

Ordinance No 7*

of the BNB

of 24 April 2014

on Organisation and Risk Management of Banks

(Published in the Darjaven Vestnik, issue 40 of 13 May 2014;
amended, issue 40 of 2019; amended, issues 11 and 40 of 2021)

Chapter One

General Provisions

Article 1. (1) This Ordinance lays down the following:

1. requirements on the organisation and risk management of banks;
2. criteria to be met in relation to the banks' policies for risk management and risk control and processes to maintain internal capital that is adequate to cover those risks;
3. (repealed; Darjaven Vestnik, issue 40 of 2021)
4. elements of the supervisory evaluation and review process.

(2) (amended; Darjaven Vestnik, issue 40 of 2021; effective as of 26 June 2021)
This Ordinance contains provisions related to the exercise of national discretions by the Republic of Bulgaria under Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012 (OJ, L 176/1 of 27 June 2013), hereinafter referred to as 'Regulation (EU) No 575/2013', including transitional treatments under Part Ten, Section I of Regulation (EU) No 575/2013.

Chapter Two

Requirements and Criteria for Organisation and Risk Management

Section I

General Requirements

Article 2. The supervisory board of the bank, respectively the board of directors shall approve and periodically review the strategies and policies, adopted under Article 73, paragraph 1, item 3 of the Law on Credit Institutions (LCI) for taking up, managing, monitoring and mitigating the risks to which the bank is or might be exposed, including those posed by the macroeconomic environment in which it operates in relation to the status of the business cycle.

* Unofficial translation provided for information purposes only. The Bulgarian National Bank bears no responsibility whatsoever as to the accuracy of the translation and is not bound by its contents.

Article 3. (1) The management board (board of directors) shall devote sufficient time to consider risk-related issues. Members of the board shall be actively involved in and ensure that adequate resources are allocated to the management of all material risks addressed in this Ordinance and in Regulation (EU) No 575/2013, including in the valuation of assets, and the use of external credit ratings and internal models relating to these risks.

(2) The bank shall adopt and maintain rules and procedures for reporting to the management board (board of directors) that cover all material risks and risk management policies and changes thereof.

(3) The supervisory board or the members of the board of directors who do not perform any executive function, as well as the risk committee shall determine the nature, the amount, the format, and the frequency of the information on the bank's risk profile which it is to receive.

(4) The supervisory board or the members of the board of directors who do not perform any executive function and the risk committee shall have adequate access to information on the risk situation of the institution and, where necessary and appropriate, to the risk management function and to external expert advice.

(5) The management board (board of directors) and the supervisory board shall oversee the entire disclosure and communication process.

Article 4. (repealed, Darjaven Vestnik, issue 40 of 2019)

Section II

Risk Management Function and Risk Committee

Article 5. (1) Banks shall, in accordance with the principle of proportionality, establish and maintain a risk management function independent from the operational units which has sufficient authority, statute, resources and adequate access to the supervisory board or the board of directors.

(2) The risk management function encompasses systems, processes, organisational units and persons whose main purpose is to conduct functions related to identification, monitoring and management of risk taken by the bank independently from the operational function.

(3) The bank's risk management function shall ensure that all material risks are identified, measured and properly reported. The relevant responsible persons conducting the risk management function in the bank shall be actively involved in elaborating the bank's risk strategy and in all material risk management decisions and shall be able to deliver a complete view on the whole range of risks to which the bank is or may be exposed.

(4) (amended; Darjaven Vestnik, issue 40 of 2019) The head of the bank's risk management function shall be an independent senior manager with clearly defined responsibilities. Where the nature, scale and complexity of the activities of the bank do not justify a specially appointed person, another senior officer within the bank may fulfil that function, provided there is no conflict of interest. The head of the

function shall be of good repute and have an appropriate qualification and professional experience of at least five years in risk measuring, monitoring, assessing and control.

(5) The person under paragraph 4 may, independently from senior management, report directly to the supervisory board or to the board of directors and, where specific risk developments affect or may affect the bank, may raise concerns without prejudice to the tasks of the management board (board of directors) in their common responsibilities.

(6) The head of the risk management function shall not be removed without prior approval of the supervisory board or members of the boards of directors who do not perform any executive function.

Article 6. (1) (amended; Darjaven Vestnik, issue 40 of 2019) Each significant bank shall establish a risk committee.

(2) (amended; Darjaven Vestnik, issue 40 of 2019) The risk committee may comprise solely members of the supervisory board or non-executive members of the board of directors.

(3) The persons under paragraph 2 shall have appropriate knowledge, skills and expertise to fully understand and monitor the risk strategy and the risk appetite of the bank.

(4) The risk committee shall advise the supervisory board or management board (board of directors) on the bank's overall current and future risk appetite and strategy and assist in overseeing the implementation of that strategy by senior management. The supervisory board and management board (board of directors) shall retain overall responsibility for risk management and control.

(5) The risk committee shall, without prejudice to the tasks of the remuneration committee, examine whether incentives provided by the remuneration system take into consideration the risk, capital, liquidity and the likelihood and timing of earnings.

