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]);
- DARWIN/ASTRA 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authority, it may be agreed with the Head of the ESRB Secretariat that this notification, or a part thereof, should not be published for reasons of confidentiality or financial stability.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>
Please indicate whether the SyRB applies to:

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

(Article 133(5) CRD)</td><td>
Please indicate the exposures to which the SyRB applies:

☒ (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>
</table>
</td></tr>
</table>

	2.a Risk profile / 3. Type of collateral / 3.a Geographical area -
2.4 Exposures located in other Member States and in third countries	N/A
2.5 Buffer rate (Article 133(9)(e) CRD)	see tables below

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	07/12/2023

3.2 Timing for publication	11/12/2023
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 their risk 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	07/12/2023
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. On 3 December 2021 the BNB Governing Council reaffirmed the measure.
3.6 Review/deactivation of the measure	The SyRB buffer will be reviewed every two years. The SyRB addresses the macroprudential risks on the background of structural, economic, social and other challenges including: 1) concentration of household savings in the banking sector and related implications for the DGS; 2) dominance of banks in financial intermediation in Bulgaria and the lack of appropriate substitutability with the non-bank financial sector services; 3) presence of long-term impediments to economic growth such as declining and aging population, along with a need to streamline the education system toward providing required skillset; a need to improve efficiency in the NPL litigation; 4) limited lender of last resort function of the BNB under the currency board. A downward adjustment/deactivation of the SyRB would be considered in case the level, intensity, and trends in long-term structural risks and challenges decrease.
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, 2019 and 2021. 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 and political environment in which the Bulgarian banking sector operates. The Bulgarian financial system is bank-based. The financial intermediation of banks to the private sector is without an analogue, as 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 all credit institutions especially in the absence of an active monetary policy under the functioning Currency Board and the function of lender of last resort. The main macroprudential risks targeted are grouped in the following categories: ➢ Risks stemming from structural characteristics of the banking sector including size and importance of banks' financial intermediation;

	➢ Inherent risks of the banking sector's activities including asset quality and vulnerabilities; ➢ Exogenous risks for the banking system, stemming from macroeconomic developments, including economic openness and impediments to long-term economic growth.
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 channel for savings accumulation and a major provider of financing for households and 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 continues to operate in an environment of systemic impediments to the long-term economic growth (such as unfavourable demographic developments and inefficient judiciary system) it needs additional agility to be able to function sustainably in case domestic or external shock amplifies further these constrains. The above structural risks and economic environment challenges have persisted, and even risen, in recent years in Bulgaria. The structural composition of the targeted risks remains overall unchanged relative to the period 2009-2013 after the GFC and to 2014 when the SyRB was introduced. During the former the realized losses expressed as percent of RWA were 15.1% or 3.0% yearly on average with maximum of 4.6% in 2010. By introducing the SyRB the BNB followed the important goal of preserving the regulatory accumulated capital cushion. The present SyRB level has been among the factors enabling banks to undergo recent adverse periods with strong capital position. Given the positive macroprudential experience historically, and considering that the above-mentioned risk factors are likely to remain present over the review horizon, a SyRB level at least equal to the currently applicable 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 structural indicators to monitor macroprudential risks to the banking system and the economy. The indicators focus on long-term risks of non-cyclical nature. The time series encompass indicators on semi-annual and annual basis where applicable since 2009 and are organized in the three targeted risk dimensions: 1) Risk stemming from structural characteristics of the banking sector: - Banking sector Assets to GDP; - Deposits under deposit guarantee schemes (DGS) to Total deposits; - Share of banking assets in the financial system; - Loan to Deposit ratio; - Share of Loans and advances to Total assets; - Income from traditional banking intermediation (NII and NFCI) to Total income; - Share of private sector deposits to total liabilities. 2) Inherent risks for the banking sector activities: - Risk exposures to Total assets; - Banks with NPL ratio over 5%, share of total loans; - Banks with S2 ratio over 5%, share of total loans; - Nonperforming loans (NPL) coverage; - Average duration of NPL litigation (years); - Share of variable rate loans; - Stress test impact of credit risk losses to CET 1 ratio; - Liquid assets to Total assets; - Cost to Income ratio; - Cost of Risk ratio. 3) Risk stemming from macroeconomic development as exogenous risks factors: - Trade openness;

