Bulgarian National Bank

REPORT • January – June 2015

BULGARIAN
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BANK

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Honourable Chairman of the National Assembly,
Honourable People's Representatives,

Under the provisions of Article 1, paragraph 2 and Article 50 of the Law on the Bulgarian National Bank, I have the honour of presenting the Bank's Semi-annual Report for the period ending 30 June 2015.

The BNB Semi-annual Report includes an overview of the global economic environment and economic development of Bulgaria in the first half of 2015, a report on implementing BNB functions and tasks in compliance with the Law on the BNB, as well as a report on central bank's other activities. It also contains a report on the BNB budget implementation and consolidated financial statements (unaudited) as of 30 June 2015, as well as major resolutions of the BNB Governing Council in the first half of 2015.

Data published until 25 September 2015 was used in the report. In addition, I take the opportunity to summarise some major points in the BNB work throughout the second half of the year related to events, decisions or preparatory work in the first six months of 2015.

Taking up duty as Governor of the BNB I presented as a primary commitment before the National Assembly the launch of prompt measures in three priority areas: strengthening of banking supervision, establishment of an institutional framework for the recovery and resolution of banks, and review of commercial banks' assets. The measures which have been initiated in these areas are as follows:

1. On 5 October 2015 the Governing Council of the BNB adopted a Plan on Reforms and Development of Banking Supervision. This plan, including detailed measures and terms for their implementation, is the result of nearly a year-long process comprising both an internal analysis and assessment of the procedures and practices of the Banking Supervision Department, and an independent external assessment of the banking supervision effectiveness in Bulgaria, carried out by a team of the IMF and the World Bank. In compliance with the Plan on Reforms and Development of Banking Supervision, as of 1 November 2015 structural changes in the BNB aimed at improving the internal organisation of supervision became effective.
2. The Law on the Recovery and Resolution of Credit Institutions and Investment Firms, in force as of 14 August 2015, establishes the statutory framework for regulating the recovery and resolution of banks. BNB experts actively participated in the work on the Law. To exercise the powers conferred on it by the Law, the BNB as a bank resolution authority established a new Resolution of Credit Institutions Directorate which is not part of the Banking Supervision Department and is directly subordinated to the BNB Governor. The Directorate has already started the work on specifying the requirements and processes of preparing and approving recovery plans.
3. On 30 July 2015 the Governing Council approved the opening of the tendering procedure for selecting an independent external consultant to the BNB to organise and conduct an asset quality review of the banking sector. On 10 August 2015 the public procurement announcement for the selection of a consultant was published, and on 28 October 2015 the offers of bidders admitted to the tender were ranked. Following the conclusion of the contract with the external consultant on 25 November, the BNB shall until year-end develop a methodology for the asset quality review and precise other details of the review.

I believe that measures that have been already initiated along with the implementation of other tasks related to the BNB strategic goals and institutional development will strengthen the confidence in the central bank and contribute to maintaining macroeconomic and financial stability in Bulgaria.

Dimitar Radev
Governor
of the Bulgarian National Bank

BNB Governing Council

Sitting from left to right: Lena Roussenova, Nina Stoyanova, Boryana Pencheva.
Standing from left to right: Statty Stattev, Kalin Hristov, Dimitar Radev, Dimitar Kostov.

Governing Council

Dimitar Radev
Governor

Kalin Hristov
Deputy Governor
Issue Department

Nina Stoyanova
Deputy Governor
Banking Department and Fiscal Services Department

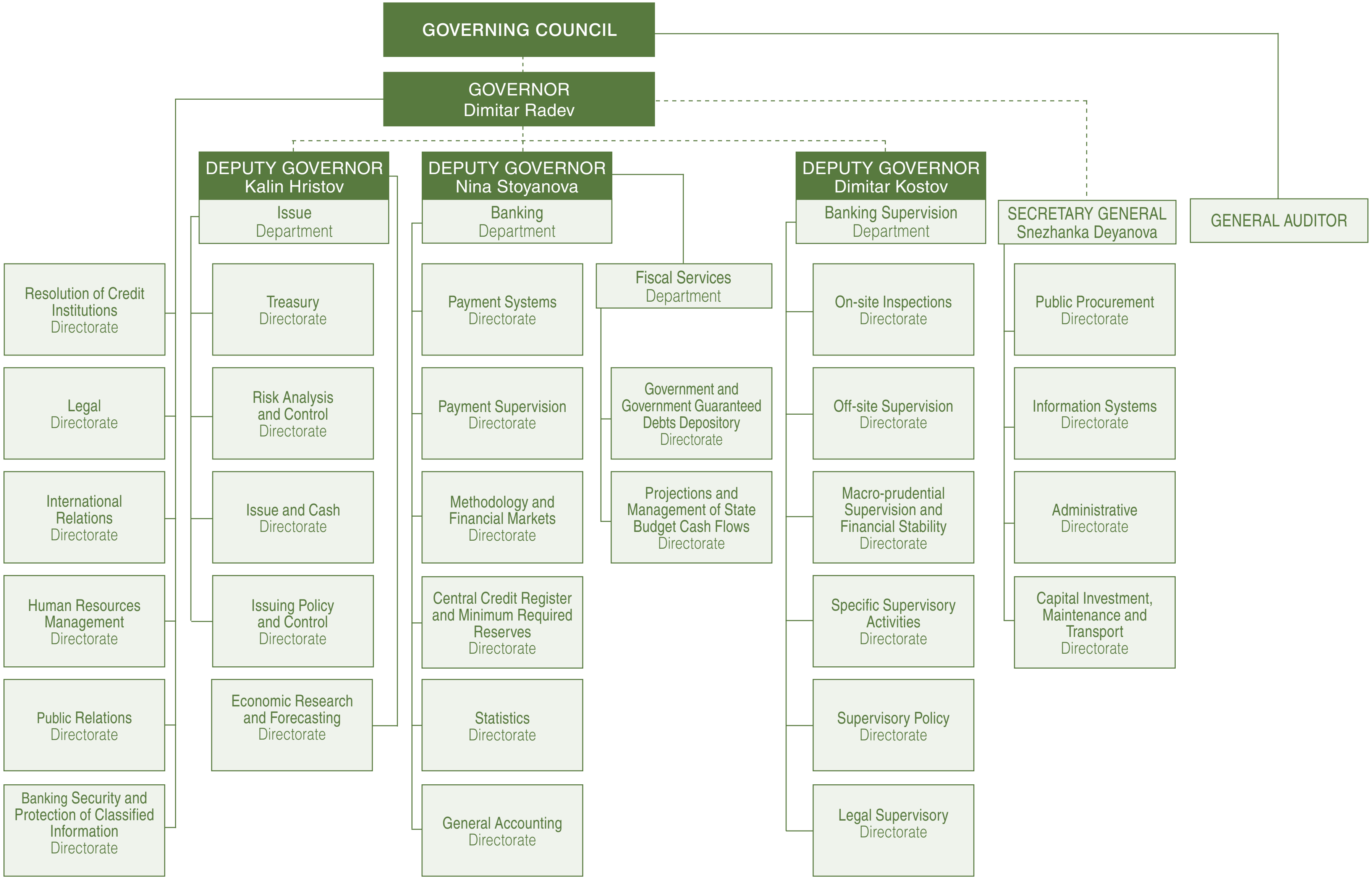
Dimitar Kostov
Deputy Governor
Banking Supervision Department

Statty Stattev

Boryana Pencheva

Lena Roussenova

Organisational Structure of the BNB



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Abbreviations

BIR	Base interest rate
BIS	Bank for International Settlements, Basle, Switzerland
BISERA	System for servicing customer payments initiated for execution at a designated time
BNB	Bulgarian National Bank
BORICA	Banking Organization for Payments Initiated by Cards
BSE	Bulgarian Stock Exchange
BTC	Bulgarian Telecommunication Company
CEFTA	Central European Free Trade Association
CIF	Cost, Insurance, Freight
CM	Council of Ministers
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECB	European Central Bank
ECOFIN	Economic and Financial Affairs Council
EFTA	European Free Trade Association
EMU	Economic and Monetary Union
ESCB	European System of Central Banks
EU	European Union
FLIRBs	Front-loaded Interest Reduction Bonds
FOB	Free on Board
GDDS	General Data Dissemination System
GDP	Gross Domestic Product
HICP	Harmonised Index of Consumer Prices
IAS	International Accounting Standards
IFO	Institute of Economic Research, Germany
IMF	International Monetary Fund
KTB	Corporate Commercial Bank
LBNB	Law on the Bulgarian National Bank
MF	Ministry of Finance
MFIs	Monetary financial institutions
NLO	National Labour Office
NSI	National Statistical Institute
OECD	Organisation for Economic Cooperation and Development
OPEC	Organisation of Petroleum Exporting Countries
RINGS	Real-time Interbank Gross Settlement System
SBL	State Budget Law
SDR	Special Drawing Rights
TFP	Transitional and Final Provisions
VAT	Value Added Tax
ZUNK	Bulgarian abbreviation of the Law on Settlement of Non-performing Credits Negotiated prior to 31 December 1990 (LSNC)

Summary

In the first half of 2015 global economic growth slightly moderated (to 2.5 per cent against 2.6 per cent in the corresponding period of 2014), with developments across regions remaining heterogeneous. The economic activity in the USA, the euro area and India accelerated, economic growth slowed down in Japan and China, while Russia and Brazil reported a decline. Euro area gradual recovery of economic activity continued, with private consumption having the strongest positive contribution to growth. Ireland and Malta reported the highest growth and Finland the lowest one. In the USA private consumption contributed to accelerated economic growth. Slower growth in developing economies impacted demand for commodities, raw materials and fuels. As a result international prices of these goods continued to decrease and annual global inflation went down to 1.5 per cent at the end of June 2015 against 2.4 per cent in June 2014.

Low inflation was the major factor determining to a large degree the monetary policy of the two leading central banks: the European Central Bank (ECB) and the US Federal Reserve System. By the end of the first half-year, annual inflation of consumer prices in the euro area accounted for 0.2 per cent and 0.1 per cent in the USA. Due to low inflation both central banks did not change interest rates on main refinancing operations. Concurrently, the euro area and the USA diverged in other two important macroeconomic indicators: economic growth in the euro area was low and the unemployment rate high, while the USA reported a high growth rate and a low unemployment rate.

Based on these indicators the two central banks made their decisions on the non-standard monetary policy measures. The ECB extended its government securities purchase programme, which provides for government securities purchases totalling EUR 1.1 trillion (EUR 60 billion per month) in the period from March 2015 to at least September 2016. Having discontinued its securities purchase programmes as of October 2014 (third round of quantitative easing*,* QE3), the US Federal Reserve System continued its policy of reinvesting earnings from government securities on its balance sheet into new government securities of the same class (government securities and mortgage bonds). The difference between the monetary policies of the two central banks was also reflected in the ways of communicating the public. The ECB was resolved to keep interest rates on main refinancing operations unchanged until the inflation was low and to extend its securities purchase programmes. As of March the US Federal Reserve System started preparing market participants for the start of increasing reference rates. Deepening differences between the monetary policies of the ECB and the US Federal Reserve System and particularly the uncertainty of the time when the US Federal Reserve would start increasing its interest rates prompted strong financial market fluctuations in addition to the appreciation of the US dollar.

As of end-April the uncertainty surrounding the negotiations between the Greek government and official creditors on the financial agreement for Greece additionally increased the financial market volatility. As the creditors stopped the final tranche of the rescue package and the ECB decided to leave unchanged the amount of funds provided to Greek banks, the government of Greece took a decision to impose capital controls and a bank holiday in Greece as of 29 June.

In such an environment, money and debt market interest rates, and yield of government securities in the euro area steadily went down in international financial markets in the beginning of the year. US government bond yields also exhibited a decline. At the end of April a sharp and unexpected for most participants upward correction in the euro area countries government bond yields occurred. Since end-April government bond yield spreads of euro area periphery countries have widened.

Indeed, global economic developments impacted Bulgaria's economy. The gradual improvement in external economic environment pushed up economic activity in Bulgaria. The growth rate of real GDP accelerated to 2.7 per cent[1] in the first half of 2015 (1.6 per cent in the corresponding period of 2014), with net exports having the largest positive contribution to growth. Consumer price deflation started to decrease on an annual basis to reach 0.6 per cent by June 2015 against a 2.0 per cent deflation by the close of 2014. Lower annual rate of decline in international fuel prices in the first half of 2015 and the euro depreciation contributed to the decrease in deflation in Bulgaria. Labour market continued to slowly improve, the number of employees in the economy picking up 0.5 per cent on an annual basis. Unemployment went down to 10.2 per cent against 12.2 per cent on average in the first half of the previous year. Labour productivity growth accelerated to 2.2 per cent (1.3 per cent for the corresponding period of 2014). The increase in the average nominal wage in total economy accelerated significantly accounting for 5.4 per cent (against a decline by 0.1 per cent in the first half of the previous year), while in real terms it reached 6.6 per cent (1.7 per cent in the corresponding period of 2014). Gross operating surplus in the economy posted a 4 per cent increase annually in the first half of the year (following a 0.2 per cent decline a year earlier) which allowed firms to use own funds for financing the activity. Other sources of financing for corporations were foreign direct investment and external loans. In the first half of 2015 the amount of banking system claims on the non-government sector went down on end-2014, with loans to non-financial corporations decreasing in June 2015 by 0.8 per cent compared with end-2014, and loans to households by 0.4 per cent. Over the review period banks' attracted funds from households and non-financial corporations increased to BGN 1820 million. In the first half of 2015 the cash balance on the consolidated fiscal programme ended in a surplus of BGN 889.5 million, of which BGN 450.2 million positive balance on EU programmes. The fiscal position improved by BGN 1885.9 million compared to June 2014 mainly due to the higher tax revenue collectability.

The Bulgarian National Bank implements its policy taking into account developments in global and national economies. In compliance with the Law on the Bulgarian National Bank and using effectively its potential and capabilities, the BNB pursues its primary goal: maintaining price stability through ensuring the stability of the national currency. The BNB accomplishes its tasks provided for by the Law investing Bulgaria's gross international reserves in accordance with the principles and practices of prudent investment. The Bulgarian National Bank regulates and supervises banks' other activities in Bulgaria for the purpose of maintaining the stability of the banking system and protecting depositors' interests. The Bank assists the implementation, operation and oversight of efficient payment systems by regulating and supervising the payment system operators, payment institutions and electronic money institutions. The Bulgarian National Bank in its capacity as an issuing bank ensures the printing of banknotes and minting of coins, as well as the preservation and destruction of banknotes and coins uncirculated or withdrawn from circulation. The Bank performs its fiscal agent and state depository functions and actively participates in the work of the European System of Central Banks (ESCB) and other EU institutions.

The BNB continued to pursue a conservative risk management policy in investing international reserves. By the end of June 2015 the market value of gross international reserves amounted to EUR 19,224 million: an increase of EUR 2690 million, or 16.27 per cent on the end of 2014. Net income from assets in euro included three components: (i) earnings from international reserve investment were negative at EUR -54.74 million, or -0.23 per cent cumulative yield for the first half of 2015; this

[1] The report employs data on Bulgaria's GDP published by the NSI on 4 September 2015.

negative result was primarily due to the unexpected drop in securities held in the BNB portfolio at the end of April; (ii) earnings from currency imbalance amounting to EUR 95.98 million was almost entirely due to the change in the euro price of monetary gold; and (iii) no expenditure on interest was paid on Issue Department balance sheet liabilities over the review period. These three components brought a net return from international reserve management to EUR 41.24 million, or a 0.39 per cent total return on assets in the first half of 2015.

In the first half of 2015 two laws important for the functioning of the banking system and the bank supervision were drafted: the Law on the Recovery and Resolution of Credit Institutions and Investment Firms and the Law on Bank Deposit Guarantee. The BNB was actively involved in drafting the law in line with its competence. The Law on the Recovery and Resolution of Credit Institutions and Investment Firms transposes into the Bulgarian legislation Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms. In accordance with this law the BNB is assigned a new function: it shall be the authority for restructuring of credit institutions in Bulgaria. Major resolutions in restructuring of banks will be taken by the BNB Governing Council and will be subject to coordination and explicit approval by the Minister of Finance, where they concern public finances or have systemic consequences (e.g. for the non-bank sector or the real economy). In connection with the new European framework of deposit guarantee schemes, BNB experts participated in drafting the Law on Bank Deposit Guarantee, whereby the requirements of Directive 2014/49/EU on deposit guarantee schemes were transposed into national legislation.

As a part of systemic risk monitoring in the banking system the BNB regularly monitors macroeconomic and financial parameters and risks in the EU Member States represented through subsidiary banks or branches with significant shares in Bulgaria's banking system. Given the worsened financial situation in Greece in the first half of 2015 measures and recommendations to banks with Greek equity were enlarged. More important measures included tightened liquidity and capital requirements for institutions with Greek equity. They were recommended to decrease the net balance sheet positions (assets less liabilities) to their bank groups, to ensure operational independence (of information systems and in conducting payment operations), to tighten control over liquidity resources, to prepare reaction plans in case of potential liquidity pressure, *etc*.

In the spring an independent external assessment of the banking supervision effectiveness in Bulgaria, carried out by a team of the IMF and the World Bank, was launched. The examination was intended to assess the compliance of supervisory practices in Bulgaria with the currently effective international standard, *i.e.* the Basel Core Principles for Effective Banking Supervision of 2012.

In the first half of 2015 the profitability of credit institutions reflected limited investment opportunities and the need of maintaining high liquidity. To avoid negative effects on banks the requirements for minimum liquidity levels of banks were sustained and liquidity buffers were monitored on a daily basis over the review period. During the period all credit institutions maintained their liquid indicators at levels higher than those recommended by the BNB.

The continuous decline in income from interest-bearing assets, which accelerated in the last 12 months, was offset by lower interest expenditure. For the first six months of 2015 the banking system generated profit of BGN 503 million. At the end of June the return on banking system assets (ROA) was 1.20 per cent and the return on balance sheet equity (ROE) reached 9.34 per cent. By the close of June the total capital adequacy ratio and tier one capital adequacy ratio rose to 22.28 per cent and 20.39 per cent respectively. The surplus over the minimum required capital adequacy of 8 per cent amounted to BGN 7.1 billion. The share of non-performing loans and debt securities in total gross banking exposures accounted for 13.49 per cent at the end of June.

The Bank ensured the effective functioning of the payment systems and continuity of the payment flows. In the first half of 2015 RINGS, a real-time gross settlement system, operated by the BNB, processed 84.6 per cent of payments in Bulgaria. The number of payments made through the national system component of the Trans-European Automated Real-time Gross settlement Express Transfer system for the euro (TARGET2) run by the BNB (TARGET2-BNB) increased by 12.6 per cent on an annual basis. The BNB oversees payment systems in Bulgaria with a view to limiting system risk and improving Bulgarian payment system reliability and efficiency. In the first six months of 2015 the Bank carried out one full inspection of a payment service provider. One of important EU legislative packages, adopted in the first half of the year, was in the area of payment services and included a new Directive on payment services in the internal market and a Regulation on interchange fees for card-based payment transactions. To this end, the BNB took the necessary steps to prepare a proposal for legislative changes to ensure the application of this Regulation.

BNB issue and cash operations include: banknote printing; coin minting, accepting, delivering, repaying, processing, authenticity and fitness checking of Bulgarian banknotes and coins, and foreign currency; exchanging damaged Bulgarian banknotes and coins; and destroying unfit Bulgarian banknotes and coins. By the close of June 2015, 375.5 million banknotes worth BGN 10,990.1 million were in circulation. The average circulating banknote was worth BGN 29.27. Coins in circulation stood at 1837.6 million, with a total value of BGN 232.5 million. The average coin in circulation was worth BGN 0.13. The share of retained non-genuine Bulgarian banknotes was 0.000182 per cent of total banknotes in circulation by the end of 2015, while that of retained non-genuine Bulgarian coins in the total number of circulating coins was 0.000022 per cent. In order to exercise its control functions to ensure the integrity and security of cash circulation, in the first half of 2015 the BNB performed four full and 16 spot on-site checks at credit institutions and service providers to ensure compliance with the regulatory framework requirements for cash handling and banknote recycling.

Under contracts negotiated to market conditions and prices with the Ministry of Finance, the Bank collects, processes, keeps and submits information on budget entities' domestic bank accounts to the Ministry of Finance and acts as government debt agent. In the first half of 2015, 485 statistical reporting forms were prepared for the budget by the IOBFR system for budget and fiscal reserve information servicing, up 3 per cent on the same period of 2014. Auctions for sale of government securities held *via* the GSAS system numbered 7. The total nominal volume of Electronic System for Registering and Servicing Government Securities Trading (ESROT) registered government securities transactions was BGN 12,842.5 million nominal value, down 27.0 per cent on the same period of the previous year.

By participating in the committees and working groups of the ESCB, the European Commission, the EU Council, the European Systemic Risk Board, the European Banking Authority, and the Council for European Affairs, the BNB contributed to formulating Bulgarian standpoints on key economic governance areas and the financial sector.

I. Economic Development in the First Half of 2015

1. The External Environment

In the first half of 2015 the annual growth rate of the world economy was 2.5 per cent, exhibiting a slight decrease against 2.6 per cent growth in the first half of 2014.[2] Divergences were observed across geographic regions: the economic activity in China and Japan slowed down, Russia and Brazil reported a decline, and the growth rate of real GDP in the USA, euro area and India accelerated compared with the first half of 2014. In mid-2015 economic indicators showed signs of further improvement of economic activity in developed economies and a slowdown of growth in emerging markets and developing economies. Uncertainty related to the agreement of a new rescue package for Greece had a relatively limited effect on euro area's economic indicators over the review period.

Global industrial output rose by 1.8 per cent[3] on an annual basis between January and June 2015 (against 3.2 per cent growth in the corresponding period of 2014). The slower rate of global growth was due to weaker growth in a number of emerging markets and developing economies and a decline in Japan's industrial output. Global trade went up by 1.9 per cent[4], a significant decrease in the annual growth rate compared with the first half of 2014.

Major Macroeconomic Indicators

(average for the period) (%)

	Growth				Inflation (end of year)				Unemployment rate (average annual)			
	2013	2014	2015		2013	2014	2015		2013	2014	2015	
			I	II			I	II			I	II
EU	0.2	1.4	1.8	1.9	1.0	-0.1	-0.1	0.1	10.9	10.2	10.2	9.5
Euro area	-0.3	0.9	1.3	1.6	0.8	-0.2	-0.1	0.2	12.0	11.6	11.7	10.9
New EU Member States	1.5	2.8	3.6	3.4	0.7	-0.3	-0.6	-0.3	9.9	8.7	8.5	7.6
EU-3	1.4	2.7	2.7	2.5	1.7	0.5	0.1	0.1	7.6	6.4	5.9	5.9
United States	1.5	2.4	2.9	2.7	1.5	0.8	-0.1	0.1	7.4	6.2	5.8	5.3
Japan	1.6	-0.1	-0.8	0.8	1.6	2.4	2.3	0.4	4.0	3.6	3.5	3.3
China	7.7	7.4	7.0	7.0	2.5	1.5	1.4	1.4	4.1	4.1	4.1	4.0

Notes: The EU includes 28 Member States. The new EU Member States are countries joining since 2004 excluding those now in the euro area. The EU-3 are the United Kingdom, Sweden, and Denmark. New EU Member States outside the euro area and EU-3 indicators are calculated by weighing time series by country weights in group GDP for growth, in group labour force for unemployment, and the weights of the EU in HICP, calculated by Eurostat for inflation. Non-seasonally adjusted data on real GDP growth on an annual basis. Non-seasonally adjusted quarterly data on unemployment. Excluding the United Kingdom from unemployment in the second quarter of 2015 due to lack of data.

Sources: Eurostat, Bureau of Economic Analysis, Bureau of Labour Statistics, Statistics Bureau of Japan, the National Bureau of Statistics of China, BNB computations.

The gradual recovery in the euro area continued in the first half of 2015. Mostly private consumption and fixed capital investment to a lesser extent contributed to real GDP growth on an annual basis[5] both in the first and second quarter. In the first half of the year Ireland and Malta reported the strongest growth across countries, while Finland exhibited the lowest growth which was close to zero. Unemployment fell to 11.3 per cent on average (12.0 per cent a year earlier), with its peak observed again in Greece (25.8 per cent) and Spain (23.1 per cent). In the first two quarters of 2015

[2] Based on seasonally adjusted quarterly data of the World Bank as of 23 September 2015.
[3] CPB Netherlands Bureau for Economic Policy Analysis data of 24 September 2015.
[4] CPB Netherlands Bureau for Economic Policy Analysis data of 24 September 2015.
[5] Non-seasonally adjusted data.

Germany remained the country with the lowest unemployment rate (4.9 per cent) followed by Malta (5.5 per cent).

The economic activity in the USA increased further on an annual basis in the first half of 2015, with private consumption having the strongest positive contribution to real GDP growth. Unemployment continued declining to 5.6 per cent on average (6.5 per cent in the same period of 2014).

By the end of the first half of 2015 global inflation accounted for 1.5 per cent[6] against 1.8 per cent by the close of 2014. Heterogeneous developments occurred across regions: inflation in developing countries posted a stronger decline on end-2014, and in advanced economies it slightly went up.[7]

In June the euro area inflation rate[8] accelerated to 0.2 per cent (-0.2 per cent in December 2014), with core inflation (excluding food, energy, alcohol and tobacco products) increasing slightly to 0.8 per cent. By the end of the first half of the year Malta, Austria and Belgium reported the strongest annual inflation in the euro area, while Cyprus and Greece exhibited the lowest inflation rate.

The US inflation rate[9] reached 0.1 per cent on an annual basis in June 2015, posting a decrease on end-2014 (0.8 per cent). In the first half of 2015 inflation measured by the private consumption expenditure deflator fell to 0.2 per cent on an annual basis (against 1.4 per cent in the second half of 2014).

Depreciation of most of major commodity groups and raw materials in international markets continued in the first six months of 2015. Over the review period the Brent oil price went down on an annual basis both in US dollars (by 46.7 per cent) and in euro (by 34.4 per cent). The major factors influencing the dynamics of petroleum prices were the data on high oil output in OPEC member countries, significant inventories and uncertainty surrounding global demand growth of petroleum products. In the first half of the year food prices in US dollars decreased on an annual basis (down 14.3 per cent) and increased in euro (by 5.3 per cent) as a result of euro depreciation *vis-à-vis* the US dollar.[10] Cereal prices posted a significant drop (by 19.8 per cent in US dollars) as a result of good harvests. The metals price index went down between January and June 2015 compared with the first half of 2014 (by 23.9 per cent in US dollars) due mostly to lower China's demand, strong supply and significant inventories. Iron ore prices posted the strongest fall (45.8 per cent in US dollars) across individual metal groups. Copper price also posted a decline (by 14.0 per cent).

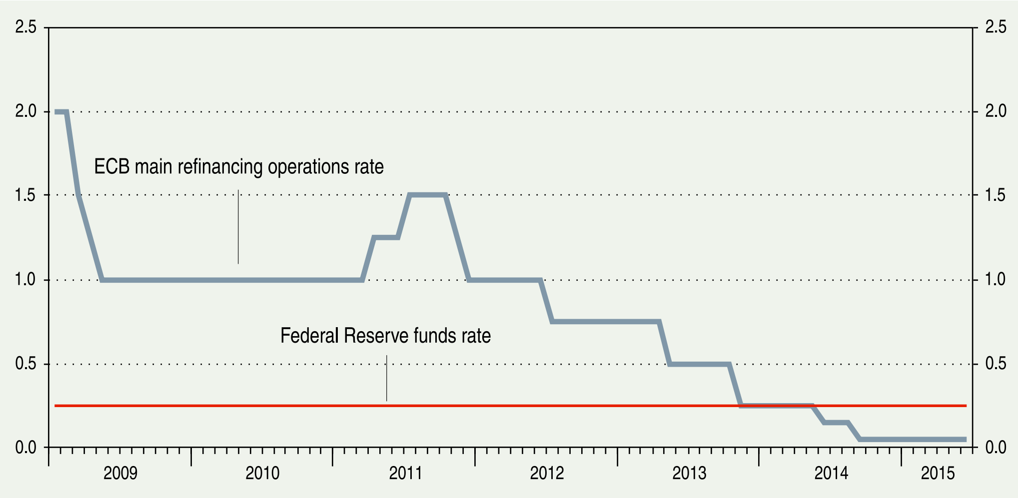
Differences in the monetary policies of the European Central Bank and the US Federal Reserve System continued to increase.[11] In the first half of the year euro area inflation remained low, well below the 2 per cent target. As of March the ECB launched an expanded asset purchase programme totalling EUR 60 billion *per* month, keeping interest rates on main refinancing operations unchanged. As a result of the initiated measures euro area money market rates went down.

The interest rate policy of the US Federal Reserve System also remained unchanged in the first half of 2015, but at its meeting held in March the Federal Open Market Committee informed that the US Federal Reserve interest rates may start increasing.

[6] Based on seasonally adjusted World Bank data as of 25 September 2015.
[7] Based on seasonally adjusted World Bank data as of 25 September 2015.
[8] Measured by the Harmonised Index of Consumer Prices (HICP).
[9] Measured by the CPI.
[10] For further information on exchange rate developments, see Chapter 2.
[11] For further details on the ECB and US Federal Reserve monetary policy, see Chapter 2.

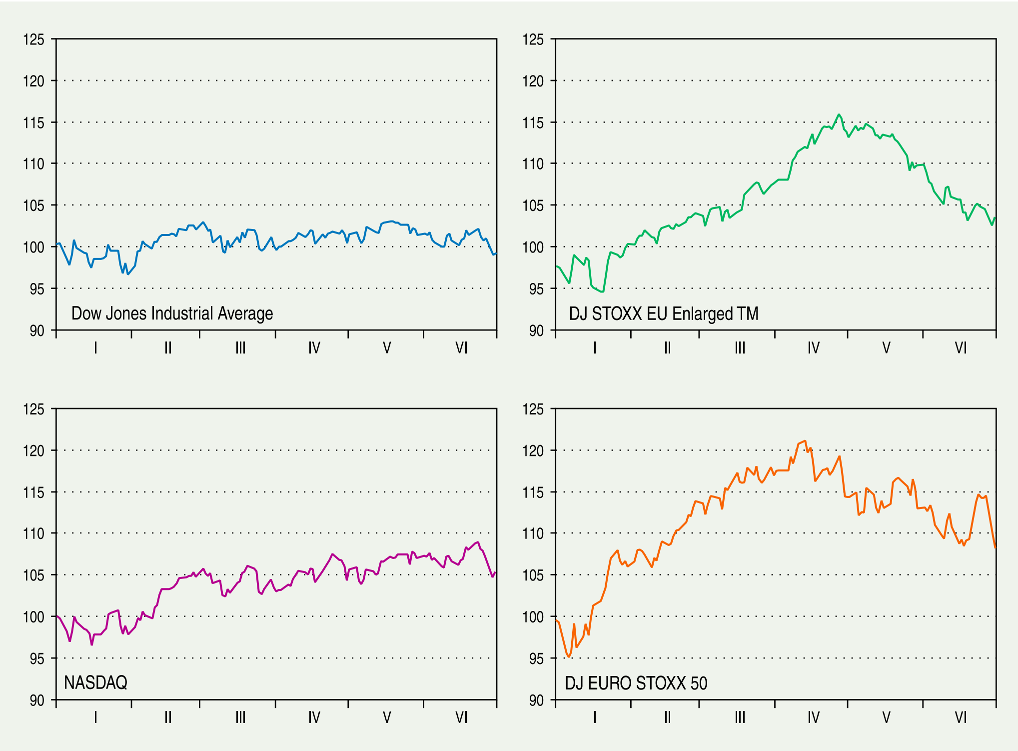
Federal Reserve System and ECB Interest Rates

(per cent)



Sources: ECB, Federal Reserve System.

Major Stock Market Indices in the First Half of 2015



Note: US dollars, December 2014 = 100.

US stock market indices posted an increase over the first half of 2015, with US Dow Jones and NASDAQ indices increasing in June by 0.9 per cent and 7.2 per cent on average compared with December 2014. Europe's stock market indices EURO STOXX 50 and EURO STOXX EU Enlarged TM ended the first half of the year in growth of 11.4 per cent and 5.7 per cent but their quarterly dynamics was divergent. In the first quarter the EU stock indices went up on end-2014 reflecting the effect of the announcement of ECB extended TM asset purchases and further strengthening of economic activity in the region. In the second quarter of the year the market sentiment was adversely impacted by uncertainty related to the agreement of a new rescue package for Greece, which led to the subsequent downward trend in the two indices.[12]

2. The Bulgarian Economy

In the first half of 2015 the growth rate of real GDP continued to accelerate reaching 2.7 per cent[13] on an annual basis (1.6 per cent growth in the first half of 2014). Net exports had the major positive contribution of 1.8 percentage points to GDP growth in real terms as a result of a stronger increase in exports of goods and services compared with imports. The contribution of domestic demand was weaker compared with the corresponding period of 2014 and reached 0.5 percentage points. In the first half of the year private consumption rose at a slower rate due to still low employment rates. Fixed capital investment remained unchanged and government consumption went down on the corresponding period of 2014. Concurrently, higher inventories, mostly in construction and trade, had a positive contribution of 0.5 percentage points to the increased economic activity in Bulgaria.

The ongoing modest recovery of the labour market in the first half of 2015 contributed to slower growth of household consumption and retained high household savings rate despite the strengthened consumer confidence. Final consumer expenditure increased by 0.9 per cent on an annual basis.

Government consumption went down by 1.5 per cent and had a low positive contribution to economic growth. The decline in government consumption was driven mostly by lower operating expenditure and health insurance payments in the public sector, while expenditure on compensation of employees increased at a rate much slower than in the corresponding period of the previous year.

Real GDP Growth Rate and Contribution by Component of Final Consumption

(on the corresponding period of previous year, non-seasonally adjusted data)

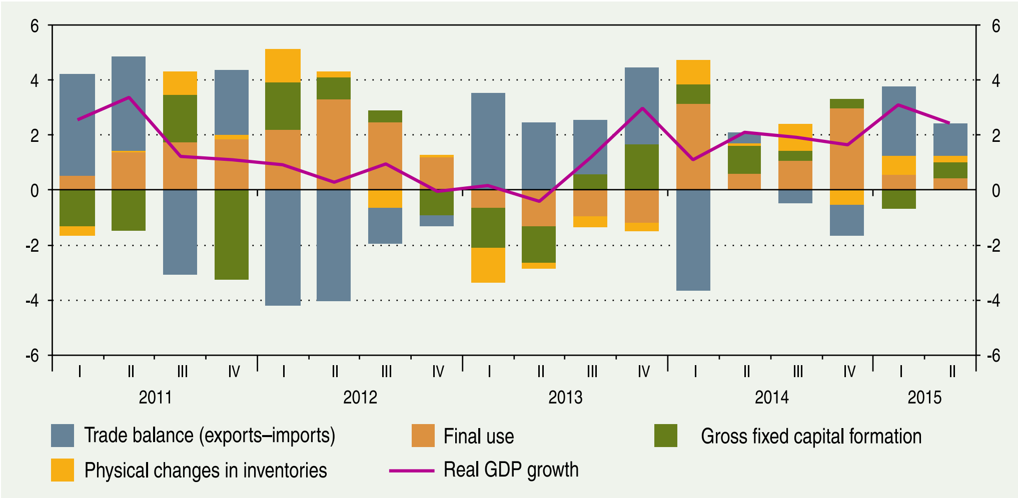
	2014				2015	
	January – June		July – December		January – June	
	Change (per cent)	Contribution, percentage points	Change (per cent)	Contribution, percentage points	Change (per cent)	Contribution, percentage points
GDP	**1.6**	-	**1.8**	-	**2.7**	-
Final consumption	2.0	1.7	2.7	2.0	0.6	0.5
Household consumption	1.8	1.1	2.2	1.3	0.9	0.6
NPISH consumption	0.1	0.0	6.8	0.0	0.6	0.0
Final consumption expenditure of the general government sector	4.1	0.4	7.4	0.5	0.2	0.0
Collective consumption	2.0	0.2	1.8	0.1	-1.5	-0.1
Gross fixed capital formation	4.3	0.9	1.6	0.4	0.0	0.0
Physical changes in inventories	-	0.5	-	0.2	-	0.5
Exports (goods and services), net	-	-1.4	-	-0.8	-	1.8
Exports (goods and services)	1.8	1.2	2.6	1.8	9.7	6.6
Imports (goods and services)	3.7	-2.7	3.9	2.6	6.8	4.8

Sources: NSI, BNB.

[12] For more information on the US and euro area government bond markets, see Chapter 2.
[13] GDP data published by the NSI on 4 September 2015 are used in the report.

Real GDP Growth Rate and Contribution by Component of Final Consumption

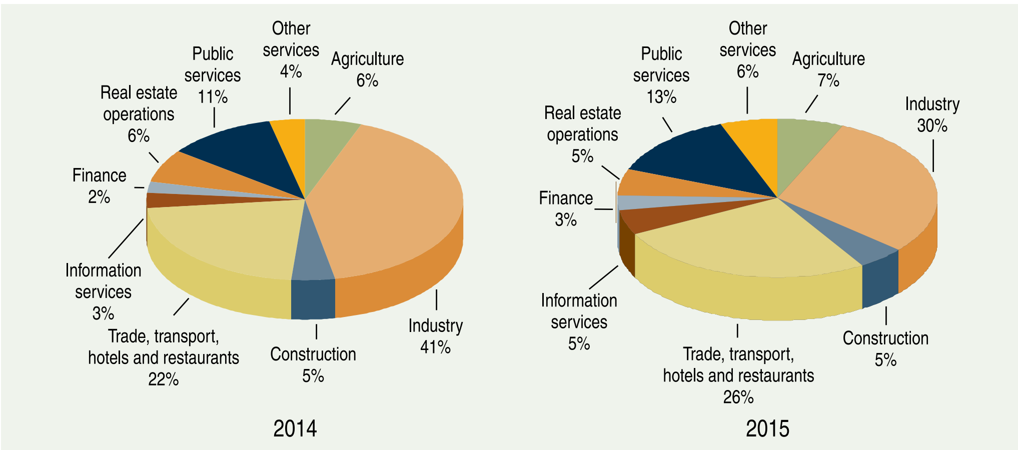
(per cent, percentage points on corresponding quarter of previous year, non-seasonally adjusted data)



Sources: NSI, BNB.

In the first six months of 2015 real investment in fixed capital remained unchanged compared with the corresponding period of 2014. Government investment under programs financed by EU funds posted an increase. Despite the increased volume of production and capacity utilisation, firms of the industrial sector remained cautious about their investment policy. Preliminary NSI data showed that nominal expenditure on acquiring fixed assets for the total economy rose by 7.2 per cent on an annual basis in the first six months of 2015. Breakdown by sector suggested that real estate operations and construction contributed most significantly to lower investment in industry, while other sectors' positive contribution to overall investment activity in Bulgaria was low.

Structure of Fixed Asset Expenditure by Sector in the First Half of 2015



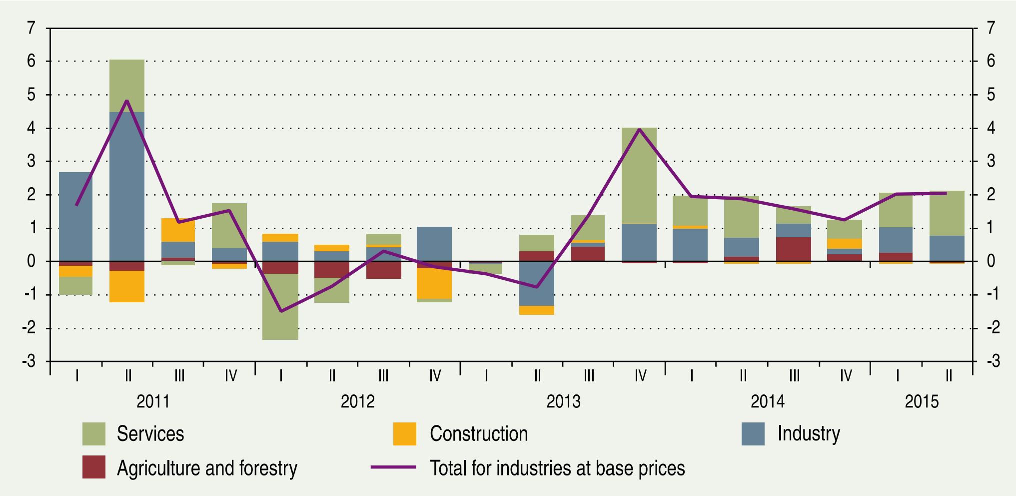
Note: Preliminary data for 2015.