(6) Where prices do not properly reflect risks in accordance with the business model and risk strategy, the risk committee shall present a remedy plan to the supervisory board or the management board (board of directors).

(7) (new; Darjaven Vestnik, issue 40 of 2019) The risk committee shall be composed of at least three members, one of whom shall be elected chair. The majority of the committee members within significant banks under § 1, item 14, letter 'a', shall be independent within the meaning of Article 10a, paragraph 2 of the LCI.

(8) (new; Darjaven Vestnik, issue 40 of 2019) The chair of the risk committee shall not, at the same time, be a chair of the nomination committee under Article 73c of the LCI, the remuneration committee under Ordinance No 4 of 2010 on the requirements for remunerations in banks (Darjaven Vestnik, issue 102 of 2010) or the audit committee under the Law on Independent Audit, as well as a chair of the supervisory board or the board of directors of the bank.

(9) (new; Darjaven Vestnik, issue 40 of 2019) The risk committee shall prepare a provisional agenda of its meetings and draw up a protocol of its approved decisions.

(10) (new; Darjaven Vestnik, issue 40 of 2019) To perform its functions, the risk committee shall have a right of access to all relevant information it needs, including to require administrators and other employees of the bank to provide information and documents.

(11) (new; Darjaven Vestnik, issue 40 of 2019) The functions of the risk committee of banks which are not significant and have not established such a committee shall be performed by the members of the supervisory board, the members of the board of directors, respectively, who are not executive members.

Chapter Three

Requirements and Criteria Concerning the Treatment of Different Risk Categories

Section I

Credit and Counterparty Risk

Article 7. (1) Credit-granting of the bank shall be based on sound and well-defined criteria as the process for approving, amending, renewing, and re-financing credits is clearly established.

(2) The bank shall have internal methodologies that enable it to assess the credit risk of:

1. exposures to individual obligors;
2. securities positions;
3. securitisation exposures; and
4. credit risk at the portfolio level.

(3) The bank shall use effective systems for ongoing administration and monitoring of the various credit risk-bearing portfolios and exposures, including for identifying and managing problem credits and for making adequate value adjustments.

(4) For each exposure, the bank shall maintain an exhaustive documentation which contains all material conditions and circumstances of the transaction, as well as information for the evaluation and establishment of the credit risk adjustment.

(5) Internal methodologies for credit risk assessment shall not rely solely or mechanically on external credit ratings.

(6) Where capital requirements are based on a rating by an external credit assessment institution (ECAI) or based on the fact that an exposure is unrated, this shall not exempt the bank from additionally considering other relevant information for assessing its allocation of internal capital.

(7) Diversification of credit portfolios is adequate given the bank's target markets and overall credit strategy.

Section II

**Interest Risk Arising from Non-trading Book Activities,
Concentration Risk, Securitisation Risk and Residual Risk**

Article 8. (amended; Darjaven Vestnik, issue 40 of 2021, effective as of 28 June 2021) (1) Banks shall use the standardised approach, the simplified standardised approach or apply internal systems to identify, assess, manage and reduce risks arising from potential changes in interest rates that affect the economic value of equity and net interest income from non-trading book activities.

(2) Banks shall apply systems to assess and monitor risks arising from potential changes in credit spreads that affect the economic value of equity and net interest income from non-trading book activities.

(3) The Bulgarian National Bank may require a bank to use the standardised approach under paragraph 1 where the internal systems for assessing the risks under paragraph 1 are not satisfactory.

(4) The Bulgarian National Bank may require a bank that is a small and non-complex institution within the meaning of Article 4(1)(145) of Regulation (EU) No 575/2013 to use the standardised approach under paragraph 1 where it determines that the simplified standardised approach is not appropriate to reflect the interest rate risk arising from non-trading book activities.

(5) The standardised approach and the simplified standardised approach under paragraph 1 shall be the approaches under a delegated act of the European Commission issued on the basis of Article 84(5) of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

Article 9. (1) In their written policies and procedures, banks shall:

1. identify cases where overall risk for the bank increases due to the increased credit concentration as a result of newly found connectedness;

2. impose restrictions on concentration of exposures to specific economic sectors and/or geographic region.

(2) Banks shall analyse their exposures to collateral issuers for the presence of concentration risk in establishing concentrations exceeding 10% of the own funds.

Article 10. (1) Banks which are investors, originators, or sponsors in securitisation schemes shall monitor whether risks arising from the schemes are evaluated and addressed through appropriate policies and procedures, to ensure that the economic substance of the transaction is fully reflected in the risk assessment and management decisions.

(2) Banks which are originators in revolving securitisation involving early amortisation provision shall have in place liquidity management plans addressing the implications of both scheduled and early amortisation.

Article 11. The bank shall, by means of appropriate written policies and procedures, monitor and control the risk arising from less effective than expected credit risk mitigation techniques used and lower than expected loss.

Section III Market Risk

Article 12. Banks shall implement policies and processes for the identification, measurement and management of all material sources and effects of market risks.