	- Share of top 5 largest countries in import; - Share of top 5 largest countries in export; - Government and government guaranteed debt; - Debt securities issued by general governments to CET1; - Population, change compared to 5-year moving average; - Social burden on working age population; - Employment rate. 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 over 90% of GDP, while the share in the financial system is over 70%. A specific feature of the banking sector is the significant volume and share of deposits covered by DGS. Since 2009, the share of DGS deposits increased from 56% to 64% in 2014 and currently stand at 63%. The traditional business model of Bulgarian banks is reflected in the structural composition of the balance sheet. The loan portfolio represents more than a half of the total assets, while the loan to the deposit ratio converged to a level of around 70%. Since the introduction of the buffer in 2014, the share of the private deposits in the total liabilities remains at 85%. The traditional form of financial intermediation also results in a significant reliance on the net interest income and net fee and commission income as a source for earnings, which together form close to 90% of the total operating income. In terms of interconnectedness with the private sector, the financial links to households and non-financial corporations are sizeable and without an alternative with the non-banking sector. The banking sector provided credit is 7.6 times higher than the next largest sector of financial institutions 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 the asset quality and the according systemic vulnerabilities. The credit risk from NPLs is the main challenge banks face as a result of the business model. Within the banking system the share of banks with more than 5% NPLs in their loan portfolio has been persistently high, while since the last review of the SyRB in 2021 it decreased significantly to below 20%. The coverage of the NPL ratio remained around 50%. However, the share of banks with Stage 2 loans ratio above 5% continuously rises since the introduction of IFRS 9 from 73% in June 2018 to 93% in June 2023. In addition, the average years of NPL in litigation is over 3 years, while for corporate NPL this period extends to 4 years. The systemic vulnerability to credit losses stems also from the lending interest rate structure and the stress test results from credit risk. Practically almost all lending is characterized with a variable rate, which in the current environment of increasing interest rates poses additional credit risk. The simulated credit losses in the annual BNB solvency stress test remain substantial at a level of around 5 p.p. of CET 1 impact. The share of total risk exposures remained half of the total assets with a predominant share of over 90% of exposures to credit risk. Given the traditional form of intermediation, the structural specifics, and the external environment, the banking sector continues to be particularly susceptible to loan losses. In terms of the liquidity structure, the share of liquid assets to total assets remains around 30%. The efficiency improves as the cost to income ratio decreases to 40% on the back of historical figures above 50%. However, the current value of the cost of risk ratio is subdued and stands at below 1%. The macroeconomic development highlights sources of potential vulnerability stemming from the economic openness, the significant home-bias of the bank-sovereign nexus, and the long term impediments to economic growth. The Bulgarian economy is small and open with traditional trading partners. The trade openness continues to be elevated above 110% of GDP, while the share of the top 5 largest import and export countries has remained broadly the same of above 40%. The financial soundness of sector “General Government” is stable, however with increased servicing conditions. Although, the low level of government debt in terms of GDP, a significant part of it is located in Bulgarian banks. The Bulgarian sovereign securities as % of CET 1 continue to be on a high level, which stands at 87% as of end-June 2023. Other economic factors pose significant impediment to long term economic growth such as the development of population growth, social burden on working age population and employment rate. Since 2009, the population is on a negative annual growth of around 1.5%,

	which has worsened in end-2022 to -5.6%. The social burden has increased from a level of 25% in 2009 and 30% in 2014 to 38% in end-2022. Employment rate hovers marginally around a level of 50%. 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 of the level or the scope of the SyRB. The banking sector remains the most important part of the financial system for financial intermediation and with unchanged structural characteristics. The inherent vulnerabilities towards material credit losses continue to be elevated in the background of subdued impairment costs. The exogenous macro risk factors are heightened given the high openness and concentration to main trade partners. The long term impediments to economic growth also contribute to the factors with adverse effects.
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. In addition, since 2021 the banking system stands on record-high profitability trend. Against the backdrop of heightened economic and geopolitical 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 long-term 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.
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 6 institutions in the range of 0.5% and 1.0%.

[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).

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%
United Bulgarian Bank AD	1.0%	Individual and consolidated level	4.0%
DSK Bank AD	1.0%	Individual and consolidated level	4.0%
Eurobank Bulgaria AD	0.75%	Individual level	3.75%
First Investment Bank AD	0.75%	Individual and consolidated level	3.75%
Invest Capital JSC	0.50%	Highest level of consolidation	3.50%
Central Cooperative Bank AD	0.50%	Individual 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	08/12/2023