accounts of Banks, Budget Organisations and Other Customers, and are remunerated at the applicable standard annual interest rate on current accounts valid for the relevant periods. As a result of the positive interest rates in 2024, the interest income amounting to BGN 14,845 thousand was accrued and received on the Fund's financial means, including BGN 31 thousand – for the sub-fund for branches of third-country credit institutions and BGN 14,814 thousand – for the sub-fund for contributions to the SRF. In 2024, no interest expense was recorded as a result of the investment of the Fund's resources.

As at 31 December 2024, the Fund's assets consist entirely of cash in levs held in current accounts with the BNB.

3. Use of the BRF Financial Means

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

In 2024, the BNB exercised no resolution powers in respect of branches of third-country credit institutions, hence, no funds of this sub-fund were spent. Over the period under review no requests for loans to other resolution financing arrangements were received.

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

In 2024, the BNB did not receive any request from the SRB for raising contributions to the SRF and respectively no funds from the earmarked sub-fund were transferred to the SRF over the period under review.

4. Financial Means Available in the BRF Sub-funds as of 31 December 2024

The financial means of the BRF as of 31 December 2024 amounted to BGN 479,022 thousand, including BGN 1033 thousand – in the sub-fund for branches of third-country credit institutions and BGN 477,989 thousand – in the sub-fund for contributions to the SRF.

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

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

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

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

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

The administrative costs arising from the resolution function, including those related to the BRF management, are financed by fees collected from the credit institutions and the branches of third-country credit institutions established in the Republic of Bulgaria. The terms and procedure for determining and collecting these fees are laid down in the BNB Ordinance No 40.[27]

2. Participation in the Single Resolution Board

Within the Single Resolution Mechanism, the BNB, as the resolution authority, participates in SRB structures relevant to the SRF management. The Bulgarian National

[27] BNB Ordinance No 40 of 1 December 2020 on Determining the Amount of Fees to Cover Administrative Costs of the Bulgarian National Bank Arising from Supervisory and Resolution Functions (published, Darjaven Vestnik, issue 105 of 11 December 2020).

Bank is represented in the SRB's Plenary Session[28] and Extended Executive Session[29] by the Deputy Governor heading the Banking Department, with the same rights and obligations as all other members, including a voting right.

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

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

[29] The Extended Executive Session 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.

V. Events Occurred after the Date of the Financial Statements

At the beginning of 2025, the SRB carried out a regular verification of compliance with the SRF target level requirement[30], and found out that the available financial means in the SRF continue to be at least 1 per cent of the amount of covered deposits of all credit institutions authorised in the Member States participating in the Single Resolution Mechanism. In this regard, on 10 February 2025, the SRB published a press release on compliance with the target level of the SRF as of 31 December 2024, and the intention not to collect regular annual contributions to the SRF in 2025.[31] It is also stated that in the absence of any change in circumstances, the next verification of the target level of the SRF will take place in early 2026.

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

[30] In accordance with Article 69(1) of Regulation (EC) No 806/2014.

[31] See No additional SRF bank levies needed for 2025; Fund continues to meet target level, press release, SRB, 10 February 2025.

VI. Projected Future Developments

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

At the date of preparation of this report, there are no expected cash outflows in 2025 from the sub-fund referred to in Article 134, paragraph 1, item 2 of the LRRCIIF in relation to the deduction of institutions' liabilities for regular contributions to the SRF in 2025.

VII. Financial Statements as of 31 December 2024

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

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

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

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

Dimitar Radev

Governor

of the Bulgarian National Bank

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

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

Independent auditor's report

To the Management Board
Of Bulgarian National Bank

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Banks' Restructuring Fund (the Fund), which comprise the statement of financial position as at 31 December 2024, and the statement for results from activities, statement of changes in net assets and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December 2024, and of its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as adopted by the European Union (EU).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) *(IESBA Code)* together with the ethical requirements of the Independent Financial Audit and Assurance of Sustainability Reporting Act (IFAASRA) that are relevant to our audit of the financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the requirements of the IFAASRA 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.