Article 13. (1) Banks shall have adequate internal capital to cover material market risks that are not subject to capital requirements under Article 92 of Regulation (EU) No 575/2013.

(2) Banks, which have, in calculating capital requirements for position risk according to Part Three, Title Four, Chapter Two of Regulation (EU) No 575/2013, netted off their positions in one or more of the equities constituting a stock-index against one or more positions in the stock-index future or other stock-index product shall have adequate internal capital to cover the basis risk of loss caused by the future's or other product's value not moving fully in line with that of its constituent equities. Banks shall also have such adequate internal capital where they hold opposite positions in stock-index futures which are not identical in respect of either their maturity or their composition or both.

(3) Where using the treatment in Article 345 of Regulation (EU) No 575/2013, banks shall ensure that they hold sufficient internal capital against the risk of loss which exists between the time of the initial commitment and the following working day.

Article 14. Where the short position falls due before the long position, banks shall take measures against the risk of a shortage of liquidity.

Section IV Operational Risk

Article 15. (1) (amended; Darjaven Vestnik, issue 40 of 2021) Banks shall implement policies and processes in order to evaluate and manage their exposure to operational risk, including model risk and risks arising from outsourced functions, and to cover low-frequency high-severity events.

(2) For the purposes of paragraph 1, banks shall determine risk factors and events related to operational risk.

Article 16. (1) (previous wording of Article 16; amended, Darjaven Vestnik, issue 40 of 2019) Banks shall have in place contingency and business continuity plans in order to ensure their ability to operate on an ongoing basis and limit losses in the event of severe business disruption.

(2) (new; Darjaven Vestnik, issue 40 of 2019) Plans under paragraph 1 shall be prepared on the basis of a detailed analysis of the bank's exposure to severe disruptions and an assessment of their potential impact. Preparing the plans the bank shall

use internal and/or external data and scenario analysis. This analysis shall cover all business lines and structural units, including the risk management function.

(3) (new; Darjaven Vestnik, issue 40 of 2019) Banks shall regularly review the plans under paragraph 1. Where any weaknesses or deficiencies have been identified, appropriate amendments shall be adopted to remove them.

Section V

Risk of Excessive Leverage

Article 17. (1) Banks shall have in place policies and processes for the identification, management and monitoring of the risk of excessive leverage. Indicators for the risk of excessive leverage shall include the leverage ratio determined in accordance with Article 429 of Regulation (EU) No 575/2013 and mismatches between assets and obligations.

(2) Banks shall address the risk of excessive leverage by means of different scenarios by taking due account of potential increases in the risk of excessive leverage caused by reductions of the bank's Tier 1 capital through expected or realised losses.

Chapter Four

Internal Approaches for Calculating Capital Requirements for Credit and Market Risk

Section I

General Requirements

Article 18. (1) Banks that are particularly significant in terms of their size, internal organisation and the nature, scale and complexity of their activities shall provide the necessary prerequisites for:

1. internal credit risk assessment capacity and for the use of the internal ratings based approach where their exposures are material in absolute terms and where they have at the same time a large number of material counterparties;

2. internal specific risk assessment capacity and for the use of internal models for specific risk of debt instruments in the trading book, together with internal models for default and migration risk where their exposures to specific risk are material in absolute terms and where they have a large number of material positions in debt instruments of different issuers.

(2) Paragraph 1 shall be applied without prejudice to the fulfilment of the criteria for authorisation to use:

1. Internal Rating Based Approach under Part Three, Title One, Chapter Three, Section I of Regulation (EU) No 575/2013; and

2. Internal model under Part Three, Title Four, Chapter Five, Sections I to V of Regulation (EU) No 575/2013.

Section II

Supervisory Benchmarking of Internal Approaches for Calculating Capital Requirements

Article 19. (1) Banks permitted to use internal approaches except for the advanced measurement approach for operational risk shall report the results of the calculations for their exposures that are included in the benchmark portfolios by means of the templates developed by the EBA.

(2) Banks shall submit the results of their calculations, together with an explanation of the methodologies used to produce them, to the BNB, at least annually. The Bulgarian National Bank shall submit the relevant information to the EBA.

Article 20. In cases where the BNB decides to develop specific portfolios, it shall do so in consultation with the EBA, the banks shall report the results of the calculations separately from the results of the calculations for the EBA portfolios.

Article 21. The Bulgarian National Bank shall, on the basis of the information submitted by banks in accordance with Article 19, paragraph 1, monitor the range of risk weighted exposure amounts or capital requirements for the benchmark portfolio resulting from the internal approaches. At least annually, the BNB shall make an assessment of the quality of those approaches paying particular attention to:

- a) approaches where significant differences in capital requirements for one and the same type of exposure;
- b) approaches where there is particularly high or low diversity, and also where there is a significant and systematic under-estimation of capital requirements.

Article 22. (1) Where particular bank diverges significantly from the majority of other banks using internal approaches or where there is little commonality in an approach leading to a wide variance of results, the BNB shall investigate the reasons thereof and, where it can be clearly identified that a bank's approach leads to an underestimation of capital requirements which is not attributable to differences in the underlying risks of the exposures or positions, it shall take corrective actions.

