



REPUBLIC OF BULGARIA

€8,000,000,000

Global Medium Term Note Programme

Under this Global Medium Term Note Programme (the "**Programme**"), the Republic of Bulgaria (the "**Issuer**", the "**Republic**" or "**Bulgaria**") may from time to time issue medium term notes (the "**Notes**") denominated in any currency agreed between the Republic and the relevant Dealer (as defined below). The aggregate nominal amount of Notes outstanding at any time under the Programme will not exceed €8,000,000,000 (or its equivalent in other currencies).

Notes may be issued in bearer or registered form (respectively, "**Bearer Notes**" and "**Registered Notes**") as described under "*Overview of the Programme – Initial Delivery of Notes*". The Notes may be issued on a continuing basis to one or more of the Dealers specified under "*Overview of the Programme*" and any additional Dealer appointed under the Programme from time to time by the Republic (each, a "**Dealer**" and together, the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the "**relevant Dealer**" shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe for such Notes.

An investment in Notes issued under the Programme involves certain risks. For a discussion of certain of these risks see the section "Risk Factors" in this Offering Circular.

Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to admit the Notes to trading on the Luxembourg Stock Exchange's regulated market, pursuant to the rules and regulations of the Luxembourg Stock Exchange. This Offering Circular neither constitutes a base prospectus pursuant to Part II of the Luxembourg law on prospectuses for securities (*loi relative aux prospectus pour valeurs mobilières*) dated 10 July 2005 (the "**Luxembourg Prospectus Law**") which implements Directive 2003/71/EC, as amended (the "**Prospectus Directive**") nor a simplified base prospectus pursuant to Part III of the Luxembourg Prospectus Law. Accordingly, this Offering Circular does not purport to meet the format and the disclosure requirements of the Prospectus Directive and Commission Regulation (EC) No. 809/2004 implementing the Prospectus Directive, and it has not been, and will not be, submitted for approval to any competent authority within the meaning of the Prospectus Directive and in particular the Supervisory Commission of the Financial Sector (*Commission de Surveillance du Secteur Financier*) (the "**CSSF**"), in its capacity as competent authority under the Luxembourg Prospectus Law.

The Republic may agree with any Dealer that Notes may be issued in a form not contemplated by the terms and conditions (the "**Conditions**") of the Notes herein. This Offering Circular must be read and construed together with any amendment or supplement to it, as well as the relevant Pricing Supplement relating to the relevant Notes.

The Issuer has been assigned sovereign credit ratings of Baa2 by Moody's Investors Service Ltd. ("**Moody's**"), BB+ by Standard & Poor's Credit Market Services Europe Ltd. ("**S&P**") and BBB- by Fitch Ratings Ltd. ("**Fitch**"). The rating of certain Series of Notes to be issued under the Programme may be specified in the applicable Pricing Supplement (as defined below). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency. Whether or not any credit rating applied for in relation to any relevant Series of Notes will be issued by a credit rating agency established in the European Union and registered under Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**") will be disclosed in the relevant Pricing Supplement. Please also refer to "*Credit Ratings may not reflect all risks*" in the "*Risk Factors*" section of this Offering Circular.

The Notes have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") or with any securities regulatory authority of any State or other jurisdiction of the United States and may not be offered, sold or delivered within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. The Notes may be offered and sold (a) in bearer form or registered form outside the United States in reliance on Regulation S of the Securities Act and (b) in registered form within the United States, to persons who are qualified institutional buyers ("QIBs") (as defined in Rule 144A ("Rule 144A") of the Securities Act) in reliance on Rule 144A or another exemption from, or transaction not subject to, the registration requirements of the Securities Act. Prospective purchasers who are QIBs are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. In addition, until 40 days after the commencement of any offering, an offer or sale of any of the Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if the offer or sale is made otherwise than in accordance with Rule 144A.

Arrangers and Dealers

Citigroup
Société Générale
Corporate & Investment Banking

HSBC
UniCredit Bank AG

DATED 15 March 2016

IMPORTANT NOTICES

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche of Notes will be set out in the relevant Pricing Supplement which, with respect to Notes to be listed on the Luxembourg Stock Exchange will be filed with the Luxembourg Stock Exchange prior to listing. Copies of any Pricing Supplement in relation to Notes to be listed on the Luxembourg Stock Exchange will also be published on the website of the Luxembourg Stock Exchange (www.bourse.lu).

The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Republic and the relevant Dealer. The Republic may also issue unlisted Notes and/or Notes not admitted to trading on any market.

The Issuer, having made all reasonable enquiries, confirms that this Offering Circular and the relevant Pricing Supplement contains all information with respect to the Issuer and the relevant Notes which is material in the context of the issue and offering of the Notes, and the information contained in this Offering Circular is true and accurate in every material respect and is not misleading in any material respect, that the opinions and intentions expressed in this Offering Circular are honestly held and that there are no other facts in relation to the Issuer or the Notes the omission of which would, in the context of the issue or offering of the Notes, make any statement herein misleading in any material respect, whether of fact or opinion. The Issuer accepts responsibility for the information contained in this Offering Circular, together with each Pricing Supplement, accordingly.

The Republic has not authorised the making or provision of any representation or information regarding the Republic or the Notes other than as contained in this Offering Circular or as approved for such purpose by the Republic. Any such representation or information should not be relied upon as having been authorised by the Republic.

None of the Dealers has separately verified the information contained in this Offering Circular. Accordingly, no representation, warranty or undertaking, express or implied, is made (to the fullest extent permitted by law) and no responsibility or liability is accepted by any of the Dealers, nor any of their affiliates, holding companies, subsidiaries, associated undertakings or controlling persons, nor any of their respective directors, officers, partners, employees, agents, representatives or advisers, as to the accuracy or completeness of the information contained in this Offering Circular or any Pricing Supplement or any other information provided by the Republic in connection with the Republic, the Programme or the issue and offering of Notes thereunder or for any other statement, made or purported to be made by a Dealer or on its behalf, in connection with the Republic or the issue and offering of any Notes. No Dealer accepts any liability whether arising in tort or contract or otherwise in relation to the information contained in this Offering Circular or any other information provided by the Republic or any such statement.

Neither the delivery of this Offering Circular or any Pricing Supplement nor the offering, sale or delivery of any Note shall in any circumstances constitute a representation that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial, economic or otherwise) or affairs of the Republic since the date of this Offering Circular. The Dealers expressly do not undertake to review the condition (financial, economic or otherwise) or affairs of the Republic during the life of the Programme or to advise any investor in the Notes of any information coming to their attention.

Neither this Offering Circular nor any other information supplied in connection with the Programme or any Notes: (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer or any of the Dealers that any recipient of this Offering Circular or any other information supplied in connection with the Programme or any Notes should purchase any Notes.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Republic or any Dealer to subscribe for or purchase, any Notes. Each potential investor contemplating purchasing any Notes should make its own independent investigation and analysis of the condition and affairs, and its own appraisal of the creditworthiness, of the Republic, and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience and any other factors which may be relevant to it in connection with such investment.

The above disclaimers shall apply (without limitation) to all parts of this Offering Circular, including any supplement to it, and to any Pricing Supplement. Neither the Dealers nor any of their affiliates, holding companies, subsidiaries, associated undertakings or controlling persons, nor any of their respective directors, officers, employees, agents, partners or advisers shall be liable for any direct, indirect or consequential loss or damage suffered by any person as a result of relying on any statement contained in this Offering Circular, including any supplement to it, and to any Pricing Supplement or any other information.

The distribution of this Offering Circular and the offering, sale and delivery of Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Republic and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on distribution of this Offering Circular, any Pricing Supplement and any other offering material relating to the Notes, see "*Subscription and Sale*". Neither the Republic nor any Dealer has authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Republic or any Dealer to publish or supplement a listing particulars, prospectus, registration statement or any other document for such offer.

In this Offering Circular, unless otherwise specified, references to "U.S.\$", "U.S. dollars", "USD" and "dollars" are to the lawful currency for the time being of the United States of America, references to "BGN", "Lev" and "Leva" are to the lawful currency for the time being of the Republic and references to "Euro", "euro", "EUR" and "€" are to the single currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No. 974/98 of 3 May 1998 on the introduction of the euro, as amended.

Unless otherwise stated, all annual information, including budgetary information, is based on calendar years. Figures included in this Offering Circular have been subject to rounding adjustments; accordingly, figures shown for the same item of information may vary, and figures which are totals may not be arithmetical aggregate of their components.

Statistical data appearing in this Offering Circular has been extracted or compiled from the records, statistics and other official public sources of information in Bulgaria, and has not been independently verified or checked by any Dealer. Similar statistics may be obtainable from other sources, although the underlying assumptions and methodology, and consequently the resulting data may vary from source to source. While there have been significant steps taken to improve the accuracy of the statistics, it is inevitable in the context of a transition economy that there is a degree of uncertainty as to the accuracy or reliability of the statistics when compared with those produced by countries that have for many years been preparing market economy statistics. In addition, the statistics may not be calculated on the basis that is fully in accordance with international standards, and the statistics have in the past been and may in the future be subject to significant revision. Certain statistical data appearing in this Offering Circular may not have been restated to reflect inflation. Investors should be aware that distortions caused by inflation are present in such statistics and that period-to-period comparisons may not be meaningful.

Bulgaria is a sovereign state. Consequently, it may be difficult for investors to obtain judgments of courts in countries outside Bulgaria against Bulgaria. Enforcement of such judgments in Bulgaria may be refused in certain circumstances in the absence of an applicable treaty facilitating such enforcement. See "*Risk Factors—Risks relating to Notes generally—Enforcement of Liabilities*".

In making an investment decision, investors must rely on their own examination of the Republic and the terms of the Notes being offered, including the merits and risks involved. The Notes have not been approved or disapproved by the United States Securities and Exchange Commission or any other securities commission or other regulatory authority in the United States, nor have the foregoing authorities approved this Offering Circular or confirmed the accuracy or determined the adequacy of the information contained in this Offering Circular. Any representation to the contrary is unlawful.

STABILISATION

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) appointed as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that any Stabilising Manager(s) (or

persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action or over-allotment may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

U.S. INFORMATION

This Offering Circular may be submitted on a confidential basis in the United States to a limited number of QIBs for informational use solely in connection with the consideration of the purchase of certain Notes which may be issued under the Programme. Its use for any other purpose in the United States is not authorised. It may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted.

Any Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to United States persons, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and the Treasury regulations promulgated thereunder.

Registered Notes may be offered or sold within the United States only to QIBs in transactions exempt from registration under the Securities Act in reliance on Rule 144A under the Securities Act or any other applicable exemption. Any U.S. purchaser of Registered Notes is hereby notified that the offer and sale of any Registered Notes to it may be being made in reliance upon the exemption from the registration requirements of Section 5 of the Securities Act provided by Rule 144A.

Each purchaser or holder of Notes represented by a Restricted Global Certificate or any Notes issued in registered form in exchange or substitution therefor (together "**Legended Notes**") will be deemed, by its acceptance or purchase of any such Legended Notes, to have made certain representations and agreements intended to restrict the resale or other transfer of such Notes as set out in "*Subscription and Sale*" and "*Transfer Restrictions*".

FORWARD LOOKING STATEMENTS

This Offering Circular includes forward-looking statements. All statements other than statements of historical fact included in this Offering Circular regarding, among other things, Bulgaria's economy, fiscal condition, politics, debt or prospects may constitute forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology such as "may", "will", "expect", "project", "predict", "aim", "intend", "estimate", "anticipate", "believe", "continue", "could", "should", "would" or similar expressions or the negative thereof or other variations thereof or comparable terminology or discussions of strategy, plans or intentions, involve a number of risks and uncertainties. Although the Issuer believes that expectations reflected in its forward-looking statements are reasonable as at the date of this Offering Circular, there can be no assurance that such expectations will prove to have been correct. The Issuer undertakes no obligation to update the forward-looking statements contained in this Offering Circular or any other forward-looking statement it may make. Forward-looking statements involve inherent risks and uncertainties.

For the Issuer, in addition to the factors described in this Offering Circular, including, but not limited to, those discussed under "*Risk Factors*", the following factors, among others, could cause future conditions to differ materially from those expressed in any forward-looking statements made herein:

External factors, such as:

- the impact of the international economic and political environment on the Bulgarian economy, including liquidity in the international financial markets and volatility in international equity, debt and foreign exchange markets;
- interest rates in financial markets outside Bulgaria;
- the impact of any changes in the credit rating of Bulgaria;

- the impact of regional political conditions;
- the impact of changes in the international prices of commodities; and
- economic conditions in Bulgaria's major export markets.

Internal factors, such as:

- general economic and business conditions in Bulgaria;
- foreign currency reserves;
- the level of domestic debt;
- the level of unemployment;
- domestic inflation;
- the ability of Bulgaria to effect key economic reforms;
- the level of foreign ownership in the banking sector;
- the level of foreign direct and portfolio investment; and
- the level of Bulgarian domestic interest rates.

EXCHANGE RATES

On 1 July 1997 the Lev was fixed to the German Mark ("**DEM**") at a rate of 1 BGN for 1 DEM. Since 1 January 1999, with the introduction of the Euro for electronic payments, the Lev has been fixed to the Euro at a rate of BGN 1.95583 to EUR1.00.

The following table sets out both the Lev to U.S. Dollar exchange rate and the U.S. Dollar to Euro exchange rate for the last day of the periods indicated; also set out below are the average exchange rates for the same periods:

	2010	2011	2012	2013	2014	2015
	<i>(BGN per U.S.\$)⁽¹⁾</i>					
Year or period end.....	1,47276	1,51158	1,48360	1,41902	1,60841	1,79007
Average for year or period	1,47738	1,40645	1,52205	1,47356	1,47419	1,76441
	<i>(U.S.\$ per €)⁽²⁾</i>					
Year or period end.....	1,3362	1,2939	1,3194	1,3791	1,2141	1,0887
Average for year or period	1,3257	1,3920	1,2848	1,3281	1,3285	1,1095

Notes:

⁽¹⁾ *Source:* Bulgarian National Bank

⁽²⁾ *Source:* European Central Bank

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OVERVIEW OF THE PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement.

Words and expressions defined in "*Terms and Conditions of the Notes*" and "*Summary of Provisions Relating to Notes in Global Form*" shall have the same meanings in this overview.

Issuer:	Republic of Bulgaria
Description:	€8,000,000,000 Global Medium Term Note Programme
Arrangers:	Citigroup Global Markets Limited HSBC Bank plc Société Générale UniCredit Bank AG
Dealers:	Citigroup Global Markets Limited HSBC Bank plc Société Générale UniCredit Bank AG and any other Dealers appointed in accordance with the Dealer Agreement from time to time for a specific issue of Notes.
Fiscal Agent, Paying Agent, Exchange Agent, Transfer Agent and Calculation Agent:	Citibank N.A., London Branch
Registrar, Paying Agent and Transfer Agent:	Citigroup Global Markets Deutschland AG
Listing Agent:	Banque Internationale á Luxembourg S.A.
Certain Restrictions:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time. See " <i>Subscription and Sale</i> " and " <i>Transfer Restrictions</i> ".
Initial Delivery of Notes:	<i>Bearer Notes:</i> On or before the issue date for each Tranche, if the relevant Global Note is stated in the applicable Pricing Supplement to be issued in New Global Note ("NGN") form, the Global Note will be delivered to a common safekeeper for Euroclear and Clearstream, Luxembourg. On or before the issue date for each Tranche, if the relevant Global Note is not issued in NGN form, the Global Note representing Bearer Notes shall be deposited with the Common Depository for Euroclear and Clearstream, Luxembourg.

Registered Notes:

On or before the issue date for each Tranche, if the relevant Unrestricted Global Certificate is stated in the applicable Pricing Supplement to be held under the New Safekeeping Structure ("NSS"), the Unrestricted Global Certificate will be delivered to a common safekeeper for Euroclear and Clearstream, Luxembourg. On or before the issue date for each Tranche, if the relevant Global Certificate is not held under the NSS, the Global Certificate shall be deposited with the Common Depository for Euroclear and Clearstream, Luxembourg.

Each Restricted Global Certificate will be deposited with a custodian for, and registered in the name of a nominee of, DTC on its issue date. Beneficial interests in a Restricted Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants.

General:

Global Notes or Global Certificates (as the case may be) may also be deposited with any other clearing system or may be delivered outside any clearing system **provided that** the method of such delivery has been agreed in advance by the Republic, the Fiscal Agent and the relevant Dealer.

Distribution:	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis. The Notes will be issued in series (each, a " Series ") having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest). Each Series may be issued in tranches (each, a " Tranche ") on the same or different issue dates. Further Notes may be issued as part of an existing Series.
Currencies:	Notes may be denominated in any currency agreed between the Republic, the Fiscal Agent and the relevant Dealer, subject to any applicable legal or regulatory restrictions.
Maturities:	The Notes will have such maturities as may be agreed between the Republic and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Republic or the relevant specified currency.
Issue Price:	Notes may be issued on a fully-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes:	The Notes will be issued in bearer or registered form as described in " <i>Terms and Conditions of the Notes</i> " and " <i>Summary of Provisions Relating to Notes in Global Form</i> ". Registered Notes will not be exchangeable for Bearer Notes and <i>vice versa</i> .
Fixed Rate Notes:	Fixed interest will be payable on such date or dates as may be agreed between the Republic and the relevant Dealer and, on redemption, will be calculated on the basis of such Day Count Fraction as may be agreed between the Republic and the relevant Dealer.

Floating Rate Notes:

Floating Rate Notes will bear interest at a rate determined:

- (a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant specified currency governed by an agreement incorporating the relevant ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or
- (b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or
- (c) on such other basis as may be agreed between the Republic and the relevant Dealer.

The margin (if any) relating to such floating rate will be agreed between the Republic and the relevant Dealer for each Series of Floating Rate Notes.

Index Linked Notes:

Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to such other factors as the Issuer and the relevant Dealer may agree.

Floating/Index Linked Notes – Interest Payments:

Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.

Dual Currency Notes:

Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree.

Zero Coupon Notes:

Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.