EY
Building a better working world

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

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

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

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

We have nothing to report in this regard.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

EY
Building a better working world

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

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

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

Report on Other Legal and Regulatory Requirements

Additional Matters to be Reported under the Accountancy Act

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

Building a better working world

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

Based on the procedures performed, our opinion is that:

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

Audit Firm Ernst & Young Audit OOD with registration number 108:

Nikolay Garnev

Legal Representative and

Registered Auditor in charge of the audit

Sonia Zarkova

Proxy of the General Manager Nikolay Garnev and

Registered Auditor in charge of t audit

Sofia, Bulgaria

17 April 2025

Statement of Operations for the Year Ended 31 December 2024

(BGN'000)

	Notes	31 December 2024	31 December 2023
Annual contributions, including:	**5**	**106**	**92**
in the sub-fund under Article 134, paragraph 1, item 1 of the LRRCIIF		*106*	*92*
in the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF		-	-
Recovered/(transferred) funds from/ to SRF's account in favour of/for the account of the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF	**5**	**97**	**(22,238)**
Interest income on accounts, including	**6**	**14,845**	**13,131**
in the sub-fund under Article 134, paragraph 1, item 1 of the LRRCIIF		*31*	*24*
in the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF		*14,814*	*13,107*
Net interest income/(expenses)		14,845	13,131
Result for the year		**15,048**	**(9,015)**
Other comprehensive income		**15,048**	**(9,015)**
Total comprehensive income for the year		**15,048**	**(9,015)**

The accompanying notes on pages 40 to 55 form an integral part of the Financial Statements.

Statement of Financial Position as of 31 December 2024

(BGN'000)

	Notes	31 December 2024	31 December 2023
ASSETS			
Cash at bank and cash equivalents, including:	7	**479,022**	**463,974**
in the sub-fund under Article 134, paragraph 1, item 1 of the LRRCIIF		*1,033*	*896*
in the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF		*477,989*	*463,078*
TOTAL ASSETS		**479,022**	**463,974**
LIABILITIES		-	-
NET ASSETS		**479,022**	**463,974**

The accompanying notes on pages 40 to 55 form an integral part of the Financial Statements.

Statement of Cash Flows for the Year Ended 31 December 2024

(BGN'000)

	Notes	2024	2023
Cash flows from operating activities			
Cash receipts from banks as annual contributions		**106**	**92**
in the sub-fund under Article 134, paragraph 1, item 1 of the LRRCIIF		*106*	*92*
in the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF		-	-
Recovered/(transferred) funds from/to SRF's account in favour of/for the account of the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF		**97**	**(22,238)**
Net cash flows from operating activities		***203***	***(22,146)***
Cash flows from investing activities			
Payments related to cash		-	-
in the sub-fund under Article 134, paragraph 1, item 1 of the LRRCIIF		-	-
in the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF		-	-
Proceeds related to cash		**14,845**	**13,131**
in the sub-fund under Article 134, paragraph 1, item 1 of the LRRCIIF		*31*	*24*
in the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF		*14,814*	*13,107*
Net cash flows from investing activities		***14,845***	***13,131***
Increase/(decrease) in cash flows during the year		**15,048**	**(9,015)**
Cash and cash equivalents at the beginning of period		**463,974**	**472,989**
in the sub-fund under Article 134, paragraph 1, item 1 of the LRRCIIF		*896*	*780*
in the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF		*463,078*	*472,209*
Cash and cash equivalents at the end of period	7	**479,022**	**463,974**
in the sub-fund under Article 134, paragraph 1, item 1 of the LRRCIIF		*1,033*	*896*
in the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF		*477,989*	*463,078*

The accompanying notes on pages 40 to 55 form an integral part of the Financial Statements.

Statement of Changes in Net Assets for the Year Ended 31 December 2024

(BGN'000)

	Notes	Net assets
Balance as at 1 January 2023		**472,989**
Result for the year		**(9,015)**
Total comprehensive result		**(9,015)**
Balance as at 31 December 2023	**7**	**463,974**
Balance as at 1 January 2024	**7**	**463,974**
Result for the year		**15,048**
Total comprehensive result		**15,048**
Balance as at 31 December 2024	**7**	**479,022**

The accompanying notes on pages 40 to 55 form an integral part of the Financial Statements.

1. General Information

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

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

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

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

The composition of the BNB Governing Council as of 31 December 2024 is as follows:

- Dimitar Radev – Governor of the BNB;
- Andrey Gurov – Deputy Governor, head of the Issue Department and member of the Governing Council of the BNB[2];
- Petar Chobanov – Deputy Governor, head of the Banking Department and member of the Governing Council of the BNB;
- Radoslav Milenkov – Deputy Governor, head of the Banking Supervision Department and member of the Governing Council of the BNB;
- Prof. Nikolay Nenovsky, D.Sc. – member of the Governing Council of the BNB;
- Iliya Lingorski – member of the Governing Council of the BNB.
- Lyubomir Karimansky – member of the Governing Council of the BNB.