(2) Corrective actions as referred to in paragraph 1 do not:

- a) lead to standardisation or preferred methods;
- b) create wrong incentives; or
- c) cause herd behaviour.

Chapter Five

Supervisory Review and Evaluation Process

Article 23. Supervisory review and evaluation under Article 79c of the Law on Credit Institutions shall include:

1. governance arrangements of the bank, its corporate culture and values, and the ability of members of the management board (board of supervisors) to perform their duties;

2. levels of credit, market and operational risk taken by the bank;
3. business model of the bank;
4. results of the stress tests;
5. level of the interest rate risk arising from non-trading activities;
6. level and liquidity risk management;
7. exposure to and management of concentration risk by banks, including their compliance with the requirements set out in Part Four of Regulation (EU) No 575/2013 and Article 9;
8. robustness, suitability and manner of application of the policies and procedures implemented by banks for the management of the residual risk associated with the use of recognised credit risk mitigation techniques under Article 11;
9. (repealed; Darjaven Vestnik, issue 40 of 2021, effective as of 28 June 2021)
10. impact of diversification effects and how such effects are factored into the risk measurement system;
11. existence of implicit support to a securitisation and the extent to which own funds held by the bank in respect of assets which it has securitised are adequate having regards to the economic substance of the transactions, including the degree of risk transfer achieved;
12. assessment which shall be made under Article 79c, paragraph 2 of the Law on Credit Institutions, including whether the valuation adjustments as set out in Article 105 of Regulation (EU) No 575/2013, enable the bank to sell or hedge out its positions within a short period without incurring material losses under normal market conditions;
13. geographical location of banks' exposures;
14. indicators for excessive leverage, including the leverage ratio determined in accordance with Article 429 of Regulation (EU) No 575/2013, taking into account the business model of the bank.

Article 24. (1) (previous wording of Article 24; amended, Darjaven Vestnik, issue 40 of 2021) Where the BNB determines within the supervisory review and evaluation process (SREP) that banks with similar risk profiles, such as similar business models or geographical location of exposures, are or might be exposed to similar risks or pose similar risks to the financial system, the BNB may apply the supervisory review and evaluation process to those banks in a similar or identical manner.

(2) (new; Darjaven Vestnik, issue 40 of 2021) The similar or identical process under paragraph 1 may include risk oriented comparative and quantitative indicators enabling due consideration of specific risks to which an individual bank is or might be exposed.

Chapter Six **Recovery Plans**

Article 25. (repealed; Darjaven Vestnik, issue 40 of 2019)

Chapter Seven
**Provisions Related to the Exercise of National Discretions
under Regulation (EU) No 575/2013**

Section I
Qualifying Holdings Outside the Financial Sector

Article 26. (amended; Darjaven Vestnik, issue 11 of 2021) In relation to the application of Article 89, paragraph 3 of Regulation (EU) No 575/2013, banks shall apply a risk weight of 1250% to the greater of the following:

1. the amount of qualifying holdings in the undertakings referred to in Article 89, paragraph 1 of Regulation (EU) No 575/2013 in excess of 15% of bank's eligible capital; and
2. the total amount of qualifying holdings in the undertakings referred to in Article 89, paragraph 2 of Regulation (EU) No 575/2013 in excess of 60% of bank's eligible capital.

Section II
**Criteria for Exposures Secured by Mortgages
on Immovable Property**

Article 27. (1) As regards the application of Article 124, paragraph 2 of Regulation (EU) No 575/2013:

1. part of the exposure secured by mortgages on residential property that receives a risk weight of 35% shall not exceed 70% of the lower of the market and mortgage lending value of the property in question;
2. part of the exposure secured by mortgages on commercial immovable property that receives a risk weight of 50% shall not exceed 50% of the lower of the market and mortgage lending value of the property in question.

(2) For the purposes of updating the ratios under paragraph 1, banks shall submit data required under Article 101 of Regulation (EU) No 575/2013 and in Annex VI and Annex VII of the Implementing technical standard for supervisory reporting, taking into account the percentages under paragraph 1.

Section III
Materiality Thresholds

(title amended; Darjaven Vestnik, issue 11 of 2021)

Article 28. (amended; Darjaven Vestnik, issue 11 of 2021) (1) For the purposes of Article 178, paragraph 2, point 'd' of Regulation (EU) No 575/2013, banks shall assess the materiality of a credit obligation past due against the following thresholds:

1. a threshold in terms of the sum of all amounts past due owed by the obligor to the bank, its parent undertaking or any of its subsidiaries, equal to:

a) the lev equivalent of EUR 100 for retail exposures;
b) the lev equivalent of EUR 500 for all other exposures;
2. a threshold in terms of the amount of a credit obligation past due in relation to the total amount of all on-balance sheet exposures to that obligor to the bank, its parent undertaking or any of its subsidiaries, excluding equity exposures, equal to 1%.

(2) A default shall occur when the thresholds under paragraph 1, points 1 and 2 are exceeded for more than 90 consecutive days.