Sources: NSI, BNB.

In the first half of 2015 gross value added for the economy slightly accelerated its rate of growth to 2.0 per cent from 1.9 per cent in the first half of 2014. Services and industry sectors had the major contribution to economic activity growth. Value added growth in services went up in all sub-sectors, with the real estate operations sub-sector contributing most strongly. Agriculture did not materially contribute to strengthening economic activity in the first half-year and the contribution of construction was close to zero.

Gross Value Added Quarterly Change in Real Terms and Contribution by Industry

(per cent, percentage points on corresponding period of previous year, non-seasonally adjusted data)



Sources: NSI, BNB.

Gross Value Added Change in Real Terms and Contribution by Industry

(on the corresponding period of previous year, non-seasonally adjusted data)

	2014				2015	
	January – June		July – December		January – June	
	Change (per cent)	Contribution, percentage points	Change (per cent)	Contribution, percentage points	Change (per cent)	Contribution, percentage points
Gross Value Added	1.9	-	1.4	-	2.0	-
Agriculture and forestry	1.0	0.1	7.4	0.5	-0.3	0.1
Industry*	2.9	0.7	1.1	0.4	2.3	0.7
Services	1.7	1.1	0.8	0.6	1.8	1.2

* Industry and construction.

Sources: NSI, BNB.

In the first half of 2015 labour market situation continued to slightly improve. Following the 0.4 per cent employment increase in 2014, the number of employees in the economy pick up 0.5 per cent on an annual basis in the first half of 2015. Industrial sub-sectors (industry and construction) and some services sub-sectors (wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities, information and communication and financial and insurance activities) contributed most positively to employment growth in the first half of 2015, while the sub-sectors of public administration and defence; compulsory social security; education; human health and social work activities; professional, scientific and technical activities; administrative and support service activities had a negative contribution to the change in employment.

The labour force survey data show that the unemployment rate decelerated to 10.2 per cent between January and June 2015 (12.2 per cent on average in the first half of 2014). The unemployment rate, estimated by the number of persons registered in the Employment Agency, also exhibited a decline on the corresponding period of the previous year (11.7 per cent) accounting for 10.6 per cent on average. The economic activity rate of the 15–64 age group rose to 68.8 per cent (against 68.4 per cent during the first half of 2014) reflecting the stronger decrease in working-age persons as compared with the labour force reduction. The number of discouraged persons posted year-on-year fall to 182,000 on average for the review period (201,000 in the first half of 2014).

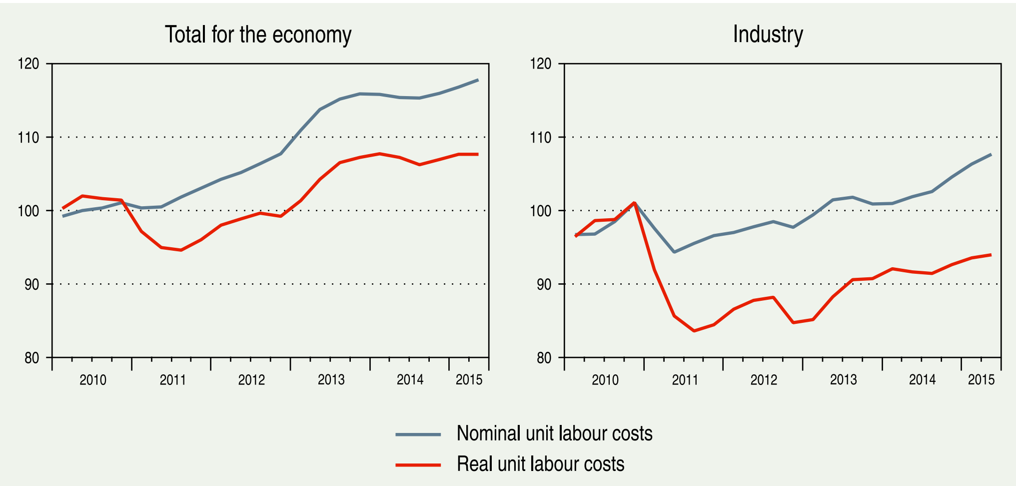
Labour force survey data for the first six months show that declines were observed in both short-term unemployment (up to 12 months) and long-term unemployment (for a period of over 12 months). Reflecting short-term unemployment decreases, the share of long-term unemployed reached 61.1 per cent on average, rising slightly from the same period of 2014 (58.5 per cent).

Labour productivity of the total economy accelerated to 2.2 per cent on an annual basis (1.3 per cent for the corresponding period of 2014). Its higher year-on-year growth was largely observed in real estate operations, trade, car and motorcycle repairs, transport, storage and mail services, and hotels and restaurants. Lower labour productivity growth on the same period of 2014 was recorded by construction, information and communication, telecommunications and financial and insurance activities.

Average nominal wage posted an increase of 5.4 per cent on an annual basis (following a decline of 0.1 per cent in the first half of 2014). National account data show higher than average pay growth in the sub-sectors of real estate operations, professional activities and scientific research, administrative and ancillary activities. Wage in the sector of financial and insurance activities fell from the corresponding period of 2014. In real terms,[14] the average wage posted a higher growth rate (6.6 per cent) than nominal wage, accelerating on the first half of 2014 (1.7 per cent). Similar sector developments occurred in both nominal and real compensation *per* employee.

Remuneration and labour productivity dynamics pushed up nominal unit labour cost growth to 2.9 per cent on average in the first six months of 2015 following a decrease of 0.8 per cent in the first half of 2014.

Unit Labour Costs
(moving average, 2010 = 100)



Sources: NSI, BNB.

Gross operating surplus in the economy posted 4 per cent growth annually following a 0.2 per cent decline a year earlier. Agriculture, forestry and fishing, industry and the services sub-sectors of financial and insurance activities and real estate operations had the major contribution to this rise.

GDP deflator was positive at 1.8 per cent on an annual basis (-0.7 per cent for the corresponding period of 2014). Negative deflator values were reported by the sector of agriculture, forestry and fishing, and services sub-sectors of information and communication and public services. By component of final use, goods import deflator, goods export deflator and government consumption deflator posted declines on an annual basis, while other deflators recorded positive values.

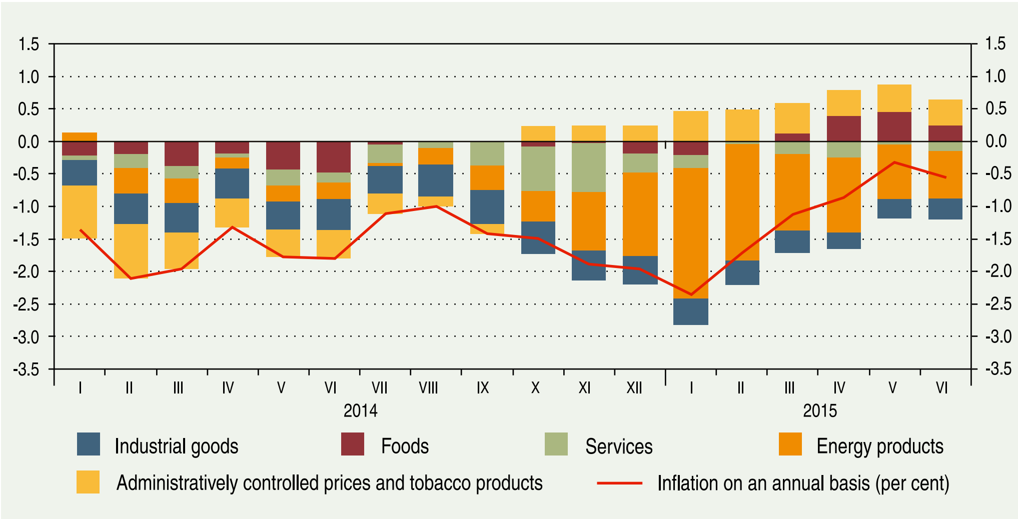
[14] HICP deflated.

In the first half year consumer price deflation started in mid-2013 tended to decrease.[15] In June inflation was -0.6 per cent compared to -2.0 per cent by end-2014, with the lower rate of decline in fuel prices driving deflation moderation. Mid-2014 depreciation of the euro against the US dollar contributed to the positive growth rate of food prices and lower rates of decline in durable goods prices (excluding motor vehicles) as most of them have a high import content and the euro is their invoicing currency. Internal factors also added to the decreasing deflation related to household consumer demand amid continuing slow recovery in the labour market situation and exhausting effects of one-off price declines in some services over the first half of 2014.[16]

The breakdown of groups of goods and services shows that year-on-year consumer price index declines were due mainly to the negative contribution of energy products (excluding administratively controlled prices). Food had a slight positive contribution as a result of price rises in both unprocessed and processed foods. In addition to the euro depreciation, unprocessed food price increases reflected unfavourable weather conditions in Bulgaria over the first quarter and the weak supply. As of June administratively controlled prices also contributed positively to the overall inflation rate, mostly due to the increase in the regulated price of electricity for households in the second half of 2014. Reflecting alternative fuel price falls in international markets, the Energy and Water Regulatory Commission reduced regulated heating and natural gas prices in April 2015, though their contribution to the overall HICP dynamics was comparatively small due to their low weight in the consumer basket.

Annual Inflation and Contributions by Major Goods and Services Groups

(percentage points, per cent)



Sources: NSI, BNB.

In June 2015 core inflation (excluding food and energy products, goods and services with administratively controlled prices and tobacco prices) was -1.0 per cent against -1.6 per cent in December 2014. Services deflation was further driven by one-off factors affecting telecommunication services[17] and lower transport services prices reflecting indirectly fuel price developments. Positive trends in household consumption helped retain prices and/or their insignificant increase in the remaining services sub-groups, adding to their decreased contribution to the overall inflation. In the review period non-food prices decreased due to the sustained long-term downward trend in the prices of motor vehicles, computer and communication equipment. In

[15] The analysis employs HICP data.

[16] Fees paid to GPs, specialists and dentists having concluded contracts with the National Health Insurance were administratively reduced from 1 January 2014.

[17] From July 2014 the EU cut price caps for data downloads in all EU Member States.

most other sub-groups of durables and in non-durable goods, prices remained unchanged or increased slightly on an annual basis, adding to their contracting negative contribution to overall inflation.

HICP Inflation Accumulated since the Year's Start and Contributions of Major Goods and Services Groups to It

	January–June 2014		January–June 2015	
Inflation (per cent)	-1.7		-0.3	
	Rate of inflation by group (per cent)	Contribution, percentage points	Rate of inflation by group (per cent)	Contribution, percentage points
Food	**-1.1**	**-0.28**	**0.6**	**0.14**
Processed food	-1.1	-0.19	0.6	0.10
Unprocessed food	-0.9	-0.09	0.5	0.05
Services	**-1.7**	**-0.43**	**-1.1**	**-0.28**
Catering	0.4	0.02	0.6	0.04
Transportation	-4.6	-0.16	-8.5	-0.31
Telecommunication	-2.8	-0.14	-0.2	-0.01
Other services	-1.4	-0.15	0.1	0.01
Energy products	**-6.0**	**-0.55**	**0.1**	**0.01**
Transport fuels	-6.3	-0.54	0.2	0.02
Industrial goods	**-1.3**	**-0.26**	**-0.7**	**-0.14**
Administratively controlled prices	**-1.4**	**-0.24**	**-0.5**	**-0.08**
Tobacco products	**0.4**	**0.02**	**0.3**	**0.01**

Notes: This structure corresponds to the Eurostat classification; tobacco products and goods and services with administratively controlled prices are presented separately. The index of goods and services with administratively controlled prices is calculated through the elementary aggregates level in the consumer basket.

Sources: NSI, BNB.

In the first half of 2015 the overall current and capital account balance recorded a surplus of EUR 1055.4 million. It rose significantly from the corresponding period of 2014 reflecting largely the trade deficit contraction to EUR 916.7 million and, to a lesser extent, capital account surplus growth to EUR 723.9 million stemming from increased inflows of EU funds.

The decrease of the trade balance deficit on the corresponding period of 2014 was mainly driven by both higher annual growth in real exports compared to real imports and favourable terms of trade in the first half of 2015.

External trade statistics[18] for January–June 2015 shows that nominal exports of goods increased by 10.9 per cent on the same period of the previous year. Nominal exports of all commodity groups grew year on year, with exports of machines[19] having the most significant positive contribution. Over the same period nominal goods imports rose by 4.8 per cent on an annual basis, driven largely by imports of raw materials and investment goods. Imports of energy products declined as a result of falling international oil prices and lower imported physical volumes.[20]

The positive services balance in the first half of 2015 increased slightly from the first half of 2014, with growth registered in both exports and imports of services. Travel earnings declined on an annual basis.[21]

[18] The analysis employs balance of payments data in accordance with the sixth edition of the IMF Balance of Payments and International Investment Position Manual (BPM6, IMF, 2008). BPM6 introduces major methodological changes in goods and services trade, leading to mismatch of these data and NSI external trade statistics (see the BNB balance of payments press release of February 2015).

[19] Data refer to the group of machines, vehicles, appliances, instruments and weapons group under the Combined Nomenclature.

[20] According to the Balance of Payments publication, (September 2015, p. 56) on the crude oil and gas group and using quarterly import deflators for the mineral fuels, oils and related products group under SITC in the first and second quarters of 2015.

[21] NSI data show a fall of 16.5 per cent in foreigners visiting Bulgaria for vacation and trips compared to the corresponding period of 2014. This decrease was due to less visits from Greece, Romania and Russia.

In the first half year primary income account deficit[22] increased year on year, reflecting mainly larger outflows in the form of dividends and distributed profit paid to foreign investors. At the same time, the secondary income item[23] posted an increase as a result of higher receipts to the general government sector, including from EU funds.

In the first half of 2015 BOP financial account[24] was negative, with stronger declines observed in assets than in liabilities and deficit increasing from the same period of 2014. The fall in assets was primarily due to lower foreign assets (in the form of portfolio and other investment) held by the Bulgarian banking sector and, to a lesser degree, to decreased foreign assets in the form of direct investment of Bulgarian residents abroad. The contraction in financial account liabilities resulted mainly from reduced foreign obligations of banks (on portfolio and other investment). Though to a much lesser extent, financial account liabilities were influenced by the new external debt issued by the government in March 2015, its value exceeding payments to non-residents on government bonds maturing in January 2015 and the early repayment of the end-2014 bridge loan in March 2015.

Preliminary balance of payments data show EUR 799.1 million (4.1 per cent of GDP for the half year) of foreign direct investment inflows into Bulgaria.

In June 2015 gross external debt decreased by EUR 3467.6 million compared with end-2014 to reach EUR 35.9 billion (83.7 per cent of GDP). Reduced debt in terms of intercompany loans (down EUR 2268.2 million)[25] and lower external debt of banks (down EUR 1324.2 million) had the major contributions to this decline. In addition, public and publicly guaranteed debt declined insignificantly on the end of 2014. External debt of other sectors[26] posted a slight rise which was largely due to the increase in foreign obligations of wholesale trade and trade intermediation.

All external current, capital, and financial transactions pushed up BNB international reserves by EUR 2602.5 million between January and June 2015, valuation adjustments and price revaluations excluded. If changes in international foreign reserves on the BNB Issue Department balance sheet, including valuation adjustments and price revaluations, are taken into account, their growth is estimated at EUR 2690.0 million.

Monetary and credit aggregate developments in the first half year were driven by the retained high savings rate of households and comparatively weak demand for loans by non-financial corporations and households. The ECB monetary policy which is geared towards easing financial conditions in the euro area and BNB precautionary measures to counteract external risks to Bulgaria's banking system[27] also furthered the liquidity in the banking system.

[22] With the introduction of the BPM6, the former income and current transfers sub-items have been redistributed among the new primary income and secondary income items in compiling the balance of payments statistical data. The primary income item encompasses revenue and expenditure from/on income associated with the use of labour force, capital and land, as well as taxes on production and imports, and subsidies. In addition to compensation of employees and investment income, the primary income item comprises also some components of the former current transfers item: taxes on production, subsidies and rent. The secondary income item reflects income redistribution.

[23] See footnote 23.

[24] With the introduction of the BPM6, the financial account balance is computed by deducting the value of liabilities on the account from the value of assets for the purposes of compiling balance of payments statistical data. According to the new reporting, an increase in assets and liabilities is recorded with a plus sign and a decrease with a minus sign.

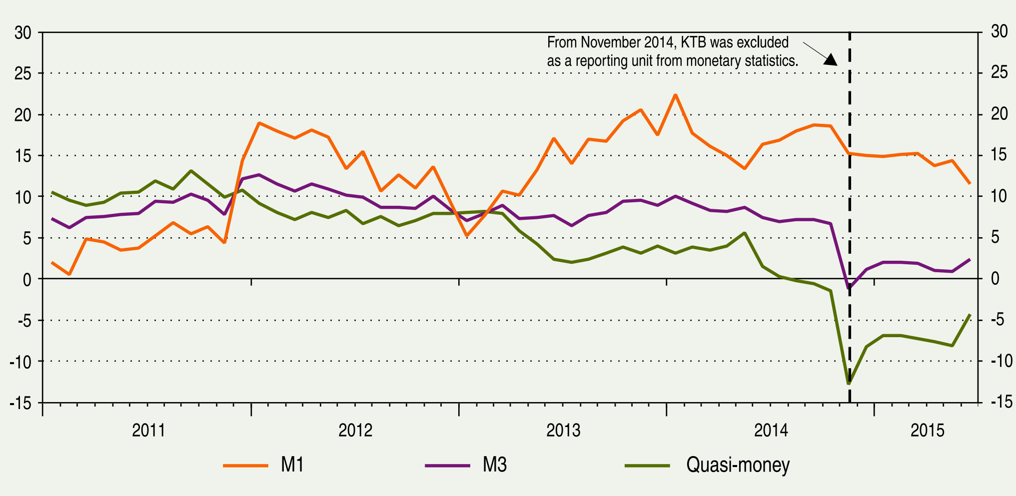
[25] This reflected mostly the unilateral write-off of a claim by a foreign creditor.

[26] Excluding trade and bond loan liabilities.

[27] For more information, see Economic Review, 2/2015, p. 28.

Monetary Aggregates
(annual change)

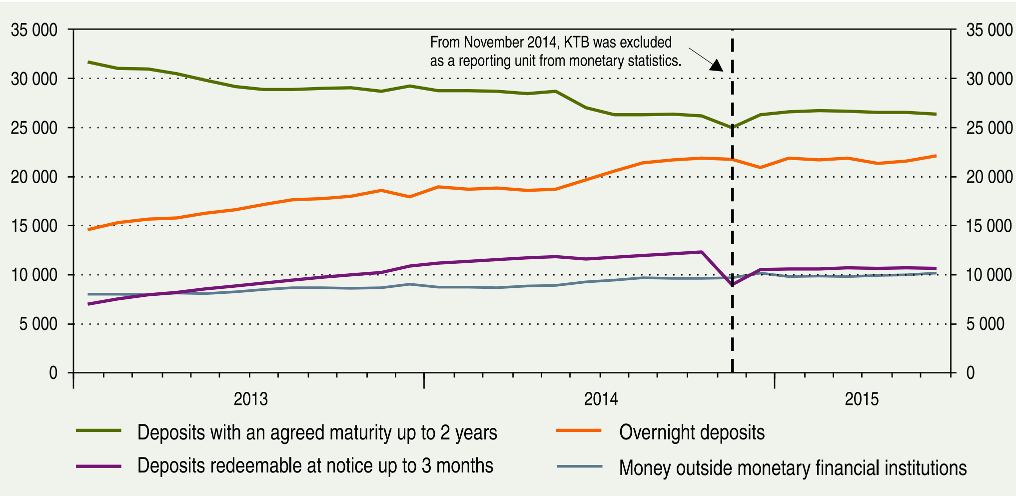
(per cent)



Source: BNB.

Main Components of M3

(BGN million)



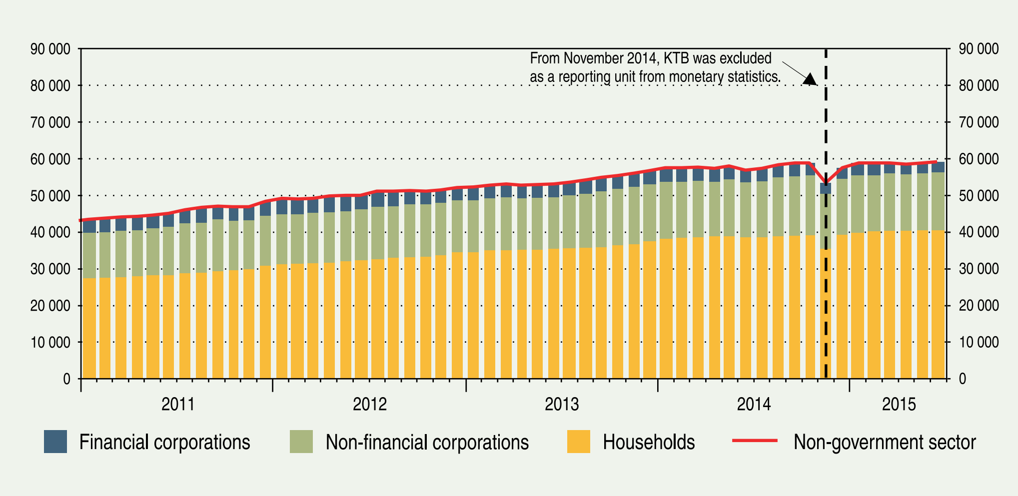
Source: BNB.

In the first half of 2015 household savings were mainly in deposits with agreed maturity of up to 2 years and, to a lesser extent, in overnight deposits as opposed to the previous year when they were mainly in deposits redeemable at notice of up to three months. The change in the household behaviour was most likely influenced by the extended scope of the tax on interest on individuals' time deposit in force as of 2015.[28] In the first six months of 2015 overnight deposits remained the preferred form of savings for non-financial corporations as their deposits with agreed maturity dropped, albeit to a lesser extent than in 2014. In the first half-year broad money grew by 2.0 per on December 2014 reflecting the dynamics of attracted funds from households and firms with overnight deposits contributing most to this growth (up 5.6 per cent) compared with significantly lower growth in quasi-money and money outside banks of 0.4 and 0.3 per cent respectively.

[28] With the amendment to the Personal Income Tax Law in early 2015 the scope of the income tax on interest earned on deposits was broadened to levy all deposits but those in favour of children.

Deposits of the Non-government Sector and Contributions of Individual Sectors

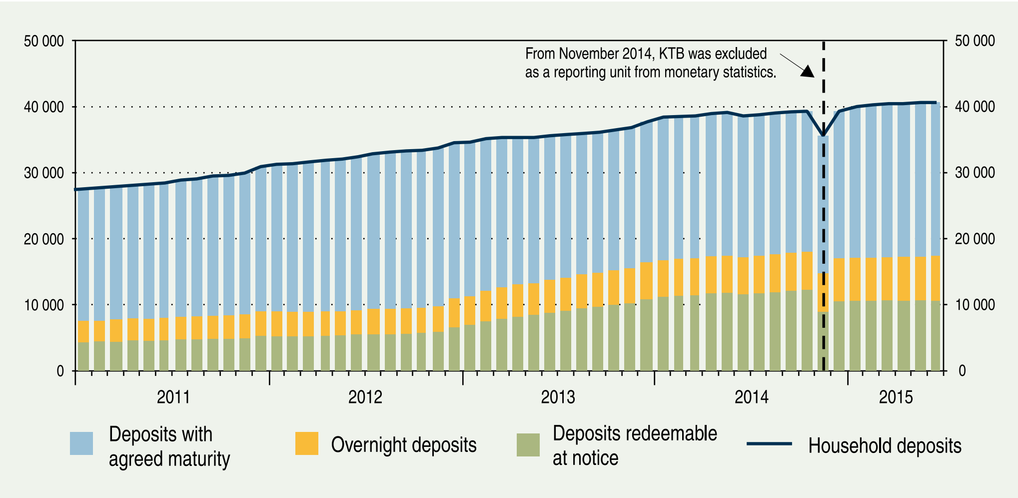
(BGN million)



Source: BNB.

Household Deposits and Contribution of Individual Types of Deposits

(BGN million)

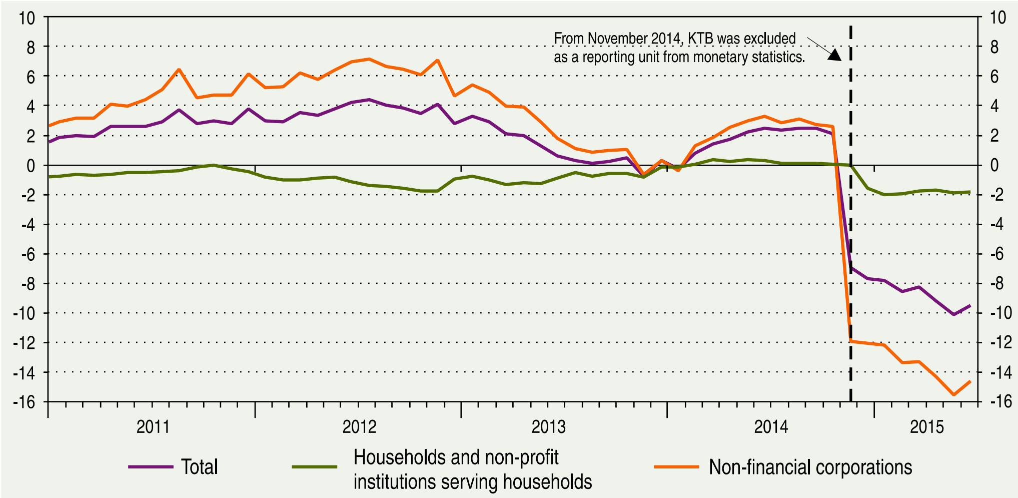


Source: BNB.

In the context of an uncertain external environment and sluggish recovery of economic activity demand for loans by corporations and households remained weak. At the same time, banks remained cautious about lending and continued to maintain relatively stringent lending standards. In the first half of 2015 the amount of claims on the non-government sector went down by 0.5 per cent on end-2014 due to sluggish lending activity and net sales of loans by commercial banks. Loans to non-financial corporations went down by 0.8 per cent on December and those to households by 0.4 per cent. By category of household loans, consumer loans increased by 0.9 per cent, while overdraft, housing and other loans reported a decline of 0.3, 0.6 and 10.3 per cent respectively on the end of 2014.

Claims on the Non-government Sector
(annual change)

(per cent)

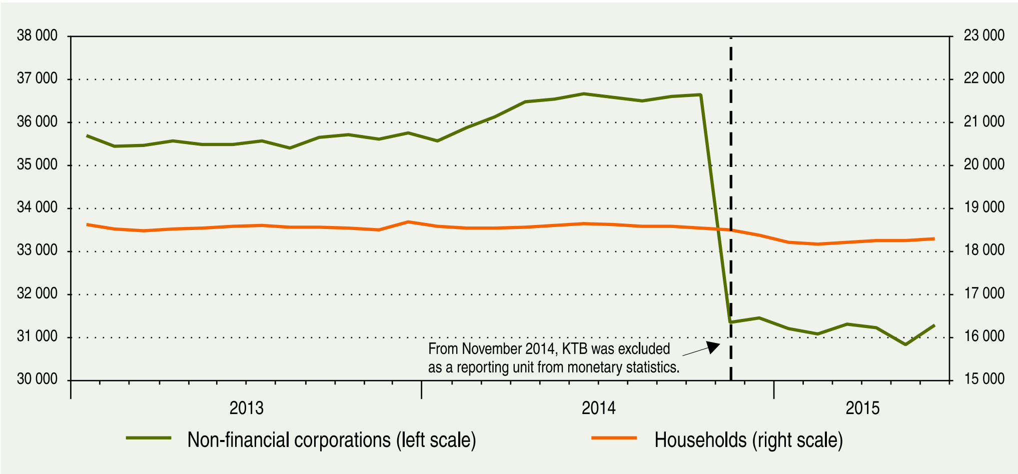


Source: BNB.

Claims on Non-financial Corporations and Households
(annual change)

(BGN million)

(BGN million)



Source: BNB

The BNB quarterly lending survey data show increased demand for credit by households and non-financial corporations in the first half of 2015, although at relatively low rates. Household demand for consumer credit was reported to have improved. Banks explain the higher demand for credit by corporations mainly with the growing need for working capital and inventories. In the first half year banks reported easing of their corporate lending policy with regard to interest rates, fees and commissions and tightening with regard to the maximum amount of the credit and credit risk premium. The first quarter of 2015 saw easing of credit standards for both housing loans and consumer credit to households. Between April and June the housing loan standards saw further easing and consumer credit lending policy remained unchanged. According to the survey, the lower costs of attracted resources and their increased amount, the competition from other banks and the lack of high-yield alternative investment were the main factors contributing to the more favourable lending policy in the first six months of the year. Credit risk contributed most to the tightening of the standards.

In the first six months of 2015 attracted funds from residents continued to be the main source of funding for the banking system. Between the end of 2014 and June 2015 resident deposits increased by BGN 1173 million due to growth in attracted funds from households and non-financial corporations which came to a total of BGN 1820 million. The deposits of the non-financial corporations, the government and the monetary and financial sector reported a decline.

The BNB measures to counteract external risks to the Bulgarian banking system, the ECB policy for maintaining low interest rates and the negative interest rate on the deposit facility set in 2014, which limited banks' high-yield investment abroad, the ongoing increase in attracted funds, and weak lending contributed to the increase in banks' liquidity resources. In the first six months of 2015 banks curbed their net external assets which came to BGN 2.7 billion in June. At the same time, they deposited part of their liquidity in the BNB in the form of excess reserves[29] and invested, to a lesser extent, in government securities. The liquid assets ratio of the banking system reached 32.72 per cent at the end of June 2015.

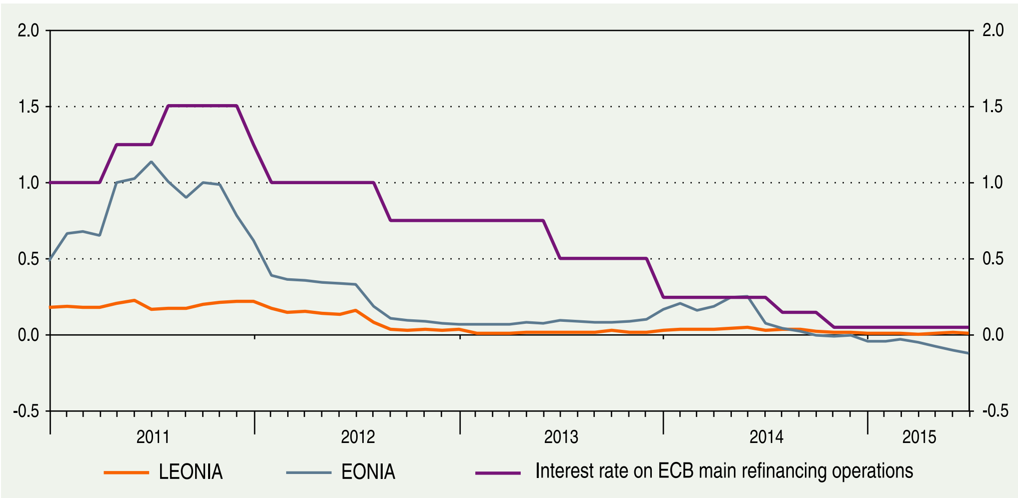
Transactions in reserve currency (euro) with the BNB were the main instrument for managing bank's lev liquidity. Thus, the main function of the currency board is performed: buying and selling on demand national currency against euro at the fixed exchange rate under the Law on the Bulgarian National Bank.[30] In the first six months of 2015 total foreign currency market turnover was EUR 259.9 million,[31] up 24.1 per cent on the same period of 2014. The increase was recorded in the three main foreign exchange market segments: transactions between banks and the BNB, interbank trading (excluding the BNB) and trading between banks and their final customers.

The first half of 2015 saw minor changes in the interbank foreign exchange trading structure (excluding BNB). The percentage share of transactions in US dollars dropped more than three times on account of the increase in transactions in euro. In final customer trading, this structure remained broadly unchanged, with euro operations comprising almost 90 per cent of all foreign currency transactions.

In the first half of 2015 the downward trend in the interbank money market yield curve remained contained in longer maturities in particular due to the higher liquidity in the banking system.

Interbank Money Market Interest Rates

(per cent)



Sources: BNB, ECB.

[29] For further information on the dynamics of banks' excess reserves, see Section 4 of the Report.

[30] See Chapter II.

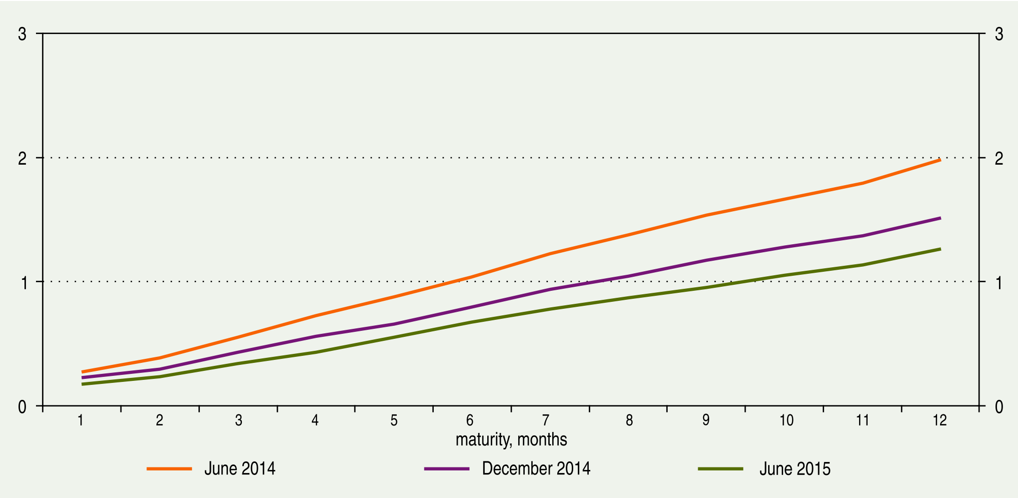
[31] This turnover comprises transactions by banks and the BNB in foreign currency against levs with a spot value date of up to two business days and includes the double volume of trade between the BNB and banks, as well as interbank trading.

Between January and June 2015 the average interest rate on interbank deposits and repurchase agreements went down by 5 basis points compared to the same period of 2014 and came to 0.02 per cent. Since early 2015 the LEONIA index remained almost unchanged from its December 2014 level. At the same time, EONIA continued to decline reaching -0.12 per cent in June 2015. As a result, the positive spread between the two indices widened coming to 13 basis points at the end of the half-year period.

Ample banking liquidity continued affecting interbank money trading, the downward yield curve trend continuing, especially in long-term maturities.

Interbank Money Market Yield Curve

(per cent)



Note: Average SOFIBOR/SOFIBID Index.

Source: BNB.

In the first six months of 2015 the volume of transactions on the interbank money market contracted by 66.4 per cent on the same period of 2014 and came to BGN 8.2 billion. Overall deposits comprised 77.8 per cent of turnover and repurchase operations in government securities 22.2 per cent. Overnight transactions dominated deposit transactions with a share of 92.3 per cent.

In the first half of 2015 the cash balance on the consolidated fiscal programme ended in surplus of BGN 889.5 million, of which BGN 450.2 million positive balance on EU programmes. The fiscal position improved by BGN 1885.9 million compared to June 2014 mainly due to the increase in income and, to a relatively lesser extent, due to reduced expenditure growth.

Total government revenue and grants grew by 15.1 per cent on an annual basis driven mainly by tax revenue dynamics (7.8 percentage points) and grants (5.9 percentage points). The annual growth in tax revenue for the first half year came to (9.9 per cent) mainly as a result of the good indirect tax collection, the receipts of which went up by 11.8 per cent on the corresponding period of the prior year. Improved tax collection and the lower base in the first half of 2014 reflecting the one-off factor effect contributed to sizeable growth in VAT revenue (13.2 per cent) which was entirely due to the increased VAT receipts from domestic and intra-Community acquisitions (net). Excise revenue increased by 9.4 per cent in June 2015 largely due to higher fuel excise receipts. Corporate tax revenue and revenue from personal income tax grew 6.3 and 4.3 per cent respectively. Revenue from social and health contributions increased by 10.4 per cent as they benefited from the early 2015 changes in tax legislation[32] and the developments in compensation *per* employee in the economy.

[32] Including the increase in the maximum amount of social security income, the minimum amount of social security income for farmers, the minimum insurance thresholds by major economic activity and the minimum wage rise.

In the first half of 2015 non-tax income reported 10.7 per cent growth which to a certain extent reflected the higher receipts from auctioning of greenhouse gas emission allowances compared to those in the corresponding period of the previous year. Revenue from grants recorded annual growth of 71.3 per cent in June as in March and April the European Commission refunded a sizeable amount of the expenditure on EU programmes made by the Bulgarian government at the end of 2014.

In June 2015 total expenditure on the consolidated fiscal programme reported low annual growth (1.6 per cent) and the main positive contributors to this growth were capital expenditure[33] (1.5 percentage points), social payments (1.0 percentage points) and interest payments (0.5 percentage points). Higher government capital expenditure reflected broadly the higher investment in EU programmes which posted a 21.2 per cent increase in the half-year period, while capital expenditure on the national budget decreased by 10.8 per cent. Social payments' growth was largely due to higher pension costs. An important factor behind the dynamics of those costs was the July 2014 pension indexation of 2.7 per cent. Current operating expenditure (-0.9 percentage points), contribution to the EU budget (-0.4 percentage points) and subsidies (-0.4 percentage point) had the most sizeable negative contribution to the change in total expenditure. Compensation of employees grew by 1.6 per cent compared to a minimum decline for the first half-year of -0.3 per cent in the number of employed in the general government sector[34].

The first half of 2015 saw positive external financing of BGN 1499.5 million. On 19 March 2015 the Republic of Bulgaria issued three new benchmark issues (7, 12 and 20 years) with a total amount of EUR 3.1 billion, and at the same time in the first quarter of 2015 the external bridge financing of EUR 1.5 billion was repaid at the close of 2014 and US dollar denominated global bonds (BGN 1765.8 million) matured. The net government securities issue on the domestic market was positive and came to BGN 318.5 million against BGN 500 million issued since the start of the year.[35]

The funds of the positive net debt financing and of the accrued cash surplus for the first half year were used to boost the fiscal deposit funds by BGN 2670.8 million. By the end of June 2015 the total amount of the fiscal reserve, including claims on EU funds over certified expenses, advance and other payments reached BGN 11,032.5 million, BGN 10,787.8 million of which were funds on deposits. At the same time, BGN 88.6 million were transferred to the account of the State Fund for Guaranteeing the Stability of the State Pension System (the Silver Fund), which is part of the fiscal reserve. Thus, the Fund accumulated BGN 2534.0 million.

At the end of the review period Bulgarian Eurobonds maturing in 2017 and 2024 were quoted at 106.7 (corresponding to 0.9 per cent annual yield) *per* 100 units nominal value and 98.4 (corresponding to 3.2 per cent annual yield). The three new benchmark issues of March 2015 traded below their nominal value. USD-denominated ZUNK bonds hovered around nominal.

The leading Bulgarian Stock Exchange SOFIX and BGBX40 indices followed broadly downward trends in the first six months of 2015. In June 2015 both indices dipped from end-2014 by 7 per cent and 8.4 per cent for SOFIX and BGBX respectively.

Secondary market share trading dropped 57.5 per cent to BGN 179.2 million and the *Bourse* bond turnover dropped 25.4 per cent to BGN 67.5 million. Over-the-counter equity deals came to BGN 343.7 million[36] and those in bonds to BGN 1.2 million.

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[33] Including growth in government reserve.

