Annual Report 2022

BULGARIAN NATIONAL BANK

Bulgarian National Bank

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

Under the provisions of Article 1, paragraph 2 and Articles 50 and 51 of the Law on the Bulgarian National Bank, I have the honour of presenting the Bank's Annual Report for 2022.

Dimitar Radev
Governor
of the Bulgarian National Bank

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

BNB Governing Council

Dimitar Radev
Governor

Kalin Hristov
Deputy Governor
Issue Department

Nina Stoyanova
Deputy Governor
Banking Department

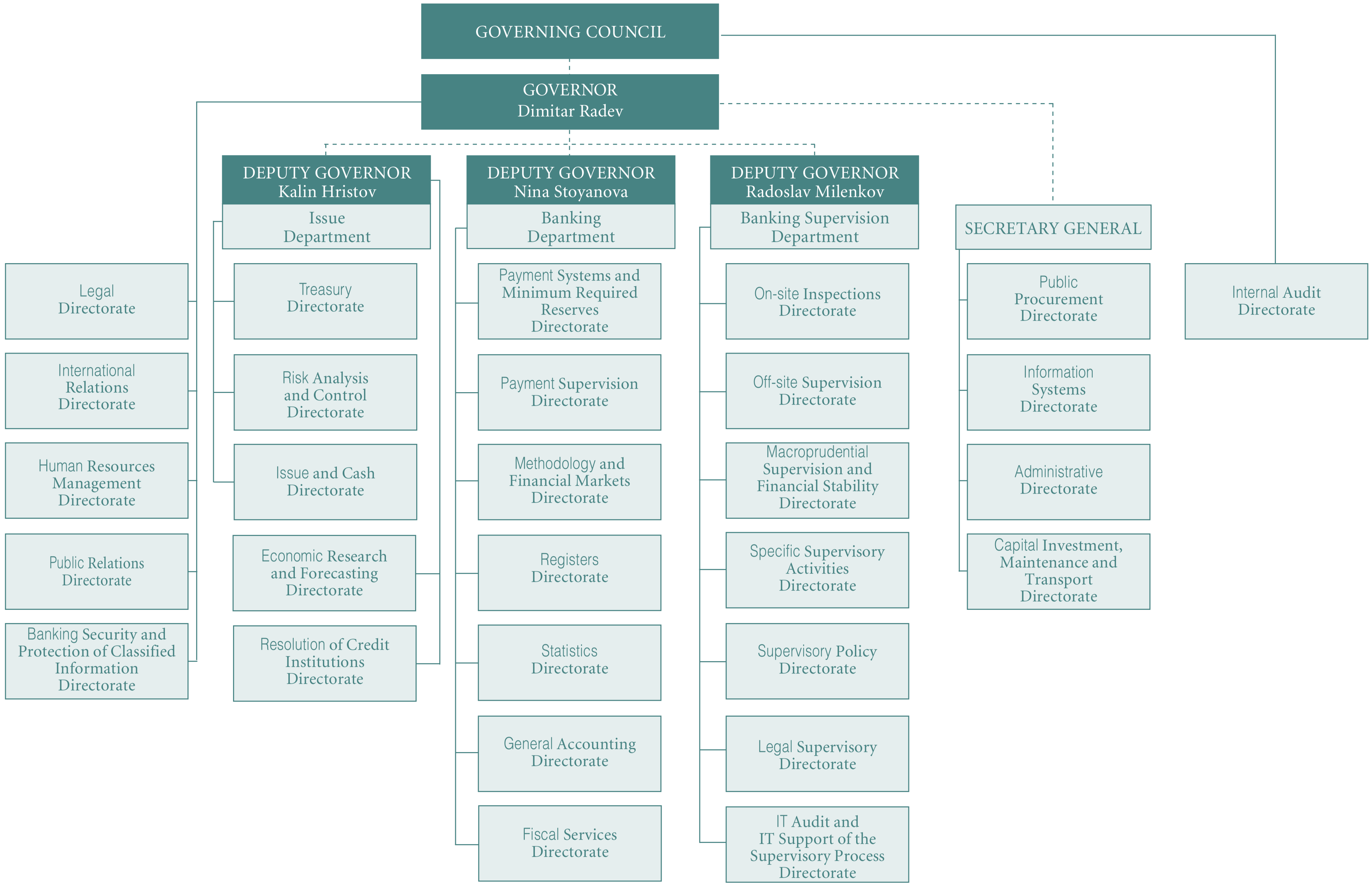
Radoslav Milenkov
Deputy Governor
Banking Supervision Department

Lyudmila Elkova

Nikolay Nenovsky

Iliya Lingorski

Organisational Structure of the BNB
(as of 31 December 2022)



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Abbreviations

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

Summary

In 2022, global economic activity slowed down, with lower growth rates observed in both developed and emerging market economies. The main factors behind this slowdown were the negative economic effects of the stringent anti-epidemic measures in China to contain the spread of COVID-19, the geopolitical uncertainty resulting from Russia's invasion of Ukraine in February and associated lower supplies of energy products and other commodities in Europe, the upward global inflation dynamics, as well as tightening of leading central banks' monetary policies. In 2022, US GDP growth decelerated significantly due to the exhausted effect of fiscal stimuli adopted in 2021, and the tightening of the Federal Reserve's monetary policy. The annual growth rate of real GDP of the euro area was relatively high over the review period, mainly reflecting the increase in private consumption which was favoured by the removal of anti-epidemic measures and higher demand for tourist services along with the accommodative monetary policy of the ECB for most of 2022. Labour market conditions in the euro area improved throughout the year.

Global inflation accelerated considerably in 2022 as a result of the continued comparatively strong consumer demand, spurred by favourable market conditions and the effects of expansionary fiscal and monetary policy in 2021 in major advanced economies and further price rises in energy and food products following Russia's invasion of Ukraine. Consumer price inflation in the United States and the euro area significantly exceeded the targets set by the Federal Reserve and the ECB. In the context of accelerating and increasingly broad-based inflation, the two central banks adopted monetary policy tightening measures and started to raise their reference rates in March and July 2022, respectively. In the United States, the Federal Open Market Committee increased the target range for the federal funds rate by a total of 425 basis points in the course of the year to 4.25–4.50 per cent. The policy rate increase by the ECB in 2022 was 250 basis points in total, with interest rates on main refinancing operations, the marginal lending facility and the deposit facility reaching 2.50, 2.75 and 2.00 per cent at year-end, respectively.

Bulgaria's real GDP growth was 3.4 per cent in 2022, with private consumption making the largest positive contribution, supported by higher wage growth than inflation, strongly negative real interest rates on loans and deposits, and increased net fiscal transfers to households. The reported economic growth had a favourable impact on the labour market, as the number of persons employed and the economic activity rate increased, while the unemployment rate declined. Wage growth tended to accelerate significantly in 2022, driven by stronger labour demand amid rising labour shortages and elevated inflation expectations. In nominal terms, compensation per employee for the total economy rose by 18.4 per cent in 2022, and in real terms by 4.6 per cent.

Annual inflation in Bulgaria, measured by the HICP, accelerated to 14.3 per cent in December 2022 (from 6.6 per cent in December 2021). The most significant upward pressure on consumer prices came from price rises in major energy sources and agricultural products in international markets. Main factors related to the internal macroeconomic environment that contributed to the high inflation throughout 2022 included strong growth in unit labour costs and higher household consumption. The accelerated price growth rate was broad-based across components of the consumption basket, with food prices making the most positive contribution to inflation in 2022. Underlying inflation also accelerated considerably.

Annual growth of non-government sector deposits accelerated to 14.3 per cent in December 2022, driven by deposits of non-financial corporations, which rose by 26.6 per cent. In the context of retained robust inflows of attracted funds, high liquidity and bank competition, the pass-through of ECB monetary policy changes to the deposit and lending rates in Bulgaria was very limited. Annual credit growth remained high in 2022. Loans to non-financial corporations followed an accelerated upward trend in the first eight months of the year, driven by the strong demand for financial resources for working capital and accumulation of inventories due to the significant increase in raw material prices, supply chain bottlenecks and the heightened uncertainty in the economic environment. The reported decline in inventories in the economy after the high levels reached in the first half of 2022 contributed to some decline in corporate credit growth, its rate reaching 10.4 per cent in December (4.6 per cent in December 2021). Higher wage growth relative to inflation and strong negative real interest rates supported demand for consumer and housing loans. Growth in housing loans (17.8 per cent as of December 2022 compared with 16.5 per cent at the end of 2021) reflected also households' maintained preferences for real estate purchases as an alternative form of saving or investment. In December 2022, consumer loans increased by 12.4 per cent year on year (12.2 per cent at the end of 2021).

In 2022, the budget balance on the consolidated fiscal programme was negative at BGN -1347 million (-0.8 per cent of GDP), including a deficit on the national budget to the amount of BGN -5087 million and a surplus of BGN 3740 million on EU programmes budget. Fiscal reserve deposit funds rose by BGN 2394 million from the end of 2021, amounting to BGN 12,130 million (7.3 per cent of GDP), of which BGN 11,315 million of deposits with the BNB. The year saw positive net budget financing with government securities on the domestic market and positive external debt financing.

In managing gross international reserves, the BNB continued to pursue a conservative policy to ensure high liquidity and security of the reserves. In connection with Russia's invasion in Ukraine, investments to some of the BNB's counterparties and issuers having exposures to these countries were limited. In 2022, some of the additional investment restrictions introduced in the previous two years in the context of the COVID-19 pandemic were eased to a certain extent, however credit restrictions remained more conservative than usual due to the increased uncertainty in financial markets since the beginning of the war in Ukraine.

By the end of 2022, the balance sheet value of gross international reserves was EUR 38,424.31 million: an increase of EUR 3827.08 million or 11.06 per cent on the end of 2021. To achieve its main objectives in managing international gross reserves, namely very high liquidity and security of reserves, the BNB continued investing the main share of assets on the Issue Department's balance sheet into government bonds and government guaranteed debt securities with the highest credit rating, and into short term deposits with first class foreign central or commercial banks. By the end of 2022, approximately 81 per cent of international reserves were invested into assets with the highest AAA long-term credit rating.

Over the reporting period, the duration of gross international reserves was decreased significantly, as the share of investment in the shortest maturity sector from zero to one year rose by 13.3 percentage points to 94.1 per cent, at the expense of the decline in all remaining maturity sectors. By financial instruments, there was a change in the average current account balance, which decreased by around 4 percentage points since 2021, at the expense of the increase in BNB's investment in securities and deposits by about 2 percentage points. The reporting period saw no significant changes in the gross international reserves structure by currency as compared to the previous year.

The net income in the Issue Department balance sheet is the sum of three components: 1. income from gross international reserves investment in the original currency; 2. currency imbalance income; and 3. liabilities expenditure/income. BNB income from international reserve investment was negative at EUR -96.22 million or -0.37 per cent yield for the period. This mainly reflected strongly negative interest rates reported for most of the year on deposits with first class foreign banks and negative yields of euro-denominated high credit quality bonds in which most BNB international reserves are invested. Earnings from currency imbalance for the year were positive at EUR 131.82 million, with movements in the market price of monetary gold in euro contributing most strongly to this effect. As a result of BNB interest rate policy, the net financial result from liabilities for 2022 was positive at EUR 17.35 million corresponding to 0.06 per cent annual return. The above three components brought positive net returns from international reserve management of EUR 52.95 million: a total of 0.13 per cent return for 2022.

Creating and developing safe, reliable and efficient payment systems, as well as conducting payment oversight, are important functions of a modern central bank. Payment systems in Bulgaria operate effectively, ensuring continuity of payment flows; they are largely aligned with the existing payment infrastructure in Europe. In 2022, RINGS, a real-time gross settlement system operated by the BNB, processed 80.4 per cent of non-cash payments in levs in Bulgaria. RINGS payments numbered 1,156,529, up 0.7 per cent on 2021, amounting to BGN 1,160,219 million (down 15 per cent on 2021). The number and value of payments processed by BISERA6 (for small customer payments in levs) and BORICA (for card payments) continued to increase in 2022, each recording an increase of more than 20 per cent in value. In 2022, the national system component of the Trans-European Automated Real-time Gross Settlement Express Transfer system for the euro run by the BNB (TARGET2–BNB) processed 278,656 payments (up 13.9 per cent on 2021) for EUR 844,822 million (up 2 per cent on 2021).

The Bank regulates and oversees payment system operators with settlement finality, payment service providers and electronic money issuers in Bulgaria. During the reporting period, the following were completed: one supervisory inspection of a payment services provider licensed by the BNB, on which supervisory measures were subsequently imposed; one thematic supervisory review of a payment services provider; ten inspections of institutions to find out whether they provided payment services and/or issued electronic money without due license or registration; enquiries on 354 complaints submitted by members of the public and corporate payment service users; on 17 of them, the Bank issued instructions. In 2022, the BNB granted one electronic money institution license and, as of the year-end, there were five payment institutions and nine electronic money institutions licensed by the BNB.

The Bank has a monopoly on banknote and coin issue in Bulgaria. Its currency is mandatorily acceptable as legal tender at face value without restriction. BNB issue and cash operations include: banknote printing, coin minting, accepting, delivering, repaying, processing, authenticity and fitness checking of Bulgarian banknotes and coins and foreign currency, exchanging damaged Bulgarian banknotes and coins, and scrapping unfit Bulgarian banknotes and coins. By the close of 2022, circulating banknotes numbered 596.7 million (legal tender) worth BGN 26,826.4 million. In a year their number rose by 27.6 million (4.8 per cent) and their value by BGN 2688.5 million (11.1 per cent). As in recent years, faster growth in the number of high value banknotes (BGN 50 and 100) compared with other banknotes was sustained. By the close of 2022, 3054.6 million coins (legal tender) worth BGN 558.1 million circulated. Over the year, their number rose by 188.8 million (6.6 per cent), and their value by BGN 40.3 million (7.8 per cent). The upward trend in the number of circulating coins of all denominations continued. The share of retained non-genuine Bulgarian banknotes and coins remained at very low levels: 0.000141 per cent and 0.000006 per cent of the total number of circulating banknotes and coins (legal tender) by the end of 2022. In 2022, the BNB tested sorting machines and customer operated machines in line with identification and fitness standards into eight credit institutions, five service providers and nine representatives of machine producers under BNB Ordinance No 18 on the Control over Quality of Banknotes and Coins in Cash Circulation.

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

The BNB's macroprudential supervision is based on continuous monitoring, identification and assessment of systemic risks in the banking sector and economic environment, in which financial intermediation takes place. Taking into account the stability of the banking sector and weakening risks associated with COVID-19 pandemic, the BNB Governing Council decided in February 2022 to suspend the macroprudential measures imposed in March 2020 and confirmed in January 2021, related to the restriction on banks' profit distribution for 2019 and 2020 and the imposed limits on banks' foreign exposures. The suspension of the macroprudential profit distribution measure is in line with the decision of the ECB and the European Systemic Risk Board (ESRB) not to renew ESRB recommendation on restriction on banks' profit distribution. The BNB, as the competent supervisory authority, required less significant banks intending to pay dividends or undertake redemptions and other distributions, including profits for 2021, to submit distribution plans that are subject to the supervisory dialogue. The measure imposing individual and aggregate limits on banks to foreign counterparties to curb credit and concentration risks on their balance sheets was suspended from 1 April 2022 by BNB Governing Council's decision of February 2022. The BNB suspended these restrictions, taking into account their positive effect on the stability of the banking system, as well as fading-out of the risks for which they were introduced. In line with the BNB Governing Council resolutions taken in 2021 and published 12 months before their entry into force, the countercyclical capital buffer rate was increased from 0.5 to 1.0 per cent as of 1 October 2022, and to 1.5 per cent as of 1 January 2023. Given the persistently high credit growth rates and the heightened uncertainty in the economic environment, the BNB Governing Council decided on 29 September 2022 to raise the countercyclical buffer rate to 2.0 per cent, effective from 1 October 2023. As a result of the annual review of the buffer for other systemically important institutions (OSII) carried out in October 2022, the BNB Governing Council identified eight banks, the buffer rates of which will range from 0.5 to 1.0 per cent in 2023. In view of the assessment of increasing risk arising from the high rate of house price growth and taking into account the requirements of the ESRB recommendation, the BNB developed and implemented an additional macroprudential reporting form in early 2022, providing detailed information on bank loans to households secured by real estate.

In 2022, the assessment of the level and control of risks in banks continued on the basis of selected key risk indicators and expert analysis. Applying the EBA criteria, supervisors carried out a regular annual review and assessment of reports on Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidly Adequacy Assessment Process (ILAAP) for 2021, along with bank funding plans covering the 2022–2024 period. Horizontal assessments of compliance with the EBA Guidelines on loan origination and monitoring were also conducted. Over the reporting period, monitoring continued of the implementation of banks' targets to reduce non-performing loans included in their strategies and operational plans. In view of the aggravation of the geopolitical situation following the start of the war in Ukraine, a review and assessment of the exposure of banks' assets and liabilities to Russia, Ukraine and Belarus was carried out.

In the framework of on-site inspections in 2022, thematic reviews on credit risk management were performed in 12 less significant credit institutions subject to direct supervision by the BNB. In the context of the established close cooperation between the ECB and the BNB a supervisory review was initiated and completed in a significant credit institution.

During the reporting period control activities for banks' compliance with the requirements of the Law on Measures against Money Laundering (LMML) and the Law on Measures against Financing of Terrorism (LMFT) continued. Six scheduled on-site inspections were carried out in banks (two significant credit institutions and four less significant) with no supervisory measures imposed on inspected banks during the year. Four less significant credit institutions and three non-bank financial institutions providing residential and mortgage loans were inspected in 2022 for compliance with the requirements of the Three of the credit institutions inspected revealed some inconsistencies in relation to Law on Real Estate Loans for Consumers (LRELC) the rules and procedures applied by banks to assess borrowers' creditworthiness and the BNB gave guidance on how to remove them.

A key priority of the supervisory information service was the timely provision of data for the analytical needs of the BNB's supervision. Preparations were finalised and implementation of automated data transmission functions for supervisory reporting to the ECB and the European Banking Authority (EBA) was launched. During the year the BNB's IT audit and IT risk supervision activities in less significant institutions sector were related to the scope extension of IT on-site inspections, participating in a pilot project to collect information on their outsourced activities as part of the assessment of banks' readiness to implement Regulation(EU) 2022/2554. The level of cyber threats and cyber incidents at credit institutions were monitored on a daily basis.

As regards the regulatory framework, following the adoption of the Law on Covered Bonds the requirements of Directive (EU) 2019/2162 of the European Parliament and of the Council of 27 November 2019 on the issue of covered bonds and covered bond public supervision and amending Directive 2009/65/EC and Directive 2014/59/EU were introduced. In June 2022, the BNB Governing Council adopted Ordinance No 42 on the Terms and Procedure for Issuance of Covered Bonds, thus completing the work on establishing a comprehensive legal framework for the issuance of covered bonds by banks in Bulgaria in accordance with Directive (EU) 2019/2162.

In 2022, Bulgaria's banking sector operated in a context of accelerated inflation and heightened uncertainty in the economic environment caused by the war in Ukraine. Against the backdrop of strongly negative real interest rates, a significant volume of attracted funds and high liquidity in the banking system, annual growth of loans and total assets in the banking sector accelerated in 2022, while non-performing loans and advances in bank balance sheets declined further. Total amount of risk exposures increased, whereas banking sector's capital ratios remained significantly above the minimum regulatory requirements and capital buffer requirements. Banking liquidity position remained stable and deposits continued growing at high rates. Over the period under review, the amount of non-performing loans and advances and their share in total loans and advances fell, reflecting non-performing loan sales and write-offs by banks and growing credit portfolio. Following the increase in banking sector activity and the change in the global interest rate cycle, banking system net operating income and profit rose compared to 2021. Banks' return on assets and return on equity indicators improved compared to 2021 to 1.34 per cent and 12.01 per cent respectively (against 0.99 per cent and 8.11 per cent as of 31 December 2021).

The Law on the Recovery and Resolution of Credit Institutions and Investment Firms (LRRCIIF) tasks the Bulgarian National Bank with resolution of credit institutions and other legal entities, which are subject to supervision or consolidated supervision by the central bank. The BNB performs the function of a resolution authority within the framework of the Single Supervisory Mechanism (SSM). The BNB as a resolution authority has carried out full day-to-day management of the Banks Resolution Fund (BRF).

In 2022, the activity of the BNB, as a resolution authority and a national resolution authority, focused primarily on organising and implementing the process of preparing, reviewing and updating resolution plans of credit institutions and monitoring the implementation of intermediate target levels of minimum requirements for own funds and eligible liabilities (MREL) set for credit institutions. In the exercise of its power to issue regulations, which build on the legal regime for resolution of credit institutions, in 2022 the BNB issued two new ordinances i.e. Ordinance No 43 on the Terms and Procedure for Determining and Paying a Maximum Daily Amount upon Suspension of Obligations in Respect of Eligible Deposits and Ordinance No 44 on the Terms and Procedure for Selection of Independent Valuers under Article 55a of the Law on Recovery and Resolution of Credit Institutions and Investment Firms. With respect to credit institutions falling within the Bank's direct powers, in 2022 the BNB Governing Council adopted resolution plans and set MREL for three credit institutions. Over the period, the BNB reviewed and updated the individual resolution plan of a subsidiary credit institution licensed in the Republic of Bulgaria, part of a cross-border EU group, for which a resolution college has been established by the group-level resolution authority, due to a lack of a joint decision on the group resolution plan for 2021. In the course of reviewing and updating resolution plans of the five credit institutions falling within the SRB direct powers, in 2022 the BNB Governing Council adopted positions on decision-voting of the SRB Extended Executive Session concerning the final approval of joint decisions on 2021 resolution plans of four cross-border groups with subsidiaries licensed in Bulgaria and setting MREL for resolution entities. In the case of one cross-border group the BNB supported the SRB draft decisions, while in the case of three cross-border groups it did not support SRB draft decisions. Furthermore, within the process of reviewing, updating and adopting of resolution plans for 2022, in the fourth quarter of 2022 the BNB Governing Council adopted positions in relation to voting on draft decisions of the SRB Extended Executive Session for a prior approval of resolution plans of two cross-border groups with subsidiary banks licensed in the Republic of Bulgaria, including a position on the approval of a resolution plan and setting out a MREL for a cross-border group with a subsidiary bank licensed in the Republic of Bulgaria for which no resolution college has been established. In the case of the three cross-border groups, the BNB expressed a reasoned disagreement with the SRB's draft decisions.

Under the BRF governance function, in early April 2022, the BNB Governing Council adopted the annual financial statements of the Banks Resolution Fund for 2021. During the year, the BNB Governing Council maintained the investment strategy applied in relation to the BRF resources, and they continued to be held on current accounts with the BNB. In accordance with the allocation of the powers between the SRB and the BNB, in April 2022, the BNB Governing Council determined 2022 annual contributions of branches of third-country credit institutions to the BRF at a total of BGN 97.9 thousand. Also in April, the SRB determined the contributions for 2022 to be collected from the credit institutions licensed in the Republic of Bulgaria and transferred from the BNB to the SRF at a total amount of EUR 17,569 thousand, or BGN 34,362 thousand. In view of the funds available in the BRF sub-fund and the possibility of using them as provided for in the LRRCIIF, the BNB Governing Council decided contributions due by credit institutions to the SRF for 2022 to be deducted from the funds available in the earmarked sub-fund. As of 31 December 2022, funds in the BRF earmarked sub-fund established to raise and transfer contributions of credit institutions to the SRF came to BGN 472,209 thousand and funds collected in the sub-fund established to finance the resolution of branches of third-country credit institutions amounted to BGN 780 thousand.

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

In 2022, the BNB continued to collect, process, analyse and disseminate the official monetary and interest statistics, external statistics, statistics of quarterly financial accounts of all institutional sectors, statistics of non-bank financial institutions, including leasing companies and investment funds, specialised lenders and insurance and reinsurance undertakings. In early 2022, the BNB Governing Council adopted an Ordinance on Amendment of BNB Ordinance No 17, which amended the reporting requirements for insurance and reinsurance companies, pension insurance companies and pension funds managed by them as well as investment funds. In 2022, the BNB joined Eurostat's project on reducing the asymmetries between EU Member States in the services sector that are part of the balance of payments current account. In October, along with data for the second quarter of 2022, the BNB started publishing quarterly financial accounts by institutional sector on a regular basis with more detailed information by sub-sector and sub-instrument.

Acting as fiscal agent and depository, the BNB maintains, develops and improves electronic systems for budget and fiscal reserve information servicing, auctions, settlement and securities trade servicing and keeps the Register of Special Pledges. In 2022, five auctions for domestic government securities were organised via the Government Securities Auction System (GSAS). The total nominal value of domestic government securities offered for sale was BGN 3500 million and government securities sales volume was BGN 2633.3 million, with over 62.73 per cent of all sold government bonds bought by banks. Over the review period, a new joint instruction by the Ministry of Finance and the BNB on the implementation of Article 152 of the Law on Public Finances was published, optimising the reported information on operations and balances on budget entities' accounts and the securing of funds from banks. At the end of 2022, the BNB as an owner and operator of the Government Securities Depository at the BNB (GSB), and the ECB signed a TARGET2-Securities (T2S) Framework Agreement, which provides for the GSD to join the T2S Eurosystem's securities settlement platform.

The BNB maintains a Central Credit Register (CCR) i.e. an information system on customer debt to banks, financial institutions, payment institutions and electronic money institutions extending loans under Article 21 of the Law on Payment Services and Payment Systems (institutions within the meaning of Article 56, paragraph 1 of the LCI). Over 2022, institutions and bodies entitled to Register access under Article 56, paragraphs 1 and 3 of the LCI conducted searches on 8858 thousand individuals. There were 17,379 paper applications for CCR statements: 16,947 by individuals and 432 by legal entities. In 2022, 3835 natural persons obtained electronic statements on CCR information.

The BNB maintains the Register of Bank Accounts and Safe Deposit Boxes (RBASDB): an electronic information system on bank and payment account numbers, holders and attorneys, beneficial owners of the account holders, data on account preservation orders, bank deposit box holders and attorneys. In 2022, bodies and institutions entitled to Register's access conducted searches on total 668,085 individuals. There were 5094 applications for RBASDB paper statements: 4879 by individuals and 215 by legal entities. Over the review period, 320 individuals obtained electronic statements from the RBASDB.

Economic research and projections support the Bank's management in making decisions and delivering economic policy stance. Implementing the BNB Research Plan for 2021–2022, BNB experts examined the factors behind dynamics of money in circulation in Bulgaria, labour productivity, profitability and financial performance of corporations in Bulgaria and other EU Member States. The basic macroeconomic forecasting model was further improved to better take into account the specificities of propagation channels of the war in Ukraine on the Bulgarian economy. In July 2022, the BNB hosted the annual meeting of the members of the European Association for Banking and Financial History (EABH). On this occasion, the BNB co-organised with EABH a conference on 'Monetary Unions in History' and a workshop on 'Digital Rebirth of Historical Datasets'.

In 2022, the main priorities in human resource management at the BNB focused on provision of competitive working conditions and favourable working environment for the effective implementation of the Bank's objectives, functions and tasks. In the period under review 63 employees joined the Bank and 56 left. At 31 December 2022, the number of employees came to 910.

BNB internal audit conforms to the International Standards for the Professional Practice of Internal Auditing, the Code of Ethics of Internal Auditors, ESCB Internal Auditor Committee Rules, and Audit Rules approved by the BNB Governing Council. In 2022, there were ten audits under the BNB Annual Internal Audit Plan, as approved by the BNB Governing Council, reflecting also audit commitments to be implemented under the ESCB Internal Auditors Committee Programme. Audits sought objective assurance of adequate and effective risk management, control and governance inherent in the activities concerned to ensure: effective attainment of the tasks and strategic objectives of the organisation; reliability and integrity of financial and operational information; effective and efficient operations and programmes; asset safeguarding; legal, regulatory, internal rule, policy, procedure and contractual observance.

The BNB budget underpins Bank performance. In 2022, the BNB spent BGN 124,108 thousand or 88.1 per cent of approved annual budget, including currency circulation costs of BGN 30,154 thousand. The Bank invested BGN 8184 thousand, or 28.0 per cent of annual budget under this item.

Consolidated financial statements (audited) present the Bank's financial position as of 31 December 2022.

I. Economic Development in 2022

The External Environment

In 2022, global economic activity slowed down, with lower growth rates observed in both developed and emerging market economies. The main factors behind this slowdown were the negative economic effects of the stringent anti-epidemic measures in China to contain the spread of COVID-19, the geopolitical uncertainty resulting from Russia's invasion of Ukraine in February and associated lower supplies of energy products and other commodities in Europe, the upward global inflation dynamics, as well as the tightening of central banks' monetary policies. In 2022, annual growth of global GDP[1] in real terms stood at 3.0 per cent (6.0 per cent in 2021). Dynamics of the global economic indicator (global PMI) also signalled a deterioration of the global economic situation in both services and manufacturing. Manufacturing was negatively impacted by disrupted supplies from China as a result of anti-epidemic measures, higher energy and other commodities costs as a consequence of the war in Ukraine and deteriorated financial conditions. The phasing out of anti-epidemic measures in the countries of the northern hemisphere led to a certain recovery of the services sector in the first half of the year thanks to the tourism growth. In the second half of 2022, consumption of services declined due to lower real household income as a result of high inflation. Globally, annual industrial output and trade growth declined to 2.6 and 3.3 per cent on average in 2022[2] (8.3 and 10.7 per cent on average in 2021), reflecting weaker demand for industrial goods and equipment due to the high inflation in producer prices and disruptions in production and trade caused by the war in Ukraine, the anti-epidemic measures in place in China and tighter financing conditions.

In 2022, US GDP rose by 2.1 per cent in real terms against 5.9 per cent in 2021. Decelerated growth in 2022 was mainly due to lower growth in private consumption, decreased housing investments and slowing business investment growth. The main reason for the weaker US economic activity growth was the exhausted effect of fiscal policy stimuli adopted in 2021 and the start of the monetary policy tightening cycle launched by the Federal Reserve System. In China, economic activity also slowed down significantly: from 8.1 per cent of real GDP growth in 2021 to 3.0 per cent in 2022. This dynamics was mainly owing to the policy of strict anti-epidemic measures implemented during most of the year. Economic activity growth in the country was largely supported by external demand, industrial production and investments in infrastructure, while the services sector was negatively affected by the anti-epidemic measures.

[1] Based on World Bank data as of 13 March 2023.
[2] Based on CPB Netherlands Bureau for Economic Policy Analysis data as of 13 March 2023.

Major Macroeconomic Indicators

(per cent)

	Average annual real GDP Growth			Inflation (end of year)			Unemployment rate (average annual)		
	2020	2021	2022	2020	2021	2022	2020	2021	2022
USA	-2.8	5.9	2.1	1.3	6.0	5.3	8.1	5.4	3.6
China	2.2	8.1	3.0	0.2	1.5	1.8	5.6	5.1	5.6
Europe									
EU	-5.6	5.4	3.5	0.2	5.3	10.4	7.2	7.0	8.1
Euro Area	-6.1	5.3	3.5	-0.3	5.0	9.2	7.9	7.7	6.7
United Kingdom	-11.0	7.6	4.0	0.8	4.8	9.3	4.6	4.5	3.7

Notes: The EU group consists of 27 Member States of the European Union. Non-seasonally adjusted data on unemployment, excluding those on the UK. Inflation in China, EU and the euro area is calculated based on CPIs. The US inflation is measured by the personal consumption expenditure price index and the UK inflation by consumer price indices, including owner-occupiers' housing costs. The analysis employs 13 March 2023 data.

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

In 2022, the annual growth rate of real GDP of the euro area stood at 3.5 per cent. By final consumption expenditure component, private consumption which was favoured by the removal of anti-epidemic measures and higher demand for tourist services along with the accommodative monetary policy of the ECB for most of the year made the largest positive contribution to the economic activity growth in the euro area. Investment, government consumption and changes in inventories also contributed positively to real GDP growth. In 2022, euro area economic indicators showed a downward trend in the sectors of manufacturing and services, with economic activity declining in both sectors in the second half of the year. In 2022, real GDP of Germany, the main trading partner of Bulgaria, increased by 1.8 per cent on an annual basis, while GDP growth in Italy, the other euro area major trading partner of Bulgaria, it was higher at 3.7 per cent. Labour market conditions in the euro area continued to improve throughout the year, with the unemployment rate falling to 6.7 per cent on average, from 7.7 per cent in 2021.

In 2022, Brent crude price rose significantly on an annual basis in both US dollars[3] (by 10.5 per cent) and euro (by 17.4 per cent). During the first six months, oil price increases were mainly driven by supply-side factors, notably those related to disrupted supplies of energy raw materials and products from Russia following its invasion of Ukraine. The impact of these factors was further amplified by the insufficient increase of oil production by other OPEC+ participants. In the second half of the year, a steady decline in oil prices was observed, reflecting both worsening prospects for the global economic growth and rapid tightening of the monetary policy stance of major central banks intended to contain accelerating inflation. The severe containment measures in China, which were suppressing internal economic activity, were an additional factor behind the fall in oil prices. During the period under review, there was a high volatility also in major metals and food prices, which also recorded a year-on-year decline towards the end of 2022. The main factor driving metal price declines was the slowdown in economic activity of major economies, notably China, while the effects of the war in Ukraine on production and supply of these commodities, higher energy and fertiliser prices, and weather factors in key agricultural areas played a key role for food price dynamics. The increase in commodity prices was constrained by the tightening of Federal Reserve's and ECB's monetary policies, thus creating expectations among market participants of an imminent slowdown in economic activity and, hence, of lower demand for raw materials in the future.

[3] Referred to as the US dollar below.

Global annual inflation continued to rise during the first seven months of 2022, while stabilising over the remainder of the year at high levels, reaching by end-year 9.0 per cent, up from 5.6 per cent at the end of 2021. The main factors behind accelerating global inflation were the continued comparatively strong consumer demand for goods and services, spurred by favourable labour market conditions and the effects of expansionary fiscal and monetary policies in 2021 in major advanced economies, as well as further price rises in energy and food products following Russia's invasion of Ukraine. The accelerated growth in energy prices resulted from disruptions of most of energy supplies from Russia to Europe, while suspended cereals exports from Ukraine and rising energy and fertilisers prices contributed to the increase in food prices. Stabilisation of inflation in the second half of the year reflected the significant slowdown in energy inflation and the monetary policy tightening of major central banks.

In 2022, US annual inflation measured by the personal consumption expenditure price index remained significantly above the target of 2.0 per cent set by the Federal Open Market Committee (FOMC). It followed an upward trend until June, when it reached 7.0 per cent (the highest value since December 1981) and then eased to 5.3 per cent at the end of 2022. Core inflation in the United States (excluding food and energy) slowed down slightly during the year to 4.7 per cent, from 5.0 per cent at the end of 2021. Lower transportation fuels prices and lower growth in car and financial services prices had the main contribution to the slowdown in US inflation in the second half of the year. Annual inflation in the euro area increased significantly until October, standing at 10.6 per cent (the highest value since the creation of the euro area in 1999), before slowing slightly to 9.2 per cent at end-2022 (5.0 per cent at end-2021). Core inflation (excluding food, energy, alcohol and tobacco products) accelerated to 5.2 per cent (2.6 per cent in December 2021). The increase in prices of consumer goods and services throughout the year was broad-based, with higher prices of food, natural gas, electricity and catering contributing most to the euro area inflation rise. The moderation in inflation in the last months of the year reflected the significant decline in annual inflation in transportation fuels.

In the context of accelerating and increasingly broad-based inflation, US and euro area central banks adopted monetary policy tightening measures and started to raise their reference rates in March and July 2022, respectively. In the United States, the FOMC raised the target range for the federal funds rate by a total of 425 basis points in the course of the year to 4.25–4.50 per cent, respectively. In June, the Federal Reserve began to reduce gradually its balance sheet by imposing restrictions on reinvesting proceeds from maturing Treasury securities in its portfolio. The policy rate increase by the ECB in 2022 was 250 basis points in total, with interest rates on main refinancing operations, the marginal lending facility and the deposit facility reaching at the year-end 2.50, 2.75 and 2.00 per cent, respectively. Over the year, the ECB reduced and subsequently discontinued net asset purchases under the PEPP and APP, but continued to reinvest the proceeds of maturing assets under these programmes, and announced at the December meeting that, from early March 2023, the APP portfolio would start reducing, thus limiting the reinvestments of the proceeds of maturing assets.[4]

The Bulgarian Economy

Bulgaria's real GDP growth was 3.4 per cent[5] in 2022, supported by strong domestic and external demand for Bulgarian goods and services. Higher wage growth relative to inflation in the context of rising labour shortages and strongly negative real interest rates on loans and deposits stimulated the growth in real GDP through higher household

4 For more information, see Central Banks' Policies Section of Chapter II.

5 Non-seasonally adjusted data.

consumption. The fiscal policy continued to support economic growth through government consumption and increased net transfers to households, as well as through compensations to firms for high electricity prices. Real GDP growth was strongly underpinned by changes in inventories due to the retained 2021, trend toward higher stocks of commodities, raw materials and finished products by firms amid expectations of continuous price increases in international markets and an uncertainty about efficient functioning of global supply chains.[6] External demand dynamics reflected improved economic activity in Bulgaria's main trading partners and the impact of the product structure of exports; in the context of the military conflict in Ukraine, supply disruptions and increased demand for food, metals and basic energy sources in international markets, the Bulgarian economy reported strong exports of these products.[7]

By final consumption expenditure component, real GDP growth in 2022, was formed by the increase in private consumption (2.8 percentage points), the positive contribution of changes in inventories in the economy (1.3 percentage points) and the growth in government consumption (1.2 percentage points). Net exports and fixed capital investments made a negative contribution to GDP dynamics (-1.2 and -0.7 percentage points, respectively).

In 2022, nominal wage growth tended to accelerate significantly, its rate exceeding the rate of increase in consumer prices. The main factors weighing on wage growth were strengthened labour demand in the context of growing economic activity, increasing labour shortages, the rise in minimum wage since April 2022, and enhanced inflationary expectations. In 2022, household consumption rose by 4.8 per cent in real terms, underpinned by wage growth, the increased number of employed and lower household savings rate[8]. Weakened saving propensity of households reflected the impact of high inflation and maintenance of nominal deposit interest rates at low levels. Other factors supporting private consumption growth were higher net fiscal transfers to households and credit activity growth.

In 2022, government consumption increased by 6.5 per cent in real terms, with data on consolidated fiscal programme performance indicating that it was probably driven by higher public expenditure on intermediate consumption and on wages in the public sector.

Investments in fixed capital fell by 4.3 per cent in real terms, with both public and private investments contributing to this effect, according to BNB estimates.[9] Factors with a dampening effect on investment activity were the increased economic uncertainty, shortages of some raw materials (mainly in manufacturing and construction) as a result of the military conflict in Ukraine, the significant price increase in investment goods, and delays in implementation of large public infrastructure projects.

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[6] Work in progress in sectors, such as construction and manufacturing, was another potential factor for the increase in inventories in the economy.

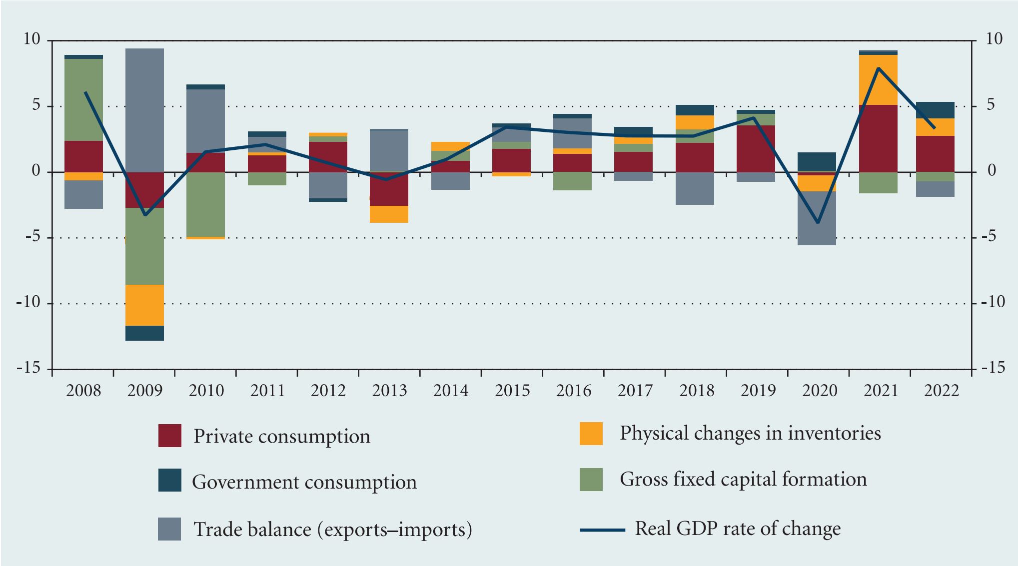
[7] The analysis employs data on exports of goods at constant prices in January–September 2022 based on NSI external trade statistics.

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

[9] The NSI does not provide official data on the breakdown of total investments into private and public. The series on private investment is constructed by the BNB as a difference between total investment and the estimated amount of public investment on an accrual basis in real terms. Public investment estimates for January–September 2022 are based on quarterly non-financial accounts data of the general government sector, published by the NSI, while data from the consolidated fiscal programme are used for the fourth quarter of 2022.

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

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



Sources: NSI, BNB calculations.

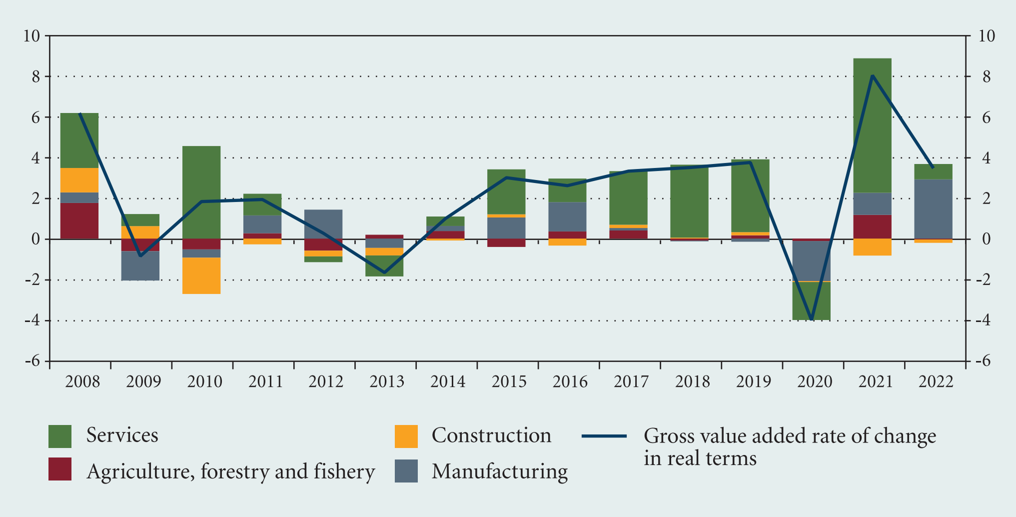
The negative contribution of net exports to the change in GDP over 2022 was driven entirely by trade in goods and reflected stronger growth in imports than in exports of goods, with the increase in final consumption expenditure and inventories (having a high import content) contributing to this. Trade in services contributed positively to the economic activity growth.

Gross value added increased by 3.4 per cent in 2022 (compared to 8.0 per cent in 2021), and in terms of trends across economic sectors, an improvement of economic activity was observed in industry and, to a lesser extent, in the services sector, while the agricultural sector recorded a decline. The increase in value added in industry was entirely driven by the manufacturing sub-sector and was consistent with the growth in exports of goods and domestic demand, while value added in the construction sub-sector decreased from the previous year. Value added growth in services was broad-based across sub-sectors. The decline in value added of agriculture was in line with NSI preliminary data showing a weaker agricultural harvest in 2022 compared to the previous year.[10]

[10] According to first NSI estimates from the Economic Accounts for Agriculture, the production volume of the agricultural sector decreased by 7.7 per cent in 2022, while prices rose by 29.7 per cent.

Gross Value Added Change in Real Terms and Contribution by Industry

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



Sources: NSI, BNB calculations.

Increased economic activity in Bulgaria had a favourable effect on the labour market in 2022, with the number of employees and hours worked *per* person increasing by 1.3 and 1.2 per cent, respectively. Employment growth was mainly due to the services sector, in particular trade, repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities. This sector was among those most severely hit by the COVID-19 pandemic in 2020, and employment in it has not yet reached its pre-pandemic levels. Construction also reported an increase in the number of people employed, while agriculture and manufacturing recorded a decrease. According to Employment Agency data, the registered unemployment rate fell to 5.2 per cent in 2022 (5.5 per cent in 2021), while according to Labour Force Survey data, the unemployment rate declined to 4.3 per cent (5.3 per cent in 2021). At the same time, the economic activity rate for the 15–64 age group rose to 73.6 per cent in 2022, from 72.0 per cent in 2021, as a result of the transition of part of inactive persons to employment. Thus, the negative effect on the labour force of the shrinking working-age population was fully offset, given the adverse demographic trends in Bulgaria.

Labour productivity[11] for the total economy increased by 2.1 per cent in 2022, most pronounced in manufacturing. Labour productivity in construction and in the whole services sector recorded a decline.

Growth in economic activity in the context of deepening labour shortages and strong growth in consumer prices and inflationary expectations contributed to a significant increase in nominal compensation *per* employee by 18.4 per cent in 2022. A higher than average increase in compensation *per* employee was recorded in industry, agriculture and some services sub-sectors, such as trade, transport, accommodation and food service activities, real estate activities and arts, entertainment and recreation. In real terms, the growth rate of compensation *per* employee for the total economy came to 4.6 per cent.[12]

The strong rise in compensation *per* employee was translated in a significant increase in nominal unit labour costs, *i.e.* by 16.0 per cent in 2022. Real unit labour costs in the total economy grew by 0.8 per cent as a result of the growth registered in services.

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

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

Unit Labour Costs

(moving average, 2015 = 100)

Sources: NSI, BNB calculations.

Gross operating surplus at current prices for the total economy increased by 17.6 per cent in 2022, mainly reflecting the improvement in the financial performance of firms in manufacturing. Gross operating surplus growth in manufacturing (78.8 per cent on an annual basis) was largely driven by the strong increase in firms' nominal turnover in the sub-sectors related to the production of energy products[13] amid significant price rises of major energy sources and growing sales in real terms in both international and domestic markets. Gross operating surplus in agriculture and construction also increased, while a decline was reported in the services sector.

In 2022, GDP deflator increased by 15.1 per cent, and by final expenditure component, growth was registered across all main GDP components. The highest growth was recorded in deflators for goods and services exports (22.8 per cent) and for goods and services imports (22.2 per cent). As regards domestic demand, private and government consumption deflators rose by 16.6 and 9.8 per cent, respectively, while growth of the fixed investment deflator was 16.9 per cent.

Annual inflation, measured by the HICP, accelerated to 14.3 per cent in December 2022 (from 6.6 per cent in December 2021). The accelerated rate of price increases was broad-based across components of the consumer basket, reflecting a simultaneous effect of pro-inflationary factors stemming from both external and internal macroeconomic environment. The most significant upward pressure on consumer prices came from price rises in major energy sources (natural gas, oil, electricity for business consumers) and agricultural products in international markets, whose upward dynamics has been increasing substantially since the outbreak of the war in Ukraine. Depreciation of the euro against the dollar (by 11.5 per cent year on year as of December 2022) was another potential factor behind the increased prices of imported raw materials, part of which traditionally traded in dollars in international markets. The acceleration of inflation in durable goods within the EU and the persistence of global supply chain bottlenecks in the first six months of 2022 were additional factors exerting inflationary pressures from imports. The main factors of the domestic macroeconomic environment contributing to the formation of high inflation throughout 2022 were the growth in unit labour costs and increased household final consumption expenditure. Fiscal policy has had a

[13] The sub-sectors related to the production of energy products include extraction of coal, extraction of oil and natural gas, production of coke and refined petroleum products, and production and distribution of electricity, heat and gas.

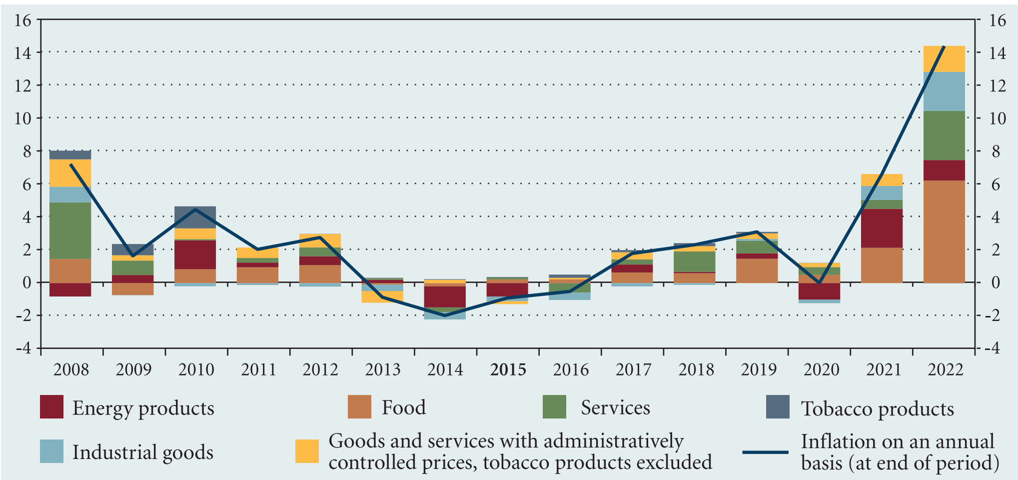
divergent influence on inflation across individual HICP groups. In 2022, a number of discretionary measures were launched in the form of subsidies for individual products and cuts in indirect taxes (excise rates and VAT), focused mainly on energy commodities and food, in order to mitigate the pro-inflationary effect of the international environment.[14] Concurrently, higher year-on-year net fiscal transfers to households and higher wages in the budget sector supported private consumption growth, appearing to be a prerequisite for accelerated inflation in more demand-sensitive HICP components, such as services. Strongly negative real interest rates on deposits and loans were another factor with a pro-inflationary impact, as they further supported private consumption growth.

By HICP sub-components, the highest positive contribution to inflation in 2022 came from food prices, which registered a rise of 25.0 per cent at the end of the year. These developments could be explained by the increase in food prices in international markets, higher domestic production costs[15] and weaker agricultural harvests in 2022 compared to 2021. In addition, final consumer prices of some food goods (such as those in the milk, dairy products and eggs group) rose in 2022 at higher rates than those of producer prices, indicating that, except for the enhanced costs of production, increased profit margins also contributed to the acceleration of food inflation. Core inflation rose significantly to 11.9 per cent (up from 3.2 per cent at the end of 2021), driven by upward dynamics in services prices and, to a lesser extent, by increases in non-food prices. Price movements in core HICP components reflected growth in final consumption expenditure of households, higher unit labour costs and emerging indirect effects of higher food and fuel prices.

For energy products (excluding those with administratively controlled prices), a price increase of 15.9 per cent was recorded in December 2022 as a result of the price rises in transportation fuels and solid heating fuels.

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

(per cent, percentage points)



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

Sources: NSI, BNB calculations.

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[14] According to Eurostat data on the HICP at constant tax rates, which is calculated assuming a full and immediate pass-through by firms of subsidies and changes in tax rates on final consumer prices, the maximum effect of fiscal measures was 0.6 percentage point lower annual inflation as of December 2022. The actual effect, however, is likely to be smaller, as detailed data from the consumer basket indicate an incomplete pass-through of fiscal measures on the consumer prices of some goods and services (such as bread and flour, restaurant and catering services).

[15] NSI data have been used, according to which prices of products for intermediate consumption in agriculture increased by 31.9 per cent in 2022, while food producer prices in manufacturing show a 25.3 per cent increase.

