

The banking sector is positioning its role in the stage of economic recovery



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Chairperson of the
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Against the background of weakened economic activity in 2020 and early 2021, due to the global pandemic caused by the spread of COVID-19, as well as the uncertainties related to the pace of economic recovery, the banking sector expresses its readiness to continue to support businesses and households.

The timely response of global, European and national regulators by taking measures to counteract the negative effects of the pandemic, combined with the contribution of banks, allowed to maintain high liquidity and ensure credit growth, even in the most challenging months of the pandemic.

Despite some temporary measures targeted at banks and their customers, such as moratoriums on debt payments, for example, which do not continue, others related, for example, to providing more favourable regulatory treatment for banks, could become permanent. According to the European Banking Federation (EBF), of which the Association of Bulgarian Banks (ABB) is a member, the complete repeal of the emergency decision to terminate the distribution of dividends by banks, introduced due to the potential negative effects of COVID-19, would help the banks provide the necessary capital that they will need to finance the economy in the recovery phase.

The positive effects of the measures on companies and households and the condition of banks, as well as their readiness to continue supporting their customers, are evidenced by the statistics published so far and the established practice in the banking system in the recent years.

As it is known, in December 2020 the ABB proposal to extend the deadline for submission of requests by the clients of the banks under the Procedure for Deferral and Settlement of Liabilities payable to Banks and their Subsidiaries (Procedure for deferral) until the end of March 2021 was adopted by the Governing Council of the Bulgarian National Bank (BNB).

The changes in the Procedure for deferral, in addition to preserving the capacity of banks to grant new loans, enabled banks, within favourable regulatory treatment, to provide relief to borrowers to service their loans until December 31st, 2021, by deferring their obligations for not more than 9 months if they have submitted a request in time. After this period, bank customers should return to the normal scheme of loan repayment.

According to the BNB data, many legal and natural persons affected by the pandemic have benefited from the measure. Towards the end of April 2021 over 109 thousand requests of companies and households with a total value of over BGN 9.9 billion were approved. Compared to December 2020, when the BNB Governing Council approved the latest changes in the Procedure for deferral, the number of approved requests increased by approximately 19 900 and the total value - by over BGN 1.9 billion.

Earlier this year, the European Banking Authority (EBA), under whose *Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis (EBA/GL/2020/02 of the 2nd of April 2020), amended by EBA Guidelines (EBA/GL/2020/08 of the 25th of June 2020), amending Guideline EBA/GL/2020/02 and by EBA Guidelines (EBA/GL/2020/15 of the 2nd of December 2020) amending Guideline EBA/GL/2020/02*, the Procedure for deferral has been established, indicated that it does not envisage new changes to its Guidelines, but that the focus of the industry and stakeholders should shift to the recovery phase of the economy.

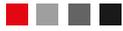
In this regard, and despite the fact that they operate in an environment unusual for all economic sectors in the country, accompanied by restrictive measures taken in connection with the COVID-19 pandemic, banks continue to support their customers. Banks are currently negotiating individually the specific options for restructuring customer liabilities, in which case loans are classified in accordance with the current supervisory framework.

At the end of the first quarter of 2021 the ratio of core tier 1 capital (the so-called CET 1) for the entire banking system increased to 21.5% from 19.44%, as it was at the end of the first quarter of 2020. At system level, the total capital adequacy ratio increased to 22.7% from 20.45% in the first quarter of 2020. The liquidity coverage ratio (LCR) increased to 294.1% from 261% at the end of the first quarter of 2020. At the end of the first quarter of 2021 the share of non-performing loans remains below the limit of 5% (excluding central banks and credit institutions; over 90 days), with a higher degree of coverage with impairment of gross non-performing loans (62.7%), compared to the average level for the countries from the European Union (EU).

The data confirm the assessment of high resilience of the Bulgarian banking system, even in the context of the crisis caused by COVID-19. The sector continues to be characterized by a significant capital surplus, above the regulatory requirements for capital adequacy and liquidity coverage ratios, compared to the EU and euro area averages.

As is known, in the difficult situation in 2020 banks have also been involved in various types of government programs directed to lending to individuals and micro, small and medium-sized and intermediate enterprises that are experiencing difficulties as a result of the COVID-19 pandemic through the Bulgarian Development Bank, the Fund of Funds, as well as the group of the European Investment Bank, including the European Investment Fund.