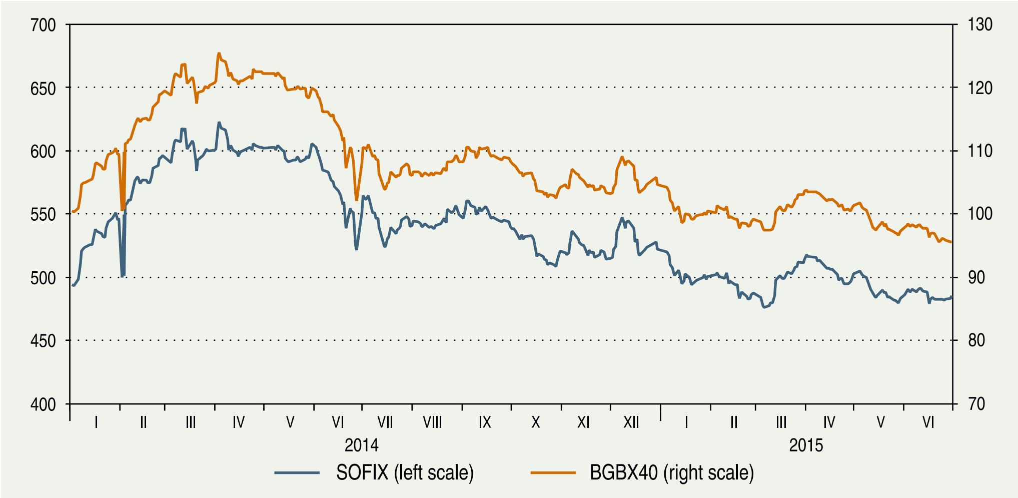
[34] NSI Labour Force Survey data. Data refer to employees in the general government sector; education; human health and social work activities in the Classification of Economic Activity (CEA-2008).

[35] For more information on the government securities primary and secondary market, see Chapter VIII.

[36] Major exchange-traded deals involved Advance Terrafund REIT, Sofia; Velgraph Asset Management AD, Sofia; Trace Group Hold, Sofia; Synthetica AD, Sofia; Sopharma AD, Sofia; Evrohold Bulgaria AD, *etc*.

Market capitalisation of the Bulgarian Stock Exchange, Sofia, was BGN 8.5 billion or 10.1 per cent of GDP, from 11.9 per cent at the close of 2014.

Bulgarian Stock Exchange Indices



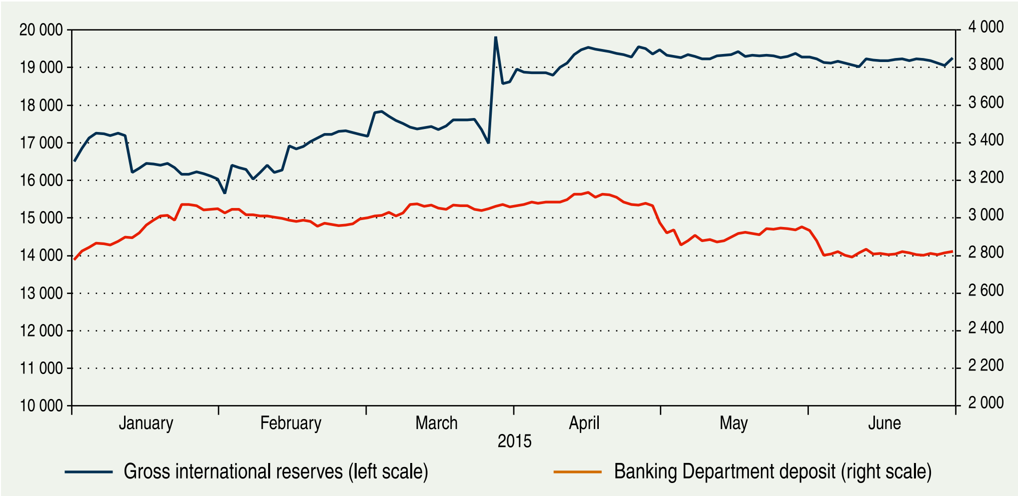
Sources: BNB, Bulgarian Stock Exchange.

II. Gross International Foreign Exchange Reserves

The BNB manages its gross international reserves in line with the Law on the Bulgarian National Bank, investment constraints, business procedures and methodologies, and opportunities offered by international financial markets. They comprise the Issue Department balance sheet assets, and their role is to provide complete coverage for monetary liabilities[37] at the fixed exchange rate of the lev to the euro set out in the Law on the Bulgarian National Bank. The excess of gross international reserves over monetary liabilities forms the Banking Department Deposit item or the net value of the Issue Department's balance sheet.[38]

Gross International Reserves and Banking Department Deposit

(EUR million) (EUR million)



Note: The chart shows the daily movements of the Issue Department balance sheet figure and the Banking Department Deposit in the Issue Department balance sheet.

Source: BNB.

1. The Amount and Structure of Gross International Reserves

By the end of June 2015 the market value of gross international reserves was EUR 19,224 million: an increase of EUR 2690 million,[39] or 16.27 per cent on the end of 2014. Major factors affecting the market value of assets over the period include: income from asset management, income from foreign currency revaluation and external

[37] The Law on the BNB Article 28, paragraph 2 defines the Bank's monetary liabilities as all circulating banknotes and coins issued by the BNB, and all balances of other persons' BNB accounts, except the IMF. Article 28, paragraph 3 defines what assets may comprise gross international reserves: monetary gold; Special Drawing Rights; banknotes and coins in freely convertible foreign currency; funds in freely convertible foreign currency held by the BNB on accounts with foreign central banks or other financial institutions or international financial organisations with one of the two highest ratings by two internationally recognised credit rating agencies; securities issued by foreign countries, central banks, other foreign financial institutions, or international financial organisations assigned one of the two highest ratings by two internationally recognised credit rating agencies; the balance on accounts receivable and payable on BNB forward or repo agreements with (or guaranteed by) foreign central banks, public international financial organisations or other foreign financial institutions with one of the two highest ratings from two internationally recognised credit agencies; and BNB futures and options which bind non-residents and which are payable in freely convertible foreign currency. The Law on the BNB stipulates that these assets be estimated at market value.

[38] According to Article 28, paragraph 1 of the Law on the BNB, 'the aggregate amount of monetary liabilities of the BNB shall not exceed the lev equivalent of gross international reserves,' with the lev equivalent determined on the basis of the fixed exchange rate.

[39] Further in this Chapter, neither balances on banks' accounts in the TARGET2 national system component worth EUR 115 million by end-June 2015, nor the two tranches of SDR 611 million disbursed in August and September 2009 upon general SDR allocation by the IMF are included in the analysis of changes in BNB gross international reserves. For further details, see BNB Annual Report, 2009, p. 25.

cash flow developments. Revenue from external cash flows worth EUR 2469 million (mostly from flows on MF's accounts and European Commission's foreign currency accounts with the BNB) had the largest net positive contribution to international reserve growth over the first half of 2015.

External Cash Flows in Foreign Currency

(EUR million))

	January – June 2014	January – June 2015
I. Euro purchases and sales		
At tills	-14	-17
With banks	-923	11
Purchases from banks	14 346	47 049
Sales to banks	-15 268	-47 038
Subtotal I	-937	-6
II. Foreign currency flows with banks, the MF, *etc.*		
Bank reserves (incl. minimum required reserves)	-113	396
Government and other depositors	748	2 079
Subtotal II	635	2475
Total I+II	-301	2 469

Notes: Figures may not add up due to rounding.

Source: BNB.

Banks' net sales of reserve currency amounted to EUR 11 million (EUR -923 million for the same period of the previous year). With a view to regulation of minimum required reserves, the BNB received net funds on bank foreign exchange accounts amounting to EUR 396 million (EUR -113 million over the same period of 2014). In the first half of 2015 government bonds issued in international capital markets of EUR 3056 million were credited to government accounts. Payments were made on global bond principal and interest of USD 1131 million along with bridge loan repayments to HSBC Bank Plc, Société Générale, Citibank N.A.(London) and UniCredit Bulbank AD of EUR 1505 million.

The foreign currency structure of BNB gross international reserves changed only marginally, with the gold share decreasing slightly on 2014 and euro assets rising as a result of significant inflows on the Issue Department balance sheet.

Currency Structure of Gross International Reserves

(per cent)

Currency	Issue Department balance sheet assets	
	2014	January – June 2015
EUR	90.51	90.74
USD	0.36	0.91
XAU	8.84	8.09
XDR	0.28	0.25
CHF	0.01	0.01

Notes: Average values calculated on a daily basis for the period.

Source: BNB.

The share of deposits increased in the structure of assets by financial instrument, reflecting mainly higher liquidity portfolio in euro maintained in the second quarter as a preventive measure against deepening of the Greek crisis. The bulk of assets (72 per cent) continued to be invested in securities.

Structure of Gross International Reserves by Financial Instrument

(per cent)

Financial instruments	2014	January – June 2015
Vault cash*	4.62	4.92
Deposits**	19.65	23.08
Securities**	75.73	72.00

* Account balances, payments and monetary gold.
** Including instruments in foreign currency and gold.

Note: Average values calculated on a daily basis for the period.

Source: BNB.

The main portion of assets continued to be invested in the maturity sector of up to one year (current accounts, short-term deposits in foreign currency and gold and short-term securities), while the share of one to three year bond investments decreased at the expense of increased investments in the maturity sectors of three to five and five to ten years.

Structure of Gross International Reserves by Residual Term to Maturity

(per cent)

Maturity sectors	2014	January – June 2015
Up to a year	59.66	54.37
One to three years	28.33	17.66
Three to five years	8.18	12.82
Five to ten years	3.84	15.15
Over ten years	0.00	0.00

Notes: Average values calculated on a daily basis for the period. Figures may not add up due to rounding.

Source: BNB.

2. Gross International Reserves Risk and Return

The Market Environment

International financial market developments in the first half year and especially strong government bond price fluctuations were largely driven by changing expectations of market participants about a possible decision of the Federal Reserve System to start raising interest rates and the enhanced uncertainty stemming from a failure to reach an agreement over the Greek debt.

In March 2015 the low inflation level in the euro area forced the ECB to launch an expanded programme announced in January to purchase public and private sector securities of EUR 60 billion *per* month. As a result, interest rates in both euro area money and bond markets declined steadily, and government securities yields in some countries reached a historical low. US government bond yields also declined as a result of the series of unfavourable data on the US economy. By end-April a dramatic and broadly unexpected upward adjustment was observed in bond yields across euro area countries.

From the beginning of 2015 to mid-April government securities yield spreads of euro area periphery countries tended to narrow compared with the German benchmark bonds, reflecting mainly the March public asset purchases by the ECB and the 24 February decision taken by finance ministers of euro area countries to extend Greece's bailout programme by four months, until 30 June. Between end-April and end-June these spreads expanded due to stronger fluctuations in bond prices in the context of uncertainty around negotiations between the Greek government and its official lenders on a financing agreement. On 26 June the Greek Prime Minister announced surprisingly a referendum on bailout terms to pass the country's final tranche of the rescue package whose term expired on 30 June. To this end, the Greek government asked for the further extension which was rejected by the lenders. After the announcement of the referendum and lenders' refusal to extend the programme, on 28 June the ECB Governing Council decided to leave unchanged the maximum amount of funds under the ECB's Emergency Lending Assistance. Given this decision and refused final tranche of the rescue package, late in the evening on 28 June the Greek government decided to impose capital controls and a bank holiday from the next day. Foreign bank transfers were banned by the capital controls, and limitation of EUR 60 ATM withdrawals *per* day was introduced. It was envisaged banks to stay closed at least until 5 July, the date of referendum.

Central Banks Policy

Low inflation in the euro area was indicative of the weak effect of 2014 monetary stimulus. At the ECB monetary policy meeting of 22 January 2015, the Bank announced an expanded asset purchase programme. Between March 2015 and September 2016 the ECB and national central banks are projected to purchase public and private assets of EUR 60 billion *per* month (about EUR 1.1 trillion for the whole period). This programme includes bond purchases under the Covered Bond Purchase Programme 3 (CBPP3) and the Asset-backed Securities Purchase Programme (ABSPP), whose implementation began at the end of 2014, along with additional secondary market purchases of EUR-denominated bonds issued by euro area central governments, agencies and European institutions (Public Sector Purchase Programme, PSPP). Eligible PSPP assets must be investment grade bonds with a maturity of two to 30 years and 364 days, whose yield must be higher than the ECB deposit facility rate which is negative at -20 basis points. With the implementation of the ECB programmes and Targeted Longer-term Refinancing Operations (TLTRO), the ECB aimed to increase gradually its balance sheet figure to the level of early 2012 (about EUR 3.0 trillion). Since February 2015 euro area deflation has started to decrease and inflationary expectations to increase which allowed market participants to speculate on possible early termination of the programme. As a result, in May the euro area money market yield curve steepened which led to the ECB decision of 3 June 2015 to confirm its intention to continue the expanded asset purchase programme at least until September 2016 consistent with the aim of achieving inflation rates below, but close to, 2 per cent over the medium term.

In the first half year the ECB balance sheet figure increased by 18.1 per cent compared with end-2014 to reach EUR 2.54 trillion. This growth was mainly due to PSPP purchases (EUR 198.1 billion since the beginning of the programme), CBPP3 covered bond purchases (EUR 65.9 billion since end-2014), ABSPP purchases (EUR 7.1 billion since end-2014), as well as TLTROs in March and June, with allotted funds reaching EUR 171.6 billion. Excess liquidity in the euro area banking system rose to EUR 396.3 billion (against EUR 235.0 billion by end-2014) which led to a decline in EONIA overnight interest rate to -0.07 per cent in the first half of 2015 (0 per cent in the second half of 2014). EURIBOR interest rates on interbank market deposits posted a downward trend, with one-month rates reaching -0.06 per cent by end-June (-8 basis points on the end of 2014), six- and 12-month rates 0.05 per cent (-12 basis points from the end of 2014) and 0.16 per cent (-16 basis points from the end of 2014).

The US Federal Reserve System kept its federal funds reference rate unchanged within the range of 0.00–0.25 per cent and continued reinvesting earnings from maturing US government securities and mortgage-backed bonds in analogues instruments. At its March meeting, the US Federal Open Market Committee decided to change its communication with a view to preparing market participants about the start of the process of increasing interest rates. It was stressed in new communications that FOMC decisions are not predetermined but would rest on incoming information on the US economy, and market participants should build their monetary policy expectations on this basis. In addition, individual forecast releases of the Committee members about adequate rate levels at the end of 2015, 2016 and 2017 countered the market concerns of an impending dramatic rise in reference interest rates on federal funds. In June new FOMC forecasts were published to revise downwards March projections of US economic growth and employment for 2015, indicating fewer rate increases in 2015 and next two years compared with the previous forecast.

Government Securities Yield Curve

In the first half of 2015 the government bond yield curve in Germany steepened significantly due mainly to increased yields in long-term maturity sectors and, to a lesser extent, continued declines in short-term yields driven by growing liquidity in the euro area banking system. Compared to the end of 2014, yields in the ten-year and 30-year maturity sectors rose by 22 and 18 basis points to 0.76 and 1.57 per cent, and that in the two-year sector decreased by 13 basis points to -0.23 per cent.

In the first months of the year government bond yields followed a downward trend, reflecting market expectations that PSPP purchases would lead to significant declines in tradable secondary market securities of euro area countries. On 20 April 2015 ten-year yields in Germany reached a historical low of 0.08 per cent. Thereafter, this trend was reversed, and yields began rising dramatically. This increase was largely observed in long-term maturity sectors and was accompanied by strong fluctuations, with daily ten-year volatility of early June reaching the highest levels of August 2012. These developments surprised most of market participants, as reflected in the lack of consensus among observers about the reasons for dramatic changes in government bond prices in Germany. The most frequently mentioned factors were lower market participants' concerns about a continuous period of deflation in the euro area, speculations on early termination or possible reductions in ECB bond purchases due to rising price indices, as well as technical factors. The June ECB staff inflation projection for the euro area which was revised upwards and better than expected data releases in June were the factors behind lower bond prices in Germany. At the same time, enhanced uncertainty around the agreement over the Greek debt contributed to the significant fluctuations in bond prices, especially at the end of June.

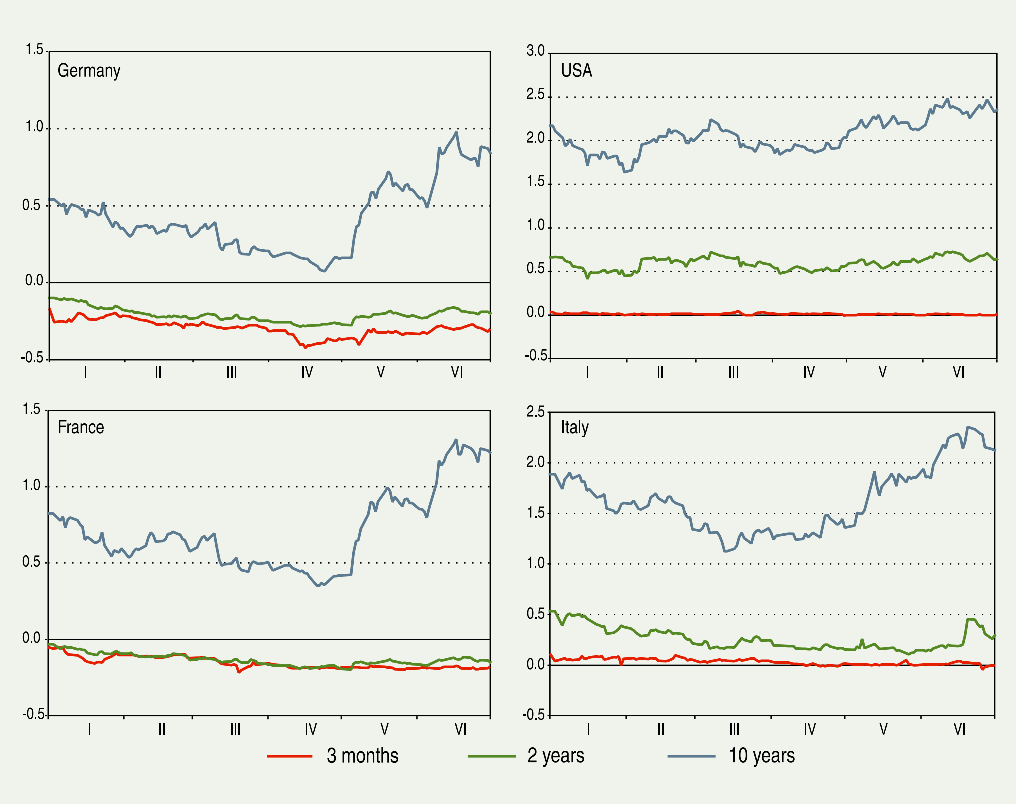
Government bond yield spreads of euro area periphery countries compared to the reference German bonds followed a downward trend from the beginning of 2015 to mid-April when they began to expand. This was attributable to the higher volatility in European bond markets and concerns regarding the solvency of Greek banks. The upward trend in spreads was more pronounced in long maturities, with the most significant change in the ten-year sector observed in Spain, Austria and Italy: by 47, 28 and 22 basis points to 154, 38 and 157 basis points. In the two-year segment, the strongest increase in spreads was reported in Spain (by 17 basis points to 67 basis points) and Ireland[40] (by 14 basis points to 48 basis points), while spreads in Portugal shrank (by 21 basis points to 31 basis points).

Over the first half year the US government securities yield curve measured by the difference between yields of ten-year and two-year bonds expanded by 20 basis points compared to end-2014. This change reflected both decreased two-year bond yields (by 2 basis points) to 0.64 per cent and increased ten-year bond yields (by 18 basis points) to 2.35 per cent. The review period saw strong fluctuations in US government bond yields. Two-year bond yields moved between 0.41 and 0.73 per cent, while ten-year yields fluctuated within broader bands (from 1.64 to 2.48 per cent). Government securities developments were driven by changed communication and actions taken by major central banks, as well as diverging macroeconomic information by the leading economies (the USA, euro area and China), changing market expectations of a possible increase in Federal Reserve rates and uncertainty around Greece's negotiations with lenders.

[40] Yield spread in the three-year maturity sector.

Government Bond Yields in the First Half of 2015

(per cent)



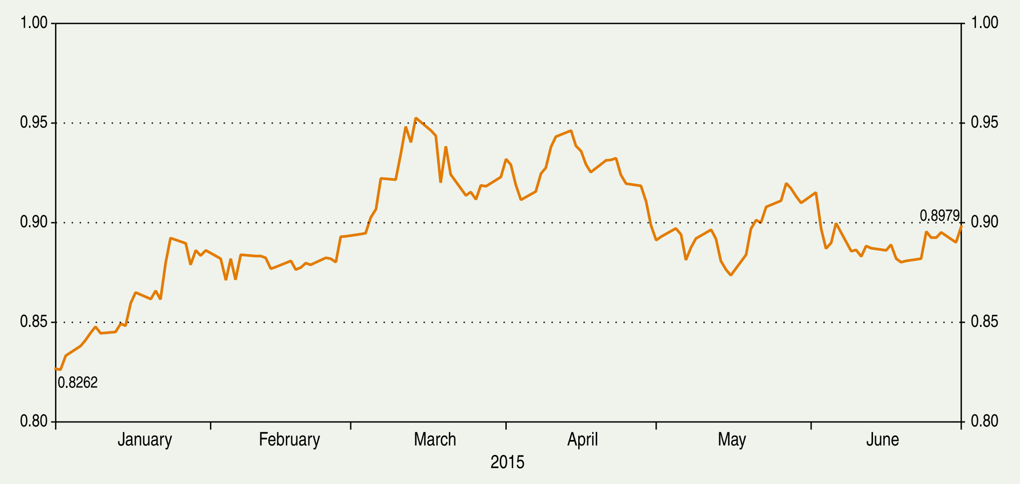
Gold Price and Exchange Rate

In the first half of 2015 the price of gold fell by 1.2 per cent in US dollars, while increasing by 7.2 per cent in euro. It varied within comparatively narrow range: between USD 1149 and USD 1301 *per* troy ounce and EUR 977 and EUR 1155 *per* troy ounce. In early 2015 gold prices rose as a result of increased demand for a safe haven by market participants following mainly the political uncertainty in Greece and the surprising decision of the Swiss National Bank to abandon its currency cap against the euro. The ECB's expanded asset purchase programme also added to the gold price increase. However, this upward trend was reversed as a result of the strong US dollar appreciation and global expectations that the Federal Reserve System would raise its target interest rate until the end of the year. Demand for physical gold in major markets of China and India remained comparatively weak.

Over the first six months and largely the first quarter, the US dollar appreciated substantially (8.5 per cent against the euro). The USD/EUR exchange rate moved within a relatively wide range of 0.83 to 0.94, displaying significant fluctuations. This dynamics reflected broadly a mid-2014 trend toward widening of divergences between euro area and US monetary policies. By mid-March the USD/EUR exchange rate was 0.95, with US dollar starting to depreciate as a result mainly of improving economic data for the euro area and weaker than expected US data. These developments led to changes in expectations of some market participants about the future stance of the ECB and Federal Reserve monetary policies which was among the key factors for the dollar depreciation against the euro in the second quarter of the year.

The USD/EUR Exchange Rate

(EUR)

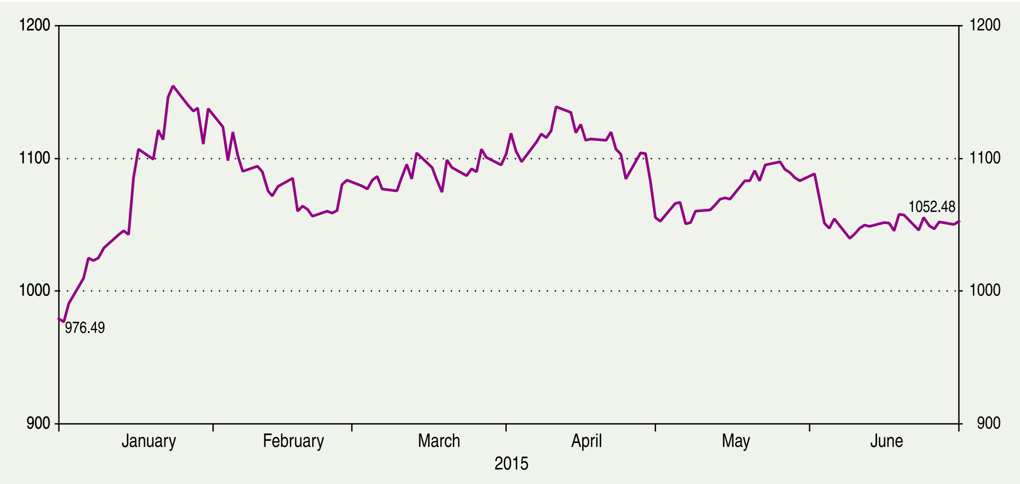


Troy Ounce Gold Price in US Dollars

(USD)

Troy Ounce Gold Price in Euro

(EUR)



Major Risk Types

Net value risk[41] in the Issue Department balance sheet measured by value-at-risk (VaR) was 13.77 per cent on an annual basis.[42]

In the first half year international reserve interest rate risk measured by reserves' average modified duration was 2.07 years (1.27 years for 2014). From the beginning of the second quarter, the BNB raised the limit for a maximum deviation in modified duration of investment portfolios from that of the respective benchmark to ±0.40 years, setting it in mid-June at a narrower range of -0.40 to +0.05 years due to significantly higher fluctuations in global bond markets.

International reserve currency risk was constrained by the Law on the Bulgarian National Bank provision that the sum of the absolute values of open foreign currency positions[43] in currencies other than the euro, SDR, and monetary gold, should not exceed 2 per cent of the market value of monetary liabilities in these currencies. There were minimal open positions in currencies over the reporting period, with the open position in monetary gold in the Issue Department balance sheet posing the main currency risk to the BNB.

The Bank continued its conservative policy to control credit risk in government and government guaranteed debt investment and retained its constraints on sovereign issuers which are conditionally divided into three inherent risk groups. To achieve its main objectives by ensuring high security and liquidity of international reserves, the BNB continued to invest the main part of assets in German government securities and government guaranteed debt, as well as in short-term deposits with first class banks.

The first half of 2015 saw some changes to investment constraints related to credit risk management, intended to fully utilise investment opportunities in the context of historically low interest rates, greater financial market fluctuations and geopolitical uncertainty. Due to persistent conditions of very low euro denominated government bond yields (negative values for some countries and sectors) observed at the end of 2014 and in early 2015, the maximum term to maturity of the main assets into which international foreign reserves may be invested was raised in the review period.

The BNB continued its efforts to expand investment opportunities in secured debt issued by financial institutions assigned highest credit ratings. To this end, in early 2015 the maximum weight of investment in secured debt was raised from 25 to 30 per cent, while the maximum weight of investment in banks was cut from 30 to 25 per cent of all Issue Department's assets. These changes were in force until the second half of June when the limits were set again at their previous levels due to changed market conditions and an increased volatility in euro area bond markets.

By the end of June some 66 per cent of international reserves were invested into assets with the highest AAA long-term credit rating.

Strict monitoring and control of investment restrictions and business procedures for international reserve management constrained operational risk.

Investment Return and Efficiency

Net income from assets in euro comprises three components: (i) income from investment of gross international reserves in original currency; (ii) currency imbalance income,[44] and (iii) expenditure on liabilities. BNB earnings from international reserve investment were negative at EUR -54.74 million, or -0.23 per cent cumulative income for the first half of 2015. This negative result was primarily due to the strong unexpected drop in securities held in the BNB portfolio. The currency imbalance income

[41] Net value means the Banking Department Deposit item in the Issue Department balance sheet.

[42] Net value risk measured by VaR=-X% (X>0) at 95 per cent confidence level and allowing for normal yield allocation means that 95 per cent of the time maximum net value loss would not exceed X per cent.

[43] An open foreign currency position is the difference between the value of assets and liabilities in any currency other than the euro.

[44] Currency imbalance income is the result of the effects of exchange rate movements on assets' and liabilities' open foreign currency positions.

was almost entirely due to the change in the euro price of monetary gold and reached EUR 95.98 million. In the first half of 2015 the BNB made no interest expenses on Issue Department balance sheet liabilities. These three components brought net return from international reserve management to EUR 41.24 million, or a 0.39 per cent total return on assets[45] for the period.

International Reserves Income and Investment Return* in the First Half of 2015

Period	Net income (EUR million)	Net return (per cent)	Income (EUR million)	Return (per cent)	Income (EUR million)	Return (per cent)	Expenditure (EUR million)	Return (per cent)
			on assets**		on currency revaluation of assets and liabilities		on liabilities	
	(1)+(2)+(3)		(1)		(2)		(3)	
First quarter	247.33	1.51	84.51	0.52	162.82	0.99	0.00	0.00
Second quarter	-206.09	-1.10	-139.25	-0.75	-66.84	-0.36	0.00	0.00
Total	**41.24**	**0.39**	**-54.74**	**-0.23**	**95.98**	**0.63**	0.00	0.00

* Investment return in the table is for the first six months of 2015; annualised investment returns will almost double the six-month return.

Source: BNB.

For the purposes of operational management, international reserves are split into individual portfolios depending on currency and investment goal, each with a benchmark, investment goals and investment limits set by the BNB. Major BNB portfolios and results from their management are presented in the table below.

To diversify management styles and reduce operational risk, the bulk of euro-denominated assets continued to be distributed into two investment portfolios with identical benchmarks and investment limits, managed by different BNB teams. There is a requirement for securities in investment 3 portfolio to be held to maturity. Hence, they are not managed actively, and there is no benchmark in the portfolio. By the end of June around 4 per cent of gross international reserves was managed by external managers – international financial institutions. Beside additional diversification, using external managers helped exchange expertise in international market investment management. Liquidity portfolios are intended mainly to assist immediate BNB foreign currency payment needs.

Portfolio Investment Return and Risk in the First Half of 2015

Portfolio and type of asset	Return		Volatility (risk)		Information ratio***
	Absolute (per cent)	Relative* (basis points)	Absolute (basis points)	Relative** (basis points)	
Investment 1, EUR	-0.27	-18	97	18	-2.09
Investment 2, EUR	-0.27	-18	91	20	-1.83
Investment 3, EUR	0.05	-	37	-	-
External manager A, EUR	-0.36	-2	218	8	-0.50
External manager B, EUR	-0.36	-2	220	16	-0.25
Liquidity, EUR	-0.04	6	1	1	-
Liquidity, gold	0.15	8	3	3	-
Liquidity, USD	0.09	10	2	2	-

* The positive relative return of a given portfolio is the attained profit against the respective benchmark yield. Provided the relative return is with a negative sign, it is interpreted as an opportunity cost in portfolio management.
** The relative volatility (relative risk) against the benchmark indicates the deviation degree of the risk characteristics of the portfolio from those of the benchmark through active portfolio management. The risk is calculated on an annual basis.
*** Information ratio, shown only for actively managed portfolios, is the ratio between relative annual portfolio return and relative annual portfolio risk (on an annual basis).

Source: BNB.

[45] The total return is obtained by multiplying the return of individual components (not as a simple sum).

III. Payment Systems

The Law on the Bulgarian National Bank tasks the Bank with payment system organisation, support and development by assisting the implementation, operation and oversight of efficient payment mechanisms. The Bank's major goals are curbing systemic risk and integrating Bulgarian payment systems into the European payment infrastructure.

Lev settlement systems in Bulgaria are:

- RINGS, a real-time gross settlement system, operated by the BNB;
- Ancillary systems settling transactions in RINGS:
- – BISERA, for settling customer transfers at a designated time, operated by BORICA–Bankservice AD;
- – BORICA, for servicing bank card payments in Bulgaria, operated by BORICA–Bankservice AD;

Euro settlement systems in Bulgaria include:

- The TARGET2 national system component, TARGET2-BNB, run by the BNB;
- The TARGET2-BNB ancillary system:
- – BISERA7-EUR, a system for servicing customer transfers to be settled at a designated time, operated by BORICA–Bankservice AD;

Securities settlement systems are:

- The book-entry government securities settlement system, run by the BNB;
- The book-entry securities registration and servicing system, run by the Central Depository.

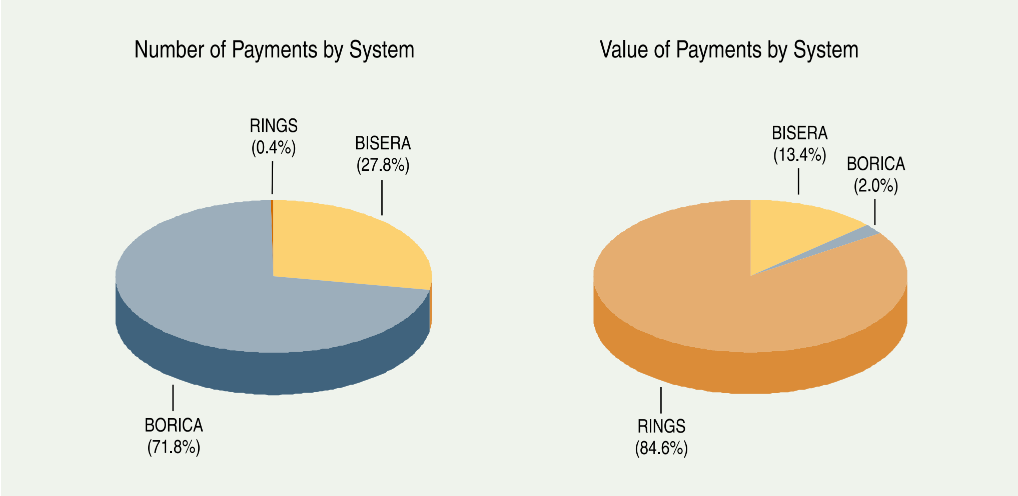
Payment Systems for Settlement in Levs and Securities Settlement Systems

In the first half of 2015 distribution of lev payments in Bulgaria by payment system underwent no changes compared with the first half of 2014. RINGS processed 84.6 per cent of the payments effected in Bulgaria.[46] RINGS also processed 0.4 per cent of the total number of lev non-cash payments in Bulgaria. Transactions processed by BORICA rose by 14.6 per cent in value and 7.9 per cent in number compared with the first six months of 2014. The value and number of BORICA-authorised ATM cash withdrawals rose 11.3 and 3.8 per cent respectively, and BORICA-authorised transactions effected *via* POS terminals grew 240 per cent in number and 176.8 per cent in value. Payments processed by BISERA increased by 6.5 per cent in value and 8.9 per cent in number on the corresponding period of 2014.

Over the first half of 2015 Central Depository transaction value fell 19 per cent on the first half of 2014, the number dropping 57.4 per cent.

[46] Values around 80 per cent are deemed optimal for the operation of real-time gross settlement systems.

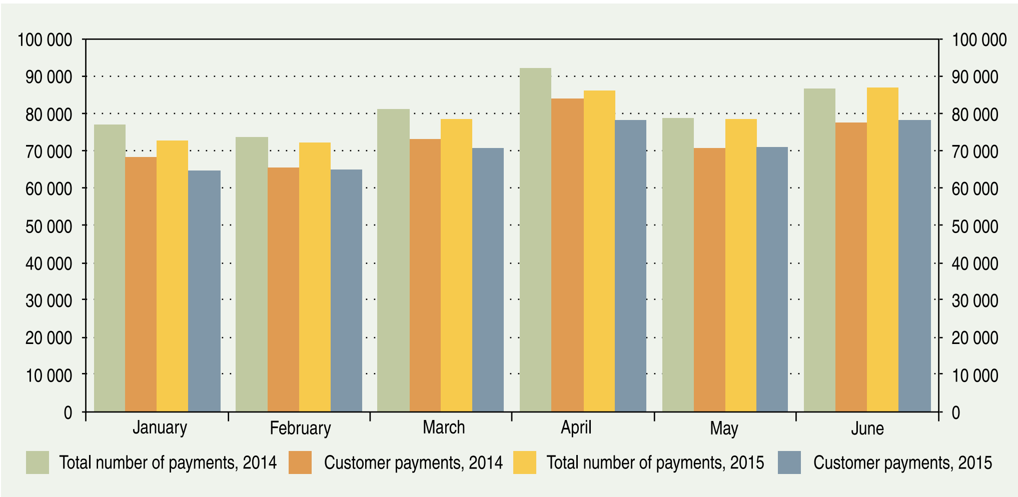
Lev Payments in Bulgaria by Payment System in the First Half of 2015



Source: BNB.

Processing most payments in Bulgaria through RINGS cut payment risk: one of the major goals of a central bank. Between January and June 2015 RINGS payments numbered 475,877 totalling BGN 373,334 million, increasing by 11.2 per cent in value and decreasing by 2.9 per cent in number on the first half of 2014. Customer payments numbered 427,415 (89.8 per cent of the total) accounting for BGN 88,937 million (23.8 per cent of the total). The daily average number of payments was 3869 and daily average value was BGN 3035 million.

Number of RINGS Payments in the First Halves of 2014 and 2015



Source: BNB.

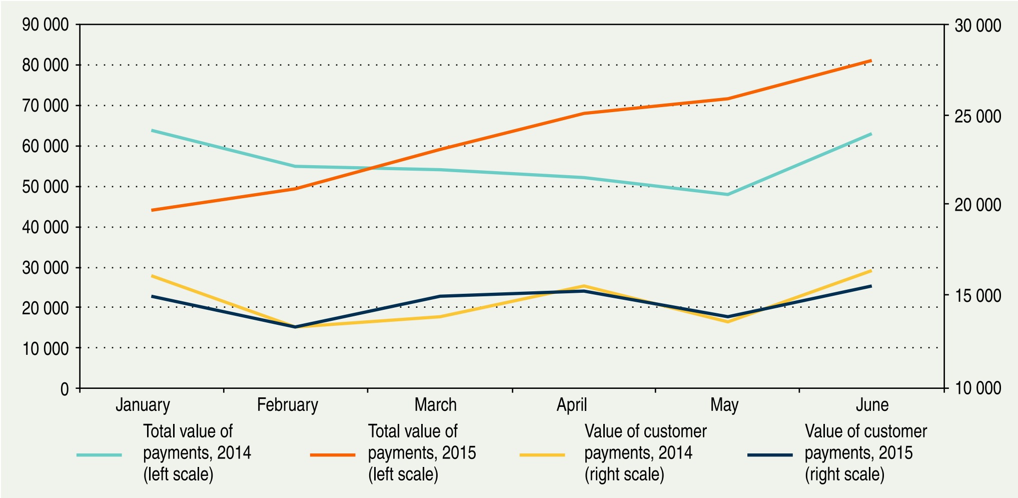
During the first six months of 2015, 52 per cent of payments by value were processed by noon and 87 per cent by 2:30 pm. As regards system traffic, 82.6 per cent of RINGS payments went through by 2:30 pm. In the review period RINGS offered 99.8 per cent availability.[47]

By 30 June 2015, 29 banks participated in RINGS.

[47] The ratio of time when the system is operational to scheduled operating time.

Value of RINGS Payments in the First Half of 2014 and 2015

(BGN million) (BGN million)



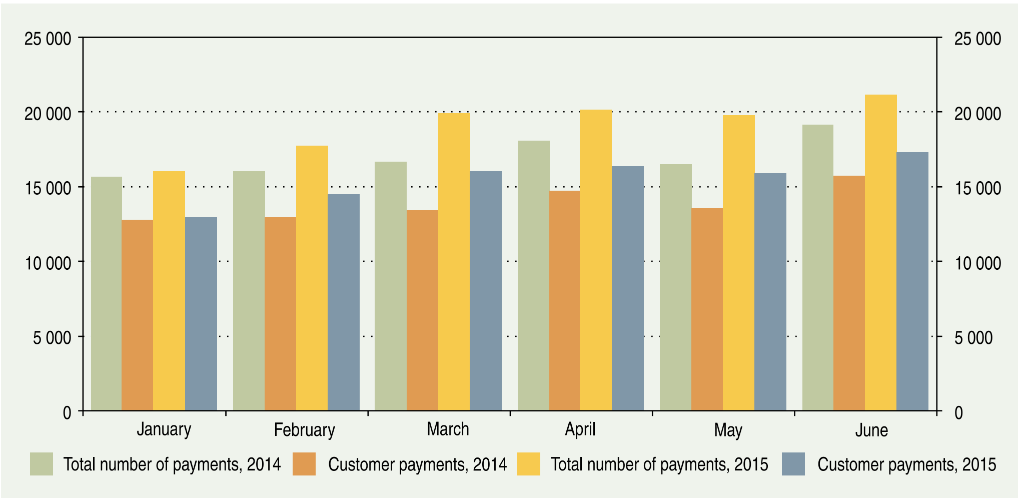
Source: BNB.

Payment Systems for Settlement in Euro

The BNB operates the TARGET2-BNB national system component and is responsible for the business relations of its participants and the coordination with the European Central Bank and the participating banks.[48] On 30 June 2015 the TARGET2-BNB national system component included the BNB, 22 direct participant banks, three addressable BIC holders, and two ancillary systems: the BISERA7-EUR for settling customer transfers in euro at a designated time and the BNBGSSS for government securities settlement in the BNB.[49]

In the first half of 2015 TARGET2-BNB processed 114,771 payments for EUR 173,801 million, including 92,983 customer payments for EUR 4704 million. Compared to the first half of 2014, data showed a decline by 1.1 per cent of the total value of payments and a 12.6 per cent growth in the total number of settled transactions.

