Notification template for Articles 133 and 134(5) of the Capital Requirements Directives (CRD) – Systemic risk buffer (SyRB)

Template for notifying the European Central Bank (ECB)and European Systemic Risk Board (ESRB) of the setting or resetting of one or more systemic risk buffer rates pursuant to Article 133(9) CRD and to request that the ESRB issue a recommendation to other Member States to reciprocate the measure under Article 134(5) CRD

Please send/upload this template to

- macropru.notifications@ecb.europa.eu when notifying the ECB (under Article 5 of the Single Supervisory Mechanism (SSM) Regulation[1]);
- notifications@esrb.europa.eu when notifying the ESRB.

The ESRB will forward the notification to the European Commission, the European Banking Authority (EBA) and the competent and designated authorities of the Member States concerned without delay. This notification will be made public by the ESRB once the relevant authorities have adopted and published the notified macroprudential measure[2].

E-mailing/uploading this template to the above addresses constitutes official notification; no further official letter is required. To facilitate the work of the notified authorities, please send the notification template in a format that allows the information to be read electronically.

1. Notifying national authority and scope of the notification	
1.1 Name of the notifying authority	Bulgarian National Bank
1.2 Country of the notifying authority	Bulgaria
1.3 Type of measure (also for reviews of existing measures)	Which SyRB measure do you intend to implement? ☐ Activate a new SyRB ☐ Change the level of an existing SyRB ☐ Change the scope of an existing SyRB (incl. changes to a subset of institutions or exposures) ☐ De-activate an existing SyRB ☒ Reset an existing SyRB (review)

[1] Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (OJ L 287, 29.10.2013, p. 63).
[2] On request by the notifying authority, it may be agreed with the Head of the ESRB Secretariat that this notification, or a part thereof, should not be published for reasons of confidentiality or financial stability.

2. Description of the measure

<table>
<tr><td>2.1 Institutions covered by the intended SyRB</td><td>

☒ All institutions authorised in the Member State

☐ One or more subsets of credit institutions in the sector (please provide the names and identifiers (Legal Entity Identifier (LEI) code) of institutions covered)

<table>
<tr><th>Name of institution</th><th>LEI code</th><th>Consolidation level</th></tr>
<tr><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td></tr>
</table>

☐ A subsidiary whose parent is established in another Member State. (Please provide the names and identifiers (LEI code) of subsidiaries)

<table>
<tr><th>Name of subsidiary</th><th>Name of the parent</th><th>LEI code of the subsidiary</th></tr>
<tr><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td></tr>
</table>

</td></tr>
<tr><td>2.2 Exposures covered by the SyRB

(Article 133(5) CRD)</td><td>

☒ (a) all exposures located in the Member State that is setting the buffer;

☐ (b) the following sectoral exposures located in the Member State that is setting the buffer:

(i) ☐ all retail exposures to natural persons that are secured by residential property;
(ii) ☐ all exposures to legal persons that are secured by mortgages on commercial immovable property;
(iii) ☐ all exposures to legal persons excluding those specified in point (ii);
(iv) ☐ all exposures to natural persons excluding those specified in point (i);

☐ (c) subsets of any of the sectoral exposures identified in point (b). Please specify the subsets in Section 2.3;

☐ (d) all exposures located in other Member States;

☐ (e) exposures located in third countries.

</td></tr>
<tr><td>2.3 Subsets of sectoral exposures</td><td>

N/A.

<table>
<tr><th>Dimensions/subdimensions</th><th>Elements</th></tr>
<tr><td>1. Type of debtor or counterparty sector</td><td></td></tr>
<tr><td>1.a Economic activity</td><td></td></tr>
<tr><td>2. Type of exposure</td><td></td></tr>
<tr><td>2.a Risk profile</td><td></td></tr>
<tr><td>3. Type of collateral</td><td></td></tr>
<tr><td>3.a Geographical area</td><td></td></tr>
</table>

</td></tr>
</table>

	-
2.4 Exposures located in other Member States and in third countries	N/A..

2.5 Buffer rate

(Article 133(9)(e) CRD)

Exposures	**New SyRB rate**		**Previous SyRB rate**	
	All institutions (SyRB rate)	**Set of institutions** (range of SyRB rates)	**All institutions** (SyRB rate)	**Set of institutions** (range of SyRB rates)
(a) All exposures located in the Member State that is setting the buffer	3.0%	% - %	3.0%	
(b) *The following sectoral exposures located in the Member State that is setting the buffer:*				
(i) All retail exposures to natural persons that are secured by residential property	%	% - %		
(ii) All exposures to legal persons that are secured by mortgages on commercial immovable property	%	% - %		
(iii) All exposures to legal persons excluding those specified in point (ii)	%	% - %		
(iv) All exposures to natural persons excluding those specified in point (i)	%	% - %		
(c) All exposures located in other Member States	%	% - %		
(e) Exposures located in third countries	%	% - %		
(f) *Subsets of any of the sectoral exposures identified in point (b):*				
(i) Please specify the subset [Dimension/subdimensions]	%	% - %		

N/A.

