Regulation No. 8

on the Capital Adequacy of Banks

(Issued by the Bulgarian National Bank on 15 July 1997; published in the State Gazette, issue 62 of 5 August 1997; corrected, issue 92 of 1997; amended, issue 41 of 2000, issue 11 of 2001, issue 79 of 2002)

Chapter One

General Provisions

Subject

Article 1. (amended; State Gazette, issue 41 of 2000) (1) This Regulation shall determine the minimum amount, structure, and the ratios of bank's capital base to their balance-sheet assets and off-balance-sheet commitments.

(2) The provisions of this Regulation shall furthermore apply on a consolidated basis to bank groups within the meaning of Article 4, para. 2 of the Law on Banks.

Chapter Two

Minimum Capital Requirements

Minimum Capital Requirements for a Bank

Article 2. (1) The paid-in portion of the subscribed capital by the moment of issuing a permit (license) for a bank shall be at least BGL 10 billion.

(2) A bank shall have at its disposal at any moment own funds (capital base) of at least BGL 10 billion.

Minimum Capital Requirements for Branches of Foreign Banks

Article 3. (repealed; State Gazette, issue 41 of 2000)

Chapter Three

Terms and Procedures for Exempting Branches of Foreign Banks from Capital Adequacy Requirements. Capital Equivalent

(repealed; State Gazette, issue 41 of 2000)

Chapter Four
Establishment of Own Funds (Capital Base)

Primary Capital

Article 9. (amended; State Gazette, issue 11 of 2001) The primary capital is formed as a sum of:

1. the paid-in capital and premium reserves related to the shares issued by the bank;

2. the reserve fund (general reserves) within the meaning of Article 24 of the Law on Banks;

3. other reserves for general purposes formed out at the expense of the bank's profit after paying the profit tax due.

(2) The sum total under Article 1 shall be reduced by:

1. intangible assets;

2. losses for the current and previous years;

3. the nominal value of a bank's own repurchased shares.

Supplementary Capital Reserves

Article 10. (1) The supplementary capital reserves shall be included in the bank's own funds (capital base) only if they meet the following general requirements:

1. these funds are entirely at the disposal of the bank and can be used without any limitations to absorb losses from the bank's operations;

2. availability of these funds shall be recorded in accounting reports of the bank and verified by an independent certified public accountant;

3. the Bulgarian National Bank can permanently monitor the availability and utilization of these funds.

(2) The supplementary capital reserves include:

1. the reported sum total of the bank's operating profits after taxation, which are subject to distribution but are retained;

2. the special purpose reserves formed out of the bank's profit after taxation;

3. reserves from assets revaluation, if such revaluation complies with the effective legislation;

4. the amounts attracted by the bank in debt/capital (hybrid) instruments, provided that these instruments meet the following requirements:

a) the amounts on them are fully paid;

b) their repayment is not limited by a term;

c) their repayment is not guaranteed in any form by the bank;

d) in case of liquidation of the bank, the repayment of these amounts is admissible after all other creditors' claims have been satisfied;

e) claims on these instruments as regards the principal (nominal) may not be collectable without the permission of the Bulgarian National Bank in writing;

f) the terms under which the bank has attracted these funds entitle the bank to defer repayment of yield on them in case the bank has not formed a profit or the profit is insufficient.

5. the amounts attracted as a subordinated term debt in an amount no larger than 50 percent of the primary capital, provided this debt meets the following specific requirements:

a) the amounts on the debt are fully paid;

b) the repayment of the debt is not guaranteed in any form by the bank;

c) the original term to maturity is at least five years;

d) the debt may not be repaid ahead of term without the permission of the Bulgarian National Bank in writing;

e) the contract may not provide a possibility for the collection of the debt in advance;

f) where interest or other yield has been agreed to, it may not be paid before the maturity of the debt;

g) in case of liquidation of the bank, the repayment of the debt is admissible after all other creditors' claims have been satisfied.

(3) During the last five years to maturity, the amount of subordinated term debt shall be included and reported in the supplementary capital reserves reduced by 20 percent for each year. After the debt has matured, it shall be entirely excluded from own funds (capital base) calculation.

(4) (amended; State Gazette, issue 11 of 2001) The amounts attracted in debt/capital (hybrid) instruments and/or as subordinated term debt may be included in the supplementary capital reserves upon a permission of the Deputy Governor heading the Banking Supervision Department based on a written application accompanied by the relevant documents proving compliance with the requirements under para. 2, items 4 and 5. The deadline for taking a decision is 30 days.