In the group of goods and services with administratively controlled prices and tobacco products, the annual price increase was 6.9 per cent in December 2022, with medicines, water supply and waste collection services, heating, electricity, central gas supply, postal services and urban transport contributing most positively. Increases in administratively controlled prices were recorded mainly in April–December, as a moratorium on regulated prices of electricity, sewerage services and heating was in force during the first three months of the year. Factors limiting the increase in regulated prices of energy sources for households in the second half of 2022 were the VAT reduction on heating and gas supply prices from 1 July 2022, as well as the excise duty exemption for electricity, liquefied petroleum gas and natural gas.

Preliminary data on Bulgaria's balance of payments in 2022 showed a current account deficit of EUR 274.7 million (-0.3 per cent of GDP), down from the deficit recorded in 2021 (-0.5 per cent of GDP), with the contribution of all current account items, except for the trade balance, whose negative balance increased compared to the previous year.

In 2022, the trade balance deficit rose due to the stronger growth in goods imports (10.2 per cent) in real terms[16] compared to goods exports (7.6 per cent), while favourable conditions of trade for the country partially limited the increase in the trade deficit. Foreign trade data show that exports in all major commodity groups picked up in nominal terms, with mineral products and fuels,[17] followed by machines[18] having the largest positive contribution over the period. At the same time, goods imports growth in nominal terms was due mainly to groups of energy resources and raw materials.

The increased surplus on net services item contributed most to the decline in the current account deficit in 2022. Non-seasonally adjusted national account GDP data suggest that the higher surplus was due to favourable terms of trade, while in real terms, services imports grew at a higher rate (13 per cent) than services exports (10.7 per cent). Nominal exports of services rose by 25.6 per cent on an annual basis, driven mainly by exports of services related to travel, transport and telecommunications, computer and information services. NSI data indicate that in 2022 the number of foreign nationals' visits to Bulgaria rose by 51.5 per cent year on year. Imports of services in nominal terms grew by 25.1 per cent, reflecting the major contribution of imports of transport services and services related to travel of residents abroad. NSI data indicate that the number of Bulgarians' visits abroad rose by 40 per cent in 2022.

In 2022, the deficit on net primary income decreased compared with the previous year, mainly owing to higher inflows of compensation of employees and lower outflows under equity income sub-item, related to direct investment. On the debit side of equity income sub-item, an increase in paid dividends to non-residents was registered on an annual basis, entirely driven by the banking sector. However, this was fully offset by lower reinvested profits for the total economy, probably due to dividend payments to non-residents to an amount exceeding net revenue of corporations over the year.

In 2022, the positive balance on net secondary income rose as a result mainly of higher incoming current transfers to the general government sector.

Balance of payments capital account surplus increased by EUR 303.7 million to stand at EUR 794.6 million in 2022 (0.9 per cent of GDP), resulting from higher capital inflows to the general government sector. At the same time, the increase in capital account surplus over 2022 was limited by the negative balance on gross acquisition/disposal of non-produced non-financial assets, net, due to an increase in the funds for purchasing greenhouse gas emission allowances.

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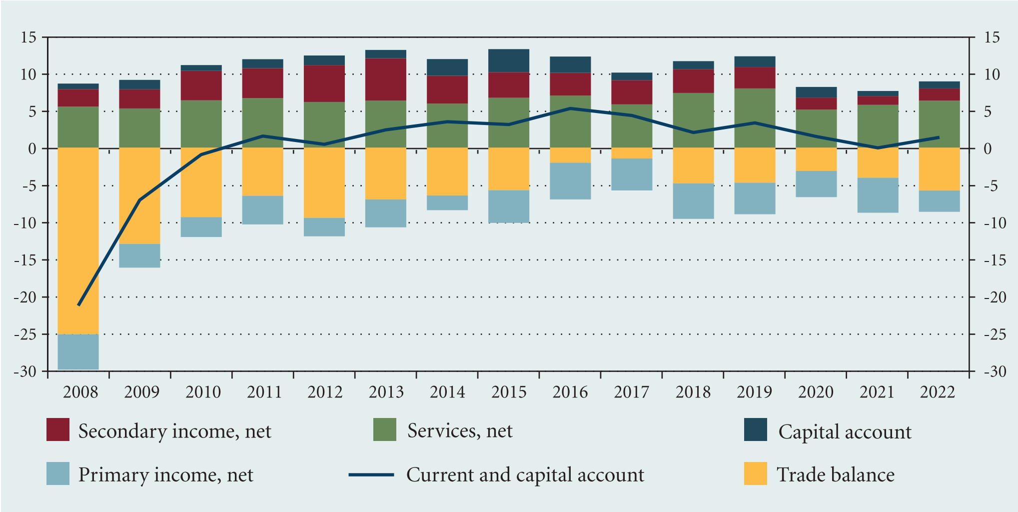
[16] Non-seasonally adjusted national account GDP data.

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

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

Current and Capital Account Flow Dynamics and Contribution by Components

(per cent of GDP)



Sources: BNB, NSI, BNB calculations.

Reflecting the above dynamics in current and capital account flows in 2022, a surplus was reported on both accounts at 0.6 per cent of GDP (against a surplus of 0.2 per cent of GDP for 2021).

In 2022, a net inflow of EUR 26.7 million was recorded on the BOP financial account, as newly assumed liabilities to non-residents exceeded the new acquisition of foreign assets by Bulgarian residents. Newly assumed liabilities to non-residents in 2022 were mostly in the form of direct investments by other sectors[19] and banking sector foreign currency and deposits. Direct investment liabilities (reporting direct investments into Bulgaria) reached EUR 2762.4 million in 2022, up by EUR 1769.3 million from 2021. The increase in foreign liabilities reflected also the Eurobond issue of EUR 2.25 billion in international capital markets in September 2022. The new foreign assets acquired during the year were mainly in the form of foreign currency and deposits of the banking sector.

As a result of net current, capital, and financial account flows, in 2022 the BNB international reserves rose by EUR 3991.7 million, according to balance of payments data (valuation adjustments and revaluations excluded). After taking into account changes in international reserves on the BNB Issue Department balance sheet, including valuation adjustments and price revaluations, by end-2022 they grew by EUR 3827.1 million compared to the end of 2021.

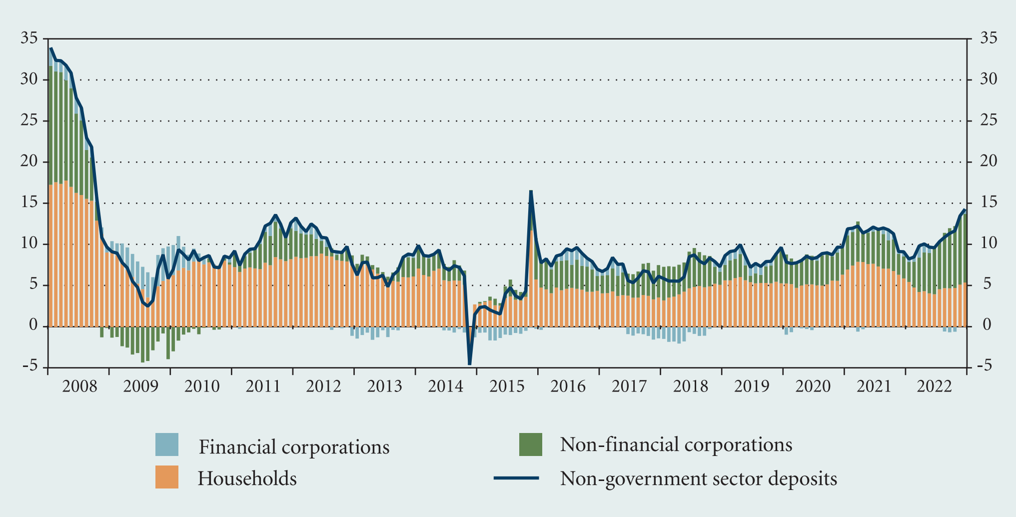
As of December 2022, Bulgaria's gross external debt was EUR 43.9 billion (51.9 per cent of GDP), increasing by EUR 2425.2 million compared with the end of 2021, mostly on account of an increase in banking and general government debt. The increase in external debt of the banking sector was driven by rising liabilities to non-residents in the form of foreign currency and deposits, while the increase in external debt of the general government sector mainly reflected issuance of government Eurobonds in international capital markets in September.

Annual growth of non-government sector deposits accelerated to 14.3 per cent in December 2022, driven by corporate deposits, which rose by 26.6 per cent (8.5 per cent in December 2021).

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

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

(per cent, percentage points)



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

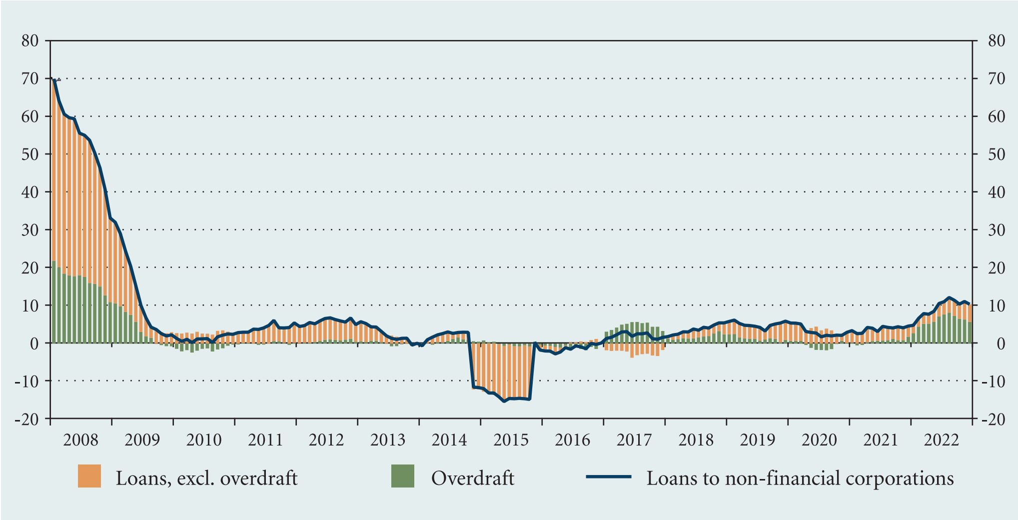
Source: BNB.

Trade and manufacturing were the main contributors to the growth of non-financial corporations' deposits. Growth in nominal trade volumes and in nominal gross operating surplus of the industrial sector contributed to the strong growth of corporate deposits. A further factor behind the deposit growth acceleration during the year was the weak investment activity, appearing to be a prerequisite for keeping firms' free resources in the form of deposits. The downward trend in household deposit growth observed at the end of 2021 and in early 2022 was reversed, its rate accelerating from the third quarter to 8.3 per cent at the end of the year. Removal by major commercial banks of the fee for cash availability above a certain amount since the third quarter of 2022 potentially contributed to the stronger growth rate of household deposits at the end of the year.

The annual growth of credit to non-financial corporations and households remained high in 2022 amid strongly negative real interest rates, a significant volume of attracted funds and ample liquidity in the banking system. Growth in non-financial corporations' credit followed an accelerating trend in the first eight months of the year, boosted by strong demand for financing for working capital and accumulation of inventories due to the significant increase in commodities prices, supply bottlenecks and the heightened uncertainty in the economic environment. The reported decline in inventories after the high levels reached in the first half of 2022 contributed to some easing in corporate credit growth in the last months of the year, its rate reaching 10.4 per cent in December (4.6 per cent in December 2021). Stronger wage growth relative to inflation and negative real interest rates supported demand for consumer and housing loans, with growth in housing loans remaining high throughout the year and slightly lower in consumer loans at the end of 2022. Growth in housing loans (17.8 per cent as of December 2022 compared with 16.5 per cent at the end of 2021) reflected also households' maintained preferences for real estate purchases as an alternative form of saving or investment. In December 2022, consumer loans increased by 12.4 per cent year on year (12.2 per cent at the end of 2021).

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

(per cent, percentage points)

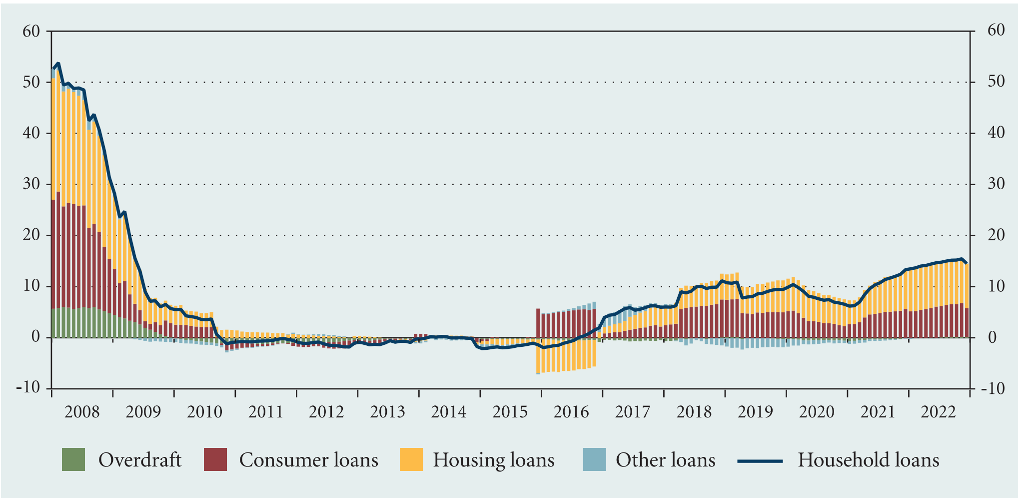


Note: The annual growth rate of loans to non-financial corporations in November 2015 reflects the exhausted base effect of KTB removal as a reporting unit from the monetary statistics in November 2014.

Source: BNB.

Annual Household Credit Growth and Contribution by Loan Type

(per cent, percentage points)



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

Source: BNB.

BNB quarterly Bank Lending Survey data show increased demand for corporate and consumer loans throughout 2022, while housing loans showed strong demand, continuing during the first half of the year, and a low decrease in the second half. The main factor considered by banks as a driver for enhanced demand for corporate loans was the need of ensuring financial resources for working capital and inventories. In the household sector, purchases of durables and current consumption goods were crucial for higher demand for consumer credit. Additional house purchases and low interest rates had the strongest contribution to the rise in demand for housing loans in the first half of the year, while the general situation of the macroeconomic environment was one of the factors behind the weakening of demand thereafter.

On the supply side, banks reported tighter lending standards to both non-financial corporations and households after the easing observed in 2021. According to banks' replies, tightening of credit standards was observed in terms of riskier loans premia, fees and commissions, lending rates and interest spreads. The main drivers of the tightening of banks' lending policy in 2022 were the increased risk assessment and lower risk appetite.

In 2022, the banking system retained its strong liquidity position, with the liquid asset ratio (LCR)[20] accounting for 235.0 per cent (274.1 per cent at the end of 2021). Regarding bank assets dynamics, in 2022 the largest increases were recorded in claims on the non-government sector (by BGN 9.2 billion) and net foreign assets (by BGN 4.2 billion). The change in net foreign assets was a result of the larger increase in foreign assets (by BGN 6.9 billion) than that in foreign liabilities of banks (by BGN 2.8 billion). The phasing-out of two anti-crisis measures introduced by the BNB in March 2020 in response to the COVID-19 pandemic potentially affected the increase in foreign assets: a restriction on banking sector's profit distribution for 2019 and 2020 (this measure was repealed by the BNB Governing Council's resolution of 23 February 2022) and limitation of foreign exposures of banks (repealed by the BNB Governing Council's resolution of 23 February 2022, effective from 1 April 2022). An additional potential factor behind the increase in banks' foreign assets was the formation since mid-September of a negative spread between the interest rate on banks' excess reserves with the BNB and the ECB deposit facility rate following the increases in euro area policy rates. Significant inflows of attracted funds into the banking system over 2022 contributed to the increase in the deposit base and in minimum required reserves of banks.

Bank transactions with the BNB in reserve currency (euro) are the main instrument of banks for managing their lev liquidity under the currency board in Bulgaria. This takes advantage of the main currency board function: buying and selling levs for euro at the fixed exchange rate set by the Law on the Bulgarian National Bank. In 2022, BNB sales (net) to banks were EUR 2.4 billion.

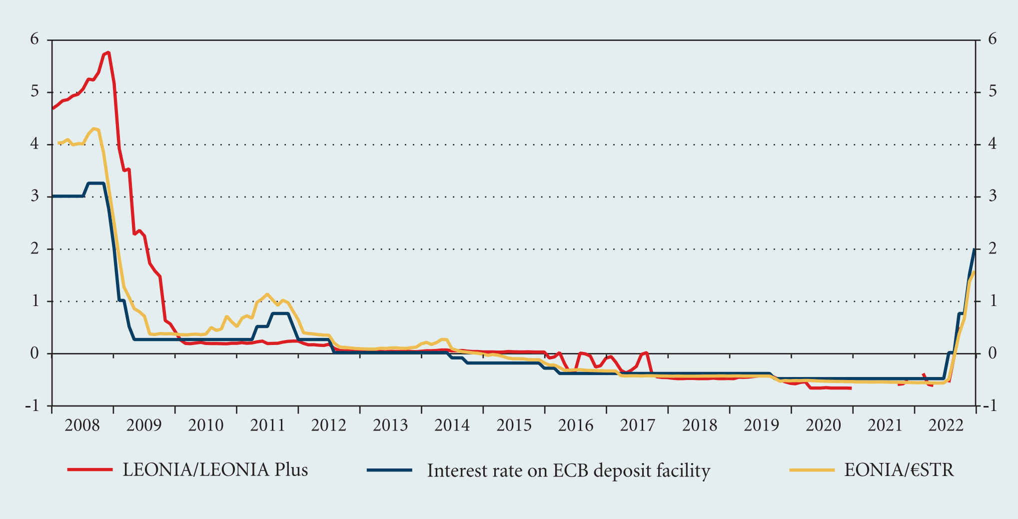
In 2022, interbank lev money market activity increased significantly compared to the previous year, with the total volume of transactions reaching BGN 23.8 billion (up 460.7 per cent compared to 2021). Trading volumes in the interbank money market have increased since the beginning of the second quarter of 2022, possibly reflecting the suspension of the supervisory measure limiting foreign exposures of banks and reducing their excess reserves, as reported in this quarter. There was a further significant increase in trading volumes at the end of the third and in the fourth quarter of the year. The negative spread between the excess reserves rate and the ECB deposit facility rate had a potential contribution to the reduction of part of excess reserves of banks owned by euro area banks. This created an incentive for banks to raise more liquidity from the interbank money market.

In the first half of the year, the LEONIA Plus index remained negative, reaching -0.64 per cent in June. According to the currency board principles, the increase in key euro area interest rates was rapidly transmitted to the interest rates on transactions concluded in the interbank money market. By the end of the year, the LEONIA Plus index reached 1.42 per cent, and its spread to the *€STR* was negative (-15 basis points). In the context of retained robust inflows of attracted funds, high liquidity and bank competition, the pass-through of ECB monetary policy changes to the deposit and lending rates in Bulgaria in the second half of 2022 was very limited.

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

Overnight Interbank Money Market Rates

(per cent, monthly average amount)



Notes: LEONIA Plus replaced LEONIA on 1 July 2017. LEONIA Plus monthly values are calculated as an arithmetic average for days when overnight unsecured lending transactions are concluded in the interbank market in levs. The EONIA/€STR series is composed of: EONIA between 2008 and 14 March 2017; pre-€STR between 15 March 2017 and 30 September 2019; €STR in the period after 30 September 2019.

Sources: BNB, ECB.

In 2022, the budget balance on the consolidated fiscal programme[21] was negative at BGN -1347 million (-0.8 per cent of GDP), including a deficit on the national budget to the amount of BGN -5087 million and a surplus of BGN 3740 million on EU programmes budget. Funds reported as cash expenditure on pension allowances for the first six months of 2022 and on energy subsidies to final non-household consumers in the first quarter of 2022[22] contributed to limiting the realised budget deficit in 2022.

The annual growth rate of total CFP revenue and grants was 23.7 per cent in 2022, mainly driven by tax revenue and, to a lesser extent, non-tax revenue and grants. VAT revenue and social and health contributions were the main contributors to the tax revenue growth. VAT revenue growth was driven entirely by a strong increase in VAT income from imports, influenced by substantial rises in commodity prices, such as crude oil and natural gas. The increased non-tax revenue was mainly due to the payments of contributions by public undertakings in the energy sector, which started in July, used to cover compensation costs paid to non-household end-users of electricity. In December 2022, the first EC payment under the National Recovery and Resilience Plan was received to the amount of EUR 1.37 billion (BGN 2.7 billion), which significantly affected the growth in grants revenue.

The annual growth of total CFP expenditure in 2022 was 17.5 per cent, largely due to subsidies and social expenditure. The funds paid out under the programme for compensation of non-household electricity customers were decisive for the growth of

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

[22] MF data show that the funds reported as expenditure, but unpaid in 2021, earmarked for allowances to pensions and energy subsidies in 2022, were BGN 1.2 billion.

expenses on subsidies. The increased amount of pension payments[23] contributed largely to the growth in social expenditure.

By the end of December 2022, the total amount of the fiscal reserve, including claims on EU funds for certified expenses, advances and other payments, was BGN 13,417 million. Fiscal reserve deposit funds rose by BGN 2394 million from the end of 2021, amounting to BGN 12,130 million (7.3 per cent of GDP), of which BGN 11,315 million of deposits with the BNB. Receipts from government securities issued in the domestic market over the year (with a nominal value of BGN 2633 million) was higher than payments on matured bonds, resulting in positive net budget financing of BGN 2206 million.[24] Positive external debt financing in 2022 was a result of bond issuance in international capital markets to a total amount of EUR 2250 million and a disbursement of EUR 460 million of funds under the addendum to the Loan Agreement between the EU as lender and Bulgaria as borrower, signed in 2020 under the European instrument for temporary support to mitigate unemployment risks in an emergency (SURE) following the COVID-19 outbreak.

At the end of 2022, yields on Bulgarian Eurobonds issued in international capital markets posted a significant increase in all maturity sectors, compared to end-2021, most pronounced in securities maturing in 2030 (by 369 basis points) and those maturing in 2028 (by 365 basis points). Euro area countries also experienced an upward trend in government bond yields, reflecting mainly interest rate increases undertaken by the ECB. By the end of 2022, the yield spread between Bulgarian and German government bonds[25] widened, most pronounced for the bonds maturing in 2028 and 2030 (64 and 93 basis points, respectively).[26] Bulgaria's geographical proximity to the military conflict in Ukraine and the internal political uncertainty were the potential factors for the widening yield spreads.

[23] From 25 December 2021, the weight of each year of the length of service in the pension formula was raised from 1.2 to 1.35 along with the increase in the minimum and maximum pension amounts to BGN 370 and BGN 1500, respectively. The 10 per cent increase in all pensions and the monthly allowance of BGN 60 added to the increased basic pensions (the so-called COVID-19 allowance) became effective since 1 July 2022. The minimum pension amount was BGN 467, and the maximum pension was raised to BGN 2000. The recalculated amount of part of the pensions and the increased maximum pension to BGN 3400 entered into force on 1 October 2022.

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

[25] Narrowing spreads between Bulgarian and German government bonds were reported only in securities maturing in 2024.

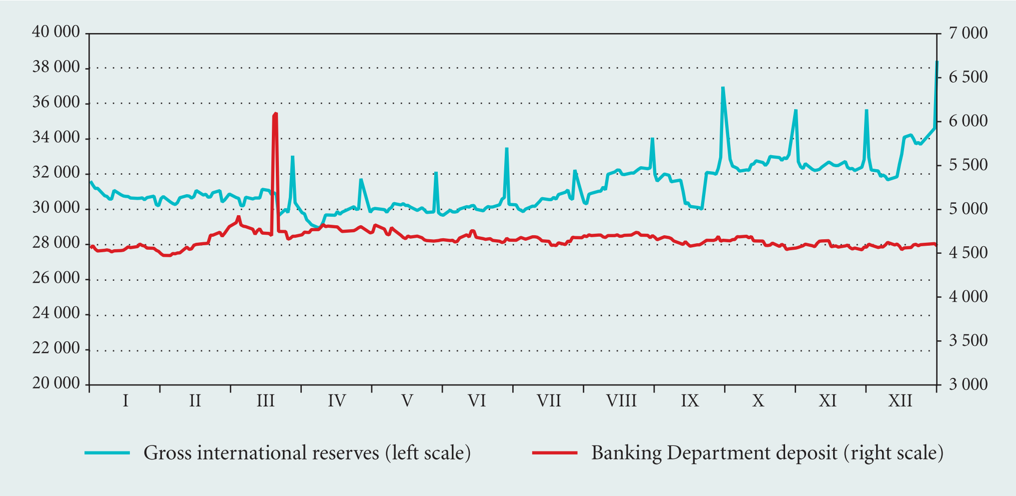
[26] At the end of 2022, the spread between Bulgarian and German government yields on securities maturing in 2028 was 142 basis points and on securities maturing in 2030: 170 basis points.

II. Gross International Reserves

The BNB manages its gross international reserves in line with the Law on the Bulgarian National Bank[27], investment constraints, business procedures and methodologies, and opportunities offered by international financial markets. Gross international reserves of the BNB comprise the assets on the Issue Department's balance sheet. Their role is to provide complete cover for monetary liabilities under the fixed exchange rate of the lev to the euro provided for by the Law on the Bulgarian National Bank[28]. The excess of gross international reserves over monetary liabilities forms the Banking Department deposit item or the net value of the Issue Department's balance sheet[29].

Gross International Reserves and Banking Department Deposit in 2022

(EUR million) (EUR million)



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

Source: BNB.

The Amount and Structure of Gross International Reserves

By the end of 2022, the balance sheet value of gross international reserves was EUR 38,424.31 million: up EUR 3827.08 million[30] on end-2021, or 11.06 per cent as a share of BNB foreign currency assets. Major factors affecting the market value of assets

[27] There were no Law on the BNB amendments concerning the statutory regulatory framework for gross international reserve management over the review period.

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

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

[30] The remaining part of the analysis of changes in BNB gross international reserves in this Chapter of the report does not include balances in banks' TARGET2 national system component accounts worth some EUR 1927 million at the end of 2022, and the tranches of SDR 611 million disbursed in August and September 2009 upon general SDR allocation by the IMF and around SDR 859 million disbursed in August 2021. For further details, see BNB Annual Report, 2009, p 26, and BNB Annual Report, 2021, p 91.

include income from asset management, income from foreign currency revaluation, and mainly the external cash flow effect.

External Cash Flows in Foreign Currency

(EUR million)

	2021	2022
I. Euro purchases and sales		
At tills	-287	-400
With banks	750	-1,326
purchases from banks	49,157	58,239
sales to banks	-48,407	-59,565
Subtotal I	**462**	**-1,726**
II. Currency flows with banks, the MF, *etc.*		
Bank reserves (including minimum required reserves)	-131	-229
Government and other depositors	2,339	4,843
Subtotal II	**2,208**	**4,615**
Total I+II	**2,671**	**2,889**

Source: BNB.

Positive external foreign currency flows, amounting to EUR 2889 million net, contributed most to the international reserve increase in 2022. Of these, the bulk were receipts into government accounts resulting from government securities issued on international financial markets in September 2022, worth EUR 2217 million; the EUR 1369 million received in December under the first tranche of the National Recovery and Resilience Plan, as well as EU funding under the other programmes for Bulgaria. These receipts were partially netted from payments made from government accounts, the most significant of which was the repayment of Bulgaria's Eurobonds maturing in March 2022, amounting to EUR 1329 million. BNB's net sales of commercial banks' reserve currency worth EUR 1326 million, reserve currency sales at tills worth EUR 400 million, as well as net repayments of EUR 229 million from commercial bank accounts with the BNB on the basis of which minimum required reserves and excess reserves are reported had a negative effect on the total net foreign currency flows in 2022.

The reporting period saw no significant changes in the gross international reserves structure by currency as compared to 2021. By financial instruments, there was a minor change in the average current account balance in 2022, whose share decreased by around 4 percentage points on that reported in 2021 at the expense of the increase in the share of BNB exposures of around 2 percentage points in both government securities and deposits. The maturity structure showed an increase of around 13 percentage points in the share of investment in the shortest maturity sector from zero to one year at the expense of the decrease in the shares of all remaining maturity sectors.

Currency Structure of Gross International Reserves

(per cent)

Currency	Issue Department balance sheet assets	
	2021	2022
EUR	92.06	91.63
USD	0.13	0.14
XAU	7.33	7.74
SDR	0.47	0.49
CHF	0.00	0.00

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

Source: BNB.

Structure of Gross International Reserves by Financial Instrument

(per cent)

Financial instruments	2021	2022
Vault cash*	19.13	15.10
Deposits**	32.17	34.65
Securities**	48.43	50.25

Note: The sum may differ from 100 per cent due to rounding.
 * Account balances, payments and monetary gold.
** Including instruments in foreign currency and gold.

Source: BNB.

Gross International Reserves by Residual Term to Maturity

(per cent)

Maturity sectors	2021	2022
Up to one year	80.84	94.12
One to three years	13.33	5.48
Three to five years	3.97	0.38
Five to ten years	1.56	0.02
Over ten years	0.03	0.00

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

Source: BNB.

Gross International Reserves Risk and Return

The Market Environment

In 2022, the market environment was affected by major central banks' measures to curb accelerating inflation and negative economic effects of the military conflict in Ukraine. The ongoing economic recovery, following the removal of the bulk of containment measures in most regions, has led to a persistent imbalance between global demand and supply of goods and services and has pushed their prices up. Concurrently, the military conflict in Ukraine resulted in additional energy and food price rises. The upward trend in prices spread to more goods and services of the consumer basket, and the US and euro area central banks stepped up monetary policy tightening measures. In 2022, the US Federal Open Market Committee (FOMC) raised the federal funds rates corridor by a total of 425 basis points and started the process of reducing the Federal Reserve's balance sheet. US federal funds rate was raised in seven steps: by 25 basis points in March, by 50 basis points in May, by 75 basis points in June, July, September and November and by 50 basis points in December. The ECB Governing Council kept the reference rates unchanged in the first half of 2022, but raised them in the second half of the year by a total of 250 basis points: by 50 basis points in July, by 75 basis points in September and October, and by 50 basis points in December. Eurosystem's net asset purchases under the Pandemic Emergency Purchase Programme (PEPP) were discontinued at the end of March, and those under its Asset Purchase Programme (APP) at the end of June. The measures taken by the Federal Reserve and the ECB, as well as market participants' expectations of the need for additional restrictive monetary policy measures led to a significant increase in US and euro area government bond yields. The onset of the military conflict in Ukraine briefly boosted demand for US and German government securities used as low-risk assets and lowered market expectations for the future pace of Federal Reserve and ECB interest rate hikes. In the middle of the year, there were growing concerns among market participants that the actions of major central banks and the negative economic implications of the war in Ukraine would lead to an economic recession in the United States and the euro area. This resulted in a decline in US and German government bond yields. Between August and October, US and euro area government bond yields tended to increase, reflecting the main priority signalled by the leading central banks with a view to countering inflation, despite a possible deterioration in economic activity. Data on the slowdown in inflation in the euro area and in the United States in November and December raised expectations of an imminent slowdown in the pace of interest rate hikes by the ECB and the Federal Reserve and also limited the increase in German and US government bond yields. The ECB's communication following the Governing Council meeting on 15 December 2022 reversed this trend, intensifying expectations among market participants of reaching the final level to which key interest rates would be raised in the near future. In the first nine months of 2022, US and euro area stock exchange indices fell significantly due to concerns that deterioration in financing conditions and slowdown in economic growth would adversely affect financial results of corporations. The fourth quarter saw some recovery in stock markets, reflecting expectations of a decline in the pace of interest rate hikes by the ECB and the Federal Reserve. In 2022, US and European financial market volatility indices rose compared to 2021.

Central Banks' Policies

In 2022, the US Federal Open Market Committee raised the federal funds rates corridor to 4.25–4.50 per cent and announced the start of the process of reducing the Federal Reserve's balance sheet assets. At its March 2022 meeting, it decided to increase the range of the federal funds rate by 25 basis points to 0.25–0.50 per cent. The increase was the first since 2018. In the second quarter, the FOMC accelerated the monetary tightening process in the USA in response to rapidly rising consumer inflation. At the meeting in May, it was decided to raise the range for the federal funds rate by 50 basis points to 0.75–1.00 per cent, and Federal Reserve's balance sheet shrinkage plan[31] was adopted. In June FOMC decided to raise the benchmark interest rate by 75 basis points to 1.50–1.75 per cent, which was the largest increase adopted at a single Committee meeting since November 1994. The FOMC raised the target range for the federal funds rate by 75 basis points in three consecutive meetings in July, September and November 2022. At the last meeting in December, the pace of raising the interest rate was cut to 50 basis points, but FOMC signalled that the process of monetary policy tightening was ongoing and would continue in 2023. In December 2022, the median of FOMC members' individual forecasts about the federal funds rate showed expectations of increasing by a total of 75 basis points in 2023, corresponding to a corridor of 5.00–5.25 per cent of the federal funds rate.

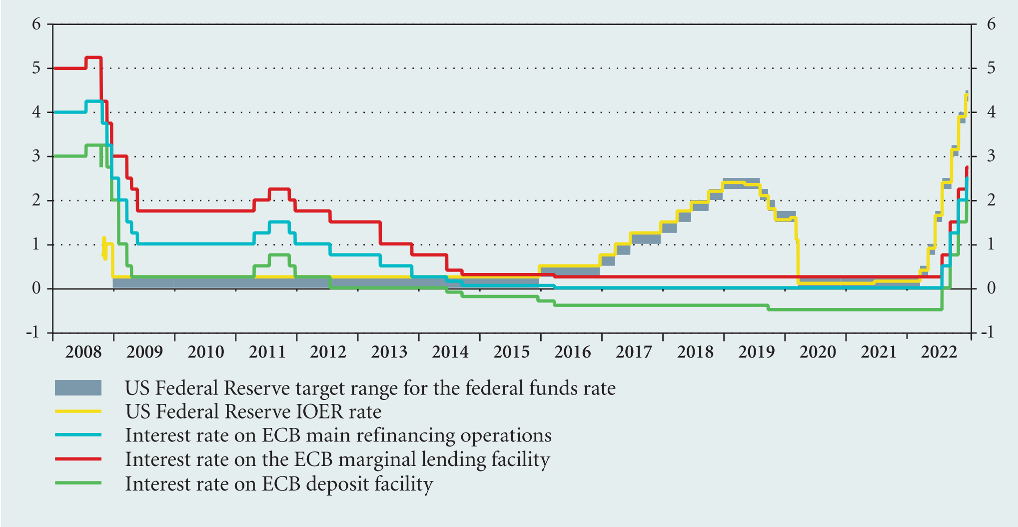
Rates linked to the federal funds were also raised over the review year: in December 2022, the Standing Repo Facility (SRF) minimum interest rate reached 4.50 per cent, the rate at the Overnight Reverse Repurchase (*ON RRP*) operations 4.30 per cent, and the Interest on Reserve Balances (IORB) 4.40 per cent.

In 2022, total assets in the US Federal Reserve balance sheet decreased by USD 206 billion to USD 8.6 trillion (33.6 per cent of GDP in 2022 compared to 37.6 per cent of GDP in 2021).

[31] As per the plan, maturing securities will be reinvested from 1 June 2022 only if they exceed certain monthly limits. For US government securities, the limit is projected to be USD 30 billion *per* month for the June–August 2022 period and USD 60 billion thereafter, and for agency debt and agency mortgage-backed securities, USD 17.5 billion and USD 35 billion, respectively.

Key ECB and US Federal Reserve Interest Rates

(per cent)



Sources: ECB; the Federal Reserve System.

Despite the accelerating inflation, which deviated significantly from the ECB's 2 per cent target, the ECB Governing Council left unchanged the reference interest rates in the first six months of 2022. The first decision to raise interest rates by 50 basis points was taken by the ECB Governing Council in late July. In September and October, the pace of reference interest rate raises increased going up by 75 basis points at each meeting. In December, the rate of increase was curbed to 50 basis points, but the ECB Governing Council announced that interest rates would still have to rise significantly at a steady pace to reach levels that are sufficiently restrictive to achieve the inflation target. Towards the end of the year, interest rates on main refinancing operations, the marginal lending facility and the deposit facility stood at 2.50 per cent, 2.75 per cent and 2.00 per cent, respectively. Over the year, the ECB reduced and subsequently discontinued net asset purchases under the PEPP and APP, continuing however to reinvest receipts from maturing assets under these programmes. At its December meeting, the Governing Council announced that, from the beginning of March 2023, the APP portfolio would start to decline by limiting the reinvestments of the receipts from maturing assets. The decline would amount to EUR 15 billion *per* month on average until the end of June 2023 and its subsequent pace will be determined over time. At the same time, it was confirmed that the reinvestments of securities acquired under the PEPP would run until at least the end of 2024. In June, the ECB Governing Council announced that the favourable conditions for the third series of targeted longer-term refinancing operations (TLTRO III) would end as of 23 June 2022 and at its meeting in October 2022, it decided to raise the average interest rate on these operations with effect from 23 November 2022 and announced further early repayment dates.

Following the ECB Governing Council meeting in early June, the expected tightening of the ECB monetary policy and the discontinuation of net asset purchases led to a market uncertainty about the sustainability of government debt of the countries in the so-called euro area periphery, in particular that of Italy, reflected in widening spreads between the yields of the periphery countries and German bond yields. This required an *ad hoc* meeting of the Governing Council of the ECB to be held on 15 June 2022, where it decided to apply flexibility in reinvesting redemptions from maturing securities coming due in the PEPP portfolio and announced that a new anti-fragmentation bond instrument will be promptly developed. At its regular meeting in July, the Governing Council approved a Transmission Protection Instrument (TPI) intended to support the effective transmission of monetary policy. The TPI can be activated to counter unwarranted, disorderly market developments if these pose a serious threat to the transmission of monetary policy across the euro area. The scale of TPI purchases is not restricted and would depend on the severity of the risks facing monetary policy transmission. It has been announced that the flexibility in the reinvestment of redemptions in the portfolio under the PEPP remains the first line of defence to address the pandemic-related risks to the transmission mechanism.

The Eurosystem balance sheet figure followed an upward trend in the first half of 2022 owing to continuing asset purchases under the PEPP (until the end of March 2022) and the APP (until the end of June 2022), but there was a decline in the second half of the year which was most pronounced in November and December as a result of early TLTRO III repayments of EUR 296 billion and EUR 447 billion, respectively. As of 31 December 2022, the Eurosystem balance sheet went down to EUR 7956 billion (59.6 per cent of GDP) compared with EUR 8564 billion (69.5 per cent of GDP) at the end of 2021. Concurrently, excess liquidity in the euro area banking system decreased by EUR 307 billion compared to EUR 3830 billion reported at the end of 2021.

The increase in the ECB deposit facility rate and the reduction of excess liquidity in the euro area banking system in the second half of 2022 were the main factors driving a significant increase in the euro unsecured overnight rate (€STR) and fixed-term unsecured deposit rates in the interbank money market (EURIBOR) in 2022. The average value of €STR rose to -0.01 per cent, from -0.57 per cent in 2021. The trade volume of overnight deposits on the euro area unsecured money market in 2022 increased, with its daily average over the year coming to EUR 55.9 billion compared with EUR 45.9 billion in 2021. EURIBOR rates increased significantly in 2022. The average three-month deposit interest rate in 2022 reached 0.35 per cent (-0.55 per cent in 2021) and the average six- and twelve-month deposit rates were 0.68 per cent and 1.10 per cent (from -0.52 per cent and -0.49 per cent in 2021).

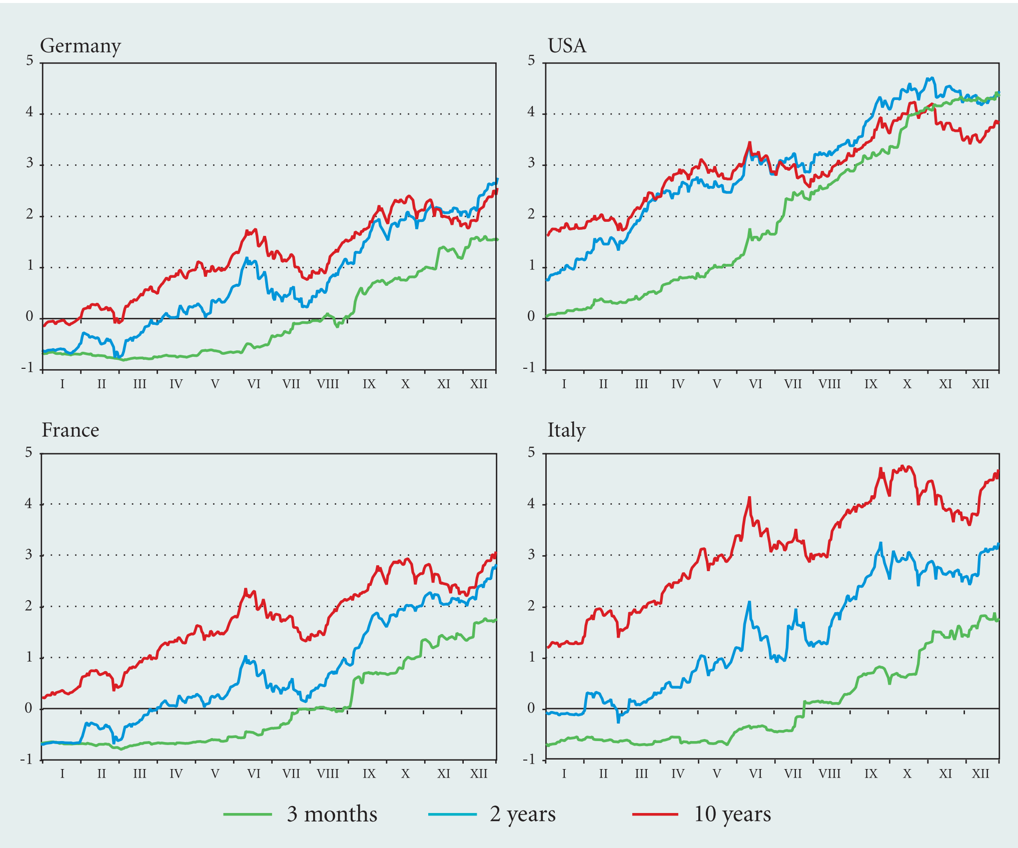
Euro Area and US Sovereign Bond Yield Curves

In 2022, US government bond yields rose substantially across all maturity sectors. Two-year bond yields grew by 369 basis points to 4.42 per cent, with ten-year yields rising by 236 basis points to 3.87 per cent. By the end of 2022, the slope of the US sovereign bond yield curve measured by ten- and two-year bond yield differences dropped by 133 basis points on the end of 2021 and came to -55 basis points. A major factor behind the increase in US government bond yields in 2022 was the monetary policy tightening measures taken by the Federal Reserve System to address the very high inflation. The increase in US government bond yields was more pronounced in the second half-year due to the accelerated rate of increase in the Federal Reserve System's reference rate corridor (by 275 out of a total of 425 basis points in 2022), as well as due to the decision on reducing the assets on the FED's balance sheet, consisting largely of US government bonds. Yield dynamics was also driven by incoming economic information during the period, mainly on inflation developments and changes in the US labour market, as well as market participants' expectations about the possible future course of the Federal Reserve's monetary policy. Geopolitical tensions over the review period, mostly related to Russia's war in Ukraine, as well as the opposition between China and the United States, were important drivers of yield developments in 2022, which affected the increase in US government bonds. An additional factor dampening yields in the medium- and long-term maturity sectors was the growing expectations among market participants in the second half-year of a significant slowdown in global economic growth.

In 2022, German government bond yields rose substantially across all maturity sectors. Compared with the end of 2021, German government bond yields with a two-year residual term to maturity increased by 338 basis points to 2.76 per cent, with ten-year yields rising by 275 basis points to 2.57 per cent. Germany's yield curve slope measured by the spread between ten and two-year bond yields inverted, decreasing by 64 basis points to -19 basis points. A major factor behind the increase in German government bond yields in 2022 was the monetary policy tightening measures taken by the ECB as a result of the very high inflation in the euro area. The ECB Governing Council raised key interest rates by a total of 250 basis points, ended net asset purchases under the PEPP and the APP, changed the conditions of the third series of targeted longer-term financing operations (TLTRO III) and announced that as of early March it would start reducing the holdings of securities under the APP by decreasing reinvestment of the principal payments from maturing securities. Higher yields on US and UK government bonds driven by monetary policy tightening by the two countries was another factor behind the price declines of German government bonds. The increase in German government bond yields was briefly limited by end-February following the outbreak of the war in Ukraine and in June and July due to growing concerns among market participants about a forthcoming economic recession in the United States and the euro area. Data on the slowdown in inflation in the euro area and the United States in November and December raised expectations of an imminent reduction in the pace of interest rate hikes by the ECB and the Federal Reserve and also limited the increase in German government bond yields. The ECB's communication following the Governing Council meeting on 15 December 2022 reversed this trend by strengthening market participants' expectations of raising policy rates by 50 basis points each in both February and March 2023, and of reaching the final level to which key interest rates would be raised in the near future. At the end of December 2022, all German government bonds traded at a positive annual yield.

Government Bond Yields in 2022

(per cent)



Over 2022, euro area and German government bond spreads widened. The main factors behind the spread dynamics were the gradual change in the ECB monetary policy and its forward guidance in terms of the APP and the PEPP and with regard to the key interest rates. The rising geopolitical uncertainty as a result of the war in Ukraine further increased the government bond risk premium of euro area countries. In the fourth quarter of the year, yield spreads between euro area countries' and Germany's government bonds narrowed somewhat, reflecting a consolidation of market participants' expectations that the Federal Reserve and the ECB would slow the pace of monetary policy tightening. The 10-year government bond spreads of both core and periphery euro area counties widened from 16 to 78 basis points. Spreads widened more significantly on 10-year bonds of Italy and Greece by 78 and 50 basis points, respectively. A key factor behind the more pronounced widening of the spreads in these two countries *vis-à-vis* the rest of euro area countries was the high level of public debt and market participants' concerns about its sustainability.

Gold and Exchange Rates

In 2022, the dollar appreciated by 6.2 per cent against the euro. The USD/EUR exchange rate moved between USD 0.96 and 1.15 *per* EUR 1 (EUR 0.87 and 1.04 *per* USD 1). The appreciation of the US dollar in the first nine months was driven mainly by the widening of the spread between European and US government bond yields, which largely reflected the faster increase in interest rates on federal funds in the United States compared to that in the benchmark rates in the euro area. The widening interest rate differential between the US and the euro area resulted in higher demand for US dollar-denominated assets and an outflow from euro-denominated assets. In the last three months of the year, this trend reversed, and the US dollar started to depreciate against the euro. Key factors behind this trend were the emerging signs of dampening inflationary pressures in the United States, accelerated increases in euro area reference rates and growing concerns about the economic growth slowdown expressed by representatives of the Federal Reserve System and the ECB.

The USD/EUR Exchange Rate in 2022

(EUR)

In 2022, the spot price of gold measured in US dollars fell slightly by 0.3 per cent to USD 1824 *per* troy ounce, whereas in euro it rose by 5.9 per cent to EUR 1704 *per* troy ounce. It moved within the relatively wide range of USD 1622 to USD 2051 *per* troy ounce. In the first quarter of 2022, gold prices rose significantly due to increased global geopolitical risks following Russia's invasion of Ukraine and expected stronger demand as a safe-haven asset in the event of escalation of the military conflict. Between March and October, its price fell as a result of the accelerated tightening of the Federal Reserve monetary policy and the related increase in real US government bond yields. Over the last two months of the year, a trend towards an increase in the price of gold in US dollars was observed, mainly due to the depreciation of the US dollar against the euro. An additional factor for the price rise over the review period is likely to have been the increased activity of central banks from emerging markets (Türkiye, China and others) in their role of net buyers of gold due to the heightened geopolitical uncertainty and high inflation.

Troy Ounce Gold Price in US Dollars in 2022

(USD)

Troy Ounce Gold Price in Euro in 2022

(EUR)

Major Types of Risks

Net value risk in the Issue Department balance sheet in 2022, measured by the standard deviation of net value return, was 10.36 per cent on an annual basis.

International reserve interest rate risk for 2022 measured by reserves' average modified duration was 0.21 years. The duration maintained was 0.5 years lower than the average for 2021. The relative interest risk limit of assets was set on the basis of a tracking error risk measure of not more than 0.10 per cent standard deviation of the relative yield on an annual basis.

The Law on the BNB stipulation that the sum of the absolute values of open foreign currency positions[32] in currencies other than euro, SDR, and monetary gold, should not exceed 2 per cent of the market value of monetary liabilities in these currencies constrained gross international reserve currency risk. There were minimal open positions in foreign currencies other than euro in the reporting period, with the open position in gold posing the main currency risk.

In 2022, the BNB continued managing credit risk in investments of gross international reserves conservatively. In connection with Russia's invasion in Ukraine, investment to some of the BNB issuers and counterparties that have exposures to these countries was limited. Over the year, some of the additional investment restrictions introduced in the previous two years in the context of the COVID-19 pandemic related to investment limits for particular asset classes were eased to some extent, though credit restrictions remained more conservative than usual due to the increased uncertainty in financial markets since the beginning of the war in Ukraine.

To achieve its main objectives of very high international reserve security and liquidity, the BNB continued investing the main share of assets into euro area core country government bonds and government guaranteed debt, and into short-term deposits with first class foreign central or commercial banks. By end-2022, the exposure to credit risk remained limited, and approximately 81 per cent of international reserves were invested into assets with the highest AAA long-term credit rating.

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

Return and Efficiency

Net income in the Issue Department balance sheet is the sum of three components: i. income from gross international reserves investment in the original currency; ii. currency imbalance income;[33] and/or iii. liabilities expenditure/income.

BNB income from international reserve investment was negative at EUR -96.22 million or -0.37 per cent yield for the period. This reflected mainly strongly negative interest rates reported for most of the year on deposits with first class foreign banks and negative yields on euro-denominated short-term bonds of high credit quality in which most BNB international reserves are invested.

Currency imbalance income for the year was positive at EUR 131.82 million. This reflected primarily movements in the market price of monetary gold measured in euro.

As a result of BNB interest rate policy, the net financial result from liabilities for 2022 was positive at EUR 17.35 million corresponding to 0.06 per cent annual return.

Over the review period, the above three components brought net returns from international reserve management to EUR 52.95 million: a total of 0.13 per cent return[34] for 2022.

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

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

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

International Reserves Income and Return* in 2022

Period	Net income (EUR million)	Net return (per cent)	Income (EUR million)	Return (per cent)	Income (EUR million)	Return (per cent)	Expenditure (EUR million)	Return (per cent)
			on assets		on currency revaluation of assets and liabilities		on liabilities	
	(1)+(2)+(3)		(1)		(2)		(3)	
First quarter	129.66	0.45	-74.93	-0.27	190.53	0.67	14.06	0.05
Second quarter	-72.05	-0.25	-55.22	-0.20	-28.81	-0.10	11.98	0.04
Third quarter	-67.23	-0.23	-40.52	-0.14	-28.50	-0.10	1.79	0.01
Fourth quarter	62.57	0.17	74.45	0.24	-1.40	-0.04	-10.47	-0.04
Total	**52.95**	**0.13**	**-96.22**	**-0.37**	**131.82**	**0.44**	**17.35**	**0.06**

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

Source: BNB.

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

Portfolio Return and Risk in 2022

Portfolio	Return		Volatility (risk)		Information ratio[3]
	Absolute (per cent)	Relative[1] (basis points)	Absolute (basis points)	Relative[2] (basis points)	
Investment 1, EUR	-0.40	12	13	9	1.23
Investment 2, EUR	-0.40	12	14	9	1.31
External manager A, EUR	-4.03	-13	171	25	-0.51
External manager B, EUR	-3.95	-4	176	30	-0.14
Liquid, EUR	-0.02	9	5	2	-
Liquid, XAU	0.04	-	1	-	-
Liquid, USD	1.74	15	8	4	-

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

Source: BNB.