Redemption:

The applicable Pricing Supplement will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than following an Event of Default) or that such Notes will be redeemable at the option of the Republic and/or the Noteholders upon giving notice to the Noteholders or the Republic, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Republic and the relevant Dealer. The terms of any such redemption, including notice periods, any relevant conditions to be satisfied and the relevant redemption dates and prices will be indicated in the applicable Pricing Supplement.

Denomination of Notes:

The Notes will be issued in such denominations as may be agreed between the Republic and the relevant Dealer save that the minimum denomination of each Note will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant specified currency.

Events of Default:

Events of default under the Notes include the non-payment of any interest due in respect of the Notes or any of them for a period of 15 days from the due date for payment thereof and breach of other obligations or undertakings under the Notes (which breach is not remedied within 30 days after written notice of such breach has been delivered to the Issuer). The Notes include a cross-default provision. Notes may only be declared immediately due and payable, upon an Event of Default, if holders of at least 25 per cent., in aggregate nominal amount of the outstanding Notes give notice in writing to the Republic. Furthermore if the Republic receives notice in writing from holders of at least 50 per cent., in aggregate nominal amount of the outstanding Notes to the effect that the event of default giving rise to a declaration of acceleration is cured and that such holders wish the relevant declaration to be withdrawn, the relevant declaration shall be withdrawn and shall have no further effect.

Negative Pledge:

The terms of the Notes will contain a negative pledge provision as further described in Condition 4.

Status of the Notes:

All Notes issued under the Programme will constitute direct, general, unconditional and (subject to Condition 4) unsecured and unsubordinated obligations of the Republic and will at all time rank *pari passu* without any preference among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Republic (save for such obligations as may be preferred by provisions of law that are of mandatory application at the date on which agreement is reached to issue the first Tranche of Notes). The Issuer shall have no obligation to effect equal or rateable payment(s) at any time with respect to any other unsecured and unsubordinated obligations of the Republic and, in particular, shall have no obligation to pay other unsecured and unsubordinated obligations of the Republic at the same time or as a condition of paying sums due on the Notes and *vice versa*. See "*Terms and Conditions of the Notes – Status*" and "*Risk Factors – Risks relating to Notes generally - The Issuer is not required to effect equal or rateable payment(s) with respect to its other debt obligations, and is not required to pay other debt obligations at the same time or as a condition of paying sums on the Notes and vice versa*".

Withholding Tax:

All payments in respect of the Notes by or on behalf of the Republic will be made without withholding or deduction for or on account of any taxes, unless required by law. In that event, the Republic will pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required, subject to certain exceptions as provided in Condition 8.

Meetings of Noteholders:

The Conditions contain a "collective action" clause which permits defined majorities to bind all Noteholders.

If the Republic issues future debt securities which contain collective action clauses in substantially the same form as the collective action clause in the Conditions, the Notes would be capable of aggregation for voting purposes with any such future debt securities, thereby allowing 'cross-series' modifications to the terms and conditions of all affected series of Notes (even, in some circumstances, where majorities in certain Series did not vote in favour of the modifications being voted on). See "*Risk Factors – Risks relating to Notes generally - The terms and conditions of the Notes contain a "collective action" clause under which the terms of any one series of Notes and/or multiple Series of Notes may be amended, modified or waived without the consent of all the holders of the Notes*".

Rating:

The rating of certain Series of Notes to be issued under the Programme may be specified in the applicable Pricing Supplement. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency. Whether or not each credit rating applied for in relation to relevant Series of Notes will be issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the applicable Pricing Supplement.

Further Issues:

The Issuer may from time to time, without notice or the consent of holders of any Notes, issue further securities which may form a single series with such Notes, subject to certain conditions set out in "*Terms and Conditions of the Notes – Further Issues*".

Clearing Systems:

Euroclear, Clearstream, Luxembourg and/or DTC, unless otherwise agreed, and such other clearing system(s) as may be agreed between the Issuer, the Fiscal Agent and the relevant Dealer.

Listing and admission to trading:

Application has been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange.

Notes may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Republic and the relevant Dealer in relation to the relevant Series. Notes which are neither listed nor admitted to trading on any market may also be issued.

The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.

Governing Law and Jurisdiction:

English law. The Issuer has submitted to the jurisdiction of the courts of England in respect of any disputes in connection with the Notes.

Selling Restrictions and Transfer Restrictions:

There are restrictions on the distribution of marketing materials and on the offering of Notes in certain jurisdictions. There are restrictions on the transfer of Notes sold pursuant to Regulation S and Rule 144A. See "*Subscription and Sale*" and "*Transfer Restrictions*" below.

Enforcement of Notes in Global Form:

In the case of Global Notes and Global Certificates, individual investors' rights will be governed by a deed of covenant dated 6 February 2015 (the "**Deed of Covenant**"), a copy of which is available for inspection at the specified office of the Fiscal Agent.

Risk Factors:

There are certain factors that may affect the Issuer's ability to fulfil its obligations under the Notes. See "*Risk Factors*" for a description of certain of these risks.

RISK FACTORS

Investment in the Notes involves risk. Prospective investors should carefully consider the following risk factors, together with the other information set out in this Offering Circular, before making a decision to invest in the Notes and should understand that the risks set forth below could, individually or in the aggregate, have a material adverse effect on the Republic's ability to repay principal and make payments of interest on the Notes or otherwise fulfil its obligations under the Notes. Most of these factors are contingencies which may or may not occur and the Republic is not in a position to express a view on the likelihood of any such contingency occurring. Additional risks and uncertainties not currently known to the Republic or that the Republic currently deems to be immaterial may also materially affect the Republic's economy and its ability to fulfil its obligations under the Notes. In any such case, investors may lose all or part of their investment in the Notes. Words and expressions defined in "Terms and Conditions of the Notes" or elsewhere in this Offering Circular have the same meanings in this section.

Risk Factors Relating to Bulgaria

Bulgaria's economy remains vulnerable to external shocks, significant economic difficulties among its major trading partners or more generally, which could have a material adverse effect on Bulgaria's economic growth

As a small open economy, Bulgaria faces the risk of external economic shocks. For example, as a result of declining international crude oil prices, lower domestic fuel prices had largely contributed to the negative headline inflation rate in the second half of 2014 and throughout 2015. Deflationary developments have been shown to translate into lower nominal revenues which have put pressure on the national budget. A sustained period of low international crude oil prices may prolong the period of deflation and put further strain on the national budget. For the period 2010 to 2015, the economy grew on average by 1.3 per cent. annually (with gross domestic product ("**GDP**") growth reaching 3.0 per cent. in 2015), with exports driving the growth in 2010, 2011, 2013 and 2015, and domestic demand being the main contributor in 2012 and 2014.

According to the European Commission (the "**Commission**"), the risks to the growth outlook for Bulgaria are balanced. According to the Commission's Winter 2016 Economic Forecast which was published on 4 February 2016, the GDP growth for Bulgaria in 2016 is expected to be 1.5 per cent., which represents a reduction in growth as compared to 2015, as growth-supporting factors, including the absorption of EU funds, will be weaker due to the transition to the new programme period for 2014 to 2020. The GDP growth is expected to increase to 2.0 per cent. in 2017. The strong export growth and gains in employment could lead to higher than expected consumption and investment growth. On the other hand, geopolitical uncertainties and a slowdown in main trading partners (Germany, Italy, Turkey, Romania and Greece) could have an adverse effect on the Bulgarian economy, resulting in lower economic growth than currently projected. Although the Bulgarian government (the "**Government**") has announced its intention to pursue a series of economic and fiscal reforms, and has commenced the implementation of some of these initiatives, no assurance can be given that such initiatives will be adequately funded, will achieve or maintain the necessary long term political support, will be fully implemented or will prove successful in achieving their objectives.

An investment in an emerging market such as Bulgaria is subject to substantially greater risks than an investment in a more developed country

An investment in a country such as Bulgaria, which joined the EU in 2007, but which is still an emerging market, is subject to greater risks than an investment in a country with a more developed economy and more developed political and legal systems. Although progress has been made in reforming Bulgaria's economy and political and legal systems, the development of Bulgaria's legal infrastructure and regulatory framework is still ongoing. As a consequence, an investment in Bulgaria carries risks that are not typically associated with investing in more mature markets. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, an investment in Bulgaria is appropriate. Generally, investments in emerging markets, such as Bulgaria, are only suitable for sophisticated investors who can fully appreciate the significance and consequences of the risks involved.

In addition, international investors' reactions to events occurring in one country sometimes demonstrate a "contagion" effect, in which an entire region or class of investment is disfavoured by international

investors. Therefore, investment in Bulgaria's sovereign securities, as in any other comparable economy, could be adversely affected by negative economic or financial developments in other countries. There can be no assurance that conditions resulting from any crises similar to the global financial and economic crisis that started in 2008, the European sovereign debt crisis or the recent political turmoil in Europe, the Middle East and Africa will not negatively affect the economic performance of, or investor confidence in, developing markets, including Bulgaria.

Large-scale economic sanctions by the EU against Russia triggered by its actions in Ukraine and restrictions on imports by Russia may have a material adverse effect on Bulgaria's ability to meet its energy consumption needs or risk Bulgaria's ability to export to Russia, both which could have a negative effect on the Bulgarian economy

As a result of the ongoing tension between Russia and Ukraine, the EU and the United States have each authorised and imposed sanctions, including the implementation of visa bans and the blocking of property and interests in property that are in the United States or that come within the possession or control of any United States person (including any foreign branch) on individuals and entities whom the United States government considers to have misappropriated funds and threatened or undermined the peace, security, stability and sovereignty or territorial integrity of Ukraine. In response to the sanctions, Russia has also imposed restrictions on imports into Russia. No assurance can be given that other jurisdictions or bodies (including individual member states of the EU ("**EU Member States**")) will not impose further sanctions as a result of the escalating situation in Ukraine or that Russia will not impose further restrictions on imports as a counter measure to such further sanctions.

The restrictions imposed in 2014 by Russia on imports as a counter measure to EU and US sanctions have not had a significant impact on Bulgaria's exports. The ban on exporting agricultural and food products to Russia affected approximately 0.05 per cent. of Bulgaria's exports in 2014 (1.8 per cent. of total exports to Russia or 0.02 per cent. of Bulgaria's GDP in 2014). In 2015, almost no exports to Russia were recorded for the specific commodity groups on which trade restrictions have been imposed. Nevertheless, exports for the general food and live animals group, as a percentage of total exports to Russia, increased from 5.2 per cent. in 2013 to 6.2 per cent. in 2014 and 6.8 per cent. in 2015. In 2015, Russia provided 12.7 per cent. of Bulgaria's imports (equal to about 7 per cent. of Bulgarian GDP) and attracted 1.8 per cent. of its exports (representing approximately 0.9 per cent. of Bulgarian GDP). In addition, approximately 90 per cent. of the goods imported from Russia consisted of mineral fuels, 62.0 per cent. of which are petroleum products and 26.0 per cent. of which is natural gas. Any restrictions on these imports would have a negative impact on the economy and, as a result, may have an adverse effect on Bulgaria's ability to repay principal and make payments of interest on the Notes (see "*Bulgaria has a high degree of dependence on a limited number of suppliers of energy resources and any disruption in Bulgaria's energy supply may have a negative effect on the Bulgarian economy*"). In addition, additional large-scale economic sanctions imposed on Russia by the EU, the US or other country or international organisation may have a material adverse impact on Bulgaria's ability to continue meeting its energy consumption needs.

Bulgaria has a high degree of dependence on a limited number of suppliers of energy resources and any disruption in Bulgaria's energy supply may have a negative effect on the Bulgarian economy

Bulgaria's economy depends on trade flows with certain other countries largely because Bulgaria imports approximately 70 per cent. of its energy requirements and is highly dependent on imported oil and natural gas. This exposes Bulgaria to fluctuations in international prices. Bulgaria is reliant on a limited variety of energy resources and any delay or failure by Bulgaria to successfully secure access to such energy resources at favourable prices, or if bilateral trade relations with Bulgaria's major energy suppliers were to deteriorate or if supplies of oil or natural gas to Bulgaria were to be restricted, Bulgaria's economy could be adversely affected. In addition, an increase in the price of oil or natural gas could adversely affect the pace of economic growth in Bulgaria.

Bulgaria's energy and petrochemical industry, for example, obtains most of its input from abroad, principally in the form of oil and gas from Russia. During 2014 and 2015, Bulgaria received about 95 per cent. of its natural gas from Gazprom, a global energy company based in Russia. Local natural gas production in Bulgaria declined to 2.9 per cent. of the domestic consumption in 2015, and the storage capacity in Bulgaria is insufficient. The capacity of the sole underground gas storage facility in Bulgaria (UGS "Chiren") is sufficient to cover seasonal fluctuations in gas consumption, but the capacity for daily withdrawal does not guarantee continuous and complete security of supply. Bulgaria's only operational oil

refinery, Neftochim, which produces approximately 75 per cent. of the country's refined petroleum, is fully owned by Lukoil, a Russian oil company. Russia is also the only supplier of nuclear fuel to the Bulgarian Kozloduy nuclear power plant.

In addition, Ukraine is a transit country for Russian natural gas to Bulgaria and Bulgaria is a transit country for Russian natural gas to Turkey, Greece and the Former Yugoslav Republic of Macedonia. The continued impact of the current events in Ukraine, Turkey and elsewhere and any continuing or escalating military action, public protests, unrest, political instability or further sanctions could jeopardise the supply of Russian gas through Ukraine to Bulgaria. This could have a material adverse impact on the Bulgarian economy as it will be required to seek alternative means to import natural gas and there can be no assurance that such alternative means to import natural gas could be secured.

The Government is pursuing a programme of diversification of its natural gas supply (please see "*The Economy - Energy Market*") at the recommendation of the Commission. Despite the emphasis being placed on these proposed changes and new policies, there can be no assurance that this diversification objective will be successfully completed.

In addition, the continued uncertainty in Bulgaria's energy sector has increased pressure for the modernisation of major energy-consuming industries of Bulgaria through the implementation of energy-efficient technologies and for the modernisation of production facilities. There can be no assurance, however, that these reforms and modernisations will be implemented or will succeed. In addition, Bulgaria is involved in several litigation and arbitration proceedings. Should the results of these be awarded to the claimants in these matters, the settlement amounts would be material (see "*Republic of Bulgaria – Legal Proceedings*"). In particular, if the arbitration proceedings commenced by Atomstroyexport JSC against the National Electricity Company ("**NEK**") result in the full claim amount being awarded, it may require Government support to prevent an impact on NEK's ability to continue operations. Disruption in Bulgaria's energy supply may have a material adverse effect on its economy and as a result, may have an adverse effect on Bulgaria's ability to repay principal and make payments of interest on the Notes.

There can be no assurance that Bulgaria's credit rating will not change

The long-term foreign and domestic currency debt of Bulgaria is currently rated BB+ by S&P, Baa2 by Moody's and BBB- by Fitch. Deterioration in key economic indicators such as an increase in the fiscal deficit as a result of contemplated changes to the fiscal code (though the Government does not believe, based on the current draft of the revised fiscal code under consideration, that this risk is likely to materialise), or the materialisation of any of the risks discussed herein, may contribute to credit rating downgrades which could result in a sub-investment grade rating of the Notes. In turn, any adverse changes in an applicable credit rating could adversely affect the trading price for the Notes. In addition, a sub-investment grade rating could adversely affect Bulgaria's ability to refinance existing indebtedness, finance its deficit and could adversely affect its capacity to meet its obligations under the Notes.

A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Lower FDI inflows and EU Fund absorption may negatively affect private and public investment and thus undermine Bulgaria's economic growth

In 2014, measures aimed at improving the business environment in Bulgaria were introduced by the Government. These included (i) measures to reduce the regulatory burden at both the national and municipal levels, (ii) amendments to legislation on state fees, (iii) large-scale administrative reform for introducing complex administrative services, (iv) the introduction of preliminary impact assessments to ensure consistency across legislation (v) increasing the availability of administrative services online and (vi) improving the quality of the judicial system.

In 2015, additional measures aimed at improving the investment environment were taken. The areas targeted for improvement include: access to the technical infrastructure grids (electricity, gas, water); construction permits; inconsistency of the administrative procedures for implementation of investment projects and delays in delivery of public services at central and local level; frequently changing legislation; lack or poor quality of the existing road infrastructure; lack of specialists in demand from the business sectors and poor quality of professional education; judicial system independence and corruption;

low efficiency of the legal framework for dispute resolution; administrative procedures related to international trade; and tax collection procedures.

The absorption of EU funds in Bulgaria has improved in recent years and such funds have been used to increase public investments by the Government. Public investments contributed positively to GDP growth in 2012, 2013, 2014 and 2015. According to the latest available estimates, the positive impact of the EU funds on real GDP in Bulgaria amounted respectively to 2.9 per cent., 5.4 per cent., 7.7 per cent. and 10.1 per cent. in the period 2012 to 2015. In 2016, the positive influence of EU funds absorption on GDP growth is expected to continue. However, compared to 2015, the absorption is expected to decrease from EUR 1,696 million to EUR 1,456 million in 2016 as a result of the end of 2007 to 2013 programme period (whereby EU funds were required to be absorbed by the end of 2015) and the initial implementation of EU-financed programmes from the 2014 to 2020 programme period (see "*The Republic of Bulgaria – European Union – Economic relations with the EU*" for information on the EU assistance programmes for the first and second programme periods).¹ If there is a decrease in the availability of EU funds for Bulgaria, additional national funds may need to be allocated to maintain the level of the Government's public investment in existing projects. This may have an adverse effect on other components of the Government budget and have a negative impact on economic growth in Bulgaria in the long term and, as a result, have an adverse effect on Bulgaria's ability to repay principal and make payments of interest on the Notes.

Foreign direct investment ("**FDI**") in export-oriented sectors such as the processing industries, real estate and construction grew considerably prior to the global financial and economic crisis. Since the global financial and economic crisis, however, FDI inflows had weakened, reflecting deterioration in the global investment sentiment. However this trend reversed in 2015 with FDI inflows increasing on an annual basis by 5.8 per cent. and amounted to 3.6 per cent. of GDP. Nevertheless, a reduced flow of investment into the Bulgarian economy could lead to lower potential growth in the medium term, which may in turn have an indirect negative effect on the balance of the budget.