Own Funds (Capital Base)

Article 11. (1) The own funds (capital base) of the bank are formed of the primary capital and the supplementary capital reserves, less the amounts under para. 4.

(2) The supplementary capital reserves are included in the own funds (capital base) in an amount no larger than the sum total of the primary capital.

(3) The own funds (capital base) of the bank under para. 1 do not include provisions for covering risks against losses formed under Article 27 of the Law on Banks.

(4) (amended; State Gazette, issue 11 of 2001) The sum total of the amounts under para. 1 shall be reduced by:

1. the amounts invested in shares or in another form of equity participation in the capital, accounting for 10% or over 10% of the paid-in capital of a bank or

nonbank financial institution under Article 1, para. 5 of the Law on Banks, as well as in debt/capital (hybrid) instruments, and in subordinated term debt in institutions where the bank's participation amounts to 10% and over 10% of the paid-in capital, in each individual case, provided these institutions are not consolidated in the balance sheet of the bank;

2. the amounts invested in shares or in another form of equity participation in the capital, accounting for 10% or over 10% of the paid-in capital in an unconsolidated company other than that under item 1;

3. the amounts invested in shares or other form of equity participation in the capital, in debt/capital (hybrid) instruments, and in subordinated term debt of banks and nonbank financial institutions under Article 1, para. 5 of the Law on Banks other than those under item 1, provided the total amount exceeds 10% of the bank's own funds (capital base) prior to the reductions under items 1 and 2.

(5) (new; State Gazette, issue 11 of 2001) Own funds (capital base) on a consolidated basis shall be formed pursuant to Article 1, by adding, correspondingly deducting the following elements:

1. minority participations;

2. reputation;

3. balances resulting from conversion of reports in other currencies;

4. other elements provided by the effective legislation in case of consolidation.

(6) (new; State Gazette, issue 11 of 2001) Where the elements under para. 5 are debit (positive) positions, the consolidated own funds shall be reduced by these elements. Where these positions are credit (negative), they shall be added to the consolidated supplementary capital reserves with the approval of the Bulgarian National Bank.

Chapter Five
Establishment of the Risk Component of the Balance-sheet Items

Zero-weighted Assets

Article 12. (1) (amended; State Gazette, issue 41 of 2000) The following are regarded as zero-weighted assets:

1. amounts in cash;

2. claims on the Government of the Republic of Bulgaria or the Bulgarian National Bank as well as claims fully backed by their guarantees;

3. claims on governments or central banks of countries according to Appendix No. 1, or claims unconditionally and fully guaranteed by them;

4. (amended; State Gazette, issue 79 of 2002) claims on governments and central banks other than those under item 3, as well as claims unconditionally and totally guaranteed by them, denominated and financed in their national currencies;

5. (amended; State Gazette, issue 79 of 2002) claims fully secured against securities issued by the Government of the Republic of Bulgaria and the Bulgarian National Bank, as well as by governments and central banks specified in item 3;

6. claims fully secured against a pledge of gold;

7. (amended; State Gazette, issue 11 of 2001) claims fully secured against a pledge of claim to the bank in the form of a blocked deposit, denominated in national currency or convertible foreign currency, whereof the Bulgarian National Bank shall daily quote an exchange rate.

(2) Zero-weighted assets shall be excluded from the risk component of the bank's balance-sheet items.

(3) (new; State Gazette, issue 79 of 2002) Claims under para. 1, item 3 shall not be reported as zero-weighted assets in the cases where the respective country's rating assigned by an internationally recognized credit agency by the date of the report is lower than BBB- according to Standard & Poor's or Fitch, or Baa3 according to Moody's.

Risk Assets Weighted 20 Percent

Article 13. (1) The following are regarded as risk assets weighted 20 percent :

1. (amended; State Gazette, issue 11 of 2001) claims on local banks or claims completely guaranteed by them;

2. claims on traveler's checks, certified checks or other immediately payable cash items;

3. (amended; State Gazette, issue 11 of 2001) claims on banks specifically listed by the Bulgarian National Bank under Article 12, para. 1, item 3, or claims completely guaranteed by them, provided that these claims are deducted from their own funds;

4. (amended; State Gazette, issue 11 of 2001) claims with a term of up to one year on banks from countries other than those specified in the list of the Bulgarian National Bank under Article 12, para. 1, item 3 or completely guaranteed by them, provided that these claims are deducted from their own funds.