Positioning their role in the stage of economic recovery, banks will continue with their active policy and presence in terms of lending and various forms of financial intermediation, as well as the diversification of products and services they offer. High technology, innovation, the development of digital channels and other modern ways to maintain a closer relationship with customers and a better understanding and satisfaction of their individual needs will continue to be a key topic for the banking activities.



BALII: 24 years of focused work on the development of a modern capital market



Radoslava Maslarska
Chairperson of the
Board of Directors of BALII
Chairperson of the
Board of Directors of "Elana Trading"

The Bulgarian Association of Licensed Investment Intermediaries (BALII) is one of the oldest branch organizations in the country, established in 1997 as a union of licensed companies offering broker and investment services. The Association includes the largest licensed investment intermediaries, representing 80% of the turnover and 90% of the Bulgarian stock exchange transactions, as well as reputed intermediaries in global financial markets.

The main focus of BALII's work is to be the engine of the strategic development of the capital market in the country as a source of growth in the Bulgarian economy and prosperity for the future of the citizens. This is related to a wide program of initiatives, in partnership with all institutions and organizations from the investment community but also with government bodies.

BALII has a Board of directors of seven people and a Secretary General, as its activities are organized in the form of working groups on various topics on the programs and initiatives.

Legislation

BALII actively cooperates with the Financial Supervision Commission and the Ministry of Finance on the improvement of the legislative framework for the development of the capital market and on promoting investments by proposing the necessary measures in draft regulations and legal acts. The focus on the work on harmonizing the national legislation with the European legislation is the application of parameters and regulation proportional to the market and the economy. The organization also participates actively in the discussions on the legal initiatives in Working Group No 26 "Financial Services" in the Council on European Affairs at the Council of Ministers and Parliamentary Committees in the National Assembly. Currently, besides the legal acts that harmonize the national legislation with European, BALII also participates in the discussion of the National Plan for the introduction of the euro.

Strategy for the development of the capital market

BALII is actively involved in the development and implementation of the Capital Market Development Strategy, which was established in 2016, by 12 business organizations and associations directly related to the capital market in the country and the Financial Supervision Commission, the Bulgarian Stock Exchange and the Central Depository. The main directions in the strategy are: promoting the listing of state-owned companies on the Bulgarian Stock Exchange, stimulating SMEs for the use of the Stock Exchange as a source of

funding for growth, enriching the opportunities of the stock market to stimulate liquidity, modernization of market infrastructure, stirring the “sleeping” shares of mass privatization, increasing the financial culture in society.

A number of new projects from the Bulgarian Stock Exchange have already been introduced into a joint discussion with the investment community that have proven their effect. For example, the introduction of a market segment for small BEAM companies has attracted new companies for several months and a huge interest from individual investors to the market. In this market we saw for the first time in 14 years overwriting at times in initial public offering as well as an increasing number of requests from companies that would like to become public. The BSE International project has recently been implemented, which allows investors to have access to the shares of 90 World Companies and Exchange Traded Funds through the BSE. BALII participated actively in the additional initiatives to develop this segment - BEAMup LAB - an incubator of potential public fast-growing start-ups and small companies.

The strategy contains a number of measures to increase market liquidity, to improve its reputation as a driver of economic growth, to increase financial culture in society. BALII works in partnership with all participants with specific ideas for expanding investment opportunities, attracting SMEs on the Bulgarian stock market and other important topics.

Financial literacy and investor protection

BALII works consistently for enhancing the financial culture of citizens and improving and updating the professional standards and development of the capital market experts. The organization participates in the development of the National Financial Literacy Strategy and is part of its realization.

An important direction in improving financial culture and overcoming the negative phenomena on the market is the fight against fake brokers, which offer unlicensed investment services ending with financial fraud for citizens. BALII cooperates with the Financial Supervision Commission in regular update on the existence of such phenomena and to improve the legal basis through creating conditions and sanctions to limit that phenomenon. Considering the role of citizens to minimize financial fraud, BALII maintains an information campaign “Recognize the licensed investment intermediary” indicating 10 signs by which people can easily recognize the fake brokers and to check whether they receive a licensed service. Partners of the campaign are the Financial Supervision Commission, the Bulgarian Stock Exchange, the Investor Compensation Fund, the Central Depository, trader organizations and media.