Set of institutions				
Exposures	**Name of institution**	**LEI code**	**New SyRB rate**	**Previous SyRB rate**
			%	
			%	
			%	

3. Timing for the measure

3.1 Timing for the decision	03/12/2021
3.2 Timing for	06/12/2021

publication	
3.3 Disclosure	The BNB will announce on its web-site the Governing Council decision to maintain an existing 3% SyRB applicable to all banks based on all exposures in Bulgaria. Along with the rate, date and the scope of application, the justification for the systemic risk buffer will also be announced. https://www.bnb.bg/BankSupervision/BSCapitalBuffers/BSCBSystemicRiskBuffer/index.htm
3.4 Timing for application	03/12/2021
3.5 Phasing in	Without phase-in. The initial activation of SyRB was in 2014. On 31 October 2017 the BNB Governing Council reaffirmed the measure. On 15 October 2019 the BNB Governing Council reaffirmed the measure.
3.6 Review/deactivation of the measure	The SyRB buffer will be reviewed every two years.
4. Reasons for the notified SyRB	
4.1 Description of the macroprudential or systemic risk in your Member State **(Article 133(9)(a) of the CRD)**	BNB introduced the SyRB in 2014 at the rate of 3% on the banks' risk exposures in Bulgaria and subsequently reaffirmed the measure in 2017 and 2019. The ultimate goal is to safeguard the resilience of the banking sector and accordingly the depositors' trust and interests. The decision reflects the BNB conservative capital policy relative to the particular structural systemic risks of the economic environment in which the Bulgarian banking sector operates. The Bulgarian financial system is bank-based. A significant share of household and corporate savings goes through the banking sector to the borrowers, in the absence of well-developed savings and finance alternatives (such as bonds and equities). The banking sector is the key channel providing access to finance to households and corporates. The stage of development of the national economy and the banking sector engages a conservative assessment of macroprudential risk and potential vulnerabilities in line with the stringent supervisory approach towards credit institutions under the Currency Board.
4.2 Reasons why the dimension of the macroprudential or systemic risks threatens the stability of the financial system in your Member State **(Article 133(9)(b) CRD)**	Considerations have been made on the propagation of risks in Bulgaria - a small open economy with bank-centred financial system. The domestic banking sector is the main source of debt financing to households and has a key role in funding the sector of non-financial corporations. As potential disruptions in financial intermediation through the banking system may give rise to adverse feedback loop between banks and the real economy, ensuring resilience of credit institutions is of key importance. As the banking sector operates in an environment of systemic impediments to the long-term economic growth it needs additional agility to be able to function sustainably in case domestic or external shocks amplify further these constrains. Potential negative effects on the economy could stem on one hand from the labour supply characterized in the long term with aging issues (negative growth, high migration) and the need for improvement of education to address skill mismatch and on the other hand from the concerns relating to enforcement of contracts and regime of corporate insolvencies. In addition to these long term factors, recently the healthcare system is struggling to deal with a consecutive