(3) Banks, which apply the definition of default laid down in Article 178, paragraph 1, point 1, points 'a' and 'b' of Regulation (EU) No 575/2013, in the case of retail exposures at the level of an individual credit facility, shall apply the threshold under paragraph 1 at the level of an individual credit facility, provided to the obligor by the bank, its parent undertaking or any of its subsidiaries.

Section IV

Large Exposures

Article 29. (1) In accordance to Article 400, paragraph 2 of Regulation (EU) No 575/2013 in calculation of large exposures under Article 395 of Regulation (EU) No 575/2013, banks shall exempt the following exposures:

1. (repealed; Darjaven Vestnik, issue 11 of 2021);
2. claims on and other exposures to credit institutions incurred by credit institutions, one of which operates on a non-competitive basis and provides or guarantees loans under legislative programmes or its statutes, to promote specific sectors of the economy under some form of government oversight and restrictions on the use of the loans, provided that the respective exposures arise from such loans that are passed on to the beneficiaries *via* credit institutions or from the guarantees on these loans;
3. claims on and other exposures to institutions, provided that those exposures do not constitute such institutions' own funds, do not last longer than the following business day and are not denominated in a major trading currency;
4. asset items constituting claims on central banks in the form of required minimum reserves held at those central banks which are denominated in their national currencies.
5. (new, Darjaven Vestnik, issue 11 of 2011) exposures, including participations or other kinds of holdings, incurred by a bank to its parent undertaking, to other subsidiaries of that parent undertaking or to its own subsidiaries, which are covered by the supervision on a consolidated basis to which the bank itself is subject in accordance with Regulation (EU) No 575/2013, the Law on Supplementary Supervision on Financial Conglomerates or with equivalent standards in force in a third country, considering that the third countries listed in Annex I to Commission Implementing Decision 2014/908/EU on the equivalence of the supervisory and regulatory requirements of certain third countries and territories for the purposes

of the treatment of exposures according to Regulation (EU) No 575/2013 apply such standards; exposures that do not meet these criteria shall be treated as exposures to a third party, whether or not exempted from Article 395, paragraph 1 of Regulation (EU) No 575/2013;

6. (new, Darjaven Vestnik, issue 11 of 2021) legally required guarantees used when a mortgage loan financed by issuing mortgage bonds is paid to the mortgage borrower before the final registration of the mortgage in the land register, provided the guarantee is not used as reducing the risk in calculating the risk-weighted exposure amounts;

7. (new, Darjaven Vestnik, issue 11 of 2021) assets, constituting claims and other exposures to recognised exchanges.

(2) In calculation of the large exposures under Article 395 of Regulation (EU) No 575/2013, banks shall include 20% of the following exposures:

1. claims on regional governments or local authorities of Member States where those claims would be assigned a 20% risk weight under Part Three, Title Two, Chapter Two of Regulation (EU) No 575/2013 and other exposures to or guaranteed by those regional governments or local authorities, claims on which would be assigned a 20% risk weight under Part Three, Title Two, Chapter Two of Regulation (EU) No 575/2013;

2. (repealed; Darjaven Vestnik, issue 11 of 2021);

3. (new, Darjaven Vestnik, issue 11 of 2021) covered bonds falling within the terms of Article 129, paragraphs 1, 3 and 5 of Regulation (EU) No 575/2013.

(3) In calculation of the large exposures under Article 395 of Regulation (EU) No 575/2013, banks shall include 50% of the medium or low risk off-balance sheet documentary credits and of the medium or low risk off-balance sheet undrawn credit facilities referred to in Annex I of Regulation (EU) No 575/2013.

(4) (new; Darjaven Vestnik, issue 11 of 2021) Banks shall make use of the exemption provided for in paragraph 1, item 5 where the conditions laid down in Article 400, paragraph 3 of Regulation (EU) No 575/2013 are met and:

1. for the purpose of the assessment whether the specific nature of the exposure, the counterparty or the relationship between the bank and the counterparty eliminate or reduce the risk of the exposure, each bank shall take into account whether:

a) the conditions laid down in Article 113, paragraph 6 (b), (c) and (e) of Regulation (EU) No 575/2013 are met and in particular whether the counterparty is subject to the same risk evaluation, measurement and control procedures as the bank and whether the information systems are integrated or at least compatible, as well as whether there is current or foreseen material, practical or legal impediment that could hamper the timely run-off of the exposure by the counterparty to the credit institution beyond the cases of recovery or resolution, when the restrictions under the Law on Recovery and Resolution of Credit Institutions and Investment Firms shall be applied;

b) intragroup exposures are also justified by the group financing structure;

c) the approval process of an exposure to an intragroup counterparty and the process of monitoring and review applicable to these exposures at the individual or consolidated level, if applicable, are similar to the processes applied in lending to third parties;

d) the procedures for risk management, information and communication technologies and internal reporting in the bank allow to continuously verify and ensure compliance of large exposures to a group of undertakings with the bank's risk strategy at the individual and consolidated level, if applicable;