Number of TARGET2-BNB Payments in the First Half of 2014 and 2015

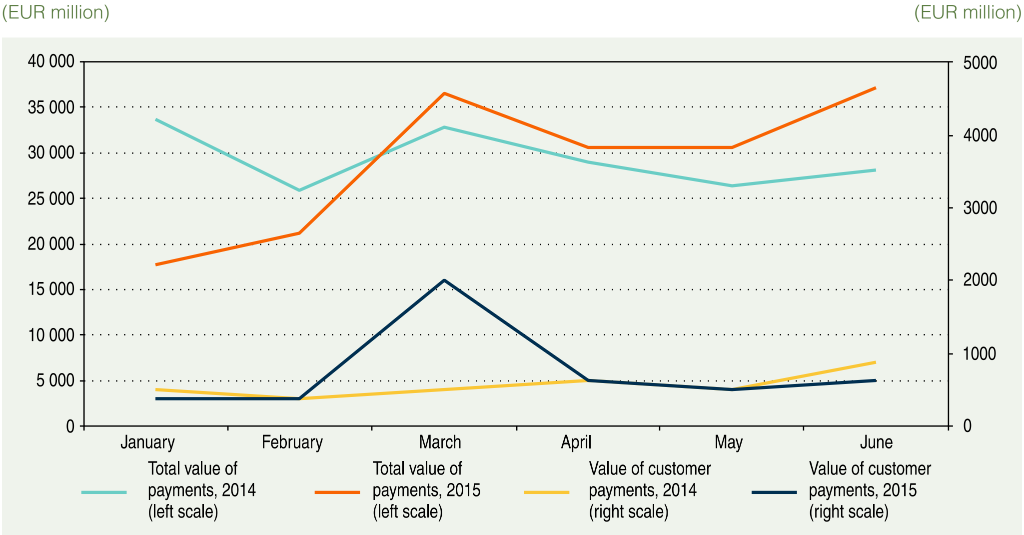


Source: BNB.

[48] TARGET2 settles gross euro payments in real-time with central bank money. It is a Single Shared Platform (SSP) system, with each participating and connected central bank legally responsible for the operation of its system component. On 30 June 2015 TARGET2 connected the ECB and 23 EU central banks.

[49] For a current list of TARGET2 participants in TARGET2-BNB, see the BNB website: http://www.bnb.bg/PaymentSystem/PSTARGET2/PSTARGETList/index.htm?toLang=_EN
As of 30 June 2015 the BISERA7-EUR ancillary system includes 14 of 22 direct participant banks in TARGET2-BNB.

Value of TARGET2-BNB Payments in the First Half of 2014 and 2015



Source: BNB.

Payments by other system components to banks were 81 per cent of the value and 90 per cent of the number of all payments processed through TARGET2-BNB. The daily average value of TARGET2-BNB payments was EUR 1390 million, with their number reaching 918. The daily value peak was EUR 1848 million, with a daily number peak of 1034.

The BISERA7-EUR ancillary system processes customer transfers in euro at a designated time. Over the same period the BISERA7-EUR ancillary system processed 16,398 payments for EUR 187 million, up 20 per cent in value and 9.6 per cent in number on the corresponding period of 2014.

Bulgarian Payment and Settlement System Development

At the end of the reviewed period almost all banks and foreign bank branches in Bulgaria handled the Single Euro Payments Area (SEPA) credit transfers. The share of such transfers was 56.6 per cent of all customer euro payments within the scope of Regulation (EU) No 260/2012 of the European Parliament and of the Council of 14 March 2012 establishing technical and business requirements for credit transfers and direct debits in euro.

By 30 June 2015, 89 per cent of Bulgarian cards, including 87.6 per cent of debit and 99.4 per cent of credit cards had migrated to the EMV standard.[50] Migration of the card payments infrastructure to the EMV was almost complete, with 100 per cent of ATMs and 99.8 per cent of POS terminals migrated by the end of the review period.

Regulation (EU) No 2015/751 of the European Parliament and the Council on interchange fees for card-based payment transactions was adopted at the end of April 2015. According to the Regulation all debit and credit card-based payment transactions should be subject to a maximum interchange fee rate. Interchange fee means a fee paid for each transaction directly or indirectly (*i.e.* through a third party) between the issuer and the acquirer involved in a card-based payment transaction. The level of interchange fees varies in the individual EU Member States within wide bands, showing that they are not clearly justified and constitute a significant obstacle to national market payments. Fixing a maximum amount of interchange fees will reduce retailers and consumers expenditure and will contribute to the creation of pan-European payment services market.

[50] The EMV is a global standard for credit and debit cards based on microprocessor technology (smart or chip cards), developed by Europay, MasterCard and Visa to increase card payment security and limit abuse and misuse.

Payment System Oversight

Limiting system risk and improving Bulgarian payment systems' reliability and efficiency were the major goals of payment systems overseers. They monitored observance of standards and recommendations by the Bank for International Settlements, the International Organization of Securities Commissions, the European Central Bank, and the European System of Central Banks.

At its 15 January 2015 session, the Governing Council of the BNB considered the application of Credibul EAD submitted to the BNB under Article 10, paragraph 1 of the Law on Payment Services and Payment Systems (LPSPS). Having established that all required conditions for granting a license for conducting activity as a payment institution under Article 10, paragraph 4 of LPSPS are met, in pursuance with Article 12, paragraph 1 of LPSPS, the BNB Governing Council granted to Credibul EAD a license for conducting payment services under Article 4, item 4 (b) and item 5 of LPSPS for execution of payment transactions by cards or other similar instrumets where the funds are covered by a credit line to a payment service user, and for issuing payment instruments and/or accepting payments *via* payment instruments.

On 30 January 2015 the BNB approved the transfer of TBI Financial Services Bulgaria EAD shares of TBI Credit EAD equity to Transact Europe Holdings OOD.

In the first six months of 2015 the Bank inspected one payment service provider. The aim was to check whether the payment service provider complied with the Law on Payment Services and Payment Systems and its statutory instruments.

In the first six months of 2015 the following entries and deletions were listed in the relevant BNB registers:

– 145 agents listed and 110 agents delisted onto/from the public register of licensed payment institutions and their branches and agents under Article 17 of this Law;

– 17 agents listed and 36 agent delisted onto/from the public register of licensed electronic money institutions and their branches and agents under Article 17 of the Law;

– 28 payment institutions from other EU Member States operating in Bulgaria listed onto the public register under Article 7 of BNB Ordinance No 16 of 16 July 2009. Thirty-eight agents of payment service providers from other EU Member States were also listed;

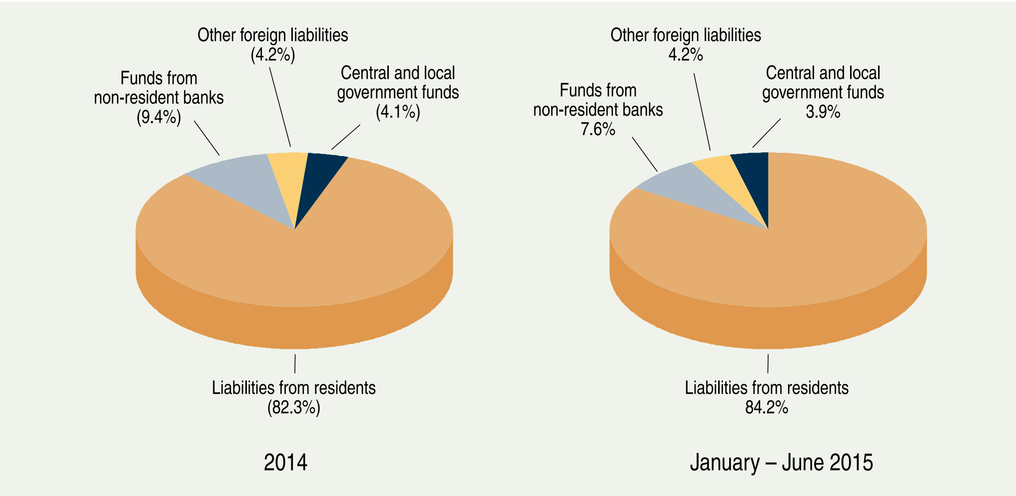
– 11 electronic money institutions licensed elsewhere in the EU and issuing, distributing, and redeeming electronic money in Bulgaria listed onto the public register under Article 39 of BNB Ordinance No 16 of 16 July 2009.

The review period saw enquiries into 100 complaints submitted to the BNB by payment service users – natural persons and legal entities.

IV. Bank Reserves with the BNB

In the first half of 2015 the average daily value of attracted bank funds for minimum required reserve calculation purposes (excluding central government and local budget funds) declined by 0.8 per cent on the first half of 2014. This was due to the 14.5 per cent fall in funds attracted from non-residents and lower growth of 1.4 per cent in funds attracted from residents (less central government and local budget funds). The average daily value of lev-denominated and foreign currency liabilities decreased by 0.1 and 1.5 per cent respectively. As a result of the change in the structure of attracted funds, the effective implicit ratio of minimum required reserves went up 0.1 percentage points from 2014 to reach 9.0 per cent on average in the first half year.[51]

Structure of Attracted Funds in the Banking System*



* Average daily value for reserve calculation purposes.

Note: Figures may not add up due to rounding.

Source: BNB.

Reserve assets covering this ratio include funds in banks' BNB accounts (7.9 percentage points) and half of cash balances designated as reserves (1.1 percentage points). In the first half of 2015 the average daily value of lev assets declined by 15.2 per cent on the corresponding period of 2014, while euro assets rose by 32.2 per cent. As a result, the currency structure of bank reserve assets underwent certain changes. The relative share of reserve assets in euro in total maintained reserves increased to 43.8 per cent on average, against 33.4 per cent in the first half of 2014.

In the first two months excess reserves of banks grew strongly, exceeding in February by 92.8 per cent the amount of minimum required reserves under Ordinance No 21. Over the following months a gradual downward trend was observed, with their amount reaching 83.9 per cent in June. The high level of excess reserves in the Bulgarian banking system was due mainly to the ECB monetary policy[52] and weak demand for loans in the economy. BNB macro-prudential precautionary measures to counteract external risks had also an effect on excess reserves. In addition to funds

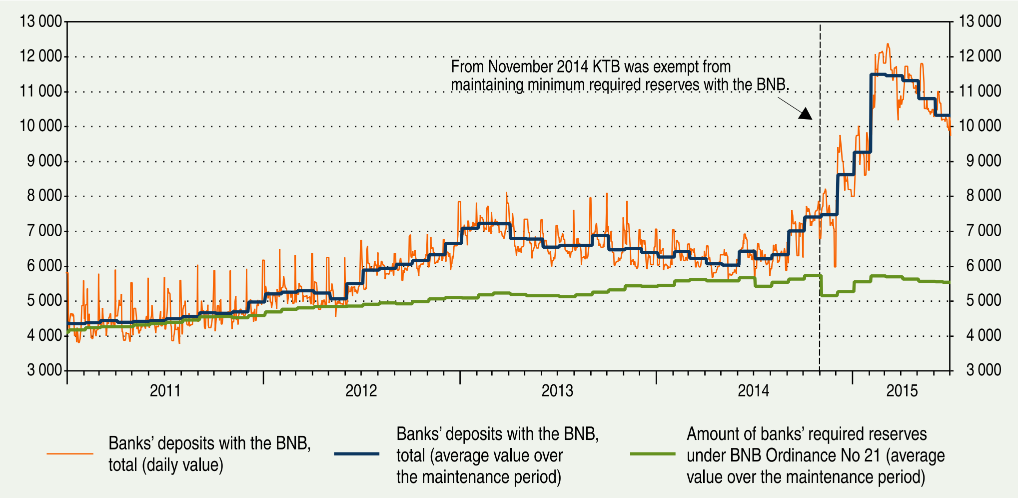
[51] BNB Ordinance No 21 sets banks' minimum required reserves at 10 per cent of their domestic and 5 per cent of their foreign deposit base. Government and local government funds are zero rated.

[52] In June 2014 the ECB introduced a negative interest rate on the deposit facility. This led to a significant fall in money market rates, with three-month EURIBOR interbank rates reaching negative values.

in minimum required reserve accounts and excess reserves, banks maintained funds in TARGET2-BNB accounts, their amount rising gradually over the first six months of the year.[53]

Banks' Reserves at the BNB

(BGN million)



Source: BNB.

[53] Banks' funds in the TARGET2-BNB national system component are presented in the Issue Department Balance Sheet as liabilities to banks.

V. Cash in Circulation

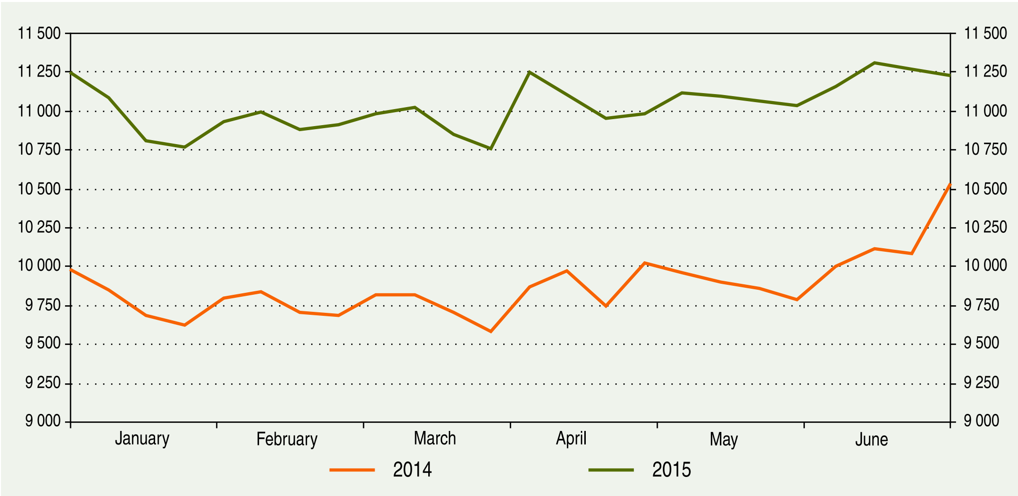
The Bulgarian National Bank holds the Bulgarian currency monopoly.[54] Its currency is mandatorily acceptable as legal tender at face value without restriction. The BNB prints banknotes, mints coins, and preserves and scraps uncirculated or withdrawn banknotes and coins.

Banknotes and Coins in Circulation (Outside BNB Vaults)

As of 30 June 2015 currency in circulation (outside BNB vaults)[55] reached BGN 11,229.2 million, rising by BGN 696.8 million or 6.62 per cent on the end of June 2014. In the first six months of 2015 the gradual increase in currency in circulation (on an annual basis) was preserved, with significant growth in April and June.

Banknotes and Coins in Circulation (Outside BNB Vaults)

(BGN million)



Source: BNB.

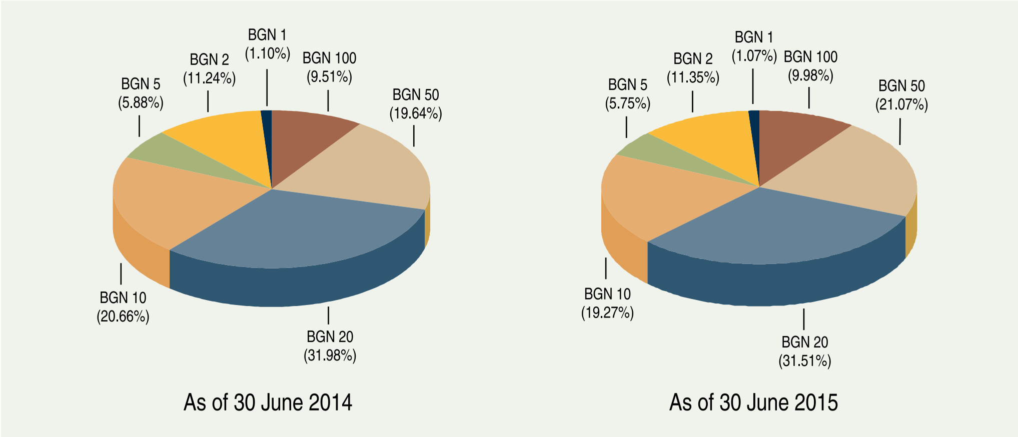
In late June 2015, 375.5 million banknotes were in circulation, amounting to BGN 10,990.1 million. Banknotes grew by 11.3 million (3.09 per cent), their value rising by BGN 676.1 million (6.55 per cent) year on year from June 2014. Banknotes comprised 97.87 per cent of the total value of cash outside BNB vaults by 30 June 2015. The BGN 20, BGN 50 and BGN 100 banknotes contributed mainly to the annual increase in the number of banknotes in circulation. They sustained their positive annual growth rate in the last few years. The same trend was observed in denomination of BGN 2, with seasonal and other factors having a weaker influence on the dynamics of low-value banknotes as they are used in currency circulation mainly as a means of payment, servicing the daily turnover.

By the end of June 2015, the BGN 50 banknote had the largest share in the structure of denominations by value, worth BGN 3956.3 million in nominal value (36.00 per cent of the value of all banknotes in circulation), followed by BGN 100 and BGN 20 banknotes whose shares comprised 34.09 per cent and 21.53 per cent respectively. The BGN 20 and BGN 50 banknotes are most commonly used in the currency circulation. By the end of June 2015 BGN 20 banknotes numbered 118.3 million and BGN 50 banknotes 79.1 million, or 31.51 per cent and 21.07 per cent of the total number of banknotes in circulation. The BGN 10 and BGN 100 banknotes share came to 19.27 per cent and 9.98 per cent respectively.

[54] Article 2, paragraph 5 and Article 25 of the Law on the BNB.

[55] Banknotes and circulating and commemorative coins issued after 5 July 1999.

Share of Individual Denominations in the Total Number of Circulating Banknotes

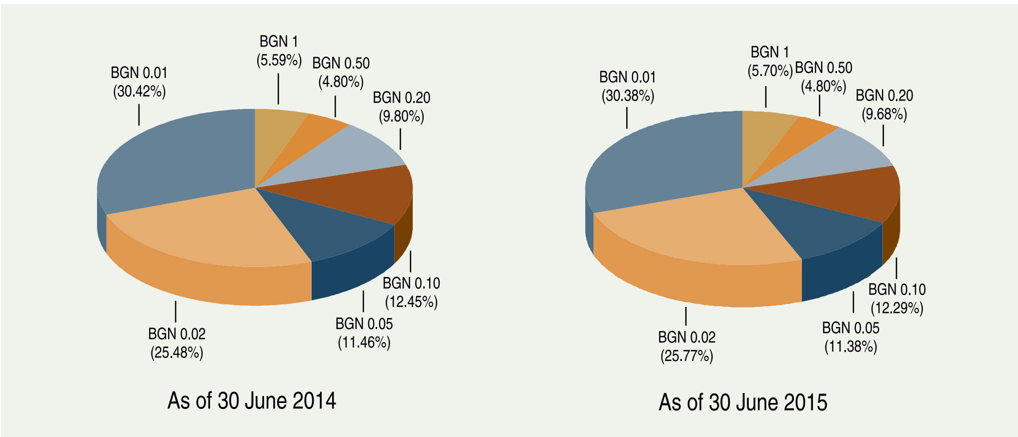


Note: The sum total does not add up to 100 per cent due to rounding.
Source: BNB.

The average value of banknotes in circulation as of 30 June 2015 was BGN 29.27. Compared with end-June 2014, it increased by BGN 0.95 (3.36 per cent), as a result of higher growth rates in the number of BGN 100 and BGN 50 banknotes in cash in circulation.

By the end of June 2015, 1837.6 million coins were in circulation, amounting to BGN 232.5 million. Circulating coins grew by 153.1 million (9.09 per cent), their value growing by BGN 20.5 million (9.67 per cent). By 30 June 2015 the share of circulating coins was 2.07 per cent of the total value of banknotes and coins outside BNB vaults.

Share of Individual Nominal Values in the Total Number of Circulating Coins



Source: BNB.

The long-term trend toward progressive annual growth in the total number of circulating coins continued, resulting mainly from the increased number of low nominal value coins. The number of BGN 0.01 and BGN 0.02 coins in the currency in circulation rose by 45.8 million and 44.3 million from June 2014, or 8.94 per cent and 10.33 per cent respectively. The number of BGN 1 coin in the currency in circulation continued to increase at high annual rates in recent years, rising by 11.11 per cent as of end-June 2015 against end-June 2014. The BGN 0.50 coin reported a higher annual growth rate (9.19 per cent). The annual rise of the other denominations was within the range of 7.67 per cent for BGN 0.10 coins to 8.37 per cent for BGN 0.05 coins.

By end-June 2015 the value of an average circulating coin was worth BGN 0.13, remaining unchanged compared to end-2014.

Commemorative coins outside BNB vaults came to BGN 6.7 million, with their share comprising 0.06 per cent of the value of cash in circulation.

Non-genuine Banknotes and Coins

Over the first half of 2015 the BNB retained 684 non-genuine banknotes which had entered into circulation. The share of all retained non-genuine banknotes remained very low at 0.000182 per cent of total banknotes in circulation by end-June 2015.

The BGN 20 banknote had the largest share of all non-genuine banknotes reported in the first half of 2015 (59.80 per cent). As compared with the respective number of banknotes in circulation by the end of June 2015, the share of non-genuine BGN 20 banknotes accounted for 0.000346 per cent. Non-genuine BGN 50 banknotes comprised 20.31 per cent and non-genuine BGN 10 banknotes – 17.40 per cent. Non-genuine BGN 2, BGN 5, and BGN 100 banknotes numbered 17 accounting for 2.49 per cent of all retained non-genuine banknotes over the review period.

The non-genuine Bulgarian coins retained by the BNB numbered 402: 257 of BGN 0.50 and 145 of BGN 1 coins. The share of retained non-genuine Bulgarian coins in the total number of circulating coins by 30 June 2015 was 0.000022 per cent.

As regards foreign banknotes and coins retained within Bulgaria, in the first half of 2015 the Bank's National Analysis Centre retained: 857 euro banknotes, 294 US dollar banknotes and 66 assorted foreign non-genuine banknotes.

BNB Issue and Cash Operations

BNB issue and cash operations include: banknote printing; coin minting, accepting, delivering, repaying, processing, authenticity and fitness checking of Bulgarian banknotes and coins, and foreign currency; exchanging damaged Bulgarian banknotes and coins; and destroying unfit Bulgarian banknotes and coins.

In the first half of 2015, 68.5 million new coins worth BGN 10.6 million total nominal value were supplied under contracts with the State Mint EAD. In the first half year the BNB launched one new commemorative coin planned in its 2015 Minting Programme under Article 25, paragraph 1 of the Law on the BNB.[56]

Banknote and coin deposits and withdrawals from the BNB totalled BGN 16,181.9 million between January and June 2015. Banknotes and circulating coins deposited with the BNB totalled BGN 8269.4 million, up BGN 782.9 million or 10.46 per cent compared with the corresponding period of 2014. Banknotes and coins withdrawn from the BNB in the first six months of 2015 totalled BGN 7912.5 million, up BGN 147.1 million or 1.89 per cent on the corresponding period of 2014.

Between January and June 2015 sorting machines at the BNB and Cash Services Company[57] processed 468.0 million banknotes and 78.8 million circulating coins. Compared with the same period of 2014, the number of processed banknotes increased by 10.56 per cent, while that of processed circulating coins decreased by 4.34 per cent. BGN 10 and BGN 20 banknotes and BGN 0.10, BGN 0.20 and BGN 1 coins were most often processed by nominal value.

Over the review period banknotes failing fitness standards numbered 34.7 million, down 1.8 million (4.87 per cent) on the same period of 2014. In the first half year BGN 2, BGN 10, and BGN 20 banknotes had the largest share of banknotes unfit for circulation (24.14 per cent, 31.26 per cent and 22.89 per cent respectively).

[56] See the BNB website for banknote and circulating and commemorative coin issues.

[57] Cash Services Company is a joint-stock company for handling cash and a service supplier within the meaning of BNB Ordinance No 18, whose shareholders are the BNB and four commercial banks.

During that period the retained unfit coins in fitness sorting numbered 714.8 thousand, up 123.3 thousand or 20.83 per cent on the same period of 2014.

Over the first six months of 2015 BNB reserve currency purchases came to EUR 0.17 million, including EUR 0.15 million from budget organisations and EUR 0.02 million from individuals. BNB reserve currency sales were EUR 17.2 million, including EUR 3.1 million to budget organisations and EUR 14.1 million to individuals.

The BNB conducted four full on-site checks into credit institutions to ensure compliance with Ordinance No 18 on the Control over Quality of Banknotes and Coins in Currency Circulation and the instructions on its implementation. The scope of inspections included a review of the statutory framework regulating cash operations, tests controlling the quality of banknotes loaded into ATMs and tests of sorting machines and customer-operated machines. The BNB conducted 16 spot on-site checks into credit institutions and service providers for authorising and testing sorting machines and customer-operated machines in line with the standards for identification and fitness.

VI. Maintaining Banking System Stability and Protection of Depositor Interests

1. State of the Banking System

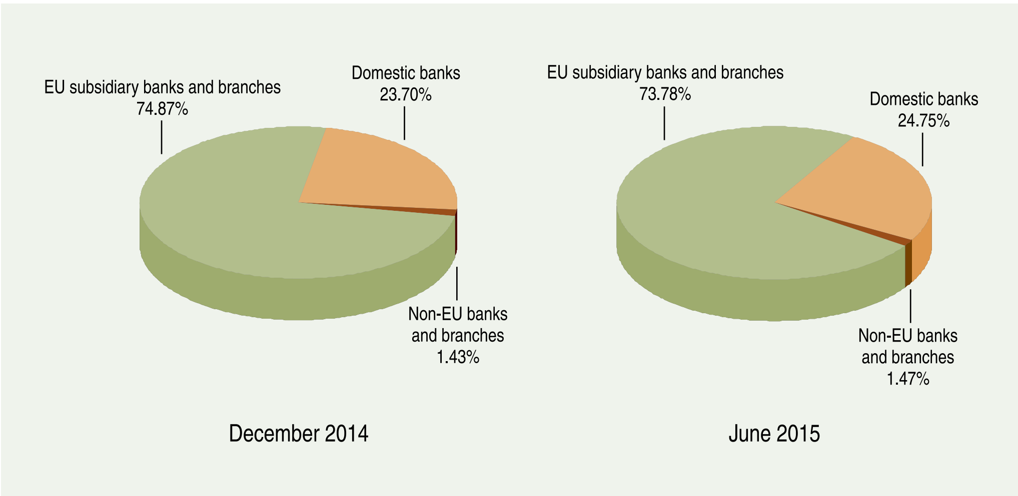
In the first half of 2015 the major factors affecting the behaviour and business activity of individual credit institutions remained unchanged. The cost of attracted resources continued to decline, with the interest rates on household deposits declining most strongly. Lending activity remained weak despite decreasing lending rates.

Bank liquidity was preserved due to additionally accumulated attracted funds and as a result of the BNB precautionary measures to counteract external risks to Bulgaria's banking sector. Macro-prudential measures implemented in all credit institutions in Bulgaria were intended to retain capital buffers and maintain high liquidity. The measures helped preserve the sound capital position and increase the capital surplus, as well as improve liquidity indicators of all banks. Furthermore, banks with Greek equity in Bulgaria were required to ensure full operational independence from their parent companies in their operations within the territory of Bulgaria.

Between January and June banking assets decreased by BGN 1.2 billion (1.4 per cent) to BGN 83.9 billion. Over the review period the dynamics of the banking system balance sheet and market positions by bank group were impacted by the political situation in Greece. Lower obligations of individual credit institutions to parent banks contributed further to the change in individual balance sheet aggregates.

By the end of June 2015 the share of the five largest banks in the banking balance sheet accounted for 56.1 per cent. Domestic banks' market position rose slightly to 24.7 per cent, whereas that of EU subsidiaries fell to 73.8 per cent. No serious changes occurred in the market share of non-EU banks and branches (1.5 per cent).

Market Shares of Domestic and Foreign Banks by Asset



Source: BNB.

Banking system's balance sheet experienced some changes in the first half of the year. As a result of the transformation of assets, cash[58] increased by BGN 2.1 billion (21.4 per cent) on end-2014, with their share in banks' assets reaching 14.2 per cent at the end of June. The share of loans and advances decreased to 65.7 per cent. Over the review period claims on credit institutions posted a decline due to a contraction of claims on non-residents. Lending remained low and portfolios were also sold. Securities portfolios slightly increased (by BGN 387 million) reflecting the divergent dynamics of resident and non-resident debt instruments. Their share in assets of credit institutions went up from 12.9 per cent to 13.5 per cent. Over the review period Bulgarian government securities acquired by banks posted an increase, while repo agreements in foreign issuers' instruments recorded a decrease. By the end of June 81.7 per cent of total investment in debt securities of credit institutions was from the general government sector (residents).

Financial liabilities measured at amortised cost posted a decline by BGN 1.2 billion. The total amount of deposits over the first half of the year was impacted by a significant decrease in resources of credit institutions (non-residents). Concurrently, deposits of resident non-financial corporations and households continued to increase, comprising 89.4 per cent of attracted funds at the end of June.

By the end of the first half of the year the total amount of gross loans and advances was BGN 61.5 billion[59], mostly in the form of exposures to residents. More than half of gross loans (excluding those to credit institutions and central banks) were comprised of loans to non-financial corporations (62.0 per cent) and the share of household loans accounted for 34.0 per cent. Claims on credit institutions amounted to BGN 6.8 billion and those on other financial corporations reached BGN 1.6 billion. The share of euro-denominated items accounted for 51.2 per cent and that of lev-denominated items 42.2 per cent in the currency structure of gross loans and advances.

By the end of the first half-year deposits totalled BGN 71.1 billion, with deposits from resident sources accounting for 89.4 per cent[60]. Household deposits accounted for the largest share (59.8 per cent) followed by funds attracted from non-financial corporations (24.4 pert cent). Funds attracted from credit institutions comprised 7.9 per cent of time deposits. By the end of June the share of lev resources was 52.8 per cent and that in euro 38. 3 per cent.

By end-June equity amounted to BGN 10.8 billion, posting a decrease of BGN 30 million (0.3 per cent).

In the first six months of 2015 liquidity and credit risks remained the main risks for the banking sector but external factors also had a strong effect. The external environment was a source of uncertainty and affected both the economic situation, and the sentiment and confidence in the banking system. The period was characterised by tensions due to unclear outcome of the financial situation in Greece and the potential spillover of instability on domestic banks with Greek equity.

No changes were observed in the level and sharpness of the credit risk over the first half of 2015 and the quality of assets outside the credit portfolio remained good. Political and economic uncertainty of external markets, particularly in the region, continued to influence the behaviour of credit institutions in Bulgaria.

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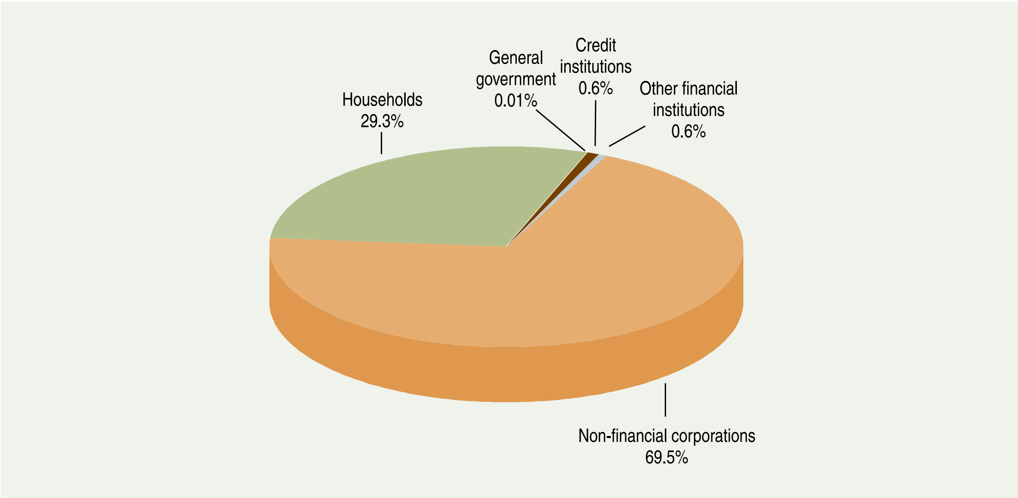
[58] As of 1 January 2015 the BNB started publishing data on the balance sheet and the statement of profit or loss according to the reporting templates introduced with the Implementing Regulation (EU) No 680/2014. Due to harmonisation of concepts and definitions no matches should be sough between the manner and scope of reporting these items in the former and new reporting (correspondingly until end-2014 and from early 2015). To achieve consistency and comparability between these data and those at the end of 2014, cash include only cash holdings and cash balances with central banks (excluding other sight deposits).

[59] Source: BNB (MPF 1 – macro-prudential form 1).

[60] Source: BNB (MPF 1).

By the end of June non-performing exposures[61] in the banking system totalled BGN 11 billion, including loans and advances of BGN 10,941 million and debt securities of BGN 38 million. Exposures past due over one year accounted for BGN 7.2 billion.

Structure of Non-performing Loans and Advances by Sector as of 30 June 2015



Source: BNB.

Within the structure of non-performing exposures by the end of the first half of 2015 exposures of non-financial corporations accounted for the largest share (69.5 per cent) followed by those of households (29.3 per cent).

The share of non-performing loans and debt securities in total gross banking exposures accounted for 13.49 per cent at the end of the first half year.

At the end of June the impairment accumulated in the banking system reached BGN 5739 million accrued mostly for exposures past due over one year. The total impairment provided a 52.3 per cent coverage on all non-performing exposures.

The balance sheet items (other than loans) preserved their good quality. The BNB additional macro-prudential measures intended to limit the spread of risks over banks, stemming from the external environment, also contributed to this effect. Measures affected mostly placements to parent banks and government securities with high sovereign risk. As a result, the share of cash balances with central banks rose to 12.3 per cent in the total assets of the banking system and coupled with cash and other sight deposits their total share reached 16.5 per cent in the banking system balance sheet figure. The structure of securities (with a share of 13.5 per cent in the banking system balance sheet) also improved. Investment in Bulgarian government securities reached BGN 9 billion. The total amount of bonds issued by non-residents went down to BGN 1.8 billion, and correspondingly their share to 16.6 per cent of debt securities in the banking system. As a result of BNB recommendations for reducing exposures to parent banks, placements in non-resident credit institutions decreased to BGN 5.6 billion and their share went down to 81.7 per cent of total claims on banks.

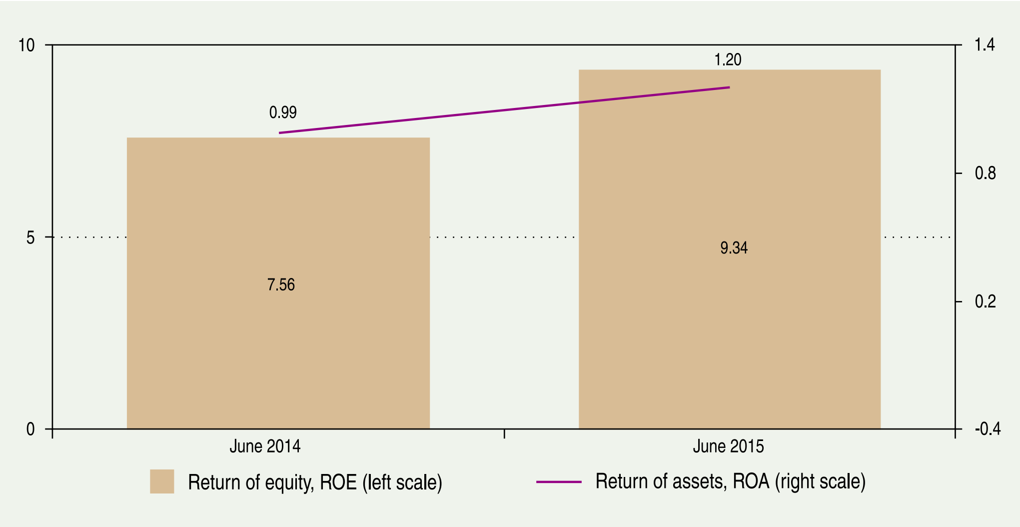
[61] The amendments of 9 January 2015 to the Implementing Regulation (EU) No 680/2014 introduced definitions, the scope and frequency of reporting and reporting templates applicable to the asset quality and restructuring of exposures (published in the Official Journal of the European Union on 20 February 2015). The reporting form 40 of the BNB 'Data on the Credit Quality and Impairment' was repealed as part of the harmonisation. This reflected on the scope, frequency and content of data about individual banks and the banking system as a whole. Therefore, comparability with the database until end-2014 is impossible. Data by end-June 2015 were provided under the template 18 'Data on Non-performing Exposures' of the Financial Reporting Framework (FINREP) valid for all EU Member States. In template 18 the scope of item 'non-performing exposures' is wider than that applied until end-2014 (according to the national criteria set forth in the repealed Ordinance No 9). Based on the single EU methodology for accounting purposes non-performing exposures are all impaired assets which may be both loans and advances and debt securities.

The profitability of credit institutions continued to be impacted by limited investment opportunities and the need of maintaining high liquidity[62]. The continuous decline in income from interest-bearing assets, which accelerated in the last 12 months, was offset by lower interest expenditure. Interest expenditure declined by BGN 231 million (31.6 per cent) on the corresponding period of 2014. At the end of June 2015 banks reported interest income of BGN 1.9 billion, a decrease of BGN 132 million on the first half of 2014. Substantially decreased interest expenditure prompted an increase in net interest income by BGN 99 million to BGN 1.4 billion. The higher income from fees and commissions and lower impairment charges had a positive effect on the banking system profitability. The dynamics of operating revenues and costs had a favourable effect on the efficiency ratio, which improved to 49.50 per cent at the end of June 2015.

For the first six months of 2015 the banking system generated profit of BGN 503 million, up BGN 106 million on the corresponding period of the previous year. Most credit institutions reported a higher positive financial result, while the banking system loss decreased. At the close of June return on assets (ROA) accounted for 1.20 per cent (from 0.99 per cent in the same period of 2014). The higher financial result helped improve return on equity (ROE): 9.34 per cent.

Return on Assets and Return on Equity

(per cent) (per cent)



Note: Data for June 2014 do not include KTB.

Source: BNB.

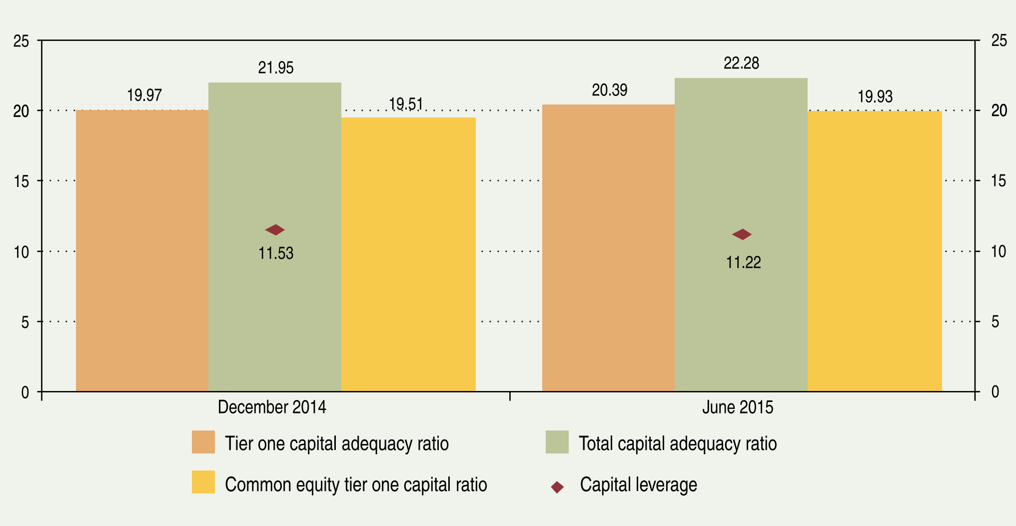
Between January and June 2015 the banking system capital base had a sufficient capacity to absorb risks inherent in the business of credit institutions. The equity of the banking sector rose by BGN 227 million (2.1 per cent) on the end of 2014. Tier one capital came to BGN 10.1 billion and tier two capital to BGN 937 million.