To diversify management styles and reduce the operational risk, most euro-denominated assets continued being split into two investment portfolios with identical benchmarks and investment limits, managed by different BNB teams. By the end of 2022, international financial institution – external managers – managed 2.2 per cent of gross international reserves, and the benchmark of the portfolios managed by external managers was set by the BNB. Beside additional diversification, using external managers helped exchange expertise in international market investment management. Liquid portfolios were intended mainly to assist liquidity management objectives and BNB foreign currency payments.

III. Payment Systems and Payment Oversight

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

Bulgaria's lev payment systems are:

- RINGS, a real-time gross settlement system operated by the BNB;
- RINGS has these transaction settlement ancillary systems:
  - BISERA6, a system for servicing customer transfers in levs up to BGN 100,000, operated by BORICA AD;
  - BORICA, a system for servicing bank card payments in Bulgaria, operated by BORICA AD.

Bulgaria's euro payment systems are:

- the TARGET2 national system component, TARGET2-BNB, run by the BNB;
- BISERA7-EUR, an ancillary system for settlement in the TARGET2-BNB for servicing customer transfers to be settled at a designated time, operated by BORICA AD.

Bulgaria's securities settlement systems, where the cash leg is settled in payment systems run by the BNB, are:

- the book-entry government securities settlement system, run by the BNB;
- the book-entry securities registration and servicing system, run by the Central Depository AD.

Lev Payment Systems

In 2022, the RINGS real-time gross settlement system processed most lev payments in Bulgaria. As of 31 December 2022, the BNB and 25 banks participated in RINGS.

In 2022, RINGS processed 1,156,529 payments, up 0.7 per cent from 2021. The total value of payments came to BGN 1,160,219 million, posting a 15 per cent decrease compared with the previous year. Customer payments numbered 1,049,743 (91 per cent of total payments), accounting for BGN 407,485 million (35 per cent of total payments).

The daily average value of payments *via* the system was BGN 4678 million, and their daily average number was 4663. The daily value peak was BGN 1173 million, with a daily number peak of 7209.

In 2022, 60.4 per cent of payments by value were processed by noon and 83.8 per cent by 2:30 pm. The balance of 16.2 per cent went through by 5:30 pm. As regards system traffic, 84.2 per cent of RINGS payments were effected by 2:30 pm. In the review period, RINGS offered 99.8 per cent availability[35].

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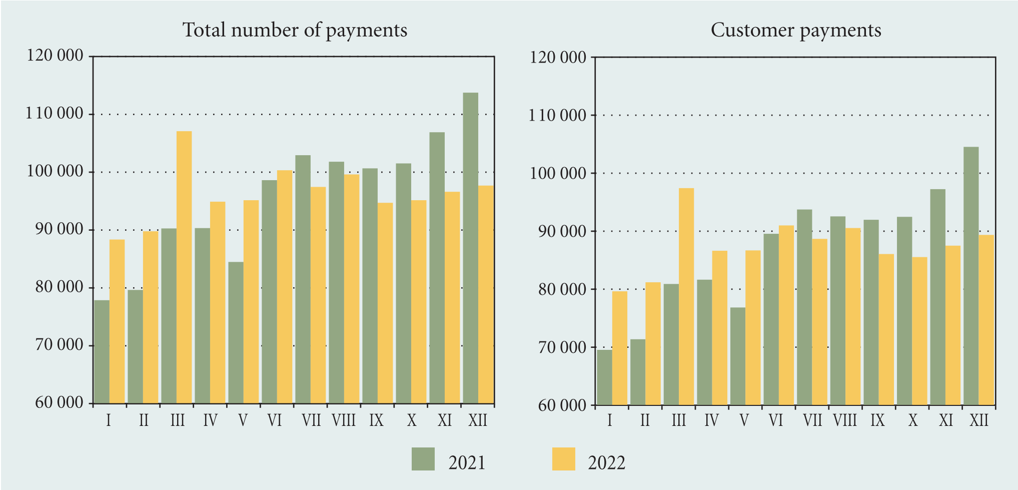
[35] The ratio of time when the system is operational to scheduled operating time.

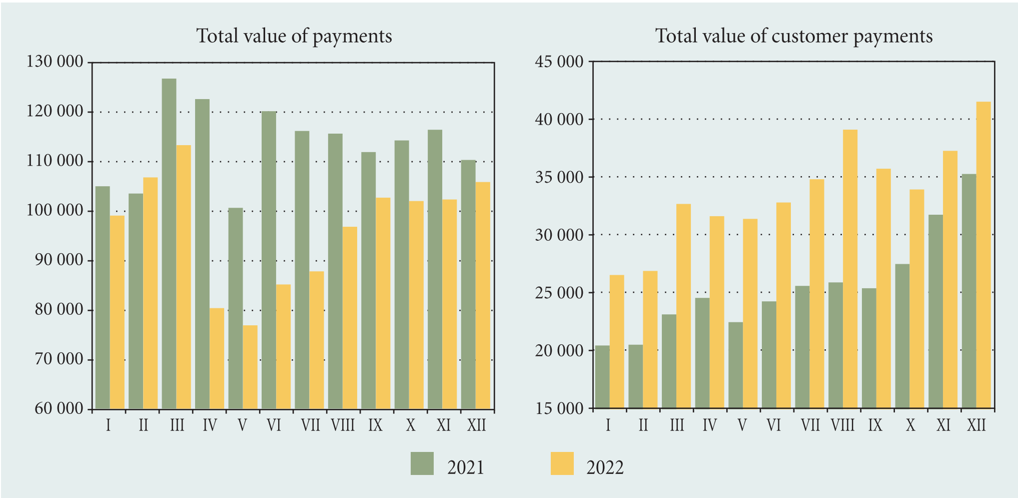
RINGS Payment Number in 2021 and 2022



Source: BNB.

RINGS Payment Value in 2021 and 2022

(BGN million) (BGN million)



Source: BNB.

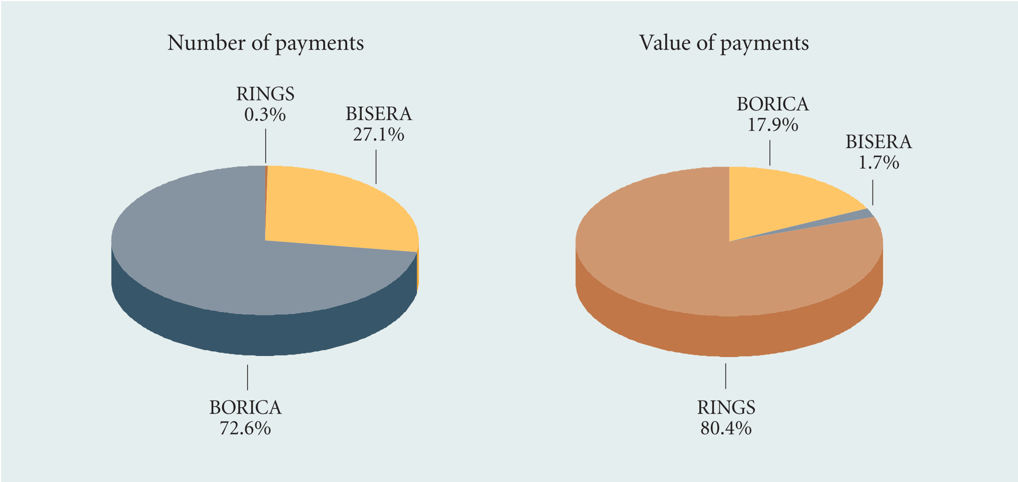
Lev payment distribution in Bulgaria by payment system underwent no changes from 2021. Over the period under review, RINGS processed 80.4 per cent of the value of payments effected in Bulgaria. Values around 80 per cent are deemed optimal for the operation of real-time gross settlement systems. RINGS also processed 0.3 per cent of the total number of lev non-cash payments in Bulgaria.

In 2022, BORICA processed 269.1 million of ATM and POS terminal payments, totalling BGN 24,133.5 million: a 23.1 per cent numerical and 20.9 per cent value rise on 2021.

In 2022, BISERA processed 100.4 million of payments, totalling BGN 258,530 million. Compared with 2021, processed payments rose 6.4 per cent in number and 22.8 per cent in value.

The number of instant credit transfer in levs compliant with SEPA Credit Transfer Instant (SCT Inst) – a scheme for instant credit transfers in the European Payments Council's Single Euro Payments Area introduced at the end of 2021, gradually increased over the reporting period and reached in December 2022 8.5 per cent of customer credit transfers in levs in accordance with SCT Inst.

Distribution of Lev Payments in Bulgaria by Payment System in 2022



Source: BNB.

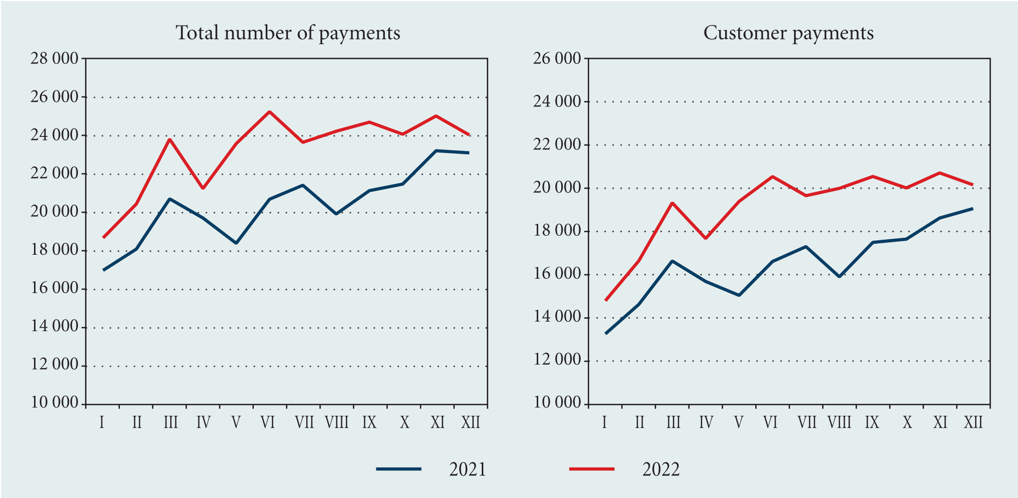
Euro Payment Systems

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

As of 31 December 2022, the system included the BNB, 18 direct participant banks, four addressable BIC holders, and three ancillary systems: the BISERA7-EUR for settling customer transfers in euro at a designated time; the BNBGSSS government securities settlement system operated by the BNB; and the securities settlement system run by the Central Depository AD.

In 2022, TARGET2-BNB processed 278,656 payments for EUR 844,822 million, including 229,163 customer payments for EUR 24,074 million. Data show a rise of 2 per cent in the total value and 13.9 per cent in the total number of processed payments compared to 2021.

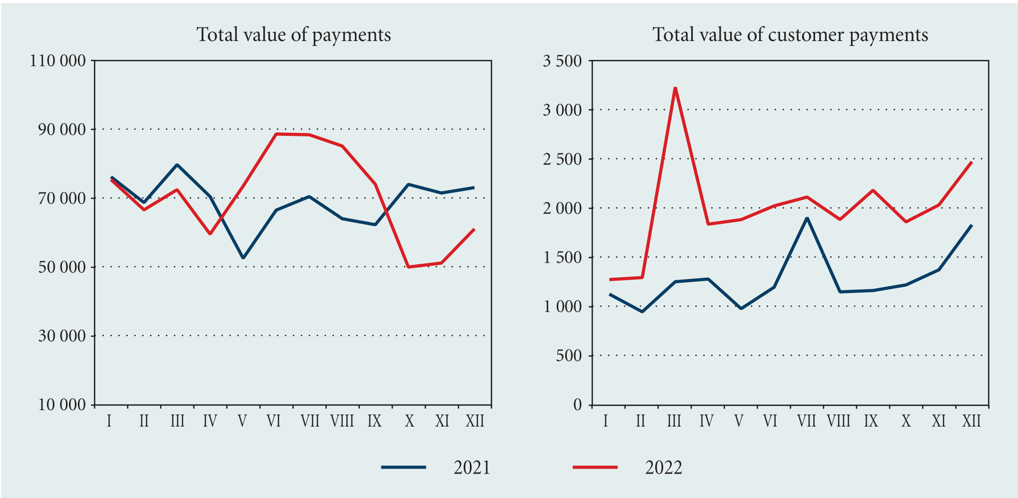
TARGET2-BNB Payment Number in 2021 and 2022



Source: BNB.

TARGET2-BNB Payment Value in 2021 and 2022

(EUR million) (EUR million)



Source: BNB.

The value and number of other system component payments to banks comprised 48 and 89 per cent of payments processed through the national component. There were 1084 daily average TARGET2-BNB payments, worth EUR 3287 million. The daily value peak was EUR 10,438 million, with a daily number peak of 2362.

The BISERA7-EUR ancillary system processes designated time customer euro transfers. As of 31 December 2022, it processed 39,688 payments for EUR 314.5 million, up 9.1 per cent in value and 6.8 per cent in number on 2021.

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

Bulgarian Payment and Settlement Systems Development

In January 2022, BORICA AD completed the project with the assistance of the BNB as operator of the RINGS system, through which all banks and foreign bank branches in Bulgaria processed customer credit transfers in levs up to BGN 100,000 according to the technical and business requirements for the SEPA Credit Transfer scheme. By using a pre-funding mechanism, these credit transfers may be completed in less than an hour from the moment of their order to crediting the payee's account and the receipt of a confirmation of the effected transfer.

Developing the Payment Services and Payment Systems Regulatory Framework

Over the review period, amendments to the Law on Payment Services and Payment Systems (LPSPS)[36] were adopted, regulating the settlement of transfer orders in levs based on SEPA schemes of the European Payments Council with funds provided in advance by the banks on a special account at the central bank.

In early 2022, the implementation of Revised Guidelines on major incident reporting under Directive (EU) 2015/2366 on payment services in the internal market (EBA/GL/2021/03) issued by the European Banking Authority (EBA) began. These guidelines set out the criteria for the classification of major operational or security incidents by payment service providers, as well as the format and procedures they should follow when reporting such incidents.

Over the review period, the BNB Governing Council decided to implement, as from 1 June 2022, Guidelines on the limited network exclusion under Directive (EU) 2015/2366 on payment services in the internal market (EBA/GL/2022/02), issued by the European Banking Authority. The Guidelines set out mainly the criteria and factors which competent authorities should take into account when assessing whether particular activities fall in the scope of exclusions under Article 3(k) of Directive (EU) 2015/2366 on payment services in the internal market.

In 2022, the BNB amended Ordinance No 3 of 18 April 2018 on the Terms and Procedure for Opening Payment Accounts, Executing Payment Transactions and Using Payment Instruments, and Ordinance No 16 of 29 March 2018 on Granting Licenses and Approvals, Entry into the Register under Article 19 of the Law on Payment Services and Payment Systems, and Requirements for the Activity of Operators of Payment Systems with Settlement Finality. Amendments to BNB Ordinance No 3 regulate mainly the conclusion of framework contracts for provision of payment services using a means of distance communication and harmonise particular provisions of the Ordinance with the Law on Payment Services and Payment Systems and other legal acts, including with the amendments to EU legal acts. Amendments to BNB Ordinance No 16 introduce mainly provisions on granting a permission for transformation of a payment institution and electronic money institution, as well as a requirement to payment institutions and electronic money institutions licensed by the BNB to provide information on the amount of extended loans under Article 21 of the Law on Payment Services and Payment Systems.

[36] Published in the Darjaven Vestnik, issue 45 of 2022.

Payment Systems Oversight

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

Over 2022, the BNB inspected a payment service provider licensed by the BNB to establish whether its payment services and issuance of electronic money comply with the requirements of the Law on Payment Services and Payment Systems, its implementing acts, the European legal framework, as well as with the requirements of the Law on Measures against Money Laundering, the Law on Measures against Financing of Terrorism, and Regulation (EU) No 2015/847[37]. The Bank imposed oversight measures on the provider.

In 2022, the BNB completed a thematic inspection of payment institutions and electronic money institutions licensed elsewhere in the EU and eligible to operate on the territory of the Republic of Bulgaria through a branch or an agent to establish the existence of central contact points under Article 9 of the LMML, the compliance of operations on providing payment services and issuing, distributing and redeeming electronic money with the requirements of the LMML, LMFT, as well as of Chapters Four and Five of the LPSPS on information requirements and the rights and obligations in relation to the provision and use of services through a branch or an agent on the territory of the Republic of Bulgaria. Payment service providers brought their operations in line with the recommendations and removed the established inconsistencies with the Law on Measures against Money Laundering and the Law on Payment Services and Payment Systems.

Over the review period, in line with the entry into force of Commission Delegated Regulation (EU) 2021/1722[38], payment institutions and electronic money institutions licensed elsewhere in the EU and eligible to operate on the territory of the Republic of Bulgaria through a branch or an agent, based on the right of establishment, were required to provide information under Commission Delegated Regulation (EU) 2021/1722 on their activities on the territory of Bulgaria for supervisory purposes, as well as for the monitoring of compliance with the provisions of national law transposing Titles III and IV of Directive (EU) 2015/2366[39].

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

In connection with the decision adopted by the BNB Governing Council to implement from 1 June 2022 EBA Guidelines on the limited network exclusion according to the Directive (EU) 2015/2366 on payment services in the internal market (EBA/GL/2022/02), a review was carried out of re-submitted notifications to the BNB until 1 September 2022 by service providers under Article 2, paragraph 3 of the LPSPS, which had been listed in the BNB register under Article 9 of the LPSPS by this date. Over the review period, pursuant to the requirements of the LPSPS, the Governing Council considered one notification for entry into the Register under Article 19 of the LPSPS,

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

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

[39] Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market.

filed by a service provider under Article 2, paragraph 3 of the LPSPS regarding offered payment instruments that can be only used in a limited network. At the end of the reporting period, eleven service providers under Article 2, paragraph 3 of the LPSPS were listed in the Register kept by the BNB.

In 2022, Payman Group OOD was licensed to conduct activities as an electronic money institution, providing in addition payment services under Article 4, item 3 (a) and (c) of the LPSPS.

By the end of the reporting period, there were five payment institutions and nine electronic money institutions licensed by the BNB.

In 2022, the BNB Governing Council decided on one application filed under Article 14, paragraphs 1 and 2 of the LPSPS for acquisition of indirect qualifying holding in the capital of an electronic money institution licensed by the BNB.

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

- 512 agents were listed in and 173 agents were delisted from the public register of licensed payment institutions and electronic money institutions operating in Bulgaria;
- one agent was listed in and two agents were delisted from the public register of licensed payment institutions and electronic money institutions operating elsewhere in the EU.

Over 2022, EU Member State competent authorities notifications of the following payment institutions, electronic money institutions and account information service providers licensed elsewhere in the EU and eligible to operating in the Republic of Bulgaria were received:

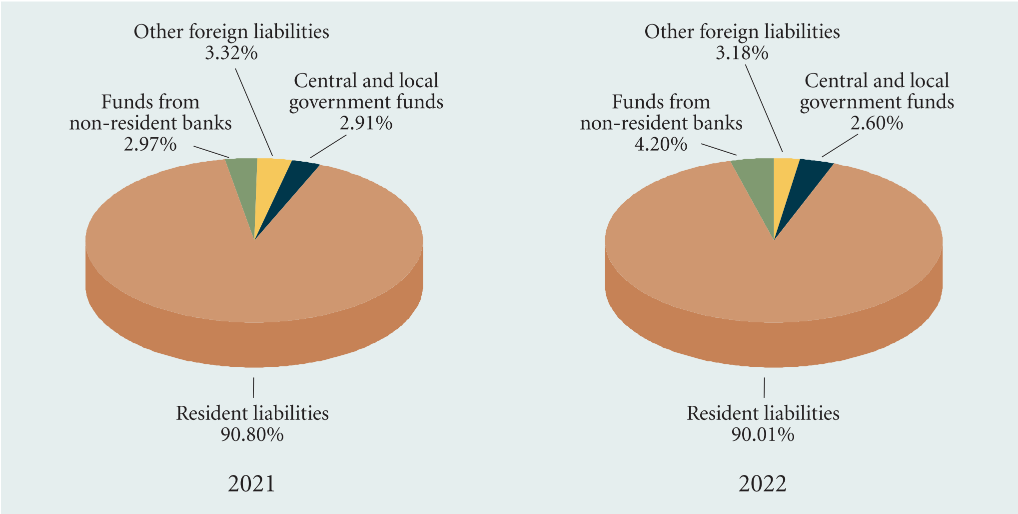
- for listing 57 payment institutions, electronic money institutions and account information service providers licensed elsewhere in the EU and eligible to directly operate in Bulgaria and for delisting 19 payment institutions, electronic money institutions and account information service providers operating directly in Bulgaria;
- for listing 197 agents and delisting 126 agents of payment institutions and electronic money institutions licensed elsewhere in the EU and eligible to operate in Bulgaria.

In 2022, the BNB enquired into 354 complaints submitted by natural persons and legal entries – payment service users; on 17 of them, the Bank issued instructions. The other cases involved no breaches of the Law on Payment Services and Payment Systems and its statutory instruments, or were resolved in favour of payment service users through correspondence.

IV. Banks' Reserves at the BNB

In 2022, the average daily value of banks' attracted funds for minimum reserve calculation purposes (excluding central and local government budget accounts) rose by 12.1 per cent compared to 2021. The average daily value of funds attracted from residents (excluding central and local budget funds) grew by 10.8 per cent, and those from non-residents by 31.2 per cent, with funds attracted from non-resident banks increasing by 58.0 per cent. Over the review period, funds attracted from central and local budgets posted a slight decline of 0.1 per cent. The effective implicit ratio of minimum reserve requirements (MRR) remained unchanged from the previous year at 9.4 per cent.[40] Reserve assets used by banks to comply with the MRR rate were allocated to funds on banks' accounts at the BNB (8.2 per cent) and half of cash balances designated as reserve assets (1.2 per cent).

Structure of Attracted Funds in the Banking System*



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

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

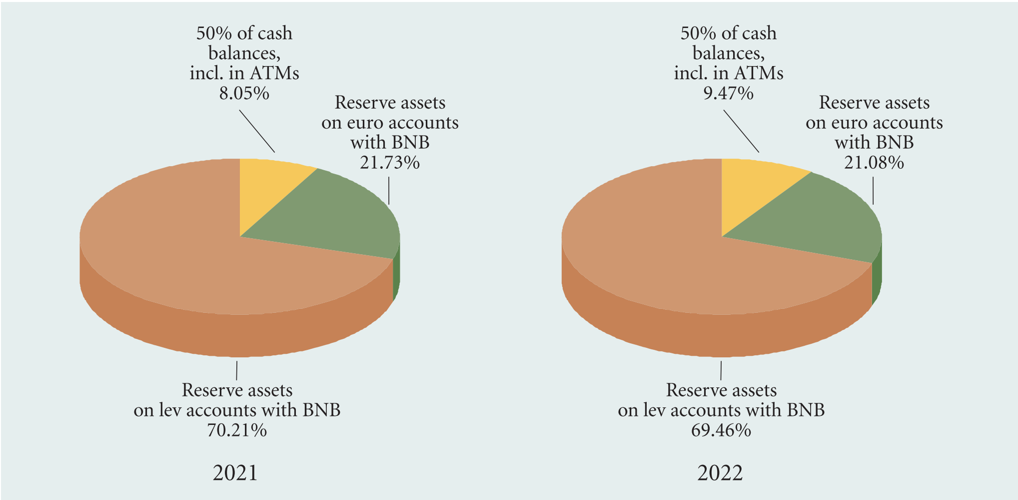
Source: BNB.

Banks keep reserves in their own assets: BNB lev and euro accounts and half their cash balances, including in ATMs.[41] In 2022, the relative share of lev-denominated reserve assets was 69.5 per cent on an average daily basis, from 70.2 per cent a year earlier, while the share of euro reserve assets reached 21.1 per cent, from 21.7 per cent in 2021. The share of cash balances designated as reserve assets, including in ATMs, rose from 8.1 per cent in 2021 to 9.5 per cent in 2022.

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

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

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



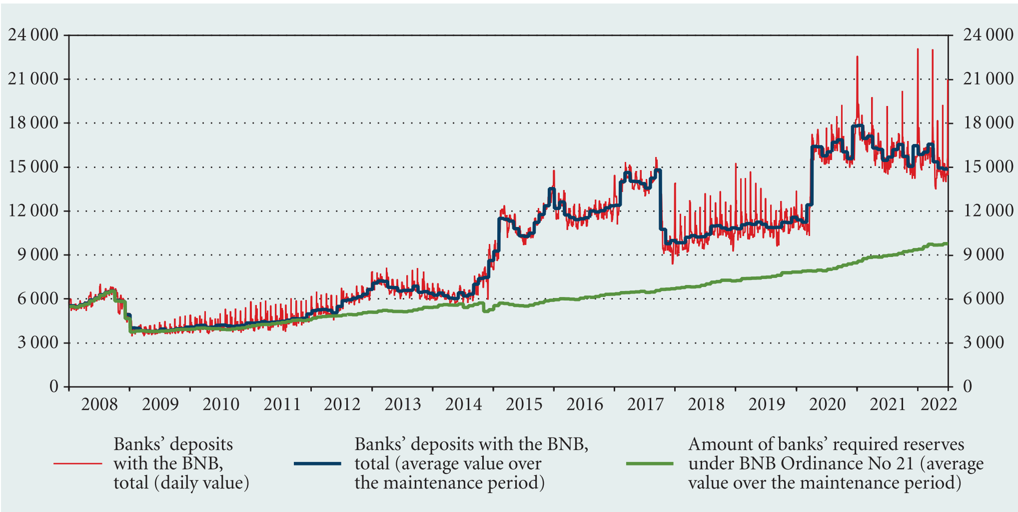
Note: The sum may differ from 100 per cent due to rounding.

Source: BNB.

Over the first half of 2022, the interest rate on banks' excess reserves[42] under Ordinance No 21 remained unchanged at -0.70 per cent, and from 29 July 2022 it was set at 0.00 per cent. In 2022, the average daily amount of banks' excess reserves declined by BGN 1.1 billion compared to 2021. Funds on banks' accounts with the BNB to meet the requirements of Ordinance No 21 exceeded minimum required reserves by 33.5 per cent on an average daily basis, from 51.4 per cent a year earlier.

Banks' Reserves with the BNB

(BGN million)



Source: BNB.

[42] Ordinance No 21 Article 5, paragraph 1, in force from 4 January 2016, defines excess reserves as the excess of the holdings in reserve assets by more than 5 per cent over the minimum reserve requirements. Amendments to Ordinance No 21, in force since 4 June 2021, provide for excess reserves as the excess of the holdings in reserve assets over the minimum reserve requirements.

V. Currency in Circulation

The Bank has a monopoly on banknote and coin issue in Bulgaria. Banknotes and coins issued by the Bank are legal tender in Bulgaria and are mandatorily acceptable as payment at full face value without restriction[43]. The Bank prints banknotes, mints coins, and keeps and scraps uncirculated or withdrawn currency.

By Resolution No 17 of 27 January 2022, the BNB Governing Council withdrew from circulation the commemorative coins issued in 2016 which ceased to be legal tender as of 7 February 2022. Commemorative coins issued in 2016 will be exchangeable at BNB tills at nominal value with no limits to amounts and free of charge until 31 December 2023.

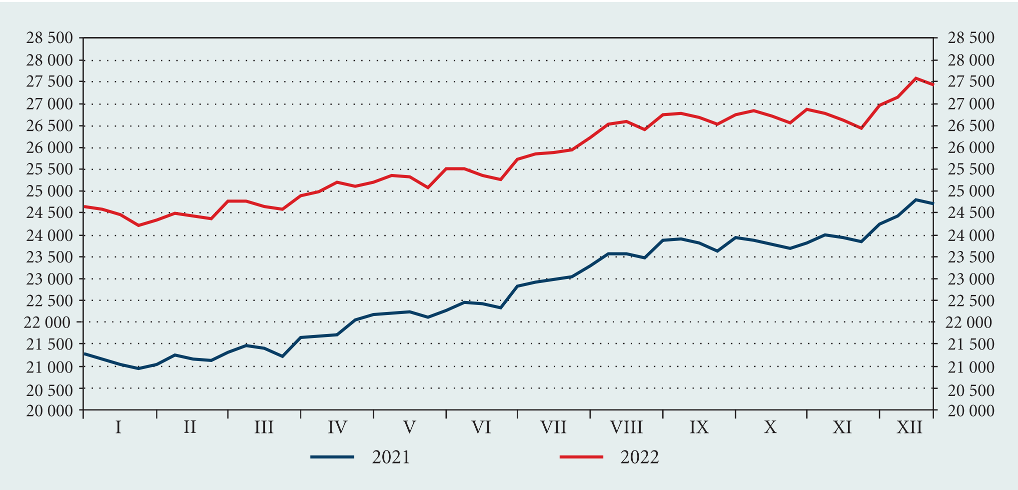
Pursuant to LBNB Article 26, by Resolution No 467 of December 2022, the BNB Governing Council decided to withdraw from circulation the banknotes of BGN 20 nominal value, issued in 2005, which ceased to be legal tender as of 1 February 2023. They may be exchanged at BNB tills at face value with no limit to amounts, fees, or limits in time. As of 1 February 2023 commemorative banknotes of this issue will be put up for sale for numismatic purposes at a price other than their nominal value.

Banknotes and Coins in Circulation (Outside BNB Vaults)[44]

At the end of 2022, circulating currency reached BGN 27,425.4 million, up BGN 2728.7 million, or 11.0 per cent on the end of 2021. In 2022, the annual growth rate of currency in circulation was slower both as a share and as an absolute value compared with 2021. As of 31 December 2022 the share of banknotes, circulating coins and commemorative coins in the total value of currency in circulation amounted to 97.96, 2.03 and 0.01 per cent, respectively. Over the year the share of banknotes rose by 0.07 percentage points at the expense of the share of circulating coins which decreased by the same amount.

Banknotes and Coins in Circulation (Outside BNB Vaults)

(BGN million)



Source: BNB.

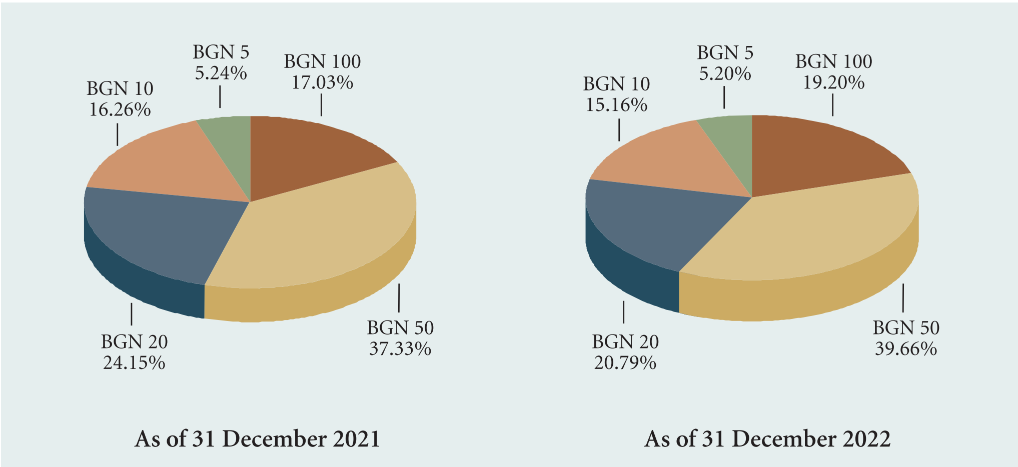
[43] Article 2, paragraph 5 and Article 25, paragraph 2 of the LBNB.

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

Banknotes and Coins in Circulation[45]

By the close of 2022 circulating banknotes numbered 569.7 million, worth BGN 26,826.4 million. In a year their number rose 27.6 million (4.8 per cent) and their value BGN 2688.5 million (11.1 per cent).

Individual Denomination Shares in the Total Number of Circulating Banknotes



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

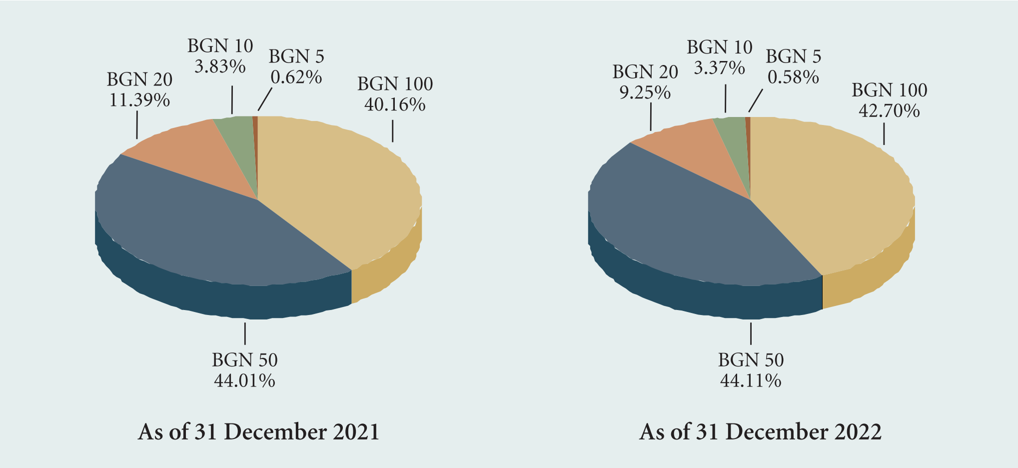
As in recent years accelerated growth in the number of high value banknotes (BGN 50 and 100) compared with other banknotes was sustained. The number of BGN 50 banknotes increased 24.2 million or 11.4 per cent and that of BGN 100 banknotes by 17.6 million or 18.2 per cent compared with end-2021. These two denominations contributed most strongly to the annual increase in the currency in circulation. In 2022, the number of BGN 5 banknotes increased 4.2 per cent, while the number of BGN 10 and 20 banknotes fell 2.3 and 9.8 per cent respectively. The BGN 50 banknote hold the largest share in the total number of circulating banknotes at end-2022 at 39.66 per cent. The prior years' trend toward an increase in the shares of the highest value banknotes (in number) was sustained. In 2022, the shares of BGN 50 and 100 banknotes rose by 2.33 and 2.17 percentage points, whereas the shares of all other banknote denominations fell substantially, that of BGN 20 dropping most strongly by 3.36 percentage points.

By the end of 2022, the BGN 50 and BGN 100 banknotes held the largest shares (in value) in the structure of circulating banknotes: 44.11 and 42.70 per cent. These are the only denominations recording an increase in their shares (in value) on end-2021 accounting for 0.10 and 2.54 percentage points. The shares of other banknotes posted a decrease, with the share of BGN 20 decreasing most (by 2.14 percentage points) and that of BGN 5 least (by BGN 0.04 percentage points).

The average banknote circulating at the end of 2022 was worth BGN 44.96. Its value rose BGN 2.55 or 6.0 per cent from end-2021, reflecting accelerated growth in the number of BGN 50 and 100 banknotes compared with other banknotes.

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

Individual Denomination Shares in the Total Value of Circulating Banknotes

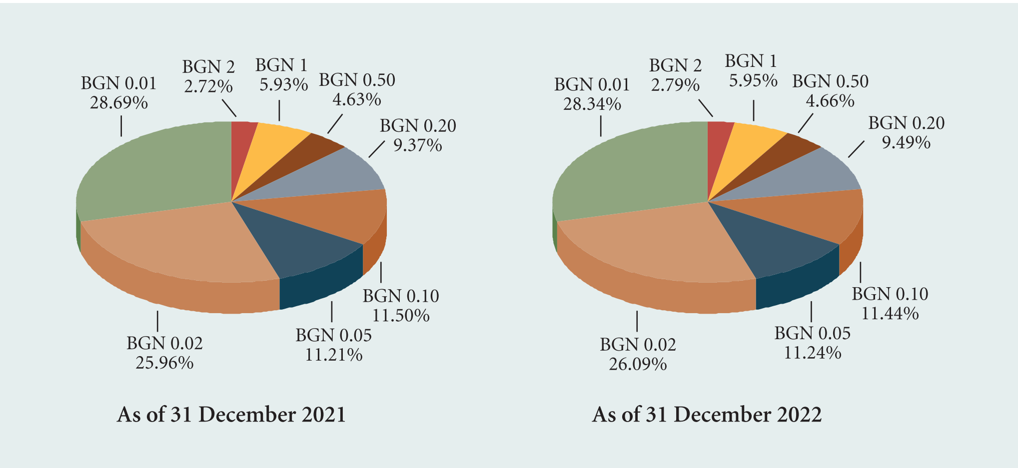


Note: The sum may differ from 100 per cent due to rounding.
Source: BNB.

In late 2022, 3054.6 million coins, worth BGN 558.1 million nominal value, were in circulation. Year on year their total number rose by 188.8 million (6.6 per cent) and their value by BGN 40.3 million (7.8 per cent). The upward trend in the number of circulating coins of all denominations continued. The number of BGN 0.01 and 0.02 coins rose most: by BGN 43.4 million (5.3 per cent) and 53.0 million (7.1 per cent). In 2022, BGN 2 coins continued to grow at the highest rate in the currency in circulation. The number of BGN 2 coins rose 9.4 per cent, reaching 85.2 million at the close of the year. The number of coins of BGN 0.05, 0.10, 0.20, 0.50 and 1 rose from BGN 9.7 million to BGN 22.2 million (from 6.1 per cent to 8.0 per cent).

BGN 0.01 coins had the largest share of 28.34 per cent of total circulating coins at the end of the 2022, with 865.6 million coins of this nominal value outside BNB vaults by 31 December. BGN 2 coins held the smallest share at 2.79 per cent. The numerical shares of BGN 0.02, 0.05, 0.20, 0.50, 1 and 2 coins rose on the end of 2021, while those of BGN 0.01 and 0.10 coins decreased.

Individual Nominal Value Shares in the Total Number of Circulating Coins



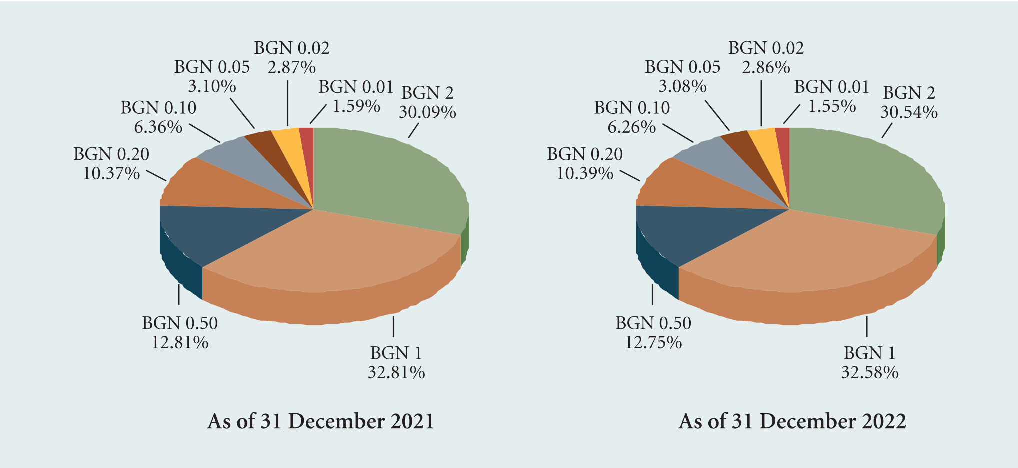
Note: The sum may differ from 100 per cent due to rounding.
Source: BNB.

By end-2022, the total value of BGN 1 coins in circulation was BGN 181.8 million, occupying the largest share (32.58 per cent) of circulating coins. The value of BGN 0.01 coins held the smallest share at 1.55 per cent.

Structural changes in the nominal composition of circulating coins were mainly attributable to the continued rise of BGN 2, the coin with the largest nominal value in the currency circulation. In 2022, the shares of BGN 0.20 and 2 rose by 0.02 and 0.45 percentage points within the structure of circulating coins by value. In the same period the shares of all other coins posted a decline, with BGN 1 coin decreasing most strongly (by 0.23 percentage points).

At the end of 2022, the average circulating coin matched its late 2021 level at BGN 0.18.

Individual Nominal Value Shares in the Value of Circulating Coins



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

Non-genuine Banknotes and Circulating Coins

In 2022, the BNB National Analysis Centre retained 839 non-genuine Bulgarian banknotes, of which 832 had entered into circulation. The number of non-genuine banknotes decreased by 413 compared with those retained in 2021. The share of retained non-genuine banknotes in the total number of circulating banknotes by end-2022, was 0.000141 per cent.

The BGN 50 banknote had the largest share of retained non-genuine banknotes at 54.23 per cent, followed by the BGN 20 at 33.85 per cent. Non-genuine BGN 100, 10, 5 and 2 banknotes' shares were 1.67, 6.79, 0.24 and 3,22 per cent.

The retained non-genuine Bulgarian coins numbered 181; all of these had entered into circulation. The share of retained circulating non-genuine Bulgarian coins accounted for 0.000006 per cent of the total number of circulating coins by the end of 2022.

Evaluating suspect foreign banknotes and coins, in 2022 the BNB National Analysis Centre retained 751 euro banknotes (including 284 which had entered into circulation), 1174 US dollar banknotes (of which 374 had entered into circulation) and 276 other banknotes which had entered into circulation.

BNB Issue and Cash Operations

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

In 2022, producers supplied 71.7 million new banknotes and 104.0 million new coins worth BGN 2974.5 million. As planned in its 2022 Minting Programme, the BNB issued five new commemorative coins[46].

In 2022, banks deposited BGN 20,085.8 million of cash, up BGN 1639.3 million or 8.9 per cent on 2021. Over the same period, Bulgarian banknotes and coins, worth BGN 22 813.8 million, were withdrawn from the BNB: up BGN 911.4 million or 4.2 per cent in a year.

In 2022, banknotes recirculated through BNB tills an average of 1.3 times. The highest and lowest value banknotes returned less often, from 0.4 to 1.0 times; BGN 10 and BGN 20 banknotes returned more often at 2.6 and 2.1 times.

In 2022, banknote processing machines tested 716.5 million banknotes and 67.4 million coins. Compared with 2021 the number of processed banknotes decreased by 4.9 per cent, while that of processed circulating coins increased 8.9 per cent. BGN 10 and BGN 20 and BGN 50 processed banknotes had the largest shares of nominal value: 30.22 and 35.76 and 25.27. BGN 0.50 and BGN 1 coins comprised the largest shares of nominal value at 18.27 and 27.57 per cent respectively.

Cash quality and integrity checks identified some 40.8 million banknotes as unfit for circulation, up 6.4 million on 2021. BGN 10 and 20 had the largest shares of unfit banknotes at 35.16 and 33.50 per cent. The share of unfit banknotes processed in 2022 was 5.69 per cent. There were 1.2 million unfit coins over the review period after the machine processing. The share of unfit coins processed in 2022 was 1.78 per cent.

The BNB purchased EUR 10.0 million of reserve currency from budget organisations and individuals. At the same time, the Bank sold EUR 409.8 million of reserve currency.

The Bank conducted six full checks into credit institutions and a service provider to ensure observance of Ordinance No 18 on the Control over Quality of Banknotes and Coins in Currency Circulation and its enabling instruments. The BNB tested 254 sorting machines and customer operated machines in line with identification and fitness standards into eight credit institutions, five service providers and nine representatives of machine producers under Ordinance No 18.

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

VI. Maintaining Banking System Stability and Protecting Depositor Interests

Assessment of the State of the Banking System[47]

In 2022, Bulgaria's banking sector operated in a context of accelerated inflation and heightened uncertainty in the economic environment caused by the war in Ukraine. Against the backdrop of strongly negative real interest rates, a significant volume of attracted funds and high liquidity in the banking system, annual growth of loans and total assets in the banking sector accelerated in 2022, while non-performing loans and advances in bank balance sheets declined. Total amount of risk exposures increased, whereas banking sector's capital ratios remained significantly above the minimum regulatory requirements and capital buffer requirements. Banking liquidity position remained stable and deposits continued growing at high rates. Over the period under review, the volume of non-performing loans and advances and their share in total loans and advances fell, reflecting non-performing loan sales and write-offs and growing credit portfolio. Banking system net operating income and profit rose compared to 2021, driven by the increased banking sector activity and the change in interest rate cycle globally in 2022. Taking into account the stability of the banking sector and weakening risks associated with COVID-19 pandemic, the BNB Governing Council decided on 23 February 2022 to suspend the macroprudential measures imposed in March 2020 and confirmed in January 2021. The restriction on banks' profit distributions for 2019 and 2020 and the imposed individual and aggregate foreign exposure limits of banks were removed. In line with the BNB Governing Council decisions taken in 2021 and published 12 months before their entry into force, the countercyclical capital buffer rate was increased from 0.5 to 1.0 per cent as of 1 October 2022 and to 1.5 per cent as of 1 January 2023. Given the persistently high credit growth rates and the uncertainty in the economic environment, the BNB Governing Council decided on 29 September 2022 to raise the countercyclical buffer rate to 2.0 per cent, effective from 1 October 2023.

In 2022, the process of banking sector consolidation continued in Bulgaria. At its meeting of 29 June 2022, the BNB Governing Council granted a preliminary approval for the direct acquisition by KBC Bank NV, Belgium, of the shares in the capital of Raiffeisenbank (Bulgaria) EAD[48].

In 2022, banking system assets increased by BGN 20.1 billion (14.8 per cent), amounting to BGN 155.4 billion at the end of December, with a higher growth rate than that in 2021 (9.3 per cent or BGN 11.5 billion). Over the period, credit portfolio growth in the banking sector largely determined the increase in balance sheet loans and advances by BGN 14.0 billion (17.8 per cent) whose share in the asset structure rose to 59.6 per cent from 58.1 per cent year on year. The most liquid item of cash, cash balances at central banks and other demand deposits rose by BGN 4.0 billion (13.9 per cent) compared to end-2021, mainly due to the increased cash balances at central banks, with its share in the asset structure at the end of 2020 amounting to 20.9 per cent. Debt securities also grew on an annual basis by BGN 1.6 billion (7.2 per cent), predominantly in the government sector, with their share in total assets accounting for 15.2 per cent at end-period (16.3 per cent at end-December 2021).

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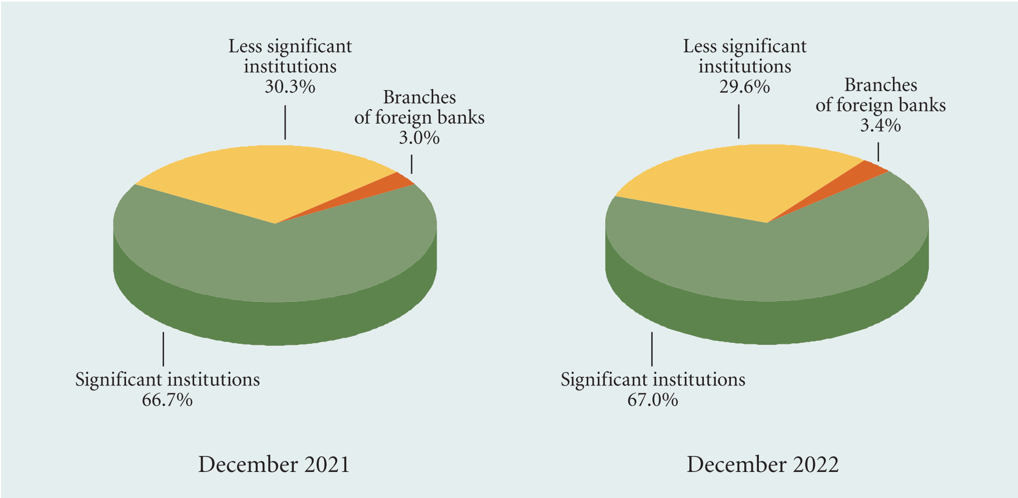
[47] Based on individual supervisory statements as of end-December 2021 and December 2022 submitted by 21 February 2023.

[48] On 14 July 2022, a change in the ownership of Raiffeisenbank (Bulgaria) EAD was entered in the Registry Agency's Commercial Register, the new sole owner of the bank's capital being KBC Bank NV, Belgium. As of this date, the name of Raiffeisenbank (Bulgaria) EAD is changed to KBC Bank Bulgaria.

At the end of 2022, the assets of banks subject to direct ECB supervision as of 1 October[49] accounted for 67.0 per cent of banking system's total assets, while in the case of less significant institutions this share amounted to 29.6 per cent. Foreign bank branches' assets, accounted for 3.4 per cent of the balance sheet figure of the banking system.

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



Source: BNB.

At the end of 2022, the share of banks' credit portfolio[50] in total banking system assets was 53.2 per cent. Based on data from supervisory reports, banking system gross credit portfolio grew by BGN 10.3 billion (13.5 per cent) on an annual basis to BGN 86.1 billion by end-2022. In its structure, loans to non-financial corporations occupied 52.2 per cent and those to households 39.4 per cent. Loans to non-financial corporations went up BGN 4.7 billion (11.6 per cent), accounting for 45.4 per cent of credit portfolio growth (35.3 per cent a year earlier). In the same period loans to households rose by BGN 4.5 billion (15.2 per cent), comprising 43.7 per cent of the annual increase in gross credit portfolio (56.6 per cent for 2021). Loans secured by residential property grew by BGN 2.6 billion (16.1 per cent) and consumer loans by BGN 1.8 billion (12.8 per cent). Claims on other financial corporations also went up throughout the year by BGN 1.2 billion (22.8 per cent), while those on the general government sector declined by BGN 49 million (5.1 per cent). Over the period under review, claims on credit institutions rose by BGN 3.6 billion (55.5 per cent).

At the end of 2022, the currency structure of gross loans and advances shows that BGN-denominated items occupied 63.2 per cent and euro-denominated ones – 33.3 per cent (from 63.0 per cent respectively, and 33.6 per cent respectively, at the end of December 2021). The share of claims in other currencies comprised 3.5 per cent (3.4 per cent at the end of 2021). Within the resident structure, in 2022 the share of resident gross loans and advances fell to 86.9 per cent, while the share of claims on non-residents rose to 13.1 per cent from 90.2 per cent and 9.8 per cent respectively, at the end of 2021.

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

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

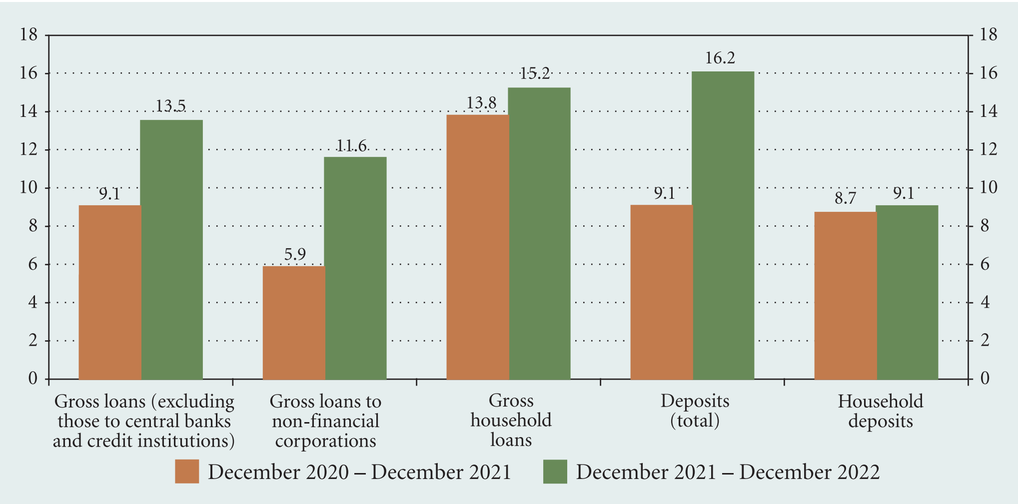
At the end of 2022, the gross amount of debt securities in bank portfolios was BGN 23.6 billion, of which 88.2 per cent were securities, issued by the general government sector. Over the period under review, the increase in the total gross amount of debt securities was mainly driven by the growth in government bonds of BGN 1.5 billion (7.8 per cent). The amount of equity instruments in banking system assets amounted to BGN 574 million at the end of 2022.

