



Peter Andronov
Chairman of the
Executive Board of the ABB,
Chief Executive Officer of UBB AD

Dear colleagues from the banking sector,

Accept my congratulations for the Banker's Day, which we traditionally celebrate on the 6th of December!

Unfortunately, this year we have to send our congratulations and wishes from distance despite my desire more than ever to be together.

In that unprecedented situation where not only Bulgaria but the whole world has fallen the banking sector had to adapt and to finish faster the processes of the digital transformation which we have been following for years under the pressure of the higher demand by the citizens and the companies to perform distant banking services. We put all the resources that were at our disposal to race with the time in order to provide our clients security and comfort to continue their personal and professional projects. We succeeded to demonstrate that our clients' and employees' health and security are precious and provided them with electronic environment for safe banking. Banking institutions in Bulgaria have a key role for managing the economic situation which the world confronts and we stay at our clients' disposal so far, in order to discuss their individual needs and demands.

In order to mitigate the consequences from the pandemic and to support households and businesses in Bulgaria, the Association of Banks in Bulgaria proposed and the BNB approved the "Procedure for Deferral and Settlement of Liabilities Payable to Banks and their Subsidiaries – financial institutions". The Procedure was a result of the arduous cooperation both in the sector and between the banks and the Bulgarian state institutions as for the duration of the procedure more than 100 000 requests were approved at the amount of more than 9 billion euro. Nowadays, in the period of the second Covid-19 wave, after receiving the EBA guidelines we urgently developed the amendments in the Procedure and we are going to present them shortly at the BNB for approval.

The banks more than ever confront the challenges to operate in a complex, volatile and unpredictable economic situation and they should be flexible and forward-looking. In this context, we can congratulate ourselves with the fact that our credit institutions have a surplus of capital and liquidity. The continuous growth of deposits is also a sign for the confidence of the citizens in banking institutions, which didn't stop providing funding even in the hardest months of 2020.

Despite being in the shadow of the economic and health crisis, the current year also brought good news for Bulgaria and the country made key steps towards its

more complete integration. The beginning of an economic reform comparable with the adherence of Bulgaria to the European union in 2007 was set. The Bulgarian lev was included in the exchange rate mechanism (ERM II), which is an extremely important step for the country's accession to the euro area. As of the 1st of October, 2020, Bulgaria joined the Single Supervisory Mechanism (SSM) launching the close cooperation between the BNB and ECB, and the country also joined the Single Resolution Mechanism. As a result, five banks defined as significant, fell under the direct supervision of the ECB.

Let us be guided by our common aspiration to go through these difficult times united, to be protected and supported by Saint Nicolas and to wish ourselves one peaceful, happy and mainly healthy new 2021!

Happy holiday!





Dimitar Radev
Governor of the BNB

Dear Colleagues,

We are approaching the Banker's Day in a year of unprecedented challenges: first, in relation to the consequences of the COVID-19 pandemic; and second, with the completion of the strategic project of the entry of the Bulgarian Lev into the European Exchange Rate Mechanism (ERM II), simultaneously with the accession of our country to the European Banking Union, including to the Single Supervisory Mechanism and the Single Resolution Mechanism.

From the banking sector's perspective, there are two key questions: how we have coped to date, and what is forthcoming?

Our goal, defined as early as the start of the crisis, was for the banking sector to generate solutions, rather than problems. As a result of our effort in the recent years, we were well positioned for the attainment of this goal. The banking sector 'entered' into the crisis with a Common Equity Tier 1 capital adequacy of over 19%, and with a liquidity coverage ratio of over 260%, i.e. times above the regulatory requirements.

Regardless of the good starting position, we were aware that, because of the abrupt deterioration of the environment in which banks operated, there should be new measures for further strengthening of their capital and liquidity positions. For the purpose, in March we adopted such measures with a total effect of over 8% of GDP. They comprised full capitalization of the sector's profit, significant reduction of riskier foreign exposures, and cancelling the two planned increases of the countercyclical capital buffer.