5. (new; State Gazette, issue 79 of 2002) claims on international institutions according to Appendix No. 2, or claims unconditionally and totally guaranteed by them;

6. (new; State Gazette, issue 79 of 2002) claims totally secured by pledge of securities issued by the international institutions under Appendix No. 2.

(2) (corrected; State Gazette, issue 92 of 1997) Risk assets weighted 20 percent are eligible for inclusion within the risk component of the balance-sheet items of the bank in an amount equivalent to one-fifth of their balance-sheet value.

Risk Assets Weighted 50 Percent

Article 14. (1) (amended; State Gazette, issue 41 of 2000) Risk assets weighted 50 percent are claims on credits fully and totally secured by a first mortgage on a fully insured and valued at fair price real estate in residential building which is inhabited or will be inhabited or let for rent by the recipient of the credit.

(2) (corrected; State Gazette, issue 92 of 1997) Risk assets weighted 50 percent are eligible for inclusion within the risk component of the balance-sheet items of the bank in an amount equivalent to 50 percent of their balance-sheet value.

Risk Assets Weighted 100 Percent

Article 15. (1) The following are regarded as risk assets weighted 100 percent:

1. (amended; State Gazette, issue 11 of 2001) the net open foreign currency position provided it exceeds by 2 percent the bank's own funds (capital base);

2. all assets other than those specified in Articles 12, 13 and 14.

(2) The following balance-sheet items are excluded from the risk component:

1. intangibles;

2. (amended; State Gazette, issue 79 of 2002) the amounts under Article 11, para. 4.

3. (repealed; State Gazette, issue 11 of 2001)

(3) (corrected; State Gazette, issue 92 of 1997) Risk assets weighted 100 percent are eligible for inclusion within the risk component of the balance-sheet items by the full amount of their balance-sheet value.

Chapter Six

Establishment of the Risk Component of Off-balance-sheet Items

Equalizing Off-balance-sheet Items to Balance-sheet Items and Their Inclusion in the Risk Component of Assets

Article 16. (1) All off-balance-sheet items are equalized to the balance-sheet items by the portion of their carrying value specified in Articles 17, 18, 19 and Article 21, paras. 1 and 2.

(2) The amounts obtained from the equalization of the off-balance-sheet items to the balance-sheet items are assigned to the risk component under Article 22 by the amount set for the respective risk category under Articles 12 – 15 where they would have been ascribed according to the collateral and quality of the country against which a claim to the benefit of the bank has been lodged with respect to realization of its off-balance-sheet commitment, except for the cases under para. 3.

(3) The amounts obtained from the equalization of the off-balance-sheet items, which cannot be assigned to a specific risk category, shall be treated as high-risk assets and are eligible for inclusion within the risk component under Article 22 by their full carrying value.

Off-balance-sheet Items with a Conversion Factor of 100 Percent of Their Carrying Value

Article 17. Off-balance-sheet items with a conversion factor of 100 percent of their carrying value are:

1. guarantees issued by the bank which have the character of a loan substitute;

2. bank acceptances and bill guarantees (avails) on obligations of clients;

3. irrevocable standby letters of credit which have the character of a loan substitute;

4. endorsements on promissory notes and bills of exchange on which no other banks are liable;

5. transactions on which counter claims against the bank may be lodged;

6. (amended; State Gazette, issue 11 of 2001) forward/forward deposits and partially paid securities on margin accounts with brokers;

7. (amended; State Gazette, issue 41 of 2000) assets bought under the terms of direct forward purchase contracts;

8. all other items with a high probability of collectability of the obligation undertaken by the bank.

Off-balance-sheet Items with a Conversion Factor of 50 Percent of Their Carrying Value

Article 18. Off-balance-sheet items with a conversion factor of 50 percent of their carrying value are:

1. letters of credit opened and confirmed by the bank;

2. commitments on NIF and RUF transactions;

3. (amended; State Gazette, issue 11 of 2001) performance guarantees, tender, customs and tax guarantees and other guarantees which have not the character of a loan substitute;

4. irrevocable standby letters of credit which have not the character of a loan substitute;

5. unused commitments for drawing a credit from the bank under contracts for credit lines, overdraft, purchase of securities, under contracted lines for opening letters of credit and standby letters of credit, etc., with an original term of over one year;

6. (amended; State Gazette, issue 41 of 2000) contracts for sale and reverse repurchase of assets, under which the assignor of the asset may request from the assignee bank to transfer it back;

7. all other items with an average probability of collectability of the obligation undertaken by the bank.