The Government may be unable to secure funding for the financial stability of public pensions and public healthcare which may have a negative effect on Bulgaria's economy

One of the challenges facing the Government is securing funding for public spending in social security and healthcare, which accounted for 41 per cent. of total Government expenditure and equated to 16.1 per cent. of GDP in 2015. The Government has already adopted fiscal measures to reduce costs and increase revenue streams for medium to long-term funding. However, with an ageing demographic, maintaining such welfare services in Bulgaria may become increasingly burdensome on public resources and so pose a serious risk to the sustainability of public pensions and healthcare services in the country.

The pressure placed on the sustainability of the public finances therefore necessitates the adoption of a conservative fiscal policy not only with respect to budget balance, but also with regard to pension reforms (see "*Public Finance – Pension System*") and public healthcare expenditure. If the Government cannot successfully implement such policies, it could have an adverse effect on the funds available to fund social security and healthcare services in Bulgaria in the future, which in turn could have a negative effect on Bulgaria's economy and, as a result, have an adverse effect on Bulgaria's ability to repay principal and make payments of interest on the Notes.

The uncertainties relating to the Bulgarian judicial system could have an adverse effect on its economy and on the ability of Bulgaria to repay principal and make payments of interest on the Notes

The independence of the judicial system from economic and political interference in Bulgaria is uncertain. The EU has expressed concerns about deficiencies in Bulgaria's judiciary. The report from the Commission on progress in Bulgaria under the Cooperation and Verification Mechanism (the "**CVM**") published on 27 January 2016 (the "**2016 CVM Report**") indicated that Bulgaria has taken some important steps in the areas of judicial reform and anti-corruption following a period of political instability. The 2016 CVM Report noted two national reform strategies had been launched in 2015, focusing on judicial reform and the fight against corruption and that these strategies represent a detailed blueprint for action, although it also recognised that successful implementation of the strategies would be

¹ The estimates and assertions in this risk factor are calculated, as at 8 January 2016, using the macroeconomic model SIBILA (Simulation of Bulgaria's Investment in Long-term Advance) 2.0.

a challenge. See also "*– Corruption and money laundering issues may hinder the growth of the Bulgarian economy and have a material adverse effect on Bulgaria*" below.

As Bulgaria is a civil law jurisdiction, judicial decisions under Bulgarian law generally have no precedential effect and the courts are generally not bound by earlier court decisions taken under the same or similar circumstances. This may result in an inconsistent application of Bulgarian legislation to resolve the same or similar disputes. As a result of the foregoing, judicial decisions in Bulgaria remain difficult to predict. In addition, court orders are not always enforced or followed by law enforcement institutions.

The uncertainties of the Bulgarian judicial system could have a negative effect on the economy and thus might affect the ability of Bulgaria to repay principal and make payments of interest on the Notes.

Corruption and money laundering issues may hinder the growth of the Bulgarian economy and have a material adverse effect on Bulgaria

Independent analysts have identified corruption and money laundering as problems in Bulgaria. In the 2015 Transparency International Corruption Perceptions Index, Bulgaria was ranked 69 out of 168 countries under review (indicating that there were 68 countries with lower perceived levels of corruption). In the period from 1 January 2014 to 31 December 2014, some 200 public officials have been investigated and accused of corruption crimes, 60 individuals have been indicted and 23 individuals convicted. A number of these pre-trial charges or accusations were made against high-ranking public officials, including a Deputy Minister, a Deputy Governor of the Bulgarian National Bank, seven members of the judiciary, 32 mayors or deputy mayors and 34 police officers. In the first nine months of 2015, 194 persons have been convicted in Bulgaria for corruption and 119 persons were convicted for organised crime. In addition, there have been 22 anti-money laundering convictions (18 international and four domestic). Further, charges were raised against 12 magistrates (eight judges, three prosecutors and one investigator), seven of whom are administrative heads. 161 inspections on complaints for crimes committed by magistrates were initiated, 88 of which have been closed. Eight magistrates were referred to court (six judges, four of whom are administrative heads; one prosecutor whom is an administrative head and one investigator). 10 pre-trial criminal proceedings have been initiated against 11 high level officials. Four indictments for corruption have been submitted to the court.

In January 2014, Bulgaria commenced a reform of its judicial system in order to combat corruption and restore confidence in the judicial system. Some of the measures implemented since then include the adoption of the "Updated Strategy to Continue the Reform of the Judicial System" and, more recently, the adoption of amendments to the constitution regarding the judicial system (see "*The Republic of Bulgaria – Judicial Branch*" for further details). Counteracting the highest level of corruption is an area of high priority for the Government and led to the adoption, by the Council of Ministers, of the "National Strategy for Prevention and Counteracting Corruption in the Republic of Bulgaria (2015 to 2020)" on 9 April 2015. In addition, in order to guarantee the independence of the work of magistrates, the Supreme Judicial Council launched a process to improve the application of random allocation of cases in Bulgarian courts, putting in place a new centralised information technology system for the entire judiciary in October 2015. There is no certainty as to the success of these measures and in particular, despite allegations of corruption within the judiciary, only limited actions have been taken as yet to remove members of the judiciary. Any future allegations or evidence of corruption or money laundering in Bulgaria may have an adverse effect on the Bulgarian economy, in particular on Bulgaria's ability to attract foreign investment, and thus could negatively affect Bulgaria's ability to repay principal and make payments of interest on the Notes.

The first reading of a new anti-corruption legislation failed to receive the necessary support in the National Assembly in September 2015, indicating a lack of political consensus. The Government is preparing a second draft of the law with the first reading expected in the next few months. The reforms undertaken previously have been predominantly focused on high ranking public officials. However, there also remains a risk arising from the lack of checks and balances at the lower and regional levels, which subsequently will take a longer time to address.

The Government is facing a budget deficit and structural weaknesses in the Bulgarian economy

The financial crisis, which started in 2009, had a material negative effect on the Bulgarian economy. In 2009, Bulgaria's GDP fell by 4.1 per cent. and this led to notable worsening of Bulgaria's fiscal position. After several years of budget surpluses during years of growth (the general government surplus averaged

1.4 per cent. of GDP for the period 2005 to 2008) Bulgaria registered a fiscal deficit of 4.1 per cent. of GDP in 2009. As a result of the worsened economic environment and the need to restructure the economy, general government revenues declined from 38.5 per cent. of GDP in 2008 to 32.1 per cent. of GDP in 2011. This placed added pressure on the budget and the general government deficit averaged 2.75 per cent. of GDP for the period 2009 to 2014.

The Government proposed an amendment to the budget for 2015 (the "**2015 Amended Budget**"), which was approved by the National Assembly of Bulgaria (the "**National Assembly**" or the "**Parliament**") on 2 December 2015 as a part of the State Budget Law for 2016. The 2015 Amended Budget resulted in a forecasted budget deficit (on a cash basis) of 3.3 per cent. of GDP for 2015. The deficit (calculated on an accrual basis) did, however, remain unchanged and was below 3 per cent. of GDP, which did not violate the Maastricht criteria regarding the minimum level of budget deficit. The 2015 budget parameters were revised mainly due to the increased absorption of EU funds at the completion of the 2007 to 2013 programme period as well as due to the higher than expected performance of the revenue side of the budget, as compared to the original forecasts set out in the 2015 Budget, largely due to increased tax collection. The Government submitted the draft 2016 budget law (the "**2016 Budget**"), together with an updated medium-term budgetary forecast for the period 2016 to 2018 (the "**Updated Forecast**"), to the National Assembly on 30 October 2015. The 2016 Budget and Updated Forecast were approved by the National Assembly on 2 December 2015. A policy of fiscal consolidation will be applied over the next three years and the budget deficit (on a cash basis) is projected gradually to fall to 2.0 per cent. of GDP in 2016, to 1.4 per cent. of GDP in 2017 and 1.0 per cent. of GDP in 2018. Such a fiscal consolidation and reform is intended to be met by specific measures set out in the Updated Forecast, which will include (among other things) measures to increase tax receipts.

If the Government cannot successfully implement policies and/or measures for its proposed fiscal reforms and consolidation, or if its forecasts of key macroeconomic indicators are inaccurate, this may have an adverse effect on the economy in Bulgaria. Furthermore, there can be no assurance that even if the Government's policies and/or measures are implemented successfully, the budget deficit will be reduced. This may in turn have a material adverse effect on the growth in the Bulgarian economy and, as a result, have an adverse effect on Bulgaria's ability to repay principal and make payments of interest on the Notes.

Bulgaria suffers from high levels of unemployment

The unemployment rate has gradually decreased, falling to 9.2 per cent. in 2015. However, the labour market recovery has been limited since the 2009 recession. Although the number of unemployed persons decreased in 2014 and 2015, the number remained higher in 2015 at 305,100 persons as compared to 238,000 in 2009, according to the EU Labour Force Survey ("**LFS**"). The global financial and economic crisis has affected many members of the Bulgarian workforce but job losses were more widespread amongst youth and those in low-skilled positions. The unemployment rate amongst the young (15-24 years old) was 28.4 per cent. in 2013 but has gradually fallen during 2014 and 2015 and reached 21.7 per cent. in 2015 is now comparable with the average EU youth unemployment level. The recent downward trend in the unemployment rate has been partly due to labour force contraction, stemming from both population decrease and an aging population. The Government also adopted pension reforms in 2015 aimed at addressing these issues. An important part of these reforms is the implementation of an increase in the retirement age and length of service needed for retirement, and implementing measures that limit the options for early retirement (see "*Public Finance – Recent pension reforms*").

In addition, as part of its move to improve and strengthen the Bulgarian labour force, the Government has implemented the national employment strategy which combines measures for improving the business environment and providing support for small and medium-sized enterprises ("**SMEs**"). Active labour market policies are currently targeted at the most vulnerable groups, such as young unemployed individuals aged up to 29 years, unemployed individuals aged over 50 years, individuals with low qualifications or qualifications for which there is limited demand as well as discouraged or inactive individuals. The development of inter-institutional cooperation and social partnership as well as further improvement of public employment services are expected to support the effectiveness of the national employment strategy.

Although the Government is planning on continuing the process of implementing the national employment strategy, together with pension reforms and other reforms relating to the education and

labour markets, if high levels of unemployment are not addressed they could become a source of political and social instability in Bulgaria and may lead to a negative effect on the Bulgarian economy in general.

The high level of foreign ownership in the Bulgarian banking system makes it vulnerable to disruption as a result of internal or external factors

As at 31 December 2015, 76.4 per cent. of the total assets of the banking system in Bulgaria were foreign owned, and 23.6 per cent. of banks were domestically owned according to supervisory data reported by the Bulgarian National Bank (the "BNB"). Out of the 76.4 per cent. foreign owned assets, EU banks had a share of 75.1 per cent., of which 71.3 per cent. were subsidiaries of EU banks and 3.7 per cent. were branches of EU banks (see "*Monetary and Financial System – The Banking System*"). The Bulgarian banking system is exposed to the banking systems of other countries, including Italy, Greece, Austria and France. Foreign banks may rebalance their global loan portfolio in a manner adversely affecting Bulgaria as a result of events related or unrelated to Bulgaria, including as a result of the ongoing economic turbulence in the Eurozone and sovereign debt markets. In addition, foreign banks may decrease funding to their subsidiaries operating in Bulgaria due to actual or perceived deterioration in asset quality, particularly in the event of a weaker than expected economic performance and a rise in non-performing loans ("NPLs"). Resulting hypothetical balance sheet mismatches may negatively affect the Bulgarian economy and, as a result, have an adverse effect on Bulgaria's ability to repay principal and make payments of interest on the Notes.

The level of NPLs in the Bulgarian banking sector may continue to increase and impact the banking sector's stability and profitability

At the end of 2014, the share of net NPLs amounted to 9.4 per cent. of total net loans (excluding those to credit institutions) and 5.5 per cent. of total assets, compared to 10.1 per cent. of the total net loans (excluding those to credit institutions) and 6.3 per cent. of total assets at the end of 2013, 10.6 per cent. of total net loans (excluding those to credit institutions) and 6.8 per cent. of total assets at the end of 2012 and 9.6 per cent. of total net loans (excluding those to credit institutions) and 6.5 per cent. of total assets at the end of 2011. In 2015, the definition of NPLs was broadened to include additional debtors (see "*Monetary and Financial System—Asset quality*"). As at 31 December 2015, the net balance sheet value of NPLs was 11.6 per cent. of the total net loans (excluding those to credit institutions) and 6.4 per cent. of the total assets. The increase in the NPLs at the end of 2015 compared to 2014 is mainly due to the broadened definition.

If there is a further slowdown of economic growth in the Eurozone or the EU as a whole, there may be pressure on Bulgarian exports due to a reduction in demand for Bulgarian goods. This may lead to a deterioration of the liquidity position of exporters which in turn may lead to an increase in companies being unable to make timely payments or repay their debts resulting in the deterioration of banks' credit portfolio quality and lower bank profitability. The deterioration in banks' portfolios could make them more susceptible to aggregate shocks, such as increases in their own cost of borrowing, which in turn may negatively affect the Bulgarian economy and, as a result, have an adverse effect on Bulgaria's ability to repay principal and make payments of interest on the Notes.

Potential liquidity pressures in the Bulgarian banking system may deteriorate confidence in the Bulgarian banking sector

The impact of the global financial and economic crisis on any banking system may lead to an increase in savings and in domestic deposits, constraints on banks' ability to access external sources of funding, reduction in the inflow of funds (particularly funds relating to the repayment of loans because of an overall decline in the quality of assets) and a slowdown in banks' lending activities (see "*Monetary and Financial System*").

The Government and the BNB have implemented policies to address liquidity pressures in the past (see "*Monetary and Financial System – KTB*"). However, there can be no assurance that such policies will be implemented or that the successful implementation of such policies will limit the risk of the liquidity pressures in the Bulgarian banking sector in the future. As a result, there can be no assurance that the banking sector will not be subject to potential liquidity shortages in the future, which may negatively affect the Bulgarian economy and, as a result, have an adverse effect on Bulgaria's ability to repay principal and make payments of interest on the Notes.

Risks relating to the collection of taxes

The principal source of revenue in the State Budget is taxation, particularly VAT, excise duties, corporate income tax and personal income tax. As a result of Commission recommendations and ineffective tax collection and fraud, a number of significant tax reforms have been introduced which aim to shift the taxation burden from direct to indirect taxes to achieve more proportional taxation. The tax base is to be broadened by removing exemptions and reducing activities in the grey economy. See "*Public Finance – Fiscal Policy*".

However, notwithstanding recent increases in tax collection, ineffective tax collection and fraud remains widespread in the Bulgarian taxation system and there can be no assurance that such reforms will prove effective in the long term or improve tax collection efficiency. Ineffective tax collection and fraud may impact Bulgaria's revenue, reducing Bulgaria's ability to effectively manage its fiscal policy and therefore have a material negative effect on the growth of the economy and, as a result, have an adverse effect on Bulgaria's ability to repay principal and make payments of interest on the Notes.

Risks relating to Notes

The terms and conditions of the Notes contain a "collective action" clause under which the terms of any one Series of Notes and/or multiple Series of Notes may be amended, modified or waived without the consent of the holders of all Notes

The Conditions contain provisions regarding amendments, modifications and waivers, commonly referred to as "collective action" clauses. Such clauses permit defined majorities to bind all Noteholders, including Noteholders who did not vote and Noteholders who voted in a manner contrary to the majority. The relevant provisions also permit, in relation to reserved matters, multiple Series of Notes to be aggregated for voting purposes (*provided that each such Series also contains the collective action clauses in the terms and conditions of the relevant Notes*).

The Issuer expects that all Series of Notes issued under the Programme will include such collective action clauses, thereby giving the Issuer the ability to request modifications or actions in respect of reserved matters across multiple Series of Notes. This means that a defined majority of the holders of such Series of Notes (when taken in the aggregate only, in some circumstances, and/or individually) would be able to bind all holders of Notes in all the relevant aggregated Series.

Any modification or actions relating to reserved matters, including in respect of payments and other important terms, may be made to a single Series of Notes with the consent of the holders of 75 per cent. of the aggregate nominal amount outstanding of such Notes, and to multiple Series of Notes with the consent of both (i) the holders of 66⅔ per cent. of the aggregate nominal amount outstanding of all Series of Notes being aggregated and (ii) the holders of 50 per cent. in aggregate nominal amount outstanding of each Series of Notes being aggregated. In addition, under certain circumstances, including the satisfaction of the Uniformly Applicable Condition in the Conditions, any such modification or action relating to reserved matters may be made to multiple Series of Notes with the consent of 75 per cent. of the aggregate nominal amount outstanding of all Series of Notes being aggregated only, without requiring a particular percentage of the holders in any individual affected Series of Notes to vote in favour of any proposed modification or action. Any modification or action proposed by the Issuer may, at the option of the Issuer, be made in respect of some Series of Notes only and, for the avoidance of doubt, the provisions may be used for different groups of two or more Series of Notes simultaneously. At the time of any proposed modification or action, the Issuer will be obliged, *inter alia*, to specify which method or methods of aggregation will be used by the Issuer.

There is a risk therefore that the terms and conditions of a Series of Notes may be amended, modified or waived in circumstances whereby the Noteholders voting in favour of an amendment, modification or waiver may be Noteholders of a different Series of Notes and as such, without a minimum percentage of the Noteholders of the relevant Series (such as the Notes) having voted in favour of such amendment, modification or waiver. In addition, there is a risk that the provisions allowing for aggregation across multiple Series of Notes may make the Notes less attractive to purchasers in the secondary market on the occurrence of an Event of Default or in a distress situation. Further, any such amendment, modification or waiver in relation to any Notes may adversely affect their trading price.

In the future, the Issuer may issue debt securities, including securities that may not be issued under the Programme, which contain collective action clauses in the same form as the collective action clauses in the Conditions. If this occurs, then this could mean that any Series of Notes issued under the Programme would be capable of aggregation with any such future debt securities.

The terms and conditions of the Notes restrict the ability of an individual holder to declare an event of default, and permit a majority of holders to rescind a declaration of such a default.

The Notes contain a provision which, if an Event of Default occurs, allows the holders of at least 25 per cent., in aggregate nominal amount of the outstanding Notes to declare all the Notes to be immediately due and payable by providing notice in writing to the Republic, whereupon the Notes shall become immediately due and payable, at their nominal amount with accrued interest, without further action or formality.