For 12 years, BALII conducts courses for the preparation of brokers and investment consultants to take legal qualification examinations before the Financial Supervision Commission. The participants in the courses traditionally have over 80% success in exams. The Association supports the FSC with proposals for adequate standards for the capital market occupations so as to maintain a high professional level in the sector.

Participation in the institutional life of the financial sector

BALII has closely partnered with all the financial sector organizations, including the Association of Banks in Bulgaria (ABB), with which works jointly on much of the legislative initiatives, the guarantee scheme for the capital market and at present on the National Plan for the introduction of the euro. Recent good examples of BALII's cooperation with the ABB are the joint work on the Law on Recovery and Resolution of Credit Institutions and Investment Intermediaries; work on the amendments of the Code of Taxation and Insurance Procedure related to the automatic exchange of tax information and the implementation of FATCA, CRS and DAC2. Our cooperation is being fruitful in developing the priorities that are included in the Second Phase of the Capital Markets Union Plan.

BALII is represented in the management bodies of the Bulgarian Stock Exchange, the Investor Compensation Fund, the Central Depository, as well as in the Users Committee and the Court of Arbitration at the Central Depository, in the Conciliation Committees at the Consumer Protection Commission and others.

The Association is a participant in the European Union Transparency Register, presenting to the European institutions positions on matters regarding the financial sector.



Who counts our money?

(The unnoticed work of counting and processing our money and its automation)



Anna Manolova
CSC Executive Director

Every legal or natural person uses cash in its activities. No matter how hard we try to avoid working with cash, it is still an integral part of our lives and we are all dependent on it. Banknotes and coins in Bulgaria are the preferred means of payment in all restaurants, pharmacies, gas stations and institutions.



Vladimir Vlaev
CSC Executive Director

Regardless of whether we withdraw money at the bank counter or receive the money from an

ATM device, we always want to get banknotes in good condition that are clean, without scratches, tears or inscriptions on them and most importantly, the packs to contain the exact amount. This easy, at first glance, job of withdrawing or depositing money in a bank or ATM device, however, has many hidden activities behind it. The simplest thing is that the bank branch cannot maintain cash availability of millions, and the device has a capacity and not much money can be withdrawn from it, as well as to be deposited. This impossibility of storing large quantities of banknotes, in itself, suggests that this money must reach the bank's account, to be counted and those that can no longer be used must be separated.

The process in which the cash reaches the accounts of the banks within the BNB, it is counted and sorted by suitability is the work in which the Cash Services Company AD (CSC) specializes. This is the business related to the counting and processing of banknotes and coins, which is strictly regulated by the BNB legislation and is carried out by the Company.

The main task of the Company is to reduce the costs of banks in servicing cash circulation, while, at the same time, increasing its "purity". To achieve this task, the classic approach of cost optimization is applied, namely, automation of all activities in order to reduce staff and time spent on the various processes - receiving, announcing and processing money. The automation of money counting is a process that is applied gradually and continuously in the work of the CSC.

The counting and sorting of banknotes in the CSC at its establishment was done with banknote processing machines that were not connected to the information system and after counting and sorting the money the data about them were entered into the system by a cashier. The analyses of that process have shown that, on the one hand, technical errors are made during the entry, and on the other hand, the time spent entering the information is close to the time for processing the money in a valuable shipment. The first step towards the automation of money counting at the CSC was made in this process. New banknote sorting machines were purchased, as they were connected to the information system and immediately after counting the money from the valuable shipments, the machines automatically submit the information about the number and their denomination structure to the system. Thanks to this automation, staff reduction has been achieved and the cost of counting money has been reduced.

The next process automated by the CSC was the reception and announcement of valuable shipments. In practice, in this activity an employee of the company receives from a collector and announces detailed information about each of the valuable shipments - importer, value, grounds for payment, denomination structure. The data thus announced is transmitted to the information systems of the banks and serves for subsequent verification of the respective customer accounts. Due to its importance, as well as due to the constantly growing number of received valuable shipments, a large human resource is involved in this process and, at the same time, a high concentration of attention is required.

In order to achieve cost savings and, in parallel, to provide accurate information to the banks, the company initially developed a web application (eCash), which is provided for use by end customers. In the application, the customer enters all the data for the valuable shipment and they are loaded into the company's system. Upon acceptance of the shipment, a CSC employee enters the number of the valuable shipment and all the information about it is visualized in front of him. Thus, instead of writing all the data, the employee just checks the data and confirms it.