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

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

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

[2] Since 16 July 2024, Andrey Gurov has not exercised his powers as Deputy Governor, head of the Issue Department, in connection with the procedure under Article 14, paragraph 2 of the Law on the BNB. Andrey Gurov' case is subject to judicial control and to parliamentary control depending on the pending judgement.

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

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

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

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

2. Applicable Standards

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

3. Accounting policies

3.1 Basis of Preparation

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

The financial statements of the BRF are prepared:

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

3.2 Summarised Information on Accounting Policies Applied

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

a) Income

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

1. annual and extraordinary contributions from the banks and branches of third-country credit institutions;
2. returns on the investment of the BRF financial means;
3. reimbursement of amounts received by the BRF used for resolution purposes under the terms provided in the application of appropriate resolution tools and related income and compensation;

4. income from borrowings contracts and other forms of support and the provision of loans under the procedure specified in Articles 141 and 142 of the LRRCIIF;
5. other sources.

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

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

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

As of 1 October 2020, the BNB may determine extraordinary contributions only for the branches of third-country credit institutions. In 2024 and 2023, no extraordinary contributions were raised.

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

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

b) Expenses

The main expenses on the BRF activity are related to:

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

Expenses are recognised when incurred on an accrual basis.

c) Investment Income

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

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

d) Financial instruments

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

Classification

The BRF classifies its financial instruments depending on the nature and purpose of the financial assets and liabilities at the date of their acquisition and determines the classification at the date of their initial recognition in the statement of financial position. The Fund uses the following business models:

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

The cash flows under the models applied by the Fund are solely payments of principal and interest.

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

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

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

As of 31 December 2024 and 31 December 2023, financial instruments of the BRF are cash on accounts with the BNB. Cash is qualified as financial assets measured at amortised cost, amounting to BGN 479,022 thousand as of 31 December 2024 (31 December 2023: BGN 463,974 thousand), including:

- BGN 1033 thousand (BGN 896 thousand as of 31 December 2023) of the sub-fund for branches of third-country credit institutions;
- BGN 477,989 thousand (BGN 463,078 thousand as of 31 December 2023) of the sub-fund for contributions to the SRF.

As of 31 December 2024 and 31 December 2023, the Fund had no commitments leading to the incurrence of financial liabilities.

Recognition and Subsequent Measurement

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

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

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

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

Impairment

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

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

Derecognition

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

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

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

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

Fair Value Measurement

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

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

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

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

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

For the purposes of fair value disclosures and classes of assets and liabilities used by the Fund, depending on their nature, characteristics and risk at the relevant level of the fair value hierarchy described above, see note 8.

e) Cash and Cash Equivalents

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

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

f) Property, Plant, Equipment and Intangible Assets

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

g) Taxation

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

3.3 Amendments to Accounting Policies and Disclosures

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

The adopted accounting policies are consistent with those applied in the previous reporting year, except for the following IFRS accounting standards and amendments to IFRS accounting standards that have been adopted by the Fund since 1 January 2024:

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

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and are applied retrospectively. The amendments clarify: the meaning of the right to defer settlement of a liability; the requirement that such a right exists at the end of the reporting period; that management's intentions do not affect classification of liabilities as current or non-current; that choices by a counterparty, that result in settlement by transfer of the entity's own equity instruments, do not affect the classification of liabilities as current or non-current. The amendments also state that only the conditions that an entity must comply with at or before the reporting date will affect the classification of liabilities. Additional disclosures are also required for non-current liabilities arising from loan commitments subject to conditions to be met within 12 months after the reporting period. The standard, adopted in the EU on 15 May 2024 and published in the Official Journal of the EU on 16 May 2024, has no impact on the financial statements and did not lead to any changes in the accounting policies of the Fund.

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

The amendments are intended to improve the requirements that the seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction under IFRS 16 by not changing the accounting for leases unrelated to this transaction. These amendments are all effective for annual periods beginning on or after 1 January 2024, and are not applicable to the BRF.

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

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

- the terms and conditions of the supplier finance arrangement;

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

Companies should disclose the type and effect of non-cash changes in the carrying amounts of supplier finance arrangement financial liabilities, which prevent the carrying amounts of the financial liabilities from being comparable. The amendments also require companies to disclose at the beginning and at the end of the reporting period the range of payment due dates for financial liabilities owed to the finance providers and for comparable trade payables that are not part of those arrangements. These amendments are not applicable to the BRF.