The Conditions also contain a provision permitting the holders of at least 50 per cent., in aggregate nominal amount of the outstanding Notes to notify the Republic to the effect that the Event of Default or Events of Default giving rise to any above-mentioned declaration is or are cured following any such declaration and that such holders wish the relevant declaration to be withdrawn. The Republic shall give notice thereof to the Noteholders, whereupon the relevant declaration shall be withdrawn and shall have no further effect.

The Issuer is not required to effect equal or rateable payment(s) with respect to its other debt obligations pursuant to the terms and conditions of the Notes, and is not required to pay other debt obligations at the same time or as a condition of paying sums on the Notes and vice versa

The Notes will at all times rank at least *pari passu* with all other unsecured and unsubordinated obligations of the Republic. However, the Issuer will have no obligation to effect equal or rateable payment(s) at any time with respect to any other unsubordinated and unsecured obligations of the Republic and, in particular, will have no obligation to make payments under the Notes at the same time or as a condition of paying sums due under other unsecured and unsubordinated obligations of the Issuer. Accordingly, the Issuer may choose to grant preferential treatment to, and therefore prioritise payment obligations to, other unsecured and unsubordinated creditors of the Republic as payments fall due.

Risks related to the structure of a particular issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:

Notes subject to optional redemption by the Republic

An optional redemption feature of Notes is likely to limit their market value. During any period when the Republic may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Republic may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Partly Paid Notes

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of his investment.

Variable rate Notes with a multiplier or other leverage factor

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Republic has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Republic may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Republic converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than the prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Republic converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than the prevailing rates on its Notes.

Index Linked Notes and Dual Currency Notes

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to movements in currency exchange rates or other factors (each, a "**Relevant Factor**"). In addition, the Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- (a) the market price of such Notes may be volatile;
- (b) they may receive no interest;
- (c) payment of principal or interest may occur at a different time or in a different currency than expected;
- (d) they may lose all or a substantial portion of their principal;
- (e) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (f) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable will likely be magnified; and
- (g) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index should not be viewed as an indication of the future performance of such index during the term of any Index Linked Notes. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any Index Linked Notes and the suitability of such Notes in light of its particular circumstances.

A potential investor should not invest in the Notes unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium from their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Offering Circular;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Set out below is a brief description of certain risks relating to the Notes generally:

Tax consequences of holding the Notes

Any potential investor should consult its own independent tax adviser for more information about the tax consequences of acquiring, owning and disposing of Notes in its particular circumstances. The application and enforcement of the Bulgarian capital gains tax regime is uncertain in respect of Noteholders which are individuals (i.e. "non-corporate entities") who are not Bulgarian tax resident and are established for tax purposes outside of an EU Member State and outside the European Economic Area. As further discussed in the section headed "*Taxation*" below, potential investors should note that capital gains realised from the sale or exchange of Notes on a Regulated Market by such individuals may be subject to a one-time tax in Bulgaria at the rate of 10 per cent., levied on the positive difference between the sale price and the documented acquisition price of the Notes (unless treaty relief applies). See section headed "*Taxation*" below.

Bearer Notes generally may not be offered or sold in the United States or to U.S. persons. Unless an exemption applies, a U.S. person holding a Bearer Note or Coupon will not be entitled to deduct any loss on the Bearer Note or Coupon and must treat as ordinary income any gain realised on the sale or other disposition (including the receipt of principal) of the Bearer Note or Coupon.

The law governing the Conditions of the Notes may change

The Conditions are based on English law in effect as at the date of this Offering Circular. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Offering Circular.

Notes where denominations involve integral multiples

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a nominal amount of Notes such that its holding amounts to a Specified Denomination.

If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Reliance on DTC, Euroclear and Clearstream, Luxembourg procedures

Notes issued under the Programme will be represented on issue by one or more Global Notes or Global Certificates that may be deposited with a common depository for Euroclear and Clearstream, Luxembourg or may be deposited with a nominee for DTC. Except in the circumstances described in each Global Note and/or Global Certificate, investors will not be entitled to receive Notes in definitive form. Each of DTC, Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in each Global Note or Global Certificate held through it. While the Notes are represented by a Global Note or Global Certificate, investors will be able to trade their beneficial interests only through the relevant clearing systems and their respective participants.

While the Notes are represented by Global Notes or Global Certificates, the Republic will discharge its payment obligation under the Notes by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Note or Global Certificate must rely on the procedures of the relevant clearing system and its participants to receive payments under the Notes. The Republic has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in any Global Note or Global Certificate.

Holders of beneficial interests in a Global Note or Global Certificate will not have a direct right to vote in respect of the Notes so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

Transferability of the Notes may be limited under applicable securities laws

The Notes have not been and will not be registered under the Securities Act or the securities laws of any state of the United States or any other jurisdiction. Notes issued under the Programme may not be offered, sold or otherwise transferred in the United States or to, or for the account or benefit of, a U.S. person other than to persons that are QIBs. Each purchaser of Notes will be deemed, by its acceptance of such Notes, to have made certain representations and agreements intended by the Issuer to restrict transfers of Notes as described under "*Subscription and Sale*" and "*Transfer Restrictions*". It is the obligation of each purchaser of Notes to ensure that its offers and sales of Notes comply with all applicable securities laws.

In addition, if at any time the Issuer determines that any owner of Notes, or any account on behalf of which an owner of Notes purchased its Notes, is a person that is required to be a QIB, the Issuer may compel that such owner's Notes be sold or transferred to a person designated by or acceptable to the Issuer.

Enforcement of Liabilities

Bulgaria is a sovereign state. Consequently, it may be difficult for investors to obtain judgments of courts in countries outside Bulgaria against the Republic. In the absence of any applicable international treaty, recognition and enforcement of judgments of courts outside the European Union in Bulgaria may be refused by the Bulgarian court in the course of exequatur proceedings on the grounds provided in Bulgaria's Private International Law Code. Such non-enforcement grounds are similar to, yet slightly broader than, the grounds under Regulation (EU) No 1215/2012 of the European Parliament and of the Council of 12 December 2012 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters (recast) (the "**Brussels I Regulation (recast)**").

A judgment obtained in an English court should be enforceable in Bulgaria under the conditions laid down in Brussels I Regulation (recast). Thus, for the purposes of enforcement in Bulgaria of a judgement given in England, the applicant shall provide the competent enforcement authority with: (a) a copy of the judgement which satisfies the conditions necessary to establish its authenticity; and (b) a standard-form certificate issued by the court of origin, certifying that the judgment is enforceable. Nonetheless, the Republic against whom enforcement is sought will be able to apply for refusal of the recognition or enforcement of a judgment, if it considers one or more of the exhaustively listed grounds for refusal of recognition/enforcement as set forth in Brussels I Regulation (recast) to be present. These grounds include for example: where the judgment was given in default of appearance in breach of the right of a defence; if

the judgment is irreconcilable with a judgment given between the same parties in Bulgaria; and if such recognition/enforcement is manifestly contrary to the Bulgarian public policy.

The procedure for the enforcement of foreign judgments (when they become enforceable in line with the aforementioned rules of the Bulgaria's Private International Law Code or the Brussels I Regulation (recast)), as the case may be, shall be governed by, the provisions of Bulgaria's Civil Procedure Code. It is notable, that enforcement against the Republic will be carried out in accordance with procedures which differ from the enforcement procedures applicable to other defendants (for example, the attachment of or forcible liquidation of assets of the Republic located in Bulgaria is not possible).

Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

There may be no active trading market for the Notes

Although an application has been made to list on the Official List of the Luxembourg Stock Exchange and to trade the Notes on the Luxembourg Stock Exchange's regulated market, there is no assurance that such application will be accepted or that an active trading market for the Notes will develop or, if one does develop, that it will be liquid or maintained. If an active trading market in the Notes does not develop or is not maintained, the market price and liquidity of the Notes may be adversely affected.

In addition, if the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Republic. As a result of the above factors, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.

Exchange rate risks and exchange controls

The Republic will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (i) the Investor's Currency-equivalent yield on the Notes, (ii) the Investor's Currency-equivalent value of the principal payable on the Notes and (iii) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) the Notes are legal investments for it, (ii) the Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by its assigning rating agency at any time.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended). Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended).

USE OF PROCEEDS

The net proceeds from Notes to be issued under the Programme may be used for the refinancing of existing state debt and/or to increase the fiscal reserves of the Republic. If there are specific known uses of proceeds, these will be set out in the relevant Pricing Supplement relating to such Notes.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions that, subject to completion and as supplemented in accordance with the provisions of Part A of the relevant Pricing Supplement, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of Part A of the Pricing Supplement or (ii) these terms and conditions as so completed or supplemented, shall be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in Part A of the relevant Pricing Supplement. References in the Conditions to "Notes" are, unless the context requires, to the Notes of one Series only, not to all Notes that may be issued under the Programme. The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under the section of the Offering Circular headed "*Summary of Provisions Relating to the Notes while in Global Form*".

The Notes are issued pursuant to a fiscal agency agreement (as amended or supplemented as at the Issue Date, the "**Agency Agreement**") dated 6 February 2015 between the Republic of Bulgaria (the "**Issuer**"), Citibank N.A., London Branch as fiscal agent and the other agents named in it and with the benefit of a Deed of Covenant (as amended or supplemented as at the Issue Date, the "**Deed of Covenant**") dated 6 February 2015 executed by the Issuer in relation to the Notes. The fiscal agent, the paying agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the "**Fiscal Agent**", the "**Paying Agents**" (which expression shall include the Fiscal Agent), the "**Registrar**", the "**Transfer Agents**" and the "**Calculation Agent(s)**". The Noteholders (as defined below), the holders of the interest coupons (the "**Coupons**") relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the "**Talons**") (the "**Couponholders**") and the holders of the receipts for the payment of instalments of principal (the "**Receipts**") relating to Notes in bearer form of which the principal is payable in instalments are deemed to have notice of all of the provisions of the Agency Agreement applicable to them.

As used in these terms and conditions (the "**Conditions**"), "**Tranche**" means Notes which are identical in all respects. Each Tranche is the subject of a pricing supplement (each, a "**Pricing Supplement**") which supplements and/or completes these Conditions.

Copies of the Agency Agreement and the Deed of Covenant are available for inspection at the specified offices of each of the Paying Agents, the Registrar and the Transfer Agents.

1. **Form, Denomination and Title**

The Notes are issued in bearer form ("**Bearer Notes**") or in registered form ("**Registered Notes**") in each case in the Specified Denomination(s) shown hereon.

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note, an Instalment Note, a Dual Currency Note or a Partly Paid Note, a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown hereon.

Each Bearer Note is serially numbered and is issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable. Instalment Notes are issued with one or more Receipts attached.

Registered Notes are represented by registered certificates ("**Certificates**") and, save as provided in Condition 2(c), each Certificate shall represent the entire holding of Registered Notes by the same holder.

Title to the Bearer Notes and the Receipts, Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the "**Register**"). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Receipt, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes, whether or not it is overdue and regardless of any notice of

ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, "**Noteholder**" means the bearer of any Bearer Note and the Receipts relating to it or the person in whose name a Registered Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) (as the case may be), "**holder**" (in relation to a Note, Receipt, Coupon or Talon) means the bearer of any Bearer Note, Receipt, Coupon or Talon or the person in whose name a Registered Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) (as the case may be) and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Notes.

2. **No Exchange of Notes and Transfers of Registered Notes**

- (a) **No Exchange of Notes:** Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes.
- (b) **Transfer of Registered Notes:** Subject to Condition 2(f), one or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate, (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor; **provided, however, that** part of a Registered Note may not be transferred unless the nominal amount of the part transferred, and the nominal amount of the balance not transferred, are Specified Denominations. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Fiscal Agent (such approval not to be unreasonably withheld or delayed). A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.
- (c) **Exercise of Options or Partial Redemption in Respect of Registered Notes:** In the case of an exercise of an Issuer's or Noteholders' option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.
- (d) **Delivery of New Certificates:** Each new Certificate to be issued pursuant to Conditions 2(b) or (c) shall be available for delivery within three business days of receipt of the form of transfer or Exercise Notice (as defined in Condition 6(d)) and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the form of transfer, Exercise Notice or otherwise in writing, be mailed by

uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(d), "**business day**" means a day, other than a Saturday or Sunday, on which commercial banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

- (e) **Transfer Free of Charge:** Transfers of Notes and Certificates on registration, transfer, partial redemption or exercise of an option shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to such transfer (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).
- (f) **Closed Periods:** No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on the due date for redemption of, or payment of any Instalment Amount in respect of, that Note, (ii) during the period of 15 days before any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(c), (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Payment Record Date (as defined in Condition 7(b)).
- (g) **Forced Transfer:** If at any time the Issuer determines that any beneficial owner of Notes, or any account for which such owner purchased Notes, who is required to be a qualified institutional buyer ("**QIB**") as defined in Rule 144A under the United States Securities Act of 1933 (the "**Securities Act**") is not a QIB, the Issuer may (i) compel such beneficial owner to sell its Notes to a person who is (A) a U.S. person who is a QIB and that is, in each case, otherwise qualified to purchase such Notes in a transaction exempt from registration under the Securities Act or (B) not a U.S. person within the meaning of Regulation S under the Securities Act or (ii) compel the beneficial owner to sell such Notes to the Issuer or an affiliate thereof at a price equal to the lesser of (x) the purchase price paid by the beneficial owner for such Notes, (y) 100 per cent. of the nominal amount thereof and (z) the fair market value thereof. The Issuer has the right to refuse to honour the transfer of interests in a Restricted Global Certificate or any Restricted Note (each as defined in the Agency Agreement) to a U.S. person who is not a QIB.

3. **Status**

The Notes, the Receipts and the Coupons relating to them constitute direct, general, unconditional and (subject to Condition 4), unsecured and unsubordinated obligations of the Issuer and the full faith and credit of the Issuer is pledged for the due and punctual payment of principal of, and interest on, the Notes and for the performance of all other obligations of the Issuer pursuant to the Notes, Receipts and Coupons. The Notes, the Receipts and the Coupons relating to them shall at all times rank *pari passu* without any preference among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are of mandatory application at the date on which agreement is reached to issue the first Tranche of Notes. This Condition 3 does not require the Issuer to effect equal or rateable payment(s) at any time with respect to any such other unsecured and unsubordinated obligations of the Issuer and, in particular, the Issuer shall have no obligation to pay other unsecured and unsubordinated obligations at the same time or as a condition of paying sums due under the Notes, Receipts and/or Coupons, and vice versa.

4. **Negative Pledge**

So long as any Note or Coupon remains outstanding (as defined in the Agency Agreement), the Issuer will not grant or permit to be outstanding, and will procure that there is not granted or permitted to be outstanding, any mortgage, charge, lien, pledge or other security interest, over any of its present or future assets or revenues or any part thereof, to secure any Public External Indebtedness (as defined below) or any Guarantee (as defined below) thereof unless the Issuer shall, in the case of the granting of the security, before or at the same time, and in any other case, promptly, procure that all amounts payable in respect of the Notes and the Coupons are secured

equally and rateably, or such other security or other arrangement is provided as shall be approved by an Extraordinary Resolution (as defined in Condition 11) of the Noteholders.

In these Conditions:

"Guarantee" means any guarantee of or indemnity in respect of indebtedness or other like obligation; and

"Public External Indebtedness" means any present or future indebtedness (a) in the form of, or represented by, notes, bonds or other similar instruments which are for the time being, or are capable of being, quoted, listed or ordinarily dealt in on any stock exchange, over the counter or other securities market and (b) which is not either (i) denominated in Bulgarian lev, (ii) admitted to trading on a market of the Bulgarian Stock Exchange, (iii) registered with the Central Depository AD of the Republic of Bulgaria, (iv) expressed to be governed by the laws of the Republic of Bulgaria or (v) placed or sold in the Republic of Bulgaria. For the purposes of this Condition, an issue is "placed or sold in the Republic of Bulgaria" if more than 50 per cent. of its aggregate nominal amount is initially placed or sold in the Republic of Bulgaria.

5. **Interest and other Calculations**

- (a) **Interest on Fixed Rate Notes:** Each Fixed Rate Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(h).
- (b) **Interest on Floating Rate Notes and Index Linked Interest Notes:**
 - (i) *Interest Payment Dates:* Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date, subject to the provisions of Condition 7. The amount of interest payable shall be determined in accordance with Condition 5(h). Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.
 - (ii) *Business Day Convention:* If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day, (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day or (E) No Adjustment, such date shall not be adjusted in accordance with any Business Day Convention.

(iii) *Rate of Interest for Floating Rate Notes:* The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and the provisions below relating to any one or more of ISDA Determination or Screen Rate Determination or Linear Interpolation shall apply, depending upon which is specified hereon.

(A) *ISDA Determination for Floating Rate Notes:*

Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (A), "**ISDA Rate**" for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (x) the Floating Rate Option is as specified hereon;
- (y) the Designated Maturity is a period specified hereon; and
- (z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

For the purposes of this sub-paragraph (A), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**", "**Reset Date**" and "**Swap Transaction**" have the meanings given to those terms in the ISDA Definitions.

(B) *Screen Rate Determination for Floating Rate Notes:*

(x) Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

- (1) the offered quotation; or
- (2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified hereon as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided hereon.

- (y) if the Relevant Screen Page is not available or, if sub-paragraph (x)(1) applies and no such offered quotation appears on the Relevant Screen Page, or, if sub-paragraph

(x)(2) applies and fewer than three such offered quotations appear on the Relevant Screen Page, in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and

- (z) if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, **provided that**, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or

Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

(C) *Linear Interpolation:*

Where Linear Interpolation is specified hereon as applicable in respect of an Interest Accrual Period, the Rate of Interest for such Interest Accrual Period shall be calculated by the Calculation Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified hereon as applicable) or the relevant Floating Rate Option (where ISDA Determination is specified hereon as applicable), one of which shall be determined as if the Applicable Maturity (as defined below) were the period of time for which rates are available next shorter than the length of the relevant Interest Accrual Period and the other of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Accrual Period **provided however that** if there is no rate available for the period of time next shorter or, as the case may be, next longer than the length of the relevant Interest Accrual Period, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

"**Applicable Maturity**" means: (a) in relation to Screen Rate Determination, the period of time designated in the Reference Rate, and (b) in relation to ISDA Determination, the Designated Maturity.