In 2022, banking system liabilities reported an increase in deposits of BGN 18.7 billion (16.2 per cent) to BGN 134.1 billion by year-end. Almost half of this increase (47.4 per cent) reflected the growth of non-financial corporations' deposits of BGN 8.8 billion (25.8 per cent), whose share in the structure of total deposits reached 32.2 per cent (29.7 per cent at end-December 2021). Household deposits went up BGN 6.2 billion (9.1 per cent), accounting for 33.1 per cent of total deposit growth. Their share in the deposit structure fell to 55.4 per cent (59.0 per cent at end-December 2021). Growth was observed also in deposits of credit institutions (up BGN 1.8 billion, or 29.9 per cent), those of the general government sector (up BGN 999 million, or 32.9 per cent), and those of other financial institutions (up BGN 820 million, or 21.1 per cent). The currency structure of total deposits experienced no essential changes over the year. By end-2022 the shares of lev-denominated and euro-denominated deposits were 60.4 and 32.8 per cent, from 60.8 and 32.0 per cent respectively, at end-December 2021. At the end of the period under review, deposits in other currencies occupied 6.8 per cent (compared to 7.1 per cent as of 31 December 2021). Within the resident structure, the share of deposits attracted from domestic sources was 90.6 per cent and that of non-residents 9.4 per cent (against 91.9 and 8.1 per cent respectively, at end-December 2021).

Dynamics of Selected Balance Sheet Indicators

(on an annual basis)

(per cent)



Source: BNB.

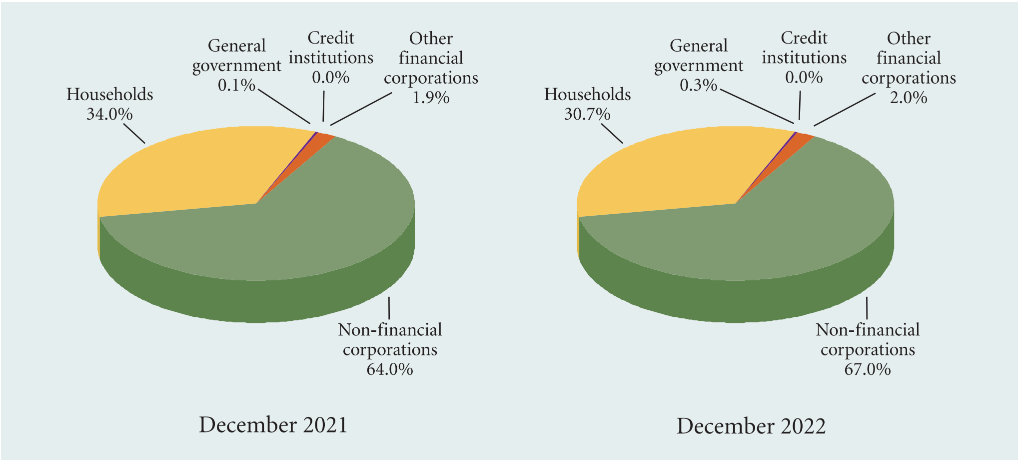
In 2022, gross non-performing loans and advances in the banking system decreased by BGN 441 million (9.0 per cent) to BGN 4.4 billion at the end of the year. Gross non-performing exposures[51] amounted to BGN 4.6 billion or a 3.1 per cent of total gross exposures (against BGN 4.9 billion or a 3.8 per cent share on 31 December

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

2021). According to the narrow scope (applied since June 2020 as per an EU Regulation[52]), gross loans and advances in the banking system increased by BGN 13.8 billion (16.8 per cent) to BGN 96.1 billion by end-2022 and the ratio of non-performing loans calculated on this basis decreased to 4.6 per cent (against 5.9 per cent a year earlier). Under the broad scope[53], which also includes cash balances at central banks and other demand deposits, the total amount of gross loans and advances grew by BGN 17.5 billion (16.2 per cent) to BGN 125.3 billion by end-2022. The ratio of non-performing loans calculated on the basis of the broad scope fell to 3.5 per cent by end-2022 (against 4.5 per cent at end-December 2021).

At the end of the period under review, the share of non-performing loans and advances in banking systems' gross credit portfolio fell to 5.2 per cent (against 6.4 per cent at the end of December 2021), mainly reflecting the decline in the share of non-performing loans of non-financial corporations and households. The decrease in the share of non-performing loans and advances was driven by sales and write-offs of non-performing loans coupled with gross credit portfolio growth.

Non-performing Loans and Advances by Sector



Source: BNB.

In the structure of gross non-performing loans, the share of loans to non-financial corporations increased to 67.0 per cent on an annual basis (64.0 per cent at end-2021). As regards the non-financial corporations, the share of non-performing loans fell to 6.6 per cent (7.8 per cent by end-2021) at the expense of an increase of 11.6 per cent in total loans and a decline of 4.8 per cent in the non-performing part. The share of household loans in total gross non-performing loans and advances declined to 30.7 per cent at the end of 2022 against 34.0 per cent at the end of December 2021. The share of non-performing loans in household loans also fell to 4.0 per cent (compared to 5.6 per cent at end-2021) with non-performing part falling at a faster rate (by 17.8 per cent) than the increase in total household loans (of 15.2 per cent) over the review period. Gross non-performing loan and advance impairment coverage ratio rose on an annual basis and came to 49.2 per cent by end-2022 (from 47.9 per cent at the end of 2021).

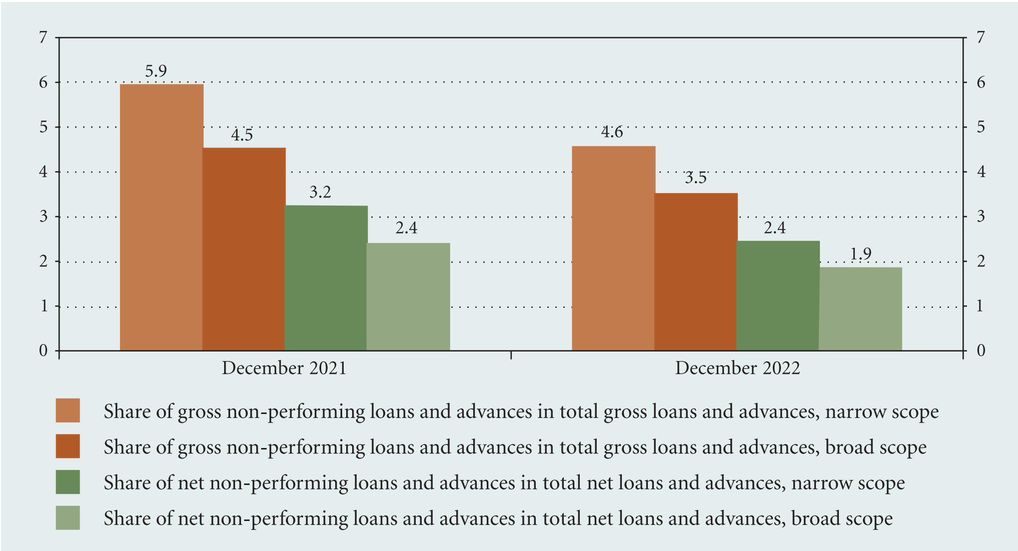
[52] These changes were made in compliance with Commission Implementing Regulation (EU) 2020/429 of 14 February 2020 amending Implementing Regulation (EU) 680/2014 laying down implementing technical standards with regard to supervisory reporting of institutions. Unlike the June 2015-March 2020 period,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

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

The net value of non-performing loans and advances[54] was BGN 2.3 billion at the of 2022. It represents the potential residual credit risk in bank balance sheets, remaining entirely covered by the excess of capital over capital requirements and applicable capital buffers.

Non-performing Loans and Advances in Total Loans and Advances

(per cent)



Source: BNB.

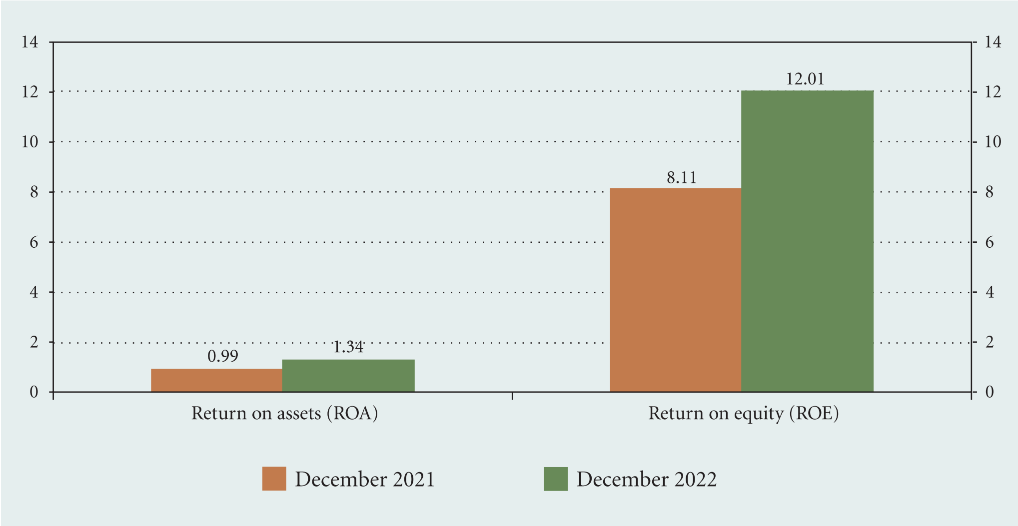
The banking system balance sheet equity was BGN 17.3 billion at the end of 2022. Compared with the end of 2021, its amount increased by BGN 740 million (4.5 per cent), mainly driven by banking system profit growth of BGN 733 million. Retained earnings and other reserves also contributed positively, growing by BGN 405 million and BGN 68 million respectively, compared to 2021. Concurrently, the accumulated other comprehensive income contributed negatively to the change in balance sheet equity. As a result of the downgrading of debt instruments, measured at fair value through other comprehensive income, its amount reached BGN -228 million compared to a positive amount of BGN 350 million at end-2021.

Banking system profit was BGN 2.1 billion by end-2022, an increase of BGN 733 million or 54.6 per cent from 2021. Net interest income growth contributed most to the rise in banks' profits for 2022. Net fee and commission income and other net income was also higher on an annual basis. Lower impairment charges compared to those for 2021 coupled with reversals of provisions contributed positively to sector's profit. At the same time, banking sector operating costs grew throughout the year. As a result of increased annual profit, the return on assets (ROA) improved by end-2022 to 1.34 per cent (0.99 per cent a year earlier) and return on equity (ROE) to 12.01 per cent (8.11 per cent by 31 December 2021).

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

Return on Assets and Return on Equity

(per cent)



Source: BNB.

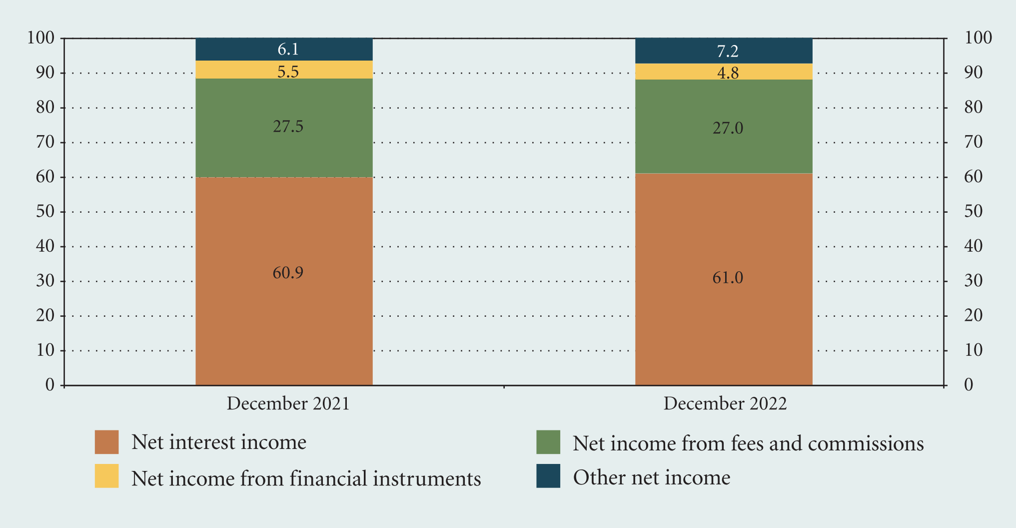
At the end of 2022, total net operating income increased from December 2021 by BGN 755 million (16.7 per cent) to BGN 5.3 billion. In its structure, the share of net interest income rose from 60.9 to 61.0 per cent and its amount by BGN 467 million (16.9 per cent) to BGN 3.2 billion. Driven by the growth of loans and advances and the increase in interest rate levels compared to 31 December 2021, interest income rose by BGN 586 million (19.2 per cent) to BGN 3.6 billion. Concurrently, interest expenditure also rose: by BGN 119 million (41.9 per cent) to BGN 405 million at the end of 2022. As a result of the interest income dynamics, return on interest bearing assets[55] increased to 2.97 per cent (2.87 per cent as of 31 December 2021). Over the same period, the cost of interest liabilities reversed its downward trend, reaching 0.13 per cent (0.10 per cent at end-2021) at the close of 2022.

Net income from fees and commissions picked up compared to 31 December 2021 by BGN 185 million (14.9 per cent) to BGN 1.4 billion. Fees and commission income rose by BGN 271 million (18.2 per cent) to BGN 1.8 billion and interest expenditure by BGN 85 million (35.1 per cent) to BGN 329 million. In the structure of the total net operating income, the share of net fee and commission income declined to 27.0 per cent (against 27.5 per cent as of 31 December 2021). By the end of 2022, other net income reached BGN 379 million, up BGN 102 million (36.6 per cent) compared to 31 December 2021, its share in total net operating income increasing to 7.2 per cent. Net income from financial instruments at the end of the period grew by BGN 2 million (0.7 per cent) to BGN 252 million.

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

Net Operating Income Structure

(per cent)



Source: BNB.

As of 31 December 2022, the banking system cost to income ratio[56] improved to 46.3 per cent (compared to 48.9 per cent a year earlier). Banks' expenses reported in cash contributions to the resolution funds and deposit guarantee schemes item went up by BGN 232 million or 10.4 per cent on an annual basis to BGN 2.4 billion. The ratio of impairment charges to net total operating income fell to 11.0 per cent (16.2 per cent by end-2021). Impairment costs of financial assets not measured at fair value through profit or loss were BGN 584 million, or BGN 149 million (20.3 per cent) less than those reported in 2021.

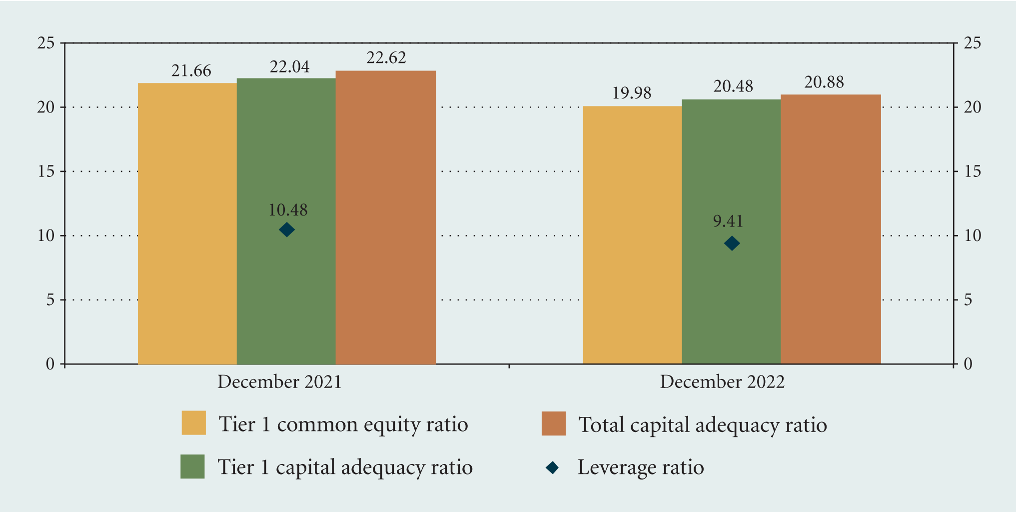
In 2022, the capital position of the banking system remained stable, with capital ratios continuing to exceed significantly the minimum regulatory requirements and capital buffer requirements. Compared to 31 December 2021, total regulatory capital of the banking system rose by BGN 177 million (1.1 per cent) to BGN 15.6 billion. Tier one capital and Common Equity Tier 1 (CET1) increased by BGN 277 million (1.8 per cent) to BGN 15.3 billion and by BGN 163 million (1.1 per cent) to BGN 14.9 billion.

As of 31 December 2022, the total amount of risk exposures grew on an annual basis by BGN 6.5 billion (9.6 per cent) to BGN 74.6 billion. This increase reflected the annual growth of risk weighted exposures for credit risk: by BGN 6.6 billion (10.5 per cent), which reached BGN 69.2 billion at the end of 2022, while their share in total risk exposures rose to 92.7 per cent (compared to 91.9 per cent at end-2021). Risk exposures for operational risk fell by BGN 26 million (-0.5 per cent) to BGN 5.2 billion, with their share in total risk exposures dropping at the end of 2022 to 7.0 per cent (compared to 7.7 per cent at end-2021). Exposures to position, currency, and commodity risk also declined (by BGN 15 million, -7.1 per cent) to BGN 196 million, with their share in total risk exposures remaining at 0.3 per cent at the end of 2022.

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

Selected Capital Indicators

(per cent)



Source: BNB.

Owing to the higher annual growth rate of total risk exposures compared to that of equity, capital adequacy ratios at the end of 2022 declined from those reported at end-2021, remaining, however, at levels which significantly exceed regulatory requirements. As of 31 December 2022, CET1 ratio was 19.98 per cent, tier one capital ratio – 20.48 per cent and total capital adequacy ratio – 20.88 per cent respectively (compared to 21.66 per cent, 22.04 per cent, and 22.62 per cent at the end of 2021).

In 2022, all banks met regulatory requirements and the set buffers.[57] Total for the banking system at the end of 2022, the capital above the regulatory minimum under Pillar 1 was BGN 9.6 billion, or down BGN 347 million (3.5 per cent) from the end of 2021. As of the end of 2022, the capital exceeding capital requirements under Pillar 1, Pillar 2 and the combined buffer requirement[58] came to BGN 2.9 billion. Compared to the end of 2021, its amount fell by BGN 1.9 billion (40.5 per cent) driven by the increased total amount of risk exposures and higher capital requirements and buffer requirements.

At the end of 2022, banking system's aggregated leverage ratio[59] (when a fully phased-in definition of tier 1 capital is applied) was 9.41 per cent (10.48 per cent by end-2021). Banking system's leverage ratio at the end of 2022 indicated low indebtedness level and high capital coverage of total banks' exposure (formed by assets, off-balance sheet items, derivatives, securities financing transactions and standard purchases and sales with pending settlement). Over the review period total risk exposure of the banking system grew at a higher rate than that of tier 1 capital. Over the year all banks in Bulgaria reported a leverage ratio exceeding the minimum regulatory requirement of 3.0 per cent.

Banking system liquidity remained stable, with liquidity coverage ratios (LCR) of all credit institutions exceeding the minimum regulatory requirement of 100 per cent. At the end of 2022, the liquidity coverage ratio of the banking system was 235.0 per cent against

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[57] More information on the effective capital buffer rates is available on the BNB website.

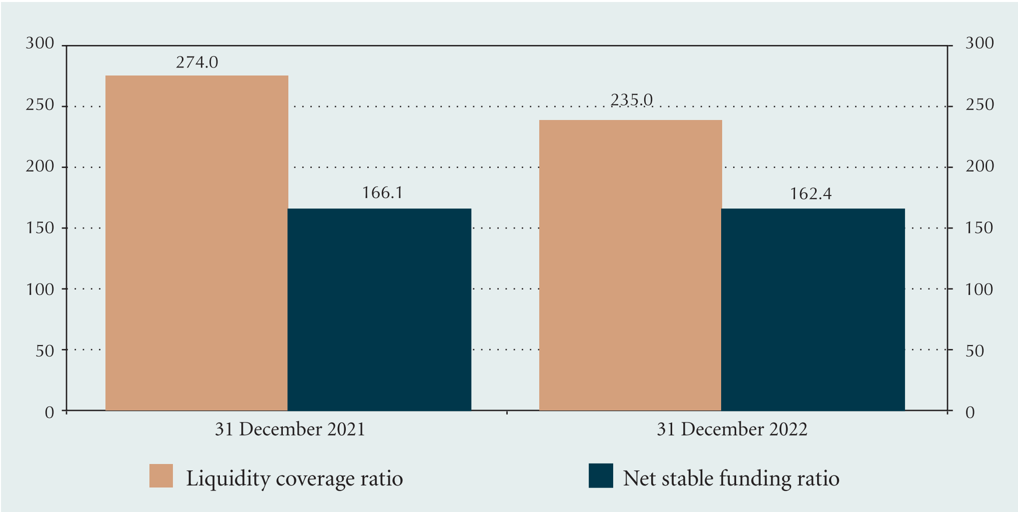
[58] A 'combined buffer requirement' is a concept referred to in Article 2, paragraph 3 of the BNB Ordinance No 8 of 27 April 2021 on Banks' Capital Buffers.

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

274.0 per cent at the end of 2021. The liquidity buffer (the liquidity coverage ratio numerator) increased by BGN 4.6 billion (11.0 per cent) to BGN 46.0 billion on end-2021. The two main components of the liquidity buffer also rose, *i.e.* reserves in the central bank with an option of withdrawal (by BGN 2.8 billion, 13.4 per cent) to BGN 24.0 billion and assets in the central government (by BGN 1.0 billion, 6.5 per cent) to BGN 17.2 billion. Coins and banknotes grew by BGN 222 million (8.1 per cent) to BGN 3.0 billion and assets in the central government went up by BGN 609 million (83.4 per cent) to BGN 1.3 billion. As a result of these changes, at the end of 2022 the share of reserves in the central bank with an option of withdrawal in the liquidity buffer amounted to 52.2 per cent, that of assets in central government to 37.3 per cent and that of coins and banknotes to 6.4 per cent (compared to 51.0 per cent, 38.9 per cent and 6.6 per cent respectively, as of 31 December 2021). At the end of 2022, net liquidity outflows (the liquidity coverage ratio denominator) came to BGN 19.6 billion, up BGN 4.4 billion (29.4 per cent) compared to end-2021.

Selected Liquidity Indicators

(per cent)



Source: BNB.

At the end of 2022, annual growth of deposits (excluding those of credit institutions) was 15.4 per cent, *i.e.* higher than the reported annual growth of the credit portfolio (13.5 per cent). As a result, the banking system loan-to-deposits ratio[60] (LTD) fell to 68.2 per cent at the end of 2022 (against 69.3 per cent at the end of 2021).

The aggregate net stable funding ratio (NSFR)[61] reached 162.4 per cent at end-2022 (from 166.1 per cent by end-December). All banks in Bulgaria met the minimum regulatory requirement of 100 per cent. Available stable funding (the NSFR numerator) reached BGN 119.5 billion and required stable funding (the NSFR denominator) BGN 73.6 billion (against BGN 106.7 billion and BGN 64.2 billion by end-December 2021).

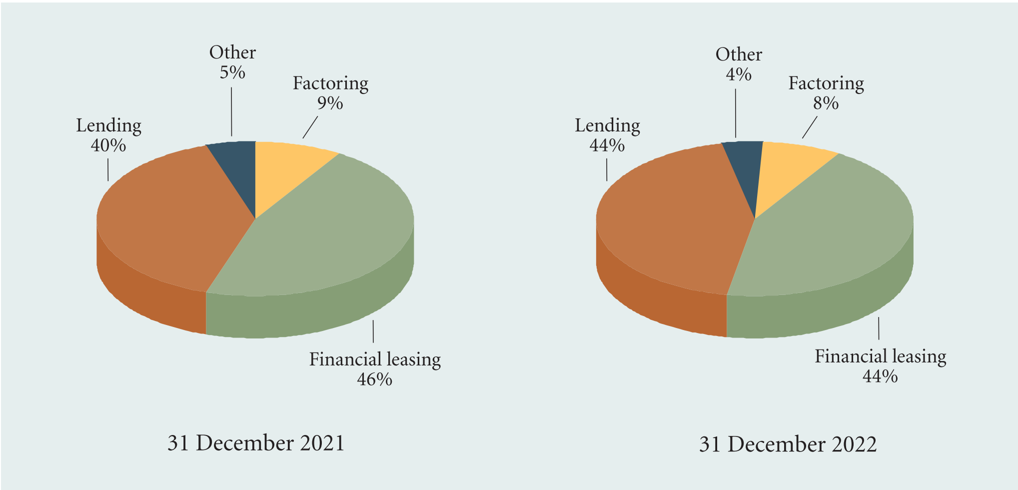
[60] The ratio is calculated excluding central banks and credit institutions sectors.

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

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

As of 31 December 2022, the number of non-bank financial institutions registered under Article 3a of the LCI was 260[62]. In 2022, 20 financial institutions were entered in the Register under Article 3a of the LCI and six were deleted under the procedure provided for in Article 9, paragraph 1, items 1 and 2 of BNB Ordinance No 26. The total amount of sector's assets rose by 16.3 per cent on an annual basis, reaching BGN 12.6 billion on 31 December 2022. At the end of the reporting period, assets of the 20 largest non-bank financial institutions amounted to 76 per cent of sector's total assets.

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



Source: BNB.

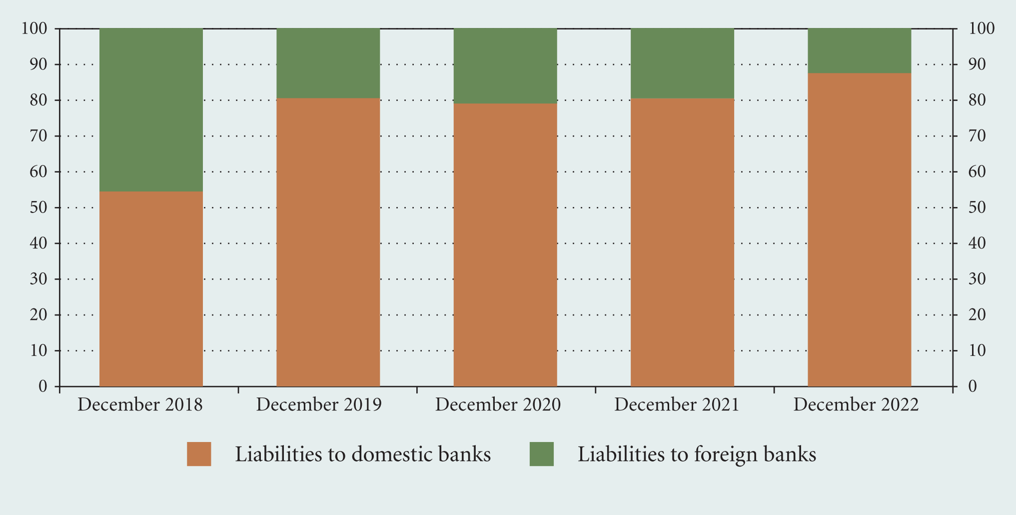
Gross credit portfolio of non-bank financial institutions entered in the Register under Article 3a of the LCI, which includes claims on loans and financial leasing, increased year-on-year by 21.6 per cent to BGN 10.8 billion. The share of performing loans as of 31 December 2022 comprised 91.3 per cent of sector's portfolio. Non-performing loans and advances rose by 41 per cent on an annual basis, reaching BGN 1.6 billion as of 31 December 2022. The accumulated impairment of credit portfolio throughout the year grew by 50 per cent, reflecting the increase in impairment of non-performing loans.

Attracted funds in the sector increased by 22 per cent on 2021 to BGN 9.4 billion by end-2022. Attracted funds from banks amounted to BGN 6.6 billion (against BGN 5.7 billion in the prior year). The upward trend in the share of attracted funds from domestic banks which reached 87.5 per cent of all attracted bank resources, persisted in 2022.

[62] Including 220 financial institutions with commercial registration in the Republic of Bulgaria, 26 independent credit cooperatives of private farmers, 2 funds established under the Law on the Bulgarian Development Bank and 12 financial institutions from EU Member States conducting activities on the territory of the Republic of Bulgaria via a branch or directly (Articles 24 and 27 of the LCI).

Structure of Attracted Funds from Banks

(per cent)



Source: BNB.

Sector's profit for 2022 amounted to BGN 389 million, with nearly 50 per cent of it determined by the profit of the twenty largest non-bank institutions entered in the Register under Article 3a of the LCI. At the end of 2022, the sector's ROA reached 3.1 per cent and ROE amounted to 14.8 per cent. Banking system equity grew by 9.4 per cent year on year, coming to BGN 2.6 billion.

Banking Supervision's Activity

Activities Related to the Cooperation between the BNB and the ECB

During the reporting period, the Banking Supervision Department, in cooperation with the ECB under the operational risk, carried out a self-assessment in the area of banking supervision related to an in-depth analysis of inherent risks at the level of competent supervisory authorities. The specific study referred to official authorisations issued by the relevant competent authorities, as well as specific mechanisms for the institutional management of operational risk by these authorities. In 2022, a research was carried out to identify risks that would affect important functions of the BNB as the competent supervisory authority. BNB's degree of preparedness to respond to a hypothetical event was analysed, along with the respective functions and results that would be affected most in case specific risks and scenarios materialize.

Off-site Supervision

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

In 2022, as part of the Supervisory Review and Evaluation Process (SREP), performed in line with the ECB's methodology, the assessment of the level and control of banks' risks continued on the basis of selected key risk indicators and expert analysis. The trends in the activities of branches of foreign banks operating in Bulgaria were monitored. Conclusions on the degree of credit institutions' exposure to capital and liquidity risks were made in quarterly analytical reports. The BNB held dialogue with credit institutions on their capital plans and projected dividend payment by them, analysing capital adequacy trajectories prepared by them in the medium and long term.

In the context of the implementation of 2022 supervisory programme for the so-called 'less significant' institutions, discussions took place with members of their managements on the impact of the changes in the macroeconomic environment on these banks' financial positions.

Applying the EBA criteria, the supervisors carried out a regular annual review of banks' Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidly Adequacy Assessment Process (ILAAP) reports with a reference date 31 December 2021, along with their funding plans covering the 2022–2024 period. Updated recovery plans of so-called less significant institutions were reviewed to assess their credibility and the implementation of BNB recommendations.

Over the period, 'horizontal' assessments of compliance with the EBA Guidelines on loan origination and monitoring (EBA/GL/2020/06) were also carried out on the basis of questionnaires filled in by credit institutions.

Monitoring of the targets set by banks to reduce NPLs in their strategies and operational plans continued. In view of the aggravation of the geopolitical situation following the start of the war in Ukraine, a review and assessment of the exposure of banks' assets and liabilities to Russia, Ukraine and Belarus was carried out.

Over the review period, the BNB Governing Council adopted the assessments of the SREP of less significant institutions with a reference date of 31 December 2020, as well as the specified additional capital requirements.

Drafting of SREP reports as of 31 December 2021 for less significant institutions started in line with the SSM LSI SREP Methodology, version 2022.

Drafting Opinions and Follow-up of Supervisory Measures

In 2022, opinions related to a bond swapping procedure, issuance of BNB approval for inclusion of a subordinated loan in Tier 2 capital, as well as an assessment of the possibility of dividend payment were drafted. Ongoing monitoring focused on the implementation of supervisory measures and recommendations of supervisory inspections. Opinions were also prepared to assess the suitability of the management staff and persons holding key positions in several banks, as well as to approve changes to the statutes of two banks.

Close Cooperation within the Single Supervisory Mechanism

In 2022, the work of the joint supervisory teams in the process of close cooperation within the SSM continued. Draft reports on the financial position of Bulgarian subsidiaries with reference date 31 December 2021 were prepared. Two supervisory colleges discussed draft joint decisions on capital and liquidity as of 31 December 2021 and on recovery plans for 2021 of the European banking groups, of which the five significant Bulgarian subsidiaries are part. Joint supervisory decisions were adopted at year-end, on the basis of which significant institutions will maintain additional capital requirements in 2023.

In line with an approval procedure for the acquisition of a significant institution, opinions and analyses were prepared on the financial position and development strategy of the latter, opinions on prior coordination of the selection of external auditors and analyses on outsourcing and change of fixed to variable remuneration. Supervisory dialogues were held within Joint Supervisory Teams (JSTs) on dividend distribution intentions, assessing trajectories of the capital adequacy. Quarterly meetings were also held with significant institutions' management to discuss financial results and risk appetite and control framework.

In the course of the year, the BNB continued its cooperation with German supervisory authorities on joint decisions on capital and liquidity and recovery plans of subsidiaries.

On-site Inspections

In 2022, on-site inspections' activities continued to focus on assessing specific risks related to the activities of the inspected banks. Thematic checks on credit risk management in 12 less significant credit institutions subject to direct supervision by the BNB were completed over the review period. Supervisory findings, based on the documentation and information provided by banks, concerned mainly regulatory requirements not fully implemented by banks, as well as unclear definitions and scope of application of the internal framework of the relevant bank. The gaps identified related mainly to the requirements of the EBA Guidelines on application of the definition of defaulted exposures and the EBA Guidelines on the management of non-performing and forborne exposures.

During inspections information was collected and analysed concerning the strategies of less significant institutions to maintain a sustainable business model adapted to the dynamically changing market environment. Banks under review also provided replies to a standardised questionnaire on measures planned and implemented by them to enhance digitalization in various banking areas aimed at reducing risks of human errors, expanding the customer base, updating the product portfolio by using digital channels, facilitating and increasing the level of security and speed in customer service. The scope of the checks also included compliance with EBA Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis (EBA/GL/2020/02).[63] Only one finding (low impact) was made.

Based on the findings, inspecting teams made recommendations for taking necessary action by the respective banks' management to complement the internal framework in the field of credit risk management and mechanisms for its practical implementation.

In the second half of 2022, under the established regime of close cooperation between the ECB and the BNB, a supervisory review of one significant institution started and was completed[64]. The scope of the inspection was consistent with the priorities set by the Single Supervisory Mechanism (SSM) for high-risk areas for 2022–2024 and SREP results, including taking into account the information gathered from previous inspections on serious vulnerabilities and deficiencies identified. A similar approach was applied to the planning of on-site inspections in 2022 in less significant banks directly supervised by the BNB. The on-site inspections in two of these banks covered the review and assessment of the credit process in relation to the approval of credit transactions, monitoring, assessment and classification of credit exposures, management of non-performing exposures, reporting of credit risk and credit concentrations risk.

Over the review period, the internal model team conducted an inspection mandated by the ECB concerning the assessment of a submitted application for material changes in the internal models used by a significant credit institution[65]. Within the SSM close cooperation framework, the internal models team continued to cooperate with the ECB's joint supervisory team, responsible for the direct supervision of a significant

[63] Review and assessment of the credit institution's operational capacity to manage credit exposures to distressed customers as a result of the COVID-19 pandemic.

[64] The inspection was planned to be conducted through a centralised process of annual planning of inspections of significant credit institutions organised by the ECB in the previous year based on the requested inspection by the ECB's JST.

[65] The supervisory report resulting from the inspection has successfully passed the binding qualitative analysis by the ECB's responsible units. The report will be used to prepare a decision of the ECB Supervisory Board to remove the weaknesses identified by the team and a final decision on the request submitted.

credit institution applying the internal credit risk assessment models. To this end, a number of local activities were completed, which concerned the review of supervisory responsibilities in relation to joint decisions, the preparation of preliminary assessments of documentation and drafts of various legal documents related to the internal models applied, *etc.* In order to provide interaction within the SSM, meetings of specialised working groups of the ECB were held to discuss topics relating to the planning and coordination of supervisory inspections and the validation of internal models.

Macroprudential Supervision

In line with its macroprudential mandate the BNB supervises the operation of credit institutions and the banking system on the basis of continuous monitoring, identification and assessment of systemic risks. The analysis focused on both the inherent risks of the banking system and the development of the economic environment in which banks operate. Cyclical and structural dimensions of systemic risk are assessed by applying a set of indicators for which mitigating macroprudential measures and instruments are prepared and calibrated.

In view of the banking system soundness, macroprudential measures introduced in March 2020 and confirmed in January 2021 were suspended in the beginning of 2022. On 23 February 2022, the BNB Governing Council adopted a resolution repealing the restriction on distributions of bank profits for 2019 and 2020, taking an approach to move towards individual consideration of banks' capital plans through a supervisory dialogue. The approach takes into account the positive effect achieved on the capital position of the sector, as well as the lifting of containment measures related to the pandemic. The suspension of the macroprudential profit-distribution measure is in line with the decision of the ECB and the European Systemic Risk Board (ESRB) not to renew distribution restrictions based on Recommendation ESRB/2020/7 on restriction of distributions during the COVID-19 pandemic. The BNB, as the competent supervisory authority, required less significant banks intending to pay dividends or undertake redemptions and other distributions, including profits for 2021, to submit distribution plans that are subject to the supervisory dialogue. The measure for individual and aggregate limits on banks' foreign exposures to curb credit and concentration risks on their balance sheets was suspended from 1 April 2022 by a decision of the BNB Governing Council of 23 February 2022. The measure, introduced in March 2020 and extended in January 2021, has contributed to a sustained improvement in the liquidity position of the banking system. The BNB suspended the measure in the light of the positive effects of its implementation, while continuing to analyse the relevant risks on a regular basis and standing ready to apply an appropriate macroprudential measure, if necessary.

As one of the applied macroprudential instruments, the countercyclical capital buffer aims to strengthen the resilience of the banking system to credit risk losses and resulting pressures on the profitability and capital position of credit institutions. In line with the BNB Governing Council decisions taken in 2021 and published 12 months before their entry into force, the countercyclical capital buffer rate[66] was increased from 0.5 to 1.0 per cent as of 1 October 2022 and to 1.5 per cent as of 1 January 2023. In March and June 2022, within the framework of the quarterly review of the countercyclical buffer, the BNB Governing Council maintained its rate at 1.5 per cent for the second and third quarters of 2023. Given the persistently high credit growth rates and the increased uncertainty in the economic environment, in September 2022 the BNB Governing Council decided to raise the countercyclical buffer rate to 2.0 per cent, effective from 1 October 2023. In the press release, accompanying the decision, the BNB indicated

[66] The buffer rate is determined on the basis of an assessment under Article 5, paragraphs 3 and 4 of Ordinance No 8 of the BNB on capital buffers, the combined buffer requirement, restrictions on distributions and the guidance on additional own funds.

that it continued to monitor the developments in the economic environment and their impact on the financial system in EU Member States, taking into account the likelihood of aggravation and accumulation of risks to financial intermediation[67]. In December 2022, the countercyclical capital buffer, applicable from the first quarter of 2024, was kept at 2.0 per cent.

Following the annual review of the buffer for other systemically important institutions (OSII), on 28 October 2022, the BNB Governing Council took a decision identifying eight banks, the buffer rates of which will be in the range of 0.50 to 1.0 per cent in 2023.

Over the review period risks stemming from residential real estate markets continued to be carefully analysed by the European supervisory authorities and the European Systemic Risk Board (ESRB). In the light of the requirements of ESRB Recommendation on closing real estate data gaps (Recommendation ESRB/2016/14), amended in 2019 (Recommendation ESRB/2019/3), and considering the accelerated rise in real estate prices and increasing lending activity of banks in that segment, an additional macroprudential reporting form (MRF 4) was developed and implemented in early 2022. The frequency of the form is quarterly. It provides detailed information on loans to households secured by real estate by key indicators such as collateralisation and maturity of the claim, indebtedness and solvency of the debtor.

Specific Supervisory Activities

In the context of the implementation of its control functions over compliance with the requirements of the Law on Measures against Money Laundering (LMML) and the Law on Measures against Terrorist Financing (LMTF) by banks, the BNB carried out six planned inspections at banks (two significant credit institutions and four less significant institutions). The focus of inspections determined in compliance with risk-based approach included verification to establish implementation of recommendations and supervisory measures, assessment of internal rules, own risk assessment, verification of compliance with the requirements of Chapter Two 'Due diligence' of the LMML with regards to PEPs (politically exposed persons) customers and related persons, and customers from high-risk third countries. Based on the results of the completed inspections during the reporting period, no supervisory measures were imposed on inspected banks.

In 2022, 72 thematic reviews were carried out on complaints, alerts from citizens, legal persons or institutions.

Methodological work was carried out on drafting guidance to banks and guidance/ circular letters to improve the efficiency in implementing the LMML requirements. The standing joint working party updating the national risk assessment of money laundering and terrorist financing continued its work.

BNB officers took active part in drafting the Plan for implementing recommended actions included in the Report on Bulgaria by the Fifth Evaluation Round of the Committee of Experts on the Evaluation of Measures against Money Laundering (MONEYVAL) to the Council of Europe (Action Plan) adopted on 18 May 2022 and approved by the Council of Ministers by Decision No 998 of 12 December 2022, taking actions to implement the recommendations it includes.

In 2022, work continued on drafting opinions on the assessment of funds used for acquisitions and increases in qualifying holdings, fit and proper assessment of credit institutions' management and key personnel.

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

With regard to the Law on Real Estate Loans for Consumers (LRELC), four less significant credit institutions and three non-bank financial institutions providing residential and mortgage loans were inspected in 2022 for compliance and enforcement of the law and the relevant EBA Guidelines falling within its scope. Three of the credit institutions examined revealed some inconsistencies in relation to the rules and procedures applied by banks to assess borrowers' creditworthiness and the BNB gave guidance on how to remove them. Inconsistencies related to compliance with the requirement to provide professional training and the necessary competencies of employees were assessed as not material. The inspections carried out on financial institutions revealed significant deficiencies in the application of the creditworthiness assessment requirements, which resulted in instructions for their correction in the reports served.

For the strict application of the Law on Bank Deposit Guarantee (LBDG), in 2022 three targeted checks were carried out in one significant and two less significant credit institutions with a view to correctly determining the amount of guaranteed deposits, which serves to calculate the premium contribution and to prepare the accounting forms correctly. Partial inconsistencies were identified in determining the amount of the deposit base and guaranteed deposits, and actions have been taken to remove the deficiencies and implement inspection recommendations.

In connection with the implementation of the requirements for providing the minimum information necessary for accepting money on deposit under Article 57 of the LCI, a horizontal review across all credit institutions and branches of foreign banks in Bulgaria was carried out, where it was found out that credit institutions apply the necessary disclosure requirements in accordance with the law.

All signals, issues and inquiries received during the reporting period from customers of financial institutions and credit intermediaries were checked, and customers were informed thereof.

Over the review period sixteen new Bulgarian and one EU Member State legal entities willing to act as intermediaries under the LRELC were registered. In 2022, five local credit intermediaries were deleted from the register. During the period, 52 entities were inspected and found to act as credit intermediaries without registration, 14 credit intermediaries in relation to compliance with the requirements of Articles 47, 48 and 51, and four entities in relation to the implementation of Article 53, paragraph 2 of the LRELC.

In 2022, the BNB continued to perform regular checks on compliance with the requirements of Ordinance No 26 of 23 April 2009 in relation to financial institutions, which include checking data and information accuracy related to changed registration circumstances, and controlling significant business and own funds based on financial statements submitted to the BNB. A horizontal review was carried out at all financial institutions to collect information on the equity structure.

Supervisory Information Service and IT Audit

The BNB activities related to supervisory information service include the collection, processing and storage of information needed for the implementation of banking supervision. A key priority over the review period was the timely provision of data for the analytical needs of the BNB's supervision. Improvements related to changes to regulatory reporting requirements were planned and implemented in the Banking Supervision Department's core information system (IS)[68]. Preparations were finalised and implementation of automated data transmission functions for supervisory reporting to the

[68] Implementation of the EBA Reporting Framework, version 3.2.

ECB and the EBA was launched. The information to be converted, both in the core IS and in the big data outside it, was reviewed.

During the year, the BNB's IT audit and IT risk supervision activities in the less significant institutions sector were related to the extension of supervisory IT inspection scope, participating in a pilot project to collect information on their outsourced activities as part of the assessment of banks' readiness to implement Regulation (EU) 2022/2554 (Digital Operational Resilience Act – DORA).

In 2022, one full IT on-site inspection and horizontal supervisory review were performed at all supervised institutions on 'The outsourcing of activities focusing on the management of IT outsourced activities', with an overall assessment for each bank's performance in the management of outsourced activities and analysis of areas for improvement and concentration risk.

The unit for coordination of the cyber incident reporting process by supervised institutions ensured that they were processed and reported to the ECB, while monitoring the level of cyber threats and cyber incidents at credit institutions on a daily basis.

Issuance of Licenses, Permissions and Approvals

There were no new credit institutions licensed to perform banking activity on the territory of the Republic of Bulgaria and no licencing procedures were opened in 2022[69].

No applications for acquisitions of qualifying holdings from the capital of credit institutions pursuant to Article 28 of the Law on Credit Institutions were submitted during the review period. In 2022, the BNB concluded a procedure under Article 28 of the LCI and, pursuant to an instruction by the ECB, the BNB Governing Council granted prior approval for direct acquisition by KBC Bank NV, Belgium, of the shares in the capital of Raiffeisenbank (Bulgaria) EAD, whereby Raiffeisenbank (Bulgaria) EAD became a subsidiary of KBC Bank NV in Bulgaria.[70]

In June 2022, by resolution of the BNB Governing Council, Raiffeisenbank (Bulgaria) EAD was authorised to change its name to KBC Bank Bulgaria EAD in accordance with Article 29 of the LCI.

In 2022, an application was submitted for a merger of KBC Bank Bulgaria EAD into United Bulgarian Bank AD. Over the course of the year, an application was submitted for a merger of a subsidiary financial institution into a significant institution.

In February 2022, a KBC Bank Bulgaria EAD decision was adopted under Article 35a, paragraph 6 of the LCI to grant an exemption to a parent financial holding from a Member State based on the application submitted in June 2021. In 2022, one application was filed under Article 35a, paragraph 1 of the LCI to be granted approval to a parent mixed financial holding company from a Member State and four applications were

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

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

submitted from parent financial holding companies from a Member State for exemption from the obligation to obtain approval under Article 35a, paragraph 1 of the LCI.

In 2022, by BNB Governing Council resolutions the following permissions related to own funds were issued:

– to two banks to include 2021 profits into common equity tier 1 (CET1);

– to three banks, one of which is a significant bank, to include their interim profits into common equity tier 1 (CET1);

– to one significant bank to reduce its own funds through the repayment of capital instruments under the terms of a partial exchange;

– to one bank to exercise, as appropriate, a call option, redemption or repayment of capital instruments on exchange terms;

– to two banks, one of which is a significant bank, to include an issue of bonds into additional tier 1 capital (AT1);

– to one bank to include the amount borrowed in the form of a subordinated fixed-term loan in tier 2 capital (T2).

In 2022, six banks, two of which significant institutions, obtained approvals by the BNB Governing Council under Article 71, paragraph 5 of the LCI to amend their statutes.

In 2022, as a result of a fit and proper assessment, 24 approvals for holding positions in the management and supervisory bodies of banks[71] were issued by resolutions of the BNB Governing Council (9 to less significant institutions and 15 to significant institutions following an instruction by the ECB) and 12 approvals to assess the suitability of key function holders in banks (eight to less significant institutions and four to significant institutions following an instruction by the ECB)[72].

During the reporting period, a notification was received from Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin (the German Federal Financial Supervisory Authority) concerning a change in the representation and management of the Varengold Bank AG branch set up in the Republic of Bulgaria.

In 2022, the BNB notified the central banks of the Republic of Romania and the Republic of Cyprus of changes in the structure, representation and management of established branches of TBI Bank EAD and Central Cooperative Bank AD, respectively.

Over the year, a notification was sent to the supervisory authority of a host Member State (the Republic of Slovenia) of direct provision of services in their territory by a credit institution licensed in the Republic of Bulgaria.

In 2022, 35 new credit institutions from Member States exercised their right to provide services directly under the mutual recognition of passporting procedures through notifications to the BNB from bank operation licensing supervisors concerning the intention of these institutions to provide bank services directly in the Republic of Bulgaria. Thus, the number of first time notifications of free provision of services in the country, received in the BNB, reached 338.

[71] Information on approvals issued pursuant to Article 11, paragraphs 1 and 3 of the Law on Credit Institutions is available on the BNB website.

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

As a result of the close cooperation between the ECB and the BNB[73] procedures on specific instructions by the ECB were conducted, leading to the adoption by the BNB Governing Council of national resolutions, as follows:

– one national resolution on prior approval for direct acquisition of shares in the capital of a significant institution;

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

– 19 national resolutions on issuing approvals for holding a position of a member of management and supervisory bodies and for holding key positions in the five significant institutions;

– 2 national resolutions in respect of a significant bank to include interim profits in common equity tier 1 (CET1);

– one national resolution on reducing own funds of a significant bank through the repayment of capital instruments under the terms of a partial exchange;

– one national resolution on including an issue of bonds into additional tier 1 capital (AT1);

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

– one national resolution on providing permission to a bank (a significant institution) to merge into another credit institution;

– one national resolution on providing permission to a significant institution on the merger of a bank with its subsidiary financial institution;

– 13 national resolutions on invoicing 2021 annual supervisory fees due to the ECB for the supervised persons and supervised groups established in Bulgaria to twelve less significant banks and one significant institution;

– five national resolutions to five significant institutions on setting 2022 prudential requirements based on the annual supervisory review and evaluation process (SREP);

– one national resolution for a significant institution to continue to be classified as a significant supervised entity on the basis of a change in facts, namely a change in the name and a change in the significant supervised group;

– one national resolution to one significant institution requiring periodic supplementary supervisory information (collection of data on outsourcing agreements);

On the basis of specific instructions issued by the ECB, two orders were also issued by the Deputy Governor heading the Banking Supervision Department for conducting supervisory inspections in two significant institutions.

In 2022, the BNB Banking Supervision Department registered and handled 157 complaints from bank customers.

Work on Amending the Existing Regulatory Framework at National Level

Over the reporting period, the adoption of the Law on Covered Bonds introduced the requirements of Directive (EU) 2019/2162 of the European Parliament and of the Council of 27 November 2019 on the issue of covered bonds and covered bond public supervision and amending Directive 2009/65/EC and Directive 2014/59/EU (the Directive). In June 2022, the BNB Governing Council adopted Ordinance No 42 on the Terms

[73] By Decision (EU) 2020/1015 of the ECB, in force as of 27 July 2020.

and Procedure for Issuance of Covered Bonds in force as of 8 July 2022, the adoption of which completed the work on establishing a comprehensive legal framework for the issuance of covered bonds by banks in Bulgaria in accordance with this Directive. The ordinance sets out the requirements for calculating the amount of covered bond liabilities and cover assets; periodic stress tests of the cover assets; documents required for the selection of a cover pool monitor, as well as insurance of the cover pool monitor.

Regulatory Framework Activity

In line with EBA Decision of 18 February 2021 on information required for the monitoring of Basel supervisory standards (EBA/DC/2021/373) the BNB carried out an exercise to collect and transmit information to the EBA on a sample of credit institutions set out in Article 4 of the Decision. The sample covered three Bulgarian banks with monitoring exercise reference date 31 December 2021. In 2022, Banking Supervision, as a mediator between the EBA and the designated banks, took part in all stages of the exercise. Following a quality review of the data submitted by banks, the EBA included the three banks in the summary results published on 30 September 2022 on its website.

Within the EBA Subgroup on Own Funds the Bank presented an eligible liabilities instrument issued by a Bulgarian bank, which was assessed as eligible.