By the close of June the total capital adequacy ratio and tier one capital adequacy ratio rose to 22.28 per cent and 20.39 per cent respectively. The common equity tier one capital reported an increase accounting for 19.93 per cent. At the end of June all banks reported a capital adequacy ratio above the required minimum of 8 per cent. By the end of the first half of the year the surplus over the minimum required capital adequacy ratio amounted to BGN 7.1 billion, a rise of BGN 206 million on end-2014. Non-compliance with the requirements for capital buffers, resulting in common equity shortage, was found in one credit institution and relevant supervisory measures were initiated.

[62] The analysis of the banking system profitability and relevant profitability indicators as of June 2014 did not include data on KTB.

Selected Capital Indicators under Ordinance No. 8 on the Capital Adequacy of Credit Institutions and Regulation (EU) No 575/2013 on Capital Requirements

(per cent)

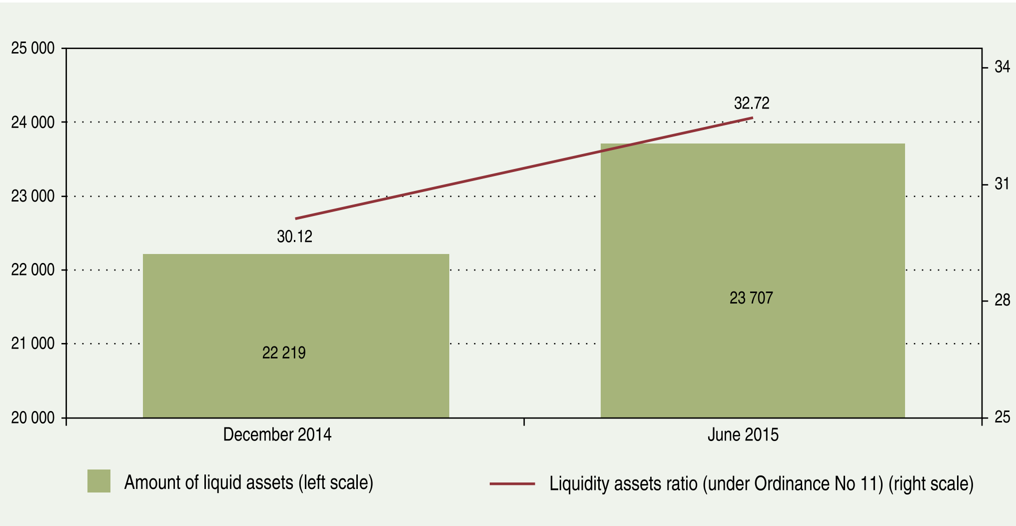


Source: BNB.

Credit risk exposures continued to dominate the structure of risk-weighted exposures. In the first half of the year no significant changes occurred in the shares of risk-weighted exposures for position, currency and commodity risk, and for operational risk. Within the risk-weighted exposures for credit risk, exposures of corporations accounted for the largest share (45 per cent) followed by retail exposures (18 per cent).

Selected Liquidity Indicators

(BGN million) (per cent)



Source: BNB.

Between January and June 2015 in addition to sustained high liquidity levels, credit institutions continued to accumulate additional liquidity funds in their balance sheets. In the first six months of 2015 liquid assets rose by BGN 1.5 billion from end-2014 to reach BGN 23.7 billion at the end of June. Higher cash and cash balances with the BNB (by BGN 2.1 billion, 21.5 per cent) contributed most significantly to the increased liquid assets. As a result of the measures initiated by the BNB in respect of banks with a Greek equity, balances on current accounts with other banks and interbank deposits with a term of up to seven days posted a decrease of BGN 3.2 billion

(41.6 per cent). Released resources were invested mostly in marketable debt securities issued by central governments or central banks which grew by BGN 2.6 billion.

The banking system liquid assets ratio for the first half of 2015 ranged between 32–34 per cent, reaching 32.72 per cent at the end of June.

2. Assessment of the Financial Performance of Financial Institutions Registered under Article 3a of the Law on Credit Institutions

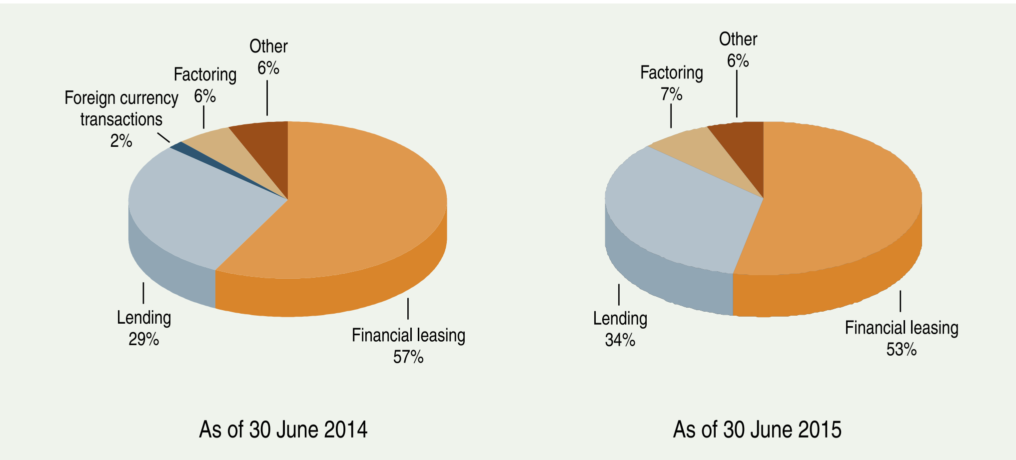
In the first half of 2015 the re-registration of financial institutions under the conditions of higher capital levels and transparency in the structure of ownership, set in 2014, continued. Despite the large number of *ex-officio* deleted companies, as of 30 June 2015 financial institutions entered in the Registry under Article 3a of the Law on Credit Institutions numbered 193, including 26 mutual cooperatives of private farmers established in compliance with the agricultural capital fund scheme under the agreements concluded between the Bulgarian government and the EC.

As of 30 June 2015 banking system total assets remained unchanged (BGN 6.2 billion).[63] At the end of the first half-year the share of the sector's assets comprised 7.4 per cent of banking system assets. Assets of the 20 largest financial institutions accounted for 72.6 per cent of the sector's balance sheet.

Distribution of market shares of financial institutions specialised in respective activities changed over the review period due to the internal re-distribution of shares. However, lease companies retained their dominating share followed by lending companies and factoring services companies.

The analysis of market shares of reviewed activities suggested a general upward trend in lending and acquiring credit claims, including factoring, as compared with traditionally well developed leasing.

Structure of Assets by Group of Financial Institutions



Source: BNB.

Loans and receivables (including financial leasing) increased in the structure of assets to 80 per cent (BGN 5 billion) compared with June 2014. The amount of loans and receivables in levs and in euro was similar at the end of June 2015: BGN 2.5 billion. The bulk of claims in euro were primarily from financial leases. Cash (mostly in levs), the second major balance sheet aggregate, remained unchanged at 11 per

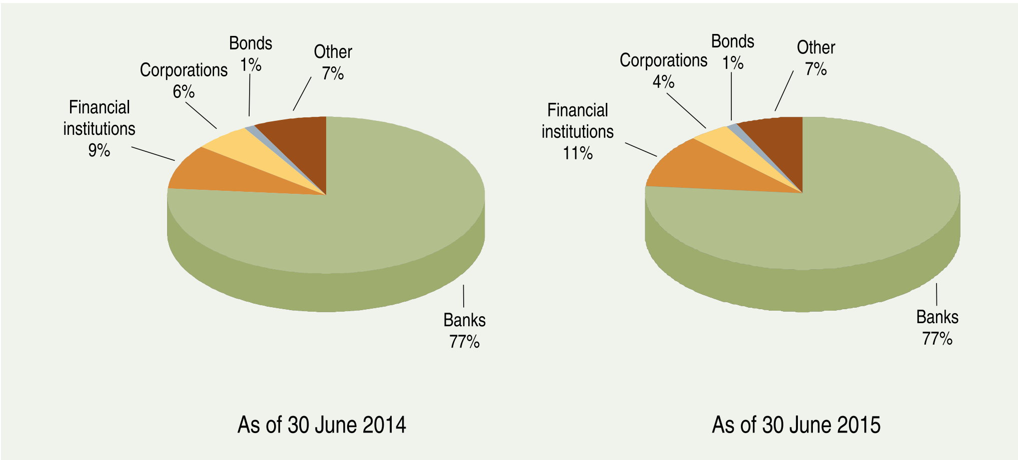
[63] The balance sheet figure does not include data on mutual cooperatives.

cent. The portfolio of loans and receivables of the 20 largest financial institutions accounted for 70 per cent of the total financial institutions' portfolio. The sector's activity was gradually concentrating in the portfolio of leasing claims and consumer loans.

The quality of bank loans remained worsened at the end of 2015. Gross impaired loans slightly contracted to reach BGN 2.5 billion or 48 per cent of the gross credit portfolio. Loans past due over 90 days accounted for 29 per cent of gross impaired loans (against 23 per cent in June 2014) and loans past due for other reasons 50 per cent (against 18 per cent in June 2014). Asset impairment costs decreased to BGN 689 million.

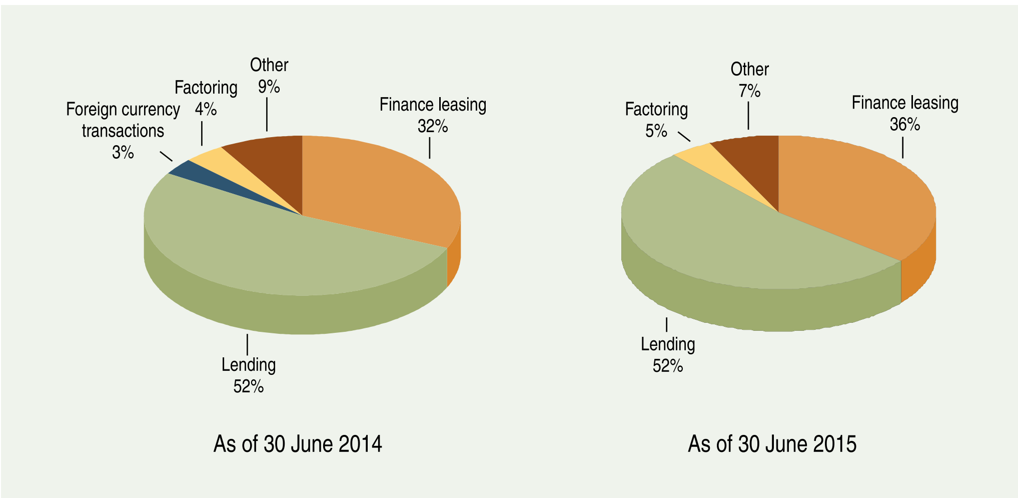
Attracted funds remained unchanged from the end of the first half of 2014 (BGN 4.6 billion). Bank resources (BGN 3.5 billion) remained the major source of financing for the sector, its share accounting for 77 per cent of total attracted funds at the end of the first half of the year. The share of financing from foreign banks continued to decrease and reached 74.6 per cent of attracted funds (78.7 per cent by 30 June 2014). Other sources of external financing retained their share. Between January and June 2015 the share of short-term liabilities (43.3 per cent) rose insignificantly compared with the corresponding period of 2014 (40.7 per cent). Long-term financing of over three years contracted to 21.3 per cent (28 per cent as of June 2014).

Structure of Attracted Funds



Source: BNB.

Distribution of Equity



Source: BNB.

In the first half of 2015 financial institutions' equity rose by 13.7 per cent and by the end of June came to BGN 1.3 billion. The sector's capital position matched the levels reported in the corresponding period of 2013. The positive trend observed reflected the profit and higher capital levels.

By the end of June 2015 financial institutions reported a profit amounting to BGN 91 million, with lending companies contributing most significantly to this (64 per cent) followed by lease companies (19 per cent). Compared with June 2014 net interest income of financial institutions (BGN 254 million) increased by 3.2 per cent attributable mainly to lower interest expenditure. By June 2015 the sector's current liquidity (15 per cent) experienced no change on June 2014.

3. Banking Supervision

The assessment of the compliance of BNB supervisory practices with the Basel Core Principles for Effective Banking Supervision was formally started on 8 October 2014, and the bulk of the work was done in the first half of 2015. Questionnaires of the International Monetary Fund and the World Bank, containing questions comprehensively laid down and following the structure and logic of the 29 Basel principles for effective banking supervision, were provided to the BNB. Based on the information provided by the Banking Supervision Department an official mission for an on-site inspection was organised which was carried out between 17 March and 3 April 2015. The findings of the IMF/WB team were finalised in the third quarter of 2015 and the BNB was sent additional clarifying questions.

At its meeting of 30 July 2015 the Governing Council approved an opinion on the independent assessment of the BNB banking supervision prepared by the IMF/WB after the BNB had thoroughly analysed the findings and recommendations. A detailed report was published, including the BNB self-assessment and IMF/WB recommendations, as well as the degree of compliance by individual principles.[64]

In the second quarter of 2015 the draft Law on the Recovery and Resolution of Credit Institutions and Investment Firms was completed. The Law transposes into the Bulgarian legislation Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms. The Law was adopted by the National Assembly on 30 July 2015.[65] In accordance with the Law the BNB shall be the authority for restructuring of banks in Bulgaria. Major resolutions in restructuring of banks will be taken by the BNB Governing Council and these decisions will be subject to coordination and explicit approval by the Minister of Finance, where they concern public finances or have systemic consequences (*e.g.* for the non-bank sector or the real economy). Government instruments of financial stabilisation will be applied under the governance of the Ministry of Finance, with the BNB providing assistance in compliance with its powers. The expert work of the BNB as an authority for restructuring and preparing the relevant decisions of the BNB Governing Council will be done by the newly established Restructuring of Credit Institutions Directorate which is directly subordinated to the Governor. There are requirements, laid down in the Law on the Recovery and Resolution of Credit Institutions and Investment Firms, for operational independence between the functions of the BNB as a restructuring authority on the one hand, and a supervisory authority or a central bank, on the other hand. In addition, the Law on the Recovery and Resolution of Credit Institutions and Investment Firms provides for an establishment of a fund for restructuring of banks administrated by the Deposit Insurance Fund. Expenses on the Fund will be covered by the additional contribution for funding the administrative expenditure provided for by the Law on Bank Deposit Guarantee.

[64] http://www.bnb.bg/PressOffice/POPressReleases/POPRDate/PR_20151005_1_BG
[65] The Law was published in the Darjaven Vestnik, issue 62 of 14 August 2015.

On 26 February the European Commission published its 2015 country report for Bulgaria, including the outcomes of the in-depth review referred to in Article 5 of Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances. The European Commission recommended Bulgaria to carry out an independent asset quality review in the banking system and to conduct a sustainability test applying the so-called bottom-up approach in close cooperation with EU authorities. In accordance with § 10 of the Transitional and Final Provisions of the Law on the Recovery and Resolution of Credit Institutions and Investment Firms and with a view to guarantee the effective functioning of the financial system and the need of ensuring greater transparency in domestic financial market operations, and in compliance with Europe 2020 national reform programme, the BNB was entrusted a mandate to organise a review of the banking system asset quality and the adequacy of the evaluations used for measuring the value of assets, collaterals, and impairment and provisioning practices with the involvement of external independent experts with high professional reputation. The review will be carried out in close cooperation with EU competent authorities. A methodology of asset quality review will be developed in compliance with that applied by the ECB upon the launch of the Single Supervisory Mechanism in 2014.

The macro-prudential measures launched were in line with the requirements of the BNB macro-prudential mandate and were aimed to neutralise or minimise risks in order to preserve the banking system stability. Accomplishment of this goal required improvement of already developed and applied macro-prudential instruments and specific supervisory actions, as well as implementation of a new package of macro-prudential monitoring of the banking system and individual credit institutions.

As a part of systemic risk monitoring in the banking system the BNB regularly monitors macroeconomic and financial parameters and risks in the EU Member States represented through subsidiary banks or branches with significant shares in Bulgaria's banking system. Given the worsened financial situation in Greece in the first half of 2015 measures and recommendations to banks with Greek equity were enlarged. In case of an assumption for a Greek financial crisis these measures will help minimise the pass-through of risk to Bulgaria's banking system. In addition to tightened liquidity and capital requirements, institutions with Greek equity were recommended to decrease the net balance sheet positions (assets less liabilities) to their bank groups, to ensure operational independence (of information systems and in conducting payment operations), to tighten control over liquidity resources, to prepare reaction plans in case of potential liquidity pressure, *etc*. To limit the negative effects spillover, consistent measures were launched in 2015 in cooperation with competent supervisory authorities, the European Commission and the European Banking Authority. Measures for current monitoring on banks' financial behaviour were implemented which allowed to assess the efficiency of instruments and recommendations which had been already implemented and, where necessary, to improve them for individual banks or the entire system.

A data package required for the analysis of systemic risks and for macro-prudential monitoring was implemented. Specialised statements provide in due course detailed information compliant with the business profile of Bulgarian banks. The information supplements the harmonised financial information under the EBA Implementing Technical Standards (ITS) which focus on financial intermediation carried out by systematically important banks in the EU. The instruments of macro-prudential supervision are complex and they are intended to collect information on changes in risk appetite and risk tolerance in banks' actions by major business line (corporate lending, mortgage lending, collateral policy, migration of loans, exposure to partners and economic sectors, *etc*.), as well as to allow for an early identification of areas of increased risk for the system's stability.

Macro-prudential analyses and monitoring remained closely linked to the complex monitoring of the non-bank segment of Bulgaria's financial system. Attention was also paid to the study of international environment developments being directly related to a possible spillover of instability (contagion) for Bulgaria's banking system. Significant resources were involved in expert reports associated with the work of the European Systemic Risk Board (ESRB). Possible materialisation in Bulgaria of risks common for the EU banking system and potential areas of instability were analysed.

Supervisory reviews and assessments of credit institutions carried out through off-site monitoring and on-site inspections remained a priority in the work of banking supervision in the first half of 2015. Special attention was paid to the dynamics of major risks in bank operations and developments in credit institutions' risk profile. Supervisory ratings were assigned reflecting the current risk profile (including asset quality, profitability and liquidity) of individual banks. As a result of monitoring of credit institutions' overall financial performance and based on the findings of the on-site inspections, the annual ratings under CAMELOS were assigned reflecting the risk degree and management of bank operations in 2014.

An important element of the current monitoring of credit institutions' financial performance was updating of the reporting form of quarterly off-site analyses, containing key risk indicators of individual components which reflected the changes in supervisory and financial reporting effective as of 2014.

With regard to political developments in Greece and their negative impact on the Greek banking sector, the BNB Banking Supervision Department actively communicated and exchanged information both with the subsidiary banks with Greek equity and the ECB. The operational autonomy of credit institutions with Greek equity was analysed and assessed on the basis of latest information required from the institutions.

Over the review period eight supervisory inspections were completed with various scopes, including assessment of the changes in group models, oversight of the progress made and implementation of recommendations from preceding supervisory inspections related to using advanced approaches for measuring capital risks. Analysis and assessment of credit institutions' risk profile, adequacy of the systems of monitoring and control over assumed risks and capital sufficiency, corporate management and internal control mechanisms were the starting points of on-site inspections. Inspectors also checked the capacity of banks to generate profit, liquidity risks and the liquid position, compliance with and proper interpretation and implementation of the regulatory framework effective as of 2014, including laws, ordinances, regulations, directives, implementing technical standards, regulatory technical standards, guidelines, *etc*. The on-site inspections focused mainly on development of credit institutions and effects of current economic environment, the review of mechanisms for managing non-performing exposures, conditions for implementing restructuring measures, the approved internal policies, *etc*.

Inspectors found 154 formal violations to the banking statutory framework, 115 recommendations were made to banks' managements for improving operations and risk management. The bulk of breaches found reflected the incorrect identification and measurement of the risk degree in individual risk exposures and their impairment, and non-compliance with the requirements of supervisory regulations. Recommendations made in the course of on-site inspections in banks applying advanced approaches for measuring risks related to data quality, documentation, internal validations, the need of recalculation in some internal models, the conduct of additional tests, results of internal audit office work, reporting of changes in the common regulatory framework, *etc*.

Cooperation and information exchange among colleges of supervisors on supervision over subsidiary credit institutions, representing a part of European bank groups, continued. Over the review period nine risk assessments were prepared (on credit institutions' financial performance and risk level) which were included in the summarised information required for making common decisions on capital adequacy and liquidity in bank groups and individual credit institutions.

The adoption of Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing and Regulation (EU) 2015/847 on information accompanying transfers of funds outlined long-term priorities in preventing the entry of illegal funds in the banking sector. Using its expert capacity the BNB supported the established inter-service panel for developing a methodology of national risk assessment and finalisation of the Plan for Implementing the National Strategy on Counteracting Money Laundering. Preparedness was declared to start the work on transposing into the national legislation of the new EU requirements defined in Directive 2015/849, and of revised recommendations of the Financial Action Task Force (FATF). BNB experts continued to actively participate in the EBA think tanks for development and adoption of the instructions provided for in the Directive intended to create uniform criteria and harmonise the practices within the EU in implementing international prevention standards.

In the first half of 2015 the assessment of the adequacy of banks' mechanisms for control and prevention from their use for money laundering marked a progress. The supervisory process was also supported by the additional information provided from banks required under the new reporting forms. Findings of on-site inspections suggest positive trends in improving protection procedures, but still there were cases of resource and technological insufficiency, which reflect on expediency and quality in data generation. BNB experts participated also in conducting spot checks of international operations and transactions, involving complex legal or factual issues. The results of the inspections were sent to competent institutions to initiate relevant measures compliant with their legal powers. Banks were duly notified of the used schemes in order to apply appropriate techniques for risk minimisation.

Eleven breaches were established and 19 recommendations were made as a result of conducted planned and spot inspections. Measures under Article 103, paragraph 2, item 1 of the Law on Credit Institutions were imposed on one bank and actions were planned to remove the established recurrent weaknesses and omissions.

Checks on the methods and practices applied by several banks in forming the deposit base, as defined by the Law on Bank Deposit Guarantee, did not show any deviations from the findings established for other banks of the sector.

The BNB continued to launch measures intended to ensure clear and transparent conditions for deposit products offered by banks. Inspectors checked the observance of the recommendations made to improve the quality of information disclosed by banks and studied its effect on depositors. National efforts were supported by the work of the EBA Consumer Protection and Financial Innovation Committee, where together with BNB experts the Guidelines on national provisional lists of the most representative services linked to a payment account and subject to a fee were prepared and published.

The results of the two inspections conducted jointly with the Financial Supervision Commission in banks acting as custodians of supplementary pension insurance funds showed a compliance with legal requirements.

Cooperation with the Ministry of Foreign Affairs and the State Agency of National Security intensified on issues associated with the implementation of restrictive measures as defined in the EU and UN Security Council regulation.

Another aspect in the BNB activity was outlined by the Agreement between the government of the United States of America and the government of the Republic of Bulgaria to improve international tax compliance and to implement FATCA,[66] and the EU legislative acts for providing automated data exchange for tax purposes. The working group, including BNB experts, worked out draft national statutory documents.

Changes in the registration regime of financial institutions under Article 3a of the Law on Credit Institutions resulted in a deletion of 84 companies from the BNB register. Despite the increased capital levels and additional criteria for the reputation of managing and qualified owners, the interest in conducting operations as a financial institution was sustained due to comparatively high return of investments in consumer lending and financial leasing.

No new procedures for licensing credit institutions were opened in the first half of 2015.

The shareholder structure of several banks experienced changes in the period under review. Shareholders with qualifying holdings in D Commerce Bank (Fuat Güven) and Bulgarian American Credit Bank (Gramercy group) restructured their shares in the respective bank by transferring them to other companies controlled by them. Similarly, as a result of the merger of the majority shareholder of Tokuda Bank into the controlling Tokushukai Incorporated, the latter became a direct shareholder in the Bulgarian bank. With the enforcement of a judgement by which the decisions of one of the general meetings were abrogated Investbank was allowed to decrease its capital with the shares issued for increasing the capital in accordance with a decision of the said general shareholder meeting.

Over the review period no permits for the inclusion into the banks' capital of equity instruments or repayments on such instruments were issued.

In the first six months of 2015 more significant changes occurred in the management of two banks: ProCredit Bank (Bulgaria) and First Investment Bank. Nine other banks and one foreign bank branch made insignificant changes in their management bodies.

The supervisory bodies of five Member State credit institutions notified the BNB of their intent to provide cross-border services in Bulgaria. The number of these institutions reached 251. No new branches of EU Member State credit institutions were opened in Bulgaria.

In the first half of 2015 seven credit institutions were subject to supervisory measures. In two of these banks exposures to groups exceeded the admissible amount under the provision of Article 395, § 1 of Regulation (EU) No 575/2013 and deadlines to remove the breaches were set. It was found that one domestic bank violated the requirements of the Law on Measures against Money Laundering in its operations with a foreign customer and a warning was issued. Due to the allowed capital decrease one bank was required to present a capital management plan for the following three years and to carry out stress tests of major risks. As to the Greek banks conducting operations in Bulgaria through their subsidiary banks or branches, the measures implemented in the beginning of the year were extended until the end of June. As a result of the reported capital shortfall one small domestic bank was prohibited to make payments under agreements for provision of a loan capital included in the bank's equity. Following a supervisory inspection and established weaknesses in credit and operational risk management, unrealistic capital maintenance planning, and management and internal audit omissions, one bank was required to provide information on the measures to be initiated for removing the weaknesses.

Over the first half of 2015 the BNB Banking Supervision Department continued to receive claims from bank customers and financial institutions. The resolution of claims concerned the competence of the Commission on Consumer Protection. The BNB initiated the relevant actions to inform the Commission and resolve the problems in due time.

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[66] The Foreign Account Tax Compliance Act, a US Federal Law enacted in 2010, postponed for implementation in 2013 is intended to limit the cases of avoiding taxation by US citizens holding offshore assets.

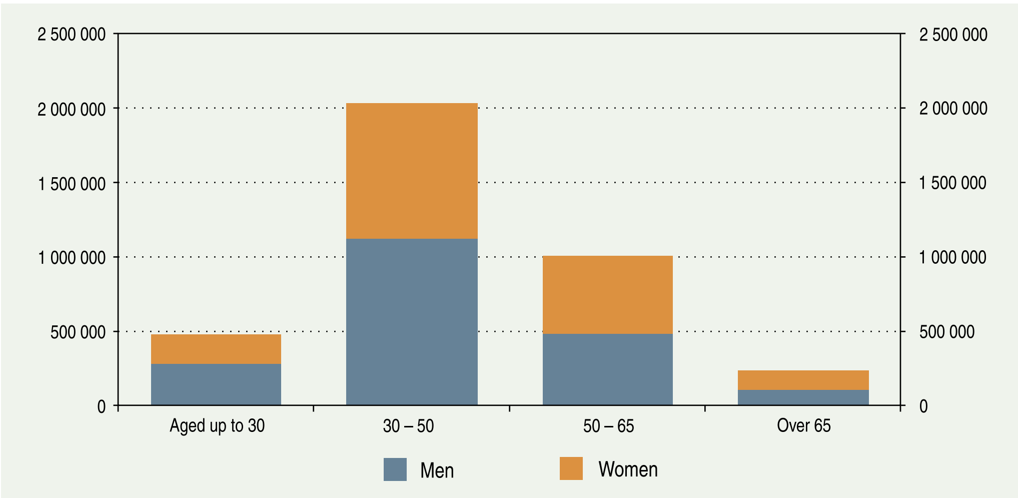
VII. The Central Credit Register

The Bulgarian National Bank maintains an information system on customer debt to Bulgarian banks, other financial institutions, and payment and electronic money institutions (reporting units). BNB Ordinance No 22 of 16 July 2009 regulates the terms, procedure, and information flows to and from the Central Credit Register (CCR). The Register ensures centralised collection and information by reporting units, as well as the use of available information for BNB purposes.

By 30 June 2015 the CCR had 169 participants: 29 banks, 138 financial institutions, and two payment institutions. Over the first half of 2015, four new financial institutions entered the CCR information system. At the same time, 41 financial institutions left the register due to the need for re-registration of the financial institutions listed in the Banking Supervision Department public register under § 80, paragraph 4 of the Law on Amendment of the Law on Credit Institutions.

As of 30 June 2015 the CCR registered 3,976,000 loans (against 4,080,000 as of June 2014) with a balance sheet exposure of BGN 63,584 million (from BGN 64,316 million as of June 2014). As of the same date, borrowers numbered 2,083,000, of whom: 1,982,000 individuals; 91,000 legal entities, 4000 foreigners, who are not registered, and 6000 self-employed people. Residual debts up to BGN 5000 predominated with individuals (65.3 per cent), while debts of BGN 5000 to 50,000 predominated with legal entities (35.9 per cent). Among all borrowers, men made up 53 per cent of individuals and women 47 per cent. The number of loans extended to the 30–50 age group dominated both age groups.

Number of Loans to Individuals as of 30 June 2015 with Breakdown by Gender and Age of Borrowers

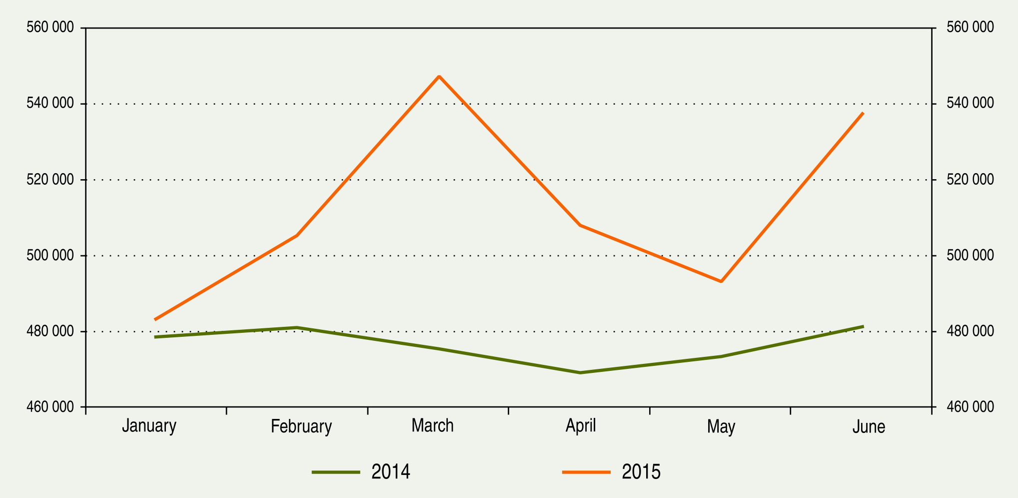


Source: BNB.

Information collected and provided by the CCR is an important indicator, which is essential for the reporting units in assessing creditworthiness of the borrower. Real time customer debt information includes loan status, arrears, and repaid loans for five years back, plus borrower histories. The access to these data aims to raise the awareness of banks and financial institutions, creating better conditions for analysing and assessing credit risk.

CCR Searches in the First Halves of 2014 and 2015

(number)

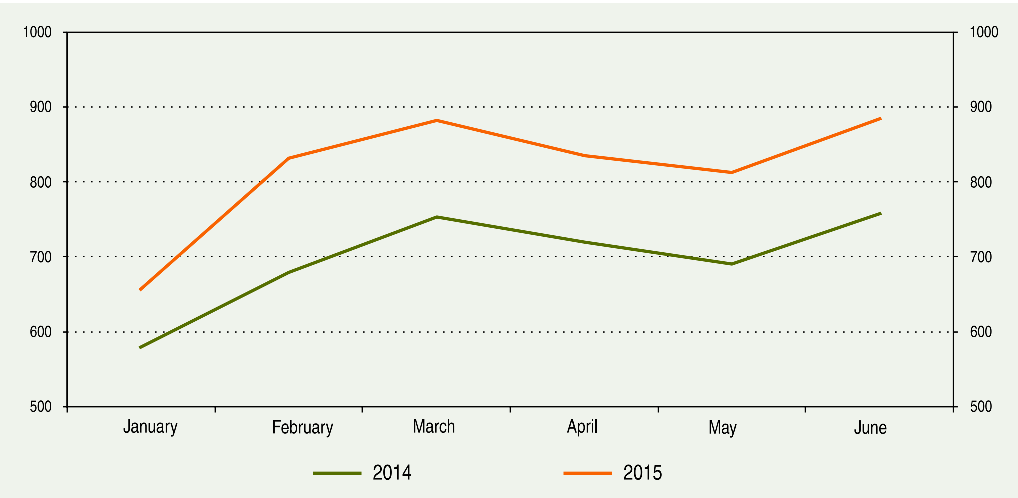


Source: BNB.

In the first half of 2015 banks, financial institutions, payment institutions and electronic money institutions conducted 3,074,000 searches on 2,436,000 individuals and 638,000 legal entities. The average monthly number of searches was 512,000.

CCR Statement Applications in the First Halves of 2014 and 2015

(number)



Source: BNB.

Access to information on the credit indebtedness of individuals (including heirs of deceased persons) and legal entities is provided under BNB Ordinance No 22, Articles 21 and 22. According to the Tariff of Fees Charged by the CCR, individuals enjoy one free access to CCR data within a 12-month period.

Over the first half of 2015 there were 4902 applications for CCR statements: 4782 by individuals and 120 by legal entities.

According to the changing criteria for the national and international lending development, the CCR activity continually develops and improves. In order to increase the quality and reliability of data, the incoming information is constantly analysed and the register is currently changed and improved. This allows the reporting units to receive more detailed information regarding the obligations of the existing and potential customers and to assess more accurately the borrowers' credit indebtedness and the credit risk.

VIII. The Fiscal Agent and State Depository Function

The Bulgarian National Bank acts as the fiscal agent and official depository of the state under the Law on the BNB. Under contracts negotiated with the Ministry of Finance to market conditions and prices, the Bank submits to the Ministry statements of budget entities' domestic bank accounts and acts as government debt agent.

These duties call for continuing improvements of the GSAS system for conducting government securities auctions, the ESROT electronic system for registering and servicing government securities trading, the GSSS government securities settlement system, the Register of Special Pledges, the AS ROAD automated system for registering and servicing external debt and the IOBFR system for budget and fiscal reserve information servicing.

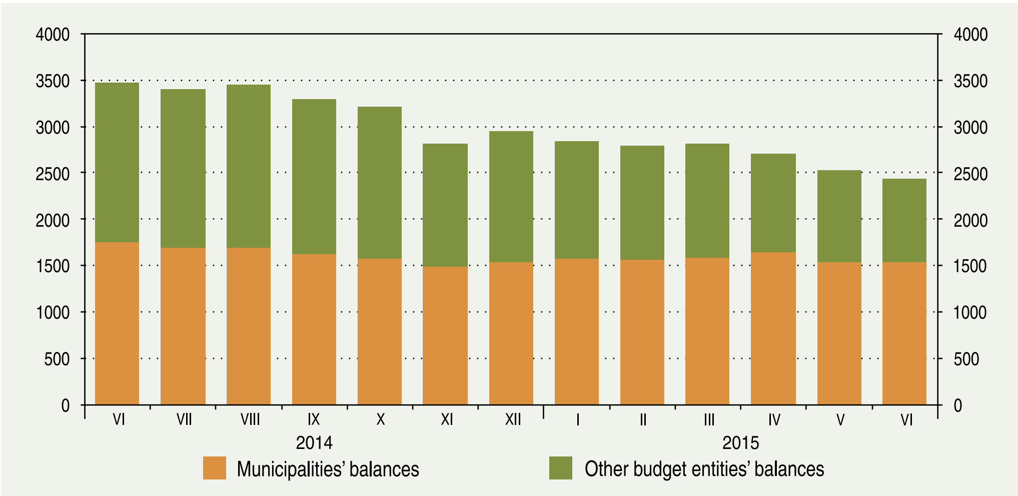
In the first half of 2015 revenue from BNB agency function fees and commissions amounted to BGN 799,800,000, a decrease of 46.8 per cent on the same period of 2014. This was mainly due to almost four times lower revenue from decreased government bond supply in the domestic market which led to a significant decline in the volume of primary market auction, government securities registration and settlement, and issue maturity paperwork.

Information Service

Servicing state budget information under the MF contract involved submitting daily and periodical statements on budget entities' (municipalities included) budget, extra budgetary, deposit, foreign currency, and letter of credit lev and foreign currency accounts at the BNB and other Bulgarian banks *via* IOBFR. The Bank also monitored security pledged by banks under the 2015 State Budget Law and the Public Finance Law on a daily basis, tallying it with reported balances.

Budget Entities' Accounts with Domestic Banks

(BGN million)



Source: BNB.

On 30 June 2015, 20 banks including the BNB serviced budget funds with access to the IOBFR. Based on summarised information, the overall balance of budget entities' accounts (including the central budget) was BGN 12,343.6 million,[67] up 61.9 per cent on 30 June 2014. By end-June some 80 per cent (BGN 9914.0 million) was in BNB

[67] Foreign currency account balances are recalculated in levs at the BNB exchange rate on 30 June 2015.

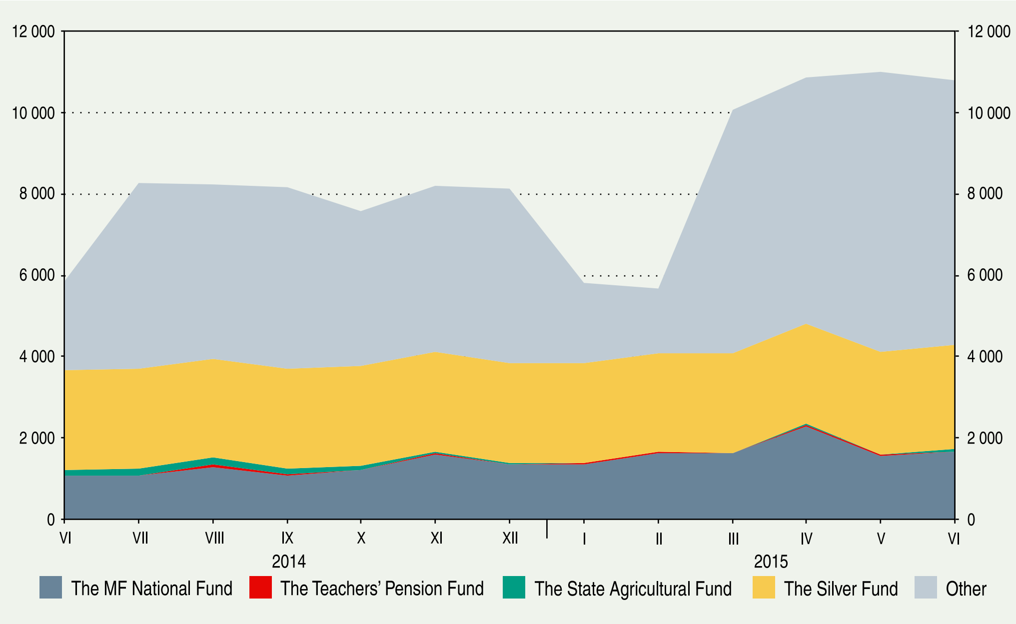
accounts and the rest with other domestic banks. As of 30 June 2014, however, the relative share of budget funds with the BNB was 55 per cent.

Account balances of budget entities[68] outside the central bank fell by 29.9 per cent on end-June 2014. As in previous years, five banks held over 70 per cent of these balances.

Approximately 87 per cent of budget funds at the BNB and other domestic banks formed the fiscal reserve's liquidity part:[69] BGN 10,787.8 million on 30 June. Of this, BGN 3673.1 million were on dedicated accounts of the State Fund for Guaranteeing the Stability of the State Pension System (Silver Fund), the MF National Fund, the Agricultural State Fund, and the Teachers' Pension Fund.

Structure of Bank Account Balances within the Fiscal Reserve Scope

(BGN million)



Source: BNB.

BNB duties to the MF and standing joint instructions by the Minister of Finance and the BNB Governor involved preparing 485 statistical budget reporting forms, including 149 for account balances within the fiscal reserve, up 3 per cent on the same period of 2014. This growth reflected the increasing number of daily reporting forms.