	COVID-19 pandemic wave in Bulgaria. The above structural risks and economic environment challenges have persisted, and even risen, in recent years in Bulgaria. The present SyRB level has been among the factors enabling banks to undergo the COVID-19 period with strong capital position. Given the positive macroprudential experience historically, as well as the fact that the aforementioned risk factors are likely to stay over the planned horizon, a SyRB level at least equal to the current one is justified in terms of providing loan loss capacity against realisation of structural risks threatening the stability of the banking and financial system in Bulgaria.
4.3 Indicators used for activation of the measure	To support the analysis and motivate the decision the BNB uses variety of metrics to monitor macroprudential risks to the banking system and the real economy. The majority of indicators focus on long-term risks of non-cyclical nature. The time series of indicators are organized in three dimensions: 1) Risk stemming from structural characteristics of the banking sector: Role in financial intermediation; Assets'/ Liabilities' and Earnings' composition reflecting the business model; Concentration and Interconnectedness 2) Inherent risks for the banking sector activities: Capital adequacy, Assets quality, Profitability and efficiency and Liquidity and 3) Macroeconomic development as exogenous risks factors for the banking system. The banking sector has a leading role in the financial intermediation in relation to the size of the economy, as well as its share in the financial system. The banking system assets maintain a ratio of close to 100% of GDP, while the share in the financial system is over 2/3. A specific feature of the banking sector is the significant volume of deposits covered by DGS. Since the introduction of the SyRB in 2014, the DGS deposits to GDP represent more than 50%. The concentration of financial intermediation remains moderate, but increasing due to the consolidation processes in recent years. The share of the five largest banks increased from 59.9% in the last review to 66.6% in the course of 2021. Accordingly, the HHI of total assets grew to over 1100 bps. The traditional business model of Bulgarian banks relating to maturity transformation and liquidity management is reflected in the composition of assets, liabilities, earnings and funding. The loan portfolio represents more than half of the balance sheet; the currency structure of the loan portfolio is 67% in BGN, 31% in EUR and 2% in other currencies. The share of financial instruments vulnerable to market risk continues to be negligible. On the funding side, deposits from the private sector form more than 90% of the total liabilities, with similar FX structure dominated by BGN with 62% share and EUR with 31% share. The traditional form of financial intermediation results in a significant reliance on the net interest income as source for earnings, which due to the low interest environment among other factors is on a continuous downward trend. Against this background, non-core alternative sources with intrinsic volatility such as fees and commissions income peaked. In terms of interconnectedness with the private sector, the financial links to households and non-financial corporations are sizeable and without an analogue with the non-banking sector. The provision of credit is 9 times higher than the next largest sector for providing financing. In addition, the banking sector is the only part of the financial system that attracts funds from all other financial sectors. The inherent risks to the banking sector activities are reflected in high capital and liquidity requirements, main focus on credit risk, and continuous profitability that correlates closely with the cycle. Since the introduction of the SyRB in 2014, the capital adequacy ratio remains above 20%, which follows the actively applied conservative supervisory policy of BNB. Acknowledging the fundamental characteristics of the banking sector and the environment, the regulatory engaged capital has been persistently kept above the prescribed minimum in Basel II and III. Thus the implementation of the SyRB preserves the already built-up capital and does not pose additional burden on banks and the credit supply. In addition, the risk exposures for credit risk maintain the predominant part of REA with around 90% share. With regards to liquidity, liquid assets have been consistently above 25% of total assets. In terms of asset quality, the credit risk from NPLs is the main

	challenge banks face as a result of the business model. Given the traditional form of intermediation, the structural specifics, and the external environment, the banking sector is particularly susceptible to loan losses. In the period 2009-2013 after the GFC, the actual amount of total loan losses in terms of RWA were 15.1%, which makes it a 3.0% a year on average. The maximum amount of losses was registered in 2010 in the amount of 4.6% of RWA. Supervisory stress tests also confirm the high intrinsic vulnerability of the banking sector towards credit risk. Additional vulnerability stems from the prolonged duration of litigation procedures when managing the NPLs, which could take between 2 and 5 years on average to conclude. The high level calibration of the SyRB takes into account both the observed actual losses and the stress test estimates. On earnings, the banking system remains profitable with cyclical depending returns, while cost to income is maintained at 50%. The macroeconomic development highlights sources of potential vulnerability stemming from the economic openness, the significant home-bias of the bank-sovereign nexus, and effects stemming from the economic convergence processes. The Bulgarian economy is small and open with traditional trading partners. The share of the top 5 largest import and export countries has remained broadly the same. The financial soundness of sector "General Government" is stable with increased favourable servicing conditions. Although, the low level of government debt in terms of GDP, the predominant part of it is located in Bulgarian banks. Taking the risk indicators in combination, the current analysis does not point to a structural change in the macroprudential risks that would require a calibration in the level or in the scope of the SyRB.
4.4 Effectiveness and proportionality of the measure **(Article 133(9)(c) CRD)**	Since its introduction in 2014 the measure proved effective to address the macroprudential and systemic risk in Bulgaria by preserving the built-up capital and enhancing resilience in all institutions. The higher level of capital facilitates the supportive role of the banking sector in the convergence process of the national economy towards higher competitiveness and productivity, thus contributing to continuous economic growth and development. Over the years, the assessment shows that the SyRB does not represent additional regulatory burden for banks. Against the backdrop of heightened economic uncertainty at present, the role of the systemic risk buffer remains crucial.
4.5 Reason why the systemic risk buffer is not duplicating the functioning of the O-SII buffer provided for in Article 131 CRD **(Article 133(9)(f) CRD)**	Other macroprudential measures alone or in combination are not sufficient to cover the systemic risk that is structural in nature, which stems from the key role of the banking system for both the financial stability and the sustainability of national economy. By the design, scope and objectives the O-SII buffer targets different type of risks. For banks identified as O-SIIs, depending on their overall score, the O-SII buffer rates are between 0.5% and 1% since 1st of January 2020 (the end of the three year phase-in period). The aim is to limit the contagion effects stemming from potential stress event in a systemically important bank to other institution or to the entire banking system.
5. Sufficiency, consistency and non-overlap of the policy response	
5.1 Sufficiency of the policy response	With regards to the combination of all institutions in scope and the high level, the applied buffer is assessed as sufficient to significantly prevent and mitigate macroprudential or systemic risks. The buffer calibration reflects the structural specificities of the Bulgarian banking sector and the economy. The structural measure is of preventive character and thus it preserves the capital in all institutions.
5.2 Consistency of application of the policy response	The instrument is consistent with the goal of limiting the potential negative impact of macroprudential or systemic risks. The measure is applied under Article 133 of the Capital Requirements Directive (CRD) and Article 12 of the Ordinance No. 8 of the BNB on Banks' Capital Buffers. In addition, the measure is in line with the consistently applied macroprudential policy of BNB to maintain high capital buffers for enhanced banking resilience.