The intended effect of these measures was along two key lines: maintaining lending activity and relieving bank borrowers – companies and households, by enforcing a private moratorium, proposed by the industry, on loan repayments. The results confirm that to date this effect has been achieved. As of end-October, we not only evidence no stagnation in lending, but rather the loans to companies and households have increased on an annual basis by 2.5 % and 7.3 %, respectively. At the same time, the approved applications for deferral of payments under the private moratorium reached nearly 109 thousand at their peak in August, with gross balance sheet value of deferred loan payments of over BGN 9 billion, which is a significant financial relief for the affected companies and households.

The tasks related to the mitigation of COVID-19 consequences for banks and their customers involved a considerable effort on our part. Nevertheless, we managed to make arrangements and provide a significant contribution for the completion of the strategic task of membership of the Bulgarian lev in ERM II and accession of our country to the Single Supervisory Mechanism, by establishing close cooperation of the Bulgarian National Bank with the European Central Bank. As a result of joining the Single Supervisory Mechanism, our country also

joined the Single Resolution Mechanism. From 1 October 2020, the European Central Bank exercises direct supervision over five Bulgarian significant credit institutions, and the Single Resolution Board assumed the function of a resolution authority for these institutions and for all cross-border groups. Owing to the good preparation effort, the transition to the new supervisory regime was smooth, without any turbulence for the banks and their customers.

Therefore, the answer to the first question is that up to now we have been successfully performing both the emergency tasks caused by the pandemic and the strategic tasks facing the banking sector. The Banker's Day is a good opportunity for us to mention the contribution and to commend on and give recognition to all our colleagues for having a banking sector that is just as strong and supportive of companies, households and the entire economy, with a preserved general financial stability in the country.

The more important question for us now is what lies ahead? There is no easy answer to this question because of the development of the crisis which makes it much more uncertain in terms of parameters as compared with previous historical periods of economic and financial turmoil.

The second wave of rapid spread of COVID-19 and the new phase of the restrictive measures are once again challenging a number of sectors. The condition of the banks which perform the financial intermediation function is of key importance for the whole economy. This accounts for the Bulgarian National Bank's enormous responsibility for the fulfilment of the mandate entrusted to us by law and specifically for maintaining the stability of the banking system.

This requires that we stay traditionally focused on the high capital and liquidity requirements for banks. These requirements are not ends in themselves, but follow from the need for banks to have reserves at hand. On the one hand, the reserves allow them to absorb costs and losses arising from the worsened quality of assets in the adverse macroeconomic environment. On the other hand, they support banks' lending capacity.

Consequently, it is logical to expect that we would continue to apply the measures of the anti-crisis package, approved in March this year. Furthermore, we analyse, on an ongoing basis, the situation, and as a macroprudential supervisory authority we consider the likely scenario of a worsening economic crisis and the related significant deterioration in loan portfolios. Under this scenario, banks may need to temporarily operate under the combined capital buffers requirement, being ready to draw up and implement plans for rebuilding them.

The prospect of continuing negative developments in the economy is a reason for us to expect materialization of credit risk and deteriorated quality of assets on banks' balance sheets. It seems very likely that the trend of decreasing amount and share of non-performing exposures, seen over the last few years, may reverse. The expiry of the moratorium on deferral of loan repayments could also give rise to an increase in non-performing exposures.

This moratorium was possible on the basis of the EU-wide regulatory framework established by the European Banking Authority (EBA) in its Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis. The application of this framework has provided banks with flexibility and relieved tens of thousands of their customers, natural and legal persons, experiencing difficulties in the crisis.

In September this year a decision was taken at the EBA to phase out the moratoria on bank loan repayments; however the re-emergence of the pandemic and the new restrictive measures gave rise to an up-to-date analysis and extension of the moratoria upon introducing restrictive conditions. The Bulgarian National Bank, jointly with the other national supervisory authorities, actively participated in the EBA discussions on this topic. We are ready to quickly implement the necessary decisions in Bulgaria, subject to the conditions approved by EBA - extension until 31 March 2021 of the deadline for submission of applications for deferral of liabilities and their approval by banks, with a maximum allowable 9-month deferral, including the term of an already approved deferral on the relevant exposure.