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

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

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

The amendments apply to annual periods beginning on or after 1 January 2025, with earlier application permitted. The amendments clarify how the company has to assess whether a currency is exchangeable and how to determine the spot exchange rate when exhchangeability is lacking. A currency is deemed exchangeable into another currency when an entity is able to obtain the other currency within a time frame allowing for a normal administrative delay and through a market or exchange mechanism in which the exchange transaction would create enforceable rights and obligations. If a currency could not be exchangeable into another currency, an entity should estimate the spot exchange rate at the measurement date.

The amendments note that an entity may use an observable exchange rate without adjustment or any other estimation technique. These amendments were adopted on 12 November 2024 and published in the Official Journal of the EU on 13 November 2024. The amendments to the standard are not applicable to the BRF.

4.2 Standards/amendments not yet effective and not adopted by the European Union

Amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosure – Classification and Measurement of Financial Instruments

The amendments are effective for annual reporting periods beginning on or after 1 January 2026. Earlier application of the amendments to the classification of financial assets and related disclosures is permitted with the possibility of applying other amendments at a later date. The amendments clarify that a financial liability is derecognised on the ‘settlement date’ when the obligation is discharged, cancelled, expires or otherwise qualifies for derecognition. They introduce a choice of accounting policy for the derecognition of financial liabilities governed by electronic payment systems before the settlement date, if certain conditions are met. In addition, the amendments clarify how to assess the features of contractual cash flows of financial assets linked to environmental, social and governance (ESG) and other similar contingent features.They also clarify the treatment of financial assets with non-recourse features and contractually linked instruments and introduce additional disclosures under IFRS 7 for financial assets and contingent liabilities (including those related to ESG) and equity instruments classified at fair value through other comprehensive income. The amendments have not yet been endorsed by the EU. The Fund's management will analyse and assess the impact of the amendments on its financial position or performance.

Amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: disclosure – Nature dependent electricity contracts

The amendments apply to annual periods beginning on or after 1 January 2026, with earlier application permitted. These include an explanation of the application of the 'own use' requirements allowing hedge accounting if the contracts covered by the amendments are used as hedging instruments and introduce new disclosure requirements to enable investors to understand the impact of those contracts on the entity's financial performance and cash flows. The clarifications on the 'own use' requirements must be applied retrospectively and guidance allowing hedge accounting must be applied prospectively to new hedging relationships determined on or after the date of initial application. The amendments have not yet been endorsed by the EU. The Fund's management will analyse and assess the impact of the amendments on its financial position or performance.

IFRS 18 Presentation and Disclosure in Financial Statements

IFRS 18 introduces new requirements for the presentation in the statement of profit or loss and, in particular, for an entity to classify all income and expenses in the statement of profit or loss into one of the following five categories: operating, investing, income taxes and discontinued operations. These categories are supplemented by requirements for the presentation of subtotals and totals for 'operating profit or loss', 'profit or loss before financing and income taxes' and 'profit or loss'. The standard also requires disclosure off management-defined performance metrics and introduces new requirements for the aggregation and disaggregation of financial data according to the designated "roles" of the primary financial statements and the note. In addition, there are subsequent amendments to other accounting standards. IFRS 18 is effective for annual periods beginning on or after 1 January 2027, with earlier application permitted. Retrospective application is required in both annual and interim financial statements. The standard has not been yet endorsed by the EU. In subsequent reporting periods, the management will analyse the requirements of the standard and assess its impact on the financial position and performance of the Fund.

IFRS 19 Subsidiaries without Public Accountability: Disclosure

IFRS 19 permits subsidiaries without public accountability to apply reduced disclosure requirements if their parent (either ultimate or intermediate) prepares consolidated financial statements available for public use which comply with IFRS accounting standards. Those subsidiaries shall at the same time continue to apply the requirements for the recognition, measurement and presentation of other IFRS accounting standards. Unless otherwise specified, eligible entities that chose to apply IFRS 19 will not need to apply the disclosure requirements in other IFRS accounting standards. IFRS 19 is effective for reporting periods beginning on or after 1 January 2027, with earlier application permitted. The standard has not yet been endorsed by the EU. In the subsequent reporting periods, the management will analyse the requirements of the standard and assess its impact on the performance of the Fund.