2. for the purposes of assessing whether the residual concentration risk may be covered by implementing other measures which are as effective as the rules under Article 9, each bank shall take into account whether it:

a) has effective processes, procedures and mechanisms to control risks at the individual and consolidated level, if applicable, in order to ensure that the application of the exemption will not cause emergence of concentration risk which is not included in its risk strategy and contradicts the principles of sound internal liquidity management within a group;

b) considers concentration risk arising from intragroup exposures as part of its overall risk assessment framework;

c) has a risk control framework at the individual and consolidated level, if applicable, which is used to monitor exposures adequately;

d) is certain that an emerging concentration risk is clearly identified in the internal capital adequacy assessment process (ICAAP) of a bank and is actively managed; the rules, processes and mechanisms of concentration risk management are assessed within the supervisory review and evaluation process (SREP);

e) ensures that concentration risk management is in line with the group recovery plan.

(5) (new; Darjaven Vestnik, issue 11 of 2021) In applying the exemptions, banks shall monitor compliance with the requirements of this Article and Article 400, paragraph 3 of Regulation (EU) No 575/2013. The Bulgarian National Bank may at any time carry out a check on compliance with this Article and require information evidencing the compliance.

Additional Provisions

§ 1. (1) Within the meaning of this Ordinance:

1. 'External credit assessment institution' shall be external credit assessment institution as defined in Article 4, paragraph 1, point 98 of Regulation (EU) No 575/2013;

2. 'Originator' shall be originator as defined in Article 4, paragraph 1, point 13 of Regulation (EU) No 575/2013;

3. 'Mortgage lending value' shall be mortgage lending value as defined in Article 4, paragraph 1, point 74 of Regulation (EU) No 575/2013;

4. 'Qualifying holding' shall be qualifying holding as defined in Article 4, paragraph 1, point 36 of Regulation (EU) No 575/2013;

5. 'Leverage' shall be leverage as defined in Article 4, paragraph 1, point 93 of Regulation (EU) No 575/2013;

6. 'Eligible capital' shall be eligible capital as defined in Article 4, paragraph 1, point 71 of Regulation (EU) No 575/2013;

7. 'Credit risk mitigation' shall be credit risk mitigation as defined in Article 4, paragraph 1, point 57 of Regulation (EU) No 575/2013;

8. 'Risk of excessive leverage' shall be risk of excessive leverage as defined in Article 4, paragraph 1, point 94 of Regulation (EU) No 575/2013;

9. 'Model risk' shall be the potential loss a bank may incur, as a consequence of decisions that could be principally based on the output of internal models, due to errors in the development, implementation or use of such models;

10. 'Securitisation' shall be securitisation as defined in Article 4, paragraph 1, point 61 of Regulation (EU) No 575/2013;

11. 'Trading book' shall be trading book as defined in Article 4, paragraph 1, point 86 of Regulation (EU) No 575/2013;

12. 'Sponsor' shall be sponsor as defined in Article 4, paragraph 1, point 14 of Regulation (EU) No 575/2013;

13. 'Participation' shall be participation as defined in Article 4, paragraph 1, point 35 of Regulation (EU) No 575/2013.

14. (new; Darjaven Vestnik, issue 40 of 2019) a significant bank shall be a bank:

a) identified by the BNB as a systematically significant institution in line with the criteria under Ordinance No 8 on Banks' Capital Buffers (Darjaven Vestnik, issue 40 of 2014);

b) another bank designated by the BNB as significant based on an assessment of its size, internal organisation and having regard to the nature, scale and complexity of its business in line with the criteria under item 19 of the Guidelines of Internal Governance (EBA/GL/2017/11) issued by the EBA; the Bulgarian National Bank shall announce an updated list of these banks.

§ 2. (amended; Darjaven Vestnik, issue 40 of 2021, effective as of 26 June 2021) This Ordinance shall put into force the provisions of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC and of Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures (OJ, L 150/253 of 7 June 2019).

Transitional and Final Provisions

§ 3. According to Article 354, paragraph 6 of Regulation (EU) No 575/2013, the capital requirement for foreign-exchange risk for the currency pair BGN/EUR shall be 0% until 31 December 2017.

§ 4. According to Article 465, paragraph 2 of Regulation (EU) No 575/2013 during the period of entry into force of this Ordinance to 31 December 2014, own funds requirements shall be those under Article 91, paragraph 1, points (a) and (b) of Regulation (EU) No 575/2013:

1. a Common Equity Tier 1 capital ratio of 4.5%;
2. a Tier 1 capital ratio of 6%.

§ 5. (1) According to Article 467, paragraph 3 of Regulation (EU) No 575/2013, banks shall include in the calculation of their Common Equity Tier 1 the applicable percentage of unrealised losses related to assets or liabilities measured at fair value, as follows:

1. 20% during the period of entry into force of this Ordinance to 31 December 2014;
2. 40% during the period from 1 January to 31 December 2015;
3. 60% during the period from 1 January to 31 December 2016;
4. 80% during the period from 1 January to 31 December 2017.