Outside the scope of the moratorium, banks have the opportunity to individually renegotiate loans of their customers – an opportunity they have already been using. In these cases, the existing general prudential framework requires that banks reclassify exposures as restructured or in default in a timely and adequate manner. The actions of the banks in this regard will also engage the supervisory process as important input information in the supervisory review and evaluation by the Bulgarian National Bank.

The above outlines the framework for action in the short term. The main points of this framework are: continuing the previously adopted anti-crisis measures for as long as necessary, including with regard to the dividends, the risk exposures and the countercyclical capital buffer; maintaining the high capital and liquidity requirements, in this regard we are ready to respond to a scenario in which the banks may have to operate temporarily under the combined capital buffers requirement; and implementation of the newly adopted EBA framework for a moratorium on loan repayments. We are ready to activate additional measures if the development of the situation so requires.

It is very important in the difficult environment, in which we find ourselves, and strongly committed to anti-crisis measures, not to lose our strategic focus, which is aimed at successfully continuing and finalising the project we started a few years ago for joining the euro area. The Bulgarian National Bank has serious responsibilities in this process and has been ceaselessly pursuing them. So far, the BNB Governing Council has adopted concepts for the work in the main areas of activity; a package of amendments to the internal rules and regulations, as well as specific measures for resource and capacity improvement. Our full participation in the institutions of the Banking Union plays an important role in consolidating the integration process. Obviously, this is a topic that will be on the agenda in the next few years and one we will have many occasions to discuss.

Meanwhile, maintaining the capacity of the banking sector for continuity of lending activities will be our joint contribution to supporting each individual bank customer and the country's economy. As during the most difficult phases of the crisis, the banking sector should be able to take on the supportive role as a source of credit in the subsequent period of recovery and growth as well.

Despite today's crisis picture, such a period may occur relatively soon. The challenges arising from COVID-19 appeared unexpectedly and the negative results in the economy manifested themselves quickly; yet overcoming the crisis may just as likely occur in the foreseeable future, if solutions are found to effectively restrict the pandemic.

Let us mark the Banker's Day in the difficult and unprecedented 2020 on such a note of hope and optimism!





Kiril Ananiev
Minister of Finance

Dear members of the ABB,

Congratulations for the Banker's Day! Congratulations to the professional community of people who take care about the financial health of citizens, businesses and the state as a whole!

At this moment last year, the good capital and liquidity positions of banks, the reduction of non-performing loans, as well as the results of the ECB's overall assessment of six banks in the context of our country's request for close cooperation between the European Central Bank and the Bulgarian National Bank were reported. The assessment confirmed the resilience of the Bulgarian banking sector, but also showed the need to take some subsequent actions related to further strengthening the capital position of banks in order to be prepared for the worst macroeconomic scenarios. These steps were taken and today Bulgaria is already in the Banking Union and in ERM 2. On the 1st of October, the Bulgarian National Bank through the banking supervision became a full member of the Single Supervisory Mechanism. This is an important historical moment for all of us, because our country's steps towards the euro area measure not only the level of our European integration, but also our self-confidence among the countries of the financial and economic core of Europe.

We will also remember 2020 with the challenges we have faced, including the health crisis that has grown into an economic one, and the consequences for the overall policy of the government. Bulgarian banks have faced the current crisis well-prepared, due to what has been done in the recent years, they have responded adequately and continue to be in a good state. The timely response with the BNB package of measures provided additional resources in the banking system, which created the conditions for taking steps to mitigate the consequences of the crisis for businesses and citizens. Thousands of enterprises and households took advantage of the private moratorium on loan payments proposed by the banks and approved by the BNB to ease financial conditions during the most difficult period of the crisis. Banks have also been actively involved in state-funded measures through the Bulgarian Development Bank. This aspect of your activity is important for the overall picture of the successful measures that the government has taken for the health of the economy in our country and for the personal financial status of the citizens.

I cannot refrain from mentioning the achievements of the Ministry of Finance in the negotiations on the proposal of the European Commission for a regulation for targeted amendments in the Capital Requirements Regulation in response to the Covid-19 pandemic. At the initiative of Bulgaria, in coalition with other non-euro area Member States, we achieved more favorable prudential treatment of banks' exposures to euro-denominated government debt in terms of credit risk and large exposures limits within a 5-year transition period.