Off-balance-sheet Items with a Conversion Factor of 20 Percent of Their Carrying Value

Article 19. Off-balance-sheet items with a conversion factor of 20 percent of their carrying value are:

1. (amended; State Gazette, issue 11 of 2001) documentary letters of credit under which the subject of delivery is considered a security, and commitments on transactions of bank's clients whose commitments cease upon expiry of a certain term, or upon occurrence of another condition provided in the transaction;

(former item 2 repealed; State Gazette, issue 11 of 2001)

2. (former item 3; State Gazette, issue 11 of 2001) all other items with a low probability of collectability of the obligation undertaken by the bank.

Off-balance-sheet Items with a Conversion Factor of 0 Percent of Their Carrying Value

Article 20. (amended; State Gazette, issue 11 of 2001) Off-balance-sheet items of banks with a conversion factor of 0 percent of their carrying value are those reflected in off-balance pro memoriam and which cannot result in payment on the part of the bank, as well as unutilized credit commitments (credit facilities on loan agreements for purchase of securities or extending guarantees or acceptances) with the original term of up to one year or commitments which may be terminated unilaterally by the bank at any time without notification.

Off-balance-sheet Items Reflecting Gold, Floating Exchange Rate and Interest Rate Transactions

(Title amended; State Gazette, issue 41 of 2000)

Article 21. (1) Off-balance-sheet items related to floating exchange rate contracts like foreign exchange futures, interest rate swaps in cross-currencies, forward agreements in foreign currency, purchased foreign exchange options, etc., will be eligible for inclusion within the risk component by a percentage of their carrying value depending on the original term of the contract as follows:

1. less than 1 year – 2 percent;
2. from 1 to 2 years – 5 percent;
3. over 2 years – 3 percent in addition for each subsequent year.

(2) (new; State Gazette, issue 41 of 2000) Off-balance-sheet items related to sale and purchase of gold contracts will be eligible for inclusion within the risk component by a percentage of their carrying value according to para. 1.

(3) (former para. 2; State Gazette, issue 41 of 2000) Off-balance-sheet items related to floating interest rate contracts like interest rate futures, interest rate forward agreements, purchased interest rate options, basis swaps, etc., will be eligible for inclusion within the risk component by a percentage of their carrying value according to the original term of the contract, as follows:

1. less than 1 year – 0.5 percent;
2. from 1 to 2 years – 1 percent;
3. over 2 years – 1 percent in addition for each subsequent year.

(4) (new; State Gazette, issue 41 of 2000) Off-balance-sheet items under paras. 1 and 3 shall not include floating exchange rate contracts with an original maturity of 14 days or less than 14 days.

Chapter Seven
Regulation of Capital Adequacy

Total Risk Component of Assets

Article 22. (amended; State Gazette, issue 79 of 2002) (1) The total risk component of a bank's assets shall be equal to the sum total of those parts of the balance-sheet assets and the bank's off-balance-sheet items equalized to them, which are assigned to the risk component of the assets in compliance with the requirements of this Regulation.

(2) (new; State Gazette, issue 79 of 2002) Where the assets and off-balance-sheet items are partially secured by assets under Article 12, the risk weights shall apply only to the unsecured part.

Capital Adequacy Ratios

Article 23. (1) The bank establishes the total capital adequacy ratio as a percentage ratio of its own funds (capital base) to its total risk component.

(2) The bank establishes the primary capital adequacy ratio as a percentage ratio of its primary capital to its total risk component.

(3) The total capital adequacy ratio shall not be lower than 12 percent.

(4) The primary capital adequacy ratio shall not be lower than 6 percent.

(5) The total capital adequacy ratio and the primary capital adequacy ratio shall be observed by each individual bank, and a bank group as well.

(6) (new; State Gazette, issue 11 of 2001) The total capital adequacy ratio and primary capital adequacy ratio of a bank which is a parent bank shall be computed on a consolidated basis in accordance with the methods provided by Article 6 of Regulation No. 12 of 2000 on the supervision on a consolidated basis (State Gazette, issue 62 of 2000).

Degree of Risk and Degree of Assets Coverage

Article 24. (1) The bank establishes the degree of risk of the assets as a percentage ratio of the total risk component to the sum total of the balance-sheet assets.