(2) The residual amount under paragraph 1, respectively: 80% for 2014, 60% for 2015, 40% for 2016 and 20% for 2017, remains in Tier 1 capital. If the bank has not enough Additional Tier 1 capital to assume the total amount of unrealised losses, the deduction is taken from the Common Equity Tier 1 capital.

(3) According to Article 468, paragraph 3 of Regulation (EU) No 575/2013, banks shall remove from their Common Equity Tier 1 capital the applicable percentage of unrealised gains related to assets or liabilities measured at fair value, as follows:

1. 100% during the period of entry into force of this Ordinance to 31 December 2014;
2. 60% during the period from 1 January to 31 December 2015;
3. 40% during the period from 1 January to 31 December 2016;
4. 20% during the period from 1 January to 31 December 2017.

(4) The residual amount under paragraph 3, respectively: 40% for 2015, 60% for 2016 and 80% for 2017 shall not be removed from Common Equity Tier 1 capital.

§ 6. (1) Deductions under this paragraph shall be applied for the following items:

1. individual deductions from Common Equity Tier 1 capital pursuant to Article 36, paragraph 1, points (b) to (h) of Regulation (EU) No 575/2013, excluding deferred tax assets that rely on future profitability and arise from temporary differences;

2. individual deduction from Common Equity Tier 1 capital for losses from the current financial year, pursuant to Article 26, paragraph 1, point (a) of Regulation (EU) No 575/2013;

3. aggregate amount of deferred tax assets that rely on future profitability and arise from temporary differences and the items referred to in Article 36, paragraph 1, point (i) of Regulation (EU) No 575/2013 that is required to be deducted pursuant to Article 48 of Regulation (EU) No 575/2013;

4. each deduction from Additional Tier 1 capital required pursuant to Article 56, points (b) to (d) of Regulation (EU) No 575/2013;

5. each deduction from Tier 2 capital required pursuant to Article 66, points (b) to (d).

(2) According to Article 478, paragraph 3 of Regulation (EU) No 575/2013 the applicable percentage for the deductions under paragraph 1, items 1, 3, 4 and 5, is as follows:

1. 20% during the period of entry into force of this Ordinance to 31 December 2014;

2. 40% during the period from 1 January to 31 December 2015;

3. 60% during the period from 1 January to 31 December 2016;

4. 80% during the period from 1 January to 31 December 2017.

(3) Paragraph 2 shall apply also in relation to deferred tax assets under Article 36, paragraph 1, point (c) of Regulation (EU) No 575/2013 that rely on future profitability and existed prior to 1 January 2014.

(4) The applicable percentage under paragraph 1, item 2 is 100% for the entire transitional period.

(5) Banks shall apply the requirements of Article 472 of Regulation (EU) No 575/2013 in relation to the residual amounts of the items, which are not deducted from Common Equity Tier 1 capital during the transitional period.

(6) Banks shall apply the requirements of Article 475 of Regulation (EU) No 575/2013 in relation to the residual amounts of the items, which are not deducted from Additional Tier 1 capital during the transitional period.

(7) Banks shall apply the requirements of Article 477 of Regulation (EU) No 575/2013 in relation to the residual amounts of the items, which are not deducted from Tier 2 capital during the transitional period.

§ 7. (1) According to Article 479, paragraph 4 of Regulation (EU) No 575/2013, the applicable percentage for minority interests that had been qualified as consolidated reserves in consolidated own funds until 1 January 2014, but do not qualify as consolidated Common Equity Tier 1 capital due to the reasons, specified in Article 479, paragraph 1 of Regulation (EU) No 575/2013, is 0% for the entire transitional period.

(2) According to Article 480, paragraph 3 of Regulation (EU) No 575/2013, the applicable factor for recognition in consolidated own funds of minority interests, qualified as Additional Tier 1 capital and Tier 2 capital, is 1 for the entire transitional period.

§ 8. (1) According to Article 481, paragraph 5 of Regulation (EU) No 575/2013, during the transitional period, banks shall make adjustments to include in or deduct

from own funds items the applicable percentages of filters and deductions required until 1 January 2014. The applicable percentages are as follows:

1. 80% during the period of entry into force of this Ordinance to 31 December 2014;
2. 60% during the period from 1 January to 31 December 2015;
3. 40% during the period from 1 January to 31 December 2016;
4. 20% during the period from 1 January to 31 December 2017.

(2) In relation to the specific provisions for credit risk, that have been deducted from the own funds until 31 December 2013, the applicable percentage is 0% for the entire transitional period.

§ 9. (1) Eligibility for grandfathering of items and instruments is specified in Article 484 of Regulation (EU) No 575/2013, and limits for grandfathering of items within Common Equity Tier 1, Additional Tier 1 and Tier 2 capital are specified in Article 486, paragraphs 2–4 of Regulation (EU) No 575/2013.

(2) According to Article 486, paragraph 6 of Regulation (EU) No 575/2013, the applicable percentages are as follows:

1. 80% during the period of entry into force of this Ordinance to 31 December 2014;
2. 70% during the period from 1 January to 31 December 2015;
3. 60% during the period from 1 January to 31 December 2016;
4. 50% during the period from 1 January to 31 December 2017;
5. 40% during the period from 1 January to 31 December 2018;
6. 30% during the period from 1 January to 31 December 2019;
7. 20% during the period from 1 January to 31 December 2020;
8. 10% during the period from 1 January to 31 December 2021.