At the end of this year the deadline for the introduction of the so-called banking package in the national law expires. The draft laws amending the Law on Credit

Institutions and the Law on the Recovery and Resolution of Credit Institutions and Investment Firms have already been submitted to the National Assembly.

What has been achieved so far in no way diminishes our concern about what is happening now and what is to come in the next months, so we are closely following the processes and we are ready to face each of them with bold decisions. There is great uncertainty about how the health crisis and the related economic crisis will develop. In conditions of general uncertainty, it is always good for reason to win. I am counting on our constant mutual dialogue with each other to continue to meet the challenges faced by the economy with reasonable and measured steps.

Let us congratulate ourselves on the joint successes and achievements in this year, and to wish for the next one to be a healthy and less turbulent year, in order to have the strength to move forward with the clearly defined goals and challenges for our country in the financial sector.

Once again, congratulations and let's continue working successfully together for the prosperity of our country!





Boyko Atanasov
Chairman of the FSC

Dear members of the ABB,

On the occasion of Banker's Day, I would like to extend my warmest wishes for current and future professional success to Mr. Petar Andronov, Chairman of the Association of Banks in Bulgaria, to the entire Board of Directors of the Association, to Ms. Irina Martseva, General Secretary, as well as to all those who are working in the banking sector and to wish them to find a balance between perseverance in actions on the way to achieving the goals and at the same time to be flexible in your thinking. I believe that there is no better day than today for to wish you to have the will for the realization of your goals and causes, so that in the end the result will be namely satisfaction! Be bold when drawing your development strategies, because the horizon is open only to those who have the strength to reach the top!

The challenges that the world has encountered in 2020 are extremely grave socially, economically and financially, affecting every aspect of people's lives. When the crisis came to our doorstep, as professionals we had, on one hand, the choice to continue to act on momentum and use the well-trodden but sustainable models trying to lose a little, but on the other hand, the choice to create new ways of operating the market and win a lot. In this context, the leaders of the financial sector have a responsible task to plan and forecast the development of the banking and non-banking financial sector for 2021, as well as to launch various options of crisis management strategies, all with the prospect of achieving professionally the most in the current situation.

The experience gained in the banking sector from previous crises, financial capital, as well as the stability of the sector are essential in making future decisions for economic recovery both globally and locally. The current situation provides an interesting opportunity for the banking industry to reconsider its role and adapt in a timely manner to the new reality. The perspective for the banking sector is in three areas of development, which will definitely infuse new forces in the sector and will provide an opportunity to maintain stability. In the first place, there is a desire for even more flexibility in customer service through appropriate communication channels, using dynamic products and services, as well as by implementing more and more digital services in mobile fintech applications. In the second place is the adaptation to the new reality of even more sustainable and effective teams and the building of an organizational culture for work, in which to maintain good and working practices and to implement new, market-adequate conditions. In the third place is the strengthening of the role of leadership thinking, because it is the attitude of people's thinking that is the decisive factor for the success of banks in a crisis situation. For me, the successful banker knows how to provoke himself, can look beyond the horizon and see the new opportunities, knows how to arrange them like puzzle pieces and do the best he is capable of.

I am convinced that all of you, the bankers of Bulgaria, have the will and desire to focus your efforts on solving the cases of the challenge called pandemic.

You are the leaders with strategic thinking and you are ready to transform elements of the banking system so that high results are present and stability is maintained, despite the turbulence of the environment. As we know, successful people and organizations do not justify themselves, they plan and act smartly and sustainably. It can be said that the crisis has its positive sides, because it directed the spotlight to the best prepared in the field. So be prepared with a vision for team-to-country partnerships to maintain stability, be rational in assessing potentially good or bad loans in a situation where the business is in dire need of our support, and be adaptable to new requirements and regulations by the European Union and the regulators in the financial sector, because they also have the task of giving a serious response to the crisis situation.

Be healthy and successful in achieving the goals and accomplishing the causes!

Happy holiday!