VII. BNB Activities as a Resolution Authority for Credit Institutions

The Law on the Recovery and Resolution of Credit Institutions and Investment Firms (LRRCIIF) tasks the Bulgarian National Bank with resolution of credit institutions and other legal entities, which are subject to supervision or consolidated supervision by the central bank. Following the established close cooperation with the ECB (with effect from 1 October 2020), the BNB performs the function of a resolution authority within the framework of the Single Resolution Mechanism (SRM), while observing the direct application of Regulation (EU) No 806/2014[74] in the Republic of Bulgaria. As a result of the accession to the SRM, resolution powers are exercised in close cooperation between the Single Resolution Board (SRB) and the BNB as a national resolution authority. Credit institutions and groups established in the Republic of Bulgaria, subject to ECB's supervisory powers, are included in the scope of the SRB direct powers[75]. In respect of these credit institutions, the SRB performs its functions of a resolution authority and makes relevant decisions on all resolution aspects. The BNB as a national resolution authority participates and is represented in Internal Resolution Teams[76] (IRT), which are set up by the SRB for each entity or group within the scope of the SRB direct powers and perform tasks on drawing up resolution plans and taking decisions related to resolution. In these cases, the SRB replaces the BNB also when cooperating with resolution authorities of non-participating Member States, including in resolution colleges and European resolution colleges established under Directive 2014/59/EU[77]. Regarding credit institutions, groups respectively, whose resolution authority is the SRB, the BNB participates in the resolution colleges as an observer.

As a part of the SRM, the Bulgarian National Bank is represented in the SRB's management bodies in the form of the Plenary Session[78] and the Extended Executive Session[79] by the Deputy Governor heading the Issue Department.

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

In 2022, the BNB activity as a resolution authority and a national resolution authority focused primarily on organising the process of preparing, reviewing and updating resolution plans of credit institutions and monitoring the implementation of intermediate target levels of minimum requirements for own funds and eligible liabilities (MREL) for credit institutions. The BNB also exercised its power to issue regulations which build on the legal regime for resolution of credit institutions. Pursuant to Article 52a, paragraph 4 and Article 101, paragraph 7 of the LRRCIIF, Article 55a of the LRRCIIF, respectively,

[74] 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.

[75] As of 30 June 2022, these are five credit institutions, namely DSK Bank AD, Eurobank Bulgaria AD, Raiffeisenbank (Bulgaria) EAD, UniCredit Bulbank AD, and United Bulgarian Bank AD.

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

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

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

[79] 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.

in 2022 ordinances were issued on determination and payment of a maximum daily amount upon suspension of the obligations under eligible deposits[80] and on conditions and procedures for selecting valuers for resolution purposes.[81] In 2022, amendments to the LRRCIIF entered into force (Darjaven Vestnik, issue 25 of 29 March 2022, effective as of 29 March 2022), related to the requirements of Regulation (EU) 2019/2033[82] concerning only investment intermediaries. By the end of the year, these amendments to the LRRCIIF had no effect on the BNB function as a resolution authority and a national authority for the resolution of credit institutions.

In 2022, the BNB continued preparing and updating[83] resolution plans of credit institutions falling within the direct powers of the BNB.[84] In April 2022, the BNB Governing Council adopted resolution plans and set MREL for three credit institutions: two that are not part of a group subject to supervision on a consolidated basis and one credit institution subject to supervision on a consolidated basis. Concurrently, the annual review and update of nine credit institutions' resolution plans adopted at end-2021 were launched. As part of the resolution planning process and with a view to assessing the resolvability and the preferred resolution strategy, the degree of implementation of the working priorities set by the BNB in 2022 was considered.

The BNB continued monitoring and controlling credit institutions' compliance with the MREL. With a view to increasing credit institutions' awareness of the eligibility conditions for MREL instruments, at the end of 2022 the Bank held a workshop with interested credit institutions licensed in the Republic of Bulgaria. The main topics discussed were the up-to-date legal framework of the MREL, the procedures and processes for defining, monitoring and controlling the MREL implementation and the eligibility conditions for the instruments thereof.

The BNB in its capacity as a resolution authority for credit institutions participated as a member in the resolution college set up by the group-level resolution authority. In compliance with the national and European legal framework, in 2022 the BNB reviewed and updated the individual resolution plan of a subsidiary credit institution licensed in the Republic of Bulgaria, part of the group[85], due to the lack of a joint decision on the group resolution plan for 2021 in the resolution college.

In the course of reviewing and updating resolution plans of the five credit institutions falling within the SRB direct powers, in 2022 the BNB Governing Council adopted positions on voting decisions of the SRB Extended Executive Session concerning the final approval of joint decisions on 2021 resolution plans of four cross-border groups with subsidiaries licensed in Bulgaria and on setting MREL for resolution entities and their subsidiary banks falling within the SRB powers.[86]

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[80] Ordinance No 43 of 28 July 2022 on the Terms and Procedure for Determining and Paying a Maximum Daily Amount upon Suspension of Obligations in Respect of Eligible Deposits (published in the Darjaven Vestnik, issue 65 of 12 August 2022).

[81] Ordinance No 44 of 28 July 2022 on the Terms and Procedure for the Selection of Independent Valuers under Article 55a of the Law on the Recovery and Resolution of Credit Institutions and Investment Firms (published in the Darjaven Vestnik, issue 65 of 12 August 2022).

[82] Regulation (EU) 2019/2033 of the European Parliament and of the Council of 27 November 2019 on the prudential requirements of investment firms and amending Regulations (EU) No 1093/2010, (EU) No 575/2013, (EU) No 600/2014 and (EU) No 806/2014.

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

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

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

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

The BNB supported draft decisions of the SRB Extended Executive Session for one cross-border group with a subsidiary in Bulgaria. The BNB did not support SRB draft decisions on the resolution plan and resolvability assessment for 2021 and on setting MREL for three cross-border groups within direct SRB powers. The BNB expressed its reasoned disagreement with the resolution plan and resolvability assessment of these groups as regards the part relating to the approach for setting out MREL on an individual basis for subsidiary banks licensed in the Republic of Bulgaria. BNB's positions as a national resolution authority were expressed within the framework of the Extended Executive Session of the SRB by the Deputy Governor in charge of the Issue Department as BNB representative. Due to the lack of consensus and in accordance with the applicable legal framework, the SRB draft decisions, which were not supported by the BNB, were adopted by an Executive Session composed of SRB permanent members.

The 2021 resolution plans of all four groups, part of which are credit institutions established in Bulgaria, on which joint decisions have been reached within resolution colleges, included an assessment of relevant banking group resolvability, preferred resolution strategy and tools, an assessment of significant corporations and a business model analysis, critical functions, as well as an assessment of available conditions for ensuring financial and operational continuity in resolution. The four subsidiary banks licensed in Bulgaria, part of the relevant banking groups, were determined as significant and their critical functions have been identified. One subsidiary bank was identified as a resolution entity[87] in the group resolution plan, and an MREL was determined on a consolidated basis. An MREL was set out on an individual basis for the three subsidiary banks, that are not resolution entities, according to the strategy provided for in resolution plans of the relevant group.

In accordance with the schedule established by the SRB, within the process of reviewing, updating and adopting of resolution plans for 2022, in the fourth quarter of 2022 the BNB Governing Council approved positions in relation to voting on draft decisions of the SRB Extended Executive Session for a prior approval of resolution plans of two cross-border groups with subsidiary banks licensed in the Republic of Bulgaria, for the purposes of subsequent submission and consideration of the documents within the respective resolution colleges. The Bulgarian National Bank also adopted a position on the approval of a resolution plan and setting out an MREL for a cross-border group with a subsidiary bank licensed in the Republic of Bulgaria for which there is no organised resolution college, given the lack of presence of the group in Member States outside the SRM. With regard to the three cross-border groups, the BNB expressed its reasoned disagreement with the draft decisions of the SRB on the approach for setting out an MREL on an individual basis for subsidiary banks licensed in Bulgaria. The BNB position as a national resolution authority was expressed within the framework of the Extended Executive Session of the SRB by the Deputy Governor heading the Issue Department. Due to the lack of consensus in these three cases, SRB draft decisions were adopted by an Executive Session composed of the SRB permanent members.

Under the BRF governance function, in early April 2022, the BNB Governing Council adopted the annual financial statements of the Banks Resolution Fund for 2021, including a Performance Report[88] and all components of the BRF financial statements as of 31 December 2021. The audited financial statements were published within the legally set deadlines in the Darjaven Vestnik, issue 31 of 19 April 2022. The audited financial statements of the BRF for 2021, presenting its financial position, cash flows and the financial result, along with the report of the independent auditor, were also published under the relevant BNB website section.

[87] Within the meaning of § 1, item 71a of the Additional Provisions of the LRRCIIF.
[88] This Report covers the activities relating to the BNB functions and tasks related to the BRF management.

For the purposes of ongoing management of the BRF's financial means, in January 2022 the BNB Governing Council determined eligible classes of assets and investment restrictions for market and credit risks with regard to the possibility for BRF financial means to be invested through a structured indexed account (SIA) with the BNB. In 2022, the BNB Governing Council took decisions[89] to leave unchanged the applied investment strategy regarding BRF financial means, which continued to be kept on current accounts with the BNB and were subject to the General Terms and Conditions of the Bulgarian National Bank on Servicing Accounts of Banks, Budget Organisations and Other Customers. Upon making relevant decisions to invest the financial means of the BRF, the Governing Council reviewed and took into account the expected return and risk in the event of a choice of a SIA, as well as the market situation at that time.

In line with the allocation of powers between the SRB and the BNB, the function of determining and raising contributions by branches of third-country credit institutions for the purposes of resolution financing is exercised entirely by the BNB, and the collected funds are transferred to a separate BRF sub-fund under Article 134, paragraph 1, item 1 of the LRRCIIF. In April 2022, the BNB Governing Council set out 2022 annual contributions of branches of third-country credit institutions to the BRF at BGN 97.9 thousand. Funds were transferred to the account of the respective sub-fund within the time-limit under Article 139, paragraph 5 of the LRRCIIF (30 days from the date of notification). As of 31 December 2022, funds collected in the sub-fund established to finance the resolution of third-country credit institutions were BGN 780 thousand.

Contributions of credit institutions licensed in the Republic of Bulgaria for the purposes of resolution financing are due to the Single Resolution Fund (SRF) and are determined by the SRB. As a national resolution authority, the BNB is responsible for notifying credit institutions about their *ex-ante* annual contributions set by the SRB, for rising and transferring the latter to the SRF. To this end, a separate earmarked sub-fund is used under Article 134, paragraph 1, item 2 of the LRRCIIF. In April 2022, the SRB determined the contributions for 2022 to be collected from the credit institutions licensed in the Republic of Bulgaria and transferred from the BNB to the SRF to a total amount of EUR 17,569 thousand, or BGN 34,362 thousand.[90] In view of the funds available in the earmarked BRF sub-fund and the possibility of using them provided for in § 56, paragraph 2 of the Transitional and Final Provisions of the Law on the Amendment to the LRRCIIF[91], the BNB Governing Council decided the contributions due by credit institutions to the SRF for 2022 to be deducted from the funds available in the earmarked sub-fund. Credit institutions were notified of their contributions set by the SRB to the SRF for 2022 and of the BNB Governing Council's decision these contributions to be deducted from the funds available in the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF. Upon receipt of the notification, one credit institution chose to make use of the opportunity provided by the SRB for 15 per cent of the contribution due to be discharged by making an irrevocable payment commitment

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

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

[91] 'Upon a relevant notification by the Single Resolution Board with regard to an initial contribution, the resolution authority under Article 2, paragraph 1 shall order a transfer to the Single Resolution Board of a sum from the sub-fund under Article 134, paragraph 1, item 2 in accordance with Article 8 of the Agreement on the transfer and mutualization of contributions to the SRF. Following the transfer of the financial means, the other financial means raised in the sub-fund under Article 134, paragraph 1, item 2, if any, are deducted from the obligations of institutions for future contributions to the Single Resolution Fund upon a decision of the resolution authority until their exhaustion.'

under the terms of an agreement concluded with the SRB.[92] On 28 June 2022, upon receipt of a payment notification by the SRB, the BNB made the respective payments[93], decreasing the funds to be deducted from the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF in view of the funds provided by the respective credit institution to collateralise the irrevocable payment commitment to the SRB.

As of 31 December 2022 funds in the earmarked BRF sub-fund established to raise and transfer contributions of credit institutions to the SRF came to BGN 472,209 thousand.

In line with the SRB Decision[94], in early November 2022 the BNB sent a notification letter to the credit institutions licensed in the Republic of Bulgaria, informing them of the initiation of the procedure for determining the individual *ex ante* contributions to the SRF for 2023.

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

[93] In two separate payments, funds were transferred to the SRB, representing: (1) the portion of contributions of credit institutions licensed in the Republic of Bulgaria to the SRF for 2022, and (2) a collateral on an irrevocable payment commitment by a credit institution licensed in the Republic of Bulgaria.

[94] A decision laying down data formats, representations, related additional assurance requirements and guidance for institutions reporting information required for the purpose of the calculation of the 2023 ex-ante contributions to the Single Resolution Fund.

VIII. Participating in the ESCB and EU Bodies

In 2022, EU bodies and institutions focused on taking measures for a sustainable recovery of EU Member States from the crisis caused by the COVID-19 pandemic, as well as on dealing with the consequences of Russia's invasion of Ukraine, including the implications for EU energy security.

The EU Council continued to deepen the Economic and Monetary Union, including the further strengthening of all elements of the regulatory framework for the completion of the Banking Union. In the area of financial services, discussions on updating and completing the prudential framework for credit institutions, aimed at reducing risks in the banking sector and enhancing the institutions' ability to finance the economy continued. BNB representatives participated in the discussions on the amendment of the EU regulatory framework for the banking sector and contributed to the drafting and coordination of national positions on the legislative proposals.

The European System of Central Banks

The BNB Governor sits on the ECB General Council with EU central bank governors and the ECB President and Vice President. The five ECB General Council meetings held in 2022 focused on issues related to economic developments and EU financial sector performance, and on the report on compliance with the ban on monetary financing by central banks. The ECB General Council approved the 2022 Convergence Report, assessing the degree of economic convergence between Member States which have not adopted the euro and the compliance between their legislations and the Treaties.

BNB representatives sat on 15 ESCB committees[95], 55 working groups, and the Heads of Administration Conference. Bank representatives in ESCB bodies, committees, and working groups helped elaborate ECB legal instruments on monetary and banking policy, payment and settlement systems, statistical reporting and research, and other central banking issues. The Bank also took part in coordinating ECB opinions with regard to written consultations between EU Member States and the ECB on legislative bills within its purview, as well as on proposed EU legislation.

Over the reporting period, Bulgaria held written consultations with the ECB on the following draft laws: Law on Covered Bonds, Law on Amendment to the Law on Public Offering of Securities, Law on Amendment to the Law on the BNB, and Law on Combating Corruption and the Withdrawal of Illegally Acquired Property. The BNB participated in coordinating ECB opinions on these legal acts.

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

The BNB Governor and BNB Deputy Governor are members of the ESRB General Board. The two General Board meetings held in the first half of 2022 focused on the implications of Russia's invasion of Ukraine for financial stability. The General Board

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

members agreed that Russia's invasion of Ukraine has had a limited direct impact on the EU banking sector, reflecting European banks' low direct exposures to Russia, stable capital positions and the return of their profitability to pre-pandemic levels. At the same time, they underlined the need for banks' provisioning practices to appropriately reflect the increased credit risk arising from the direct and indirect effects of the Russian invasion of Ukraine. The uncertainty regarding the outlook for the banking sector profitability was also emphasised, indicating that the positive impact of rising nominal interest rates on net interest income could be offset by the subdued demand for loans, as well as by low interest income on portfolios of mortgage loans with rates fixed at low levels.

The General Board exchanged views on the future of the macroprudential framework for banks and the priorities for its improvement in the short term, as well as those ensuring that it will be fit for the next decade. During the discussions, the General Board members outlined the following characteristics to be met by the macroprudential policy in the banking sector: to be proactive and foster resilience before systemic risks materialise; to be flexible, responding to structural changes in the financial system, as well as cyber risks and risks relating to climate change; to form part of a holistic framework, fostering a consistent approach to regulation across all activities in the financial system and facilitating cooperation between authorities at all levels. To achieve these objectives, measures were proposed with a view to enhancing the macroprudential toolkit, implementing tools addressing climate-related risks and cyber risks, and improving cooperation.

The General Board members noted that the potential risks to financial stability arising from crypto-assets and decentralised finance appear limited, but sudden systemic risks may materialise in the future if the rapid growth trends in the market for crypto-assets and decentralised finance continue. It was agreed that efforts should focus on the following priorities: examining the need for additional regulatory measures and identifying the next steps to address a potential threat to financial stability, as well as drafting a proposal to ensure the development of a European and global regulatory standard; identifying the systemic implications for the EU of the crypto-asset market and regularly monitoring financial market exposures to crypto-assets and decentralised funding. The review of risks that could affect the stability of the financial system continued to be the focus of the General Board discussions and meetings held in September and December 2022, where it was noted that these risks had increased. In response to the heightened risks to financial stability stemming from the deterioration of macroeconomic outlook and the impact thereof on credit institutions' asset quality and profitability prospects, at its September 2022 meeting, the ESRB General Board issued a warning on vulnerabilities in the Union financial system. In this document, the General Board calls on EU supervisory authorities and national supervisory authorities of the banking and non-banking financial sectors, private sector institutions, and market participants to continue to prepare for materialisation of tail-risk scenarios and to take measures aimed at preserving or enhancing the resilience of the Union's financial sector so that the financial system can continue to support the real economy if and when financial stability risks materialise.

The General Board discussed also the ESRB analysis on the commercial real estate vulnerabilities in the European Economic Area with a view to the importance for financial stability and the impact that unfavourable trends in the sector could have to the financial system and the real economy. To address the vulnerabilities identified, the General Board issued a recommendation in December 2022, calling on the EU and national authorities to improve the monitoring of systemic risks in this sector, which is key to identifying them in a timely manner and assessing possible policy responses to address these risks. Based on the findings of the monitoring exercise, the EU and national authorities should take measures to ensure the use of sound industry funding practices and resilience of financial institutions. The European Commission itself has to assess the current macroprudential framework to ensure that financial institutions apply consistent rules to address risks arising from their exposures to commercial real estate, taking into account their specificities.

Over the reporting period, BNB representatives participated in the discussions of EC and EBA standing committees and working groups and in the elaboration of the assessment of key risks and priorities in the supervisory processes for the 2023–2025 period, as well as in the processes of interaction with third country regulators and convergence of national practices on the introduction and implementation of the EU prudential and supervisory framework.

The Ecofin Council and Economic and Financial Committee

Finance and economy ministers and central bank governors of EU Member States took part in two informal EU Ecofin Council meetings in 2022. The BNB Governor attended the meetings. At its February 2022 meeting, the informal Ecofin Council discussed how to strike the optimal balance between monetary, fiscal and structural policies to ensure long-term economic growth while emerging from the COVID-19 crisis. The Council discussed approaches for further strengthening of the EU financial sector to equip it with the necessary potential to finance the dual digital and green transition (the simultaneous transition towards a green and digital economy) and to better serve the real economy as a whole. Ministers and governors discussed the potential for developing and deepening European capital markets to support the economy, reduce pressure on banks and create longer-term income for European households.

The second informal Ecofin meeting held in September focused on the economic and financial implications of the war in Ukraine and ways to address them with a view to ensuring sustainable growth and financial stability in the EU. Discussed were measures aimed at mitigating the effects of the energy crisis and the need to assess their effectiveness with a view to sharing good practices and shaping future policies. Participants in the meeting explored options for containing the rate of growth of energy prices that would preserve growth and social convergence, as well as ways in which they could be a factor in accelerating the dual digital and green transition. Support measures aimed at ensuring the integrity and orderly functioning of the Single Market and public finances were discussed and coordinated at EU level.

A Deputy Governor represents the BNB on the Economic and Financial Committee. In the first half of 2022, the Committee's discussions focused on the economic consequences of the war in Ukraine, as well as on the need for financial assistance to that country. Committee members discussed the situation in the financial markets, the impact of the war on energy commodity prices and the stability of the banking sector. They expressed their support for a coordinated approach to implementing and monitoring the impact of sanctions on the European and Russian economies. The NextGenerationEU instrument and its funding were also discussed by the members of the Committee. In this vein, the package of proposals presented by the European Commission in December 2021 on determining the next generation of own resources for the EU budget was discussed. The package includes three new sources of revenue: based on emissions trading systems (ETS), resources generated by the proposed EU carbon border adjustment mechanism, and revenues based on the share of residual profits from multinationals that will be re-allocated to the Member States. The Committee continued its work on sustainable financing. The progress in achieving economic and financial strategic autonomy of the EU was also among the covered topics. The members of the

Committee agreed that the EU should continue to strive to achieve economic and financial autonomy, while maintaining its openness, competitiveness and global cooperation. Discussed were also the convergence reports of the European Commission and the ECB, as well as Croatia's practical preparations for the adoption of the euro.

Discussions on the economic implications of the war in Ukraine and the emerging financial needs of this country continued during the meetings held in the second half of 2022. Focus was placed on the effect of the sanctions imposed on Russia's economy, with Committee members confirming their coordinated approach to the monitoring of the results of sanctions. The package of legislative proposals presented by the Commission in October to address the exceptional situation in global and European energy markets was also discussed with a view to coordinating the efforts, ensuring energy supply, stabilising price levels and helping households and businesses cope with high energy commodity prices. Discussed was the need for monitoring and detecting possible manipulations or abuses on energy exchanges and energy derivatives markets. Work continued in the area of deepening the Capital Markets Union. To this end, the role of investment funds for the acceleration of growth, employment creation and increasing EU autonomy was discussed. Completion of the Banking Union was also among the topics discussed. Concrete actions agreed by the Eurogroup, which would further strengthen the Banking Union, including the strengthening of the common framework for bank crisis management, as well as the rules governing the use of national deposit insurance funds were presented to the members of the Committee. The Commission's proposal to promote instant payments in euro which aims to ensure these payments are affordable, secure, and processed without hindrance across the EU was also discussed. The Committee members stressed the importance of the proposal to increase the speed and convenience for consumers, as well as to reduce costs for businesses. In the context of the discussions on the gas market correction mechanism which aims to protect citizens and the economy against excessively high prices, the members of the Committee agreed that the volatile gas market has created problems for the European economy. In this context, discussions focused on balancing the effective operation of the mechanism, while avoiding risks related to energy supply and financial stability.

The Council of the EU continued to discuss the legislative measures aimed at building the regulatory framework for the completion of the Banking Union. The draft work plan for the completion of the Banking Union, prepared by the euro area countries (in inclusive format), was examined. It covers measures in four areas: a more effective crisis management framework, more reliable protection for European depositors, a more integrated banking services market and diversification of banks' sovereign debt exposures. At its June 2022 meeting in inclusive format, the Eurogroup agreed that, as an immediate step, work on the Banking Union should focus on strengthening the common framework for bank crisis management and national deposit guarantee schemes (CMDI framework), and that subsequently it should review the state of the Banking Union and identify further measures with regard to the other outstanding elements. The BNB, through its expertise, assisted the representatives of the Ministry of Finance in the working formats of the High Level Working Group on Strengthening the Banking Union on issues within the field of competence of the central bank.

BNB representatives took part in intensive negotiations within the framework of the Financial Services Working Group to the Council of the EU on legislative proposals on amendments to the EU's regulatory framework on the banking sector[96] presented in 2021, aimed at implementing the new international standards of the Basel Committee on Banking Supervision (Basel III). The proposed amendments are intended to ensure uniform application of regulatory requirements, convergence of supervisory practices and a level playing field within the single market for banking services. The Regulation, which lays down requirements for indirect subscription of instruments eligible for meeting the minimum requirement for own funds and eligible liabilities in the case of a resolution of credit institutions, was finally approved by the Ecofin Council on 4 November 2022 and published in the Official Journal of the EU[97]. Following negotiations in the Council of the EU in which numerous political and technical issues had been agreed, in November 2022, an agreement was reached on a Council position (general approach) on the proposals to revise the Capital Requirements Directive and Regulation (CRR/CRD IV). Agreeing on a general approach on both proposals helped launch negotiations with the European Parliament with a view to their final adoption.

On 26 October 2022, the European Commission presented a Proposal for a Regulation of the European Parliament and of the Council amending Regulations (EU) No 260/2012 and (EU) 2021/1230 as regards instant credit transfers in euro[98]. The proposal establishes common rules and requirements for the execution of instant credit transfers in euro in order to make these payments universally accessible, increase confidence in instant payments and create an integrated market for this type of transfers. BNB representatives took part in discussions on legislative measures launched within the Financial Services Working Group to the Council of the EU.

In 2022, progress was made in the negotiations on the legislative package on digital financial services[99], aimed at developing a European approach to promote the technological development and ensure financial stability. A preliminary agreement was reached in the negotiations with the European Parliament on the proposal for a Regulation on Markets in Crypto-assets, which aims to create a common European regulatory

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

[97] Regulation (EU) 2022/2036 of the European Parliament and of the Council of 19 October 2022 amending Regulation (EU) No 575/2013 and Directive 2014/59/EU as regards the prudential treatment of global systemically important institutions with a multiple-point-of-entry resolution strategy and methods for the indirect subscription of instruments eligible for meeting the minimum requirement for own funds and eligible liabilities (OJ L 275/1 of 25 October 2022).

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

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

framework for crypto-assets, crypto-asset issuers and crypto-asset service providers, as well as to protect consumers against certain risks related to investing in crypto-assets. The draft Regulation on a pilot regime for market infrastructures based on distributed ledger technology was finally approved by the Council of the EU and the European Parliament and published in the Official Journal of the EU[100]. The draft Regulation on digital operational resilience for the financial sector and the draft Directive on digital operational resilience for the financial sector were approved and published in the EU Official Journal[101] in December. The proposed measures to establish a regulatory framework for digital operational resilience set out uniform requirements for the security of the networks and information systems of companies and organisations operating in the financial sector, as well as of third parties – critical information and communication service providers in the financial sector. BNB experts took part in discussions on legislative proposals within the Financial Services Working Group to the Council of the EU and provided expertise and analyses to representatives of the Ministry of Finance on issues within the central bank's purview.

BNB representatives took part in the technical level discussions and negotiations of the Financial Services and Banking Union Working Group to the Council of the EU on the package of legislative proposals presented in 2021 aimed at strengthening the EU rules in the area of anti-money laundering and countering the financing of terrorism[102]. In 2022, a general approach was reached on the proposal for a Regulation establishing the Authority for Anti-Money Laundering and Countering the Financing of Terrorism, as well as on the proposals for an anti-money laundering Regulation and Directive, expressing willingness to start negotiations with the European Parliament to reach an agreement on the final texts. In June 2022, a preliminary agreement was reached in the course of negotiations with the European Parliament on the proposal for a Regulation on information accompanying transfers of funds and certain crypto-assets.

In 2022, the Bank continued its intensive work on harmonising national legislation with European requirements. BNB representatives took part in drafting the Law on Covered Bonds, implementing in national legislation the requirements of Directive (EU) 2019/2162 of the European Parliament and of the Council of 27 November 2019 on the issue of covered bonds and covered bond public supervision and amending Directive 2009/65/EC and Directive 2014/59/EU (OJ L 328/29 of 18 December 2019).[103]

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

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[100] Regulation (EU) 2022/858 of the European Parliament and of the Council of 30 May 2022 on a pilot regime for market infrastructures based on distributed ledger technology, and amending Regulations (EU) No 600/2014 and (EU) No 909/2014 and Directive 2014/65/EU (OJ L 151/1 of 2 June 2022).

[101] Regulation (EU) 2022/2554 of the European Parliament and of the Council on digital operational resilience for the financial sector and amending Regulations (EC) No 1060/2009, (EU) No 648/2012, (EU) No 600/2014, (EU) No 909/2014 and (EU) 2016/1011 (OJ L 333/1 of 27 December 2022); Directive (EU) 2022/2556 of the European Parliament and of the Council of 14 December 2022 amending Directives 2009/65/EC, 2009/138/EC, 2011/61/EU, 2013/36/EU, 2014/59/EU, 2014/65/EU, (EU) 2015/2366 and (EU) 2016/2341 as regards digital operational resilience for the financial sector (OJ L 333/153 of 27 December 2022).

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

[103] Directive (EU) 2019/2162 of the European Parliament and of the Council of 27 November 2019 on the issue of covered bonds and covered bond public supervision and amending Directives 2009/65/EC and 2014/59/EU (OJ L 328/29 of 18 December 2019).

IX. International Relations

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

The Bulgarian National Bank holds equity in the Bank for International Settlements (BIS). The BNB Governor sat on BIS central bank governors' regular meetings: a major forum for cooperation and debate on the issues of world economic developments and prospects, and international financial markets. At the Annual General Shareholder Meeting in late June 2022, the BIS Governors decided to pay a dividend to the BNB to the amount of SDR 2.2 million for 2022.

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

In April 2022, the BNB contributed USD 10,000 to support the activity of the Group of Thirty.

On 21 September 2022, the central bank of Germany and the EC jointly with the BNB, other national central banks of the ESCB and the ECB officially launched a technical cooperation programme with central banks and supervisory authorities of countries in the Western Balkans – EU candidates and potential candidates. This is a three-year programme financed by the EU *via* the Instrument for Pre-Accession Assistance. The BNB is committed to provide training in the area of IT and the fight against money laundering and terrorist financing.

Within the bilateral cooperation framework, BNB experts held a virtual meeting with representatives of the Central Bank of Ukraine and shared their experience on the functioning of the central vault in conditions of *force majeure*.

The BNB provided assistance and expertise in various areas of central bank competence in relation to requests from non-EU central banks.

X. Statistics

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

The BNB collects, processes, analyses and disseminates official monetary[104] and interest statistics[105], external sector statistics[106], quarterly financial account statistics for all institutional sectors[107], statistics of non-bank financial institutions, including leasing companies and investment funds[108], specialised lenders, insurance and reinsurance undertakings[109] and pension funds.[110]

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

In 2022, the Bank continued to collect, compile and disseminate up-to-date statistical data on its website and by regular communications with the ECB, Eurostat, the ESRB, the IMF, the BIS, and other national and international institutions. Over the year, the amount of prepared statistical series was retained. International institutions optimised the exchange of statistical information between them, and as a result, the number of individual time series provided by the BNB to the ECB, Eurostat and the IMF reached 328 thousand in 2022 compared with 373 thousand in 2021.

Over the reporting period all statistical data available on the BNB website were published as scheduled.

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

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

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

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

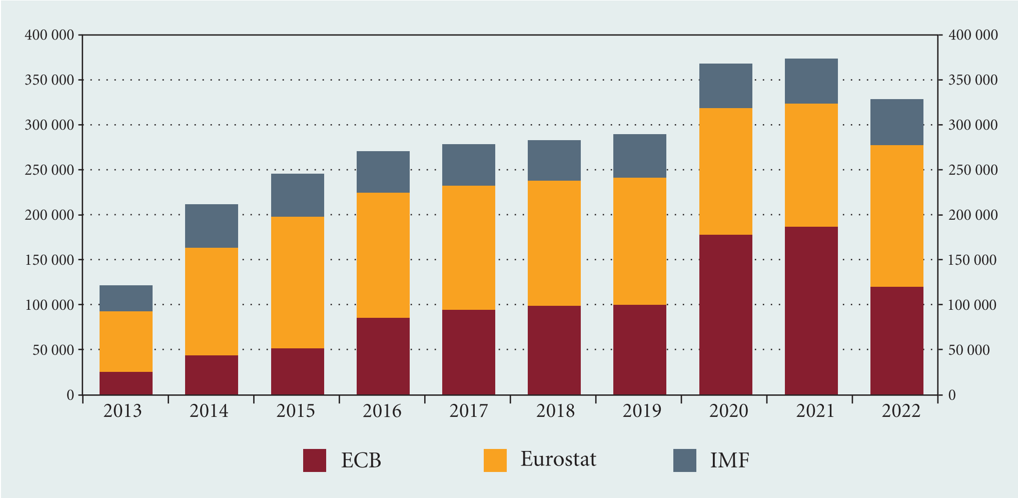
[107] Pursuant to the European System of Accounts (ESA 2010) provided for in Regulation (EU) No 549/2013 of the European Parliament and of the Council of 21 May 2013, Guideline of the European Central Bank of 25 July 2013 on the statistical reporting requirements of the European Central Bank in the field of quarterly financial accounts (ECB/2013/24) and subsequent amendments thereto.

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

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

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

Individual Time Series Provided to the ECB, Eurostat and the IMF
(number)



Source: BNB.

In early 2022, the BNB Governing Council adopted an Ordinance on Amendment of BNB Ordinance No 17, which amended the reporting requirements for insurance and reinsurance undertakings, pension insurance companies and pension funds managed by them[111], as well as investment funds. As a next step for updating statistical reporting by other financial institutions in 2022 in accordance with Guidelines (EU) 2021/831 of the European Central Bank of 26 March 2021 on statistical information to be reported on financial intermediaries other than monetary financial institutions (ECB/2021/12), the BNB developed new reporting forms for leasing companies, specialised lenders and securitisation corporations. Along with implementation of the requirements of ECB regulations on reporting of these financial institutions, new reporting forms will provide additional information for the purposes of compiling statistics on quarterly financial accounts, balance of payments and international investment position of Bulgaria.

In view of the amendments to ECB Guidelines on the Register of Institutions and Affiliates Data (RIAD), in 2022 BNB statistical databases continued to be developed and improved, including individual reference information: the Register of Domestic Economic Agents and the Bulgarian securities database. Along with analytical options at national level, these databases allow the BNB to fulfil its commitments to the ESCB in managing data for Bulgaria in the Register of Institutions and Affiliates Database and the Centralised Securities Database (CSDB).[112] In 2022, the Bank continued volunteering to help ESCB national central banks identify and supplement RIAD reference information on resident institutional unit parties to credit relations as part of the AnaCredit project (Analytical credit datasets)[113] on granular credit and credit risk data. Besides information on credit institutions and other participants in the credit process for the purposes of AnaCredit, the BNB maintains in the RIAD register up-to-date reference information on financial vehicle corporations, investment funds and their management companies, payment service providers and payment system operators, insurance and reinsurance companies, pension funds, as well as holding companies and head offices,

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[111] In order to implement the ECB's requirements, pursuant to Regulation (EU) No 1374/2014 of the ECB of 28 November 2014 on statistical reporting requirements for insurance corporations (ECB/2014/50) and Regulation (EU) 2018/231 of the ECB of 26 January 2018 on statistical reporting requirements for pension funds (ECB/2018/2).

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

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

and issuers of securities. The BNB actively participated in the ECB Securities Holdings Statistics project (SHS)[114] which is important for both gathering various statistical data and analysing financial stability.

In 2022, the Bank continued developing and elaborating the Integrated Statistical Information System (ISIS) and the Information System for Monetary and Interest Rate Statistics (ISMIS). They automate management, improve the reliability and high quality of statistical information the BNB receives, processes and disseminates, and greatly reduce the administrative burden on individuals and legal entities by offering electronic submission of statistical reports and declarations. Early March 2022 saw the publication of the updated guidelines for providing electronic statistical information to the BNB amending the rules for providing access to the ISIS Portal. The amendments boosted the security of the data stored in the system, easing the procedure for authorising the persons representing the reporting entities.

The BNB follows the principles of the Public Commitment on European Statistics by the European System of Central Banks, based on the fundamental principles of UN official statistics. Along with regular procedures for data validation, the Bank participated actively in ESCB and European Statistical System reports on data quality assessments measuring compliance with these principles of central bank statistical products and national statistical institutes through set indicators: accessibility and clarity, punctuality, reliability, comparability, and coherence. The published reports ensure transparency and allow for a comparative analysis of the quality of these statistical products for all EU Member States. In mid-May 2022, the ECB published its annual report on analysis of the quality of balance of payments and international investment position statistics[115] compiled by the BNB. By end-June 2022 the ECB and Eurostat published their eight joint Annual report[116] on the quality of statistical data based on the indicators used in the macroeconomic imbalance procedure. In October 2022, the Eurostat published the quality report on balance of payments, international investment position, international trade in services and foreign direct investment statistics. The BNB, as coordinator for Bulgaria, also adheres to the requirements of the IMF Data Quality Assessment Framework, part of the Special Data Dissemination Standard Plus (SDDS Plus) which Bulgaria has joined.

In the field of statistics, the BNB continued cooperating with the NSI and the Ministry of Finance, national and international statistical authorities and central banks. In 2022, the BNB joined Eurostat's project on reducing the asymmetries between EU Member States in the area of services that are part of the balance of payments current account. In October 2022, with data for the second quarter of the year, the BNB started publishing quarterly financial accounts by institutional sector on a regular basis with more detailed information by sub-sector and sub-instrument compiled in accordance with the methodological principles and rules of Regulation (EU) No 549/2013 of the European Parliament and of the Council on the European system of national and regional accounts in the European Union.

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

[115] Euro area and national balance of payments and international investment position statistics (europa.eu), ECB, 2022.

[116] Quality assessment report on statistics underlying the Macroeconomic Imbalance Procedure statistics (europa.eu), ECB and Eurostat, 2022.

XI. The Fiscal Agent and State Depository Function

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

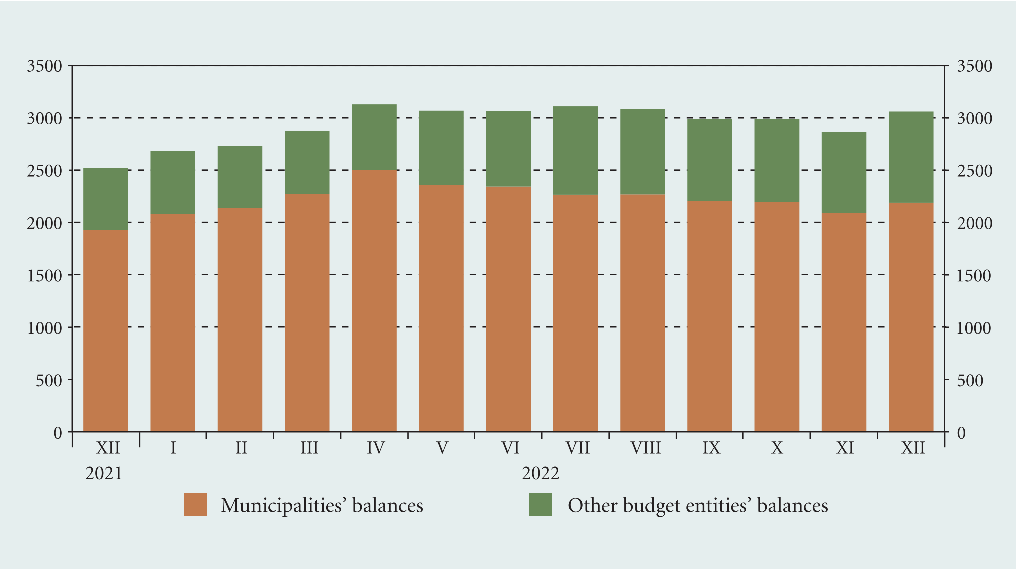
Revenue raised in 2022 from system participants under the Tariff of Fees and Commissions Charged on Processing Government Securities Transactions and from the MF under LBNB Article 43 was BGN 2846.7 thousand, from BGN 3489.8 thousand in the previous year.

Information Service

Providing state budget information under the MF contract involved issuing 967 summarised standard statements on budget entities' operations and balances at the BNB and Bulgarian banks *via* the IOBFR system. Summarised information set the overall balance of budget entities' accounts (including municipalities) at BGN 14,376.9 million[117], up 22.9 per cent compared to 31 December 2021. At the end of 2022, 78.7 per cent (BGN 11,314.9 million) was in BNB accounts and the rest (BGN 3062.0 million) with 16 domestic banks.

Budget Entities' Accounts with Domestic Banks (BNB excluded)

(BGN million)



Source: BNB.

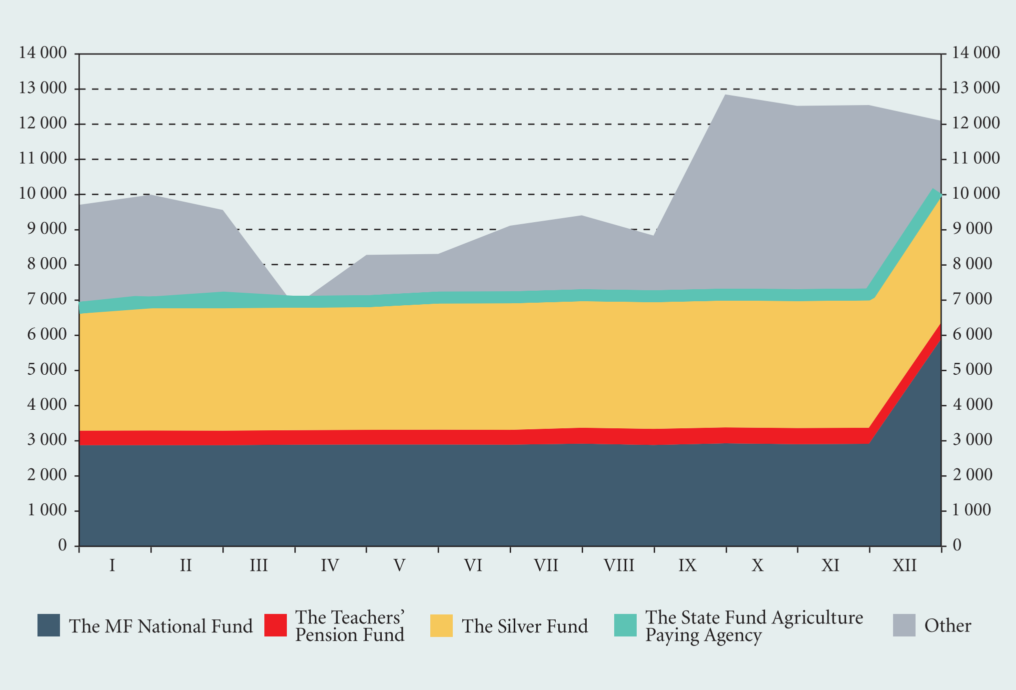
By end-2022, budget entities' account balances outside the central bank rose by 21.3 per cent compared to 31 December 2021, of which 71.2 per cent at five banks.

[117] Foreign currency account balances are recalculated in levs at the BNB exchange rate on 31 December 2022.

Approximately 84.2 per cent of total budget funds at the BNB and other domestic banks formed the fiscal reserve's [118] liquidity portion[119]: BGN 12,105.4 million on 31 December 2022. Of this, BGN 10,037.6 million was allocated to earmarked funds: the State Fund for Guaranteeing the Stability of the State Pension System (the Silver Fund), the MF National Fund, the State Fund Agriculture – Paying Agency, and the Teachers' Pension Fund.

Structure of Bank Account Balances within the Fiscal Reserve Scope in 2022

(BGN million)



Source: BNB.

In 2022, a new joint instruction of the BNB and the MF was published (DDS No 04/28.03.2022; No BNB-35283/28.03.2022) concerning the implementation of Article 152 of the Law on Public Finance, effective as of 1 January 2023. The instruction optimises the reported information on budget entities' operations and account balances, and securing of funds from banks.

Servicing Government Securities Trading

The MF issuing policy in 2022 involved eleven auctions for domestic government securities sales *via* the GSAS system. Five lev-denominated government securities issues were offered, of which two medium-term issues with an original maturity of three years and six months and five years and six months at 0.00 per cent and 3.20 per cent of annual interest rate, respectively, and three long-term government securities, of which one with an original maturity of seven years and six months at 0.25 per cent of annual interest rate and the other two issues with an original maturity of ten years and six months at 1.50 and 2.25 per cent of annual interest rate.

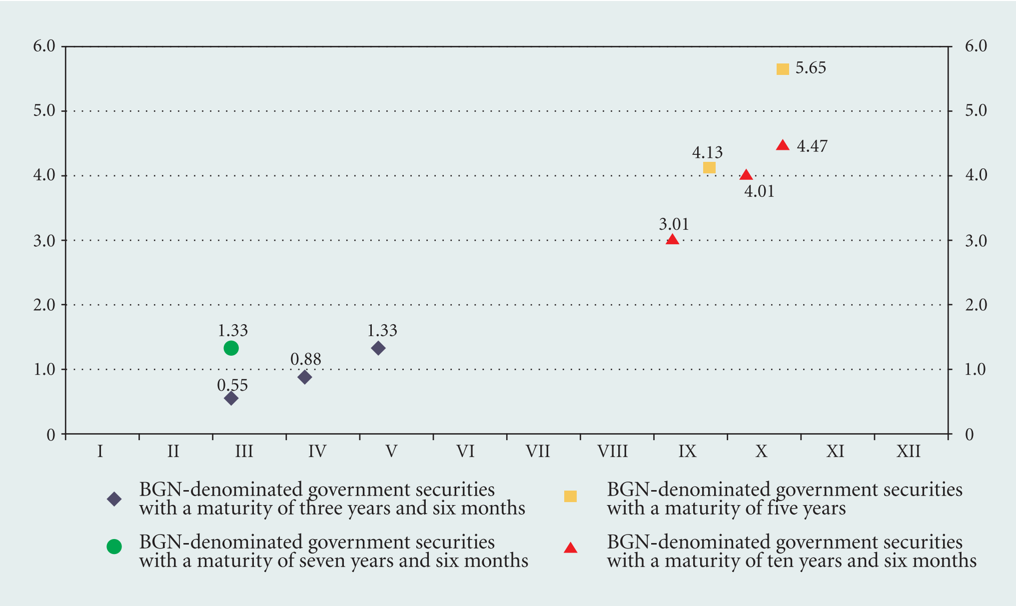
[118] According to § 1, item 41 of the Additional Provisions of the Law on Public Finance, the fiscal reserve is an indicator comprising both the balances of all budget entities' bank accounts (excluding municipalities and their budget spending units) and other assets and claims on EU funds.

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

The total nominal value of government securities offered for sale was BGN 3500 million. The auction bids for a sale of government securities amounted to BGN 4615.3 million, with 71.4 per cent of all bids by banks (BGN 3296.4 million) and BGN 1318.9 million by non-bank institutions. The total volume of government bond sales was BGN 2633,3 million, or 75.2 per cent of scheduled auction volume.[120] Banks (including primary dealers[121] of government securities) bought over 62.7 per cent of all sold government bonds. The average annual yield attained at the government bond auctions was 0.86 per cent for three year and six month bonds, 4.96 per cent for five year and six month bonds, 1.33 per cent for seven year and six month bonds and 3.80 per cent for ten year and six month bonds. The MF rejected all bids at two of the auctions for sale of ten-year-and-six-month maturity issues.

Average Annual Yields Attained at Auctions for Sale of Government Securities Issued in the Domestic Market in 2022

(per cent)



Source: BNB.

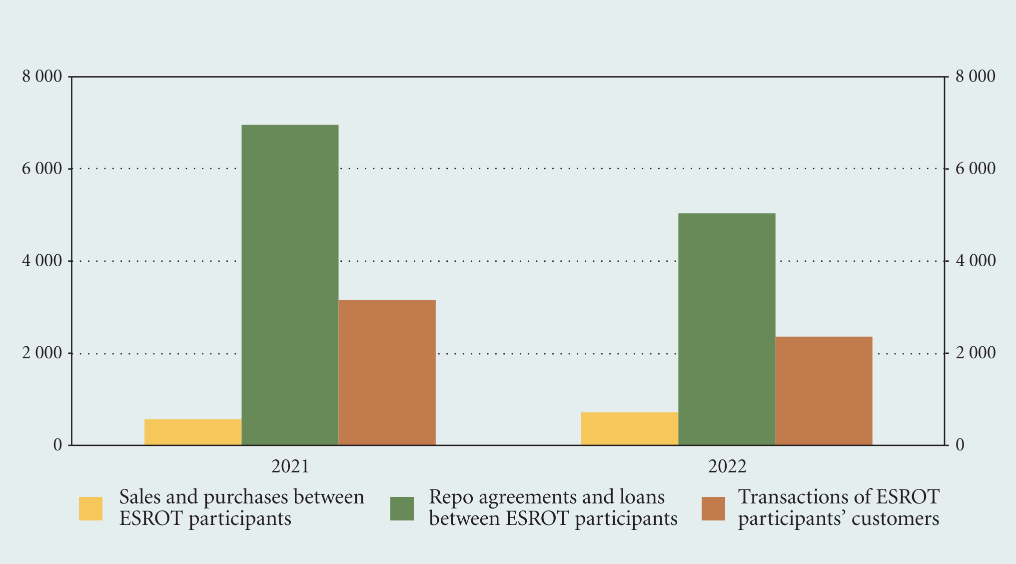
The ESROT system registered corporate event payments on behalf and on account of the issuer to a total amount of BGN 415.3 million[122] or a decrease of BGN 518.8 million (55.54 per cent) on 2021. The 16 circulating MF issues had an overall nominal value of BGN 10,965.4 million[123], up 27 per cent compared to December 2021. The issues' currency structure remained unchanged, with lev-denominated government securities redeemable in levs occupying the largest share of 95.8 per cent, followed by euro-denominated government securities redeemable in euro at 4.2 per cent. The maturity structure underwent no changes from end-2021, with medium and long-term bonds comprising 40.4 and 59.6 per cent, respectively.

In 2022 the nominal value of government securities registered in ESROT was BGN 8111.1 million, down 24.1 per cent from 2021.

[120] The MF rejected all bids at two of the auctions conducted in April and October 2022.
[121] Over the review period, nine primary dealers were selected under MF and BNB Ordinance No 15.
[122] The lev equivalent of payments on foreign currency denominated government securities issues was calculated at the BNB rate on the date of payment.
[123] The lev equivalence of government securities issues denominated in foreign currency was calculated on the basis of the BNB rate for 31 December 2022.

Volume of Transactions in Tradable Government Securities in 2021 and 2022

(BGN million)



Source: BNB.

Repo transactions had the largest share at 62.1 per cent, including one-day ones (40.8 per cent), mostly in lev-denominated government securities. Bond sales and purchases were BGN 714.6 million. Of this, transactions between ESROT participant banks came to BGN 493.9 million. The volume of transactions between ESROT participants and customers was BGN 1687.2 million, and that between participants' customers[124] reached BGN 673.4 million.

Reflecting government securities trade, secondary government bond market liquidity ratio[125] was 0.7 for 2022 against 1.2 in the previous year. ESROT participants encountered no problems and provided government bonds and cash in levs and euro for the delivery *versus* payment (DvP) settlement of government securities transactions, with the averaged settlement ratio[126] reaching 100 per cent.

Over the review period ESROT blocking and unblocking operations in domestic government securities related to securing funds in budget entities' bank accounts under the Law on Public Finance and the Law on Special Pledges totalled BGN 6026.5 million, from BGN 5134.9 million for 2021.

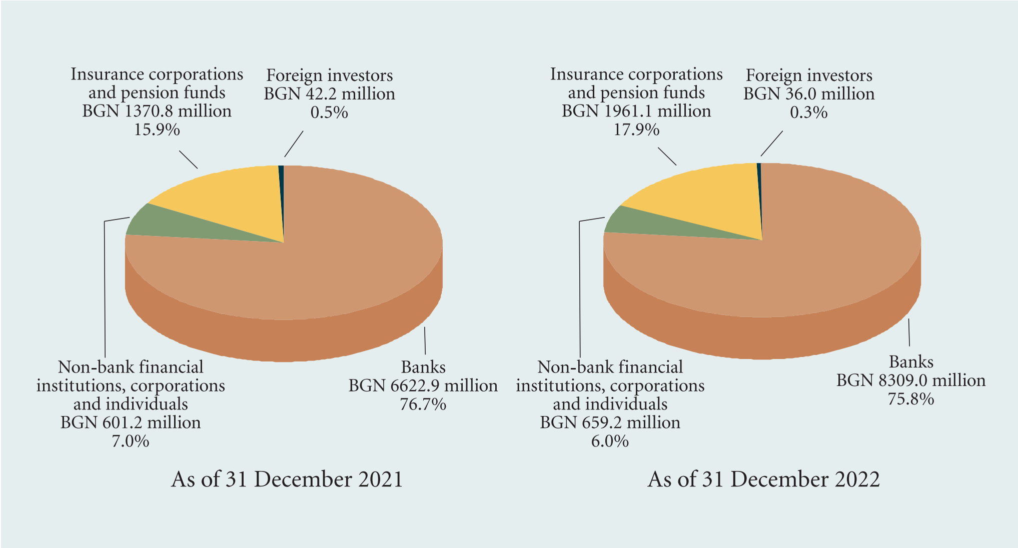
At the end of 2022, investments in government securities increased in bank portfolios *vis-à-vis* the end of 2021 (by BGN 1686.1 million), in insurance corporations and pension funds (by BGN 590.3 million), and government securities investments in portfolios of non-bank financial institutions, corporations and individuals (by BGN 58.0 million), while government securities investments in foreign investors' portfolios decreased by BGN 6.2 million. This changed the shares of individual government bond holder categories as of 31 December 2022 to: 75.8 per cent with banks, 17.9 per cent with insurance corporations and pension funds, 6.0 per cent with non-bank financial institutions, corporations and individuals, and 0.3 per cent with foreign investors, from 76.7, 15.9, 7.0 and 0.5 per cent as of 31 December 2021.