§ 10. According to Article 494 of Regulation (EU) No 575/2013, eligible capital may include Tier 1 capital up to the following amounts:

1. 100% of Tier 1 capital during the period of entry into force of this Ordinance to 31 December 2014;
2. 75% of Tier 1 capital during the period from 1 January to 31 December 2015;
3. 50% of Tier 1 capital during the period from 1 January to 31 December 2016.

§ 11. (repealed; Darjaven Vestnik, issue 11 of 2021).

§ 12. This Ordinance is issued on the grounds of Article 73, paragraphs 5 and 6, Article 73d, paragraph 3 and Article 79c, paragraph 5 in connection with § 13 of the Transitional and Final Provisions of the Law on Credit Institutions and is adopted by Resolution No 49 of 24 April 2014 of the Governing Council of the Bulgarian National Bank.

§ 13. The Deputy Governor heading the Banking Supervision Department, issues guidance for the application of this Ordinance.

Ordinance
Repealing Ordinance No 7 of 2006
on the Large Exposures of Banks

(Published in the Darjaven Vestnik, issue 40 of 13 May 2014)

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§ 1. Ordinance No 7 of 2006 on the Large Exposures of Banks (Darjaven Vestnik, issue 7 of 2007) is repealed.

§ 2. This Ordinance is adopted by Resolution No 40 of 24 April 2014 of the Governing Council of the Bulgarian National Bank.

ORDINANCE
on Amendment of Ordinance No 7 of 2014
on Organisation and Risk Management of Banks

(Published in the Darjaven Vestnik, issue 40 of 17 May 2019)

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Transitional and Final Provisions

§ 7. Banks shall bring their activity in line with the requirements of this Ordinance within three months after its enforcement.

§ 8. This Ordinance is issued on the grounds of Article 11a, paragraph 1, Article 73, paragraph 6 and § 1, item 50 in relation to § 13 of the Transitional and Final Provisions of the Law on Credit Institutions and is adopted by Resolution No 151 of 24 April 2019 of the Governing Council of the Bulgarian National Bank.

ORDINANCE
on Amendment of Ordinance No 7 of 2014
on Organisation and Risk Management of Banks

(Published in the Darjaven Vestnik, issue 11 of 9 February 2021)

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Final Provision

§ 5. This Ordinance is issued on the grounds of Article 73, paragraph 7 and Article 121b, paragraph 1 in relation to § 13 of the Transitional and Final Provisions of the Law on Credit Institutions and adopted by Resolution No 10 of 28 January 2021 of the Governing Council of the Bulgarian National Bank.

ORDINANCE
on Amendment of Ordinance No 7 of 2014
on Organisation and Risk Management of Banks

(Published in the Darjaven Vestnik, issue 40 of 14 May 2021)

§ 1. In Article 1, the following amendments shall be made:

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2. In paragraph 2, the words ‘and investment firms’ shall be deleted.

§ 2. Article 8 shall be amended as follows:

‘Article 8. (1) Banks shall use the standardised approach, the simplified standardised approach or apply internal systems to identify, assess, manage and reduce risks arising from potential changes in interest rates that affect the economic value of equity and net interest income from non-trading book activities.

(2) Banks shall apply systems to assess and monitor risks arising from potential changes in credit spreads that affect the economic value of equity and net interest income from non-trading book activities.

(3) The Bulgarian National Bank may require a bank to use the standardised approach under paragraph 1 where the internal systems for assessing the risks under paragraph 1 are not satisfactory.

(4) The Bulgarian National Bank may require a bank that is a small and non-complex institution within the meaning of Article 4(1)(145) of Regulation (EU) No 575/2013 to use the standardised approach under paragraph 1 where it determines that the simplified standardised approach is not appropriate to reflect the interest rate risk arising from non-trading book activities.

(5) The standardised approach and the simplified standardised approach under paragraph 1 shall be the approaches under a delegated act of the European Commission issued on the basis of Article 84(5) of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.’

.....

§ 4. In Article 23, item 9 is repealed.

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§ 6. In § 2 of the Additional Provisions, the words ‘and investment firms’ shall be deleted, and after the words ‘Directives 2006/48/EC and 2006/49/EC’, the words ‘and of Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures (OJ, L 150/253 of 7 June 2019)’ shall be inserted.

Final Provisions

§ 7. This Ordinance is issued on the grounds of Article 73, paragraph 6 and Article 79b, paragraph 5 in relation to § 13 of the Transitional and Final Provisions of the Law on Credit Institutions and adopted by Resolution No 128 of 27 April 2021 of the Governing Council of the Bulgarian National Bank.

§ 8. This Ordinance shall enter into force on the day of its publication in the Darjaven Vestnik, except for § 1, item 2 and § 6 as regards deletion of the words ‘and investment firms’ which shall enter into force on 26 June 2021 and § 2 and 4: on 28 June 2021.