(iv) *Rate of Interest for Index Linked Interest Notes:* The Rate of Interest in respect of Index Linked Interest Notes for each Interest Accrual Period shall be determined in the manner specified hereon and interest will accrue by reference to an Index or Formula as specified hereon.

(c) **Zero Coupon Notes:** Where a Note the Interest Basis of which is specified to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i)).

(d) **Dual Currency Notes:** In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to a Rate of Exchange or a method of calculating Rate of Exchange, the rate or amount of interest payable shall be determined in the manner specified hereon.

(e) **Partly Paid Notes:** In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified hereon.

(f) **Accrual of Interest:** Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).

(g) **Margin, Maximum/Minimum Rates of Interest, Instalment Amounts and Redemption Amounts and Rounding:**

(i) If any Margin is specified hereon (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with (b) above by

adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin subject always to the next paragraph

- (ii) If any Maximum or Minimum Rate of Interest, Instalment Amount or Redemption Amount is specified hereon, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be
 - (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 of a percentage point being rounded up), (y) all figures shall be rounded to seven significant figures (**provided that** if the eighth significant figure is a 5 or greater, the seventh significant shall be rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with half a unit being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes "**unit**" means the lowest amount of such currency that is available as legal tender in the country or countries, as the case may be, of such currency.
- (h) **Calculations:** The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified hereon, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.
- (i) **Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Instalment Amounts:** The Calculation Agent shall, as soon as practicable on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Instalment Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or any Instalment Amount to be notified to the Fiscal Agent, the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest

Amount so calculated need be made. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

- (j) **Definitions:** In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"Business Day" means:

- (i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or
- (ii) in the case of euro, a day on which the TARGET System is operating (a **"TARGET Business Day"**); and/or
- (iii) in the case of a currency and/or one or more Business Centres, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres

"Day Count Fraction" means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the **"Calculation Period"**):

- (i) if **"Actual/Actual"** or **"Actual/Actual - ISDA"** is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365)
- (ii) if **"Actual/365 (Fixed)"** is specified hereon, the actual number of days in the Calculation Period divided by 365
- (iii) if **"Actual/365 (Sterling)"** is specified hereon, the actual number of days in the Calculation Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366
- (iv) if **"Actual/360"** is specified hereon, the actual number of days in the Calculation Period divided by 360
- (v) if **"30/360"**, **"360/360"** or **"Bond Basis"** is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y₁" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y₂" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M₁" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M₂" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D₁" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

"D₂" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30

- (vi) if "**30E/360**" or "**Eurobond Basis**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y₁" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y₂" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M₁" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M₂" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D₁" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

"D₂" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D₂ will be 30

- (vii) if "**30E/360 (ISDA)**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y₁" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y₂" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M₁" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M₂" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D₁" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₁ will be 30; and

"D₂" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of

February but not the Maturity Date or (ii) such number would be 31, in which case D_2 will be 30

- (viii) if "**Actual/Actual-ICMA**" is specified hereon,
- (A) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and
 - (B) if the Calculation Period is longer than one Determination Period, the sum of:
 - (x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and
 - (y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

"Determination Period" means the period from and including a Determination Date in any year to but excluding the next Determination Date; and

"Determination Date" means the date(s) specified as such hereon or, if none is so specified, the Interest Payment Date(s)

"Euro-zone" means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended

"EURIBOR" means, in respect of any specified currency and any specified period, the interest rate benchmark known as the Euro Interbank Offered Rate which is calculated and published by a designated distributor (currently Thomson Reuters) in accordance with the requirements from time to time of the European Banking Federation (or any other person which takes over the administration of that rate) based on estimated interbank borrowing rates for a number of designated currencies and maturities which are provided, in respect of each such currency, by a panel of contributor banks

"Interest Accrual Period" means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Period Date and each successive period beginning on and including an Interest Period Date and ending on but excluding the next succeeding Interest Period Date

"Interest Amount" means:

- (i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified hereon as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and

- (ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period

"Interest Commencement Date" means the Issue Date or such other date as may be specified hereon

"Interest Determination Date" means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro

"Interest Period" means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date unless otherwise specified hereon

"Interest Period Date" means each Interest Payment Date unless otherwise specified hereon

"ISDA Definitions" means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified hereon

"LIBOR" means in respect of any specified currency and any specified period, the interest rate benchmark known as the London Interbank Offered Rate which is calculated and published by a designated distributor (currently Thomson Reuters) in accordance with the requirements from time to time of ICE Benchmark Administration Limited (or any other person which takes over the administration of that rate) based on estimated interbank borrowing rates for a number of designated currencies and maturities which are provided, in respect of each such currency, by a panel of contributor banks

"Rate of Interest" means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions hereon

"Reference Banks" means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Calculation Agent or as specified hereon

"Reference Rate" means the rate specified as such hereon

"Relevant Screen Page" means such page, section, caption, column or other part of a particular information service as may be specified hereon (or any successor or replacement page, section, caption, column or other part of a particular information service)

"Specified Currency" means the currency specified as such hereon or, if none is specified, the currency in which the Notes are denominated; and

"TARGET System" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto.

- (k) **Calculation Agent:** The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them hereon and for so long as any Note is outstanding. Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the

Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

6. **Redemption, Purchase and Options**

(a) **Redemption by Instalments and Final Redemption:**

(i) Unless previously redeemed, purchased and cancelled as provided in this Condition 6, each Note that provides for Instalment Dates and Instalment Amounts shall be partially redeemed on each Instalment Date at the related Instalment Amount specified hereon. The outstanding nominal amount of each such Note shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Note, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.

(ii) Unless previously redeemed, purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount (which, unless otherwise provided, is its nominal amount) or, in the case of a Note falling within paragraph (i) above, its final Instalment Amount.

(b) **Early Redemption:**

(i) *Zero Coupon Notes:*

(A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c) or Condition 6(d) or upon it becoming due and payable as provided in Condition 10 shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified hereon.

(B) Subject to the provisions of sub paragraph (C) below, the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.

(C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c) or Condition 6(d) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be

made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon.

(ii) *Other Notes:* The Early Redemption Amount payable in respect of any Note (other than Notes described in paragraph (i) above), upon redemption of such Note pursuant to Condition 6(c) or Condition 6(d) or upon it becoming due and payable as provided in Condition 10, shall be the Final Redemption Amount unless otherwise specified hereon.

(c) **Redemption at the Option of the Issuer:** If Call Option is specified hereon, the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (or such other notice period as may be specified hereon) redeem, all or, if so provided, some, of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount specified hereon (which may be the Early Redemption Amount (as described in Condition 6(b) above)), together with interest accrued to the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified hereon and no greater than the Maximum Redemption Amount to be redeemed specified hereon.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption the notice to Noteholders shall also contain the certificate numbers of the Bearer Notes, or in the case of Registered Notes shall specify the nominal amount of Registered Notes drawn and the holder(s) of such Registered Notes, to be redeemed, which shall have been drawn in such place and in such manner as may be fair and reasonable in the circumstances, taking account of prevailing market practices, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

(d) **Redemption at the Option of Noteholders:** If Put Option is specified hereon, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified hereon) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount specified hereon (which may be the Early Redemption Amount (as described in Condition 6(b) above)), together with interest accrued to the date fixed for redemption.

To exercise such option the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Receipts and Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice ("**Exercise Notice**") in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

(e) **Partly Paid Notes:** Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the provisions specified hereon.

(f) **Purchases:** Without prejudice to Condition 11(i), the Issuer and its Agencies (as defined below) may at any time purchase Notes (**provided that** all unmatured Receipts and Coupons and unexchanged Talons relating thereto are attached thereto or surrendered

therewith) in the open market or otherwise at any price. Any Notes so purchased, while held by or on behalf of the Issuer or any Agency, shall not entitle the holder to vote at any meeting of Noteholders and shall not be deemed to be outstanding for the purposes of meetings of Noteholders or for the purposes of any Written Resolution (as defined in Condition 11), all as more particularly set out in Condition 11(i). Notes so purchased may be held or resold (**provided that** such resale is outside the United States as defined in Regulation S under the Securities Act, or, in the case of any Notes resold pursuant to Rule 144A under that Act is only made in accordance with that Rule and otherwise in compliance with all applicable laws) or surrendered for cancellation, at the option of the Issuer.

In these Conditions:

"**Agency**" or "**Agencies**" means the Ministry of Finance of the Republic of Bulgaria, the Bulgarian National Bank, any other political sub-division, regional government, ministry, department, central or local authority or statutory corporation of the Republic of Bulgaria or the Government (whether or not such statutory corporation is autonomous), and any corporation, trust, financial institution or other entity owned or controlled by the Republic of Bulgaria or the Government or one or more Agencies; and

"**Control**" has the meaning given to it in Condition 12(i).

- (g) **Cancellation:** All Notes purchased by or on behalf of the Issuer or any of its Agencies may be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Receipts and Coupons and all unexchanged Talons to the Fiscal Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Note(s) to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Receipts and Coupons and all unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

7. **Payments and Talons**

- (a) **Bearer Notes:** Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender or, in the case of part payment only, endorsement of the relevant Receipts (in the case of payments of Instalment Amounts other than on the due date for redemption and **provided that** the Receipt is presented for payment together with its relative Note), Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 7(f)(vi)) or Coupons (in the case of interest, save as specified in Condition 7(f)(vi)), as the case may be, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with, a Bank. For these purposes, a "**Bank**" means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.
- (b) **Registered Notes:**
- (i) Payments of principal (which for the purposes of this Condition 7(b) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.
- (ii) Interest (which for the purpose of this Condition 7(b) shall include all Instalment Amounts other than final Instalment Amounts) on Registered Notes shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the "**Payment Record Date**"). Payments of interest on each Registered Note shall be made in the

relevant currency by cheque drawn on a Bank and mailed to the holder (or to the first-named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Payment Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank.

- (c) **Payments in the United States:** Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.
- (d) **Payments Subject to laws:** All payments are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 8. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.
- (e) **Appointment of Agents:** The Fiscal Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuer and their respective specified offices are listed below. The Fiscal Agent, the Paying Agents, the Registrar, Transfer Agents and the Calculation Agent(s) act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer reserves the right at any time to vary or terminate the appointment of the Fiscal Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, **provided that** the Issuer shall at all times maintain (i) a Fiscal Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) one or more Calculation Agent(s) where the Conditions and/or applicable Pricing Supplement so require, (v) Paying Agents having specified offices in at least two major European cities, (vi) such other agents as may be required by any other stock exchange on which the Notes may be listed and (vii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC (as amended from time to time) or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

In addition, the Issuer shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. dollars in the circumstances described in Condition 7(c) above.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

- (f) **Unmatured Coupons and Receipts and unexchanged Talons:**
 - (i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes (other than Dual Currency Notes or Index Linked Notes), those Notes should be surrendered for payment together with all unexpired Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unexpired Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unexpired Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption

Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9).

- (ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, Dual Currency Note or Index Linked Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.
- (iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
- (iv) Upon the due date for redemption of any Bearer Note that is redeemable in instalments, all Receipts relating to such Note having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.
- (v) Where any Bearer Note that provides that the relative unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.
- (vi) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.
- (g) **Talons:** On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Fiscal Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 9).
- (h) **Non-Business Days:** If any date for payment in respect of any Note, Receipt or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this Condition 7(h), "**business day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as "**Financial Centres**" hereon and:
 - (i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or
 - (ii) (in the case of a payment in euro) which is a TARGET Business Day.

8. **Taxation**

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes, the Receipts and the Coupons shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of

whatever nature ("**Taxes**") imposed, levied, collected, withheld or assessed by or on behalf of the Republic of Bulgaria or any political subdivision of it, or any authority therein or thereof having power to tax, unless such withholding or deduction of Taxes is required by law. In that event, the Issuer shall pay such additional amounts as will result in receipt by the Noteholders and the Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

- (a) **Other connection:** to, or to a third party on behalf of, a holder who is liable to such Taxes in respect of such Note, Receipt or Coupon by reason of its having some connection with the Republic of Bulgaria other than the mere holding of the Note, Receipt or Coupon or
- (b) **Presentation more than 30 days after the Relevant Date:** surrendered (or in respect of which the Certificate representing it is presented) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on surrendering it for payment on the thirtieth such day or
- (c) **Payment to individuals:** where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC (as amended from time to time) or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive or
- (d) **Payment by another Paying Agent:** (except in the case of Registered Notes) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a European Union member state.

As used in these Conditions, "**Relevant Date**" in respect of any Note, Receipt or Coupon means whichever is the later of (1) the date on which payment in respect of it first becomes due and (2) (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note (or relative Certificate), Receipt or Coupon being made in accordance with the Conditions, such payment will be made, **provided that** payment is in fact made upon such presentation. References in these Conditions to (i) "**principal**" shall be deemed to include any premium payable in respect of the Notes, all Instalment Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it, (ii) "**interest**" shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 or any amendment or supplement to it and (iii) "**principal**" and/or "**interest**" shall be deemed to include any additional amounts that may be payable under this Condition.

9. **Prescription**

Claims against the Issuer for payment in respect of the Notes, Receipts and Coupons (which for this purpose shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

10. **Events of Default**

If any of the following events (each, an "**Event of Default**") occurs and is continuing:

- (a) **Non-Payment:** (i) any default is made in the payment of any interest due in respect of the Notes (or any Coupon) or any of them when due and the default continues for a period of 15 days or (ii) any default is made in the payment of principal (or any premium)

in respect of the Notes or any of them when due and the default continues for a period of seven days; or

- (b) **Breach of Other Obligations:** the Issuer fails to perform or observe any of its other obligations under these Conditions and (except in any case where the failure is incapable of remedy when no continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days after written notice thereof, addressed to the Issuer by any Noteholder, has been delivered to the Issuer or to the Fiscal Agent requiring the same to be remedied; or
- (c) **Cross-Default:**
- (i) the holders of any Public External Indebtedness (as defined in Condition 4) of the Issuer accelerate such Public External Indebtedness or declare such Public External Indebtedness to be due and payable, or required to be prepaid (other than by a regularly scheduled required payment), prior to the stated maturity thereof; or
- (ii) the Issuer fails to pay in full any principal of, or interest on, any Public External Indebtedness when due (after expiration of any applicable grace period) or any Guarantee (as defined in Condition 4) thereof given by the Issuer shall not be honoured when due and called upon (after the expiration of any applicable grace period),

provided that, the aggregate amount of the relevant Public External Indebtedness or Guarantee in respect of which one or more of the events mentioned above in this Condition 10(c) shall have occurred equals or exceeds Euro 100,000,000 or its equivalent in any other currency or currencies, as the case may be; or

- (d) **Unenforceability:** for any reason whatsoever, any of the Issuer's obligations under the Notes are declared by a court of competent jurisdiction pursuant to a final non-appealable decision to be no longer binding or no longer enforceable against the Issuer or as a result of a judgment or any other act of the Constitutional Court of the Republic of Bulgaria or for any other reason whatsoever any such obligation ceases to be in full force and effect; or
- (e) **Validity:** the Republic of Bulgaria, or any of its political sub-divisions, authorised Agencies (as defined in Condition 6(f)) or officials (on its behalf) repudiates or contests the validity of any Notes, Receipts, Coupons or Talons,

then the holders of at least 25 per cent. in aggregate nominal amount of the outstanding Notes may by notice in writing to the Issuer (with a copy to the Fiscal Agent) declare all the Notes to be immediately due and payable, whereupon the Notes shall become immediately due and payable at their Early Redemption Amount together (if applicable) with any accrued interest to the date of payment without further action or formality. Notice of any such declaration shall promptly be given to all other Noteholders by the Issuer.

If the Issuer receives notice in writing from holders of at least 50 per cent. in aggregate nominal amount of the outstanding Notes to the effect that the Event of Default or Events of Default giving rise to any above-mentioned declaration of acceleration is or are cured following any such declaration and that such holders wish the relevant declaration to be withdrawn, the Issuer shall give notice thereof to the Noteholders (with a copy to the Fiscal Agent), whereupon the relevant declaration shall be withdrawn and shall have no further effect, but without prejudice to any rights or obligations which may have arisen before the Issuer gives such notice (whether pursuant to these Conditions or otherwise). No such withdrawal shall affect any other or any subsequent Event of Default or any right of any Noteholder in relation thereto.