(2) The bank establishes the degree of assets coverage as a percentage ratio of own funds (capital base) to the sum total of the balance-sheet assets. The degree of assets coverage shall not be lower than 6 percent.

(3) The Managing Board of the Bulgarian National Bank may establish a mandatory marginal degree of risk of the assets on a motion by the Deputy Governor heading the Banking Supervision Department.

Chapter Eight
Reporting of Capital Adequacy

Report on the Risk Component and the Capital Adequacy

Article 25. (1) (amended; State Gazette, issue 41 of 2000) By the 15th day of the first month of each new quarter, banks shall draw up and submit to the Bulgarian National Bank a report on the risk component and the capital adequacy, based on the balance sheet as of the last date of each quarter.

(2) (amended; State Gazette, issue 41 of 2000) By 31 March each calendar year, banks shall draw up and submit to the Bulgarian National Bank an annual report on the risk component and the capital adequacy.

(3) (new; State Gazette, issue 41 of 2000; amended, State Gazette, issue 11 of 2000) Any parent bank shall draw up and submit to the Banking Supervision Department at the Bulgarian National Bank a consolidated report on the risk component and capital adequacy in compliance with the provisions of this Resolution and Regulation No. 12 of 2000 on the supervision on a consolidated basis (State Gazette, issue 62 of 2000).

(4) (former para. 3; State Gazette, issue 41 of 2000) The Deputy Governor heading the Banking Supervision Department issues mandatory instructions on the manner of drawing up and submitting the report on the risk component and capital adequacy.

Additional Information

Article 26. The Deputy Governor heading the Banking Supervision Department at the Bulgarian National Bank may require from banks additional information and analytical breakdowns on each item in the report on the risk component and capital adequacy, each determinant of accounting included.

Chapter Nine
Adjustment and Control of the Own Funds (Capital Base)

Adjustment of Capital

Article 27. (1) Where a bank has ascertained noncompliance with the requirements specified in Article 2, Article 23, paras. 3 and 4, and Article 24, paras. 2 and 3 of this Regulation, it shall notify immediately the Deputy Governor heading the Banking Supervision Department at the Bulgarian National Bank of this circumstance and draw up a rehabilitation program, including deadlines for meeting the capital adequacy requirements in accordance with the Law on Banks and this Regulation, which program shall be adopted by the Deputy Governor heading the Banking Supervision Department.

(2) In case of noncompliance with the program adopted under para. 1, the Bulgarian National Bank shall apply the measures and penalties provided for in Article 65, para. 2 of the Law on Banks.

(3) During the period of implementation of the program under para. 1, the bank shall not pay out dividends and shall allocate the full amount of the profit after taxation to the reserve fund.

Prohibition on Distribution of Profits to Prevent Noncompliance with Capital Adequacy Requirements

Article 28. Banks shall not distribute retained earnings to a degree and in a manner which would lead to noncompliance with ratios and values established by this Regulation.

Control over the Veracity of Data

Article 29. (1) Banking supervision authorities at the Bulgarian National Bank conduct examination on the veracity of reports and for compliance with the rules for establishment of the risk component of the balance-sheet assets and the equalization of the off-balance-sheet items with the balance-sheet assets, including on-site inspections and comparison between the data on the report and the accounts of banks.

(2) Auditors under Article 61, para. 2 of the Law on Banks conduct verification, reflect in the report and give opinion on:

1. the compliance of the accounting system with the requirements of the effective bank operations accounting standard;

2. the degree of correct weighting of the risk of individual balance-sheet and off-balance-sheet items with a view to establishing the actual capital adequacy;

3. the condition of the reporting and the regularity of the bank assets revaluation in conformity with the requirements of legislation and regulations.

(3) The auditors' opinion shall contain an assessment of the risk component and the capital adequacy of banks.

Additional Provision

§ 1. Within the meaning of this Regulation:

(items 1 – 4 repealed; State Gazette, issue 11 of 2001)

1. (former item 5; State Gazette, issue 11 of 2001) 'forward' is a hedging transaction where the parties agree that at a specific future date or within a specific fu-

ture period one party will sell and the other party will buy an agreed quantity of a specific asset at the prices and performance terms agreed upon at the moment of conclusion of the transaction;

2. (former item 6; State Gazette, issue 11 of 2001) ‘forward/forward deposits’ is a hedging transaction where the parties agree that at a future date they will exchange deposits in different currencies under the terms and conditions agreed upon in advance, or deposits in one and the same currency under different deposit terms and conditions. In the case of these transactions, at the performance date the deposit amounts are exchanged effectively, through a direct transfer;