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

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

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

Holders of Government Securities Issued in the Domestic Market



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

Source: BNB.

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

As of 31 December 2022, there were 560 accounts in the government securities settlement system under BNB Ordinance No 31 on Government Securities Settlement. Of them, 16 were for government securities of the issuer (the MF), 229 for participants' own government securities portfolios, 133 for encumbered bonds, and 182 for participants' customers. Account nominals tallied with the amount of outstanding issues at BGN 10,965.4 million.[128]

At the end of 2022, the Bulgarian National Bank, as an owner and operator of the Government Securities Depository at the BNB (GSD), and the European Central Bank signed a TARGET2-Securities (T2S) Framework Agreement, which provides for the GSD to join the T2S: the Eurosystem's securities settlement platform.

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

[128] The lev equivalent of government securities denominated in foreign currency is calculated on the basis of the BNB exchange rate on 31 December 2022.

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

The Central Credit Register

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

As of 31 December 2022, 241 institutions under Article 56, paragraph 1 of the LCI submitted information to the CCR, of which 26 banks, 212 financial institutions, two payment institutions and one electronic money institution. Over the same period, 16 new financial institutions were included and five were deleted from the CCR information system.

As of 31 December 2022, the CCR listed 6362 thousand loans, from 6172 thousand a year earlier, with a balance sheet exposure of BGN 105,254 million, from BGN 94,445 million as of 31 December 2021. Borrowers numbered 2572 thousand, of whom 2339 thousand individuals, 107 thousand legal entities, 121 thousand non-residents not registered at Bulgarian addresses or BULSTAT/PIK coded, and 5 thousand self-employed persons practising liberal professions or crafts.

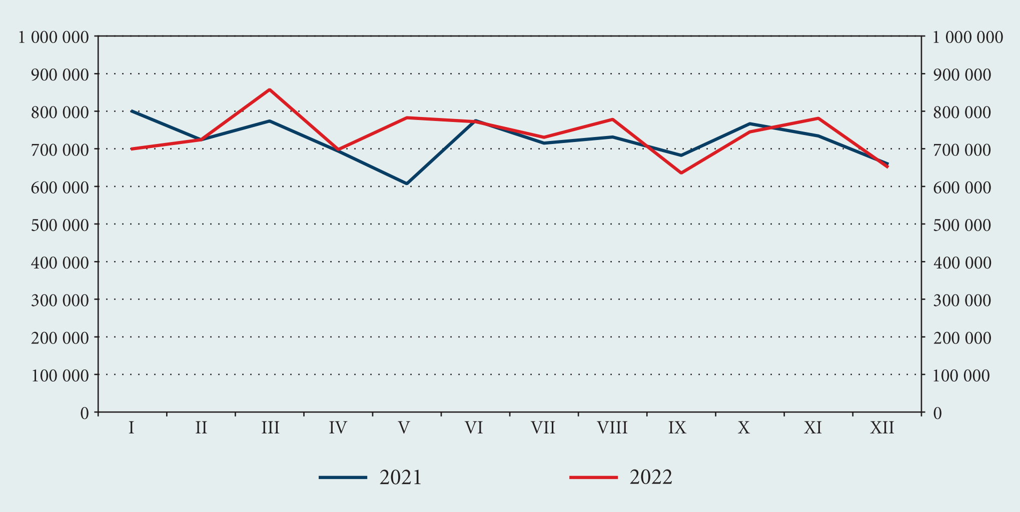
As of 31 December 2022, residual debt on loans of up to BGN 5 thousand predominated with natural persons (55.3 per cent), while debts of BGN 5 thousand to BGN 50 thousand predominated with legal entities (31 per cent).

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

As of 31 December 2022, institutions and bodies entitled to Register access under Article 56, paragraphs 1 and 3 of the Law on Credit Institutions conducted searches on 8858 thousand individuals, with average monthly searches numbering 738 thousand (total of 8664 thousand for 2021, with average monthly number of 722 thousand). Over 2022, the electronic searches conducted by institutions and bodies under Article 56, paragraphs 1 and 3 of the LCI accounted for 99.8 per cent of all searches carried out over the year, with no change compared to 2021.

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

(number)

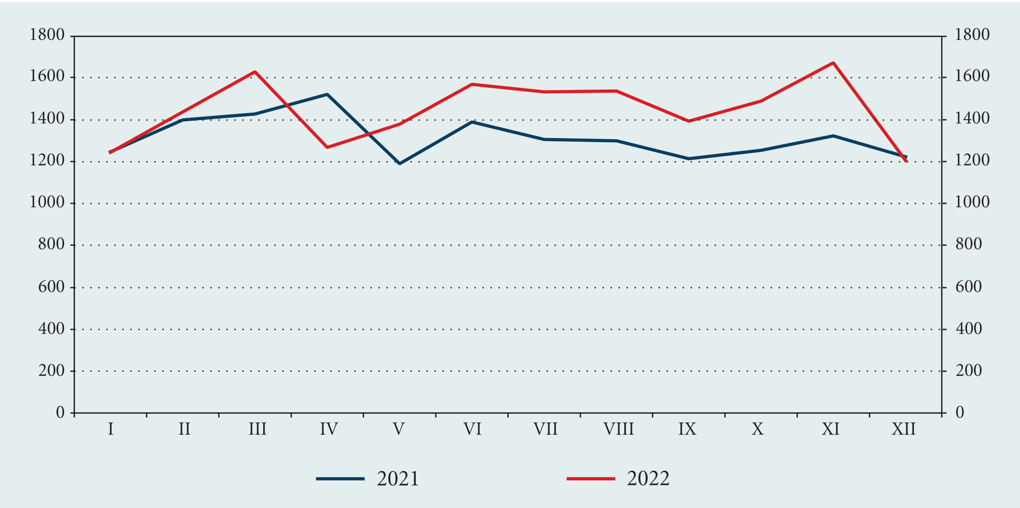


Source: BNB.

BNB Ordinance No 22 on the Central Credit Register grants individuals (including for probate purposes) and legal entities access to debt information. In 2022, there were 17,379 paper applications for CCR statements: 16,947 by individuals and 432 by legal entities. Over 2021, applications for CCR statements were 15,816; of these, 15,464 by individuals and 352 by legal entities.

Monthly CCR Searches Based on Paper Applications by Natural Persons and Legal Entities

(number)



Source: BNB.

The BNB provides CCR electronic services to natural persons holding a qualified certificate for electronic signatures issued by a certification service provider under the Electronic Document and Certification Services Law. Fees charged for electronic services accounted for 50 per cent of those submitted on paper. As of 31 December 2022 there were 3835 electronic applications for CCR statements by natural persons (2726 electronic applications as of 31 December 2021).

As a result of amendments to statutory requirements related to CCR activities, the operation of the register has been continuously improving in view of best practices in this area. New functionalities has been created to the CCR Information System due to the changed and modernised architecture. The Register exchanges information with other European credit registers to improve data reporting to the CCR in compliance with Bulgarian and EU legislation.

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

The Register of Bank Accounts and Safe Deposit Boxes

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

As of 31 December 2022, 37 institutions under Article 3 of Ordinance No 12 on the RBASDB submitted information, of which 27 banks, including the BNB, two payment institutions and eight electronic money institutions. In 2022, two electronic money institutions providing data were included in the RBASDB information system.

As of 31 December 2022, the Register logged 14.65 million active bank accounts (14.81 million as of 31 December 2021) and 738.87 thousand payment accounts (BGN 486 thousand as of 31 December 2021) kept by payment institutions and electronic money institutions along with 32.59 thousand safe deposit box hires (31.52 thousand as of 31 December 2021), including records of 2.84 million new accounts and 2.80 million closed accounts.

In 2022, the RBASDB information system held details of 640 thousand account preservation orders and 528 thousand accounts with rescinded preservation orders, from 675 thousand placed and 436 thousand rescinded preservation orders as of 31 December 2021.

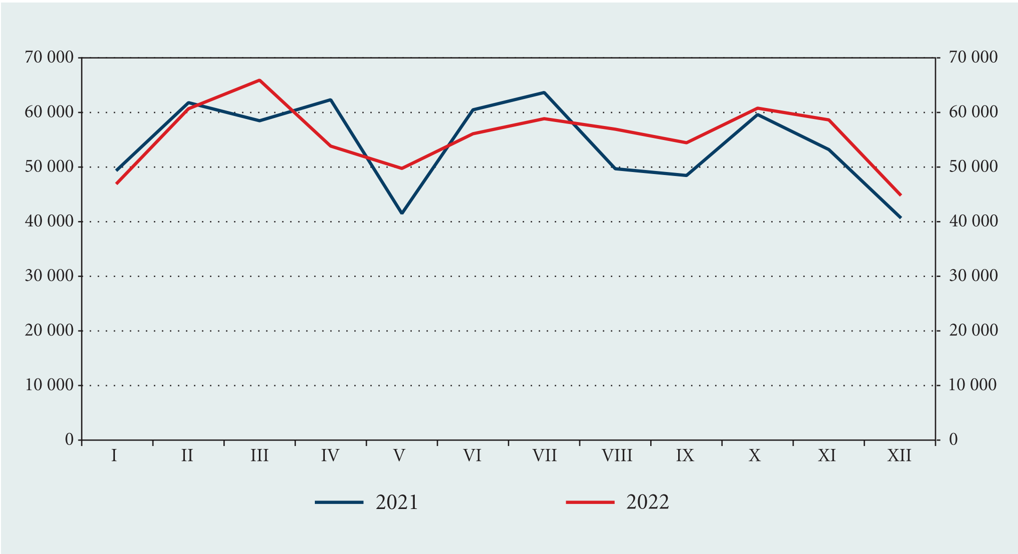
Pursuant to Article 56a, paragraph 3 of the Law on Credit Institutions, the Register granted information access to judicial authorities (Courts, the Prosecutor's Office, and criminal investigation authorities), the Ministry of Interior National Police General Directorate, the General Directorate for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

As of 31 December 2022, bodies and institutions entitled to access under the Law on Credit Institutions Article 56a, paragraph 3 conducted searches on

668,085 individuals, with the average monthly number of searches reaching 55,674 (compared to 649,604 searches and the average monthly number of searches of 54,134 as of 31 December 2021). In 2022, electronic searches accounted for 660,797, or 98.90 per cent of all searches in the Register for the year, including 3071 for a beneficial owner of a titleholder. In 2021, 643,407 electronic searches were conducted, or 99.04 per cent of all searches.

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

(number)



Source: BNB.

BNB Ordinance No 12 on the RBASDB grants natural persons (including for probate purposes) and legal entities access to information on available bank and payment accounts and preservation orders, account holders and safe deposit box hires. In 2022, 5094 applications in a paper form for RBASDB disclosures were filed: 4879 by individuals and 215 by legal entities. There were 5177 applications for RBASDB statements in 2021, of which 4956 by individuals and 221 by legal entities. As from 2022, the BNB provides statements to natural persons under Article 12a of Ordinance No 12 of the RBASDB for obtaining information pursuant to Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016.[129]

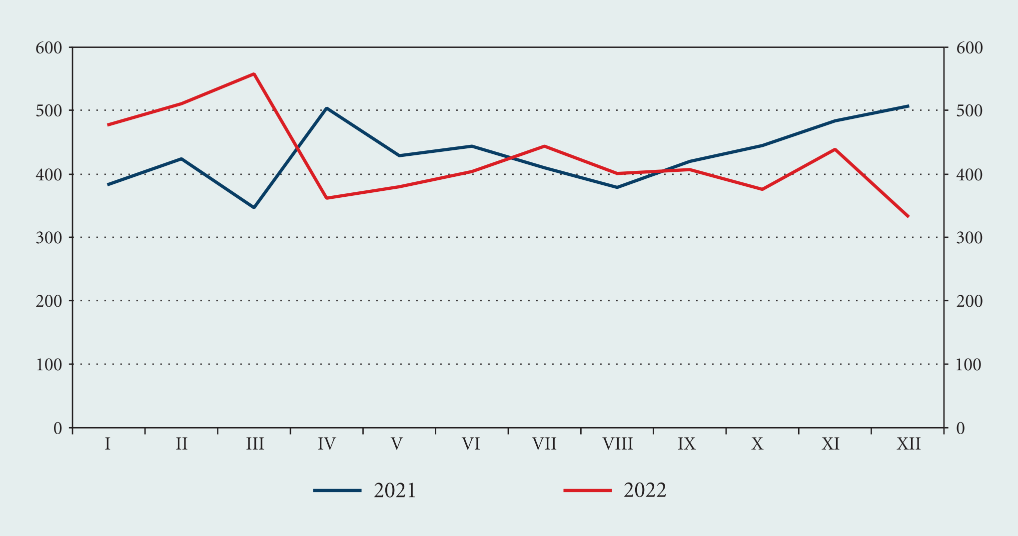
The BNB provides electronic RBASDB services to natural persons holding a qualified certificate for electronic signatures issued by a certification service provider under the Electronic Document and Certification Services Law. Fees charged for electronic services accounted for 50 per cent of those submitted on paper. As of 31 December 2022, there were 320 electronic applications for RBASDB statements by natural persons (352 electronic applications as of 31 December 2021).

The work of the RBASDB has been continuously developing and improved in order to enhance the quality and reliability of the information collected and maintained. Incoming data into the RBASDB Information System correspond to the compulsory

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

Monthly RBASDB Searches Based on Paper Applications by Natural Persons and Legal Entities

(number)



Source: BNB.

set of information under Article 32a(3) of Directive (EU) 2015/849[130] by collecting also additional information under paragraph 4, which allows to identify in due time any natural person or legal entity. The RBASDB development follows the best EU practices in creating and operating bank account registers. As a result of the forthcoming implementation of cross-border interconnection of bank account registers through a single access point, competent authorities will be able to swiftly establish whether a certain person has accounts and safe deposit boxes in other Member States.

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

XIII. Research

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

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

As part of the BNB's Research Plan, in 2022 work was carried out on the study of the factors of the dynamics of money in circulation in Bulgaria, the factors determining the dynamics of labour productivity in Bulgaria, the profitability and financial position of firms in Bulgaria and in other EU Member States. Honing the basic model for BNB macroeconometric forecasting continued over the period under review along with developing a risk management methodology for BNB's gross international reserves. The basic forecasting model was adjusted to better take into account the specificities of channels of impact of the war in Ukraine on the Bulgarian economy, by expanding the set of energy and non-energy commodities, the price estimate of which is reflected in the forecast's external assumptions.

The BNB continued encouraging the research potential of Bulgarian economic science and practice in macroeconomics and finance. In 2022, the BNB Publications Council reviewed one paper which was subsequently published on the BNB website, namely 'Determinants of labour force participation in Bulgaria: empirical evidence from micro data', by Ventsislav Ivanov, Kristina Karagyozova-Markova, Gergana Markova, Andrey Vassilev, and Zornitsa Vladova. Volume 7 of the publication the Annual of the Bulgarian National Bank saw light over the reporting period. The *Annual* is in electronic form and is available on the BNB website free of charge. The publication contains double-blind peer-reviewed papers already published in the BNB topical publication *Discussion Papers* whose authors have agreed to its inclusion in the *Annual*. The *Annual* is produced with a view to its inclusion into the National Reference List of Contemporary Bulgarian Scientific Publications with Scientific Review of the National Centre for Information and Documentation to the Ministry of Education and Science.

Part of the results from BNB analytical and forecasting activities was published in the Bank's quarterly editions *Economic Review* and *Marcroeconomic Forecast*. The *Economic Review* provides information about Bulgaria's economic development, analyses of the balance of payments flow dynamics, monetary aggregates, their link with the development of the real economy and their bearing on price stability. External developments directly affecting the Bulgarian economy were also analysed. The publication carries out quantitative assessments of anticipated short-term developments in a set of key macroeconomic indicators. The *Economic Review* also presents the results of BNB analyses of particular economic issues as highlights and research topics. The year saw the publication of two highlights: 'Central Bank Policies amid Rising Inflation' and 'Revision of GDP Data', and of two research topics – 'Bulgaria's Economic Connectedness with Russia, Ukraine and Belarus and Dependency of the Bulgarian Economy on the Use of Natural Gas' and 'Macroeconomic Effects of Demographic Processes in Bulgaria'. The BNB quarterly *Macroeconomic Forecast* provides annual projections of major macroeconomic indicators for Bulgaria in the current and next two years.

In July 2022, the BNB hosted the annual meeting of the members of the *European Association for Banking and Financial History (EABH*). The BNB in cooperation with EABH organised a conference and a workshop where participants from the academia and financial community presented studies and analyses on topical financial history issues in Europe and worldwide. The topics of the conference and workshop were 'Monetary Unions in History' and 'Digital Rebirth of Historical Datasets', respectively. As a member of the EABH since 2002, the BNB encourages historical research and the study of economic and financial history based on historical data and archive information from the central bank and other institutions with a view to providing solid analytical arguments in the Bank decision making process and BNB policy definition.

XIV. Human Resource Management

The main priorities in BNB human resource management in 2022 were the provision of competitive working conditions and favourable working environment for the effective implementation of the Bank's objectives, functions and tasks. Following the lifting of the emergency epidemic situation in Bulgaria on 1 April 2022 and changes in the labour legislation related to work organisation and creation of new opportunities for combining personal and professional life of employees, the performance of professional duties continued to be carried out both on site in the BNB premises and remotely. In view of the statutory amendments, relevant changes were also made to the applicable internal acts, which in turn facilitates remote working in business areas whose functions and tasks allow the remote regime.

The main tasks of staff management were related to professional motivation, career development and retention of employees by providing state-of-the-art technological solutions for work, training opportunities, internal mobility, performance-oriented pay and a comprehensive social policy. Given the labour shortages on the labour market in Bulgaria, especially in the highly qualified staff segment, the active presentation of the BNB as the preferred employer was also among the main priorities in 2022. The scope of the web platforms used to publish job offers at the BNB expanded, as well as the cooperation with the university career centres to promote job vacancies. Over the reporting period, the Bank took part in a large number of fora for career consulting and development of students and young professionals.

In 2022, 44 job vacancies were advertised (71 in 2021). The BNB onboarded 63 newcomers, eight covering long-term absences. In the period under review, three were appointed to permanent positions. 56 employees left, of whom 20 due to retirement (compared to 25 retired employees in 2021). Over the reporting period staff turnover was 6.2 per cent, remaining unchanged from the previous year. As of 31 December 2022, the total number of employees was 910 (from 908 as of 31 December 2021).

In staff educational attainment structure, the share of university graduates rose by 0.9 percentage points from the end of 2021 to reach 77.7 per cent. The number of employees who have obtained PhD degree was 32 (33 in 2021). Employees with secondary education comprised 22.3 per cent of the total staff.

No significant changes occurred in the staff grading structure compared to the previous year. Specialists held the largest share at 61.9 per cent, followed by support staff (19.5 per cent) and management (18.7 per cent).

The share of employees aged over 51 retained the largest share (43.6 per cent) in the age structure, posting an increase of 3 percentage points from 2021. It was followed by the 41–50 year olds (29.8 per cent) and 31–40 year olds (20.7 per cent). The age group of up to 30 years occupied the lowest share (5.9 per cent), reporting a 1.7 percentage point decrease.

The salary setting continued to be based on ensuring competitive pay levels, providing opportunities to attract and retain highly skilled and motivated employees. In 2022 wage setting was based on the well-established performance-based principle, taking into account each employee's individual contribution to the Bank's objectives, as well as changes in work organisation and mode of the performance of professional duties due to the COVID-19 pandemic.

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

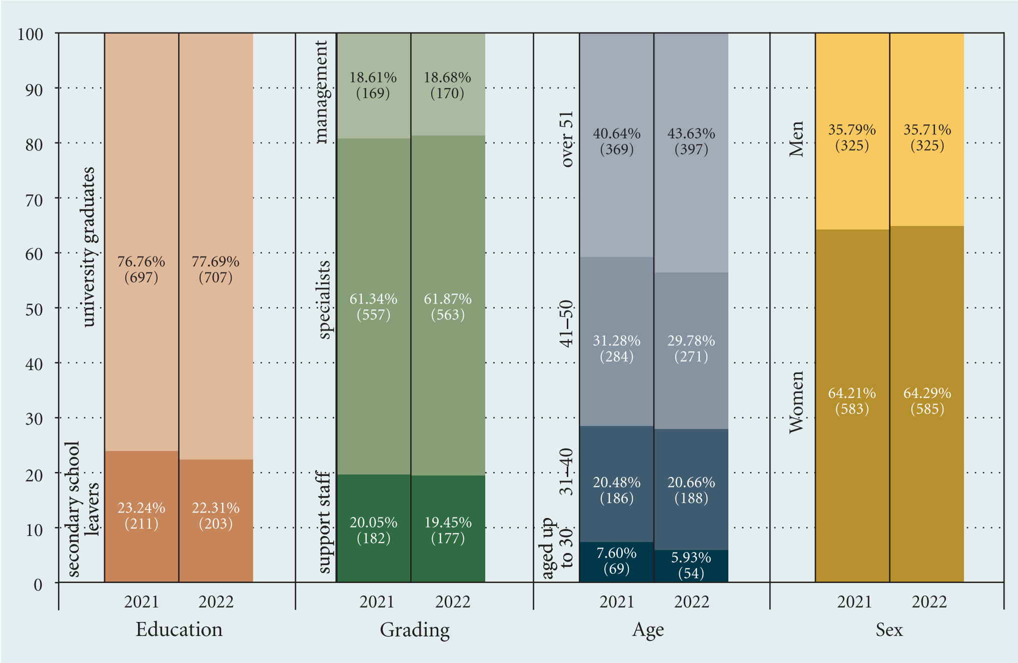
It familiarised new employees with the Bank's corporate culture, topical tasks, internal rules, and general administrative procedures. In 2022, a number of internal bank training courses were held on the new consolidated platform of payment services and expected changes in the area of payment systems and payment oversight. The topics of training for employees held in Bulgaria focused on the trends in the area of risks and methods for prevention of money laundering and terrorist financing, business continuity management, preparation and development of internal audit activities, procurement procedures, amendments to employment relations legislation, protection of personal data and novelties in cybersecurity. International courses and seminars in which BNB employees took part focused mainly on banking supervision, financial stability, prudential regulations and resolution of credit institutions. New opportunities for further qualification included training programmes to develop general behavioural competencies, emotional intelligence, understanding the importance of cultural diversity, improving social skills for working in a digital environment. In 2022, language trainings were held primarily on-line with most participants taking advanced English and business English courses. Information technology training aimed at managing IT projects, preparation and modelling of business analysis and process, information security. Over the year, ten employees, of whom two graduating with masters' degrees, boosted their educational attainments without discontinuing work. Seven BNB employees took part in two vocational training and certification programmes focusing on financial analyses, internal audit and information systems audit. Employees who have obtained certificates, had the opportunity to maintain their professional qualifications by keeping membership in certifying organisations, extended certificate validity, participation in discussions and access to specialised scientific materials. Internal mobility approaches are used as additional opportunities for career development, improvement of employees professional qualification and experience and expertise exchange at the Bank. As a result, 14 employees moved to other business areas. Seven BNB employees worked in European institutions on short-term assignments.

Activities related to health and safety at work aimed at developing and implementing safe work instructions and other internal documents, as well as providing work training and instructions for employees in order to perform safely their duties. After the lifting of the emergency epidemic situation in Bulgaria, the BNB continued to comply strictly with recommendations of the health authorities and implement all necessary containment measures to prevent and curb the potential COVID-19 spread among Bank employees.

Nineteen applicants enquired into the annual postgraduate scholarship programme: 13 for doctors', and six for masters' degrees. Following the open competition, the Bank awarded two scholarships – one doctor's degree and one masters' degree scholarship. In June, the BNB traineeship programme was traditionally launched. Four students from universities in Bulgaria and abroad were approved, studying banking, finance, economics and industrial business. Trainees worked on topics related to international financial market developments, the use of certificates of deposit as a financial instrument in foreign exchange reserve management, the European Banking Authority's Guidelines on improving resolvability and economic governance in the European Union.

Staff Structure as of 31 December of the Respective Year

(per cent, number)



Source: BNB.

XV. BNB Internal Audit

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

In 2022, there were ten audits under the Annual Internal Audit Directorate Programme approved by the BNB Governing Council, reflecting also audit commitments to be implemented under the ESCB Internal Auditors Committee Programme.

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

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

Audits under Annual Internal Audit Directorate Programme

BNB Functions	Audits
Banknotes and coins	Organisation of activities in the BNB Cash Centre in Plovdiv
Internal audit	Follow-up on recommendations from past audits under the annual Internal Audit directorate programme
Financial accounting and financial statements	BNB Consolidated Financial Statements as of 30 June 2022
Information and communication technologies	Verification of the compliance with the requirements of statutory regulations and adopted cybersecurity standards
HR and social policy	Human Resource management: personnel administration
Banknotes and coins	Coin minting

Source: BNB.

Audits under the ESCB Annual Internal Auditors Committee Programme

BNB Functions	Audits
Statistics	Analytical and reference databases for statistics
Internal audit	Follow-up on recommendations from past audits under the ESCB Annual Internal Auditors Committee Programme
Communication	Communication process
Information and communication technologies	IT security management with a focus on identity and access management and public keys

Source: BNB.

In 2022, the BNB Chief Auditor organised and coordinated Internal Audit Directorate work with the BNB External Auditor, and also provided assistance to the audit team from the Bulgarian National Audit Office.

BNB Internal Audit continued to submit opinions on draft internal regulations concerning major BNB functions.

XVI. BNB 2022 Budget Implementation

The Governing Council adopted the BNB budget by Resolution No 381 of 3 December 2021 and amended by Resolution No 69 of 8 March 2022. The report on budget implementation comprises two sections pursuant to the Governing Council's Internal Rules on Drafting, Implementing, and Reporting the BNB Budget: BNB Operating Expenditure and Investment Programme. The Bank adheres to environmental protection requirements.

BNB Operating Expenditure

In 2022, the BNB spent BGN 124,108 thousand on operating expenses, or 88.1 per cent of the relevant section's approved annual budget.

Currency circulation cost BGN 30,154 thousand or 92.2 per cent of approved annual-budget and 24.3 per cent of Bank's total operating expenditure over the review period. The expenditure includes new banknotes cost BGN 10,220 thousand and minting BGN 19,477 thousand, of which BGN 6514 thousand on circulating coins. The BNB Governing Council 2022 Commemorative Coin Programme cost BGN 12,963 thousand. New banknote and coin design accounted for BGN 69 thousand. Spending on machines for servicing circulating cash came to BGN 54 thousand and that on consumables for banknote and coin processing BGN 110 thousand. Premise rentals for Bank issue and cash operations cost BGN 223 thousand.

The Bank spent BGN 38,645 thousand on materials, services and depreciation: 82.3 per cent of approved annual budget under this item and 31.1 per cent of Bank's operating expenditure over the review period.

Materials expenditure was BGN 937 thousand: 67.0 per cent of approved annual budget and 0.8 per cent of all operating expenditure for 2022. Vehicle fuel and spares (BGN 268 thousand) and hygiene materials (BGN 223 thousand) occupied the largest share in this group. The Bank spent BGN 141 thousand on inventories.

External services cost BGN 23,499 thousand, or 77.4 per cent of annual budget and 18.9 per cent of all Bank operating expenditure for 2022. Software maintenance subscriptions at BGN 5061 thousand, Bloomberg, Reuters, and other systems at BGN 1488 thousand, mandatory TARGET2 modules at BGN 1102 thousand and BORICA AD subscriptions at BGN 608 thousand held the highest share in this group. Equipment maintenance subscriptions cost BGN 1767 thousand. Property and refuse collection levies cost BGN 1409 thousand and mail, telephone and telex, BGN 973 thousand. Electric bills were BGN 1583 thousand and heating and water cost BGN 278 thousand. The Bank paid BGN 3820 thousand for security and fire protection contracts. Major building maintenance cost BGN 1015 thousand. Judicial protection and other legal services cost BGN 3472 thousand and health and safety at work and special clothing BGN 209 thousand. Consultancy services were BGN 87 thousand, including costs on assessment of the BNB SWIFT structure information security. Property insurance expenses were BGN 70 thousand.

Depreciation for 2022 cost BGN 14,209 thousand, or 93.5 per cent of the approved annual budget and 11.4 per cent of all operating expenditure during the reporting period.

Payroll, including social and healthcare, cost BGN 49,927 thousand, or 98.0 per cent of approved budget and 40.2 per cent of Bank's total operating expenditure. The BNB reported BGN 2639 thousand of current retirement obligations and unused paid leave under IAS 19 Employee Benefits.

Social expenditure was BGN 2366 thousand: 91.8 per cent of approved annual budget and 1.9 per cent of Bank's operating expenditure for 2022.

Other administrative expenditure was BGN 581 thousand: 19.1 per cent of budgeted funds under this item and 0.5 per cent of total operating expenditure. Inland travel worth BGN 61 thousand involved mainly regional cash centre logistics and checks. Foreign travel unrelated to BNB participation in the ESCB and other EU bodies cost BGN 104 thousand. The annual BNB Staff Education and Professional Training Programme came to BGN 320 thousand. Bank employees took part in professional courses and seminars held in Bulgaria and abroad, organised by EU central banks and international financial institutions, some of which were carried out in an on-line format. They participated in distant learning and foreign language courses.

The BNB spent BGN 2435 thousand on ESCB participation: 51.7 per cent of approved budget and 2.0 per cent of operating expenditure. The annual fee for European Banking Authority membership was BGN 1795 thousand. BNB representatives sat on ESCB committees and working groups and other EU bodies, which cost BGN 218 thousand. The annual maintenance fee for the ESCB teleconference system (*TSC*) was BGN 175 thousand for the period 2015-2018, the annual contribution to the Centralised Securities Database was BGN 140 thousand and BGN 60 thousand for maintenance of the Securities Holdings Statistics Database (*SHSDB*).

The BNB Investment Programme

In order to implement its investment programme for 2022 the Bank invested BGN 8184 thousand, or 28.0 per cent of the approved annual budget under this item.

No expenditure was made for financing new construction, refurbishment and modernisation within the reporting period.

In 2022, machines and equipment, vehicle and other equipment investment came to BGN 519 thousand: 22.0 per cent of approved annual budget and 6.3 per cent of all investment programme expenditure for the reporting period.

Cash operations equipment cost BGN 192 thousand. Security systems equipment amounted to BGN 10 thousand. The purchase of other equipment amounted to BGN 317 thousand, including BGN 272 thousand on diesel generator for temporary power supply in the event of a stress scenario, BGN 17 thousand on two water heaters, BGN 14 thousand on furniture in premises and BGN 14 thousand on office equipment and machinery.

Information and communication system development cost BGN 7652 thousand: 32.6 per cent of approved annual budget and 93.5 per cent of all investment programme expenses during the reporting period.

Software expenditure was BGN 3173 thousand, including BGN 1542 thousand for licence purchases and BGN 1631 thousand for upgrades of the existing systems.

Hardware cost BGN 4479 thousand, for purchasing computer and communications equipment for updating and expanding existing systems.

Investment spending on ESCB membership was BGN 13 thousand.

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

The implementation of the investment programme involved public tendering, contractor selection, and project implementation. Some procurement procedures have not yet been completed, and contract implementation was postponed. In the reporting period, the budget under Section II 'Investment Programme' was under-implemented compared to the previous year.

At the same time, an analysis of the two significant groups of investment expenditure was carried out during the year: costs related to the development of the Bank's IT systems and costs related to new construction, refurbishment and modernisation. Based on this analysis, the priorities for developing different functionalities in the existing information systems were defined and some of the projects declared were postponed to 2023. Due to a change in the time limits under the Programme for BNB Property Development Programme, BGN 3000 thousand of the planned new construction, refurbishment and modernisation expenditure were not spent and were included in the funds foreseen for 2023.

BNB Budget Implementation as of 31 December 2022

Indicators	Report 31 December 2022 (BGN thousand)	Budget 2022 (BGN thousand)	Implementation (per cent)
Section I. Operating expenditure	**124,108**	**140,938**	**88.1**
Currency circulation expenditure	30,154	32,711	92.2
Materials, services, and depreciation expenditure	38,645	46,948	82.3
Staff expenditure	49,927	50,949	98.0
Social expenditure	2,366	2,576	91.8
Other administrative expenditure	581	3,046	19.1
BNB expenditure related to ESCB membership	2,435	4,708	51.7
Section II. Investment programme	**8,184**	**29,246**	**28.0**
Construction, refurbishment, and modernisation expenditure	0	3,384	0.0
Expenditure on machines, equipment, vehicles, and other equipment	519	2357	22.0
BNB information systems expenditure	7,652	23,489	32.6
BNB expenditure on ESCB membership	13	16	81.3

Source: BNB.

XVII. BNB Consolidated Financial Statements for the Year Ended 31 December 2022

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Independent auditor's report

To the Governing Council of The Bulgarian National Bank

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Bulgarian National Bank and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Bulgarian National Bank and its subsidiaries as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Basis for Opinion

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

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

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

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

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

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

We have nothing to report in this regard.

Responsibilities of Management for the Consolidated Financial Statements

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

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

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

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

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

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

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

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Report on Other Legal and Regulatory Requirements

Additional Matters to be Reported under the Accountancy Act

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

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

Based on the procedures performed, our opinion is that:

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

Audit Firm Ernst & Young Audit OOD:

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

Sofia, Bulgaria

26 April 2023

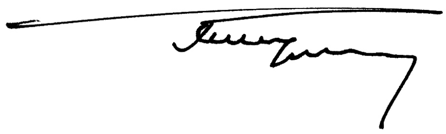
Translation in English of the official Auditor's report issued in Bulgarian.

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

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

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

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



Dimitar Radev

Governor of the Bulgarian National Bank

Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2022

(BGN'000)

	Note	2022	2021
Interest income	7	290,906	194,121
Interest expense	7	(178,818)	(104,139)
Net interest income		**112,088**	**89,982**
Fees and commission income		33,772	27,716
Fees and commission expense		(3,830)	(4,945)
Net fee and commission income		**29,942**	**22,771**
Net (losses)/gains from financial assets and liabilities reported at fair value in the profit or loss or measured at amortised cost	8	(46,966)	(133,526)
incl. provisions for expected credit losses under IFRS 9		*(5,640)*	*(6,150)*
Other operating income	9	38,345	69,334
Total income from banking operations		**133,409**	**48,561**
Administrative expenses	10	(149,479)	(142,377)
Profit/(loss) for the period		**(16,070)**	**(93,816)**
Other comprehensive income			
Other comprehensive income that can be reclassified into profit or loss at a future point in time		-	-
Other comprehensive income that cannot be reclassified into profit or loss at a future point in time		*248*	*(3,630)*
Other comprehensive income, total		**248**	**(3,630)**
Total comprehensive income for the period		**(15,822)**	**(97,446)**
(Loss)/profit attributable to:			
Equity holder of the Bank		(16,037)	(93,305)
Non-controlling interest		(33)	(511)
(Loss)/profit for the period		**(16,070)**	**(93,816)**
Total comprehensive income attributable to:			
Equity holder of the Bank		(15,789)	(96,935)
Non-controlling interest		(33)	(511)
Total comprehensive income for the period		**(15,822)**	**(97,446)**

The accompanying notes on pages 123 to 160 form an integral part of the Consolidated Financial Statements.

Consolidated Statement of Financial Position for the Year Ended 31 December 2022

(BGN'000)

	Note	2022	2021
ASSETS			
Cash and deposits in foreign currency	11	58,746,308	44,305,002
Gold, instruments in gold, and other precious metals	12	4,413,760	4,174,343
Financial assets at fair value through profit or loss	13	11,800,033	18,996,385
Financial assets at fair value in other comprehensive income	14	2,249,339	2,227,091
Tangible assets	15	177,011	169,711
Intangible assets	16	9,415	9,930
Other assets	17	66,659	81,627
Total assets		**77,462,525**	**69,964,089**
LIABILITIES			
Banknotes and coins in circulation	18	27,425,373	24,696,677
Liabilities to banks and other financial institutions	19	26,791,395	24,313,910
Liabilities to government institutions and other borrowings	20	11,677,755	9,531,918
Borrowings against Bulgaria's participation in international financial institutions	21	5,551,650	5,481,879
Other liabilities	22	1,003,955	911,280
Total liabilities		**72,450,128**	**64,935,664**
EQUITY			
Capital	23	20,000	20,000
Reserves	23	4,988,849	5,004,844
Non-controlling interest	24	3,548	3,581
Total equity		**5,012,397**	**5,028,425**
Total liabilities and equity		**77,462,525**	**69,964,089**

The accompanying notes on pages 123 to 160 form an integral part of the Consolidated Financial Statements.

Consolidated Statement of Cash Flows for the Year Ended 31 December 2022

(BGN'000)

	Note	2022	2021
OPERATING ACTIVITIES			
Net (loss)/profit		(16,070)	(93,816)
Adjustments			
Dividend income	9	(11,834)	(16,617)
Depreciation	15, 16	18,699	16,347
Loss on disposal of tangible assets		128	2,906
(Profit) on financial assets and liabilities arising from market movements		(125,941)	(43,665)
(Profit) of associates		(959)	(912)
Other adjustments		57	910
Net cash flow from operating activities before changes in operating assets and liabilities		**(135,920)**	**(134,847)**
Change in operating assets			
Decrease in gold, instruments in gold and other precious metals		2,512	738
Decrease in financial assets at fair value through profit or loss		7,123,645	3,577,775
(Increase)/decrease in other assets		4,298	(3,874)
Change in operating liabilities			
Increase in banknotes and coins in circulation		2,728,696	3,455,639
Increase in due to banks and other financial institutions		2,477,485	795,378
Increase in due to government institutions and other liabilities		2,145,837	885,043
Increase in liabilities against participations in international financial institutions		-	2,029,193
Increase in other liabilities		92,675	139,606
Net cash inflow from/(used in) operating activities		**14,439,228**	**10,744,651**
INVESTMENT ACTIVITIES			
Acquisition of tangible and intangible assets		(20,426)	(26,542)
Dividends received		11,834	16,617
(Net cash outflow) from investing activities		**(8,592)**	**(9,925)**
FINANCING ACTIVITIES			
Payments to the state budget		-	-
Net cash inflow/(net cash outflow) used in financing activities		-	-
Net increase in cash and cash equivalents		**14,430,636**	**10,734,726**
Cash and cash equivalents at beginning of period		**44,341,020**	**33,606,294**
Cash and cash equivalents at the end of period	11, 17	**58,771,656**	**44,341,020**
Cash flows from interest and dividends			
Interest received		225,843	189,423
Interest paid		(162,641)	(102,978)

The accompanying notes on pages 123 to 160 form an integral part of the Consolidated Financial Statements.

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2022

(BGN'000)

	Capital	Revaluation of non-monetary assets	Special and other reserves	Total capital and reserves	Non-controlling interest	Total equity
Balance as at 1 January 2021	**20,000**	**140,321**	**4,961,923**	**5,122,244**	**4,092**	**5,126,336**
Profit for the period	-	-	(93,305)	(93,305)	(511)	**(93,816)**
Other comprehensive income:						
other income	-	*782*	*(4,412)*	*(3,630)*	-	***(3,630)***
Other comprehensive income, total	-	782	(4,412)	(3,630)	-	**(3,630)**
Total comprehensive income for the period	-	782	(97,717)	(96,935)	(511)	**(97,446)**
Contributions by and distributions to owners:						
contribution to the budget of the Republic of Bulgaria	-	-	-	-	-	-
dividend paid by subsidiaries to minority shareholders	-	-	*(465)*	*(465)*	-	*(465)*
Transactions with owners, total	-	-	(465)	(465)	-	(465)
Balance as at 31 December 2021	**20,000**	**141,103**	**4,863,741**	**5,024,844**	**3,581**	**5,028,425**
Balance as at 1 January 2022	**20,000**	**141,103**	**4,863,741**	**5,024,844**	**3,581**	**5,028,425**
(Loss)/profit for the period	-	-	(16,037)	(16,037)	(33)	**(16,070)**
Other comprehensive income:						
other income	-	*4,633*	*(4,385)*	*248*	-	***248***
Other comprehensive income, total	-	4,633	(4,385)	248	-	**248**
Total comprehensive income for the period	-	4,633	(20,422)	(15,789)	(33)	**(15,822)**
Contributions by and distributions to owners:						
contribution to the budget of the Republic of Bulgaria	-	-	-	-	-	-
dividend paid by subsidiaries to minority shareholders	-	-	*(206)*	*(206)*	-	*(206)*
Transactions with owners, total	-	-	(206)	(206)	-	**(206)**
Balance as at 31 December 2022	**20,000**	**145,736**	**4,843,113**	**5,008,849**	**3,548**	**5,012,397**

The accompanying notes on pages 123 to 160 form an integral part of the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

1. Statute and Principal Activities

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

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

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

With effect from the date on which the ECB decision[131] on establishing close cooperation becomes applicable, *i.e.* 27 July 2020, the Banks Resolution Fund (BRF) is managed by the BNB. The decisions on the BRF management are taken by the BNB Governing Council.

The Governing Council of the BNB approved the Consolidated Financial Statements for the year ending 31 December 2022, set out on pages 113 to 160, on 26 April 2023.

2. Applicable Standards

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

3. Basis of Preparation

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

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

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

Use of estimates and judgements

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

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

Judgements

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

Assumptions and estimation uncertainties

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

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

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

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

Determination of expected credit losses on deposit receivables

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

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

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

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

Fair value of financial instruments

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

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

New and amended standards and clarifications as of 1 January 2022

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

Amendments to IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets; Annual Improvements 2018–2020

On 14 May 2020 the IASB published amendments to:

- IFRS 3 Business Combinations: reference to the Conceptual Framework is updated;

  The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements;
- IAS 16 Property, Plant and Equipment: the amendment prohibits an entity from deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss;
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets: amendment regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous;
- Annual improvements 2018–2020: the pronouncement contains amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter, IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities, IAS 41 Agriculture and the illustrative examples, included in IFRS 16 Leases – Taxation in fair value measurements, as a result of the annual improvements project.

These amendments, effective for annual periods beginning on or after 1 January 2022, were adopted by the EU on 28 June 2021 and published in the Official Journal of the EU on 2 July 2021. The amendments have no material effect on the financial position or performance of the Bank.

IFRS 16 Leases – COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment)

The amendment is applicable to annual reporting periods beginning on or after 1 April 2021, with earlier application permitted, including in financial statements that have not yet been approved for publication at the date of issuance of the amendment. In March 2021, the Council amended the terms of the practical expedient measure in IFRS 16 providing relief to lessees in applying the guidance in IFRS 16 for lease modifications on COVID-19-related rent concessions. Following the amendment the practical expedient measure now applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met.

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

4. Basis of Consolidation

Subsidiaries

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

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

Associates

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

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

Transactions eliminated on consolidation

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

5. Significant Accounting Policies

a) Income recognition

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

b) Recognition of assets and liabilities

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

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

c) **Financial instruments**

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

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

i) Classification

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

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

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

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

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

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

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

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

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

ii) Recognition

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

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

iii) Amortised cost measurement

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

iv) Fair value measurement in other comprehensive income

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

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

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

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

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

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

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

vi) Fair value measurement and disclosure principles

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

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

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

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

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

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

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

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

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

vii) Derecognition

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

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

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

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

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

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

viii) Offsetting

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

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

ix) Impairment of assets

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

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

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

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

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

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

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

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

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

d) **Gold and other precious metals**

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

Monetary gold

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

e) **Equity investments**

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

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

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

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

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

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

i) Subsequent costs

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

ii) Depreciation and amortisation

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

(per cent)

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

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

iii) Recoverable amount of assets

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

iv) Reversals of impairment

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

v) Derecognition and sales

An item of property, plant or equipment is derecognised from the Bank's balance sheet at the time of its sale or when the asset is definitively disposed of and no other economic benefits are expected. Gains or losses arising from derecognition or disposal of tangible fixed assets are determined as the difference between the sale proceeds and the carrying amount of the asset and are recognised as income or expense in the statement of comprehensive income. Tangible fixed assets withdrawn from active use and held for sale are reported at their carrying amount at the date when the asset is retired from active use.

vi) Inventories

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

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

At the end of the reporting period, the net realisable value of inventories is valued, and if it is lower than the supply, the difference is related to current expenses. For each subsequent reporting period, a new estimate of the net realisable value is made. If during the relevant reporting period, there are conditions for an increase in the value of the inventory, its recovery is up to the amount that it had before the decrease. This reversal of the book value is accounted for as an increase in inventories and as other current income.

g) **Foreign exchange**

Gains and losses arising in foreign currencies are translated to BGN at the official rates of exchange on the transaction date. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the official exchange rate of the Bank on that day. Foreign currency gains and losses resulting from the revaluation of monetary assets and liabilities are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currency are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Outstanding forward contracts in foreign currency are marked to market. Gains and losses on revaluation of outstanding forward contracts are recognised in profit or loss.

The exchange rates of the major foreign currencies as of 31 December 2022 and 31 December 2021 are, as follows:

Currency	31 December 2022	31 December 2021
US dollar	1: BGN 1.83371	1: BGN 1.72685
Euro	1: BGN 1.95583	1: BGN 1.95583
Special Drawing Rights	1: BGN 2.44037	1: BGN 2.41688
Gold	1 troy ounce: BGN 3323.11	1 troy ounce: BGN 3141.18

h) Taxation

The Bank is not subject to income tax from its core activities. Income tax from subsidiaries for the period comprises current tax and deferred tax. Current tax comprises tax payable calculated on the basis of the expected taxable income for the period, using the effective tax rate or the current one at the reporting date. Deferred tax is derived using the balance sheet liability method on all temporary differences between the amounts used for taxation purposes and the carrying amounts of assets and liabilities.

The deferred tax is calculated using tax rates which are expected to be applied for the period of asset realisation or liability settlement. The effect of changes in the tax rates on the deferred tax is recorded in the statement of comprehensive income up to the amount already charged or reported directly as other comprehensive income.

A deferred tax asset is recognised to the extent that is probable that future taxable profits will be available against which the unused tax losses or tax credit can be utilised. The deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

i) Provisions

Provisions related to ongoing legal cases or other obligations are reported when the Bank has assumed a legal or constructive obligation as a result of some past events, the repayment of which is likely to be associated with lost economic benefits, and where a reliable assessment can be made of the amount of the obligation. Provisions are charged only when the Bank is able to reliably determine the size of future outgoing cash flows. Expenses on provisions are presented in the income statement, net of the amount of expenses reimbursed. When the effect of time differences in the value of money is material, provisions are discounted, and the increase in the provision resulting from the passage of time is presented as a financial expense.

j) Profit distribution policy of the Bank

The Bank's policy of distribution of profit from banking operations is defined in the Law on the BNB. Internal rules for preparation of financial statements and accounting policies were adopted upon a resolution of the Governing Council, effective from 1 January 2007, which are in compliance with Article 36, paragraphs 1 and 2 of the Law on the BNB. According to these rules, the Bank allocates to special reserves unrealised net gains and losses arising from revaluation of assets and liabilities denominated in foreign currency or gold. According to the requirements of Article 8, paragraph 2 of the Law on the BNB, the Bank sets aside 25 per cent of the excess of its annual revenue over its annual expenditure into a Reserve Fund. According to Article 8, paragraph 3 of the Law on the BNB, after the allocation to the Reserve Fund, the Bank may allocate reserves to cover market risk losses and other reserves upon a decision of the Governing Council. Subsequent to the allocation of reserves as required by the Law on the BNB, the Bank stipulates the remainder to be paid into the State Budget. The distribution of excess of revenue over expenditure is set out in note 23.

k) **Cash and cash equivalents**

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash in hand, current accounts and time deposits with maturities of less than three months.

l) **Employee benefits**

The Bank has the obligation to pay certain amounts to each employee who retires in accordance with the requirements of Article 222, § 3 of the Labour Code in Bulgaria. According to these Labour Code requirements, on termination of the employment contract of an employee who has become entitled to retirement, the employer is obliged to pay him/her compensation amounting to twice his/her gross monthly salary. If, at the date of retirement, the employee has been employed by the Bank for ten or more years, the amount of the compensation is six gross monthly salaries. As at the date of the statement of financial position, the Bank's management estimates the approximate amount of the potential expenses for all employees based on an actuarial report using the projected unit credit method.

The estimated amount of the obligation and the main assumptions, on the basis of which the estimation of the obligation has been made, are disclosed in note 10.

Termination benefits

Termination benefits are recognised as an expense when the Bank is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Bank has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under a short-term cash bonus or profit-sharing plans if the Bank has a present constructive obligation to pay this amount as a result of past services provided by the employee, and the obligation can be estimated reliably. The Bank recognises as a liability the undiscounted amount of the estimated costs related to annual leave expected to be paid in exchange for the employee's service for the period completed.

n) **Leases**

The Bank applies the practical relief as provided for by the standard and has elected to account for short-term leases of plant and equipment (leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option) and applies the lease of low-value assets recognition exemption to leases of office furniture that is considered to be of low value. Lease payments for short-term leases and leases of low-value assets are recognised as expenses on a linear basis over the term of the lease.

For each new contract, the Bank is required to assess whether the contract is a lease or contains lease components. In the event of a change in the terms and conditions of a lease, the Bank makes a new assessment to establish whether the contract is a lease or contains lease components.

COVID-19-related rent concessions

The Bank is not a party to contracts subject to rent concessions arising directly as a result of the COVID-19 pandemic. In accordance with the practical expedient measure, subsidiaries do not account for lease modifications on COVID-19-related rent concessions contracts that occurred as a direct result of the pandemic and have nothing further to disclose as required by paragraph 28 (f) of IAS 8.

o) **New and amended standards and clarifications issued but not yet effective and not early adopted**

Already published standards which are not yet in effect or have not been previously applied by the Bank at the date of these financial statements are briefly presented below. It is disclosed how reasonably they are expected to impact disclosures, the financial position or performance when the Bank adopts these standards for the first time. The Bank intends to apply these new and amended standards and clarifications, if applicable, when they come into force.

IFRS 17: Insurance Contracts (issued on 18 May 2017), including Amendments to IFRS 17 (issued on 25 June 2020)

In May 2017, the IASB published IFRS 17 Insurance Contracts, a comprehensive new accounting standard on insurance contracts covering recognition and measurement, presentation and disclosure. The standard is effective for annual periods beginning on or after 1 January 2023.

On 25 June 2020 the IASB issued Amendments to IFRS 17 to defer the date of its initial application, and to IFRS 4 to change the extension of the temporary exemption from applying IFRS 9 Financial Instruments. The amendments to IFRS 4 defer the requirement to apply IFRS 9 to annual periods beginning on or after 1 January 2023 with earlier application permitted. Retroactive application is required. IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully reflects these contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of the entities. The standard, endorsed by the EU on 19 November 2021 and published in the Official Journal of the EU on 23 November 2021, is not applicable to the Bank.