Annual Improvements to IFRS Accounting Standards – Volume 11

The annual improvements process for the International Accounting Standards Board deals with non-urgent but necessary clarifications and amendments to IFRSs. In July 2024, the IASB published Annual Improvements to Accounting Standards – Volume 11. An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2026. Annual Improvements to Accounting Standards – Volume 11 incorporate amendments to IFRS 1, IFRS 7, IFRS 9, IFRS 10 and IAS 7. The purpose of these amendments is to clarify the wording, correct minor unintended consequences, oversights or conflicts between the requirements of the standards. The standard has not been yet endorsed by the EU. The Fund will analyse and assess the impact of the annual improvements to IFRS accounting standards on its financial position or performance.

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

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015, the IASB postponed the effective date of these amendments indefinitely, pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. The Fund will analyse and assess the impact of the amendments on its financial position or performance.

5. Annual Contributions

In line with Article 136, paragraph 1, item 1 of the LRRCIIF and Article 3 of Ordinance No 41 of the BNB[3], on 11 April 2024 the BNB Governing Council set the individual annual contributions of branches of third-country credit institutions for 2024 at the total amount of BGN 106 thousand (2023: BGN 92 thousand). The

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

annual contributions were paid up to the sub-fund for branches of third-country credit institutions within the statutory term.

On 15 February 2024, the Single Resolution Board (SRB) published a press release[4] on reaching the target level of the Single Resolution Fund (SRF) as of 31 December 2023, in which it stated that it would not collect regular annual contributions to the SRF in 2024. In May 2024, following a notification by the SRB of a decision on the calculation of adjustments to individual *ex-ante* annual contributions, including two credit institutions licensed in the Republic of Bulgaria which had submitted corrective data for 2023, the BNB Governing Council decided to adjust the amount of the funds in the sub-fund for contribution to the SRF, deducted from the liabilities of those credit institutions for *ex-ante* contributions to the SRF for 2023, and to recover funds of BGN 97 thousand in the earmarked sub-fund. In 2024, the funds were recovered to the account of the sub-fund for contributions to the SRF.

In 2024, as in 2023, no extraordinary contributions from the respective contribution debtors were determined and raised.

6. Income/Expenses

In 2024, funds of BGN 97 thousand were recovered to the account of the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF according to the notification by the SRF of a decision on the calculation of adjustments to individual *ex-ante* annual contributions for 2024 due by credit institutions licensed in the Republic of Bulgaria to the SRF.

In 2023, the funds transferred from the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF to the SRF amounted to BGN 22,238 thousand.

In 2024, the Fund earns interest income on its current account funds amounting to BGN 14,845 thousand (31 December 2023: BGN 13,131 thousand), of which BGN 31 thousand on the sub-fund for branches of third-country credit institutions (31 December 2023: BGN 24 thousand) and BGN 14,814 thousand on the sub-fund for contributions to the SRF (31 December 2023: BGN 13,107 thousand), applying reference interest rates in accordance with the General Terms and Conditions of the Bulgarian National Bank on Servicing Accounts of Banks, Budget Organisations and Other Customers.

Costs related to the BRF management are part of the BNB administrative costs arising from the resolution function, that are financed by fees collected from credit institutions and branches of third-country credit institutions established in the Republic of Bulgaria. The terms and procedure for determining and collecting these fees are laid down in the BNB Ordinance No 40. The total amount of administrative costs arising from the resolution function should be disclosed in the annual financial statements of the BNB for the relevant financial year.

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

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

[4] See Single Resolution Fund: no expected contribution in 2024 as target level reached, press release, SRB, 15 February 2024.

7. Cash and Cash Equivalents

(BGN'000)

	31 December 2024	31 December 2023
Cash and cash equivalents in levs, including	479,022	463,974
in the sub-fund under Article 134, paragraph 1, item 1 of the LRRCIIF	*1,033*	*896*
in the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF	*477,989*	*463,078*
	479,022	**463,974**

As of 31 December 2024 and as of 31 December 2023, the financial means of both sub-funds are held in separate earmarked current lev accounts with the BNB under the General Terms and Conditions of the Bulgarian National Bank on Servicing Accounts of Banks, Budget Organisations and Other Customers.

As of 31 December 2024 and as of 31 December 2023, the Fund has no outstanding obligations.

8. Financial Risk Management

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

The BNB Governing Council takes decisions regarding the investment of the financial means of the BRF in consistent compliance with the principles of security, liquidity and profitability. The financial means in the individual sub-funds of the BRF are invested separately, with no mixture being allowed.