3. (former item 7; State Gazette, issue 11 of 2001) ‘hedging’ is a way of reducing the risk through making forward transactions in a specific manner so that the risk entailed by a transaction concluded in advance or available item is thus avoided or reduced to a minimum against the payment of the hedging price agreed;

4. (former item 8; State Gazette, issue 11 of 2001) ‘NIF (note issuance facility)’ is a loan transaction connected with the issuance of securities by a client through the intermediation and under the management of the bank, where the bank sets a limit for the client up to which it accepts to buy back the securities issued by the client on this transaction;

5. (former item 9; State Gazette, issue 11 of 2001) ‘RUF (revolving underwriting facility)’ is a loan transaction, a version of NIF, where not a bank but a group of banks intermediates in the issuance of a client’s securities, setting a limit, usually covering the full amount of the issue, up to which the group of banks accepts to buy the securities issued by the client, in case the securities are not sold, and up to the amount of the announced issue which is not sold through the public subscription.

Transitional and Final Provisions

§ 2. This Regulation is issued on the grounds of Article 23 in relation to § 19 of the Transitional and Final Provisions of the Law on Banks, and is adopted by Resolution No. 402 of 15 July 1997 of the Managing Board of the Bulgarian National Bank.

§ 3. This Regulation comes into force as from the day of their publication in the State Gazette, and repeals Regulation No. 8 of the Bulgarian National Bank on the Capital Adequacy of Banks (published in the State Gazette, issue 39 of 1993; amended, issue 19 of 1994, issues 2 and 77 of 1995; corrected, issue 85 of 1995; amended, issues 4, 16, 58 and 71 of 1996).

§ 4. (1) Banks should meet the requirements under Article 2 by 30 June 1998.

(2) The requirement under Article 2, para. 1 shall apply also to persons who have applied for a permit (license) for a bank prior to the enforcement of this Regulation.

(3) In case of default on the obligations under paras. 1 and 2, the Bulgarian National Bank restricts or revokes the permit (license) granted.

§ 5. Banks must meet the requirements under Article 23, para. 3 of this Regulation as follows:

1. by the end of 1997 – at least 8 percent;
2. by the end of 1998 – at least 10 percent;
3. by the end of 1999 – at least 12 percent.

§ 6. Banks must meet the requirements under Article 23, para. 4 and Article 24, para. 2 of this Regulation as follows:

1. by the end of 1997 – at least 4 percent;
2. by the end of 1998 – at least 5 percent;
3. by the end of 1999 – at least 6 percent.

§ 7. The Deputy Governor heading the Banking Supervision Department shall give instructions on the enactment of this Regulation.

Appendix 1
to Article 12, para. 1, item 3
(amended; State Gazette, issue 79 of 2002)

List of Countries

Australia, Austria, Belgium, Denmark, Germany, Greece, Ireland, Iceland, Spain, Italy, Canada, Luxembourg, New Zealand, Norway, the United Kingdom of Great Britain and Northern Ireland, Portugal, the United States of America, Turkey, Finland, France, the Netherlands, Switzerland, Sweden, Japan, the Czech Republic, Hungary, Poland, the Slovak Republic, Korea, Mexico, and the European Union.

Appendix 2
to Article 12, para. 1, item 4
(repealed; State Gazette, issue 79 of 2002)

Appendix 2
to Article 13, para. 1, items 5 and 6
(new; State Gazette, issue 79 of 2002)

List of International Institutions

The International Bank for Reconstruction and Development (IBRD);
The International Finance Corporation;
The Council of Europe Resettlement Fund;
The European Bank for Reconstruction and Development (EBRD);
The European Investment Fund;
The European Investment Bank (EIB);
The Inter-American Development Bank;
The Asian Development Bank;
The African Development Bank;
The Nordic Investment Bank;
The Caribbean Development Bank;
The Inter-American Investment Corporation.

Appendix 3
to Article 25, paras. 1 and 2
(corrected; State Gazette, issue 92 of 1997)

Attn: Bulgarian National Bank
Banking Supervision Department
1, Knyaz Alexander Battenberg Sq.
1000 Sofia

REPORT
on the risk component and the capital adequacy
by ... (date)
of ... (name of the bank)

This report has been drawn up in conformity with the requirements of Regulation No. 8 of 15 July 1997 of the Bulgarian National Bank on the Capital Adequacy of Banks and with the methodological instructions on preparing the report. We are aware of, and bear personal liability for the accuracy of the data and for the compliance of the report with the rules for establishing the risk component of the balance-sheet assets and for the equalization of the off-balance-sheet items to the balance-sheet assets of the bank.