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

On 23 January 2020 the IASB issued Amendments to IAS 1 Presentation of Financial Statements (Amendments) to clarify the criteria for the classification of liabilities as current or non-current. They clarify:

1. requirements for a right to defer settlement of a liability;
2. that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period;
3. that the classification of liabilities is unaffected by management expectations about whether an entity will exercise its right to early settlement of a liability or to defer settlement of a liability; and
4. the situations that are considered settlement of a liability (refers to the transfer to the counterparty of cash, equity instruments, other assets or services).

In July 2021, the IASB adopted a preliminary decision to propose several amendments to the clarifications provided in January 2020. In particular, the IASB decided to propose that if the deferred settlement right for a period of at least twelve months is subject to the entity's compliance with certain conditions after the reporting date, these conditions do not affect whether that right exists as at the reporting date for the purposes of classifying a liability as current or non-current. The standard has not yet been endorsed by the EU. The Bank will analyse and assess the impact of the amendments on its financial position or performance.

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

On 12 February 2021 the IASB issued amendments to IAS 1 Presentation of Financial Statements and updated IFRS 2 Practice Statement: Making Materiality Judgement to help entities improve accounting policy disclosures so that the entities should provide useful disclosures for the investors and the primary users of financial statements, and on the other side: clarify the distinction between changes in accounting estimates and changes in accounting policy. The key amendments include:

- requirements for entities to disclose their material accounting policies are replaced by a requirement to disclose their significant accounting policies;
- the conception of materiality and guidance on how entities take decisions on disclosure of accounting policies.

The amendments in Practice Statement 2 are consistent with the definition of materiality: accounting policy information is material if, when considered together with other information included in entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of these financial statements.

Amendments to IAS 1 and IFRS 2 Practice Statement were adopted by the EU on 2 March 2022 and published in the Official Journal on 3 March 2022. The Amendments are applied prospectively and are effective for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. The Bank will analyse and assess the effect of the amendments and guidance on its financial position or performance.

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

On 12 February 2021, the IASB published a definition of accounting estimates (amendments to IAS 8) to help entities to distinguish between changes in accounting policies and changes in accounting estimates. That distinction is important because changes in accounting estimates are applied prospectively only to future transactions and other future events, while changes in accounting policies are generally applied retrospectively to past transactions and other past events. Under the new definition, accounting estimates are 'monetary amounts in financial statements that are subject to measurement uncertainty'. Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. The Board clarifies that:

- a change in an accounting estimate that results from new information or new events is not a correction of an error;
- the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors;
- the effect of the change relating to the current period is recognised as income or expense in the current period. The effect, if any, on future periods is recognised as income or expense in these future periods.

The amendments, which are effective for reporting periods beginning on or after 1 January 2023, were adopted by the EU on 2 March 2022 and published in the Official Journal of the EU on 3 March 2022. The BNB will analyse and assess the impact of these amendments on its financial position or performance.

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

On 7 May 2021, the IASB published Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction: Amendments to IAS 12 that clarify how entities account for deferred tax on transactions, such as leases and decommissioning obligations.

The amendments limit the scope of the initial recognition exemption so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. In this case, an entity should recognise deferred tax assets and deferred tax liabilities associated with temporary differences arising from the initial recognition of leases and decommissioning obligations.

The Board expects that the amendments will reduce diversity in the reporting and align the accounting for deferred tax on such transactions with the general principle of IAS 12:

recognition of deffered tax in respect of temporary differences. The amendments, which are effective for annual periods beginning on or after 1 January 2023, were adopted by the EU on 11 August 2022 and published in the Official Journal of the EU on 12 August 2022. The BNB will analyse and assess the impact of these amendments on its financial position or performance.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

In December 2015, the IASB decided to defer the effective date of the amendments until such a future date by which the IASB has finalised any amendments that arise as a result of the IASB project related to the equity method. The amendments address the conflict between IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures when accounting for a loss of control over a subsidiary which is sold or contributed to an associate or a joint venture. The amendments clarify that the full amount of profit or loss is recognised when the transfer to an associate or a joint venture involves business which meets the definition of business in IFRS 3. Any profit or loss resulting from a sale or a contribution of assets that are not a business is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The amendments have not yet been endorsed by the EU. The Bank will analyse and assess the impact of the new amendments on its financial position or performance.

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

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

6. Financial Risk Management Policy Disclosure

a) Introduction and overview

Introduction to the financial risk management policy

The Bank is exposed to the following types of risk in relation to the financial instruments operations:

- credit risk;
- liquidity risk;
- market risk;
- operational risk.

This note provides information on the Bank's goals, exposures to each of the above types of risk and the policies and processes for risk measurement and management.

General provisions of risk management

In the process of management of the gross international reserves, the Bank aims to achieve high security and liquidity of the assets, first, and then to maximise returns in the situation of the global financial markets. Its investment strategy depends mainly on the specific functions of the Bank operating under a currency board arrangement and in full compliance with the requirements of the Law on the BNB.

The major portion of BNB's international reserves is invested in assets of comparatively low credit risk, such as discount and coupon securities issued by highly rated issuers (governments, government agencies or supranational financial institutions), and short-term foreign currency or gold deposits placed with first-rate foreign banks. The remaining portion is held in SDRs on BNB accounts with the IMF and in monetary gold kept in the Bank's vaults.

A specialised international reserves risk management unit is responsible for preparing and submitting for approval a draft of strategic asset structuring, setting up a benchmark for the international reserves and investment management limits. On a quarterly basis, an overall review is made of the changes in the market conditions, the amount and structure of international reserves, and if required, the investment limits and model portfolios (benchmarks) are updated. The monitoring of underlying limits, rules, and procedures is undertaken on a daily basis. Reports are regularly prepared for both the needs of international reserves operating management and providing updated information to the Bank's management.

All approved financial instruments and asset classes, in which the BNB may invest, are specified in internal documents. The documents define the main portfolios and the respective model portfolios (benchmarks), all limits for credit, interest rate, currency and operational risk, as well as a list of approved debt instrument issuers which the BNB may invest in, and a list of the foreign financial institutions which are counterparties of the Bank.

The international reserves management is governed by business procedures and rules of behaviour regulating the performance of the functions and tasks of the main structural units involved in the process.

b) Credit risk

The BNB is exposed to credit risk through its trading operations and investment activities and in cases where it acts as an intermediary on behalf of the government or other public institutions. The Bank assumes credit risk also in operations of purchases and sales of foreign currency with banks. In general, this credit risk is associated with the probability of insolvency of a BNB's counterparty or insolvency of an issuer, in whose debt instruments the Bank has invested its own funds. The credit risk in managing BNB's gross international reserves is assessed in line with the requirements in Article 28, paragraph 3 of the Law on the BNB. According to these requirements, the BNB may invest international reserves in debt instruments issued by foreign governments, central banks, other foreign financial institutions or international financial organisations whose debts are rated with one of the top two grades by two internationally recognised credit rating agencies and are payable in freely convertible currency in line with an internally developed methodology as per the requirements of Article 28 of the LBNB.

According to these requirements, the approved types of financial instruments for investment of funds in managing the international reserves are, as follows:

- investment programmes with central banks;
- automatic borrowings/lending of securities with the main depository;
- tri-party repo agreements with specially designated counterparties of the BNB carried out through the Bank's main depository as a third party;
- deposits in foreign currency (time deposits and funds on current accounts) with BNB counterparties, including central banks or supranational financial institutions;
- deposits in gold (time deposits and funds on current accounts) with BNB counterparties, including central banks or supranational financial institutions;
- commercial securities (of up to one year term to maturity), issued by governments or government guaranteed institutions, supranational financial institutions, specialised financial agencies, banks, and other financial institutions;

- bonds issued by governments or government guaranteed institutions, supranational financial institutions, specialised financial agencies, banks and other financial institutions – issuers of covered bonds. All bonds must be with a one-off payment of their face value on the maturity date and without any embedded option;
- purchases and sales of foreign currency with a value date of up to two business days;
- purchases and sales of banknotes in foreign currency (euro) and their subsequent storage with investment goals and for purposes of performance of the currency board functions.

Two basic types of limits are set which are calculated on the basis of the market value of foreign currency reserves: i) a maximum or minimum limit on the weight of each asset class in the Issue Department balance sheet, and ii) an individual maximum acceptable exposure of the BNB to a country, including an individual exposure to an issuer/counterparty (concentration limit).

In managing gross international reserves in 2022, the BNB continued to pursue a conservative policy to ensure high liquidity and security of the reserves. In connection with Russia's invasion in Ukraine, investments to some of the BNB's counterparties and issuers having exposures to these countries were limited. The Bank has no direct exposures to persons or institutions from Russia and Ukraine. Over the year, some of the additional investment restrictions introduced in the previous two years in the context of the COVID-19 pandemic were eased to some extent, though credit restrictions remained more conservative than usual due to the increased uncertainty in financial markets since the beginning of the war in Ukraine.

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

c) **Liquidity risk**

Liquidity risk arises in the funding of the Bank's core activities and in the management of its positions. It is primarily manifested in two aspects: the first aspect is the risk for the Bank of being unable to meet its obligations when due, and the second aspect comprises the risk for the BNB of being unable to sell an asset on international markets at a fair value within an appropriate time frame in compliance with the respective market conventions.

The BNB is striving to maintain a balance between the maturity of attracted funds and that of assets by means of investments in financial instruments of a different maturity structure. The instruments for attracting funds, which are provided to customers on the liability side, are mainly deposit/investment accounts and settlement accounts.

The Bank maintains a minimum level of liquidity by type of currency on a daily basis to ensure all BNB payments in foreign currency. To better manage the risk arising from liquidation of positions in financial instruments, the latter are grouped by liquidity rank subject to the level of difficulty (*i.e.* discount from the fair value), at which they could be sold on the market. Limits are set for the different types of financial instruments based on the liquidity ranks.

As part of its overall liquidity risk management strategy, the Bank has defined requirements for the management of a portfolio of liquid assets denominated in euro and for maintaining assets denominated in other currencies for the purposes of meeting its cash inflows and outflows.

The Bank's financial assets and liabilities, analysed by residual term to maturity from the date of the statement of financial position to the date of any subsequent agreement or contractual maturity are, as follows:

(BGN'000)

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Undefined maturity	Total
As of 31 December 2022							
Financial assets							
Cash and deposits in foreign currency	56,356,359	2,403,284	-	-	-	(13,335)	58,746,308
incl. provisions for expected credit losses under IFRS 9	-	-	-	-	-	*(13,335)*	*(13,335)*
Gold, instruments in gold, and other precious metals	4,414,858	-	-	-	-	(1,098)	4,413,760
incl. provisions for expected credit losses under IFRS 9	-	-	-	-	-	*(1,098)*	*(1,098)*
Financial assets at fair value through profit or loss	1,968,945	4,136,281	5,481,778	204,814	8,215	-	11,800,033
Financial assets at fair value through profit and loss in other comprehensive income	239,464	-	-	-	-	2,009,875	2,249,339
Other assets	25,274	-	-	-	-	70	25,344
Total financial assets	**63,004,900**	**6,539,565**	**5,481,778**	**204,814**	**8,215**	**1,995,512**	**77,234,784**
Financial liabilities							
Banknotes and coins in circulation	-	-	-	-	-	27,425,373	27,425,373
Liabilities to banks and other financial institutions	26,791,395	-	-	-	-	-	26,791,395
Liabilities to government institutions and other borrowings	11,677,755	-	-	-	-	-	11,677,755
Borrowings against Bulgaria's participation in international financial institutions	-	-	-	-	-	5,551,650	5,551,650
Total financial liabilities	**38,469,150**	**-**	**-**	**-**	**-**	**32,977,023**	**71,446,173**
Asset–liability maturity mismatch	**24,535,750**	**6,539,565**	**5,481,778**	**204,814**	**8,215**	**(30,981,511)**	**5,788,611**
As of 31 December 2021							
Financial assets							
Cash and deposits in foreign currency	42,934,721	1,379,255	-	-	-	(8,974)	44,305,002
incl. provisions for expected credit losses under IFRS 9	-	-	-	-	-	*(8,974)*	*(8,974)*
Gold, instruments in gold, and other precious metals	4,174,343	-	-	-	-	-	4,174,343
incl. provisions for expected credit losses under IFRS 9	-	-	-	-	-	-	-
Financial assets at fair value through profit or loss	1,662,874	1,158,347	6,560,201	9,605,207	9,756	-	18,996,385
Financial assets at fair value through profit and loss in other comprehensive income	237,159	-	-	-	-	1,989,932	2,227,091
Other assets	35,951	-	-	-	-	70	36,021
Total financial assets	**49,045,048**	**2,537,602**	**6,560,201**	**9,605,207**	**9,756**	**1,981,028**	**69,738,842**
Financial liabilities							
Banknotes and coins in circulation	-	-	-	-	-	24,696,677	24,696,677
Liabilities to banks and other financial institutions	24,313,910	-	-	-	-	-	24,313,910
Liabilities to government institutions and other borrowings	9,531,918	-	-	-	-	-	9,531,918
Borrowings against Bulgaria's participation in international financial institutions	-	-	-	-	-	5,481,879	5,481,879
Total financial liabilities	**33,845,828**	**-**	**-**	**-**	**-**	**30,178,556**	**64,024,384**
Asset–liability maturity mismatch	**15,199,220**	**2,537,602**	**6,560,201**	**9,605,207**	**9,756**	**(28,197,528)**	**5,714,458**

The outstanding contractual undiscounted maturities of the Bank's financial liabilities are, as follows:

(BGN'000)

	Book value	Gross nominal outgoing cash flow	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years
As of 31 December 2022							
Banknotes and coins in circulation	27,425,373	27,425,373	-	-	-	-	27,425,373
Liabilities to banks and other financial institutions	26,791,395	26,791,395	26,791,395	-	-	-	-
Liabilities to government institutions and other borrowings	11,677,755	11,677,755	11,677,755	-	-	-	-
Borrowings against Bulgaria's participation in international financial institutions	5,551,650	5,551,650	-	-	-	-	5,551,650
	71,446,173	**71,446,173**	**38,469,150**	**-**	**-**	**-**	**32,977,023**
As of 31 December 2021							
Banknotes and coins in circulation	24,696,677	24,696,677	-	-	-	-	24,696,677
Liabilities to banks and other financial institutions	24,313,910	24,313,910	24,313,910	-	-	-	-
Liabilities to government institutions and other borrowings	9,531,918	9,531,918	9,531,918	-	-	-	-
Borrowings against Bulgaria's participation in international financial institutions	5,481,879	5,481,879	-	-	-	-	5,481,879
	64,024,384	**64,024,384**	**33,845,828**	**-**	**-**	**-**	**30,178,556**

d) Market risk

Market risk

All financial instruments are subject to market risk, *i.e.* the risk of impairment as a result of changes in the market conditions. The instruments are evaluated on a daily basis at fair market value which best reflects current financial market conditions for the respective type of financial instruments. The Bank manages its portfolios in response to changing market conditions and to changes in the liability structure of Issue Department balance sheet. Market risk exposure is managed in accordance with the risk limits specified in the document Investment Limits and Benchmarks for the Management of the Gross International Reserves.

The table below presents one important measure of market risk, *i.e.* Value at Risk (VaR). VaR is an indicator of the maximum loss over a certain period of time (holding period) and with a certain probability (called a confidence level or confidence interval). The VaR used in this report is based on a 95 per cent confidence level and a one-day holding period.

To calculate the total risk, currency risk and interest rate risk, the empiric distributions, derived from time series of 30 daily observations of total income, currency income and interest income of assets, respectively, have been used. The correlation between the currency and interest rate risk is also presented. For each of the parameters, the value as of the last date for the period, the average value for the whole period and the minimum and maximum values have been calculated.

(BGN'000)

	As of 31 December 2022	Average	Maximum	Minimum
Currency risk	(56,731)	(49,775)	(102,275)	(27,669)
Interest rate risk	369	(6,496)	(14,673)	809
Correlation (per cent)	(0.45)	0.19	0.59	(0.45)
Overall risk	**(52,714)**	**(51,459)**	**(106,823)**	**(25,065)**
	As of 31 December 2021	**Average**	**Maximum**	**Minimum**
Currency risk	(33,656)	(39,892)	(66,465)	(15,859)
Interest rate risk	(6,009)	(6,866)	(11,462)	(1,828)
Correlation (per cent)	0.24	0.32	0.66	(0.16)
Overall risk	**(35,305)**	**(43,348)**	**(72,937)**	**(17,266)**

Interest rate risk

The Bank's operations are subject to the risk of interest rate fluctuations, which impact the prices of interest-earning assets (including investments) and interest-bearing liabilities. Modified duration is used as a key measurement for absolute interest rate risk. It measures the effect of the change in the market value of an asset (liability) in percentage points in response to a 1 basis point (1/100th of 1 per cent) change in the interest rate levels. In addition, portfolios' technical parameters such as protuberance (convexity), duration in a fixed point of the yield curve, *etc.* are monitored on a daily basis. For each portfolio held by the BNB, the interest rate risk is limited by a model portfolio (benchmark) and by the investment limits for a maximum deviation of the modified duration of the portfolio from that of the respective benchmark. The relative interest risk limit of investment portfolios has been set on the basis of the risk measure, *i.e.* relative yield volatility measure.

Assets and liabilities with floating interest rates involve the risk of changes in the base which serves to determine the interest rates.

(BGN'000)

	Total	Floating rate instruments	Fixed rate instruments		
			Up to 1 month	From 1 to 3 months	Over 3 months
As of 31 December 2022					
Interest-earning assets					
Cash and deposits in foreign currency	56,849,483	47,775,271	6,673,900	2,400,312	-
Gold, instruments in gold, and other precious metals	2,658,850	-	2,658,850	-	-
Financial assets at fair value through profit or loss	11,859,208	260,683	1,982,051	4,149,307	5,467,167
Financial assets at fair value through profit and loss in other comprehensive income	239,464	-	239,464	-	-
Other interest-earning assets	25,344	15,777	9,497	-	70
Total	**71,632,349**	**48,051,731**	**11,563,762**	**6,549,619**	**5,467,237**
Interest-bearing liabilities					
Liabilities to banks and other financial institutions	26,791,395	-	26,791,395	-	-
Liabilities to government institutions and other borrowings	7,230,396	7,230,396	-	-	-
Borrowings against Bulgaria's participation in international financial institutions	3,587,195	3,587,195	-	-	-
Total	**37,608,986**	**10,817,591**	**26,791,395**	**-**	**-**
Interest-bearing asset/liability gap	**34,023,363**	**37,234,140**	**(15,227,633)**	**6,549,619**	**5,467,237**
As of 31 December 2021					
Interest-earning assets					
Cash and deposits in foreign currency	38,160,748	34,184,515	2,596,351	1,379,882	-
Gold, instruments in gold, and other precious metals	-	-	-	-	-
Financial assets at fair value through profit or loss	19,106,617	311,942	1,669,182	1,164,622	15,960,871
Financial assets at fair value through profit and loss in other comprehensive income	237,159	-	237,159	-	-
Other interest-earning assets	36,021	17,891	18,060	-	70
Total	**57,540,545**	**34,514,348**	**4,520,752**	**2,544,504**	**15,960,941**
Interest-bearing liabilities					
Liabilities to banks and other financial institutions	24,313,910	-	24,313,910	-	-
Liabilities to government institutions and other borrowings	4,913,475	4,913,475	-	-	-
Borrowings against Bulgaria's participation in international financial institutions	3,552,666	3,552,666	-	-	-
Total	**32,780,051**	**8,466,141**	**24,313,910**	**-**	**-**
Interest-bearing asset/liability gap	**24,760,494**	**26,048,207**	**(19,793,158)**	**2,544,504**	**15,960,941**

For managing interest rate risk and the band of interest rate changes, the sensitivity of financial assets and liabilities to various standard and non-standard interest rate movement scenarios are monitored.

The standard scenarios include the following changes in yield curves: (i) a 100 basis points instant parallel increase; (ii) a 100 basis points instant parallel decrease; (iii) a 50 basis points parallel increase in the yield curves for a period of 12 months; and (iv) a 50 basis points parallel decrease in the yield curves also for a period of 12 months. The second two scenarios assume that the change in yields takes place at the beginning of the period, and over the one-year period the yield curve remains unchanged.

The analysis of the sensitivity of the Bank's assets (to first approximation) to changes in interest rates, assuming a constant spread of assets and liabilities and parallel shifts in the yield curves of the relevant assets, is as follows:

(BGN'000)

	100 basis points intra-day instant parallel increase	100 basis points intra-day instant parallel decrease	50 basis points parallel increase in the beginning of the period	50 basis points parallel decrease in the beginning of the period
As of 31 December 2022	(41,330)	41,330	1,500,608	914,397
As of 31 December 2021	(243,177)	243,177	(161,372)	(350,910)

Currency risk

For the Bank, a currency risk exists where there is a mismatch between the currency structure of assets and that of liabilities. The Bank is exposed to currency risk when entering into transactions in financial instruments denominated in foreign currencies other than the euro.

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

To minimise currency risk, there is a limit to the mismatches between the currency structure of assets and that of liabilities. According to Article 31, paragraph 3 of the Law on the BNB, the total market value of assets in foreign currencies other than the euro, SDR and monetary gold, may not deviate by more than +/-2 per cent from the market value of the liabilities denominated in these currencies.

(BGN'000)

	31 December 2022	31 December 2021
Assets		
Bulgarian lev and euro	67,171,825	59,991,881
US dollar	76,473	72,017
Japanese yen	214	233
Pound sterling	150	410
SDR	5,849,844	5,775,544
Gold	4,363,889	4,123,863
Other	130	141
	77,462,525	**69,964,089**
Liabilities, capital and reserves		
Bulgarian lev and euro	71,659,056	64,236,917
US dollar	76,958	72,967
Japanese yen	1	-
Pound sterling	-	-
SDR	5,726,461	5,654,158
Other	49	47
	77,462,525	**69,964,089**

(BGN'000)

Net position		
Bulgarian lev and euro	(4,487,231)	(4,245,036)
US dollar	(485)	(950)
Japanese yen	213	233
Pound sterling	150	410
SDR	123,383	121,386
Gold	4,363,889	4,123,863
Other	81	94

e) Using accounting judgements and assumptions

The Governing Council of the BNB discusses the development, selection and disclosure of critical accounting policies and assumptions, as well as their application.

These disclosures supplement the notes to the financial risk management.

Management's major priorities in the next few years will still be to maintain monetary and financial system stability in the country, keep the Bank's stable liquidity position and improve continuously Bank's valuation methods and techniques, international reserves management and control on international financial markets.

1) Determination of fair values

In note 5(c), item 4, the Bank has disclosed its accounting policy and principles used by it for fair value measurement and disclosure.

The determination of fair values of financial assets and liabilities for which there is no observable market price requires the use of valuation techniques described in the accounting policy. For financial instruments that trade infrequently and whose price is not transparent, the fair value is less objective and requires an expert's judgement depending on liquidity, concentration, market factors uncertainty, pricing assumptions, and other risks affecting the particular instrument.

2) Valuation of financial instruments

The Bank measures the fair value of financial instruments using the following hierarchy of methods:

- **Level 1**: quoted market price or closing price for positions for which there is a reliable market;
- **Level 2**: valuation techniques based on observable market information about the yield curve. This category of methods is used to measure debt securities for which there is no reliable market;
- **Level 3**: valuation techniques, where inputs on financial assets and liabilities are not based on observable market data.

The fair values of financial assets and liabilities traded in international financial markets for which there is available market information are based on market quotations or closing market prices. The use of observable market prices and information reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. The availability of actual market prices and information varies depending on products and markets and changes because of specific events and the general conditions of financial markets. The Bank determines the fair values of all other financial instruments for which there are no current market quotes by using a valuation technique based on a net present value. The net present value is computed by means of market yield curves and credit spreads, where necessary, for the relevant instrument. The purpose of the valuation techniques is to determine a fair value which reflects the price of the financial instrument on the reporting date.

The Bank has established a control framework with respect to the measurement of fair values. The fair values of financial instruments are set by a specialised risk analysis and control unit. Specific controls include: checking the actual price information; regular reviews of current valuation models and, if necessary, development, approval and introduction of new valuation models; follow-up verification by means of an analysis and comparison of data from various information sources, etc.

The table below analyses financial instruments reported at fair value using valuation models. The data does not include equity instruments reported at acquisition cost (note 14).

(BGN'000)

	Level 1 Quoted market prices on active markets	Level 2 Valuation techniques (using market data)	Total
31 December 2022			
Cash and deposits in foreign currency	58,746,308	-	58,746,308
incl. provisions for expected credit losses under IFRS 9	*(13,335)*	-	*(13,335)*
Gold, instruments in gold, and other precious metals	4,413,760	-	4,413,760
incl. provisions for expected credit losses under IFRS 9	*(1,098)*	-	*(1,098)*
Financial assets at fair value through profit or loss	11,165,747	634,286	11,800,033
Total	**74,325,815**	**634,286**	**74,960,101**
31 December 2021			
Cash and deposits in foreign currency	44,305,002	-	44,305,002
incl. provisions for expected credit losses under IFRS 9	*(8,974)*	-	*(8,974)*
Gold, instruments in gold, and other precious metals	4,174,343	-	4,174,343
incl. provisions for expected credit losses under IFRS 9	-	-	-
Financial assets at fair value through profit or loss	18,243,390	752,995	18,996,385
Total	**66,722,735**	**752,995**	**67,475,730**

Financial instruments not measured at fair value, but by applying a level of the fair value hierarchy where a fair value measurement is categorised, are analysed, as follows:

(BGN'000)

	Level 1 Quoted market prices on active markets	Level 2 Observable inputs other than quoted prices	Total
31 December 2022			
Liabilities to banks and other financial institutions	-	26,791,395	26,791,395
Liabilities to government institutions and other borrowings	-	11,677,755	11,677,755
Borrowings against Bulgaria's participation in international financial institutions	-	5,551,650	5,551,650
Total	-	**44,020,800**	**44,020,800**
31 December 2021			
Liabilities to banks and other financial institutions	-	24,313,910	24,313,910
Liabilities to government institutions and other borrowings	-	9,531,918	9,531,918
Borrowings against Bulgaria's participation in international financial institutions	-	5,481,879	5,481,879
Total	-	**39,327,707**	**39,327,707**

The fair value of liabilities to banks and other financial institutions and of liabilities to government institutions is approximately equal to the reporting value as they are short-term.

The fair value of the liabilities for participation in international financial institutions is approximately equal to their reporting value as they are interest-free and of undefined maturity.

f) Maturity structure of assets and liabilities

The Bank's assets and liabilities, analysed by residual term to maturity from the date of the statement of financial position to the date of any subsequent agreement or contractual maturity are, as follows:

(BGN'000)

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Undefined maturity	Total
As of 31 December 2022							
Financial assets							
Cash and deposits in foreign currency	56,356,359	2,403,284	-	-	-	(13,335)	58,746,308
incl. provisions for expected credit losses under IFRS 9	-	-	-	-	-	*(13,335)*	*(13,335)*
Gold, instruments in gold, and other precious metals	4,414,858	-	-	-	-	(1,098)	4,413,760
incl. provisions for expected credit losses under IFRS 9	-	-	-	-	-	*(1,098)*	*(1,098)*
Financial assets at fair value through profit or loss	1,968,945	4,136,281	5,481,778	204,814	8,215	-	11,800,033
Financial assets at fair value through profit and loss in other comprehensive income	239,464	-	-	-	-	2,009,875	2,249,339
Tangible assets	-	-	-	-	-	177,011	177,011
Intangible assets	-	-	-	-	-	9,415	9,415
Other assets	25,274	-	-	-	-	41,385	66,659
Total financial assets	**63,004,900**	**6,539,565**	**5,481,778**	**204,814**	**8,215**	**2,223,253**	**77,462,525**
Financial liabilities							
Banknotes and coins in circulation	-	-	-	-	-	27,425,373	27,425,373
Liabilities to banks and other financial institutions	26,791,395	-	-	-	-	-	26,791,395
Liabilities to government institutions and other borrowings	11,677,755	-	-	-	-	-	11,677,755
Borrowings against Bulgaria's participation in international financial institutions	-	-	-	-	-	5,551,650	5,551,650
Other liabilities	-	-	-	-	-	1,003,955	1,003,955
Total financial liabilities	**38,469,150**	**-**	**-**	**-**	**-**	**33,980,978**	**72,450,128**
Asset–liability maturity mismatch	**24,535,750**	**6,539,565**	**5,481,778**	**204,814**	**8,215**	**(31,757,725)**	**5,012,397**
As of 31 December 2021							
Financial assets							
Cash and deposits in foreign currency	42,934,721	1,379,255	-	-	-	(8,974)	44,305,002
incl. provisions for expected credit losses under IFRS 9	-	-	-	-	-	*(8,974)*	*(8,974)*
Gold, instruments in gold, and other precious metals	4,174,343	-	-	-	-	-	4,174,343
incl. provisions for expected credit losses under IFRS 9	-	-	-	-	-	-	-
Financial assets at fair value through profit or loss	1,662,874	1,158,347	6,560,201	9,605,207	9,756	-	18,996,385
Financial assets at fair value through profit and loss in other comprehensive income	237,159	-	-	-	-	1,989,932	2,227,091
Tangible assets	-	-	-	-	-	169,711	169,711
Intangible assets	-	-	-	-	-	9,930	9,930
Other assets	35,951	-	-	-	-	45,676	81,627
Total financial assets	**49,045,048**	**2,537,602**	**6,560,201**	**9,605,207**	**9,756**	**2,206,275**	**69,964,089**
Financial liabilities							
Banknotes and coins in circulation	-	-	-	-	-	24,696,677	24,696,677
Liabilities to banks and other financial institutions	24,313,910	-	-	-	-	-	24,313,910
Liabilities to government institutions and other borrowings	9,531,918	-	-	-	-	-	9,531,918
Borrowings against Bulgaria's participation in international financial institutions	-	-	-	-	-	5,481,879	5,481,879
Other liabilities	-	-	-	-	-	911,280	911,280
Total financial liabilities	**33,845,828**	**-**	**-**	**-**	**-**	**31,089,836**	**64,935,664**
Asset–liability maturity mismatch	**15,199,220**	**2,537,602**	**6,560,201**	**9,605,207**	**9,756**	**(28,883,561)**	**5,028,425**

7. Interest Income and Expense

(BGN'000)

	31 December 2022	31 December 2021
Interest income		
– securities	62,523	80,155
– deposits	228,372	113,912
– other	11	54
	290,906	**194,121**
Interest expense		
– deposits	178,815	104,139
– other	3	-
	178,818	**104,139**

In the first half of 2022, the interest rate on the Eurosystem's deposit facility set by the ECB Governing Council remained unchanged. The interest rate remained fixed at -0.50 per cent over this period. In the second half of 2022, the ECB took action to normalise its monetary policy, with the result that the deposit facility rate was raised several times. As of the end of 2022, following the ECB Governing Council's decision of 15 December, the rate on the deposit facility was set at 2.00 per cent.

Following the adjustment of the ECB monetary policy, the Bulgarian National Bank also raised the interest rates on accounts with the BNB, which gradually moved from negative to positive values.

As of 31 December 2022 reflecting these changes, interest income from current accounts and deposits includes interest income of BGN 57,927 thousand on current accounts of BNB customers as a result of using negative reference interest rates (as of 31 December 2021: BGN 99,318 thousand) and interest income on deposits and current accounts with foreign correspondents as a result of using positive reference interest rates of BGN 107,369 thousand (as of 31 December 2021: no interest income).

BGN 10,534 thousand interest paid on the technical account of the national system component TARGET2-BNB at the ECB (as of 31 December 2021: no interest) are included as a result of using positive reference interest rates.

As of 31 December 2022 reflecting these changes, interest expenses paid on current accounts and deposits include interest paid of BGN 93,408 thousand (as of 31 December 2021: BGN 90,662 thousand) on deposits and current accounts with foreign correspondents as a result of using negative reference interest rates, and interest expenses on current accounts of BNB customers of BGN 34,302 thousand (as of 31 December 2021: no interest expenses) as a result of using positive reference interest rates.

In addition, BGN 6905 thousand interest paid on the technical account of the national system component TARGET2-BNB at the ECB are included (as of 31 December 2021: BGN 12,316 thousand) as a result of using negative reference interest rates.

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

(BGN'000)

	31 December 2022	31 December 2021
Net (losses) from operations in securities	(210,016)	(278,284)
Net gains/(losses) from operations in foreign currency	(1,072)	15
Net revaluation gains/(losses) on futures	(328)	47
Net revaluation (losses) on securities	(72,707)	(25,486)
Net revaluation gains on foreign currency assets and liabilities	688	4,572
Net revaluation gains on gold	241,929	171,760
Provisions for expected credit losses	(5,460)	(6,150)
	(46,966)	(133,526)

Net gains/(losses) from financial assets and liabilities carried at fair value through profit or loss as at 31 December 2022 were largely attributable to revaluation of gold of BGN 241,929 thousand due to an increase in the market price of gold, from BGN 3141.18 *per* troy ounce as of 31 December 2021 to BGN 3323.11 as of 31 December 2022, or an increase by 5.8 per cent.

During the reporting period, the market yield on the securities posted a significant increase. In the short-term maturity sectors, into which the BNB primarily invested international reserves, represented by the German benchmark two-year bonds, market yields increased by about 338 basis points which was relevant to a large extent to yields on securities of other permitted issuers of euro-denominated bonds.

Net losses from operations in securities amounted to BGN 210,016 thousand. The main factors for net losses were the rapid and significant increase in yields at which euro-denominated high credit quality bonds were traded, leading to a fast reduction in their price. The coupon yield in the beginning of the year was relatively low and it cannot offset the negative market revaluation of the securities from the time of the purchase to their maturity or sale.

The net effect from revaluation of securities resulting from all market movements in the period was negative: BGN 72,707 thousand. It was also driven by the rise in yields to maturity.

9. Other operating income

(BGN'000)

	31 December 2022	31 December 2021
Income from subsidiaries	33,048	33,645
Income from associates	959	912
Income from sale of coins	20,461	3,776
Dividend income	11,834	16,617
Other income, net	1,404	14,384
IAS 37 Provisions	(29,361)	-
	38,345	**69,334**

In 2022 the BNB received a dividend payments from BNB's participation in BNB Printing Works AD amounting to BGN 4584 thousand and BORICA AD of BGN 1805 thousand. For the purposes of the consolidated financial statements, the dividends received from the BNB Printing Works AD and Bulgarian Mint EAD are eliminated.

In 2022 the BNB received dividend payment of BGN 5445 thousand for its equity stake in the Bank for International Settlements (BIS).

Other net income includes financial income from subsidiaries of BGN 450 thousand, income from reallocated remuneration from the ECB in relation to TARGET2 of BGN 954 thousand.

In 2022 provisions were made pursuant to IAS 37 in relation to lawsuits filed against the BNB in relation to alleged compensation for delayed payment of deposits or for challenging transfers by customers of Corporate Commercial Bank AD (in bankruptcy), ref. note 28.

10. General Administrative Expenses

(BGN'000)

	31 December 2022	31 December 2021
Staff expenditure	61,290	52,658
Administrative expenses	66,274	70,614
Depreciation	18,699	16,348
Other expenses	3,216	2,757
	149,479	**142,377**

The number of employees of the Bank and its subsidiaries is 1152 as of 31 December 2022 (31 December 2021: 1126), including the BNB staff of 910 (31 December 2021: 888).

Staff expenditure include salaries, social and health insurance costs charged under the local legislation provisions as at 31 December 2022, and social activities costs, respectively for the BNB: BGN 52,294 thousand (31 December 2021: BGN 44,361 thousand), for the BNB Printing Works AD: BGN 6615 thousand (31 December 2021: BGN 6193), and for the Bulgarian Mint EAD: BGN 2381 thousand (31 December 2021: BGN 2104 thousand).

Staff expenditure includes expenses for remunerations paid to the BNB Governing Council members of BGN 1547 thousand as of 31 December 2022 (31 December 2021: BGN 1547 thousand), presented as follows:

(BGN'000)

	31 December 2022	31 December 2021
Total gross remuneration expenses*	1,547	1,547
including bonuses up to established threshold in accordance with Article 23, paragraph 3 of the LBNB by BNB Governing Council's resolution of 30 July 2015**	462	462
Expenses on BNB Governing Council members' retirement/ termination benefits	19	14
Total gross remuneration paid to the BNB Governing Council members	**1,566**	**1,561**

* Remunerations are before taxation.
** http://www.bnb.bg/PressOffice/POPressReleases/POPRDate/PR_20150730_1_EN

With the adoption of the BNB budget for 2022, the amount of monthly remunerations of the Governing Council members is determined, as follows: Governor – BGN 20,313; Deputy Governors – BGN 17,411; other Governing Council members – BGN 5804, remaining unchanged compared to 2021.

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

(BGN'000)

	31 December 2022	31 December 2021
Defined benefit liabilities as of 1 January	**5,066**	**4,331**
Plan benefits paid	(269)	(418)
Current service cost	652	623
Interest expenses	17	12
Remeasurements	-	-
Actuarial (gain)/loss arising from experience adjustment	377	283
Actuarial (gain)/loss arising from change in demographic assumptions	150	(1)
Actuarial (gain)/loss arising from change in financial assumptions	(183)	243
Actuarial loss recognised in expenses	(10)	(7)
Defined benefit liabilities as at 31 December	**5,800**	**5,066**

Costs recognised in profit and loss

(BGN'000)

	31 December 2022	31 December 2021
Current service cost	652	623
Interest expense	17	12
Actuarial losses	(10)	(7)
Remeasurements	-	-
Total	**659**	**628**

Actuarial Assumptions

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

(per cent)

	31 December 2022	31 December 2021
Discount interest rate as at 31 December	1.85	0.25
Future salary growth	7.00	5.60

(BGN'000)

Distribution of BNB staff liabilities (subsidiaries excluded) by residual term	31 December 2022	31 December 2021
Up to 1 year	788	677
From 1 to 3 years	623	486
From 3 to 5 years	494	449
From 5 to 10 years	953	738
Over 10 years	2,094	1,708
Total	**4,952**	**4,058**

Administrative expenses include the BNB's currency circulation expenses of BGN 30,154 thousand as of 31 December 2022 (31 December 2021: BGN 30,779 thousand) and international audit expenses of BGN 110 thousand (31 December 2021: BGN 129 thousand).

Administrative expenses include expenses related to the activities of the Banks Resolution Fund. The costs of BRF management arising from the function of the BNB as a resolution authority are financed by fees collected from credit institutions established in the Republic of Bulgaria and the branches of third-country credit institutions under Article 59a, paragraph 1 of the Law on the BNB in line with Article 8, paragraph 1 of the BNB Ordinance No 40 of 1 December 2020, amended in October 2022, on Determining the Amount of Fees to Cover Administrative Costs of the Bulgarian National Bank Arising from Supervisory and Resolution Function. The total amount of fees to cover the administrative costs of the Bulgarian National Bank arising from the function of the resolution of credit institutions amounts to BGN 2325 thousand.

In the first half of 2022 there was a need to adjust the planned funds on the 2022 Bank's budget indicators and the adjustments were made in implementing the budgetary procedure. In 2021 there was no change in the amount of planned funds on Bank's budget indicators.

11. Cash and Deposits in Foreign Currency

(BGN'000)

	31 December 2022	31 December 2021
Cash in foreign currency	1,857,761	6,160,318
Current accounts in other banks	47,794,839	34,168,499
incl. provisions for expected credit losses under IFRS 9	*(9,379)*	*(6,740)*
Deposits in foreign currency	9,093,708	3,976,185
incl. provisions for expected credit losses under IFRS 9	*(3,956)*	*(2,234)*
	58,746,308	**44,305,002**

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

(BGN'000)

	31 December 2022	31 December 2021
Euro area residents		
In EUR	49,403,242	32,449,073
incl. provisions for expected credit losses under IFRS 9	*(12,194)*	*(7,742)*
In other currencies	-	17,256
incl. provisions for expected credit losses under IFRS 9	-	*(13)*
	49,403,242	**32,466,329**

(BGN'000)

Non-euro area residents		
In EUR	5,628,087	8,198,120
incl. provisions for expected credit losses under IFRS 9	*(1,110)*	*(1,206)*
In other currencies	3,714,979	3,640,553
incl. provisions for expected credit losses under IFRS 9	*(31)*	*(13)*
	9,343,066	**11,838,673**
	58,746,308	**44,305,002**

Time deposits in foreign currency with correspondents with counterparty's credit rating graded by at least two of the six internationally recognised credit rating agencies – Standard &Poor's, Fitch Ratings, Moody's, DBRS, R&I and JCRA – are disclosed below:

(BGN'000)

	Counterparty short-term credit rating	31 December 2022	31 December 2021
Investment graded deposits by the counterparty's credit rating	*A-1+*	2,938,166	54,056
	incl. provisions for expected credit losses under IFRS 9	*(551)*	*(13)*
	A-1	6,135,496	3,919,065
	incl. provisions for expected credit losses under IFRS 9	*(3,405)*	*(2,221)*
		9,073,662	**3,973,121**

The disclosure by credit rating does not include demand deposits with external managers.

The BNB maximum exposure to credit risk is equivalent to the book value of cash on current accounts and deposits.

12. Gold, Instruments in Gold, and Other Precious Metals

	31 December 2022		31 December 2021	
	'000 troy ounces	BGN'000	'000 troy ounces	BGN'000
Gold bullion in standard form	513	1,704,898	513	1,611,560
Gold deposits in standard form	800	2,657,893	800	2,512,303
incl. provisions for expected credit losses under IFRS 9		*(1,098)*		-
Gold in other form	15	48,435	15	47,808
Other precious metals		2,534		2,672
		4,413,760		**4,174,343**

Gold in standard form includes gold held for safekeeping with a depository and deposits. Deposits in gold are held with banks whose liabilities are rated with one of the two highest ratings given by two internationally recognised rating agencies.

Gold in other form includes commemorative gold coins of BGN 48,435 thousand.

Other precious metals include silver commemorative coins of BGN 43 thousand and platinum commemorative coins of BGN 2491 thousand.

13. Financial Assets at Fair Value through Profit and Loss

(BGN'000)

Securities at fair value through profit or loss	31 December 2022	31 December 2021
Foreign treasury bills, notes and bonds	11,800,033	18,996,385
Total	**11,800,033**	**18,996,385**

Securities comprise of both coupon and discount securities denominated in euro. The coupon interest of the EUR-denominated securities was 0.22 per cent as of 31 December 2022 (31 December 2021: 0.37 per cent).

The securities issued by foreign governments and other issuers or relevant issuers with credit rating graded by at least two of the six internationally recognised credit rating agencies – Standard &Poor's, Fitch Ratings, Moody's, DBRS, R&I u JCRA - are disclosed, as follows:

(BGN'000)

	Issue/issuer credit rating	31 December 2022	31 December 2021
Investment graded securities by the issue/issuer credit rating	*AAA*	10,053,350	17,288,401
	AA+	958,323	622,537
	AA	788,360	1,085,447
		11,800,033	**18,996,385**

14. Financial Assets at Fair Value in Other Comprehensive Income

(BGN'000)

	31 December 2022	31 December 2021
Republic of Bulgaria's quota in the IMF	2,187,303	2,166,250
Equity investments in international financial institutions	32,246	32,011
Investments in associates	29,790	28,830
	2,249,339	**2,227,091**

The Republic of Bulgaria's quota in the IMF is SDR 896,300 thousand (31 December 2021: SDR 896,300). The reserve tranche on the Republic of Bulgaria's quota in the IMF was BGN 239,464 thousand (31 December 2021: BGN 237,160 thousand). The IMF pays remuneration (interest) to those members that have a remunerated reserve tranche position, at an average rate of 1.17 per cent (31 December 2021: 0.05 per cent).

Equity investments in international financial institutions include the equity investment in the Bank for International Settlements (BIS), and 25 per cent of the equity investment in BIS Basel is paid up. As of 31 December 2022 the current value of 10,000 thousand shares in SDR amounts to BGN 24,404 thousand while as of 31 December 2021 it was BGN 24,169 thousand (ref. note 28). The capital subscribed, but not paid-in has an option to be paid in within three months upon a decision of the BIS Board of Governors.

Equity investments in international financial institutions do not exceed 10 per cent of the subscribed share capital of the respective institution.

Investments in international financial institutions also include BNB's participation in the ECB. As of 1 January 2007 (when the Republic of Bulgaria joined the EU), the Bulgarian National Bank has a share in the ECB capital. As at 31 December 2022 the amount of the BNB paid-up share in the ECB capital is EUR 3991.2 thousand or BGN 7806 thousand.

Pursuant to Article 28 of the Statute of the ESCB and the ECB, only ESCB NCBs are entitled to participate in the ECB capital. Capital subscription follows the requirements and the key set forth in Article 29 of the Statute of the ESCB and of the ECB, *i.e.* the share of each NCB in the ECB capital is determined in percentage and corresponds to the share of the respective Member State in the EU's total population and GDP (in equal proportions). The percentage is adjusted every five years and whenever a new Member State joins the EU. The latest adjustment (eighth) took place on 1 February 2020 and related to the UK's withdrawal from the EU. As of 31 December 2022, the BNB's capital share in the ECB subscribed capital is 0.9832 per cent, which corresponds to EUR 106,431.5 thousand.

As a non-euro area NCB, the BNB is required to pay up the minimum percentage of its subscribed capital in the ECB, which is pursuant to Article 47 of the Statute of the ESCB and of the ECB (as set out by the ECB General Council) and represents the BNB contribution to the ECB operational costs. From 29 December 2010 this percentage amounts to 3.75 per cent. Unlike euro area NCBs, the BNB is not entitled to the ECB's distributable profit, nor is it required to fund any loss of the ECB. Upon joining the euro area, the BNB will be required to pay up the remaining 96.25 per cent of its capital subscription to the ECB, which is EUR 102,440.3 thousand.

The Bank exercises substantial influence on the financial and operational policies of the associated companies listed below, and its investments in domestic companies are, as follows:

Associates	Shareholding, per cent	Principal activity
BORICA AD	36.11	Interbank card payments
Cash Services Company AD	25.00	Handling of sealed parcels of Bulgarian coins and banknotes transferred from the BNB and the banks

15. Tangible Assets

The fair value of land and buildings is categorised as Level-3 fair value based on the input data for the given assessment technique.

For the remaining asset classes – Plant and Machinery, Equipment, Vehicles, Fixtures and Fittings, the fair value is considered to be their present value on the Bank's balance sheet as most of them were bought in the last four years and their book value is close to their fair value.

When revaluating tangible fixed assets the Bank derecognises the accrued depreciation at the expense of the gross book value of the assets and their net value is recalculated against the revalued amount. As of 31 December 2022 the assets with a right of use were BGN 28 thousand (31 December 2021: BGN 41 thousand) regarding the purchase of a vehicle by the Bulgarian Mint EAD in 2020 under the financial lease conditions.

(BGN'000)

	Land and buildings	Plant and equipment	IT equipment	Office equipment	Right of use asset	Other equipment (including motor vehicles)	Assets under construction	Total
As of 1 January 2022	196,235	111,652	57,173	9,862	62	8,111	6,983	390,078
Additions	-	1,239	25	29	-	1	15,925	17,219
Disposals	-	(2,023)	(7,190)	(173)	-	-	(85)	(9,471)
Transfers	-	1,075	5,885	45	-	4	(7,009)	-
Revaluation	3,217	(2,304)	-	-	-	-	-	913
As of 31 December 2022	199,452	109,639	55,893	9,763	62	8,116	15,814	398,739
Depreciation and impairment loss								
As of 1 January 2022	(77,380)	(76,019)	(51,600)	(8,688)	(21)	(6,659)	-	(220,367)
Charge for the period	(5,710)	(4,598)	(4,170)	(130)	(13)	(359)	-	(14,980)
On disposals	-	1,966	7,190	173	-	-	-	9,329
Revaluation	1,033	3,257	-	-	-	-	-	4,290
As of 31 December 2022	(82,057)	(75,394)	(48,580)	(8,645)	(34)	(7,018)	0	(221,728)
Net book value as of 31 December 2022	117,395	34,245	7,313	1,118	28	1,098	15,814	177,011
Net book value as of 31 December 2021	118,855	35,633	5,573	1,174	41	1,452	6,983	169,711
As of 1 January 2021	184,211	97,771	55,565	10,139	62	9,838	19,784	377,370
Additions	20	12,711	13	22	-	6	9,598	22,370
Disposals	-	(3,110)	(1,335)	(388)	-	(1,733)	(3,096)	(9,662)
Transfers	12,004	4,280	2,930	89	-	-	(19,303)	-
Revaluation	-	-	-	-	-	-	-	-
As of 31 December 2021	196,235	111,652	57,173	9,862	62	8,111	6,983	390,078
Depreciation and impairment loss								
As of 1 January 2021	(71,984)	(74,976)	(49,791)	(8,951)	(9)	(7,835)	-	(213,546)
Charge for the period	(5,396)	(4,151)	(3,142)	(125)	(12)	(557)	-	(13,383)
On disposals	-	3,108	1,333	388	-	1,733	-	6,562
Revaluation	-	-	-	-	-	-	-	-
As of 31 December 2021	(77,380)	(76,019)	(51,600)	(8,688)	(21)	(6,659)	-	(220,367)
Net book value as of 31 December 2021	118,855	35,633	5,573	1,174	41	1,452	6,983	169,711

In applying IAS 16 Property, Plant and Equipment and BNB's Internal Rules for Financial Statements and Accounting Policy, as of December 2013 a review was made of the book value of tangible fixed assets stated in the Bank's balance sheet. The fair value of land and buildings was determined by an external, independent and licensed assessor of recognised professional qualification and experience in assessing property of location and category similar to the assessed ones. As of 31 December 2022 the fair value of land and buildings is adjusted with the revalued amount of these assets reported by the Bulgarian Mint EAD. The present book value of land and buildings on the Bank's balance sheet fairly reflects their market value. The carrying amount of fully amortised tangible fixed assets as of 31 December 2022 was BGN 80,595 thousand. (31 December 2021: BGN 84,830 thousand).

16. Intangible Assets

(BGN'000)

	Software	Other intangible assets	Development costs	Total
As of 1 January 2022	**65,205**	**179**	**361**	**65,745**
Additions	19	2	3,186	3,207
Disposals	(2,472)	(13)	-	(2,485)
Transfers	2,139	-	(2,139)	-
As of 31 December 2022	**64,891**	**168**	**1,408**	**66,467**
Depreciation and impairment loss				
As of 1 January 2022	(55,653)	(162)	-	(55,815)
Charge for the period	(3,714)	(5)	-	(3,719)
On disposals	2,469	13	-	2,482
As of 31 December 2022	**(56,898)**	**(154)**	-	**(57,052)**
Net book value as of 31 December 2022	**7,993**	**14**	**1,408**	**9,415**
Net book value as of 31 December 2021	**9,552**	**17**	**361**	**9,930**

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

(BGN'000)

	Software	Other intangible assets	Development costs	Total
As of 1 January 2021	**60,322**	**194**	**2,239**	**62,755**
Additions	68	5	4,099	4,172
Disposals	(1,101)	(20)	(61)	(1,182)
Transfers	5,916	-	(5,916)	-
As of 31 December 2021	**65,205**	**179**	**361**	**65,745**
Depreciation and impairment loss				
As of 1 January 2021	(53,799)	(173)	-	(53,972)
Charge for the period	(2,955)	(9)	-	(2,964)
On disposals	1,101	20	-	1,121
As of 31 December 2021	**(55,653)**	**(162)**	-	**(55,815)**
Net book value as of 31 December 2021	**9,552**	**17**	**361**	**9,930**
Net book value as of 31 December 2020	**6,523**	**21**	**2,239**	**8,783**

As of 31 December 2021, software includes licenses purchased by the BNB to the total amount of BGN 4872 thousand (31 December 2020: BGN 208 thousand), and software products to the amount of BGN 1044 thousand (31 December 2020: BGN 2818 thousand).