The structure of BRF's financial assets and liabilities as at 31 December 2024 and as at 31 December 2023 by category is as follows:

(BGN'000)

	31 December 2024	31 December 2023
Financial assets		
The Financial assets measured at amortised cost category		
Cash and cash equivalents, including	479,022	463,974
in the sub-fund under Article 134, paragraph 1, item 1 of the LRRCIIF	*1,033*	*896*
in the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF	*477,989*	*463,078*
	479,022	**463,974**

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

(BGN'000)

	Level 1	Level 2	Level 3	Total
31 December 2024				
Financial assets at amortised cost in other comprehensive income				
Cash and cash equivalents, including:	-	479,022	-	479,022
in the sub-fund under Article 134, paragraph 1, item 1 of the LRRCIIF	-	*1,033*	-	*1,033*
in the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF	-	*477,989*	-	*477,989*
	-	**479,022**	-	**479,022**
31 December 2023				
Financial assets at amortised cost in other comprehensive income				
Cash and cash equivalents, including:	-	463,974	-	463,974
in the sub-fund under Article 134, paragraph 1, item 1 of the LRRCIIF	-	*896*	-	*896*
in the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF	-	*463,078*	-	*463,078*
	-	**463,974**	-	**463,974**

In 2024 and 2023, there were no transfers from level 2 to other levels of the fair value hierarchy.

As of 31 December 2024 and as of 31 December 2023 the Banks Resolution Fund has no financial liabilities.

Market risk

1. Currency risk

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

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

The Banks Resolution Fund's financial means were not exposed to currency risks as of 31 December 2024 and as of 31 December 2023, as the financial instruments possessed by it are in Bulgarian levs.

2. Price risk

As of 31 December 2024 and as of 31 December 2023, the Banks Resolution Fund has no financial instruments exposed to price risk.

3. Interest rate risk

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

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

(BGN'000)

	Floating rate instruments	Fixed rate	Interest-free	Total
31 December 2024				
Financial assets				
Cash and cash equivalents, including:	479,022	-	-	479,022
in the sub-fund under Article 134, paragraph 1, item 1 of the LRRCIIF	*1,033*	-	-	*1,033*
in the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF	*477,989*	-	-	*477,989*
	479,022	-	-	**479,022**
31 December 2023				
Financial assets				
Cash and cash equivalents, including:	463,974	-	-	463,974
in the sub-fund under Article 134, paragraph 1, item 1 of the LRRCIIF	*896*	-	-	*896*
in the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF	463,078	-	-	463,078
	463,974	-	-	**463,974**

Credit and liquidity risk

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

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

Liquidity risk primarily manifests in two aspects: the first aspect is the risk of the Fund being unable to meet its obligations when due, and the second aspect comprises the risk of being unable to sell an asset on international markets at a fair value within an appropriate time frame in compliance with the respective market conventions.

As of 31 December 2023 and as of 31 December 2024, the Banks Resolution Fund's cash is available on its accounts with the Bulgarian National Bank.

The Fund's financial instruments, analysed by residual term to maturity from the date of the statement of financial position to the date of maturity, are as follows:

(BGN'000)

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
31 December 2024						
Financial assets						
Cash and cash equivalents, including:	479,022	-	-	-	-	479,022
in the sub-fund under Article 134, paragraph 1, item 1 of the LRRCIIF	*1,033*	-	-	-	-	*1,033*
in the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF	*477,989*	-	-	-	-	*477,989*
	479,022	-	-	-	-	**479,022**
31 December 2023						
Financial assets						
Cash and cash equivalents, including:	463,974	-	-	-	-	463,974
in the sub-fund under Article 134, paragraph 1, item 1 of the LRRCIIF	*896*	-	-	-	-	*896*
in the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF	*463,078*	-	-	-	-	*463,078*
	463,974	-	-	-	-	**463,974**

9. Events Occurred after the Reporting Date

At the beginning of 2025, the SRB carried out a regular verification of compliance with the SRF target level requirement[5], and found out that the available financial means in the SRF continued to be at least 1 per cent of the amount of covered deposits of all credit institutions licensed in the Member States participating in the Single Resolution Mechanism. In this regard, on 10 February 2025, the SRB published a press release on compliance with the target level of the SRF as of 31 December 2024, and the intention not to collect regular annual contributions to the SRF in 2025.[6] It is also stated that in the absence of any change in circumstances, the next verification of the target level of the SRF will take place in early 2026.

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

[5] Determined according to Article 69(1) of Regulation (EU) No 806/2014.

[6] See No additional SRF bank levies needed for 2025; Fund continues to meet target level, press release, SRB, 10 February 2025.

ISSN 2738-8220 (online)

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