....
(date of signing) (seal of the bank)

Executive director: .... (name) .... (signature)
Executive director: .... (name) .... (signature)
Prepared by: .... (name) .... (position) .... (signature)

I. Capital base

Code	Name	Thousands of BGL
a.	b.	1
1000	**Capital base**	....
1100	*Primary capital*	....
1110	Paid-in capital	....
1120	Reserve fund	....
1130	Other reserves for general purposes	....
1140	Intangible assets	(...........)
1150	Losses for the current and previous years	(...........)
1160	Nominal value of a bank's own repurchased shares	(...........)
1200	*Supplementary capital reserves*	....
1210	Profit for the current year	....
1220	Retained earnings from previous years	....
1230	Special purpose reserves	....
1240	Assets revaluation reserves	....
1250	Debt/capital (hybrid) instruments	....
1260	Subordinated term debt	....
1300	*Deductions from the capital base*	(..........)
1310	Investment in unconsolidated companies	(..........)
1320	Investment in financial institutions making bank transactions with BNB permission	(..........)

II. Risk component of the balance-sheet assets

Code	Name	Balance-sheet amount	Risk coefficient	Risk component
a.	b.	1	c.	2 (1 x c)
2000	**Amount and risk component of the balance-sheet assets**	....	-	....
2100	*Zero-weighted risk assets*	....	0.0	-
2110	Amounts in cash or on accounts with BNB, and current accounts with banks	....	0.0	-
2120	Claims on the Bulgarian Government or BNB	....	0.0	-
2130	Claims on governments or central banks specified by BNB	....	0.0	-
2140	Claims on international institutions specified by BNB	....	0.0	-

a.	b.	1	c.	2 (1 x c)
2150	Claims fully backed by securities of the Bulgarian Government, BNB, governments, central banks and international institutions	....	0.0	-
2160	Claims secured against gold	....	0.0	-
2170	Claims fully secured against deposits with the bank in levs or in foreign currency	....	0.0	-
2200	*Risk assets weighted 20 percent*	....	0.2	....
2210	Claims on local banks and branches of foreign banks in Bulgaria	....	0.2	....
2220	Claims on traveller's checks and other immediately collectable instruments	....	0.2	....
2230	Claims on banks specifically listed by BNB, provided these are deducted from their capital base	....	0.2	....
2240	Claims on other banks with a term of up to one year, provided these claims are not included in their equity	....	0.2	....
2300	*Risk assets weighted 50 percent*	....	0.5	....
2310	Claims secured by a first mortgage on real estate	....	0.5	....
2400	*Risk assets weighted 100 percent*	....	1.0	....
2410	Net open foreign currency position	....	1.0	....
2420	Other unclassified assets	....	1.0	....

III. Risk component of off-balance-sheet items

Code	Name	Balance-sheet (carrying) amount	Conversion factor	Risk coefficient	Risk component
a.	b.	1	c.	d.	2 (1 x c x d)
3000	**Amount and risk component of the off-balance-sheet items**	....	-	-	....

a.	b.	1	c.	d.	2 (1 x c x d)
3100	*Off-balance-sheet items with a conversion factor of 100 percent of their carrying value*	....	-	-	....
3110	Equalized to the balance-sheet zero-weighted assets	....	1.0	0.0	....
3120	Equalized to the balance-sheet risk assets weighted 20 percent	....	1.0	0.2	....
3130	Equalized to the balance-sheet risk assets weighted 50 percent	....	1.0	0.5	....
3140	Equalized to the balance-sheet risk assets weighted 100 percent	....	1.0	1.0	....
3200	*Off-balance-sheet items with a conversion factor of 50 percent of their carrying value*	....	-	-	....
3210	Equalized to the balance-sheet zero-weighted assets	....	0.5	0.0	....
3220	Equalized to the balance-sheet risk assets weighted 20 percent	....	0.5	0.2	....
3230	Equalized to the balance-sheet risk assets weighted 50 percent	....	0.5	0.5	....
3240	Equalized to the balance-sheet risk assets weighted 100 percent	....	0.5	1.0	....
3300	*Off-balance-sheet items with a conversion factor of 20 percent of their carrying value*	....	-	-	....
3310	Equalized to the balance-sheet zero-weighted assets	....	0.2	0.0	....
3320	Equalized to the balance-sheet risk assets weighted 20 percent	....	0.2	0.2	....
3330	Equalized to the balance-sheet risk assets weighted 50 percent	....	0.2	0.5	....
3340	Equalized to the balance-sheet risk assets weighted 100 percent	....	0.2	1.0	....
3400	*Off-balance-sheet items with a conversion factor of 0 percent of their carrying value*	....	-	-	-