17. Other Assets

(BGN'000)

	31 December 2022	31 December 2021
Cash held by subsidiaries with local banks	25,348	36,018
Investments of subsidiary undertakings in joint ventures and associates	10,701	10,629
Commemorative coins for sale	499	451
Inventories	25,874	24,937
Accounts receivable	1,455	5,656
Deferred charges	1,528	2,885
Other receivables	1,254	1,051
	66,659	**81,627**

Cash held by subsidiaries with local banks comprise BGN 22,789 thousand of BNB Printing Works AD and BGN 2559 thousand of Bulgarian Mint EAD.

Investments of subsidiary undertakings in joint ventures and associates include a non-monetary contribution in the form of banknote production equipment to the capital of François-Charles Oberthur Group with which BNB Printing Works AD has established a joint venture for banknote production.

18. Banknotes and Coins in Circulation

(BGN'000)

	31 December 2022	31 December 2021
Banknotes in circulation	26,865,628	24,177,231
Coins in circulation	559,745	519,446
	27,425,373	**24,696,677**

19. Liabilities to Banks and Other Financial Institutions

(BGN'000)

	31 December 2022	31 December 2021
Demand deposits from banks and other financial institutions		
– in BGN	16,192,314	15,009,717
– in foreign currency	10,599,081	9,304,193
	26,791,395	**24,313,910**

Demand deposits include BGN 10,773,020 thousand representing the required reserves, which all local banks are required to maintain on accounts with the BNB (31 December 2021: BGN 9,337,922 thousand).

The allocation of minimum required reserves of commercial banks in the BNB is in accordance with the amendment to Ordinance No 21, effective as of 4 June 2021, adopted by the BNB Governing Council on 14 May 2021.

Pursuant to Article 46 of BNB Ordinance No 16 of 29 March 2018 this position includes also the banks' participation in the Guarantee Mechanism for Settlement of Payments of the participants in the system operated by BORICA AD and processing card related payments, amounting to BGN 203,211 thousand (31 December 2021: BGN 163,598 thousand).

20. Liabilities to Government Institutions and Other Borrowings

(BGN'000)

	31 December 2022	31 December 2021
Current accounts		
– in BGN	8,148,860	8,210,411
– in foreign currency	3,528,895	1,321,507
Time deposit accounts	-	-
	11,677,755	**9,531,918**

Government's accounts in national and foreign currency with the Bank comprise funds held on behalf of the state budget and other government organisations. The Bank applies interest rates in line with the General Terms and Conditions of the Bulgarian National Bank on servicing accounts of banks, budget organisations and other customers adopted by a resolution of the BNB Governing Council of 26 November 2015, last amended on 23 February 2022. As from 18 November 2019, the Bank does not open and service time deposit accounts of the government and other government institutions in accordance with the General Terms and Conditions of the Bulgarian National Bank on servicing accounts of banks, budget organisations and other customers.

As of 31 December 2022 obligations to pay interest of BGN 6615 thousand on current accounts of customers have been accrued.

21. Borrowings against Bulgaria's Participation in International Financial Institutions

The borrowings against Bulgaria's participation in the IMF as of 31 December 2022 amount to BGN 1,942 371 thousand, or SDR 795,933 thousand (31 December 2021: BGN 1,923,674 thousand, or SDR 795,933 thousand).

Borrowings from the IMF are denominated in SDRs. Borrowings related to Bulgaria's quota in the IMF are non-interest bearing with no stated maturity. This note includes account No 1 and account No 2 of the IMF in levs amounting to BGN 5617 thousand (31 December 2021: BGN 5214 thousand).

The Bank's borrowings from the IMF of the general and special allocation of SDRs amount to SDR 1,333,649,773 and SDR 136,289,102 respectively. Repayment will take place on IMF's demand. Under Article XX of IMF Statute, the Bank receives interest on the existing SDRs and pays a fee on its borrowings from the general and special allocation at the same interest rate.

In August 2021 pursuant to a resolution of the IMF Board of Governors, the amount of funds of the general allocation was increased from SDR 474,586,534 to SDR 1,333,649,773 or by SDR 859,063,239 respectively.

22. Other Liabilities

(BGN'000)

	31 December 2022	31 December 2021
Funds of EU institutions and bodies	305,103	160,407
Funds of Banks Resolution Fund	472,989	507,622
Salaries and social security payable	8,696	7,449
Deferred income	1,424	1,395
Other Liabilities	215,743	234,407
	1,003,955	**911,280**

Funds of EU institutions and bodies include European Commission's funds and European Investment Bank's funds. Pursuant to Article 9 of Council Regulation No 1150 of 2000 and Bulgaria's participation in the funding of the EU budget, the Bank opened accounts of the European Commission. As of 31 December 2022 the funds on these accounts were BGN 305,103 thousand (31 December 2021: BGN 160,407 thousand).

As from 27 July 2020 in line with the requirements of § 56, paragraph 1 of the Transitional and Final Provisions of the Amendment of the LRRCIIF, the Bulgarian National Bank as a resolution authority of credit institutions is the holder of the funds available in the Banks Resolution Fund's accounts. As of 31 December 2022 the funds amounted to BGN 472,989 thousand (31 December 2021: BGN 507,622 thousand).

23. Capital and Reserves

The capital of the Bank is determined by the Law on the BNB and amounts to BGN 20,000 thousand.

Non-monetary asset revaluation reserves comprise the net change in fair value of property, equity investments and other non-monetary assets.

Pursuant to Article 36 of the Law on the Bulgarian National Bank, unrealised gains/losses arising from the revaluation of assets and liabilities denominated in foreign currencies or gold are transferred to a special reserve account and form special reserves.

Other reserves include 25 per cent of the annual excess of revenue over expenditure after the allocation to special reserves and reserves established upon a resolution of the BNB Governing Council.

As of 31 December 2022 profit distribution in accordance with the profit distribution policy disclosed in note 5 (j) is as follows:

(BGN'000)

	31 December 2022	31 December 2021
Profit/(loss) for the period	**(16,070)**	**(93,816)**
Allocation to special reserve under Article 36 of the LBNB:		
Unrealised (profit)/ from gold revaluation	(241,929)	(171,760)
Unrealised loss from revaluation of financial assets at fair value through profit or loss	72,707	25,486
Unrealised (profit)/loss from foreign currency revaluation	1,072	(15)
Other unrealised loss/(gain)	(1,432)	24,068
Result after allocation to special reserve including:	**(185,652)**	**(216,037)**
Allocation (from)/to Reserve Fund under Article 8 of the LBNB	*(191,073)*	*(221,979)*
Result from consolidation and non-controlling interest	*5,421*	*5,942*
Allocation to a special purpose fund under Article 8 of the LBNB	-	-
Planned contribution to the state budget	-	-

As at 31 December 2022 the amount of accrued provisions for expected credit losses amounted to BGN 5460 thousand (31 December 2021: BGN 6150 thousand), which is reflected in the amount of BGN 191,073 thousand, specified in Allocation (from)/to Reserve Fund under Article 8 of the LBNB.

24. Non-controlling Interest

The BNB Printing Works AD is a joint-stock company with two shareholders: the BNB and the State represented by the Ministry of Finance. The BNB holds 95.6 per cent of the company's capital and the government holds the remaining 4.4 per cent of the company's capital.

25. Monetary Liabilities and Gross International Reserves

(BGN'000)

	31 December 2022	31 December 2021
Gross International Reserves		
Cash and foreign currency denominated deposits	58,746,308	44,305,002
Monetary gold and other instruments in gold	4,362,791	4,123,863
Security investments	11,800,033	18,996,385
Equity investments and quota in the IMF	239,464	237,159
	75,148,596	**67,662,409**
Monetary liabilities		
Banknotes and coins in circulation	27,425,373	24,696,677
Liabilities to banks and other financial institutions	25,638,156	23,083,009
Liabilities to government institutions	11,319,236	9,164,578
Other liabilities	1,816,861	1,758,648
	66,199,626	**58,702,912**
Surplus of gross international reserves over monetary liabilities	8,948,970	8,959,497

Interest receivable and interest payable are carried to the relevant financial assets and liabilities.

Monetary gold and other instruments in gold are revalued on a daily basis based on the euro fixing of the London Bullion Market closing price.

26. Related Party Transactions

Bulgarian Government

International Monetary Fund

As of 31 December 2022, the Republic of Bulgaria has not received funds under IMF agreements.

The Republic of Bulgaria's quota in the IMF is secured by promissory notes jointly signed by the Bank and the government (ref. note 21).

Government bank accounts

As of 31 December 2022 government budget organisations have bank accounts with the Bank (ref. note 20).

Fiduciary activities

In accordance with the Law on the BNB and under the terms agreed upon with the Minister of Finance, the BNB acts as an agent in government or government-guaranteed debts. With regard to this role, the BNB performs agent and central depository services related to the administration and management of government securities issued by the Ministry of Finance. The Bank receives commission for providing these services. These government securities are not assets or liabilities of the BNB and are not recognised in its consolidated statement of financial position. The Bank is not exposed to any credit risk relating to government securities as it does not guarantee them. As of 31 December 2022, the par value of the government securities held in custody was BGN 10,965 million (31 December 2021: BGN 8637 million).

27. Subsidiaries Included in Consolidated Financial Statements

(per cent)

Ownership interest	31 December 2022	31 December 2021
Bulgarian Mint EAD	100	100
BNB Printing Works AD (ref. note 24)	95.6	95.6

The net income from subsidiaries for the reporting period comprises the net result of BGN 586 thousand from the Bulgarian Mint EAD (31 December 2021: BGN 292 thousand) and BGN 3876 thousand from the BNB Printing Works AD (31 December 2021: BGN 5322 thousand).

28. Commitments and Contingencies

1) Participation in the Bank for International Settlements

The Bank holds 8000 shares of the capital of the BIS, each amounting to SDR 5,000. Twenty-five per cent of the equity investment in the BIS is paid up. The capital subscribed but not paid in is with the option to be paid in within three months following a decision of the BIS Board of Governors. The contingent amount as of 31 December 2022 is BGN 73,211 thousand (31 December 2021: BGN 72,506 thousand).

2) IMF quota

The IMF quota is secured by promissory notes jointly signed by the Bank and the government of the Republic of Bulgaria amounting to BGN 1,985,479 thousand.

3) Capital commitments

As of 31 December 2022 the Bank has committed to BGN 8677 thousand to purchase non-current assets (31 December 2021: BGN 5355 thousand).

4) Other commitments and liabilities

There are no other outstanding guarantees, letters of credit or commitments to purchase or sell either gold, other precious metals or foreign currency.

5) Other contingent liabilities

The BNB is being sued in relation to alleged compensation for delayed payment of deposits above the guaranteed amount or for challenging money transfers by customers of Corporate Commercial Bank AD (in bankruptcy) to a total amount of around BGN 73.6 million (31 December 2021: BGN 90.5 million).

Based on the Bank's assessment of the likely outcome of the legal proceedings, in 2022 provisions amounting to BGN 29,361 thousand were made pursuant to IAS 37 (2021: no provisions). Assessments are periodically revised in order to reflect developments on all legal disputes and the circumstances related thereto.

In 2022 two identical cases against the BNB before a Federal Court of the State of New York were closed with final decisions of the federal court due to lack of jurisdiction. They were related to alleged compensation of about USD 200 million for each for actions of Corporate Commercial Bank AD (in bankruptcy) conservators appointed in 2014.

29. Events Occurred after the Reporting Date

There are no events after the reporting date that require additional disclosure or adjustments to the Bank's Financial Statements.

Information under Article 17, Paragraph 5 of the LBNB Concerning Resolutions Adopted by the BNB Governing Council in 2022

Reporting and Budget

RESOLUTION No 69 of 8 March

Changes to the BNB budget for 2022 were approved.

RESOLUTION No 117 of 7 April

The implementation of the BNB Budget for 2021 was approved on first reading.

RESOLUTION No 118 of 7 April

The BNB Annual Report for 2021 was approved on first reading.

RESOLUTION No 147 of 28 April

The BNB Governing Council approved the report on the implementation of the BNB budget for 2021 to be included in the Bank's Annual Report for 2021.

RESOLUTION No 148 of 28 April

The BNB Annual Report for 2021 was approved.

RESOLUTION No 278 of 28 July

The BNB Governing Council determined the individual amount of the fees to cover administrative costs of the BNB for 2021 arising from supervisory and resolution functions as set out in the Annex to this Resolution.

RESOLUTION No 353 of 12 October

The BNB Governing Council determined an estimated amount of the fees to cover administrative costs of the BNB for 2022 arising from supervisory and resolution functions.

RESOLUTION No 354 of 12 October

The Governing Council of the BNB adopted amendments to 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.

RESOLUTION No 392 of 10 November

The Report on BNB Budget Implementation as of 30 June 2022 was approved.

RESOLUTION No 393 of 10 November

The BNB Report for January–June 2022 was approved on first reading.

RESOLUTION No 432 of 8 December

The BNB Report for January–June 2022 was approved.

RESOLUTION No 433 of 8 December

The BNB Budget for 2023 was approved on first reading.

RESOLUTION No 461 of 22 December

The BNB budget for 2023 was approved.

Gross International Reserves

RRESOLUTION No 5 of 13 January

The BNB Governing Council took note of the selected benchmark for dynamic asset allocation in the first quarter of 2022.

RESOLUTION No 72 of 8 March

The BNB Governing Council took note of the International Reserve Management Report in 2021.

RESOLUTION No 120 of 7 April

The BNB Governing Council took note of the selected benchmark for dynamic asset allocation in the second quarter of 2022.

RESOLUTION No 176 of 26 May

The BNB Governing Council took note of the International Reserve Management Report in the first quarter of 2022.

RESOLUTION No 245 of 7 July

The BNB Governing Council took note of the selected benchmark for dynamic asset allocation in the third quarter of 2022.

RESOLUTION No 317 of 14 September

The BNB Governing Council took note of the International Reserve Management Report in the second quarter of 2022.

RESOLUTION No 358 of 12 October

The BNB Governing Council took note of the selected benchmark for dynamic asset allocation in the fourth quarter of 2022.

RESOLUTION No 395 of 10 November

The BNB Governing Council took note of the International Reserve Management Report in the third quarter of 2022.

RESOLUTION No 466 of 22 December

The BNB Governing Council set the risk tolerance for 2023 related to the Bank's gross international reserves.

Payment Systems and Payment Oversight

RESOLUTION No 20 of 27 January

The Bulgarian National Bank intends to comply, as from the date on which an interest rate benchmark administrator is licensed or registered in the territory of the Republic of Bulgaria, with the Guidelines on the methodology, oversight function and record keeping under the Benchmarks Regulation (ESMA 81-393-288), issued by the European Securities and Markets Authority (ESMA) and published on its website.

RESOLUTION No 37 of 11 February

The BNB Governing Council took note of the Annual Report of the Conciliation Commission for 2021.

The BNB Governing Council took note of the Annual Report of the Sectoral Conciliation Commission on Financial Services for 2021.

RESOLUTION No 61 of 23 February

The BNB Governing Council took note of the calculated average amount of fees charged by banks on services under appendix 1 to Article 34 of Ordinance No 3 of the BNB on current accounts as of 31 December 2021 in relation to Article 120, paragraph 6 of the Law on Payment Services and Payment Systems and Article 35, paragraph 2 of Ordinance No 3 of the BNB.

RESOLUTION No 154 of 28 April

The BNB implements with effect from 1 June 2022 Guidelines on the limited network exclusion under the revised Payment Services Directive (PSD2) (EBA/GL/2022/02 of 24 February 2022) issued by the European Banking Authority and published on its official website.

RESOLUTION No 247 of 7 July

The BNB Governing Council decided to license PayMan Group OOD to operate as an electronic money institution, providing in addition payment services under Article 4, item 3 (a) and (c) of the Law on Payment Services and Payment Systems.

RESOLUTION No 355 of 12 October

The Governing Council of the BNB adopted amendments to Ordinance No 3 of 18 April 2018 on the Terms and Procedure for Opening Payment Accounts, Executing Payment Transactions and Using Payment Instruments.

RESOLUTION No 356 of 12 October

The Governing Council of the BNB adopted amendments to Ordinance No 16 of 29 March 2018 on Granting Licenses and Approvals, Entry into the Register under Article 19 of the Law on Payment Services and Payment Systems, and Requirements to the Activity of Operators of Payment Systems with Settlement Finality.

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Between January and December 2022 the BNB Governing Council adopted two resolutions on applications for issuance of approvals and 10 resolutions on other powers related to payment supervision.

Banknotes and Coins in Circulation

RESOLUTION No 16 of 27 January

The BNB Governing Council approved a list of selling prices of banknotes or coins sold by the BNB at prices other than their nominal value effective from 31 January 2022.

RESOLUTION No 17 of 27 January

The BNB Governing Council decided to withdraw from circulation the commemorative coins issued in 2016, which ceased to be legal tender on 7 February 2022.

Commemorative coins issued in 2016 will be exchangeable at BNB tills at nominal value with no limit on the quantity free of charge until 31 December 2023.

RESOLUTION No 54 of 23 February

The BNB Governing Council took note of the availability and developments in the BNB Strategic Stock of Banknotes for 2021.

RESOLUTION No 138 of 14 April

The BNB Governing Council decided to put into circulation, as of 27 June 2022, a golden commemorative coin ‘Paisy Hilendarski – Two Golden Levs’.

RESOLUTION No 153 of 28 April

The golden commemorative coin ‘Paisy Hilendarski - Two Golden Levs’, issue 2022, will be sold at BNB tills at BGN 3755 (three thousand seven hundred and fifty-five levs).

RESOLUTION No 174 of 26 May

The BNB Governing Council adopted Ordinance on Amendment to Ordinance No 39 of the BNB on the Nominal Value, Coverage, Form and Design of Banknotes and Coins Put into Circulation.

RESOLUTION No 218 of 21 June

The BNB Governing Council decided to put into circulation, as of 19 September 2022, a silver commemorative coin ‘Great Crested Grebe’.

RESOLUTION No 219 of 21 June

The BNB Governing Council adopted the Commemorative Coin and Banknote Production Programme for 2023.

The BNB Governing Council took note of the Preliminary Commemorative Coin and Banknote Production Programme for 2024 and 2025 as a basis for preparing annual programmes.

RESOLUTION No 267 of 28 July

The BNB Governing Council approved a List of selling prices of banknotes or coins sold by the BNB at prices other than their nominal value.

RESOLUTION No 268 of 28 July

The silver commemorative coin ‘Great Crested Grebe’, issue 2022, will be sold at BNB tills at BGN 108 (one hundred and eight levs).

RESOLUTION No 318 of 14 September

The BNB Governing Council decided to put into circulation on 5 December 2022 a partially gold-plated silver commemorative coin ‘Tsar Kaloyan’ of the Medieval Bulgarian Rulers series.

RESOLUTION No 319 of 14 September

The BNB Governing Council set the final ranking in the anonymous competition for the silver commemorative coin '200 Years since the Birth of Nayden Gerov', issue 2023, and chose the design by Todor Angeliev. It also determined coin specifications.

RESOLUTION No 320 of 14 September

The BNB Governing Council set the final ranking in the anonymous competition for the silver commemorative coin '175 Years since the Birth of Hristo Botev', issue 2023, and chose the design by Plamen Chernev and Preslav Chernev. It also determined coin specifications.

RESOLUTION No 321 of 14 September

The BNB Governing Council set the final ranking in the anonymous competition for the silver commemorative coin '100 Years since the Formation of the Bulgarian Olympic Committee', issue 2023, and chose the design by Svetlin Balezdrov. It also determined coin specifications.

RESOLUTION No 360 of 12 October

The partially gold-plated silver commemorative coin 'Tsar Kaloyan', issue 2022, will be sold at BNB tills at BGN 114 (one hundred and fourteen levs).

RESOLUTION No 361 of 12 October

The BNB Governing Council set the final ranking in the anonymous competition for the gold commemorative coin '100 Years of the Faculty of Theology', issue 2023, and chose the design by Svetlin Balezdrov. It also determined coin specifications.

RESOLUTION No 362 of 12 October

The BNB Governing Council set the final ranking in the anonymous competition for the partially gold-plate silver commemorative coin 'Tsar Mihail III Shishman', issue 2023, of the Medieval Bulgarian Rulers series and chose the design by Silviya Borisova. It also determined coin specifications.

RESOLUTION No 363 of 12 October

The BNB Governing Council set the final ranking in the anonymous competition for the copper commemorative coin '125 Years since the Birth of Dimitar Talev', issue 2023, of the Bulgarian Artists series and chose the design by Todor Angeliev. It also determined coin specifications.

RESOLUTION No 373 of 28 October

The BNB Governing Council adopted ordinance on Amendment to BNB Ordinance No 18 on the Control over Quality of Banknotes and Coins in Cash Circulation, with effect from 1 January 2023.

RESOLUTION No 374 of 28 October

The BNB Governing Council decided to put into circulation, as of 3 January 2023, a silver commemorative coin '175 Years since the Birth of Hristo Botev' of the Bulgarian Revival series.

RESOLUTION No 397 of 10 November

The BNB Governing Council decided to put into circulation, as of 6 February 2023, a silver commemorative coin '200 Years since the Birth of Nayden Gerov' of the Bulgarian Revival series.

RESOLUTION No 409 of 22 November

The silver commemorative coin '175 Years since the Birth of Hristo Botev', issue 2023, will be sold at BNB tills at BGN 108 (one hundred and eight levs).

RESOLUTION No 438 of 8 December

The BNB Governing Council decided to put into circulation, as of 20 March 2023, a silver commemorative coin '100 Years since the Formation of the Bulgarian Olympic Committee'.

RESOLUTION No 456 of 16 December

The BNB Governing Council amended Resolution No 409 of 22 November 2022 on determining the price at which the silver commemorative coin '175 Years since the Birth of Hristo Botev' is to be sold and, as of 3 January 2023, the coin will be sold at BNB tills at BGN 114 (one hundred and fourteen levs).

RESOLUTION No 467 of 22 December

The BNB Governing Council decided to withdraw from circulation the banknotes of BGN 20 nominal value, issued in 2005, which ceased to be legal tender as of 1 February 2023.

They may be exchanged at BNB tills at face value with no limit to amounts, fees, or limits in time.

RESOLUTION No 468 of 22 December

The BNB Governing Council adopted Ordinance on Amendment to Ordinance No 39 of the BNB on the Nominal Value, Coverage, Form and Design of Banknotes and Coins Put into Circulation.

RESOLUTION No 469 of 22 December

The silver commemorative coin '200 Years since the Birth of Nayden Gerov', issue 2023, will be sold at BNB tills at BGN 114 (one hundred and fourteen levs).

Maintaining Banking System Stability and Protecting Depositor Interests

RESOLUTION No 47 of 11 February

As of 14 February 2022, the BNB complies with Guidelines on recovery plan indicators (EBA/GL/2021/11), issued by the European Banking Authority and published on its official website.

RESOLUTION No 65 of 23 February

The BNB Governing Council suspended the prohibition for credit institutions licensed to carry out banking activities in the Bulgaria to distribute the profit for 2019 and 2020, partially or fully, in the form of dividends, share repurchases or other similar payments.

Banks for which the BNB is the competent supervisory authority and which intend to pay dividends or other similar payments, including profits for 2021, shall be required to submit to the BNB distribution plans, which will be subject to supervisory dialogue.

As of 1 April 2022, the macroprudential measure which sets limits on net exposures of credit institutions licensed to carry out banking activities in Bulgaria and of foreign credit institutions' branches operating in the country to certain categories of counterparties was suspended.

RESOLUTION No 103 of 22 March

The BNB Governing Council set the level of the countercyclical capital buffer applicable to credit risk exposures in the Republic of Bulgaria at 1.5 per cent in the second quarter of 2023.

RESOLUTION No 104 of 22 March

The BNB Governing Council took note of the Report on the State of the Banking System (fourth quarter of 2021).

The BNB Governing Council took note of the publication of Banks in Bulgaria (October–December 2021).

RESOLUTION No 132 of 7 April

The BNB applies as of 8 April 2022 the Guidelines on a common assessment methodology for granting authorisation as a credit institution under Article 8(5) of Directive 2013/36/EU (EBA/GL/2021/12) issued by the European Banking Authority and published on its official website.

RESOLUTION No 133 of 7 April

The BNB complies as of 1 June 2022 with the Guidelines on cooperation and information exchange between prudential supervisors, AML/CFT supervisors and financial intelligence units under Directive 2013/36/EU (EBA/GL/2021/15) issued by the European Banking Authority and published on its official website.

RESOLUTION No 179 of 26 May

The Bulgarian National Bank applies as of 4 July 2022 the Guidelines on the characteristics of a risk-based approach to anti-money laundering and terrorist financing supervision, and the steps to be taken when conducting supervision on a risk-sensitive basis under Article 48(10) of Directive (EU) 2015/849 (amending the Joint Guidelines ESAs 2016 72) (Guidelines on risk-based supervision, EBA/GL/2021/16 of 16 December 2021) issued by the European Banking Authority and published on its official website.

RESOLUTION No 215 of 21 June

Ordinance No 42 of the BNB of 21 June 2022 on the Terms and Procedure for Issuance of Covered Bonds was approved.

RESOLUTION No 221 of 21 June

The BNB Governing Council took note of the Report on the State of the Banking System (first quarter of 2022).

The BNB Governing Council took note of the publication of Banks in Bulgaria (January–March 2022).

RESOLUTION No 235 of 23 June

The BNB Governing Council decided to set the countercyclical capital buffer rate applicable to credit risk exposures in the Republic of Bulgaria at 1.5 per cent for the third quarter of 2023.

RESOLUTION No 241 of 29 June

On the basis of an instruction from the European Central Bank, the BNB granted preliminary approval for the direct acquisition by KBC Bank HB of the shares in the capital of Raiffeisenbank (Bulgaria) EAD, whereby Raiffeisenbank (Bulgaria) EAD became a subsidiary of KBC Bank N.V. in Bulgaria.

RESOLUTION No 282 of 28 July

In relation to the implementation of the Recommendation to the European Systemic Risk Board on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2015/2), amended by Recommendation ESRB/2022/3, to inform the European Systemic Risk Board that the exposures of Bulgarian banks to countries that have requested reciprocation of macroprudential policy measures (Belgium, France, Lithuania, Luxembourg, the Netherlands, Norway and Sweden) are immaterial and, therefore, there is no need to introduce macro-prudential measures on a reciprocal basis.

RESOLUTION No 283 of 28 July

The Governing Council adopted Ordinance on Amendment to Ordinance No 20 of 2019 on the Issuance of Approvals to the Members of the Management Board (Board of Directors) and Supervisory Board of a Credit Institution and Performance Requirements for Their Duties.

RESOLUTION No 286 of 4 August

The BNB complies, as of 16 August 2022, with the Guidelines on the equivalence of confidentiality regimes (EBA/GL/2022/04), issued by the European Banking Authority and published on its official website.

RESOLUTION No 340 of 29 September

The BNB Governing Council increased the level of the countercyclical capital buffer applicable to credit risk exposures in the Republic of Bulgaria at 2.0 per cent for the fourth quarter of 2023.

RESOLUTION No 341 of 29 September

The BNB Governing Council took note of the Report on the State of the Banking System (second quarter of 2022).

The BNB Governing Council took note of the publication of Banks in Bulgaria (April–June 2022).

RESOLUTION No 347 of 29 September

Ordinance on Amendment to Ordinance No 42 of the BNB of 21 June 2022 on the Terms and Procedure for Issuance of Covered Bonds was approved.

RESOLUTION No 380 of 28 October

As of 1 December 2022, the Bulgarian National Bank complies with the Guidelines on policies and procedures in relation to compliance management and the role and responsibilities of the AML/CFT Compliance Officer under Article 8 and Chapter VI of Directive (EU) 2015/849 (EBA/GL/2022/05 of 14 June 2022), issued by the European Banking Authority and published on its official website.

RESOLUTION No 381 of 28 October

The BNB Governing Council identified as other systemically important institutions the following banks in line with pan-European guidelines of the European Banking Authority: UniCredit Bulbank AD, DSK Bank AD, United Bulgarian Bank AD, Eurobank Bulgaria AD, First Investment Bank AD, KBC Bank Bulgaria EAD, Central Cooperative Bank AD, Bulgarian Development Bank EAD.

The BNB Governing Council set the buffer rate for other systemically important institutions on an individual and consolidated basis.

RESOLUTION No 446 of 8 December

The Bulgarian National Bank complies, as of 31 December 2022, with the Guidelines on the remuneration, gender pay gap and approved higher ratio benchmarking exercises under Directive 2013/36/EU (EBA/GL/2022/06), issued by the European Banking Authority and published on its official website.

RESOLUTION No 447 of 8 December

The Bulgarian National Bank complies, starting from 31 December 2022, with the Guidelines on the data collection exercise regarding high earners under Directive 2013/36/EU and Directive (EU) 2019/2034 (EBA /GL/2022/08), issued by the European Banking Authority and published on its official website.

RESOLUTION No 482 of 22 December

The BNB Governing Council set the countercyclical capital buffer rate applicable to credit risk exposures in the Republic of Bulgaria at 2.0 per cent for the first quarter of 2024.

RESOLUTION No 483 of 22 December

The BNB Governing Council took note of the Report on the State of the Banking System (third quarter of 2022).

The BNB Governing Council took note of the publication of Banks in Bulgaria (July–September 2022).

RESOLUTION No 484 of 22 December

As of 1 January 2023, the BNB complies with the Guidelines on common procedures and methodologies for the supervisory review and evaluation process (SREP) and supervisory stress testing (EBA/GL/2022/03).

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In the January to December 2022 period, the Governing Council of the BNB adopted:

- 32 resolutions pursuant to Article 11, paragraphs 1 and 3 of the LCI for holding a position of a member of a management body and Article 11a of the LCI for holding key positions and relevant administrative proceedings;
- 58 resolutions related to the supervisory review and assessment process pursuant to Article 79c of the LCI;
- 15 resolutions pursuant to Article 76, paragraph 4 of the LCI on coordinating the choice of an auditor of a credit institution;

- 3 resolutions concerning the granting of prior approval for acquisition of a qualifying holding under Article 28 of the LCI and relevant administrative proceedings;
- 61 resolutions related to performed supervisory inspections and other approvals, authorisations and actions on administrative procedures;
- 16 resolutions related to own funds;
- 8 resolutions pursuant to Article 71, paragraph 5 of the LCI on the approval of an amendment to the Articles of Association of a credit institution;
- 8 resolutions related to own funds.

BNB Activities on Resolution of Credit Institutions

RESOLUTION No 3 of 10 January

The BNB Governing Council agreed with the draft decision of the Single Resolution Board granting a general prior authorisation for the reduction of eligible liabilities instruments under Article 78a(1), second subparagraph of Regulation (EU) No 575/2013, in relation to a written application from Raiffeisen Bank International AG.

RESOLUTION No 6 of 13 January

The BNB Governing Council determined eligible asset classes and investment restrictions for market and credit risk of a structured index account with the BNB for the purposes of BRF financial means management.

RESOLUTION No 15 of 27 January

The financial means of the sub-fund under Article 134, paragraph 1, item 1 of the LRRCIIF will continue to be held in a current account with the BNB for the 1 February 2022 – 30 April 2022 period.

The financial means of the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF will continue to be held in a current account with the BNB for the 1 February 2022 – 30 April 2022 period.

RESOLUTION No 46 of 11 February

The Bulgarian National Bank, as a resolution authority for credit institutions, applies the EBA Guidelines on stress tests of deposit guarantee schemes under Directive 2014/49/EU (EBA/GL/2021/10), published on the EBA's official website.

The Bulgarian National Bank, as a banking supervisor, complies with the EBA Guidelines on stress tests of deposit guarantee schemes under Directive 2014/49/EU (EBA/GL/2021/10), published on the EBA's official website.

RESOLUTION No 51 of 18 February

The BNB Governing Council expressed its disagreement with the draft proposal of the Single Resolution Board on setting a preliminary minimum requirement for own funds and eligible liabilities (MREL) on an individual basis for DSK Bank AD.

RESOLUTION No 115 of 5 April

The BNB Governing Council expressed its disagreement with the draft decisions of the Single Resolution Board on the approval of a joint decision on a resolution plan for 2021 and assessment of KBC Group N. V. and its subsidiaries' resolvability and on setting a minimum requirement for own funds and eligible liabilities (MREL) of the resolution entity and its subsidiaries, including United Bulgarian Bank AD.

RESOLUTION No 116 of 7 April

The BNB Governing Council expressed its disagreement with the draft decision of the Single Resolution Board to approve a joint decision on a group resolution plan for 2021 and a resolvability option assessment for UniCredit S.p.A. and its subsidiaries and to set a minimum requirement for own funds and eligible liabilities of the resolution entity UniCredit S.p.A. and its subsidiaries, including UniCredit Bulbank AD.

RESOLUTION No 123 of 7 April

The BNB Governing Council adopted the Annual Report of the Banks Resolution Fund for 2021.

RESOLUTION No 124 of 7 April

The BNB Governing Council determined the individual annual contribution of the branch of a third country credit institution to the Banks Resolution Fund for 2022.

RESOLUTION No 126 of 7 April

The BNB Governing Council approved the resolution plan of Texim Bank AD for 2020.

It set a minimum requirement for own funds and eligible liabilities (MREL) of Texim Bank AD and the target MREL levels.

RESOLUTION No 127 of 7 April

The BNB Governing Council approved the resolution plan of Tokuda Bank AD for 2020.

It set a minimum requirement for own funds and eligible liabilities (MREL) of Tokuda Bank AD and the target MREL levels.

RESOLUTION No 128 of 7 April

The BNB Governing Council approved the resolution plan of D Commerce Bank AD for 2020.

It set a minimum requirement for own funds and eligible liabilities (MREL) of D Commerce Bank AD on an individual basis and the target MREL levels.

RESOLUTION No 145 of 27 April

The BNB Governing Council expressed its agreement with the draft decisions of the Single Resolution Board to:

- approve a joint decision on a group resolution plan for 2021 and an assessment of the resolvability of Raiffeisen Bank International AG and the relevant subsidiaries;
- approve the joint resolutions setting a minimum requirement for own funds and eligible liabilities of Raiffeisen Bank International AG and its subsidiaries – the resolution entities under the Single Resolution Mechanism, including Raiffeisenbank (Bulgaria) EAD, the resolution entity of the resolution group in the Czech Republic, the resolution entity of the resolution group in Romania, the resolution entity of the resolution group in Hungary, and of the subsidiaries within the scope of the resolution group in Austria, within the scope of the resolution group in the Czech Republic and within the scope of the resolution group in Romania, taking into account the outcome of the consultations under

the 'right to be heard' procedure;

- approve the decision of the Single Resolution Board on setting a minimum requirement for own funds and eligible liabilities (MREL) of the resolution entities and their subsidiaries of the Raiffeisen Bank International AG group within the Single Resolution Mechanism.

RESOLUTION No 146 of 27 April

The BNB Governing Council decided pursuant to § 56, paragraph 2 of the Transitional and Final Provisions of the LRRCIIF and a notification from the Single Resolution Board on a SRB decision of 11 April 2022 on determining the *ex-ante* contributions to the Single Resolution Fund for 2022, to offset credit institutions' obligations to pay *ex-ante* contributions to the SRF for 2022 from the funds accumulated in the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF.

RESOLUTION No 151 of 28 April

The financial means of the sub-fund under Article 134, paragraph 1, item 1 of the LRRCIIF shall continue to be held in a current account with the BNB for the 1 May 2022 – 31 July 2022 period.

The financial means of the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF shall continue to be held in a current account with the BNB for the 1 May 2022 – 31 July 2022 period.

RESOLUTION No 152 of 28 April

The BNB Governing Council took note of the information presented at a meeting of the Plenary Session of the Single Resolution Board on the decisions regarding the resolution of the Sberbank Europe AG Group.

RESOLUTION No 164 of 17 May

The BNB Governing Council decided to implement SRB decision *SRB/EES/2021/66* on setting a minimum requirement for own funds and eligible liabilities (MREL) with regard to United Bulgarian Bank AD on an individual basis, in line with the relevant provisions of the Law on the Recovery and Resolution of Credit Institutions and Investment Firms.

RESOLUTION No 165 of 17 May

The BNB Governing Council decided to implement SRB decision SRB/EES/2021/237 on setting a minimum requirement for own funds and eligible liabilities (MREL) with regard to Raiffeisenbank (Bulgaria) EAD on a consolidated basis, in line with the relevant provisions of the Law on the Recovery and Resolution of Credit Institutions and Investment Firms.

RESOLUTION No 166 of 17 May

The BNB Governing Council decided to implement SRB decision SRB/EES/2021/193 on setting a minimum requirement for own funds and eligible liabilities (MREL) with regard to UniCredit Bulbank AD on an individual basis, in line with the relevant provisions of the Law on the Recovery and Resolution of Credit Institutions and Investment Firms.

RESOLUTION No 171 of 19 May

The BNB Governing Council disapproved the draft joint decision on the adoption of a resolution plan of ProCredit Holding AG & Co. KgaA and its subsidiaries for 2021.

The BNB Governing Council disapproved the draft joint decision on setting a minimum requirement for own funds and eligible liabilities (MREL) for ProCredit Bank (Bulgaria) EAD as a resolution entity.

RESOLUTION No 172 of 20 May

The BNB Governing Council adopted an abstention voting position on the Draft Opinion of the Single Resolution Board on the draft resolution plan for International Asset Bank AD for 2020 (SRB/EES/2022/33).

RESOLUTION No 178 of 26 May

The Bulgarian National Bank, as a resolution authority for credit institutions, will apply the EBA Guidelines on Enhancing the Restructuring Capacity of Institutions and Resolution Authorities (EBA/GL/2022/01), published on the EBA's official website, as of 1 January 2024.

The Bulgarian National Bank, as a banking supervisor, will apply the European Banking Authority's Guidelines on improving resolvability for institutions and resolution authorities (EBA/GL/2022/01), published on the EBA's official website, as of 1 January 2024.

RESOLUTION No 265 of 22 July

The BNB Governing Council did not participate in the vote in the extended Executive Session of the Single Resolution Board to adopt a decision granting prior authorisation under Article 78a(1)(a) of Regulation (EU) No 575/2013 due to the fact that KBC Bank Bulgaria EAD, formerly Raiffeisenbank (Bulgaria) EAD, was no longer part of RBI Group.

RESOLUTION No 269 of 28 July

The BNB Governing Council adopted Ordinance No 43 on the Terms and Procedure for Determining and Paying a Maximum Daily Amount upon Suspension of Obligations in Respect of Eligible Deposits.

RESOLUTION No 270 of 28 July

The BNB Governing Council adopted Ordinance No 44 on the Terms and Procedure for the Selection of Independent Valuers under Article 55a of the Law on the Recovery and Resolution of Credit Institutions and Investment Firms.

RESOLUTION No 277 of 28 July

The financial means of the sub-fund under Article 134, paragraph 1, item 1 of the LRRCIIF should continue to be held in a current account with the BNB for the 1 August 2022 – 31 October 2022 period.

The financial means of the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF should continue to be held in a current account with the BNB for the 1 August 2022 – 31 October 2022 period.

RESOLUTION No 323 of 20 September

The Governing Council disapproved the draft decision of the Single Resolution Board on a resolution plan and assessment of OTP Bank Plc. group resolvability and a draft joint decision of the resolution college on setting MREL with regard to OTP Bank Plc. and its subsidiaries.

RESOLUTION No 324 of 29 September

The BNB does not apply the simplified requirements when preparing resolution plans for credit institutions falling within the BNB direct powers as a resolution authority.

The BNB Governing Council does not propose to the Single Resolution Board the application of simplified requirements to credit institutions falling within the direct powers of the Single Resolution Board.

RESOLUTION No 359 of 12 October

The Governing Council decided to implement the Single Resolution Board Decision SRB/EES/2021/71 on setting a minimum requirement for own funds and eligible liabilities with regard to DSK Bank AD on an individual basis, in line with the relevant provisions of the Law on the Recovery and Resolution of Credit Institutions and Investment Firms.

RESOLUTION No 372 of 27 October

The Governing Council disapproved the draft decision of the Single Resolution Board on the conditional approval of a resolution plan and assessment of Eurobank Ergasias Services and Holdings S.A. group resolvability (the Eurobank group) (SRB/EES/2002/103) and expressed its disagreement with the draft resolution plan and assessment of Eurobank group resolvability for 2022 as regards the part relating to the approach for setting out MREL of Eurobank Bulgaria AD on an individual basis.

The Governing Council expressed its disagreement with the SRB draft decision on setting MREL of Eurobank S.A. as a resolution entity and its subsidiaries as regards the part relating to Eurobank Bulgaria AD.

RESOLUTION No 376 of 28 October

The financial means of the sub-fund under Article 134, paragraph 1, item 1 of the LRRCIIF should continue to be held in a current account with the BNB for the 1 November 2022 – 31 January 2023 period.

The financial means of the sub-fund under Article 134, paragraph 1, item 2 of the LRRCIIF should continue to be held in a current account with the BNB for the 1 November 2022 – 31 January 2023 period.

RESOLUTION No 423 of 1 December

The BNB Governing Council disapproved a draft joint decision on a resolution plan and resolvability assessment of KBC Group N.V. (KBC group) for 2022 (SRB/EES/2022/11) on a preliminary basis as regards the part relating to the approach for setting out MREL of United Bulgarian Bank AD on an individual basis.

The Governing Council disapproved a draft joint decision on setting MREL for the resolution entity and relevant subsidiaries of the KBC group (SRB/EES/2022/12).

RESOLUTION No 428 of 7 December

The BNB Governing Council disapproved a draft joint decision on a resolution plan and resolvability assessment of UniCredit S.p.A. group (UniCredit group) for 2022 (RC/JD/2022/15) on a preliminary basis as regards the part relating to the approach for setting out MREL of UniCredit Bulbank AD.

The Governing Council disapproved a draft joint decision on setting MREL for the resolution entity and relevant subsidiaries of the UniCredit (RC/JD/2022/16).

RESOLUTION No 470 of 22 December

The BNB Governing Council decided to implement the SRB decision (SRB/EES/2022/104) on setting a minimum requirement for own funds and eligible liabilities (MREL) with regard to Eurobank Bulgaria AD on an individual basis, in line with the relevant provisions of the Law on the Recovery and Resolution of Credit Institutions and Investment Firms.

Statistics

RESOLUTION No 19 of 27 January

The BNB Governing Council adopted Ordinance on Amendment to Ordinance No 17 of 29 March 2018 on the Monetary and Interest Rate Statistics and Financial Accounts Statistics.

The Fiscal Agent and State Depository Function

RESOLUTION No 73 of 8 March

The BNB Governing Council adopted Ordinance on Amendment to Ordinance No 31 of 4 October 2007 on Government Securities Settlement.

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

RESOLUTION No 434 of 8 December

The BNB Governing Council adopted Ordinance on Amendment to Ordinance No 22 of 16 July 2009 on the Central Credit Register.

RESOLUTION No 435 of 8 December

The BNB Governing Council adopted Ordinance on Amendment to Ordinance No 12 of 29 September 2016 on the Register of Bank Accounts and Safe Deposit Boxes.

Research

RESOLUTION No 13 of 27 January

The BNB Governing Council took note of the BNB forecast of major macroeconomic indicators for 2021-2023 (based on data as of 13 January 2022) to be published in the *Macroeconomic Forecast*, December 2021.

RESOLUTION No 45 of 11 February

The BNB awarded one master's degree scholarship in 2022.

The BNB awarded one doctor's scholarship in 2022.

RESOLUTION No 55 of 23 February

The BNB Governing Council took note of the assessments of developments in major macroeconomic indicators in the first and second quarters of 2022 to be published in the *Economic Review*, issue 4 of 2021.

RESOLUTION No 119 of 7 April

The BNB Governing Council took note of the BNB forecast of major macroeconomic indicators for 2022-2024 (based on data as of 29 March 2022), to be published in the *Macroeconomic Forecast,* March 2022.

RESOLUTION No 175 of 26 May

The BNB Governing Council took note of the assessments of developments in major macroeconomic indicators in the second and third quarters of 2022, to be published in the *Economic Review,* issue 1 of 2022.

RESOLUTION No 244 of 7 July

The BNB Governing Council took note of the BNB forecast of major macroeconomic indicators for 2022–2024 (based on data as of 24 June 2022), to be published in the *Macroeconomic Forecast,* June 2022.

RESOLUTION No 292 of 25 August

The BNB Governing Council took note of the assessments of developments in major macroeconomic indicators in the third and fourth quarters of 2022, to be published in the *Economic Review,* issue 2 of 2022.

RESOLUTION No 357 of 12 October

The BNB Governing Council took note of the BNB forecast of major macroeconomic indicators for 2022–2024 (based on data as of 30 September 2022), to be published in the *Macroeconomic Forecast,* September 2022.

RESOLUTION No 405 of 22 November

The BNB Governing Council took note of the assessments of developments in major macroeconomic indicators in the fourth quarter of 2022 and first quarter of 2023, to be published in the *Economic Review,* issue 3 of 2022.

BNB Internal Audit

RESOLUTION No 207 of 9 June

The BNB Governing Council approved the Chief Auditor's Report on the activity of the BNB Internal Audit Directorate for 2021.

RESOLUTION No 487 of 22 December

The BNB Governing Council adopted the updated strategy on the activity of the BNB Internal Audit Directorate for the period until 2025.

General Meetings

RESOLUTION No 9 of 13 January

The BNB Governing Council gave its consent to the Executive Director of BNB Printing House AD to vote at the General Meeting of Shareholders of Oberthur Fiduciaire AD for the election of Kalin Dobrev as a member of the Board of Directors of Oberthur Fiduciaire AD for a term until the expiry of the term of the current Board of Directors of the Company.

RESOLUTION No 121 of 7 April

The BNB Governing Council approved the audited and certified annual financial statements of the Bulgarian Mint EAD for 2021 and the Report of Bulgarian Mint EAD for 2021. The BNB Governing Council approved the independent auditor report of the AFA OOD for 2021. A decision was taken that the loss of the company for 2021 in the amount of BGN 292,047.45 should be covered by the Reserve Fund. The BNB Governing Council granted discharge to the members of the Board of Directors, as well as to the former member of the Board of Directors Tsvetan Buyukliiski, for their activities in 2021. The Governing Council took note of the Business Plan of the Bulgarian Mint EAD for 2022.

RESOLUTION No 149 of 28 April

The BNB Governing Council gave its consent to the Executive Director of BNB Printing Works AD to vote at the ordinary annual General Meeting of Shareholders of Oberthur Fiduciaire AD on: the adoption of the Report of the Board of Directors of Oberthur Fiduciaire AD on the activities of the company in 2021; the adoption of the annual financial statements of Oberthur Fiduciaire AD for 2021 and the report of the independent auditor Ernst & Young Audit OOD; the allocation of the profit for 2021 of BGN 2,493,061.04, as follows: 1/10 of the profit to be allocated to the company's Reserve Fund, while the remaining part, including BGN 228,689.06 of retained profit from past years, to be distributed as a dividend to the shareholders at a dividend rate of BGN 2.70 *per* share; granting discharge to the members of the Board of Directors of the entity for their activities in 2021.

RESOLUTION No 173 of 26 May

The Governing Council gave its consent the BNB Governor to authorise a representative of the BNB to vote at the ordinary General Meeting of Shareholders of Cash Services Company AD on: the adoption of the Report of the Board of Directors on the activities of the Cash Services Company AD for 2021; the adoption of the 2021 annual financial statements of the Cash Services Company AD; the adoption of the Report of the independent auditor – Grant Thornton OOD, on the audit of the 2021 annual financial statements of the Company; the distribution of the Company's profit for 2021 in the amount of BGN 973,187.66 as follows: 10 per cent of the profit in the amount of BGN 97,318.77 to be allocated to the Reserve Fund, the amount of BGN 14,039 to be provisioned for future obligations to retiring staff and the remaining profit of BGN 865,445.46 to be allocated as retained profit of the Cash Services Company AD, with no dividend to be distributed to the shareholders; the discharge of the members of the Company's Board of Directors, and the former member of the Board of Directors Lyuben Ivanov for their activities in 2021; the termination of office of the current members of the Board of Directors due to the expiration of their term of office; the Board of Directors of the Cash Services Company AD has 7 (seven) members with a term of office of three years; the approval of the proposals made by the shareholders and the election of Kalin Dimitrov Hristov, Anna Valeriyeva Manolova, Vladimir Gospodinov Vlaev, Ivaylo Russinov Glavchovski, Emil Stefanov Hristov, Tatyana Vassileva Ivanova and Irina Ivanova Martseva as members of the Board of Directors of the Company and to determine the remuneration of the members of the Board of Directors who are not going to be executive members.

RESOLUTION No 203 of 9 June

The BNB Governing Council gave its consent the BNB Governor to authorise a representative of the BNB to vote at the ordinary General Meeting of Shareholders of

BORICA AD on: the adoption of the Report on the Activities of BORICA AD in 2021 and of the annual financial statements of BORICA AD for 2021; the adoption of the Auditor's Report on the Audit of the annual financial statements of BORICA AD for 2021; the adoption of the 2021 BORICA AD Audit Committee Report; the approval of the amendments to the Statute of the BORICA AD Audit Committee; the distribution of BORICA AD's profit for 2021 as follows: out of the net profit for 2021 in the amount of BGN 8,017,087.20, BGN 5,000,301.80 shall be paid as dividend to the shareholders *pro rata* to their shares; the remaining amount of BGN 3,016,785.40 to be allocated to Additional General Reserves; the discharge of the members of the Board of Directors of the entity and the former members of the Board of Directors Violina Spassova, Teodora Petkova, Petar Andronov and Angel Gekov for their activity in 2021; termination of office of the current members of the Board of Directors Kalin Hristov, Tsvetanka Mincheva, Yuri Genov, Tatyana Ivanova, Petya Dimitrova, Georgi Konstantinov, Nedelcho Nedelchev, Georgi Zamanov and Miroslav Vichev; the election of the members of the Board of Directors Kalin Hristov, Miroslav Vichev, Tsvetanka Mincheva, Tamas Hak-Kovacs, Tatyana Ivanova, Georgi Konstantinov, Nikola Bakalov, Peter Slavov, Nikolay Spassov as members of the Board of Directors for a term of office of three years and the determination of the monthly remuneration for the members of the Board of Directors who shall not be entrusted with the management of the company; the selection of the specialised auditing company Deloitte Audit OOD as the company which shall audit and certify the annual financial statements of BORICA AD for 2022.

RESOLUTION No 212 of 9 June

The BNB Governing Council gave its consent the BNB Governor to authorise a representative of the BNB to vote at the ordinary General Meeting of Shareholders of the BNB Printing Works AD on: the adoption of the Report of the BNB Printing Works AD Board of Directors for the activities in 2021; the adoption of the audited and certified annual financial statements of the BNB Printing Works AD for 2021; the discharge of the members of the Board of Directors of the entity for their activities in 2021; the distribution of the entity's profit in the amount of BGN 5,322,179.55, as follows: 1/10 of the profit – BGN 532,217.95, to be allocated to the Reserve Fund, while the remaining part of the profit to be distributed to the shareholders *pro rata* to their shares in the Company's capital.

RESOLUTION No 427 of 6 December

The BNB Governing Council gave its consent the BNB Governor to authorise a representative of the BNB to vote at the extraordinary General Meeting of Shareholders of Cash Services Company AD on: the adoption of amendments to the Statute of the Company; the approval of the acquisition of 100 per cent of DSK - Trans Security EAD equity and the draft share purchase agreement.

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In 2022, the BNB Governing Council adopted resolutions on internal rules of the Bank (11 resolutions), public procurements and contracts[132] (28 resolutions), and organisation of the Bank activities (118 resolutions, including 22 resolutions on the organisation of banking supervision's activities and 32 resolutions on the organisation of credit institution resolution activities; one resolution related to the organisation of payment supervisions activities; 10 resolutions adopting information on the implementation of the National plan for the introduction of the euro in the Republic of Bulgaria within the competence of the BNB).

[132] Detailed information on procurement procedures is available on the BNB website, Public Procurement in Centralised Automated Electronic Public Procurement Information System (CAIS EOP), www.eop.bg.

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