11. **Meeting of Noteholders; Written Resolutions**

(a) **Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions:**

- (i) The Issuer may convene a meeting of the Noteholders at any time in respect of the Notes in accordance with the provisions of the Agency Agreement. The Issuer will determine the time and place of the meeting and will notify the Noteholders of the time, place and purpose of the meeting not less than 21 and not more than 45 days before the meeting.
- (ii) The Issuer or the Fiscal Agent will convene a meeting of Noteholders if the holders of at least 10 per cent. in nominal amount of the outstanding Notes (as defined in the Agency Agreement and described in Condition 11(i)) have delivered a written request to the Issuer or the Fiscal Agent (with a copy to the Issuer) setting out the purpose of the meeting. The Fiscal Agent will agree the time and place of the meeting with the Issuer promptly. The Issuer or the Fiscal Agent, as the case may be, will notify the Noteholders within 10 days of receipt of such written request of the time and place of the meeting, which shall take place not less than 21 and not more than 45 days after the date on which such notification is given.
- (iii) The Issuer (with the agreement of the Fiscal Agent) will set the procedures governing the conduct of any meeting in accordance with the Agency Agreement. If the Agency Agreement does not include such procedures, or additional procedures are required, the Issuer and the Fiscal Agent will agree such procedures as are customary in the market and in such a manner as to facilitate any multiple series aggregation, if in relation to a Reserved Matter the Issuer proposes any modification to the terms and conditions of, or action with respect to, two or more series of debt securities issued by it.
- (iv) The notice convening any meeting will specify, *inter alia*:
 - (A) the date, time and location of the meeting;
 - (B) the agenda and the text of any Extraordinary Resolution to be proposed for adoption at the meeting;
 - (C) the record date for the meeting, which shall be no more than five business days before the date of the meeting;
 - (D) the documentation required to be produced by a Noteholder in order to be entitled to participate at the meeting or to appoint a proxy to act on the Noteholder's behalf at the meeting;
 - (E) any time deadline and procedures required by any relevant international and/or domestic clearing systems or similar through which the Notes are traded and/or held by Noteholders;
 - (F) whether Condition 11(b), Condition 11(c), or Condition 11(d) shall apply and, if relevant, in relation to which other series of debt securities it applies;
 - (G) if the proposed modification or action relates to two or more series of debt securities issued by it and contemplates such series of debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group of debt securities;
 - (H) such information that is required to be provided by the Issuer in accordance with Condition 11(f);

- (I) the identity of the Aggregation Agent and the Calculation Agent, if any, for any proposed modification or action to be voted on at the meeting, and the details of any applicable methodology referred to in Condition 11(g); and
 - (J) any additional procedures which may be necessary and, if applicable, the conditions under which a multiple series aggregation will be deemed to have been satisfied if it is approved as to some but not all of the affected series of debt securities.
- (v) In addition, the Agency Agreement contains provisions relating to Written Resolutions. All information to be provided pursuant to this Condition 11(a) shall also be provided, *mutatis mutandis*, in respect of Written Resolutions.
 - (vi) A "**record date**" in relation to any proposed modification or action means the date fixed by the Issuer for determining the Noteholders and, in the case of a multiple series aggregation, the holders of debt securities of each other affected series that are entitled to vote on a Multiple Series Single Limb Extraordinary Resolution or a Multiple Series Two Limb Extraordinary Resolution, or to sign a Multiple Series Single Limb Written Resolution or a Multiple Series Two Limb Written Resolution.
 - (vii) An "**Extraordinary Resolution**" means any of a Single Series Extraordinary Resolution, a Multiple Series Single Limb Extraordinary Resolution and/or a Multiple Series Two Limb Extraordinary Resolution, as the case may be.
 - (viii) A "**Written Resolution**" means any of a Single Series Written Resolution, a Multiple Series Single Limb Written Resolution and/or a Multiple Series Two Limb Written Resolution, as the case may be.
 - (ix) Any reference to "**debt securities**" means any notes (including the Notes), bonds, debentures or other debt securities issued by the Issuer in one or more series with an original stated maturity of more than one year.
 - (x) "**Debt Securities Capable of Aggregation**" means those debt securities which include or incorporate by reference this Condition 11 and Condition 12 or provisions substantially in these terms which provide for the debt securities which include such provisions to be capable of being aggregated for voting purposes with other series of debt securities.
- (b) **Modification of this Series of Notes only:**
- (i) Any modification of any provision of, or any action in respect of, these Conditions or the Agency Agreement in respect of the Notes may be made or taken if approved by a Single Series Extraordinary Resolution or a Single Series Written Resolution as set out below.
 - (ii) A "**Single Series Extraordinary Resolution**" means a resolution passed at a meeting of Noteholders duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Condition 11(a) by a majority of:
 - (A) in the case of a Reserved Matter, at least 75 per cent. of the aggregate nominal amount of the outstanding Notes; or
 - (B) in the case of a matter other than a Reserved Matter, more than 50 per cent. of the aggregate nominal amount of the outstanding Notes.

- (iii) A "**Single Series Written Resolution**" means a resolution in writing signed or confirmed in writing by or on behalf of the holders of:
 - (A) in the case of a Reserved Matter, at least 75 per cent. of the aggregate nominal amount of the outstanding Notes; or
 - (B) in the case of a matter other than a Reserved Matter, more than 50 per cent. of the aggregate nominal amount of the outstanding Notes.

Any Single Series Written Resolution may be contained in one document or several documents in the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders.

- (iv) Any Single Series Extraordinary Resolution duly passed or Single Series Written Resolution approved shall be binding on all Noteholders, whether or not they attended any meeting, whether or not they voted in favour thereof and whether or not they signed or confirmed in writing any such Single Series Written Resolution, as the case may be, and on all Couponholders.

(c) **Multiple Series Aggregation – Single limb voting:**

- (i) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Debt Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Single Limb Extraordinary Resolution or by a Multiple Series Single Limb Written Resolution as set out below, **provided that** the Uniformly Applicable condition is satisfied.
- (ii) A "**Multiple Series Single Limb Extraordinary Resolution**" means a resolution considered at separate meetings of the holders of each affected series of Debt Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Condition 11(a), as supplemented if necessary, which is passed by a majority of at least 75 per cent. of the aggregate nominal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate).
- (iii) A "**Multiple Series Single Limb Written Resolution**" means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Debt Securities Capable of Aggregation, in accordance with the applicable bond documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of at least 75 per cent. of the aggregate nominal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate). Any Multiple Series Single Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders or one or more holders of each affected series of Debt Securities Capable of Aggregation.
- (iv) Any Multiple Series Single Limb Extraordinary Resolution duly passed or Multiple Series Single Limb Written Resolution approved shall be binding on all Noteholders and holders of each other affected series of Debt Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Single Limb Written Resolution, as the case may be, and on all Couponholders and couponholders of each other affected series of Debt Securities Capable of Aggregation.

- (v) The "**Uniformly Applicable**" condition will be satisfied if:
- (A) the holders of all affected series of Debt Securities Capable of Aggregation are invited to exchange, convert, or substitute their debt securities, on the same terms, for (1) the same new instrument or other consideration or (2) a new instrument, new instruments or other consideration from an identical menu of instruments or other consideration; or
 - (B) the amendments proposed to the terms and conditions of each affected series of Debt Securities Capable of Aggregation would, following implementation of such amendments, result in the amended instruments having identical provisions (other than provisions which are necessarily different, having regard to different currency of issuance).
- (vi) Any modification or action proposed under paragraph (i) above may be made in respect of some series only of the Debt Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 11(c) may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.

(d) **Multiple Series Aggregation – Two limb voting:**

- (i) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Debt Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Two Limb Extraordinary Resolution or by a Multiple Series Two Limb Written Resolution as set out below.
- (ii) A "**Multiple Series Two Limb Extraordinary Resolution**" means a resolution considered at separate meetings of the holders of each affected series of Debt Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Condition 11(a), as supplemented if necessary, which is passed by a majority of:
 - (A) at least 66 $\frac{2}{3}$ per cent. of the aggregate nominal amount of the outstanding debt securities of affected series of Debt Securities Capable of Aggregation (taken in aggregate); and
 - (B) more than 50 per cent. of the aggregate nominal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually).
- (iii) A "**Multiple Series Two Limb Written Resolution**" means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Debt Securities Capable of Aggregation, in accordance with the applicable bond documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of:
 - (A) at least 66 $\frac{2}{3}$ per cent. of the aggregate nominal amount of the outstanding debt securities of all the affected series of Debt Securities Capable of Aggregation (taken in aggregate); and
 - (B) more than 50 per cent. of the aggregate nominal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually).

Any Multiple Series Two Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders or one or more holders of each affected series of Debt Securities Capable of Aggregation.

- (iv) Any Multiple Series Two Limb Extraordinary Resolution duly passed or Multiple Series Two Limb Written Resolution approved shall be binding on all Noteholders and holders of each other affected series of Debt Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Two Limb Written Resolution, as the case may be, and on all Couponholders and couponholders of each other affected series of Debt Securities Capable of Aggregation.
- (v) Any modification or action proposed under paragraph (i) above may be made in respect of some series only of the Debt Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 11(d) may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.

(e) **Reserved Matters:**

In these Conditions, "**Reserved Matter**" means any proposal:

- (i) to change the date, or the method of determining the date, for payment of principal, interest or any other amount in respect of the Notes, to reduce or cancel the amount of principal, interest or any other amount payable on any date in respect of the Notes or to change the method of calculating the amount of principal, interest or any other amount payable in respect of the Notes on any date;
- (ii) to change the currency in which any amount due in respect of the Notes is payable or the place in which any payment is to be made;
- (iii) to change the majority required to pass an Extraordinary Resolution, a Written Resolution or any other resolution of Noteholders or the number or percentage of votes required to be cast, or the number or percentage of Notes required to be held, in connection with the taking of any decision or action by or on behalf of the Noteholders or any of them;
- (iv) to change this definition, or the definition of "Extraordinary Resolution", "Single Series Extraordinary Resolution", "Multiple Series Single Limb Extraordinary Resolution", "Multiple Series Two Limb Extraordinary Resolution", "Written Resolution", "Single Series Written Resolution", "Multiple Series Single Limb Written Resolution" or "Multiple Series Two Limb Written Resolution";
- (v) to change the definition of "debt securities" or "Debt Securities Capable of Aggregation";
- (vi) to change the definition of "Uniformly Applicable";
- (vii) to change the definition of "outstanding" or to modify the provisions of Condition 11(i);
- (viii) to change the legal ranking of the Notes;
- (ix) to change any provision of the Notes describing circumstances in which Notes may be declared due and payable prior to their scheduled maturity date, set out in Condition 10;
- (x) to change the law governing the Notes, the courts to the jurisdiction of which the Issuer has submitted in the Notes, any of the arrangements specified in the Notes to enable proceedings to be taken or the Issuer's waiver of immunity, in respect of actions or proceedings brought by any Noteholder, set out in Condition 19;

- (xi) to impose any condition on or otherwise change the Issuer's obligation to make payments of principal, interest or any other amount in respect of the Notes, including by way of the addition of a call option;
- (xii) to modify the provisions of this Condition 11(e);
- (xiii) except as permitted by any related guarantee or security agreement, to release any agreement guaranteeing or securing payments under the Notes or to change the terms of any such guarantee or security;
- (xiv) to exchange or substitute all the Notes for, or convert all the Notes into, other obligations or securities of the Issuer or any other person, or to modify any provision of these Conditions in connection with any exchange or substitution of the Notes for, or the conversion of the Notes into, any other obligations or securities of the Issuer or any other person, which would result in the Conditions as so modified being less favourable to the Noteholders which are subject to the Conditions as so modified than:
 - (A) the provisions of the other obligations or debt securities of the Issuer or any other person resulting from the relevant exchange or substitution or conversion; or
 - (B) if more than one series of other obligations or debt securities results from the relevant exchange or substitution or conversion, the provisions of the resulting series of debt securities having the largest aggregate nominal amount.

(f) **Information:**

Prior to or on the date that the Issuer proposes any Extraordinary Resolution or Written Resolution pursuant to Condition 11(b), Condition 11(c) or Condition 11(d), the Issuer shall publish in accordance with Condition 12, and provide the Fiscal Agent with the following information:

- (A) a description of the Issuer's economic and financial circumstances which are, in the Issuer's opinion, relevant to the request for any potential modification or action, a description of the Issuer's existing debts and a description of its broad policy reform programme and provisional macroeconomic outlook;
- (B) if the Issuer shall at the time have entered into an arrangement for financial assistance with multilateral and/or other major creditors or creditor groups and/or an agreement with any such creditors regarding debt relief, a description of any such arrangement or agreement and where permitted under the information disclosure policies of the multilateral or such other creditors, as applicable, copies of the arrangement or agreement shall be provided;
- (C) a description of the Issuer's proposed treatment of external debt securities that fall outside the scope of any multiple series aggregation and its intentions with respect to any other debt securities and its other major creditor groups; and
- (D) if any proposed modification or action contemplates debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group, as required for a notice convening a meeting of the Noteholders in Condition 11(a)(iv)(G).

(g) **Claims Valuation:**

For the purpose of calculating the par value of the Notes and any affected series of debt securities which are to be aggregated with the Notes in accordance with Condition 11(c) and Condition 11(d), the Issuer may appoint a Calculation Agent. The Issuer shall, with the approval of the Aggregation Agent and any appointed Calculation Agent, promulgate the methodology in accordance with which the Calculation Agent will calculate the par

value of the Notes and such affected series of debt securities. In any such case where a Calculation Agent is appointed, the same person will be appointed as the Calculation Agent for the Notes and each other affected series of debt securities for these purposes, and the same methodology will be promulgated for each affected series of debt securities.

(h) **Manifest error, etc.:**

The Notes, these Conditions and the provisions of the Agency Agreement may be amended without the consent of the Noteholders or the Couponholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature or it is not materially prejudicial to the interests of the Noteholders.

(i) **Notes controlled by the Issuer:**

For the purposes of (i) determining the right to attend and vote at any meeting of Noteholders, or the right to sign or confirm in writing, or authorise the signature of, any Written Resolution, (ii) this Condition 11 and (iii) Condition 10, any Notes which are for the time being held by or on behalf of the Issuer or by or on behalf of any other person which is owned or controlled directly or indirectly by the Issuer or by any of its Agencies (as defined in Condition 6(f)) shall be disregarded and be deemed not to remain outstanding; where "**control**" means the power, directly or indirectly, through the ownership of voting securities or other ownership interests or through contractual control or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of a corporation, trust, financial institution or other entity.

A Note will also be deemed to be not outstanding if the Note has previously been cancelled or delivered for cancellation or held for reissuance but not reissued, or, where relevant, the Note has previously been called for redemption in accordance with its terms or previously become due and payable at maturity or otherwise and the Issuer has previously satisfied its obligations to make all payments due in respect of the Note in accordance with its terms.

In advance of any meeting of Noteholders, or in connection with any Written Resolution, the Issuer shall provide to the Fiscal Agent a copy of the certificate prepared pursuant to Condition 12(d) which includes information on the total number of Notes which are for the time being held by or on behalf of the Issuer or by or on behalf of any person which is owned or controlled directly or indirectly by the Issuer or by any of its Agencies and, as such, such Notes shall be disregarded and deemed not to remain outstanding for the purposes of ascertaining the right to attend and vote at any meeting of Noteholders or the right to sign, or authorise the signature of, any Written Resolution in respect of any such meeting. The Fiscal Agent shall make any such certificate available for inspection during normal business hours at its specified office and, upon reasonable request, will allow copies of such certificate to be taken.

(j) **Publication:**

The Issuer shall publish all Extraordinary Resolutions and Written Resolutions which have been determined by the Aggregation Agent to have been duly passed in accordance with Condition 12(g).

(k) **Exchange and Conversion:**

Any Extraordinary Resolutions or Written Resolutions which have been duly passed and which modify any provision of, or action in respect of, the Conditions may be implemented at the Issuer's option by way of a mandatory exchange or conversion of the Notes and each other affected series of debt securities, as the case may be, into new debt securities containing the modified terms and conditions if the proposed mandatory

exchange or conversion of the Notes is notified to Noteholders at the time notification is given to the Noteholders as to the proposed modification or action. Any such exchange or conversion shall be binding on all Noteholders and Couponholders.

12. **Aggregation Agent; Aggregation Procedures**

(a) ***Appointment:***

The Issuer will appoint an Aggregation Agent to calculate whether a proposed modification or action has been approved by the required nominal amount outstanding of Notes and, in the case of a multiple series aggregation, by the required nominal amount of outstanding debt securities of each affected series of debt securities. In the case of a multiple series aggregation, the same person will be appointed as the Aggregation Agent for the proposed modification of any provision of, or any action in respect of, these Conditions or the Agency Agreement in respect of the Notes and in respect of the terms and conditions or bond documentation in respect of each other affected series of debt securities. The Aggregation Agent shall be independent of the Issuer.

(b) **Extraordinary Resolutions:**

If an Extraordinary Resolution has been proposed at a duly convened meeting of Noteholders to modify any provision of, or action in respect of, these Conditions and other affected series of debt securities, as the case may be, the Aggregation Agent will, as soon as practicable after the time the vote is cast, calculate whether holders of a sufficient portion of the aggregate nominal amount of the outstanding Notes and, where relevant, each other affected series of debt securities, have voted in favour of the Extraordinary Resolution such that the Extraordinary Resolution is passed. If so, the Aggregation Agent will determine that the Extraordinary Resolution has been duly passed.

(c) **Written Resolutions:**

If a Written Resolution has been proposed under the Conditions to modify any provision of, or action in respect of, these Conditions and the terms and conditions of other affected series of debt securities, as the case may be, the Aggregation Agent will, as soon as reasonably practicable after the relevant Written Resolution has been signed or confirmed in writing, calculate whether holders of a sufficient portion of the aggregate nominal amount of the outstanding Notes and, where relevant, each other affected series of debt securities, have signed or confirmed in writing in favour of the Written Resolution such that the Written Resolution is passed. If so, the Aggregation Agent will determine that the Written Resolution has been duly passed.

(d) **Certificate:**

For the purposes of Condition 12(b) and Condition 12(c), the Issuer will provide a certificate to the Aggregation Agent up to three days prior to, and in any case no later than, with respect to an Extraordinary Resolution, the date of the meeting referred to in Condition 11(b), Condition 11(c) or Condition 11(d), as applicable, and, with respect to a Written Resolution, the date arranged for the signing of the Written Resolution.

The certificate shall:

- (i) list the total nominal amount of Notes and, in the case of a multiple series aggregation, the total nominal amount of each other affected series of debt securities outstanding on the record date; and
- (ii) clearly indicate the Notes and, in the case of a multiple series aggregation, debt securities of each other affected series of debt securities which shall be disregarded and deemed not to remain outstanding as a consequence of Condition 11(i) on the record date identifying the holders of the Notes and, in the case of a multiple series aggregation, debt securities of each other affected series of debt securities.

The Aggregation Agent may rely upon the terms of any certificate, notice, communication or other document believed by it to be genuine.

(e) **Notification:**

The Aggregation Agent will cause each determination made by it for the purposes of this Condition 12 to be notified to the Fiscal Agent and the Issuer as soon as practicable after such determination. Notice thereof shall also promptly be given to the Noteholders.

(f) **Binding nature of determinations; no liability:**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 12 by the Aggregation Agent and any appointed Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Fiscal Agent and the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such person will attach to the Aggregation Agent or the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

(g) **Manner of publication:**

The Issuer will publish all notices and other matters required to be published pursuant to the Agency Agreement including any matters required to be published pursuant to Condition 10, Condition 11, this Condition 12 and Condition 13:

- (i) through Euroclear Bank S.A./N.V., Clearstream Banking, *société anonyme*, The Depository Trust Company and/or any other clearing system in which the Notes are held;
- (ii) in such other places and in such other manner as may be required by applicable law or regulation; and
- (iii) in such other places and in such other manner as may be customary.