The AS ROAD system maintains up-to-date information on the government's foreign financial obligations on which the BNB is calculating and paying agent.[70] After MF advice, the first tranche under the Structural Programme Loan by the European Investment Bank to the amount of EUR 150 million was registered along with three new issues of global bonds, worth EUR 3100 million, with maturities of 7, 12 and 20 years. Upon a MF approval, 20 regular payments of EUR 2549.4 million were effected,[71] comprising EUR 2495.3 million principal and EUR 54.1 million interest repayments. Reflecting new loans and repayments, on 30 June obligations in AS ROAD came to EUR 6967.3 million,[72] more than twice as large as that by end-June 2014 (EUR 3010.2 million). Euro-denominated debt continued occupying the largest share at 99.9 per cent, followed by JPY and USD at 0.1 per cent.

[68] Including account balances of the central budget.

[69] According to § 1, item 41 of the Additional Provisions of the Law on Public Finance, fiscal reserve is an indicator which includes both balances on all bank accounts of budget entities, excluding municipalities and their budget spending units, and other assets and claims on EU funds.

[70] Under the government debt agency agreement between the BNB and MF.

[71] The payments total was recalculated in euro at the BNB rate for 30 June 2015.

[72] The payments total was recalculated in euro at the BNB rate for 30 June 2015.

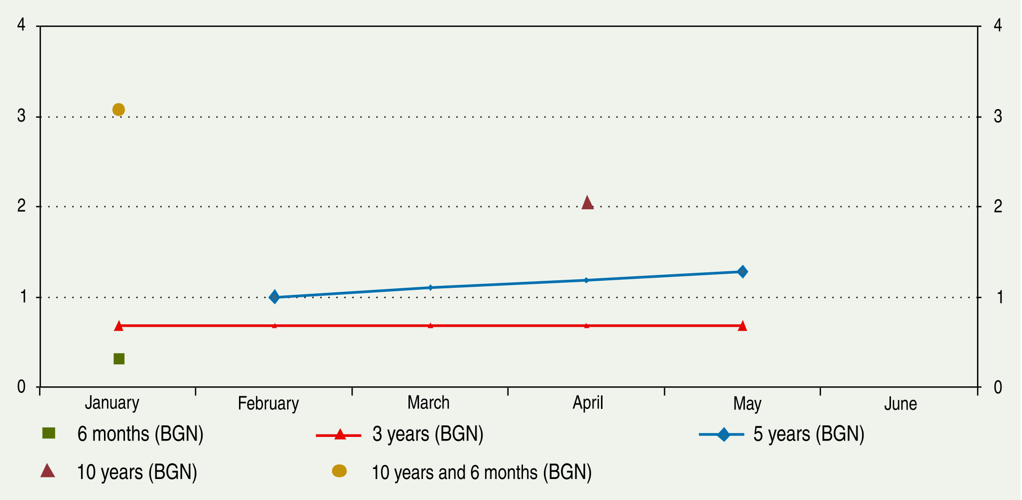
Servicing Government Securities Trading

In accordance with the MF issuing policy,[73] seven auctions for sale of BGN-denominated government securities were held *via* the GSAS system.[74] They offered five issues: one short-term, two medium-term and two long-term issues. The average-weighted residual term to maturity of the sold issues was three years and nine months.

The total nominal value of government securities offered for sale was BGN 500 million. Over 76 per cent of received bids were by banks (BGN 1159.5 million, with BGN 362.8 million by non-bank institutions. Some private pension funds were among the most active non-bank institutions, comprising 12.1 per cent of bids, followed by contractual and other funds at 5 per cent, insurance corporations at 3.4 per cent, the National Insurance Institute (NII) at 2.8 per cent, and the Employees' Pay Guarantee Fund to the NII at 0.4 per cent. Government bond sales volume was BGN 500 million, or 100 per cent of the scheduled volume. Almost two-thirds of all sold bonds were acquired by banks: primary[75] and non-primary dealers. The average annual yield of six-month, three-year, five-year, ten-year and 10.5-year issues was 0.3, 0.7, 1.1, 2 and 3.1 per cent, respectively.

Average Annual Yield Attained at the Auctions for Sale of Domestic Government Securities in the First Half of 2015

(per cent)



Note: In March and June no auctions were held.

Source: BNB.

ESROT registered BGN 309.2 million[76] of corporate event payments on behalf and for the account of the issuer, down BGN 1004.6 million on the same period of the previous year. By end-June the nominal volume of the 33 issues of government securities was BGN 8535.5 million,[77] up 5.7 per cent on end-June 2014. The bond issue currency structure was sustained, with BGN-denominated issues redeemable in levs occupying the largest share of 57.7 per cent, followed by EUR-denominated issues redeemable in euro of 40.8 per cent (22.1 per cent by end-June 2014). EUR and USD-denominated issues redeemable in levs occupied the lowest share of 1.5 per cent. The government securities maturity structure underwent no essential changes, with

[73] Over the first half year the issuer made a number of changes in the initially announced calendars: in February and March an auction was repealed each month; in April scheduled openings of two issues were replaced by an auction for sale of a new issue; in June both auctions were repealed.

[74] In accordance with the MF issuing policy, over 2015 no EUR-denominated government securities will be offered in the domestic debt market.

[75] Primary dealers selected under Ordinance No 15 of the MF and BNB numbered 12.

[76] The lev equivalent of payments on foreign currency denominated government securities issues was calculated at the BNB rate on the date of payment.

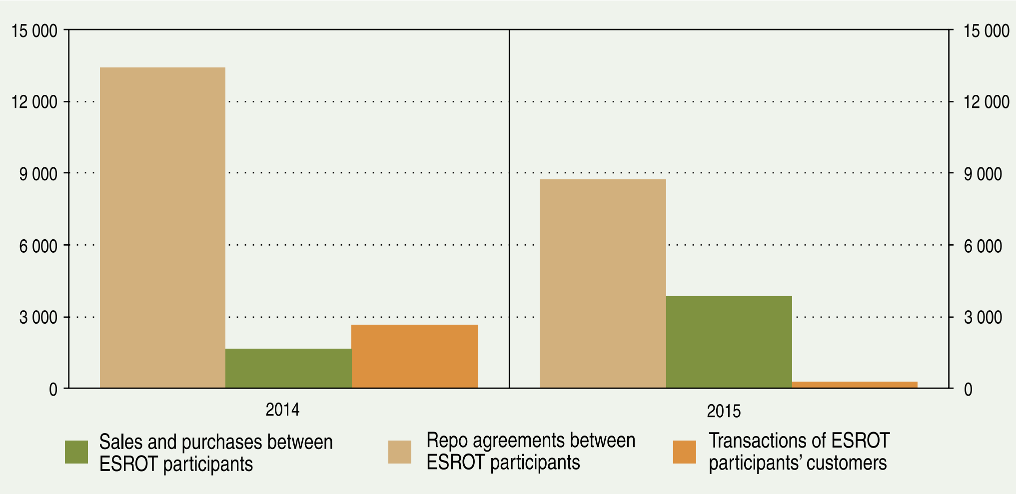
[77] The lev equivalence of government securities issues denominated in foreign currency is calculated on the basis of the BNB exchange rate valid for 30 June 2015. By order of the titleholder, the total volume was reduced by the amount of government securities removed from the MF register/accounts and transferred to the full disposition of the Minister of Finance under Article 152, paragraph 9 of the Law on Public Finance.

medium and long-term bonds comprising 75.8 per cent (71.2 per cent on 30 June 2014).

The total nominal volume of ESROT transactions was BGN 12,842.5 million, down 27 per cent on the same period of 2014. Repo transactions had the largest share at 68 per cent, including those concluded for a period of four to seven days (34 per cent) in both lev and euro-denominated government bonds. The average-weighted annual yield of repo agreements in all maturities posted a year-on-year increase, moving between 0.01 and 0.66 per cent. Eight to 30-day transaction yields fluctuated more significantly.

Volume of Transactions in Tradable Government Securities in the First Six Months

(BGN million)



Source: BNB.

Bond sales and purchases were BGN 4119.1 million, down BGN 206.3 million on the same period of 2014. Of this, operations with participation of banks were BGN 3846.0 million and those with participation of customers[78] came to BGN 273.1 million. This segment occupied 32 per cent of the market, decreasing by 4.8 per cent on the first half of the previous year. Securities were traded across the entire yield curve, BGN and EUR-denominated bonds with a residual term to maturity of about five years remaining most liquid. The average annual yield of the long-term ten-year benchmark issue decreased gradually from 2.95 per cent in January to 2.36 per cent in June, this value decreasing significantly from the previous year (from 3.56 per cent in January to 3.11 per cent in June 2014).

The secondary government securities market liquidity ratio[79] was 1.5 from 2.19 in the first half of 2014.

Blocking and unblocking operations in domestic government securities registered in the ESROT and related to securing funds in budget entities' bank accounts and on registered pledges under the Law on Special Pledges totalled BGN 7198.1 million (BGN 11,366.1 million in the same period of 2014).

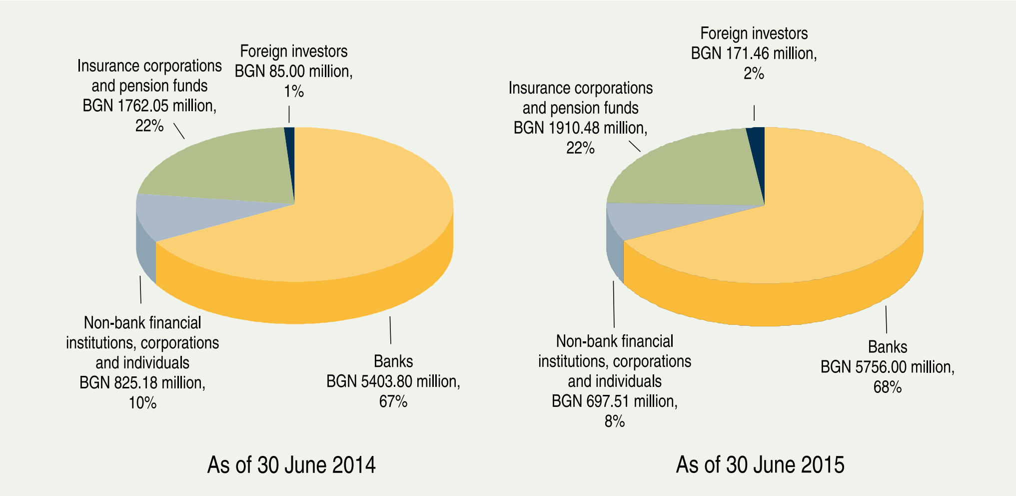
Compared with end-June 2014, government securities in bank portfolios rose greatly (by BGN 352.2 million). Bond investment by insurance corporations and pension funds increased by BGN 148.4 million, 87 per cent in long-term government debt instruments. This led to changes in exposures of individual types of government bond holders on 30 June 2015: 68 per cent with banks; 22 per cent with insurance corporations and pension funds, 8 per cent with non-bank financial institutions, corporations

[78] The ESROT registered no transactions between customers of the same participant.

[79] The ratio between the volumes of government bond transactions concluded for a specific period and the volume of circulating government securities as of the period's end.

and individuals, and 2 per cent with foreign investors (compared to 67, 22, 10 and 1 per cent on 30 June 2014).

Holders of Government Securities Issued in the Domestic Market



Source: BNB.

Over the review period the ESROT offered 99.9 per cent availability,[80] with no call for contingency rules for interaction between systems operated by the BNB. In May Raiffeisen Bank International AG, Vienna, Austria, was included in the system as a direct participant of a Member State under Article 3, paragraph 1, item 4 and Article 5, paragraph 6 of MF and BNB Ordinance No 5 on the Terms and Procedure for Acquisition, Registration, Redemption and Trade in Government Securities. With the new member, system participants (banks, an international central securities depository, the Reserve Collateral Pool, and the MF) numbered 30 by the end of the review period.

On 30 June 2015 there were 1401 accounts in the government securities settlement system under BNB Ordinance No 31 on Government Securities Settlement. Of them, 33 were for government securities of the issuer (the MF), 578 for participants' own government securities portfolios, 360 for encumbered bonds, and 430 held by participants' customers. Account nominals tallied with the amount of outstanding issues at BGN 8535.5 million.[81]

System Development

In line with Regulation (EU) No 909/2014 of the European Parliament and the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories (CSDR) and regulatory and implementing technical standards, over the review period joint consultations continued with the issuer and market participants on the future development of the domestic sovereign debt market, including trade and settlement systems.

[80] See footnote 48.

[81] The lev equivalence of government securities issues denominated in foreign currency is calculated on the basis of the BNB exchange rate valid for 30 June 2015.

IX. Participation in the ESCB and in the Activities of EU Institutions

In the first half of 2015 EU institutions' efforts continued to focus on recovering economic growth, boosting investment and rebuilding trust in the financial system. Following the approval of the European Commission's Investment Plan for Europe (EC IPE) by the European Council, in May the EU Council and the European Parliament reached a political consensus on a Regulation on the European Fund for Strategic Investments, one of the main pillars of the plan. At the end of June the Five Presidents' report[82] *Completing Europe's Economic and Monetary Union* was issued to outline the the stages in building this union.

European System of Central Banks

The BNB Governor sits on the ECB General Council with EU central bank governors and the ECB President and Vice President. In the first half of 2015 the two sessions of the ECB General Council focused on the following major issues: the economic development and EU financial sector performance, the ECB report on monetary policies of the Member States currently participating in ERM II, central bank compliance with the prohibition of monetary financing.[83]

BNB representatives sit on 12 ESCB committees[84] and 36 working groups, and the Human Resources Conference (HRC). Through ESCB representatives, the Bank helps elaborate ECB legal instruments on monetary and banking policy, payment and settlement systems, statistical reporting and research, and other central banking issues. The Bank also helped prepare ECB opinions as part of written consultations between Member States and the ECB on legislative bills within its competence.

European Systemic Risk Board, European Banking Authority, Colleges of Supervisors

The Governor of the BNB is a member of the General Council of the ESRB. Discussions at the two meetings focused on EU macro-prudential policies after the introduction of various macro-prudential instruments through the CRD IV/CRR package; potential channels for the propagation of financial disturbances within the financial system, as well as risks to financial stability stemming from oil price declines, fluctuations in exchange rates of some currencies, repricing of risks in global financial markets and high debt levels in the public and private sectors. In line with the ESRB recommendation adopted in 2012 on credit institutions' financing, the BNB prepared and sent to the ESRB a report on the actions taken to monitor and assess risks ensuing from encumbered assets. BNB representatives on the General Council and its sub-structures have consistently backed Bank positions.

Over the review period BNB experts' participation in the working groups to the European Banking Authority was intensified due to the need to finalise a number of instructions and technical standards referred to the CRD IV/CRR package and commitments to the EBA for preparing technical standards in relation to the Directive establishing a framework for the recovery and resolution of credit institutions and invest-

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[82] European Commission President Jean-Claude Juncker, together with the President of the European Council Donald Tusk, the President of the Eurogroup Jeroen Dijsselbloem, the President of the European Central Bank Mario Draghi, and the President of the European Parliament Martin Schulz.

[83] Report on central bank compliance with the prohibitions specified in Articles 123 and 124 of the Treaty on the Functioning of the European Union.

[84] The Accounting and Monetary Income Committee (AMICO), the Financial Stability Committee (FSC), the Banknotes Committee (BANCO), the Eurosystem/ESCB Communications Committee (ECCO), the Information Technology Committee (ITC), the Internal Auditors' Committee (IAC), the International Relations Committee (IRC), the Legal Committee (LEGCO), the Market Operations Committee (MOC), the Monetary Policy Committee (MPC), the Payment and Settlement Systems Committee (PSSC), the Statistics Committee (STC).

ment firms[85]. Over the period the EBA prepared and sent to the EC a large number of technical advice and analyses on the effect of specific elements in the regulatory framework, further expanding the areas in which BNB experts took part. The BNB continued participating in supervisory colleges, with communication being strengthened given the problems in Greece's negotiations with lenders. After the adoption of the new Law on the Recovery and Resolution of Credit Institutions and Investment Firms, the BNB became a full member of the EBA Resolution Committee, in which it had an observer status since its establishment in 2014.

European Council, Ecofin Council and Economic and Financial Committee (EFC)

In February 2015 the EC published a technical assessment on the progress in implementing recommendations and results of the in-depth reviews of EU Member States. EC' general assessment for Bulgaria suggests that further efforts are needed to adjust labour market imbalances, while some progress is identified in adjusting imbalances of Bulgaria's external position and private sector's indebtedness. In May the EC published a proposal for a Council Recommendation on the 2015 National Reform Programme containing the Council's opinion on Bulgaria's Convergence Programme for 2015. It focused on issues requiring remedial action to counteract excessive macroeconomic imbalances identified in February. On 11–12 June the Economic and Financial Committee (EFC) and on 19 June the Ecofin Council discussed this proposal. On 26 June recommendations were approved by the European Council. Concrete commitments, measures and a schedule for implementation were provided for in the updated 2015 National Reform Programme. BNB representatives participated actively in discussions on the progress in implementing the measures to address identified imbalances.

With the active BNB experts' participation, discussions on the EU legislative package in the area of payment services continued over the period to include a new Directive on payment services in the internal market and a Regulation on interchange fees for card-based payment transactions. In April the Regulation on interchange fees for card-based payment transactions was adopted and published in the Official Journal of the European Union. It sets interchange fee caps for cross-border debit and credit card transactions to reduce costs for both retailers and consumers, to help create an EU-wide payments market without any differentiation between national and cross-border payments. To this end, the BNB took the necessary steps to prepare a proposal for legislative changes to ensure the application of this Regulation.

In February the Ecofin Council reached an agreement on common principles to ensure greater accuracy, reliability and timeliness of benchmarks in financial instruments and financial contracts, as well as stronger controls. The draft regulation addresses the whole process of setting these benchmarks: providing quotes or other input data by market participants, administering and controlling, as well as their dissemination and publication. Negotiations and discussions are underway, with the BNB contributing to the preparation of a proposal for legislative changes of specific texts and provisions to meet the needs of the Bulgarian market of financial instruments and contracts.

BNB worked intensively on harmonising national legislation with European requirements. BNB representatives took part in preparing a draft law on the recovery and resolution of credit institutions and investment firms,[86] transposing into Bulgarian legislation provisions of the relevant Directive.

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[85] Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012 of the European Parliament and of the Council.

[86] The Law on the Recovery and Resolution of Credit Institutions and Investment Firms was published in the Darjaven Vestnik, issue 62 of 14 August 2015.

In connection with the new European framework of deposit guarantee schemes, BNB experts participated in the preparation of the draft Law on Bank Deposit Guarantee,[87] whereby the requirements of Directive 2014/49/EU on deposit guarantee schemes were transposed into national legislation.

Amendments to the legislation concerning mortgage loans to individuals are under preparation. With the BNB participation, a draft law has been developed to transpose Directive 2014/17/EU on credit agreements for consumers relating to residential immovable property. This Directive provides for harmonised requirements at EU level for mortgage loans and loans intended for the purpose of acquiring or retaining property rights in residential real estates. It aims to contribute to a more transparent and reliable European credit market and create conditions for high consumer protection.

The BNB continued to make an active contribution to the work of the Economic and Financial Committee. Discussions focused mainly on reviewing the economic situation and trends in financial sector developments, measures to support economic growth and investment, as well as efforts to promote long-term financing of the European economy. Other discussed issues included the progress in building the Single Resolution Mechanism (SRM) and the application of the directive for the recovery and resolution of credit institutions and investment firms by EU Member States. Committee's work focused also on fiscal and macroeconomic policy surveillance in the context of the fifth European semester, and the EU position on issues discussed at G20, IMF, and Financial Stability Board meetings. In addition, within the Committee's framework and at the informal Ecofin meeting, preliminary discussions were held on the Five Presidents' report *Completing Europe's Economic and Monetary Union*. This report outlines the areas where work is needed to build the economic and monetary union. In a short-term period until mid-2017, measures were envisaged to improve competitiveness of the European economy and achieve cohesion among Member States. In a long run, the process of convergence is projected to become a more binding commitment through a set of common convergence indicators and establishment of a financial body of the euro area. To prepare transition from the first to the second stage, in the spring of 2017 the Commission will present a White Paper to ensure that all necessary steps are taken, including legal measures, for completing the economic and monetary union, or its second stage.

[87] The Law on Bank Deposit Guarantee was published in the Darjaven Vestnik, issue 62 of 14 August 2015.

X. International Issues

International Financial Institutions

The Law of the Bulgarian National Bank entitles the Bank to participate in international organisations furthering currency, monetary, and credit policy cooperation. Where Bulgaria participates in international financial institutions, the BNB is government fiscal agent and depository.

The Bulgarian National Bank holds equity in the Bank for International Settlements (BIS). The BNB Governor sat on BIS central bank governors' bimonthly meetings: a major forum for cooperation and debate on world economic development and prospects and international financial markets. At the Annual General Shareholder Meeting in late June 2015, where the BIS Governors allocated the institutions' net profit, the BNB received a dividend of EUR 2.3 million.

The BNB Governor is a member of the IMF Board of Governors and a representative of the state. In May 2015 Bulgaria hosted for a second time after 1999 the regular meeting of the IMF group of States and the World Bank group of organisations of which Bulgaria is a member. Ministers of finance and economy, central bank governors and senior representatives of states in the group took part in the meetings. The forum served as a useful platform to organise discussions and to exchange ideas and views between participants and the senior management of the IMF, World Bank, ECB and other international institutions on issues related to investments in Europe's economy, aspects of growth, income distribution and aging, as well on programmes for assessment of EU Member States' financial sectors.

In January 2015 the BNB paid its annual contribution of USD 8500 to support the work of the International Financial Reporting Standards Foundation and USD 10,000 to the Group of Thirty.

Central Bank Cooperation and Technical Assistance

The BNB continued stepping up cooperation with Western Balkan central banks and backing their EU accession preparations. In March the closing event was held in Prishtina on the end of BNB participation in a EU financed and ECB managed technical cooperation programme with the Western Balkan central banks under which it assisted the Bank of Albania on financial stability.

In April 2015 representatives of the central bank of Russia visited the BNB to study the experience in the field of international cooperation. The visit was organised in line with the Memorandum of Cooperation between the two central banks.

Helping step up regional cooperation, the Bank also participates in the Central Banks Governors' Club of Central Asia, Black Sea Region and Balkan Countries.

At the BNB request for technical assistance, an IMF and World Bank team conducted an assessment of banking supervision efficiency intended to review the procedures and to assess the compliance of supervisory practices applied by the BNB with the Basel Core Principles for Effective Banking Supervision. The assessment was based on the BNB preliminary self-assessment on compliance with the Core Principles and provided dataset and materials.

XI. Statistics

The BNB collects, compiles, and publishes statistical information under Article 42 of the Law on the Bulgarian National Bank and Article 5 of the Statute of the ESCB and the ECB. Alongside implementing the 2009 amendments to Council Regulation (EC) No 2533/98 concerning the collection of statistical information by the ECB, the Bank provides through the ECB statistics to the European Systemic Risk Board (ESRB). The BNB continued to provide reliable and sound statistical information.

In the first six months of 2015 the BNB continued its work on introducing the new European System of Accounts (ESA 2010)[88] and other new international statistical standards.

In the context of monetary and interest rate statistics, the Bank continued to regularly collect and disseminate MFI balance sheet data and information on interest rates applied by MFIs to deposits and loans *vis-à-vis* households and non-financial corporations and on the long-term interest rate for assessing the degree of convergence. As scheduled, the BNB continued to provide timely information for the purposes of ECB and IMF publications. In line with additional statistical information user requirements and ESA 2010 implementation, preparations for extended methodological guidelines and reporting forms in monetary and interest rate statistics, and statistics of investment funds and financial vehicle corporations engaged in securitisation transactions continued over the review period. These guidelines are governed by Regulation (EU) No 1071/2013 concerning the balance sheet of the monetary financial institutions sector, Regulation (EU) No 1072/2013 concerning statistics on interest rates applied by monetary financial institutions, Regulation (EU) No 1073/2013 concerning statistics on the assets and liabilities of investment funds and Regulation (EU) 1075/2013 concerning the assets and liabilities of financial vehicle corporations engaged in securitisation transactions.

Between January and June 2015 the BNB continued to gather and publish statistics on non-bank financial institutions, including insurance statistics. The BNB started reporting this statistics on a regular basis, including quarterly historical data for March 2008 – March 2015. At the same time, preparatory work began for updating and expanding methodological guidelines in line with Regulation (EU) No 1374/2014 on statistical reporting requirements for insurance corporations.

Work on data control and qualitative information maintenance in the Register of Institutions and Affiliates Database (RIAD) continued over the period. Under the ECB project for extended and comprehensive information contained in RIAD and Guideline of the European Central Bank of 4 April 2014 on monetary and financial statistics (ECB/2014/15), the BNB started to gather and maintain more detailed information on the lists of MFIs, special purpose vehicle corporations, investment funds, payment service providers and payment system operators.

Between January and June 2015 work continued on implementation of the sixth edition of the Balance of Payments Manual. The Manual introduces changes in definitions and presentation of balance sheet items and international investment position. Since April the BNB has started to publish monthly data on the balance of payments and since June quarterly figures on the international investment position compiled under the sixth edition. Requirements of Ordinance No 27 on the Balance of Payments Sta-

[88] Regulation (EU) No 549/2013 of the European Parliament and of the of the Council on the European system of national and regional accounts in the European Union (ESA 2010).

tistics, International Investment Position and Securities Statistics came into force in the second quarter to change the scope, type and timeliness of information.

Over the first half year work continued on the ESCB Centralised Securities Database project and on compiling a Bulgarian securities database. The BNB as a member of the ESCB continued to actively participate in the Securities Holdings Statistics project, which is important for both compiling other statistics and financial stability analysis.

In the context of compilation of quarterly financial accounts, the BNB provides the ECB with information under the ESA 2010 requirements. The BNB compiles and disseminates quarterly general government financial accounts under Regulation (EC) No 501/2004 of the European Parliament and of the Council and data for the government finance statistics in compliance with ECB requirements.[89]

As a coordinator of the Special Data Dissemination Standard (SDDS) for Bulgaria, the BNB participates jointly with the MF and the NSI in data updates and dissemination, as well as in metadata certification in line with IMF requirements. Progress was made in preparations with the MF and NSI for Bulgaria's accession to the new Special Data Dissemination Standard Plus (SDDS Plus).

In compliance with the requirements of the IMF, Eurostat and BIS in the area of macroeconomic statistics, the BNB continued providing information on a regular basis.

Work advanced on the development of an integrated statistical information system to automate the control, processing and dissemination of statistical information and ensure its greater reliability and higher quality. Over 5400 external users were registered in the portal for electronic submission of statistical information as part of the system. The electronic submission of statistical reporting forms and declarations under BNB Ordinance No 27 created additional conditions for reducing the burden of reporting units.

Work continued on improving and developing the Information System on Monetary Statistics, subject to an *ex ante* control over the electronic monetary and interest rate statistical information in compliance with ECB requirements for its quality and consistency.

[89] Guideline of the ECB of 25 July 2013 on government finance statistics (ECB/2013/23).

XII. Research

Economic research, Bulgarian economic analyses, and macroeconomic forecasts prepared by BNB experts support the Bank's management in making decisions and formulating economic policy. In the first half of 2015 research focused on the factors behind domestic price dynamics, the relationship between inflation and cyclical position of the economy, the research of the labour market, the modelling of various aspects of the banking system and analysis and assessment of the effects of some proposals for structural reforms, as well as the development of macroeconomic forecasting models.

Specialised research under the 2015 to 2016 BNB Research Plan supported the Bank's operations by analysing individual economic processes and issues and improving forecasting and modelling tools. In the first half of 2015 the implementation of 2015 Research Plan addressed the labour expenses setting mechanisms in non-financial corporations and the relations between inflation, potential growth and structural unemployment. Testing and honing the basic model for BNB macroeconometric forecasting continued. Research results under the Research Plan were presented in technical reports and at seminars organised by the BNB for experts from relevant bodies, academia and non-governmental organisations.

Through its Discussion Papers research series, in the first half of 2015 the BNB continued to encourage the research potential of Bulgarian economic science and practice in macroeconomics and finance. The Discussion Papers Editorial Board reviewed four submissions, approving one for publication.

The BNB quarterly Economic Review presents short-term Bulgarian economic forecasts, analyses of the balance of payments flows dynamics, monetary aggregates, and their effect on price stability in the real economy. External developments directly affecting the Bulgarian economy were also analysed. The Review contains quantitative assessments of short-run developments in major macroeconomic indicators like inflation, growth, exports, imports, trade balance, and the balance of payments current account.

XIII. Information Systems

In the first half of 2015 BNB information systems developed in the following areas:

- maintaining stability of information systems integrity and prevention of downtime in users' work caused by suspension or problems in the systems;
- developing application systems at the BNB;
- developing, updating and maintaining the Bank's communication and information infrastructure;
- local application of the ECB/ESCB projects;
- developing and updating information security strategies and procedures.

The BNB IT centre provides effective information services to Bank employees, banking and financial community and on ESCB projects by accepting and processing requests about incidents and problems, analysing and diagnosing the reasons thereof. Over the review period IT functions involved job creation, change and closure in all structural units and partners at the BNB premises, as well as access to provided services and elimination of problems. In addition, specialised software and hardware products were delivered.

Maintaining stability of information systems integrity and prevention of downtime in users' work caused by suspension or problems in the systems remained the major tasks over the review period. Financial information, legal information and other systems were kept up to date and available. The IT staff ensured smooth functioning of RINGS, servicing lev payments in Bulgaria; of the Bulgarian component of TARGET2 – TARGET2-BNB for payments in euro and of related Swift Alliance services and products. New statements for the operation of RINGS and TARGET2-BNB were developed. Tests for the new TARGET2 version were prepared: computer workstations, updates to TARGET2 data applications and statements and statistical reports. Work continued on the project of modernising and reorganising the RINGS communication infrastructure.

Another important aspect involved developing BNB application systems by expanding further their scope and improving functionality, ensuring business continuity and data conservation, optimising system architecture and links between them. The project of the Single Data Depository/Banking Supervision Reports was completed, with an additional functionality for the new supervisory reporting forms being developed. The manner of file registration, change and management was improved, and an updated application was launched and already used by financial institutions and BNB users.

Under the project on development and subscription service of the Integrated Automated Statistical Information System, work finished on the sub-systems for compilation of the balance of payments and international investment position, for data processing of portfolio investment and related income, foreign direct investment and the register of institutional units. The integrated system on financial markets, minimum required reserves and Reserve Collateral Pool continued to be developed.

A new technical support contract for TurboSwift which will help BNB electronic international settlements through SWIFT in both levs and foreign currency was successfully completed.

The project on migration of the new SOFI hardware (Accounting and Financial Reporting System) to new versions of the operating system and data base were completed in line with joint BNB and MF instructions No 12 of 2014 to finalise the launch of the

Internet banking system for budget entities serviced by the BNB. A new project began to launch a functionality in SOFI which is related to replacement of bank cards whose period of validity has expired with contactless cards and their service at POS terminals located in BNB buildings.

Bank's communication and information infrastructure development and obsolete equipment decommissioning continued over the period under review.

XIV. Human Resources Management

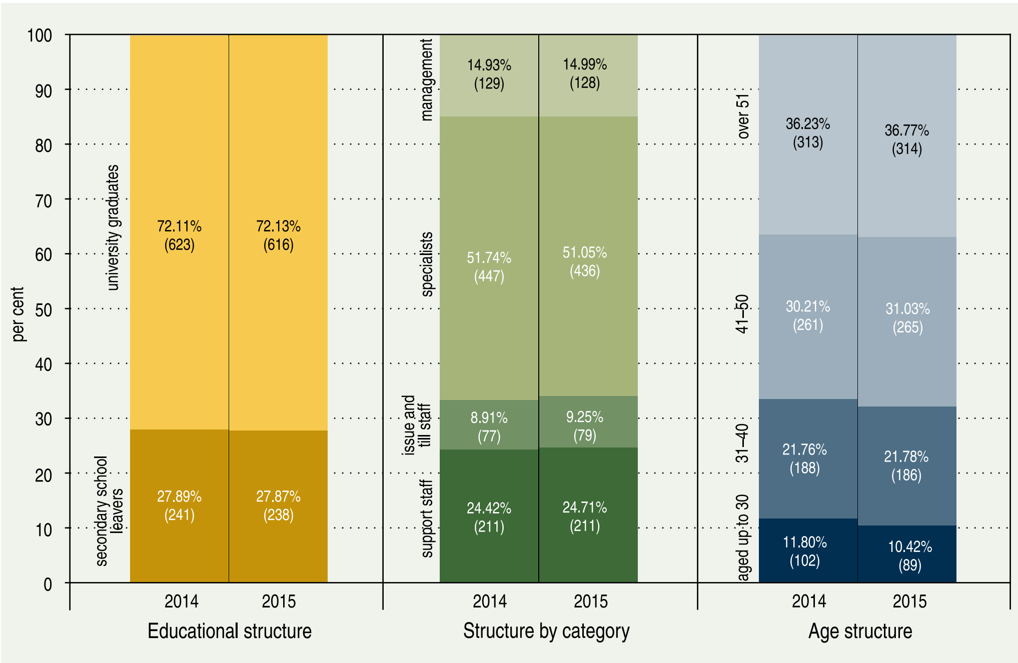
In the first half of 2015 major priorities for BNB human resource management focused on boosting staff performance efficiency through training and career development, maintaining and developing analytical and administrative capacity to a level compliant with the high Bank's standards, ensuring a sociable environment, and promoting health and safety at work. Pay continued to reflect performance and each employee's contribution to the attainment of banks targets.

At the end of June the BNB had 854 employees against 864 a year earlier against the background of comparatively low staff turnover. Thirty employees left in the first half of 2015 (against 36 in the corresponding period of prior year), of which 10 due to retirement (against 13 in the corresponding period of 2014). In the first half of 2015, as in the first six months of 2014, 28 new employees were appointed in the BNB.

There were no major changes in staff education and qualification structure. The share of university graduates (72 per cent) was sustained. By 30 June 2015 (as in the first six months of 2014) 19 BNB employees read for doctor's degrees. No changes occurred in staff categories as well. Specialists held the largest share at 51.05 per cent, followed by support staff and management.

Staff Structure as of 30 June

(per cent, number)



Source: BNB.

The share of employees aged up to 30 continued to decrease (by 1.4 percentage points on the corresponding period of 2014). The number of employees in other three age groups remained almost unchanged.

Staff allocation by gender remained unchanged as compared with the corresponding period of 2014, women accounting for 64 per cent of total number of employees and men 36 per cent.

The Bank promoted different forms of mobility to boost skills and professional qualifications and promote exchange of experience across different business areas. Between January and June 2015, 14 employees changed structural units (13 employees in the first half of 2014). Six BNB employees took on short-term appointments (four at the end of June 2014) at the ECB, ESCB' national central banks and EU structures.

Employees enjoyed plentiful opportunities to improve professional qualifications. An annual schedule enabled them to take a variety of national and international training and qualification improvement programmes, distant learning, language and information technology courses and vocational training.

Induction training developed further appropriate means for familiarising new employees with the bank's corporate culture, topical tasks and challenges to the BNB, internal rules, and general administrative procedures. Over the review period two induction sessions involved 23 new employees.

Fifteen employees boosted their educational attainments at different universities without discontinuing work: six reading for doctors', four for masters', and five for bachelors' degrees.

Thirteen employees took part in distant training programmes on reserve management, internal audit and information security.

Employees from various structural units attended specialised courses on, *inter alia*, banking and financial law, protection of classified information, administrative procedures, labour and social security legislation, health and safety at work, public tendering procedures, and audit practices.

The BNB continued its cooperation with the central banks of a number of European countries and with international institutions offering specialised professional training courses in different areas of importance for central banks and supervisory institutions. Employees of the Bank took part in seminars, training courses, and workshops on ESCB committees and working groups and European supervisory authorities. Employees who attended courses, seminars, and conferences abroad numbered 122.

Fifteen employees attended courses in English and German in the first half of 2015. The purpose is attaining minimum levels of proficiency to tight job descriptions, acquiring higher levels of specialised language and business vocabulary and communication skills. Courses in English drew most interest.

Information technology training focused on providing new and updating existing skills with many standard and specialised software and systems. Bank's employees took part also in specialised training to improve key competence analysing business processes in information technologies.

As a responsible institution with positive attitude towards the education and professional development of young persons, the Bank continued providing career opportunities and encouraging research and sound academic knowledge. The annual scholarship programme still enjoyed great interest. In early 2015 following a contest the BNB awarded one masters' degree scholarship. In March the bank took part in the National Career Days, a student training and career forum, where various BNB career development programmes were promoted: internship, scholarship, and guest-researcher programmes, and staff recruitment procedures. In the beginning of June the internship programme started with seven students participating in the first month.

XV. Facilities Management

The BNB mainly operates from owned premises and properties. This provides the degree of independence, security and protection required of an institution of national importance.

In the first half of 2015 property management expenditure was in line with the BNB budget approved for 2015. It included construction, refurbishment and modernisation, deliveries and equipment, repair works, maintenance of technical facilities, leasing and property insurance contracts, machinery, facilities and motor vehicles which are property of the BNB.

Over the first six months of 2015 no properties of the BNB were acquired or disposed.

XVI. BNB Internal Audit

Five audits under the Annual Internal Audit Programme approved by the BNB Governing Council and two audits under the ESCB Internal Auditors Committee Programme were conducted between January and June 2015.

These audits were aimed at obtaining reasonable assurance of adequate and effective control, corporate governance and risk management in order to ensure:

- effective achievement of objectives and tasks;
- reliable and sufficient financial and operational information;
- effectiveness and efficiency of operations and programmes;
- safeguarding the assets;
- compliance with laws, regulations and internal acts, policies, procedures and contracts.

Audits Conducted under the Annual Internal Audit Programme

BNB Functions	Conducted audits
Internal services	Bank security and protection. Protection of classified information
Supervision and financial stability	Supervisory policy
Supervision and financial stability	Credit Institutions supervision
Banknotes and coins	Supplying and retrieving cash in the BNB Cash Centre and Bank's cash centres in Sofia, Plovdiv, Varna, Pleven and Burgas
Follow-up inspections	Follow-up on recommendations from earlier audits under the BNB Internal Audit Programme

Source: BNB.

Two audits under the ESCB Internal Auditors Committee Programme were conducted between January and June 2015, with the first involving the statistics function and the second focusing on follow-up on recommendations from earlier audits in the BNB structural units.

In the first half of 2015 the BNB Chief Auditor organised and coordinated Internal Audit Unit work with external auditors KPMG Bulgaria.

Internal auditors continued to issue opinions on draft internal statutory acts regulating major activities of the BNB and its subsidiaries. According to the plan approved by the BNB Operational Risk Management Committee for 2015, the Mega GRC operational risk management system began to be implemented. In 2015 operational risks are projected to be assessed *via* the new system.

XVII. BNB Budget Implementation in the First Half of 2015

The Governing Council adopted the 2015 BNB budget by Resolution No 154 of 27 November 2014. Under the Internal Rules on Drafting, Implementing, and Reporting the BNB Budget, this report has sections on Operating Expenditure and the Investment Programme.

I. Operational Expenditure

In the first six months of 2015 the BNB spent BGN 34,581,000, or 37.1 per cent of its budgeted figure for 2015.

Currency circulation cost BGN 4,270,000 or 20.0 per cent of annual budget and 12.3 per cent of total operating expenditure. Over the review period, the Bank spent no monies on printing new banknotes. Their production postponed for the second half of 2015. New coins cost BGN 4,057,000, including BGN 4,008,000 for circulating coins. Commemorative coins cost BGN 49,000 in line with the BNB Governing Council's programme. The design of new banknotes and coins cost BGN 2000. Spending on machines for servicing circulating cash came to BGN 46,000 and that on consumables for banknote and coin processing reached BGN 84,000. Renting premises at the Cash Services Company and the State Mint cost BGN 81,000.

Materials, services, and depreciation cost BGN 16,065,000 or 38.7 per cent of the annual budget under this item and 46.5 per cent of operating expenditure in the first half of 2015. The Bank spent BGN 373,000 on materials. Vehicle fleet fuel and spares (BGN 163,000) occupied the largest share in this group. The Bank spent BGN 100,000 on office consumables. Expenditure on hired services was BGN 8,510,000. Significant items were software maintenance subscriptions at BGN 1,497,000, Bloomberg, Reuters, internet and other systems at BGN 494,000, mandatory TARGET2 modules at BGN 484,000, and BORICA–Bankservice subscriptions at BGN 282,000. Software maintenance subscriptions amounted to BGN 970,000. Property and refuse collection levies were BGN 861,000. Mail, telephone and telex expenditure came to BGN 379,000 in line with the trend towards improving and updating the BNB voice services. Electric bills were BGN 573,000 and heating and water BGN 161,000. In the first half of 2015 property insurance expenses came to BGN 51,000. The Bank spent BGN 1,129,000 on security and fire protection. Major building maintenance cost BGN 1,092,000 in the reporting period. Consultancy services amounted to BGN 150,000. The Bank used consultancy services associated with the conduct of a national survey on public perceptions of social and economic development in Bulgaria, financial institutions and the role of the BNB, translation of supervisory documentation in English, improvement of professional skills of the security staff and of access control, legal services, and running the Banking and Financial History Research and Publications Programme Council.