5.3 Non-overlap of the policy response	The instrument is addressed to limit macroprudential or systemic risks. The instrument is thus calibrated accordingly to the respective systemic risk that is structural in nature, which stems from the key role of the banking system for both the financial stability and the sustainability of national economy in the long term. There are no other measures that target the systemic risk of all credit institutions and thus there is no overlap present with other policy instruments.
6. Cross-border and cross-sector impact of the measure	
6.1 Assessment of cross-border effects and the likely impact on the Internal Market **(Article 133(9)(d) of the CRD and Recommendation ESRB/2015/2[3])**	As the SyRB scope is limited to the domestic exposures the cross-border effects of the implementation of the measure are not material.
6.2 Assessment of leakages and regulatory arbitrage within the notifying Member State	The assessment shows limited potential for such regulatory arbitrage as the design of the SyRB requires its application on individual as well as on consolidated level.
6.3 Request for reciprocation by other Member States **(Article 134(5) CRD and Recommendation ESRB/2015/2)**	Considering the banking system current structure and concentration, as well as the nature of the measure – a requirement to hold CET1 capital to build-up resilience against the macroprudential risk in Bulgaria - the reciprocation by other Member States is not required.
6.4 Justification for the request for reciprocation by other Member States **(Article 134(5) CRD and Recommendation ESRB/2015/2)**	N/A.

[3] Recommendation of the European Systemic Risk Board of 15 December 2015 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2015/3) (OJ C 97, 12.3.2016, p. 9).

7. Combination of the SyRB with other buffers	
7.1 Combination with G-SII and/or O-SII buffers **(Article 131(15) CRD)**	The sum of the systemic risk buffer and the O-SII buffer rate is below 5% for all institutions. There is no G-SII institution operating in Bulgaria. The O-SII buffer is applied to 8 institutions in the range of 0.5% and 1.0%.

Name of institution	G-SII/O-SII buffer rate	O-SII consolidation level	Sum of G-SII/O-SII and SyRB rates
UniCredit Bulbank AD	1.0%	Individual and consolidated level	4.0%
DSK Bank AD	1.0%	Individual and consolidated level	4.0%
First Investment Bank AD	1.0%	Individual and consolidated level	4.0%
United Bulgarian Bank AD	0.75%	Individual and consolidated level	3.75%
Eurobank Bulgaria AD	0.75%	Individual level	3.75%
Raiffeisenbank (Bulgaria) EAD	0.75%	Individual and consolidated level	3.75%
Bulgarian Development Bank EAD	0.50%	Individual and consolidated level	3.50%
Central Cooperative Bank AD	0.50%	Individual and consolidated level	3.50%

7.2 Combination with other systemic risk buffers **(Article 133(11) and (12) CRD)**	N/A. No subsidiary of a parent in another EU Member State would be subject to a combined systemic risk buffer rate above 3%..
8. Miscellaneous	
8.1 Contact person(s)/mailbox at notifying authority	Stoyan Manolov, Director General, Banking Supervision Department, Bulgarian National Bank, e-mail: manolov@bnbank.org Elisaveta Pravova, Director of Macroprudential Supervision and Financial Stability Directorate, Banking Supervision Department, Bulgarian National Bank, e-mail: pravova.e@bnbank.org Ventsislav Hristev, Head of division at Macroprudential Supervision and Financial Stability Directorate, Banking Supervision Department, Bulgarian National Bank, e-mail: hristev.v@bnbank.org
8.2 Any other relevant information	N/A.
8.3 Date of the notification	03/12/2021