13. **Noteholders' Committee**

(a) *Appointment:*

- (i) Holders of at least 25 per cent. of the aggregate nominal amount of the outstanding debt securities of all series of affected debt securities (taken in aggregate) may, by notice in writing to the Issuer (with a copy to the Fiscal Agent), appoint any person or persons as a committee to represent the interests of such holders (as well as the interests of any holders of outstanding debt securities who wish to be represented by such a committee) if any of the following events has occurred:
 - (A) an Event of Default under Condition 10;
 - (B) any event or circumstance which could, with the giving of notice, lapse of time, the issuing of a certificate and/or fulfilment of any other requirement provided for in Condition 10 become an Event of Default;
 - (C) any public announcement by the Issuer, to the effect that the Issuer is seeking or intends to seek a rescheduling or restructuring of the Notes or any other affected series of debt securities (whether by amendment, exchange offer or otherwise); or
 - (D) with the agreement of the Issuer, at a time when the Issuer has reasonably reached the conclusion that its debt may no longer be sustainable whilst the Notes or any other affected series of debt securities are outstanding.

(ii) Upon receipt of a written notice that a committee has been appointed in accordance with Condition 13(a)(i) and a certificate delivered pursuant to Condition 13(d), the Issuer shall give notice of the appointment of such a committee to:

- (A) all Noteholders in accordance with Condition 16; and
- (B) the holders of each affected series of debt securities in accordance with the terms and conditions of such affected series of debt securities,

as soon as practicable after such written notice and such certificate are delivered to the Issuer.

(b) **Powers:**

Such committee in its discretion may, among other things:

- (i) engage legal advisers and financial advisers to assist it in representing the interests of the Noteholders;
- (ii) adopt such rules as it considers appropriate regarding its proceedings;
- (iii) enter into discussions with the Issuer and/or other creditors of the Issuer; and
- (iv) designate one or more members of the committee to act as the main point(s) of contact with the Issuer and provide all relevant contact details to the Issuer.

Except to the extent provided in this Condition 13(b), such committee shall not have the ability to exercise any powers or discretions which the Noteholders could themselves exercise.

(c) **Engagement with the committee and provision of information:**

- (i) The Issuer shall:
 - (A) subject to paragraph (ii) immediately below, engage with the committee in good faith;
 - (B) provide the committee with information equivalent to that required under Condition 11(f) and related proposals, if any, in each case as the same become available, subject to any applicable information disclosure policies, rules and regulations; and
 - (C) pay any reasonable fees and expenses of any such committee (including without limitation, the reasonable and documented fees and expenses of the committee's legal and financial advisers, if any) following receipt of reasonably detailed invoices and supporting documentation.
- (ii) If more than one committee has been appointed by holders of affected series of debt securities in accordance with the provisions of this Condition 13 and/or equivalent provisions set out in the terms and conditions of any affected series of debt securities, the Issuer shall not be obliged to engage with such committees separately. Such committees may appoint a single steering group (to be comprised of representatives from such committees), whereupon the Issuer shall engage with such steering group.

(d) **Certification:**

Upon the appointment of a committee, the person or persons constituting such a committee (the "**Members**") will provide a certificate to the Issuer and to the Fiscal Agent signed by the authorised representatives of the Members, and the Issuer and the Fiscal Agent may rely upon the terms of such certificate.

The certificate shall certify:

- (i) that the committee has been appointed;
- (ii) the identity of the Members; and
- (iii) that such appointment complies with the terms and conditions of the relevant bond documentation.

Promptly after any change in the identity of the Members, a new certificate which each of the Issuer and the Fiscal Agent may rely on conclusively, will be delivered to the Issuer and the Fiscal Agent identifying the new Members. Each of the Issuer and the Fiscal Agent will assume that the membership of the committee has not changed unless and until it has received a new certificate.

The provisions of this Condition 13(d) shall apply, *mutatis mutandis*, to any steering group appointed in accordance with Condition 13(c)(ii).

In appointing a person or persons as a committee to represent the interests of the Noteholders, the Noteholders may instruct a representative or representatives of the committee to form a separate committee or to join a steering group with any person or persons appointed for similar purposes by other affected series of debt securities.

14. **Replacement of Notes, Certificates, Receipts, Coupons and Talons**

If a Note, Certificate, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Fiscal Agent (in the case of Bearer Notes, Receipts, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Receipt, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificates, Receipts, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Notes, Certificates, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

15. **Further Issues**

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further notes having the same terms and conditions as the Notes (so that, for the avoidance of doubt, references in these Conditions to "**Issue Date**" shall be to the first issue date of the Notes) and so that the same shall be consolidated and form a single series with such Notes, and references in these Conditions to "**Notes**" shall be construed accordingly.

16. **Notices**

Notices to the holders of Registered Notes shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Notices to the holders of Bearer Notes shall be valid if published in a leading newspaper of general circulation in Luxembourg (which is expected to be the *Luxembourg Wort*) and/or the Luxembourg Stock Exchange's website, *www.bourse.lu*. If any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the date of the first publication as provided above. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant authority on which the Notes are for the time being listed or by which they have been admitted to trading.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition.

17. **Currency Indemnity**

If any sum due from the Issuer in respect of any relevant Note, Coupon or Receipt or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, Coupons and/or Receipts the Issuer shall indemnify each Noteholder and/or Couponholder, as the case may be, on the written demand of such Noteholder or Couponholder addressed to the Issuer and delivered to the Issuer or to the specified office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder and/or Couponholder, as the case may be, may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

18. **Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

19. **Governing Law and Jurisdiction**

(a) **Governing Law:** The Notes, the Receipts, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

(b) **Jurisdiction:** The Issuer irrevocably agrees for the benefit of the holders of any Notes, Receipts, Coupons or Talons that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Notes, Receipts, Coupons or Talons (including a dispute relating to any non-contractual obligation arising out of or in connection with any of them) and that accordingly any suit, action or proceedings arising out of or in connection therewith (together referred to as "**Proceedings**") may be brought in the courts of England.

(c) **No Objection to Proceedings:** The Issuer irrevocably and unconditionally waives and agrees not to raise any objection which it may have now or subsequently to the laying of the venue of any Proceedings in the courts of England and any claim that any Proceedings have been brought against the Issuer in an inconvenient forum and further irrevocably and unconditionally agrees that a judgment in any Proceedings brought in the courts of England shall be conclusive and binding upon the Issuer and may be enforced in the courts of any other jurisdiction. Nothing in this Condition 19 shall limit any right to take Proceedings against the Issuer in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions against the Issuer preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not.

(d) **Process Agent:** The Issuer hereby irrevocably and unconditionally appoints Law Debenture Corporate Services Limited at its registered office for the time being in England for the time being as its agent for service of process in England in respect of any Proceedings. Such service shall be deemed completed on delivery to such process agent (whether or not it is forwarded to and received by the Issuer). If for any reason such process agent ceases to be able to act as such or no longer has an address in England, the Issuer irrevocably agrees to appoint a substitute process agent and shall

immediately notify Noteholders of such appointment in accordance with Condition 16. Nothing shall affect the right to serve process in any manner permitted by law.

- (e) **Immunity:** The Issuer hereby irrevocably waives any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence, and irrevocably consents (to the fullest extent permitted by Bulgarian law, as may be amended from time to time, or any other applicable law, as may be amended from time to time), to the giving of any relief, the imposition of any security measure (except pre-judgment attachments or injunctions) or the issue of any process, including, without limitation, the making, enforcement or execution against any assets, revenue or property of the Issuer whatsoever (irrespective of its use or intended use) of any order, ruling, award or judgment made or given in connection with any Proceedings **provided, however, that** immunity is not waived with respect to (i) present or future "**premises of the mission**" as defined in the Vienna Convention on Diplomatic Relations signed in 1961, (ii) "**consular premises**" as defined in the Vienna Convention on Consular Relations signed in 1963, or (iii) military property or military assets or property or assets of the Republic of Bulgaria related thereto.

- (f) **Invalidity:** If any Condition is or becomes invalid, illegal or unenforceable in any respect under any law of any relevant jurisdiction (including under the laws of England or the Republic of Bulgaria), the validity, legality and enforceability of the remaining Conditions shall not be affected or impaired in any way nor shall it affect or impair the validity or enforceability of such Condition in any other jurisdiction. If the choice of English law as the governing law regarding any non-contractual obligations arising out of or in connection with the Notes, Receipts, Coupons and/or Talons is declared null and void by a court of competent jurisdiction pursuant to a final non-appealable decision and as a result holders of any such Notes, Receipts, Coupons and/or Talons are not able to validly exercise their rights under the rules of unjust enrichment of English law, holders of any such Notes, Receipts, Coupons and/or Talons shall be entitled to file claims against the Issuer in compliance with the unjust enrichment rules of Bulgarian law, where applicable.

SUMMARY OF PROVISIONS RELATING TO NOTES IN GLOBAL FORM

1. Initial Issue of Notes

If the Global Notes or the Global Certificates are stated in the applicable Pricing Supplement to be issued in NGN form or to be held under the NSS (as the case may be), the Global Notes or the Global Certificates will be delivered on or prior to the original issue date of the Tranche to a common safekeeper. Depositing the Global Notes or the Global Certificates with the common safekeeper does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue, or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

Global Notes which are issued in Classic Global Note ("**CGN**") form and Global Certificates which are not held under the NSS may be delivered on or prior to the original issue date of the Tranche to a Common Depository.

If the Global Note is a CGN, upon the initial deposit of a Global Note with a common depository for Euroclear Bank S.A./N.V. as the operator of the Euroclear System ("**Euroclear**") and Clearstream Banking *société anonyme*, Luxembourg ("**Clearstream, Luxembourg**") (the "**Common Depository**") or registration of Registered Notes in the name of any nominee for Euroclear and Clearstream, Luxembourg and delivery of the relative Global Certificate to the Common Depository, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid. If the Global Note is a NGN, the nominal amount of the Notes shall be the aggregate amount from time to time entered in the records of Euroclear or Clearstream, Luxembourg. The records of such clearing system shall be conclusive evidence of the nominal amount of Notes represented by the Global Note and a statement issued by such clearing system at any time shall be conclusive evidence of the records of the relevant clearing system at that time.

Upon the initial deposit of a Global Certificate in respect of, and registration of, Registered Notes in the name of a nominee for the Depository Trust Company ("**DTC**") and delivery of the relevant Global Certificate to the Custodian for DTC, DTC will credit each participant with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid.

Notes that are initially deposited with the Common Depository may also be credited to the accounts of subscribers with (if indicated in the relevant Pricing Supplement) other clearing systems through direct or indirect accounts with Euroclear and Clearstream, Luxembourg held by such other clearing systems. Conversely, Notes that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, Luxembourg or other clearing systems.

2. Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg, DTC or any other permitted clearing system ("**Alternative Clearing System**") as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg, DTC or any such Alternative Clearing System (as the case may be) for his share of each payment made by the Issuer to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, and in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg, DTC or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations of the Issuer will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

3. Exchange

3.1 Temporary Global Notes

Each Temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date:

- (i) if the relevant Pricing Supplement indicates that such Global Note is issued in compliance with the C Rules or in a transaction to which TEFRA is not applicable, in whole, but not in part, for the Definitive Notes defined and described below; and
- (ii) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a Permanent Global Note or, if so provided in the relevant Pricing Supplement, for Definitive Notes.

3.2 Permanent Global Notes

Each Permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under paragraph 3.4 below, in part for Definitive Notes:

- (i) if the Permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so; or
- (ii) if principal in respect of any Notes is not paid when due, by the holder giving notice to the Fiscal Agent of its election for such exchange.

In the event that a Global Note is exchanged for Definitive Notes, such Definitive Notes shall be issued in Specified Denomination(s) only. A Noteholder who holds a nominal amount of less than the minimum Specified Denomination will not receive a definitive Note in respect of such holding and would need to purchase a nominal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

3.3 Global Certificates

(a) *Unrestricted Global Certificates:*

If the Pricing Supplement states that the Notes are to be represented by a Unrestricted Global Certificate on issue, the following will apply in respect of transfers of Notes held in Euroclear or Clearstream, Luxembourg or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system.

Transfers of the holding of Notes represented by any Global Certificate pursuant to Condition 2(b) may only be made:

- (i) in whole but not in part, if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or
- (ii) in whole or in part, if principal in respect of any Notes is not paid when due; or
- (iii) in whole or in part, with the consent of the Issuer,

provided that, in the case of the first transfer of part of a holding pursuant to paragraph 3.3(a)(i) or 3.3(a)(ii) above, the Registered Holder has given the Registrar not less than 30 days' notice at its specified office of the Registered Holder's intention to effect such transfer.

(b) *Restricted Global Certificates:*

If the Pricing Supplement states that the Restricted Notes are to be represented by a Restricted Global Certificate on issue, the following will apply in respect of transfers of Notes held in DTC. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of DTC, but will limit the circumstances in which the Notes may be withdrawn from DTC. Transfers of the holding of Notes represented by that Restricted Global Certificate pursuant to Condition 2(b) may only be made:

- (i) in whole but not in part, if such Notes are held on behalf of a Custodian for DTC and if DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to that Restricted Global Certificate or DTC ceases to be a "clearing agency" registered under the Exchange Act or is at any time no longer eligible to act as such, and this Issuer is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of DTC; or
- (ii) in whole or in part, with the Issuer's consent,

provided that, in the case of any transfer pursuant to paragraph 3.3(b)(i) above, the relevant Registered Noteholder has given the relevant Registrar not less than 30 days' notice at its specified office of the Registered Noteholder's intention to effect such transfer. Individual Certificates issued in exchange for a beneficial interest in a Restricted Global Certificate shall bear the legend applicable to such Notes as set out in "*Transfer Restrictions*".

3.4 **Partial Exchange of Permanent Global Notes**

For so long as a Permanent Global Note is held on behalf of a clearing system and the rules of that clearing system permit, such Permanent Global Note will be exchangeable in part on one or more occasions for Definitive Notes (i) if principal in respect of any Notes is not paid when due or (ii) if so provided in, and in accordance with, the Conditions (which will be set out in the relevant Pricing Supplement) relating to any Partly Paid Notes.

3.5 **Delivery of Notes**

If the Global Note is a CGN, on or after any due date for exchange, the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Fiscal Agent. In exchange for any Global Note, or the part thereof to be exchanged, the Issuer will (i) in the case of a Temporary Global Note exchangeable for a Permanent Global Note, deliver, or procure the delivery of, a Permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a Temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a Permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for Definitive Notes, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes or if the Global Note is a NGN, the Issuer will procure that details of such exchange be entered *pro rata* in the records of the relevant clearing system. Global Notes and Definitive Notes will be delivered outside the United States and its possessions. In this Offering Circular, "**Definitive Notes**" means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons and Receipts in respect of interest or Instalment Amounts that have not already been paid on the Global Note and a Talon). Definitive Notes will be security printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Agency Agreement. On exchange in full of each Permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

3.6 **Exchange Date**

"**Exchange Date**" means, in relation to a Temporary Global Note, the day falling after the expiry of 40 days after its issue date and, in relation to a Permanent Global Note, a day falling not less than 60 days, or in the case of failure to pay principal in respect of any Notes when due 30 days, after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Fiscal Agent is located and in the city in which the relevant clearing system is located.

4. **Amendment to Conditions**

The Temporary Global Notes, Permanent Global Notes and Global Certificates contain provisions that apply to the Notes that they represent, some of which modify the effect of the terms and conditions of the Notes set out in this Offering Circular. The following is a summary of certain of those provisions:

4.1 **Payments**

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a Permanent Global Note or for Definitive Notes is improperly withheld or refused. Payments on any Temporary Global Note issued in compliance with the D Rules before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a Global Note in CGN form will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Fiscal Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. If the Global Note is a CGN, a record of each payment so made will be endorsed on each Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Notes. Condition 7(e)(vii) and Condition 8(d) will apply to the Definitive Notes only. If the Global Note is a NGN or if the Global Certificate is held under the NSS, the Issuer shall procure that details of each such payment shall be entered *pro rata* in the records of the relevant clearing system and in the case of payments of principal, the nominal amount of the Notes recorded in the records of the relevant clearing system and represented by the Global Note or the Global Certificate will be reduced accordingly. Payments under a NGN will be made to its holder. Each payment so made will discharge the Issuer's obligations in respect thereof. Any failure to make the entries in the records of the relevant clearing system shall not affect such discharge. For the purpose of any payments made in respect of a Global Note, the relevant place of presentation shall be disregarded in the definition of "business day" set out in Condition 7(h).

All payments in respect of Notes represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the record date which shall be on the Clearing System Business Day immediately prior to the date for payment, where "**Clearing System Business Day**" means Monday to Friday inclusive except 25 December and 1 January.

4.2 **Prescription**

Claims against the Issuer in respect of Notes that are represented by a Permanent Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 8).

4.3 **Meetings**

The holder of a Permanent Global Note or of the Notes represented by a Global Certificate shall be treated as having one vote in respect of each integral currency unit of the Specified Currency of the Notes. (All holders of Registered Notes are entitled to one vote in respect of each integral currency unit of the Specified Currency of the Notes comprising such Noteholder's holding, whether or not represented by a Global Certificate.)

4.4 **Cancellation**

Cancellation of any Note represented by a Permanent Global Note that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the nominal amount of the relevant Permanent Global Note.

4.5 **Purchase**

Notes represented by a Permanent Global Note may only be purchased by the Issuer or any of its Agencies if they are purchased together with the rights to receive all future payments of interest and Instalment Amounts (if any) thereon.

4.6 **Issuer's Option**

Any option of the Issuer provided for in the Conditions of any Notes while such Notes are represented by a Permanent Global Note shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the event that any option of the Issuer is exercised in respect of some but not all of the Notes of any Series, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear and/or Clearstream, Luxembourg and/or DTC or any other Alternative Clearing System (as the case may be) (in the case of Euroclear and/or Clearstream, Luxembourg, to be reflected in their records as either a pool factor or a reduction in nominal amount, at their discretion).