Over the first six months of 2015, depreciation expenditure amounted to BGN 7,182,000.

Payroll, social, and healthcare spending was BGN 11,081,000 or 47.6 of budget and 32.0 per cent of Bank's total operating expenditure. The Bank reported BGN 1,448,000 of current retirement obligations and unused paid leave under IAS 19, Income of Hired Persons.

Social expenditure was BGN 1,617,000 or 71.7 per cent of budget and 4.7 per cent of operating expenditure.

Miscellaneous administrative costs were BGN 557,000 or 25.3 per cent of budget and 1.6 per cent of BNB total operating expenditure. Inland travel worth BGN 29,000 involved mainly regional cash centre logistics and checks. Foreign travel unrelated to the ESCB and other EU bodies cost BGN 130,000.

The annual BNB Staff Education and Professional Training Programme cost BGN 254,000. BNB employees took part in various distance learning programmes, professional courses and seminars organised by EU central banks and international financial institutions. BNB representatives actively participated in specialised training in the EU institutions and bodies.

The Bank's representative and protocol expenses were BGN 134,000, the part spent to host the meeting of the IMF group and the World Bank group of organisations of which Bulgaria is a member.

The BNB spent BGN 991,000, or 38.5 per cent of the annual budget under this item and 2.9 per cent of all operating expenditure on BNB participation in the ESCB. BNB representatives took part in ESCB committees and working groups and other EU bodies, with travel accounting for BGN 363,000 and training for BGN 28,000. The annual fee for European Banking Authority membership was BGN 598,000.

II. The Investment Programme

The BNB spent BGN 3,109,000 on its Investment Programme, or 14.8 per cent of the annual budgeted funds.

Investment programme involved public tendering, contractor selection and project implementation. In the first half-year some of the procurement procedures were not finalised and other were completed by the end of the review period and their implementation has not yet started. There were projects postponed for the second half year which contributed to the lower rate of used budgeted funds on the investment programme.

Machine and equipment, vehicle, and other equipment investment came to BGN 156,000, or 5.7 per cent of approved funds and 5 per cent of total investment for the review period. Over the period BGN 129,000 was spent on supply and installation of air-conditioners at the BNB building.

Funds invested in information systems totalled BGN 2,952,000, or 22.1 per cent of projected funds and 95.0 per cent of total investment expenses for the review period. Funds went mostly into keeping the BNB information and communication technology infrastructure modern. Hardware cost BGN 1,433,000 spent mainly on computer and communications equipment associated with updating and expanding the existing systems, as well as their back up. Software spending of BGN 1,519,000 was on licence purchases (BGN 980,000) and functionality expansion for existing systems (BGN 539,000).

BNB Budget Implementation as of 30 June 2015

Indicator	Report 30 June 2015 (BGN'000)	Budget 2015 (BGN'000)	Implementation (per cent)
Section I. Operating expenditure	**34 581**	**93 137**	**37.1**
Currency circulation	4 270	21 358	20.0
Materials, services, and depreciation expenditure	16 065	41 472	38.7
Staff expenditure	11 081	23 276	47.6
Social expenditure	1 617	2 254	71.7
Other administrative expenditure	557	2 204	25.3
ESCB membership	991	2 573	38.5
Section II. Investment Programme	**3 109**	**21 027**	**14.8**
Construction, refurbishment, and modernisation	1	4 741	0.0
Machines, vehicles, and other equipment	156	2 716	5.7
Information technology	2 952	13 374	22.1
ESCB membership	0	196	0.0

Source: BNB.

XVIII. Bulgarian National Bank Consolidated Financial Statements as of 30 June 2015 (unaudited)

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Statement of Responsibilities of the Governing Council of the Bulgarian National Bank

The Law on the Bulgarian National Bank requires the Governing Council to prepare financial statements to present the Bank's financial position and performance for the period.

The financial statements of the Bulgarian National Bank approved by the Governing Council are prepared in accordance with the International Financial Reporting Standards adopted by the European Commission.

The Governing Council of the Bulgarian National Bank is responsible for maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Bulgarian National Bank. It has overall responsibility for taking such steps so as to safeguard the assets of the Bulgarian National Bank and to prevent or detect fraud and other irregularities.

Dimitar Radev

Governor of the BNB

Consolidated Statement of Comprehensive Income for the Period Ended 30 June 2015 (unaudited)

(BGN'000)

	Note	30 June 2015	30 June 2014
Interest income	7	201,911	199,338
Interest expenses	7	(2,754)	(889)
Net interest income		**199,157**	**198,449**
Fee and commission income		4,871	5,235
Fee and commission expenses		(2,352)	(2,014)
Net fee and commission income		**2,519**	**3,221**
Net gains/(losses) from financial assets and liabilities at fair value through profit or loss	8	(112,050)	147,333
Other operating income	9	24,865	24,956
Total income from banking operations		**114,491**	**373,959**
Administrative expenses	10	(45,930)	(51,158)
Profit/(loss) for the period		**68,561**	**322,801**
Other comprehensive income			
Other comprehensive income		(3,880)	(41)
Other comprehensive income, total		**(3,880)**	**(41)**
Total comprehensive income for the period		**64,681**	**322,760**
Profit attributable to:			
Equity holder of the Bank		68,471	322,697
Non-controlling interest		90	104
Profit/(loss) for the period		**68,561**	**322,801**
Total comprehensive income attributable to:			
Equity holder of the Bank		64,591	322,656
Non-controlling interest		90	104
Total comprehensive income for the period		**64,681**	**322,760**

The accompanying notes on pages 91 to 116 form an integral part of the Consolidated Financial Statements.

Consolidated Statement of Financial Position as of 30 June 2015 (unaudited)

(BGN'000)

	Note	30 June 2015	31 December 2014
ASSETS			
Cash and deposits in foreign currencies	11	9,333,868	6,537,102
Gold, instruments in gold and other precious metals	12	2,693,356	2,495,289
Financial assets at fair value through profit or loss	13	25,524,870	23,260,551
Financial assets available for sale	14	1,629,388	1,546,949
Tangible assets	15	174,075	179,588
Intangible assets	16	4,069	3,491
Other assets	17	104,773	91,775
Total assets		**39,464,399**	**34,114,745**
LIABILITIES			
Banknotes and coins in circulation	18	11,229,238	11,586,943
Due to banks and other financial institutions	19	10,307,483	8,125,056
Liabilities to government institutions and other liabilities	20	10,528,271	7,027,509
Borrowings against Bulgaria's participation in international financial institutions	21	2,991,960	2,835,018
Other liabilities	22	40,950	189,839
Total liabilities		**35,097,902**	**29,764,365**
EQUITY			
Capital	23	20,000	20,000
Reserves	23	4,341,987	4,325,960
Non-controlling interest	24	4,510	4,420
Total equity		**4,366,497**	**4,350,380**
Total liabilities and equity		**39,464,399**	**34,114,745**

The accompanying notes on pages 91 to 116 form an integral part of the Consolidated Financial Statements.

Consolidated Statement of Cash Flows for the Period Ended 30 June 2015 (unaudited)

(BGN'000)

	Note	30 June 2015	30 June 2014
OPERATING ACTIVITIES			
Net profit		68,561	322,801
Adjustments:			
Dividend income		(10,165)	(6,994)
Depreciation and amortisation	15, 16	9,065	9,617
Loss on disposal of tangible assets		12	44
(Profit)/loss on financial assets and liabilities arising from market movements		56,538	(275,727)
(Profit) of associates		-	-
Other adjustments		(3,880)	(15)
Net cash flow from operating activities before changes in operating assets and liabilities		**120,131**	**49,726**
Change in operating assets			
(Increase) in gold, instruments in gold and other precious metals		(3,081)	(2,430)
Decrease/(increase) in financial assets at fair value through profit or loss		(2,441,340)	88,930
(Increase) in other assets		(10,914)	(10,913)
Change in operating liabilities			
Increase/(decrease) in currency in circulation		(357,705)	278,689
Increase /(decrease) in due to banks and other financial institutions		2,182,427	186,623
(Decrease) in due to government institutions and other liabilities		3,500,762	(870,063)
Increase in borrowings from IMF of total allocation of SDR		-	-
(Decrease) in other liabilities		(148,889)	(66,338)
Net cash flow (used in)/from operating activities		**2,841,391**	**(345,776)**
INVESTING ACTIVITIES			
Acquisition of tangible and intangible assets		(4,142)	(1,346)
Dividends received		10,165	6,994
Other investments		-	43
Net cash flow (used in) investing activities		**6,023**	**5,691**
FINANCING ACTIVITIES			
Payments to the government		(48,564)	(62,300)
Net cash flow (used in) financing activities		**(48,564)**	**(62,300)**
Net (decrease)/ increase in cash and cash equivalents		**2,798,850**	**(402,385)**
Cash and cash equivalents at beginning of period		**6,605,981**	**6,368,240**
Cash and cash equivalents at end of period	11, 17	**9,404,831**	**5,965,855**

The accompanying notes on pages 91 to 116 form an integral part of the Consolidated Financial Statements.

Consolidated Statement of Changes in Equity for the Period Ended 30 June 2015 (unaudited)

(BGN'000)

Source of changes in equity	Capital	Revaluation of non-monetary assets	Special and other reserves	Total capital and reserves	Non-controlling interest	Total equity
Balance as of 1 January 2014	**20,000**	**133,609**	**3,723,454**	**3,877,063**	**4,240**	**3,881,303**
Profit/(Loss) for the period	-	-	322,697	322,697	104	**322,801**
Other comprehensive income:						
- other income	-	(40)	-	(40)	-	**(40)**
Other comprehensive income, total	-	(40)	-	(40)	-	**(40)**
Total comprehensive income for the period	-	(40)	322,697	322,657	104	**322,761**
Contributions by and distributions to owners:						
- contribution to the budget of the Republic of Bulgaria	-	-	(62,300)	(62,300)	-	**(62,300)**
Transactions with owners, total	-	-	(62,300)	(62,300)	-	**(62,300)**
Balance as of 30 June 2014	**20,000**	**133,569**	**3,983,851**	**4,137,420**	**4,344**	**4,141,764**
Balance as of 1 January 2015	**20,000**	**134,979**	**4,190,981**	**4,345,960**	**4,420**	**4,350,380**
Profit for the period	-	-	68,471	68,471	90	**68,561**
Other comprehensive income:						
- other income	-	(5)	(3,875)	(3,880)	-	**(3,880)**
Other comprehensive income, total	-	(5)	(3,875)	(3,880)	-	**(3,880)**
Total comprehensive income for the period	-	(5)	64,596	64,591	90	**64,681**
Contributions by and distributions to owners:						
- contribution to the budget of the Republic of Bulgaria	-	-	(48,564)	(48,564)	-	**(48,564)**
Transactions with owners, total	-	-	(48,564)	(48,564)	-	**(48,564)**
Balance as of 30 June 2015	**20,000**	**134,974**	**4,207,013**	**4,361,987**	**4,510**	**4,366,497**

The accompanying notes on pages 91 to 116 form an integral part of the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

1. Statute and Principal Activities

The Bulgarian National Bank (the 'Bank') is 100 per cent owned by the Bulgarian state and is the central bank of the Republic of Bulgaria. The operation of the Bank is governed by the Law on the Bulgarian National Bank (LBNB), which has been effective since 10 June 1997.

Under this Law, the principal activities of the Bank may be summarised as:

- Maintaining price stability through ensuring national currency stability;
- Exclusive right to issue banknotes and coins;
- Regulation and supervision of other banks' activities in the country with a view to banking system stability maintenance;
- Establishment and operation of efficient payment systems;
- Regulation and supervision of the activity of payment system operators, payment institutions and electronic money institutions in the country;
- The Bank shall not extend credit and guarantees in any form whatsoever, including thought purchase of debt instruments, to the Council of Ministers, municipalities, as well as to other government and municipal institutions, organizations and enterprises;
- The Bank may not provide credit to banks except in the case of liquidity risk threatening to affect the stability of the banking system;
- The Bank may not deal in Bulgarian government securities;
- The Bank may not issue Bulgarian levs in excess of the Bulgarian lev equivalent of the gross international reserves;
- The Bank shall acts as the fiscal agent and depository for the State.

The Governing Council of the BNB approved the Consolidated Financial Statements, set out on pages 85 to 116, on 26 November 2015.

2. Applicable Standards

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Commission.

3. Basis of Preparation

The consolidated financial statements are presented in Bulgarian lev rounded to the nearest thousand (BGN'000), which is the functional currency of the Bank. They are prepared on a historical cost basis, except for the following items, which are measured on an alternative basis as at each reporting date:

Items	Measurement basis
Derivative financial instruments	Fair value
Non-derivative financial instruments at fair value through profit or loss	Fair value
Available-for-sale financial assets	Fair value
Tangible non-current assets	Revalued amount, which is the asset's fair value at the revaluation date less subsequent depreciation and impairment loss
Defined benefit liability	Present value of the defined benefit liability

Use of estimates and judgements

In preparing these Consolidated Financial Statements, the Bank has made judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, incomes and expenses, and the disclosure of contingent receivables and payables as at the Financial Statements date. These estimates, judgements and assumptions are based on data available as at the date of the Consolidated Financial Statements; therefore actual future results may differ from these estimates.

The estimates and main assumptions are revised on an ongoing basis and are recognised prospectively.

Judgements

The Bank has estimated and classified cash in circulation as a financial liability (See Note No 18).

Assumptions and estimation uncertainties

Measurements of the present value of long-term obligations to retiring staff (following a defined benefit plan) use certified actuarial calculations based on mortality assumptions, rate of staff turnover, future level of salaries and discount factor, which assumptions may lead to adjustments in the next financial year; management however considers them to be reasonable and appropriate for the Bank. (Appendix 10).

Some of the Bank's accounting policies and disclosures require fair value measurements of financial and non-financial assets and liabilities. For information on fair value measurements see Note 6(e) and Note 15.

The Bank has adopted the following new standards and amendments to standards, including all resulting amendments to other standards, with a date of initial application 1 January 2014:

- IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements', IFRS 12 'Disclosure of Interests in Other Entities';
- Amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities';
- Amendments to IAS 36 'Recoverable Amount Disclosures for Non-Financial Assets';
- Amendments to IAS 39 'Financial Instruments: Recognition and Measurement', called 'Novation of Derivatives and Continuation of Hedge Accounting':
- IFRIC Interpretation 21 'Levies'

(i) Amendments to IFRS 10, IFRS 11 and IAS 12

The Bank has changed its accounting policy for determining whether it has control over the entities in which it has invested and their consolidation respectively. The changes introduce a new model of control, which focuses on whether the Bank has rights over an entity, exposure or the right to variable return from its participation, and whether it is able to use these rights to influence return. These changes have no material effect on the Bank's financial statements.

(ii) Amendments to IAS 32

These amendments have no effect on the financial statements since the Bank does not apply offsetting to its financial assets and financial liabilities, and has no global offsetting agreements.

(iii) Amendments to IAS 36

These amendments have no effect on the level of disclosure in the financial statements.

(iv) Amendments to IAS 39

These amendments have no effect on the level of disclosure in the financial statements.

(v) IFRIC Interpretation 21 'Levies'.

These amendments have no effect on the level of disclosure in the financial statements.

4. Basis of Consolidation

Subsidiaries

Subsidiaries are the entities controlled by the Bank. Control over an entity exists when the Bank is exposed to or has rights over the variable return from its participation in that entity, and is able to influence that return through its powers. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The share in the net assets of the Bank's subsidiaries, which corresponds to the minority shareholders' proportionate share, is disclosed separately from Capital and Reserves under the Non-controlling Interest item.

Associated companies

Associates are those entities in which the Bank has significant influence, but which are neither subsidiary enterprise nor joint venture. Investments in associates are accounted for in the Bank's Consolidated Financial Statements using the equity method as an amount corresponding to the Bank's share in the associates' own funds as of the end of the reporting period. The Bank's share of associates' net results subsequent to acquisition is disclosed in 'profit or loss' as investment income/expenses and is added to/subtracted from the carrying value of the investment.

Transactions eliminated on consolidation

All receivables and payables, incomes and expenses, as well as intragroup profits, resulting from inter-company transactions within the group, are eliminated, except where these are immaterial.

5. Significant Accounting Policies

(a) Income recognition

Interest income and expense are recognised in the 'profit or loss' using the effective interest rate method. The effective interest rate is the rate which precisely discounts the estimated future cash payments and income over the term of the financial asset or liability to the carrying amount of the asset or liability. The effective interest rate is determined on the initial recognition of the financial asset or liability and does not change thereafter.

The calculation of the effective interest rate includes all transaction costs and fees and points that are integral part of the effective interest rate. Transaction costs include incremental costs directly attributable to the acquisition, issue or derecognition of a financial asset or liability.

Interest income and expense presented in the statement of profit or loss include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest on available-for-sale investment securities calculated on an effective interest basis;

Dividend income is recognised in profit or loss when the Bank establishes the right to receive income. Foreign currency differences arising from available-for-sale investments are recognised in profit or loss.

Net gains/losses from financial assets and liabilities at fair value through profit or loss includes net gains from operations in securities, net gains from operations in foreign currency, net revaluation gains on securities, net gains from gold revaluation, net gains from revaluation of futures, and net gains from revaluation of assets and liabilities denominated in foreign currencies.

(b) Financial instruments

(i) Classification

For the purposes of measuring financial instruments subsequent to initial recognition, the Bank classifies the financial instruments into four categories:

Financial instruments at fair value through profit or loss are those that the Bank holds primarily for the purpose of short-term profit. These include investments that are not designated for any particular purpose and effective hedging instruments and liabilities from short-term sales of financial instruments. Net receivables under derivatives held for trading (positive fair value), as well as options purchased, if any, are reported as trading assets. All net liabilities under derivatives for trading (negative fair value), as well as options written, if any, are reported as trading liabilities.

Loans and receivables are instruments issued by the Bank through providing money to a debtor other than those created with the intention of short-term profit taking.

Held-to-maturity financial assets are assets with fixed or determinable payments and fixed maturity that the Bank has the intent and ability to hold to maturity.

Available-for-sale financial assets are all assets that cannot be classified in any other category and are classified as available for sale, as well as those financial assets designated as available for sale at initial recognition.

(ii) Recognition

The Bank recognises trading financial assets and investments, the Bank's loans and receivables, and financial liabilities at amortised cost on the date at which they are originated. All other financial assets and financial liabilities are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument. From that moment on, any changes in their fair value are recognised by the Bank as income or expense.

Financial instruments are initially measured at fair value, and for those financial instruments which are not recognised at fair value through profit or loss the amount recognised includes directly attributable acquisition costs.

(iii) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured upon the initial recognition, minus principal repayments, plus or minus cumulative amortisation using an effective interest rate for the difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(iv) Fair value measurement and disclosure principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market and, if no such market is available, then in the most advantageous and accessible market on the measurement date. The fair value of a liability reflects the effect of non-performance risk.

Whenever possible, the Bank measures the fair value of an instrument using quoted prices in an active market of that instrument. A market is considered as active if quoted prices are regularly published and easily accessible and represent actual and direct market transactions on an arm's length basis.

If no quoted price in an active market is available, the Bank uses the most relevant observable inputs and makes minimum use of unobservable data. The aim of using a valuation technique is to estimate the price that would be obtained in an orderly transaction between market participants. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in determining a price, and is consistent with accepted economic methodologies for pricing financial instruments.

Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, *i.e.*, the fair value of the consideration given or received. When the Bank finds a difference between the fair value at initial recognition and the transaction price, and the fair value is neither evidenced by quoted price in an active market for identical assets or liabilities nor based on a valuation technique based only on data from observable markets, then the financial instrument is initially recognised at fair value adjusted with the difference between the fair value at initial recognition and the transaction price. This difference is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

The Bank recognises assets and long positions at a bid price and liabilities and short positions at an ask price when assets or liabilities measured at fair value have a bid and an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

Where the Bank has positions with offsetting risks, mid-market prices are used to measure them and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank entity and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(v) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to the receipt of the contractual cash flows from the financial asset in the transaction in which substantially all risks and rewards of ownership of the financial asset are transferred. Any holding in transferred financial assets, which has been originated or kept by the Bank, is recognised as a separate asset or liability.

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

The Bank enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or the substantial risks and rewards of the transferred assets or a part of them. If a part of or all substantial risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of a part of or all substantial risks and rewards are, for instance, securities lending or repurchase agreements.

In transactions where the Bank neither retains nor transfers all substantial risks and rewards of ownership of a financial asset, it derecognises the asset if it does not retain the control of that asset. The rights and obligations retained in the transfer are recognised separately as assets and as liabilities respectively. In transactions where control of the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which the Bank is exposed to changes in the value of the transferred asset.

In certain transactions the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

(vi) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, the Bank has a legal right to offset the recognised amounts and intends to settle the asset or the liability on a net basis.

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Bank's trading operations.

(vii) Impairment of assets

Financial assets which are not carried at fair value through profit or loss are reviewed at each reporting date to determine whether there is evidence of impairment. Financial assets are impaired if there is objective evidence of impairment as a result of a loss event that occurred after the initial recognition of the asset and that the loss event had an impact on the future cash flows which can be reliably estimated.

Objective evidence of impairment loss from financial assets, including equity instruments, is a default or a borrower's inability to repay his obligations, restructuring of loans under unfavourable financial conditions for the Bank, indications that a borrower or the issuer of a financial instrument would go out of business, the disappearance of an active security market, or other public information. Furthermore, in case of a continuous or significant fall in the market value of an investment in equity instruments there is objective evidence of impairment of these equity instruments.

The Bank considers the need of impairment of loans or investments held to maturity at both individual and group level. All individually significant loans and investments held to maturity are evaluated for specific impairment. All individually significant loans and investments held to maturity on which no specific impairment losses have been charged are evaluated on a portfolio basis. Loans and held-to-maturity investments that are not individually significant are collectively assessed for impairment by grouping together loans and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Bank uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses from assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows discounted by the original effective interest rate of the asset. Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised through unwinding of the discount. When a subsequent event reduces impairment loss, the reduction in the impairment loss is reversed through profit and loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. If, in a subsequent period, the fair value of an impaired debt security available for sale increases and the increase can be objectively linked to an event that occurred after the impairment loss had been recognised in profit and loss, then the impairment loss is reversed and the reversed amount is recognised in profit and loss. However, any subsequent recovery in the fair value of an impaired equity instrument available for sale is directly recognised in other comprehensive income.

(viii) Financial assets/liabilities held for trading

Financial assets at fair value through profit or loss include instruments which the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed as a whole with the purpose of short-term profit.

Initially financial assets and liabilities for trading are recognised at fair value in the statement of financial position and transaction costs recognised in profit or loss. All changes in the fair value are recognised as net income from trading operations in profit or loss.

(ix) Investments

(1) Held-to-maturity investments

Held-to-maturity financial assets are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the intent and ability to hold to maturity, are not designated at fair value through the profit or loss, and are not available for sale financial assets.

Held to maturity investments are carried at amortised cost on the basis of an effective interest rate method. In case of sale or reclassification of more than an insignificant part of the assets held to maturity that are not falling due in the immediate future, there should be a reclassification of the entire portfolio of investments held to maturity in the group of available for sale investments. As a result of this reclassification, the Bank may not classify investments as held to maturity in the current year and the following two years.

(2) Financial assets available for sale

Available-for-sale investments are non-derivative assets that cannot be classified in any other category of financial assets. Equity investments not quoted in the market and whose fair value cannot be reliably measured are carried at cost. All other available-for-sale assets are carried at fair value.

Differences in the fair value are recognised directly in equity until the investment is sold or fully impaired when the cumulative gains and losses recognised in equity are recognised in profit or loss.

(c) Gold and other precious metals

The BNB as a central bank maintains particular volumes of gold as part of Bulgaria's international reserves. In compliance with the requirements of the Law on the BNB, the Bank may take any necessary action in connection with the acquisition, possession and sale of gross international reserves, including monetary gold. Consequently, monetary gold as part of international reserves may be immediately used by the BNB without further constraints which determines it as a monetary asset. Pursuant to the requirements of the 'General provisions for defining the valuation basis in the financial statements' to the IFRS, the Bank defines the recognition and valuation of the monetary gold as an asset reported at fair value through profit or loss as the most reliable and appropriate base for a subsequent valuation of this financial asset.

Gold and other precious metals are measured at market value based on the London Bullion Market fixing in euro at the reporting date.

(d) Equity investments

For the purposes of measuring the equity investments subsequent to initial recognition, they are classified as available-for-sale financial assets and are measured at fair value.

Details of investments held by the Bank are set out in note 14.

(e) Property, plant, equipment and intangible assets

The Bank presents land, buildings and other groups of fixed tangible assets in the statements of financial position at revalued amount as per the alternative approach allowed in IAS 16 'Property, Plant and Equipment'. The intangible assets are measured in the statement of the financial position at cost, less accumulated depreciation, and impairment losses.

Land and buildings are measured at fair value which is regularly assessed by professionally qualified valuers. The revaluation of property is done asset by asset, and any accumulated depreciation at the revaluation date is derecognised against the gross carrying amount of the asset, and the net amount restated to the revalued amount of the asset. When the value of assets increases as a result of revaluation, the increase is reflected directly in other comprehensive income. When the value of assets decreases as a result of revaluation, the decrease is recognised by decreasing the revaluation reserve in equity, and in case of a shortage, the difference is recognised as an expense in the statement of comprehensive income.

1) Subsequent costs

The separately accounted for costs incurred to replace a component of an item of property, plant and equipment are capitalised. All other subsequent costs are capitalised only when future economic benefits embodied in the item of property, plant and equipment will flow to the Bank. All other costs are recognised in 'profit or loss' as incurred.

2) Depreciation

Depreciation is provided on a straight-line basis at prescribed rates designed to write down the cost of the revalued amount of property, plant, equipment and intangible assets over their estimated useful lives. Land is not depreciated. The annual depreciation rates used are, as follows:

(per cent)

Buildings	2–4
Plant & equipment	3–15
Computers	30–33.3
Fixtures and fittings	15–20
Motor vehicles	8–25
Intangible fixed assets	20–25

Expenditures incurred for the acquisition of property, plant, equipment and intangible assets are not depreciated until they are brought into use.

3) Calculation of recoverable amount of assets

The recoverable amount of the Bank's fixed assets is the higher of the net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using the Bank's incremental borrowing rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

4) Reversals of impairment

Impairment losses of tangible fixed assets are reversed when a change occurs in the estimates used to determine the recoverable amount and may be reversed only up to that carrying amount of the asset before recognising impairment losses.

(f) Foreign exchange

Gains and losses arising in foreign currencies are translated to BGN at the official rates of exchange on the transaction date. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the official exchange rate of the Bank on that day. Foreign currency gains and losses resulting from the revaluation of monetary assets and liabilities are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currency are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Outstanding forward contracts in foreign currency are marked to market. The gains and losses on revaluation of outstanding forward contacts are recognised in profit or loss.

The exchange rates of the major foreign currencies as of 30 June 2015 and 31 December 2014 are, as follows:

Currency	30 June 2015	31 December 2014
US dollars	1 : BGN 1.74799	1 : BGN 1.60841
Euro	1 : BGN 1.95583	1 : BGN 1.95583
Special Drawing Rights	1 : BGN 2.45836	1 : BGN 2.32959
Gold	1 troy ounce : BGN 2059.51	1 troy ounce : BGN 1909.95

(g) Taxation

The Bank is not subject to income tax from its core activities. Income tax from subsidiaries for the period comprises current tax and deferred tax. Current tax comprises tax payable calculated on the basis of the expected taxable income for the period, using the effective tax rate or the current one at the reporting date. Deferred tax is derived using the balance sheet liability method on all temporary differences between the amounts used for taxation purposes and the carrying amounts of assets and liabilities.

The deferred tax is calculated using tax rates which are expected to be applied for the period of asset realisation or liability settlement. The effect on the deferred tax from changes in the tax rates is recorded in the statement of comprehensive income up to the amount already charged or reported directly as other comprehensive income.

A deferred tax asset is recognised to the extent that is probable that future taxable profits will be available against which the unused tax losses or tax credit can be utilised. The deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(h) Profit distribution policy of the Bank

The Bank's policy of distribution of profit from banking operations is defined in the Law on the BNB. Internal rules for preparation of financial statements and accounting policies were adopted upon a decision of the Governing Council effective from 1 January 2007, which are in compliance with Article 36, paragraphs 1 and 2 of the Law on the BNB. According to these rules, the Bank allocates to special reserves unrealised net gains and losses arising from revaluation of assets and liabilities denominated in foreign currency or gold. According to the requirements of Article 8, paragraph 2 of the Law on the BNB, the Bank sets aside 25 per cent of the excess of its annual revenue over its annual expenditure into a Reserve Fund. According to Article 8, paragraph 3 of the Law on the BNB, after the allocation to the Reserve Fund, the Bank may allocate reserves to cover market risk losses and other reserves upon a decision of the Governing Council. Subsequent to the allocation of reserves as required by the Law on the BNB, the Bank stipulates the remainder to be paid into the State Budget. The distribution of excess of revenue over expenditure is set out in note 23.

(i) Cash in hand and deposits in foreign currency

Cash and cash equivalents consist of cash in hand, current accounts and time deposits with maturities of less than three months.

(j) Employee benefits

The Bank has the obligation to pay certain amounts to each employee who retires in accordance with the requirements of Article 222, § 3 of the Labour Code in Bulgaria. According to these Labour Code requirements, on termination of the employment contract of an employee who has become entitled to retirement, the employer is obliged to pay him/her compensation amounting to twice his/her gross monthly salary. If, at the date of retirement, the employee has been employed by the Bank for ten or more years, the amount of the compensation is six gross monthly salaries. As at the date of the statement of financial position, the Bank's Management estimates the approximate amount of the potential expenditures for all employees based on an actuarial report using the projected unit credit method. The estimated amount of the obligation and the main assumptions, on the base of which the estimation of the obligation has been made, is disclosed to the Financial Statements in note 10.

Termination benefits

Termination benefits are recognised as an expense when the Bank is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Bank has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank has a present constructive obligation to pay this amount as a result of past services provided by the employee, and the obligation can be estimated reliably. The Bank recognises as a liability the undiscounted amount of the estimated costs related to annual leave expected to be paid in exchange for the employee's service for the period completed.

(k) New IFRS and interpretations (IFRIC) not yet adopted as at the reporting date

A number of new standards, amendments to standards and interpretations endorsed for adoption by the European Commission may be adopted earlier – for the year ended 31 December 2014. These amendments to IFRS were not adopted when preparing these Consolidated Financial Statements and the Bank does not intend to apply them earlier.

Standards, interpretations and amendments to standards that have not been early adopted – endorsed by the EC:

- Annual improvements to IFRS 2010–2012 and 2011–2013 cycles. The improvements include eleven amendments to nine standards and subsequent amendments to other standards and interpretations. None of these amendments can be expected to have a substantial effect on the Bank's financial statements.

Standards, interpretations and amendments to standards, issued by the IAS Board and the IFRS Interpretations Committee which so far the European Commission has not endorsed for adoption

Management believes that it is appropriate to disclose that the following new or revised standards, new interpretations and amendments to existing standards, already issued by the International Accounting Standards Board (IASB) as at the reporting date, are not yet endorsed for adoption by the European Commission and therefore were not applied in preparing these Financial Statements. The actual effective dates for their adoption will depend on the endorsement decision by the EC.

- IFRS 9 'Financial Instruments' (issued on 24 July 2014);
- IFRS 14 'Regulatory Deferral Accounts' (issued on 30 January 2014);
- IFRS 15 'Revenue from Contracts with Customers' (issued on 28 May 2014);
- Amendments to IFRS 10 'Consolidated Financial Statements', IFRS 12 'Disclosure of Interests in Other Entities' and IAS 28: 'Investment Companies: Applying the Consolidation Exception' (issued on 18 December 2014);
- Amendments to IAS 1 'Disclosure Initiative' (issued on 24 July 2014);
- Annual improvements to IFRS 2012 – 2014 Cycle (issued on 25 September 2014);
- Amendments to IFRS 10 and IAS 28: 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture' (issued on 11 September 2014);
- Amendments to IAS 27 – 'Equity Method in Separate Financial Statements' (issued on 12 August 2014);
- Amendments to IAS 16 and IAS 38 – 'Clarification of Acceptable Methods of Depreciation and Amortisation' (issued on 12 May 2014);
- Amendments to IFRS 11 – 'Accounting for Acquisitions of Interests in Joint Operations' (issued on 6 May 2014).

6. Financial Risk Management Policy Disclosure

(a) Introduction and overview

The Bank is exposed to the following types of risk in relation to the operations in financial instruments:

- credit risk;
- liquidity risk;
- market risk;
- operational risk.

This note provides information on the Bank's goals, exposures to each of the above types of risk and the policies and processes for risk measurement and management.

General provisions of risk management

In the process of management of the gross international reserves, the Bank aims to achieve high security and liquidity of the assets, first, and then to maximise returns in the situation of the current global financial markets. Its investment strategy depends mainly on the specific function of a central bank operating under a currency board arrangement and in full compliance with the requirements of the Law on the BNB.

The major portion of BNB's international reserves is invested in assets of very low credit risk, such as discount and coupon securities issued by highly rated issuers (governments, government agencies or supranational financial institutions), and short-term foreign currency or gold deposits placed with first-rate foreign banks. The remaining portion is held in SDRs and in monetary gold kept in the Bank's vaults.

The risks of international reserve management are handled by an independent risk management unit. It is directly responsible for strategic asset structuring and setting up the benchmark for the international reserves, preparing and submitting investment management limits for approval. On a quarterly basis, an overall review is made of the changes in the market conditions, the amount and structure of international reserves, and if required, the investment limits and model portfolios (benchmarks) are updated. The monitoring of underlying limits, rules, and procedures is undertaken on a daily basis. Reports are regularly prepared both for the needs of international reserves operating management, and for providing updated information to the Bank's management.

All approved financial instruments and asset classes, in which the BNB may invest, are specified in internal documents. The documents define the main portfolios and the respective model portfolios (benchmarks), all limits for credit, interest rate, currency and operational risks, and give a list of the foreign financial institutions which are counterparties of the Bank.

The international reserves management is governed by rules of behaviour and procedures regulating the performance of the functions and tasks of the main structural units involved in the process.

(b) Credit risk

The BNB is exposed to credit risk through its trading operations and investment activities and in cases where it acts as an intermediary on behalf of the government or other public institutions. The Bank assumes credit risk also in operations of purchases and sales of foreign currency with banks. In general, this credit risk is associated with the probability of insolvency of a BNB's counterparty or the insolvency of an issuer, in whose debt instruments the Bank has invested its own funds. The credit risk in managing BNB's gross international reserves is assessed in line with the requirements in Article 28, paragraph 3 of the Law on the BNB. According to these requirements, the BNB may invest in debt instruments issued by foreign governments, central banks, other foreign financial institutions or international financial organisations whose debts are rated with one of the top two grades by two internationally recognised credit rating agencies and are payable in freely convertible currency in line with internally developed methodology as per the requirements of Article 28 of the LBNB.

According to these requirements, the approved types of financial instruments for investment of funds in managing the international reserves are, as follows:

- Investment programmes with central banks;
- Automatic borrowings/lending of securities with the main depository;
- Deposits in foreign currency (time deposits and funds on current accounts) with BNB counterparties, including central banks or supranational financial institutions;
- Deposits in gold (time deposits and funds on current accounts) with BNB counterparties, including central banks or supranational financial institutions;
- Commercial securities (of up to one year term to maturity), issued by governments or government guaranteed institutions, supranational financial institutions, specialised financial agencies, banks, and other financial institutions – issuers of European covered bonds;
- Bonds issued by governments or government guaranteed institutions, supranational financial institutions, specialised financial agencies, banks and other financial institutions – issuers of covered bonds. All bonds must be with a one-off payment of their face value on the maturity date and without any embedded option;
- Purchases and sales of foreign currency with a value date of up to two business days.

Two basic types of limits are set which are calculated based on the market value of foreign currency reserves – 1) a maximum or minimum limit on the weight of each asset class, and 2) an individual maximum acceptable exposure of the BNB to an issuer/counterparty (a concentration limit).

(c) Liquidity risk

Liquidity risk arises in the funding of the Bank's core activities and in the management of positions. It is primarily manifested in two aspects: the first aspect is the risk for the Bank of being unable to meet its obligations when due and the second aspect comprises the risk of its being unable to sell an asset on international markets at a fair value within an appropriate timeframe in compliance with the respective market conventions.

The BNB is striving to maintain a balance between the maturity of attracted funds and that of assets by means of investments in financial instruments of a different maturity structure. The instruments for attracting funds, which are provided to customers on the liability side, are primarily deposit/investment accounts and settlement accounts. The Bank maintains a minimum level of liquidity by type of currency on a daily basis to ensure all BNB payments in foreign currency. To better manage the risk arising from liquidation of positions in financial instruments, the latter are grouped by liquidity rank subject to the level of difficulty (*i.e.* a discount from the fair value), at which they could be sold on the market in time of crisis. Limits are set for the different types of financial instruments based on the liquidity ranks.

As part of its overall liquidity risk management strategy, the Bank has defined requirements for the management of a portfolio of liquid assets denominated in euro and for maintaining assets denominated in other currencies for the purposes of meeting its cash inflows and outflows.

The Bank's financial assets and liabilities, analysed by residual term to maturity from the date of the statement of financial position to the date of any subsequent agreement or contractual maturity, are, as follows:

(BGN'000)

	Up to 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Undefined maturity	Total
As of 30 June 2015							
Financial assets							
Cash and deposits in foreign currencies	7,529,408	1,088,994	715,466	-	-	-	9,333,868
Gold, instruments in gold, and other precious metals	346,244	1,253,740	-	-	-	1,093,372	2,693,356
Financial assets at fair value through profit or loss	1,782,205	1,667,475	5,293,843	13,246,919	3,534,428	-	25,524,870
Financial assets available for sale	83,833	-	-	-	-	1,545,555	1,629,388
Other assets	16,565	26,428	27,943	-	-	-	70,936
Total financial assets	**9,758,255**	**4,036,637**	**6,037,252**	**13,246,919**	**3,534,428**	**2,638,927**	**39,252,418**
Financial liabilities							
Banknotes and coins in circulation	-	-	-	-	-	11,229,238	11,229,238
Due to banks and other financial institutions	10,307,483	-	-	-	-	-	10,307,483
Liabilities to government institutions and other borrowings	10,440,329	-	87,942	-	-	-	10,528,271
Borrowings against Bulgaria's participation in international financial institutions	-	-	-	-	-	2,991,960	2,991,960
Total financial liabilities	**20,747,812**	**-**	**87,942**	**-**	**-**	**14,221,198**	**35,056,952**
Asset–liability maturity mismatch	**(10,989,557)**	**4,036,637**	**5,949,310**	**13,246,919**	**3,534,428**	**(11,582,271)**	**4,195,466**
As of 31 December 2014							
Financial assets							
Cash and deposits in foreign currencies	5,859,646	677,456	-	-	-	-	6,537,102
Gold, instruments in gold, and other precious metals	1,326,862	154,126	-	-	-	1,014,301	2,495,289
Financial assets at fair value through profit or loss	343,600	1,085,789	6,785,520	10,821,858	4,223,784	-	23,260,551
Financial assets available for sale	79,442	-	-	-	-	1,467,507	1,546,949
Other assets	17,479	7,020	44,347	-	-	-	68,846
Total financial assets	**7,627,029**	**1,924,391**	**6,829,867**	**10,821,858**	**4,223,784**	**2,481,808**	**33,908,737**
Financial liabilities							
Banknotes and coins in circulation	-	-	-	-	-	11,586,943	11,586,943
Due to banks and other financial institutions	8,125,056	-	-	-	-	-	8,125,056
Liabilities to government institutions and other borrowings	7,005,995	21,514	-	-	-	-	7,027,509
Borrowings against Bulgaria's participation in international financial institutions	-	-	-	-	-	2,835,018	2,835,018
Total financial liabilities	**15,131,051**	**21,514**	**-**	**-**	**-**	**14,421,961**	**29,574,526**
Asset–liability maturity mismatch	**(7,504,022)**	**1,902,877**	**6,829,867**	**10,821,858**	**4,223,784**	**(11,940,153)**	**4,334,211**

The outstanding contractual maturities of the Bank's financial liabilities are, as follows:

(BGN'000)

	Book value	Gross nominal outgoing cash flow	Up to 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years
As of 30 June 2015							
Banknotes and coins in circulation	11,229,238	11,229,238	-	-	-	-	11,229,238
Due to banks and other financial institutions	10,307,483	10,307,483	10,307,483	-	-	-	-
Liabilities to government institutions and other borrowings	10,528,271	10,528,325	10,440,329	-	87,996	-	-
Borrowings against Bulgaria's participation in international financial institutions	2,991,960	2,991,960	-	-	-	-	2,991,960
	35,056,952	**35,057,006**	**20,747,812**	**-**	**87,996**		**14,221,198**
As of 31 December 2014							
Banknotes and coins in circulation	11,586,943	11,586,943	-	-	-	-	11,586,943
Due to banks and other financial institutions	8,125,056	8,125,056	8,125,056	-	-	-	-
Liabilities to government institutions and other borrowings	7,027,509	7,027,509	7,005,995	21,514	-	-	-
Borrowings against Bulgaria's participation in international financial institutions	2,835,018	2,835,018	-	-	-	-	2,835,018
	29,574,526	**29,574,526**	**15,131,051**	**21,514**	**-**	**-**	**14,421,961**

(d) Market risk

Market risk

All financial instruments are subject to market risk, *i.e.* the risk of impairment as a result of changes in the market conditions. The instruments are evaluated on a daily basis at fair market value which best reflects current market conditions for the respective type of financial instrument. The Bank manages its portfolios in response to changing market conditions and to changes in the liability structure of Issue Department balance sheet. Market risk exposure is managed in accordance with the risk limits specified in the document *Investment Limits for the Management of the Gross International Reserves*.