Subsequently, the automation continued, as information exchange between the systems of the collection companies and the system of the CSC was built. As soon as the shipment is accepted by a collector at the client's site, the information about it is sent to the CSC system and the shipments are announced only by confirmation of the data.

The automation of the acceptance process covered about 80% of the incoming customer shipments and thus by keeping the number of employees, the amount of the valuable shipments that are announced is almost three times higher.

As far as the maintenance of ATM devices and in particular the filling and checking of the contents of ATM cartridges are one of the main business processes in the company, they were the next unit of activity, which was analysed and in which a number of innovations were introduced. Banknote sorting machines were purchased, which allowed the ATM cartridges to be filled directly with the counted money from the valuable shipments. This automation has achieved both a reduction in the time for filling ATM cartridges and a significant saving of production materials as the money is not wrapped and packaged, but placed directly in the cartridges.

Thanks to all implemented technological innovations, the process of counting and sorting money in the CSC has become more secure and economical. The high automation allowed the company in the conditions of the emergency epidemiological situation to keep all health requirements and at the same time, to work without interruption, as the company has never had a delay in the processing of money.



IN BRIEF

■ In April the Annual General Assembly of the ABB was held. Mrs. Diana Miteva – Executive Director of DSK Bank AD and currently Deputy Chairperson of the Executive Board of the ABB was elected by the members of the Executive Board as a Chairperson of the Executive Board of the ABB. Mrs. Teodora Petkova – Chief Executive Officer of UniCredit Bulbank AD was elected as a Deputy Chairperson of the Executive Board of the ABB.

New members of the Executive Board of the Association were elected at the Annual General Assembly of the ABB, held on April 27th, 2021. Mrs. Petya Dimitrova – Chief Executive Officer of Eurobank Bulgaria AD and Mrs. Dessislava Simeonova – Executive Director of UBB AD were elected for a first term. Mr. Oliver Roegl – Chief Executive Officer of Raiffeisenbank (Bulgaria) EAD was re-elected as a member of the executive body of the Association for a second three-year term.

Mr. Georgi Konstantinov – Executive Director of Central Cooperative Bank AD and Mr. Georgi Zamanov – Chief Executive Director of Allianz Bank Bulgaria AD continue their membership in the Executive Board of the ABB.

The current Chairman of the Executive Board of the Association – Mr. Peter Andronov, Chief Executive Officer of UBB AD, resigned from its governing body after the expiration of the maximum allowable two consecutive three-year terms according to the Articles of the ABB Statute.

The members of the General Assembly of the ABB expressed high appreciation and gratitude to Mr. Peter Andronov for his significant long-term contribution to the activities of the Association, and wished him success in his forthcoming appointment as a member of the Board of KBC Group and Chief Executive Officer of the Group's International Markets.

■ In April the ABB nominated its representatives for participation in the recently created Working Group “Non-Bank Financial Sector”, according to the Appendix under Art. 10, para. 1 of Decree N° 168 of the Council of Ministers for the establishment of a Coordination Council for preparation of the Republic of Bulgaria for membership in the euro area. Mr. Yavor Dozhdevski, Deputy Chairman of the Capital Markets Committee at the Executive Board of ABB, Citibank Europe - Bulgaria Branch, and Ms. Irina Kazandjieva, Head of division Banking Policy and Analysis, were nominated by the ABB to participate in the Working Group.

■ In April, the ABB received an invitation from the Ministry of Finance to nominate ABB representatives to participate in the Sustainable Finance Subgroup of WG 26 Financial Services to support its work. The ABB proposed for participation in the Subgroup Sustainable Finance at WG 26: Ms. Irina Kazandjieva, Head of division Banking Policy and Analysis at the ABB, and Mr. Svilen Kolev, Expert in division Banking Policy and Analysis at the ABB.

■ In May, the ABB's nominations for the participation of Mr. Ivan Raichkov from UniCredit Bulbank and Mr. Radoslav Daskalov from Eurobank Bulgaria /Postbank/ in the Scheme Evolution and Maintenance Working Group (SEMWG) at the European Payments Council as ABB representative for a two-year term was approved. Mr. Raichkov will be the incumbent representative of the ABB and Mr. Daskalov will be his alternate.