IV. Risk component of off-balance-sheet items reflecting floating exchange rate and interest rate transactions

Code	Name	Balance sheet (carrying) amount	Conversion factor	Risk coefficient	Risk component
a.	b.	1	c.	d.	2 (1 x c x d)
4000	**Amount and risk component**	....	-	-	....
4100	*Floating exchange rate transactions*	....	-	-	....
4110	With an original term of up to 1 year	....	-	-	....
4111	Equalized to the balance-sheet zero-weighted assets	....	0.02	0.0	....
4112	Equalized to the balance-sheet risk assets weighted 20 percent	....	0.02	0.2	....
4113	Equalized to the balance-sheet risk assets weighted 50 percent	....	0.02	0.5	....
4114	Equalized to the balance-sheet risk assets weighted 100 percent	....	0.02	1.0	....
4120	With an original term of 1 to 2 years	....	-	-	....
4121	Equalized to the balance-sheet zero-weighted assets	....	0.05	0.0	....
4122	Equalized to the balance-sheet risk assets weighted 20 percent	....	0.05	0.2	....
4123	Equalized to the balance-sheet risk assets weighted 50 percent	....	0.05	0.5	....
4124	Equalized to the balance-sheet risk assets weighted 100 percent	....	0.05	1.0	....
4130	With an original term of over 2 years	....	-	-	....
4131	Equalized to the balance-sheet zero-weighted assets	....	X	0.0	....
4132	Equalized to the balance-sheet risk assets weighted 20 percent	....	X	0.2	....
4133	Equalized to the balance-sheet risk assets weighted 50 percent	....	X	0.5	....
4134	Equalized to the balance-sheet risk assets weighted 100 percent	....	X	1.0	....
4200	*Floating interest rate transactions*	....	-	-	....
4210	With an original term of up to 1 year	....	-	-	....

a.	b.	1	c.	d.	2 (1 x c x d)
4211	Equalized to the balance-sheet zero-weighted assets	....	0.005	0.0	....
4212	Equalized to the balance-sheet risk assets weighted 20 percent	....	0.005	0.2	....
4213	Equalized to the balance-sheet risk assets weighted 50 percent	....	0.005	0.5	....
4214	Equalized to the balance-sheet risk assets weighted 100 percent	....	0.005	1.0	....
4220	With an original term of 1 to 2 years	....	-	-	....
4221	Equalized to the balance-sheet zero-weighted assets	....	0.01	0.0	....
4222	Equalized to the balance-sheet risk assets weighted 20 percent	....	0.01	0.2	....
4223	Equalized to the balance-sheet risk assets weighted 50 percent	....	0.01	0.5	....
4224	Equalized to the balance-sheet risk assets weighted 100 percent	....	0.01	1.0	....
4230	With an original term of over 2 years	....	-	-	....
4231	Equalized to the balance-sheet zero-weighted assets	....	Y	0.0	....
4232	Equalized to the balance-sheet risk assets weighted 20 percent	....	Y	0.2	....
4233	Equalized to the balance-sheet risk assets weighted 50 percent	....	Y	0.5	....
4234	Equalized to the balance-sheet risk assets weighted 100 percent	....	Y	1.0	....

$X=0.05+0.03 \times N$,
$Y=0.01+0.01 \times N$,
where N is the number of remaining years after the expiry of the second year.

V. Regulators

Code	Name	Value
a.	b.	1
1000	Capital base (thousands of BGL)	....
1100	Primary capital (thousands of BGL)	....
5000	Total assets (thousands of BGL) 2000 (1)	....
5100	Total risk component (thousands of BGL) {2000(2)+3000(2)+4000(2)}	....
5200	Total capital adequacy (%) {1000/5100}	....
5210	Primary capital adequacy (%) {1100/5100}	....
5300	Degree of risk of the assets (%) {5100/5000}	....
5400	Degree of coverage of the assets (%) {1000/5000}	....