The table below presents one important measure of market risk, *i.e.* Value at Risk (VaR). VaR is an indicator of the maximum loss over a certain period of time (holding period) and with a certain probability (called a confidence level or confidence interval). The VaR used in this report is based on a 95 per cent confidence level and a one-day holding period.

For the calculation of the total risk, the currency risk and the interest rate risk, the empiric distributions have been used, derived from time series of 30 daily observations of total income, currency income and interest income of assets, respectively. The correlation between the currency and interest rate risk is also presented. For each of the parameters, the value as of the last date for the period, average for the whole period, as well as the minimum and maximum values have been calculated.

(BGN'000)

	As of 30 June 2015	Average	Maximum	Minimum
Currency risk	(45,880)	(43,997)	(72,846)	(15,159)
Interest rate risk	(50,101)	(23,361)	(47,317)	(6,903)
Correlation (per cent)	0.58	0.37	0.62	(0.08)
Overall risk	**(91,273)**	**(63,777)**	**(91,441)**	**(23,358)**

	As of 31 December 2014	Average	Maximum	Minimum
Currency risk	(32,964)	(23,933)	(41,506)	(7,465)
Interest rate risk	(7,720)	(4,003)	(9,196)	(1,400)
Correlation (per cent)	0.07	0.24	0.65	(0.29)
Overall risk	**(35,797)**	**(25,542)**	**(46,563)**	**(10,154)**

Interest rate risk

The Bank's operations are subject to the risk of interest rate fluctuations, which impacts the prices of interest-earning assets (including investments) and interest-bearing liabilities. The Bank uses modified duration as a key measurement for interest rate risk. Modified duration measures the effect of the change in the market value of an asset (liability) in percentage points in response to a 1 basis point (1/100th of 1 per cent) change in the interest rate levels. In addition, portfolios' technical parameters, such as protuberance (convexity), duration in a fixed point of the yield curve, *etc*. are monitored on a daily basis. For each portfolio held by the BNB, the interest rate is limited by a model portfolio (benchmark) and by the investment limits for a maximum deviation of the modified duration of the portfolio from that of the respective benchmark.

Assets and liabilities with floating interest rates involve the risk of changes in the base which serves to determine the interest rates.

(BGN'000)

	Total	Floating rate instruments	Fixed rate instruments		
			Up to 1 month	From 1 month to 3 months	Over 3 months
As of 30 June 2015					
Interest-earning assets					
Cash and deposits in foreign currencies	9,079,949	1,895,992	5,379,644	1,088,870	715,443
Gold, instruments in gold and other precious metals	1,599,367	-	346,025	1,253,342	-
Financial assets at fair value through profit or loss	25,538,000	166,038	1,777,111	1,594,386	22,000,465
Financial assets available for sale	83,833	-	83,833	-	-
Other interest-earning assets	70,936	6,793	9,772	27,428	26,943
Total	**36,372,085**	**2,068,823**	**7,596,385**	**3,964,026**	**22,742,851**
Interest-bearing liabilities					
Due to banks and other financial institutions	10,307,483	-	10,307,483	-	-
Liabilities to government institutions and other borrowings	2,621,938	-	2,534,000	-	87,938
Borrowings against Bulgaria's participation in international financial institutions	1,501,752	1,501,752	-	-	-
Total	**14,431,173**	**1,501,752**	**12,841,483**	**-**	**87,938**
Interest-bearing asset/liability gap	**21,940,912**	**567,071**	**(5,245,098)**	**3,964,026**	**22,654,913**
As of 31 December 2014					
Interest-earning assets					
Cash and deposits in foreign currencies	6,249,030	1,460,338	4,111,449	677,243	-
Gold, instruments in gold and other precious metals	1,480,491	-	1,326,414	154,077	-
Financial assets at fair value through profit or loss	23,219,611	254,542	301,811	1,035,786	21,627,472
Financial assets available for sale	79,442	-	79,442	-	-
Other interest-earning assets	68,846	7,585	9,894	7,020	44,347
Total	**31,097,420**	**1,722,465**	**5,829,010**	**1,874,126**	**21,671,819**
Interest-bearing liabilities					
Due to banks and other financial institutions	8,125,056	-	8,125,056	-	-
Liabilities to government institutions and other borrowings	2,465,514	-	2,444,000	21,514	-
Borrowings against Bulgaria's participation in international financial institutions	1,423,090	1,423,090	-	-	-
Total	**12,013,660**	**1,423,090**	**10,569,056**	**21,514**	**-**
Interest-bearing asset/liability gap	**19,083,760**	**299,375**	**(4,740,046)**	**1,852,612**	**21,671,819**

For managing interest rate risk and the band of interest rate changes, the sensitivity of financial assets and liabilities to various standard and non-standard interest rate movement scenarios are monitored.

The standard scenarios include the following changes in yield curves: 1) a 100 basis points instant and parallel increase; 2) a 100 basis points instant and parallel decrease; 3) a 50 basis points parallel increase in the yield curves for a period of 12 months, and 4) a 50 basis points parallel decrease in the yield curves also for a period of 12 months.

The second two scenarios assume that the change in yields takes place at the beginning of the period, and over the one-year period the yield curve remains unchanged.

The analysis of the sensitivity of the Bank's assets (to first approximation) to changes in interest rates, assuming a constant spread of assets and liabilities and parallel shifts in the yield curves of the relevant assets, is as follows:

(BGN'000)

	100 b.p. instant parallel increase	100 b.p parallel decrease	50 b.p. parallel increase in the beginning of the period	50 b.p. parallel decrease in the beginning of the period
As of 30 June 2015	(654,642)	654,642	(164,705)	165,954
As of 31 December 2014	(617,726)	617,726	(137,085)	200,398

Currency risk

For the Bank, a currency risk exists where there is a mismatch between the currency structure of assets and that of liabilities. From an accounting point of view, the Bank is exposed to currency risk when entering into transactions in financial instruments denominated in foreign currencies other than the euro.

With the introduction of the currency board arrangement in Bulgaria and the fixing of the Bulgarian currency to the euro, the Bank's financial statements, prepared in Bulgarian levs, are affected by movements in the exchange rate of the lev against the currencies other than the euro.

To minimise currency risk, there is a limit to the mismatches between the currency structure of assets and that of liabilities. According to Article 31, paragraph 3 of the Law on the BNB, the total market value of assets in a foreign currency other than the euro, SDR and monetary gold, may not deviate by more than +/-2 per cent from the market value of the liabilities denominated in these currencies.

(BGN'000)

	30 June 2015	31 December 2014
Assets		
Bulgarian lev and euro	33,536,142	26,780,917
US dollar	169,122	1,930,093
Japanese yen	46	36
Pound sterling	256	547
SDR	3,100,755	2,939,576
Gold	2,656,601	2,460,874
Other	1,477	2,702
	39,464,399	34,114,745
Liabilities, capital and reserves		
Bulgarian lev and euro	36,298,384	29,344,688
US dollar	168,698	1,929,707
Japanese yen	-	-
Pound sterling	62	320
SDR	2,993,437	2,836,639
Other	3,818	3,391
	39,464,399	34,114,745
Net position		
Bulgarian lev and euro	(2,762,242)	(2,563,771)
US dollar	424	386
Japanese yen	46	36
Pound sterling	194	227
SDR	107,318	102,937
Gold	2,656,601	2,460,874
Other	(2,341)	(689)

(e) Using accounting judgements and assumptions

The Governing Council discusses the development, selection and disclosure of critical accounting policies and assumptions, as well as their application.

These disclosures supplement the notes to the financial risk management.

The Bank is operating in a complicated global economic and financial environment which also affects the Bulgarian market and could have negative implications for the Bank's performance and risk. Management has already taken measures, and its major priorities in the next few years will still be to keep the Bank's stable liquidity position and the continuous improvement in its evaluation methods, international reserves quality control and management.

(i) Determination of fair values

The determination of fair values of financial assets and liabilities for which there is no observable market price requires the use of valuation techniques described in the accounting policy. For financial instruments that trade infrequently and whose price is not transparent, the fair value is less objective and requires an expert's judgement depending on liquidity, concentration, market factors uncertainty, pricing assumptions, and other risks affecting the particular instrument.

(ii) Valuation of financial instruments

The Bank measures the fair value of financial instruments using the following hierarchy of methods:

- Level 1: Quoted market price or closing price for positions for which there is a reliable market;
- Level 2: Valuation techniques based on observable market information about the yield curve. This category of methods is used to measure debt securities for which there is no reliable market;
- Level 3: Valuation techniques, where inputs on financial assets and liabilities are not based on observable market data.

The fair values of financial assets and liabilities traded in international financial markets for which there is available market information are based on market quotations or closing market prices. The use of observable market prices and information reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. The availability of actual market prices and information varies depending on products and markets and changes because of specific events and the general conditions of financial markets. The Bank determines the fair values of all other financial instruments for which there are no current market quotes by using a valuation technique based on a net present value. The net present value is computed by means of market yield curves and credit spreads, where necessary, for the relevant instrument. The purpose of the valuation techniques is to determine a fair value which reflects the price of the financial instrument on the reporting date.

The Bank has established a control framework with respect to the measurement of fair values. The fair values of financial instruments controls are set by an independent risk analysis and control unit. Specific controls include: checking the actual price information; regular reviews of current valuation models and, if necessary, development, approval and introduction of new valuation models; follow-up verification by means of analysis and comparison of data from various information sources, *etc*.

The table below analyses financial instruments reported at fair value using valuation models. The data does not include equity instruments reported at acquisition cost (Note 14).

(BGN'000)

	Level 1 Market quotes in active markets	**Level 2** Valuation techniques using market data	Total
30 June 2015			
Cash and deposits in foreign currency	9,333,868	-	9,333,868
Gold, instruments in gold and other precious metals	2,693,356	-	2,693,356
Financial assets at fair value through profit or loss	24,409,867	1,115,003	25,524,870
Total	**36,437,091**	**1,115,003**	**37,552,094**
31 December 2014			
Cash and deposits in foreign currency	6,537,102	-	6,537,102
Gold, instruments in gold and other precious metals	2,495,289	-	2,495,289
Financial assets at fair value through profit or loss	20,928,166	2,332,385	23,260,551
Total	**29,960,557**	**2,332,385**	**32,292,942**

Financial instruments not measured at fair value, but by applying a level of the fair value hierarchy where a fair value measurement is categorised, are analysed in the table below:

(BGN'000)

	Level 1 Market quotes in active markets	**Level 2** Observable inputs other than quoted prices	Total
30 June 2015			
Due to banks and other financial institutions	-	10,307,483	10,307,483
Liabilities to government institutions and other borrowings	-	10,528,271	10,528,271
Borrowings against Bulgaria's participation in international financial institutions	-	2,991,960	2,991,960
Total	**-**	**23,827,714**	**23,827,714**
31 December 2014			
Due to banks and other financial institutions	-	8,125,056	8,125,056
Liabilities to government institutions and other borrowings	-	7,027,509	7,027,509
Borrowings against Bulgaria's participation in international financial institutions	-	2,835,018	2,835,018
Total	**-**	**17,987,583**	**17,987,583**

The fair value of due to banks and other financial institutions and of liabilities to government institutions is approximately equal to the reporting value as they are short-term.

The fair value of the liabilities for participation in international financial institutions is approximately equal to their reporting value as they are interest-free and of no definite maturity.

7. Interest Income and Expenses

(BGN'000)

	30 June 2015	30 June 2014
Interest income		
– securities	196,958	193,761
– deposits	4,952	5,574
– other	1	3
	201,911	199,338
Interest expenses		
– deposits	2,747	889
– other	7	-
	2,754	889

As at 30 June 2015, there are no interest expenses paid on deposits of the government or other organisations denominated in lev or foreign currency.

Interest expenses paid on deposits include interest paid of BGN 1936 thousand on deposits with foreign correspondent banks as a result of using negative reference interest rates.

In addition BGN 104 thousand interest paid on the technical account of the national system component TARGET2-BNB at the ECB are included. As at the reporting period, the Governing Council of the European Central Bank had set a negative Eurosystem deposit facility rate, with effect from 10 September 2014.

8. Net Profit/(Losses) from Financial Assets and Liabilities at Fair Value through Profit or Loss

(BGN'000)

	30 June 2015	30 June 2014
Net (losses) from operations in securities	(209,751)	(138,548)
Net gains from operations in foreign currency	198	122
Net revaluation (losses)/gains on futures	(220)	(261)
Net revaluation (losses)/gains on securities	(101,601)	61,046
Net revaluation gains on foreign currency assets and liabilities	4,338	937
Net revaluation gains on gold	194,986	224,037
	(112,050)	147,333

Net losses from financial assets and liabilities carried at fair value through profit or loss as at 30 June 2015 are largely attributable to the net loss of BGN 209,751 thousand from security transactions. The main factor behind that result is the lower market yield compared to the coupon yield on securities, as a result of which they are sold at a premium above their face value. During the reporting period, the market yield on the securities, in which the BNB invests, declined by 5 to 8 basis points, in the short-term maturity sectors, but increased by 22 to 50 basis points across issuers in the long-term maturity sectors, with the net effect resulting in a decrease in their prices and in their negative revaluation of BGN 101,601 thousand.

The net gains from gold revaluation of BGN 194,986 thousand resulted from the increase in the price of gold. The market price of gold determined on the basis of the London Bullion Market fixing in euro picked up by 7.83 per cent from BGN 1909.95 *per* troy ounce as at 31 December 2014 to BGN 2059.51 as at 30 June 2015.

9. Other Operating Income

(BGN'000)

	30 June 2015	30 June 2014
Income from subsidiaries	12,951	17,013
Income from associated companies	-	-
Income from sale of coins	240	321
Dividend income	10,165	6,994
Other income, net	1,509	628
	24,865	24,956

Dividend income includes dividends from BNB's participation in BIS Basle amounting to BGN 4,425 thousand, from BNB's participation in BORICA-Bankservice of BGN 2,039 thousand, from BNB's participation in the Printing Works of the BNB Corp. amounting to BGN 3,521 thousand and from BNB's participation in the Cash Services Company AD amounting to BGN 180 thousand .

The other net incomes include financial incomes from subsidiaries of BGN 768 thousand, incomes from reallocated remuneration from the ECB in relation to TARGET2 of BGN 432 thousand, income from the sales of scrap from Bulgarian coins – BGN 132 thousand, rental income of BGN 127 thousand, and other incomes of BGN 50 thousand.

10. Total Administrative Expenses

(BGN'000)

	30 June 2015	30 June 2014
Personnel costs	15,868	18,245
Administrative expenses	18,835	20,712
Depreciation	9,065	9,617
Other expenses	2,162	2,584
	45,930	51,158

Personnel costs include salaries, social and health insurance costs charged under the local legislation provisions as of 30 June 2015, and social activities costs, respectively for the BNB: BGN 12,698 thousand, for the Printing Works of the BNB Corp.: BGN 1,887 thousand, and for the Bulgarian Mint EAD BGN 1,283 thousand.

The number of employees of the Bank and its subsidiaries is 1,144 as of 30 June 2015 (30 June 2014 – 1,167), including the BNB staff of 854 as of 30 June 2015 (30 June 2014 – 864).

Based on actuarial calculations, the Bank has accrued compensation liabilities for personnel on retirement and for unused paid annual leave at BGN 1,448 thousand (30 June 2014 – BGN 1,344 thousand). The retirement and unused paid annual leave compensation for the Bank's subsidiaries as of 30 June 2015 are BGN 59 thousand (30 June 2014: BGN 65 thousand).

Staff retirement liabilities calculated based on actuarial valuation and pursuant to IAS 19 'Employee Benefits' are given below:

(BGN'000)

	30 June 2015	31 December 2014
Defined benefit liabilities as at 1 January	**2,178**	**2,136**
Plan benefits paid	(154)	(204)
Current service costs	97	214
Interest costs	23	66
Re-measurements	-	-
Actuarial (gain)/loss arising from experience adjustment	-	-
Actuarial (gain)/loss arising from change in demographic assumptions	14	109
Actuarial (gain)/loss arising from change in financial assumptions	196	(143)
Defined benefit liabilities as at 30 June	**2,354**	**2,178**

Costs carried through profit and loss

(BGN'000)

	30 June 2015	31 December 2014
Current service costs	117	214
Interest costs	25	66
Actuarial (gains) losses	-	(3)
Total	**142**	**277**

Actuarial Assumptions

The key actuarial assumptions as at the Financial Statements date are the following (weighted average):

(per cent)

	30 June 2015	31 December 2014
Discount interest rate as at 30 June	1.36	3.29
Future salary growth	3.5	3.5

Administrative expenses include the BNB's currency circulation expenses of BGN 4,270 thousand as of 30 June 2015 (30 June 2014: BGN 4,058 thousand).

11. Cash and Deposits in Foreign Currencies

(BGN'000)

	30 June 2015	31 December 2014
Cash in foreign currencies	253,552	287,495
Current accounts in other banks	1,892,403	1,456,067
Deposits in foreign currencies	7,187,913	4,793,540
	9,333,868	6,537,102

Cash and deposits in foreign currencies with correspondents are disclosed as follows:

(BGN'000)

	30 June 2015	31 December 2014
Euro area residents		
In EUR	4,167,248	683,840
In other currencies	101,211	691,640
	4,268,459	1,375,480
Non-euro area residents		
In EUR	3,492,229	2,500,019
In other currencies	1,573,180	2,661,603
	5,065,409	5,161,622
	9,333,868	6,537,102

12. Gold, Instruments in Gold, and Other Precious Metals

	30 June 2015		31 December 2014	
	'000 troy ounces	BGN'000	'000 troy ounces	BGN'000
Gold bullion in standard form	513	1,056,617	513	979,886
Gold deposits in standard form	777	1,599,984	775	1,480,988
Gold in other form	16	33,149	16	30,787
Other precious metals		3,606		3,628
		2,693,356		2,495,289

Gold in standard form includes gold held for safekeeping with a depository and deposits. Deposits in gold are held with banks whose liabilities are rated with one of the two highest ratings given by two internationally recognised rating agencies and bear interest between 0.18 per cent and 0.85 per cent annually.

Gold in other form includes commemorative gold coins of BGN 27,982 thousand.

Other precious metals include silver commemorative coins of BGN 552 thousand and platinum commemorative coins of BGN 3,054 thousand.

13. Financial Assets at Fair Value through Profit or Loss

(BGN'000)

Securities at fair value through profit or loss	30 June 2015	31 December 2014
Foreign treasury bills, notes and bonds	25,524,870	23,260,551
	25,524,870	23,260,551

Securities comprise both coupon and discount securities denominated in euro. The maximum coupon interest of the EUR-denominated securities was 1.84 per cent as of 30 June 2015 (31 December 2014 – 2.01 per cent).

As at 30 June 2015 there were no securities pledged as collateral on futures transactions

The securities issued by foreign governments and other issuers or relevant issuers with credit rating graded by at least two of the six internationally recognised credit rating agencies – Standard&Poor's, Fitch Ratings, Moody's, DBRS, R&I and JCR are disclosed as follows:

(BGN'000)

	Issuer's credit rating	30 June 2015	31 December 2014
Investment graded securities by the issue/ issuer credit rating	*AAA*	15,133,188	13,629,360
	AA+	2,715,406	2,576,563
	AA	-	48,924
	AA-	5,763,424	4,203,246
	A+	1,912,852	2,495,317
	A	-	307,141
		25,524,870	23,260,551

14. Financial Assets Available for Sale

(BGN'000)

	30 June 2015	31 December 2014
Republic of Bulgaria's quota in the IMF	1,573,842	1,491,404
Equity investments in international financial institutions	30,152	30,151
Investments in associates	25,394	25,394
	1,629,388	1,546,949

The Republic of Bulgaria's quota in the IMF is SDR 640,200 thousand. BGN 83,833 thousand of the Republic of Bulgaria's quota in the IMF represents the reserve tranche held with the IMF. The IMF pays remuneration (interest) to those members who have a remunerated reserve tranche position, at an average rate of 0.04 per cent.

Equity investments in international financial institutions include the equity investment in the Bank for International Settlements (BIS), Basle, and 25 per cent of the equity investment in BIS Basle is paid up. As of 30 June 2015 the current value of 10,000 thousand shares in SDR amounts to BGN 23,296 thousand while as of 31 December 2014 it was BGN 23,296 thousand (ref. note 28). The capital subscribed, but not paid-in has an option to be paid in within three months upon a decision of the BIS Board of Governors.

Equity investments in international financial institutions do not exceed 10 per cent of the subscribed share capital of the respective institution.

Investments in international financial institutions also include BNB's participation in the ECB. As of 1 January 2007 (when the Republic of Bulgaria joined the EU), the Bulgarian

National Bank has a share in the ECB capital. As at 30 June 2015 the amount of the BNB paid-up share in the ECB capital is EUR 3,487 thousand or BGN 6,820 thousand.

Pursuant to Art. 28 of the Statute of the ESCB and the ECB, only ESCB NCBs are entitled to participate in the ECB capital. Capital subscription follows the requirements and the key set forth in Art. 29 of the Statute of the ESCB and ECB; *i.e.* the share of each NCB in the ECB capital is determined in percentage and corresponds to the share of the respective member-state in the EU's total population and GDP (in equal proportions). The percentage is adjusted every five years and whenever a new member-state joins the EU. As at 31 December 2014, the BNB's capital share in the ECB subscribed capital is 0.8590 per cent, which corresponds to EUR 92,986.8 thousand.

As a non-euro area NCB, the BNB is required to pay up the minimum percentage of its subscribed capital in the ECB, which is pursuant to Art. 47 of the Statute of the ESCB and ECB (as set out by the ECB General Council) and represents the BNB contribution to the ECB operational costs. As of 29 December 2010 this percentage amounts to 3.75 per cent. Unlike euro area NCBs, the BNB is not entitled to the ECB's distributable profit, nor is it required to fund any loss of the ECB. Upon joining the euro area, the BNB will be required to pay up the remaining 96.25 per cent of its capital subscription to the ECB, which is EUR 89,499.8 thousand.

Following the last five-yearly adjustment of the member-states' capital key shares and with Latvia joining the euro area on 1 January 2014, the BNB's capital key share was adjusted by reducing the BNB's contribution to the ECB capital by EUR 22 thousand and as at 31 December 2014 it amounts to EUR 3,487 thousand or BGN 6,820 thousand (31 December 2013 – EUR 3,509 thousand or BGN 6,863 thousand).

The Bank participates in the capital of the Bulgarian Mint EAD and the BNB Printing Works AD by 100 per cent and 95.6 percent respectively.

The Bank has a significant influence on the financial and operating policy of the following associates and its capital investments in local companies can be analysed as follows:

Associated companies	Share holding, per cent	Principal activity
BORICA–Bankservice AD	36.11	Interbank card payments
International Bank Institute OOD	44.23	Financial training and research
Cash Services Company AD	20.00	Handling of sealed parcels of Bulgarian coins and banknotes transferred from the BNB and the banks

15. Tangible Assets

(BGN'000)

	Land and buildings	Plant and equipment	IT equipment	Office equipment	Other equipment (including motor vehicles)	Tangible assets in progress	Total
As of 1 January 2015	181,149	87,059	43,135	9,864	7,398	3,463	332,068
Additions	-	283	14	7	6	2,298	2,608
Disposals	-	(260)	(1,569)	(120)	(8)	-	(1,957)
Transfers	-	1,497	653	22	-	(2,172)	-
As of 30 June 2015	181,149	88,579	42,233	9,773	7,396	3,589	332,719
Depreciation and Impairment loss							
As of 1 January 2015	(39,289)	(62,687)	(36,898)	(7,532)	(6,074)	-	(152,480)
Charge for the period	(2,805)	(2,711)	(2,037)	(396)	(160)	-	(8,109)
On disposals	-	259	1,564	114	8	-	1,945
As of 30 June 2015	(42,094)	(65,139)	(37,371)	(7,814)	(6,226)	-	(158,644)
Net book value as of 30 June 2015	**139,055**	**23,440**	**4,862**	**1,959**	**1,170**	**3,589**	**174,075**
Net book value as of 31 December 2014	**141,860**	**24,372**	**6,237**	**2,332**	**1,324**	**3,463**	**179,588**

(BGN'000)

	Land and buildings	Plant and equipment	IT equip-ment	Office equipment	Other equip-ment (includ-ing motor vehicles)	Tangible assets in progress	Total
As of 1 January 2014	181,113	86,134	41,609	9,758	6,678	2,265	327,557
Additions	36	1379	15	47	65	4,811	6,353
Disposals	-	(774)	(828)	(151)	(16)	(73)	(1,842)
Transfers	-	320,	2,339	210	671	(3,540)	-
As of 31 December 2014	181,149	87,059	43,135	9,864	7,398	3,463	332,068
Depreciation and impairment loss							
As of 1 January 2014	(33,645)	(57,994)	(33,193)	(6,843)	(5,814)	-	(137,489)
Charge for the period	(5,644)	(5,464)	(4,532)	(835)	(276)	-	(16,751)
On disposals	-	771	827	146	16	-	1,760
As of 31 December 2014	(39,289)	(62,687)	(36,898)	(7,532)	(6,074)	-	(152,480)
Net book value as of 30 June 2014	**141,860**	**24,372**	**6,237**	**2,332**	**1,324**	**3,463**	**179,588**
Net book value as of 31 December 2013	**147,468**	**28,140**	**8,416**	**2,915**	**864**	**2,265**	**190,068**

In applying IAS 16 'Property, Plant and Equipment' and BNB's Internal Rules for Financial Statements and Accounting Policy, as at December 2013 a review was made of the book value of tangible fixed assets stated in the Bank's balance sheet. The fair value of land and buildings was determined by an external, independent and licensed assessor of recognised professional qualification and experience in assessing property of location and category similar to the assessed ones. As at 31 December 2014, the fair value of land and buildings did not differ materially from their book value as at the same date; therefore it is considered that the present book value of land and buildings on the Bank's balance sheet fairly reflects their market value. The fair value of land and buildings is categorised as Level-3 fair value based on the input data for the given assessment technique.

For the remaining asset classes Plant and Machinery, Equipment, Vehicles, Fixtures and Fittings, the fair value is considered to be their present value on the Bank's balance sheet as most of them were bought in the last four years and their book value is close to their fair value.

When revaluating tangible fixed assets the Bank derecognises the accrued depreciation at the expense of the gross book value of the assets and their net value is recalculated against the revalued amount.

16. Intangible Assets

(BGN'000)

	Software	Other intangible assets	Development costs	Total
As of 1 January 2015	46,544	161	115	46,820
Additions	10	-	1,524	1,534
Disposals	(128)	-	-	(128)
Transfers	538	-	(538)	-
As of 30 June 2015	46,964	161	1,101	48,226
Depreciation and impairment loss				
As of 1 January 2015	(43,174)	(155)	-	(43,329)
Charge for the period	(955)	(1)	-	(956)
On disposals	128	-	-	128
As of 30 June 2015	(44,001)	(156)	-	(44,157)
Net book value as of 30 June 2015	**2,963**	**5**	**1,101**	**4,069**
Net book value as of 31 December 2014	**3,370**	**6**	**115**	**3,491**

Software includes, as of 30 June 2015, licenses purchased by the BNB to the total amount of BGN 980 thousand (31 December 2014 – BGN 365 thousand), and software products to the amount of BGN 539 thousand (31 December 2014 – -BGN 694 thousand).

(BGN'000)

	Software	Other intangible assets	Development costs	Total
As of 1 January 2014	45,606	161	133	45,900
Additions	-	-	1,059	1,059
Disposals	(139)	-	-	(139)
Transfers	1,077	-	(1,077)	-
As of 30 December 2014	46,544	161	115	46,820
Depreciation and impairment loss				
As of 1 January 2014	(41,043)	(128)	-	(41,171)
Charge for the period	(2,269)	(27)	-	(2,296)
On disposals	138	-	-	138
As of 30 December 2014	(43,174)	(155)	,-	(43,329)
Net book value as of 31 December 2014	**3,370**	**6**	**115**	**3,491**
Net book value as of 31 December 2013	**4,563**	**33**	**133**	**4,729**

Software includes, as of 31 December 2014, licenses purchased by the BNB to the total amount of BGN 365 thousand (31 December 2013 – BGN 1,017 thousand), and software products to the amount of BGN 694 thousand (31 December 2013 – BGN 473 thousand).

17. Other Assets

(BGN'000)

	30 June 2015	31 December 2014
Cash held by subsidiaries with local banks	70,963	68,879
Investments of subsidiary undertakings in joint ventures and associates	6,091	6,091
Commemorative coins for sale	319	324
Inventories	15,072	11,973
Accounts receivable	3,397	1,808
Deferred charges	1,289	1,771
Other receivables	7,642	929
	104,773	91,775

Cash held by subsidiaries with local banks comprise BGN 64,156 thousand of Printing Works of the BNB Corp. and BGN 6,807 thousand of Bulgarian Mint EAD.

Investments of subsidiary undertakings in joint ventures and associates include a non-monetary contribution in the form of banknote production equipment to the capital of François-Charles Oberthur Group with which the BNB Printing Works AD has established a joint venture for banknote production.

18. Banknotes and Coins in Circulation

(BGN'000)

	30 June 2015	31 December 2014
Banknotes in circulation	10,990,021	11,354,769
Coins in circulation	239,217	232,174
	11,229,238	11,586,943

19. Due to Banks and Other Financial Institutions

(BGN'000)

	30 June 2015	31 December 2014
Demand deposits from banks and other financial institutions		
- in BGN	7,915,654	6,707,502
- in foreign currency	2,391,829	1,417,554
	10,307,483	8,125,056

The Bank does not pay interest on demand deposits from banks and other financial institutions. Demand deposits include BGN 5,536,356 thousand representing the required reserves, which all local banks are required to maintain on accounts with the BNB (31 December 2014: BGN 5,375,773 thousand).

20. Liabilities to Government Institutions and Other Liabilities

(BGN'000)

	30 June 2015	31 December 2014
Current accounts:		
- in BGN	3,943,928	1,217,327
- in foreign currency	3,962,405	3,344,668
Time deposit accounts:		
- in BGN	2,534,000	2,444,000
- in foreign currency	87,938	21,514
	10,528,271	7,027,509

The government's deposits and current accounts with the Bank comprise funds held on behalf of state budget and other government organisations. No interest is payable on the current accounts. The government deposits in euro and in BGN bear 0.00 per cent interest.

21. Borrowings against Bulgaria's Participation in International Financial Institutions

The borrowings against Bulgaria's participation in the IMF as of 30 June 2015 amount to BGN 1,486,074 thousand: SDR 604,475 thousand (as of 31 December 2014: BGN 1,408,233 thousand: SDR 604,475 thousand).

Borrowings from the IMF are denominated in SDRs. Borrowings related to Bulgaria's quota in the IMF are non-interest bearing with no stated maturity. This note includes account No 1 and account No 2 of the IMF in levs amounting to BGN 4,008 thousand (as of 31 December 2014: BGN 3,576 thousand).

The Bank's borrowings from the IMF of the general and special allocation of SDRs amount to SDR 474,586,534 and SDR 136,289,102, respectively. Repayment will take place on IMF's demand. Under Art. XX of the IMF Statute, the Bank receives interest on the existing SDRs and pays a fee on its borrowings from the general and special allocation at the same interest rate.

22. Other Liabilities

(BGN'000)

	30 June 2015	31 December 2014
Funds of EU institutions and bodies	17,109	153,880
Salaries and social security payable	4,432	3,120
Deferred income	554	1,414
Other liabilities	18,855	31,425
	40,950	189,839

'Funds of EU institutions and bodies' include European Commission's funds and European Investment Bank's funds. Pursuant to Article 9 of Council Regulation (EC, Eurarom) No 1150/2000 and Bulgaria's participation in the funding of the EU budget, the Bank opened accounts of the European Commission. As at 30 June 2015 the funds on these accounts were BGN 17,105 thousand. The Bank opened accounts with the European Investment Bank (EIB) for the purposes of a financial arrangement between the Government of the Republic of Bulgaria and the EIB with the funds on these accounts amounting to BGN 4 thousand as at 30 June 2015.

23. Capital and Reserves

The capital of the Bank is determined by the Law on the BNB and amounts to BGN 20,000 thousand.

Non-monetary asset revaluation reserves comprise the net change in fair value of property, equity investments and other non-monetary assets.

Pursuant to Article 36 of the Law on the Bulgarian National Bank, unrealised gains/losses arising from the revaluation of assets and liabilities denominated in foreign currencies or gold are transferred to a special reserve account and form special reserves.

Other reserves include the transfers to reserves of 25 per cent of the annual excess of revenue over expenditure after the allocation to special reserves, upon a decision of the BNB Governing Council.

As of 30 June 2015 profit distribution in accordance with the profit distribution policy disclosed in note 5 (h) is as follows:

(BGN'000)

	30 June 2015	30 June 2014
Profit for the period	**68,561**	**322,801**
Allocation to special reserve under Article 36 of the Law on the BNB:		
Unrealised (gain) from gold revaluation	(194,986)	(224,037)
Unrealised loss/(gain) from revaluation of financial assets at fair value through profit or loss	177,021	(67,913)
Unrealised (gain) from foreign currency valuation	(4,338)	(937)
Other unrealised (gain)	-	-
Result after allocation to special reserve	**46,258**	**29,914**

24. Non-controlling Interest

The Printing Works of the BNB Corp. is a joint-stock company with two shareholders: the BNB and the Government represented by the Ministry of Finance. The BNB holds 95.6 per cent of the company's capital and the State holds the remaining 4.4 per cent of the company's capital.

25. Monetary Liabilities and Gross International Reserves

(BGN'000)

	30 June 2015	31 December 2014
Gross international reserves		
Cash and deposits in foreign currencies	9,333,868	6,537,102
Monetary gold and other instruments in gold	2,656,601	2,460,874
Security investments	25,524,870	23,260,551
Equity investments and quota in the IMF	83,833	79,442
	37,599,172	32,337,969
Monetary liabilities		
Currency in circulation	11,229,239	11,586,943
Due to banks and other financial institutions	10,304,169	7,999,377
Liabilities to government institutions	9,914,004	6,716,855
Other liabilities	634,689	590,212
	32,082,101	26,893,387
Surplus of gross international reserves over monetary liabilities	5,517,071	5,444,582

Interest receivable and interest payable are carried to the relevant financial assets and liabilities.

'Monetary gold and other instruments in gold' are revalued on a daily basis based on the euro fixing of the London Bullion Market closing price.

26. Related Party Transactions

Bulgarian Government

International Monetary Fund

As of 30 June 2015, the Republic of Bulgaria has not received funds under IMF agreements.

The Republic of Bulgaria's quota in the IMF is secured by promissory notes jointly signed by the Bank and the Government (ref. note 21).

Government bank accounts

Government budget organizations have current accounts and time deposits with the Bank (ref. note 20).

Fiduciary activities

In accordance with the Law on the BNB and under the terms agreed upon with the Minister of Finance, the BNB acts as an agent in government or government-guaranteed debts. With regard to this role, the BNB performs agent and central depository services related to the administration and management of government securities issued by the Ministry of Finance. The Bank receives commission for providing these services. These government securities are not assets or liabilities of the BNB and are not recognized in its consolidated statement of financial position. The Bank is not exposed to any credit risk relating to government securities as it does not guarantee them. As of 30 June 2015, the par value of the government securities held in custody was BGN 8,535 million (31 December 2014: BGN 8,252 million).

27. Subsidiaries

(per cent)

Ownership interest	30 June 2015	31 December 2014
Bulgarian Mint EAD	100	100
Printing Works of the BNB Corp (ref. note 24)	95.6	95.6

The net income from subsidiaries for the period comprises net profit of BGN 219 thousand from the Bulgarian Mint EAD (30 June 2014: BGN 568 thousand) and BGN 2,050 thousand from the Printing Works of the BNB Corp. (30 June 2014: BGN 2,366 thousand).

28. Commitments and Contingencies

(i) Participation in the Bank for International Settlements

The Bank holds 8000 shares of the capital of BIS, Basle, each amounting to SDR 5000. Twenty-five per cent of the equity investment in BIS, Basle, is paid up. The capital subscribed but not paid in is with an option to be paid in within three months following a decision of the BIS Board of Governors. The contingent amount as of 30 June 2015 is BGN 69,888 thousand (31 December 2014: BGN 69,888 thousand).

(ii) Participation in the Eropean Central Bank

As of 1 January 2007, the Bulgarian National Bank has a share in the ECB capital; 3.75 per cent of the equity investment in the ECB is paid up. Upon joining the euro area, the BNB will be required to pay up the remaining 96.25 per cent of its capital subscription to the ECB. The contingent amount as of 30 June 2015 is BGN 175,046 thousand (31 December 2014: BGN 175,046 thousand).

(iii) IMF quota

The IMF quota is secured by promissory notes jointly signed by the Bank and the Government of the Republic of Bulgaria amounting to BGN 1,482,601 thousand.

(iv) Capital commitments

As of 30 June 2015 the Bank has committed to BGN 1,342 thousand to purchase non-current assets (31 December 2014: BGN 1,359 thousand).

(v) Other commitments and liabilities

There are no other outstanding guarantees, letters of credit or commitments to purchase or sell either gold, other precious metals or foreign currency.

29. Events Occurred after the Reporting Date

There are no events after the reporting date requiring additional disclosure or adjustments to the Bank's Financial Statements.

Major Resolutions of the BNB Governing Council between 1 January and 30 June 2015

15 January

The BNB Governing Council granted a license to Credibul EAD, UIC: 131574695, for conducting payment services under Article 4, item 4, letter 'b' and item 5 of the LPSPS for execution of payment transactions where the funds are covered by a credit line to a payment service user, and for issuing of payment instruments and/or accepting payments *via* payment instruments.

12 March

The BNB Governing Council approved the Report on the BNB Budget Implementation as of 31 December 2014.

The approved report shall be presented to the National Audit Office for examination under Article 48, paragraph 3 of the Law on the BNB.

2 April

The BNB Governing Council approved the Report on Budget Implementation of Administrative Expenditure of the Bulgarian Deposit Insurance Fund for 2014.

The BNB Governing Council took note the information from the KTB Conservators Report regarding their activity over the periods from 25 June 2014 to 5 November 2014 and from 6 November 2014 to 18 March 2015.

23 April

The BNB Governing Council approved the 2014 BNB Annual Report.

21 May

As of 20 July 2015 the Bulgarian National Bank put into circulation a silver commemorative coin '100 Years of Bulgarian Aircraft Manufacture' with a nominal value of BGN 10, issue 2015.