4.7 **Noteholders' Options**

Any option of the Noteholders provided for in the Conditions of any Notes while such Notes are represented by a Permanent Global Note may be exercised by the holder of the Permanent Global Note giving notice to the Fiscal Agent within the time limits relating to the deposit of Notes with a Paying Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the serial numbers of the Notes in respect of which the option has been exercised, and stating the nominal amount of Notes in respect of which the option is exercised and at the same time, where the Permanent Global Note is a CGN, presenting the Permanent Global Note to the Fiscal Agent, or to a Paying Agent acting on behalf of the Fiscal Agent, for notation. Where the Global Note is a NGN or where the Global Certificate is held under the NSS, the Issuer shall procure that details of such exercise shall be entered *pro rata* in the records of the relevant clearing system and the nominal amount of the Notes recorded in those records will be reduced accordingly.

4.8 **NGN nominal amount**

Where the Global Note is a NGN, the Issuer shall procure that any exchange, payment, cancellation, exercise of any option or any right under the Notes, as the case may be, in addition to the circumstances set out above shall be entered in the records of the relevant clearing systems and upon any such entry being made, in respect of payments of principal, the nominal amount of the Notes represented by such Global Note shall be adjusted accordingly.

4.9 **Notices**

So long as any Notes are represented by a Global Note or Global Certificate and such Global Note or Global Certificate is held on behalf of a clearing system, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note, except that so long as the Notes are listed on the Luxembourg Stock Exchange's regulated market and the rules of that exchange so require, notices shall also be published either on the website of the Luxembourg Stock Exchange (www.bourse.lu) or in a leading newspaper having general circulation in Luxembourg (which is expected to be *the Luxemburger Wort*). Any such notice shall be deemed to have been delivered to Noteholders on the second day after the day on which such notice is delivered to the relevant clearing system.

5. **Partly Paid Notes**

The provisions relating to Partly Paid Notes are not set out in this Offering Circular, but will be contained in the relevant Pricing Supplement and thereby in the Global Notes. While any instalments of the subscription moneys due from the holder of Partly Paid Notes are overdue, no interest in a Global Note representing such Notes may be exchanged for an interest in a Permanent Global Note or for Definitive Notes (as the case may be). If any Noteholder fails to pay any instalment due on any Partly Paid Notes within the time specified, the Issuer may forfeit such Notes and shall have no further obligation to their holder in respect of them.

FORM OF PRICING SUPPLEMENT

NO PROSPECTUS IS REQUIRED IN ACCORDANCE WITH DIRECTIVE 2003/71/EC (AS AMENDED) FOR THE ISSUE OF NOTES DESCRIBED BELOW

Pricing Supplement dated [•]

Republic of Bulgaria
Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the €8,000,000,000
Global Medium Term Note Programme

PART A – CONTRACTUAL TERMS

This document constitutes the Pricing Supplement for the Notes described herein. This document must be read in conjunction with the Offering Circular dated [date] [and the supplement to it dated [date]] (together, the "**Offering Circular**"). Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement and the Offering Circular. Copies of the Offering Circular may be obtained from [address]].

[Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions (the "**Conditions**") set forth in the Offering Circular dated [date] [and the supplement dated [date]] which are incorporated by reference in the Offering Circular.]

Include whichever of the following apply or specify as "Not Applicable". Italics denote guidance for completing the Pricing Supplement.

1. Issuer: Republic of Bulgaria
2. (i) Series Number: [•]
(ii) Tranche Number: [•]
[(iii) Date on which the Notes become fungible: [Not Applicable/The Notes shall be consolidated, form a single series and be interchangeable for trading purposes with the [insert description of the Series] on [insert date/the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 22 below [which is expected to occur on or about [insert date]].]
3. Specified Currency or Currencies: [•]
4. Aggregate Nominal Amount:
[(i) Series: [•]
[(ii) Tranche: [•]
5. Issue Price: [•] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (if applicable)]
6. (i) Specified Denominations: [•][and integral multiples of [•] in excess thereof, up to and including [•]]
(ii) Calculation Amount: [•]
7. (i) Issue Date: [•]

- (ii) Interest Commencement Date [Specify/Issue Date/Not Applicable]
8. Maturity Date: [Specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year]
9. Interest Basis: [•][per cent. Fixed Rate] [[reference rate] +/- [•] per cent. Floating Rate] [Zero Coupon] [Other (specify)] (further particulars specified below)
10. Redemption/Payment Basis: [Redemption at par] [Instalment] [Other (specify)]
11. Change of Interest or Redemption/Payment Basis: [Specify details of any provision for convertibility of Notes into another interest or redemption/ payment basis] [Not Applicable]
12. Put/Call Options: [Investor Put Option] [Issuer Call Option] [(further particulars specified below)][Not Applicable]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

13. Fixed Rate Note Provisions [Applicable/Not Applicable] (If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Rate(s) of Interest: [•] per cent. per annum payable [annually/semi-annually] in arrear on each Interest Payment Date
- (ii) Interest Payment Date(s): [•] in each year
- (iii) Fixed Coupon Amount(s): [•] per Calculation Amount
- (iv) Broken Amount(s): [•] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [•]/[Not Applicable]
- (v) Day Count Fraction: [30/360 / Actual/Actual (ICMA) / specify other]
- (vi) [Determination Dates: [•] in each year (insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA))]
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [Not Applicable/give details]
14. Floating Rate Note Provisions [Applicable/Not Applicable] (If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Interest Period(s): [•][[, subject to adjustment in accordance with the Business Day Convention set out in (iv) below/, not subject to any adjustment[, as the Business Day Convention in (v) below is

specified to be Not Applicable]]]

- (ii) Specified Interest Payment Dates: [[•] in each year[, subject to adjustment in accordance with the Business Day Convention set out in (iv) below/, not subject to any adjustment[, as the Business Day Convention in (iv) below is specified to be Not Applicable]]]
- (iii) Interest Period Date: [Not Applicable]/ [•][in each year[, subject to adjustment in accordance with the Business Day Convention set out in (v) below/, not subject to any adjustment[, as the Business Day Convention in (v) below is specified to be Not Applicable]]]
- (iv) First Interest Payment Date: [•]
- (v) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)][Not Applicable]
- (vi) Business Centre(s): [•]
- (vii) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination/ISDA Determination/other (*give details*)]
- (viii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Agent): [•]
- (ix) Screen Rate Determination:
 - Reference Rate: [LIBOR/EURIBOR/[•]]
 - Interest Determination Date(s): [•]
 - Relevant Screen Page: [•]
- (x) ISDA Determination:
 - Floating Rate Option: [•]
 - Designated Maturity: [•]
 - Reset Date: [•]
 - ISDA Definitions [2000/2006]
- (xi) Linear Interpolation: Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (*specify for each short or long interest period*)
- (xii) Margin(s): [+/-][•] per cent. per annum
- (xiii) Minimum Rate of Interest: [•] per cent. per annum
- (xiv) Maximum Rate of Interest: [•] per cent. per annum

- (xv) Day Count Fraction: [•]
- (xvi) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: [•]
15. Zero Coupon Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Amortisation Yield: [•] per cent. per annum
- (ii) Day Count Fraction in relation to Early Redemption Amounts: [[30/360][Actual/360][Actual/365][Actual-Actual-ICMA]][*specify other*]
- (iii) Any other formula/basis of determining amount payable: [•]
16. Index-Linked Interest Note/other variable-linked interest Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Index/Formula/other variable: [*give or annex details*]
- (ii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Agent): [•]
- (iii) Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable: [•]
- (iv) Determination Date(s): [•]
- (v) Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: [•]
- (vi) Interest or calculation period(s): [•]
- (vii) Specified Interest Payment Dates: [•]
- (viii) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
- (ix) Business Centre(s): [•]
- (x) Minimum Rate/Amount of Interest: [•] [per cent.] per annum
- (xi) Maximum Rate/Amount of Interest: [•] [per cent.] per annum

- (xii) Day Count Fraction: [•]
- 17. Dual Currency Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
 - (i) Rate of Exchange/method of calculating Rate of Exchange: [give details]
 - (ii) Party, if any, responsible for calculating the principal and/or interest due (if not the Agent): [•]
 - (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [•]
 - (iv) Person at whose option Specified Currency(ies) is/are payable: [•]

PROVISIONS RELATING TO REDEMPTION

- 18. Call Option [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
 - (i) Optional Redemption Date(s): [•]
 - (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): [•] per Calculation Amount /specify other/see Appendix
 - (iii) If redeemable in part:
 - (a) Minimum Redemption Amount: [•] per Calculation Amount
 - (b) Maximum Redemption Amount: [•] per Calculation Amount
 - (iv) Notice period (Condition 6(c)): [•] days
- 19. Put Option [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
 - (i) Optional Redemption Date(s): [•]
 - (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): [•] per Calculation Amount/specify other/see Appendix
 - (iii) Notice period (Condition 6(d)): [•] days
- 20. Final Redemption Amount of each Note [•] per Calculation Amount
In cases where the Final Redemption Amount is Index-Linked or other variable-linked:
 - (i) Index/Formula/variable: [give or annex details]

- (ii) Party responsible for calculating the Final Redemption Amount (if not the Agent): [•]
- (iii) Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable: [•]
- (iv) Determination Date(s): [•]
- (v) Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: [•]
- (vi) Payment Date:
- (vii) Minimum Final Redemption Amount: [•] per Calculation Amount
- (viii) Maximum Final Redemption Amount: [•] per Calculation Amount

21. Early Redemption Amount

Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions): [•]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

22. Form of Notes:

[Bearer Notes:]

[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes on [•] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note]

[Permanent Global Note exchangeable for Definitive Notes on [•] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note]

[Temporary Global Note exchangeable for Definitive Notes on [•] days' notice]

(Note: The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination (at paragraph 6 above) of the Notes includes language to the following effect: "[and integral multiples of [•]

in excess thereof, up to and including [•]]".)

[Registered Notes:]

[Unrestricted Global Certificate ([US\$/€][•] nominal amount) registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg (that is, held under the New Safekeeping Structure (NSS))]]

[Restricted Global Certificate ([US\$][•] nominal amount) registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg (that is, held under the New Safekeeping Structure (NSS))]]

[Unrestricted Global Certificate exchangeable for unrestricted Definitive Notes on [•] days' notice/at any time/in the limited circumstances described in the Unrestricted Global Certificate]

[Restricted Global Certificate exchangeable for restricted Definitive Notes on [•] days' notice/at any time/in the limited circumstances described in the Restricted Global Certificate]

(Note: The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination (at paragraph 6 above) of the Notes includes language to the following effect: "[and integral multiples of [•]] in excess thereof, up to and including [•]]".)

- | | | |
|-----|---|---|
| 23. | New Global Note: | [Yes] [No] |
| 24. | Financial Centre(s) or other special provisions relating to payment dates: | [Not Applicable/give details]. <i>[Note that this paragraph relates to the date of payment, and not the end dates of interest periods for the purposes of calculating the amount of interest]</i> |
| 25. | Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): | [No/Yes. As the Notes have more than 27 coupon payments, talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made.] |
| 26. | Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: | [Not Applicable/give details] |
| 27. | Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made: | [Not Applicable/give details] |

28. Other terms or special conditions: [Not Applicable/give details]

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement. [(*Relevant third party information*) has been extracted from (*specify source*). The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by (*specify source*), no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of
REPUBLIC OF BULGARIA

By:
Duly authorised

PART B – OTHER INFORMATION

1. **LISTING AND TRADING** [Application has been made by the Issuer (or on its behalf) for the Notes to be listed on [the Official List of the Luxembourg Stock Exchange and to trading on the Luxembourg Stock Exchange's regulated market] [*specify relevant market*] with effect from [•.] [Not Applicable.]
- (Where documenting a fungible issue need to indicate that original Notes are already admitted to trading.)
2. **[RATINGS]**
- Ratings: The Notes to be issued [have been/are expected to be] rated:
- [S & P: [•]]
- [Moody's: [•]]
- [[Fitch: [•]]
- [[Other]: [•]]
- [The Notes have not been specifically rated][and endorsed by [•].]
- [Each of [•] is established in the European Union and is registered under the Regulation (EC) No. 1060/2009 (as amended).]
3. **INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER**
- [Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and [its/their] affiliates in the ordinary course of business. (*Amend as appropriate if there are other interests*)]
4. **[Fixed Rate Notes - YIELD]**
- Indication of Yield: [•]
The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]
5. **[Index Linked Notes – PERFORMANCE OF INDEX OR RATES OF INTEREST FOR INDEX LINKED OR DUAL CURRENCY NOTES]**
- [Relevant details to be included: [•]]
6. **[USE OF PROCEEDS]**
- Reasons for Offer/Use of Proceeds: [•]
- Estimated Net Proceeds: [•]
- Total Commissions and Concessions: [•]]

7. **OPERATIONAL INFORMATION**

ISIN [(Unrestricted Notes)]:	[•]
[ISIN (Restricted Notes):	[•]]
Common Code [(Unrestricted Notes)]:	[•]
[Common Code (Restricted Notes):	[•]]
[CUSIP:	[•]]
Any clearing system(s) other than [DTC, Euroclear Bank S.A./N.V. and Clearstream Banking, <i>société anonyme</i> and the relevant identification number(s):	[Not Applicable/give name(s) and number(s)]
Delivery:	Delivery [against/free of] payment
Names and addresses of additional Paying Agent(s), Calculation Agent and/or Registrar (if any):	[•]
[Intended to be held in a manner which would allow Eurosystem eligibility:	[Yes. Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper [(and registered in the name of a nominee of one of the ICSDs acting as common safekeeper)] and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]/ [No. Whilst the designation is specified as "no" at the date of this Pricing Supplement, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper [(and registered in the name of a nominee of one of the ICSDs acting as common safekeeper)]. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]]
Date of completion of the Issuer's Authorisation Procedures in relation to the Programme and the Notes:	[•]

8. **DISTRIBUTION**

- (i) Method of distribution: [Syndicated/Non-syndicated]
- (ii) If syndicated, names of Managers [and underwriting commitments]: [Not Applicable/*give names/commitments*]
- (iii) Stabilisation Manager(s) (if any): [Not Applicable/*give names*]
- (iv) If non-syndicated, name of Dealer: [Not Applicable/*give name*]
- (v) U.S. Selling Restrictions: [Reg. S Compliance Category 1; [Rule 144A;] TEFRA C/ TEFRA D/ TEFRA not applicable]
- (vi) Additional selling restrictions: [Not Applicable/*give details*]

THE REPUBLIC OF BULGARIA

Geography and Population

Bulgaria is located in South-eastern Europe in the eastern part of the Balkan peninsula and covers an area of approximately 110,994 square kilometres. It is bordered by Romania to the north, Serbia and the Former Yugoslav Republic of Macedonia to the west, Greece and Turkey to the south and the Black Sea to the east. According to the Republic of Bulgaria National Statistical Institute (the "NSI"), as of 31 December 2014, Bulgaria had a population of 7.2 million, or 1.4 per cent. of the EU population. The population density of Bulgaria is approximately 66 persons per square kilometre. The main language spoken is Bulgarian.

The capital of Bulgaria is Sofia which is situated in the western part of the country, at the foot of the Vitosha mountain massif. Sofia had a population of approximately 1.32 million as of 31 December 2014.

History

The name "Bulgaria" is derived from the Bulgars, a people who migrated from Central Asia and united with the Slavic tribes to found the First Bulgarian Kingdom in 681 AD. The Bulgars were eventually absorbed into the larger Slavic population; a process that was facilitated by the adoption of Orthodox Christianity by Prince Boris I in 865 AD. In the late-ninth and early-tenth centuries, during the reigns of Prince Boris I and Tsar Simeon the Great, Bulgaria reached its cultural, economic and political high-point so much so that Bulgaria became the strongest power in South-eastern Europe. During this period, Old Church Slavonic - the first written Slavic language - and the Cyrillic alphabet were adopted in Bulgaria's theological schools; these would provide the basis for the modern Bulgarian language. Thereafter, Bulgaria underwent a period of political turmoil before eventually being absorbed into the Byzantine Empire. The Bulgarians revolted against Byzantine rule in 1185 and established a second kingdom which, during the reign of Tsar Ivan Asen II (1218-1241), became a dominant political power on the Balkan Peninsula and across South-eastern Europe.

By the end of the fourteenth century, the Ottoman Empire had gained control of Bulgaria. During the following centuries the political and cultural existence of Bulgaria was dominated by the Ottoman Turks, although many of Bulgaria's national customs and values were preserved. Numerous uprisings over the centuries were suppressed by the Ottomans; however, in the latter part of the nineteenth century, they provided the pretext for Russian intervention and the creation of the modern Bulgarian state. In 1877, Russia declared war on the Ottoman Empire. The war ended with the preliminary peace treaty of San Stefano of 1878; however, this was replaced soon after by the Treaty of Berlin of 1878. The Treaty of Berlin saw the creation of the semi-independent state of the Principality of Bulgaria (what is now present-day Northern Bulgaria and the Sofia region) and the autonomous Ottoman province of Eastern Rumelia (forming a significant part of present-day Southern Bulgaria). In 1885, the population of Eastern Rumelia rose up against Ottoman rule and united with the Principality of Bulgaria to create a unitary Bulgarian state under the rule of Prince Alexander I. In 1908, the recently-unified country became fully independent from the Ottoman Empire under the name of the Kingdom of Bulgaria. Bulgaria at this point was still a largely agrarian society but, in the period leading up until World War II, it underwent significant economic development.

Bulgaria took part in the Balkan Wars of 1912-1913 and allied itself with Germany during World War I. The country also allied itself with the Axis Powers for the greater part of World War II. In 1944, however, Bulgaria joined the Allied powers and fought with them until the end of the war. At the end of the war, Bulgaria's pre-war boundaries were reconfirmed.

During the post-war period, Bulgaria fell under the influence of the former Soviet Union and, within a short space of time, a communist regime secured itself in power. In November 1989, however, as elsewhere in Central and Eastern Europe, the communist system in Bulgaria collapsed.

Recent History

1989 to 1997

From 1989 until early 1997, the political environment in Bulgaria was characterised by the continued influence of the former communist party (now called the Bulgarian Socialist Party) along with repeated changes in Government and a relative lack of political cohesion, particularly when compared to the other

former Eastern-bloc countries. Prior to 1990, Bulgaria's economy was oriented toward the COMECON countries, which included the former Soviet Union, Poland, Hungary, Bulgaria, the German Democratic Republic, the former Czechoslovakia, Romania, Cuba, Vietnam and Mongolia. The collapse of the COMECON regime in 1991 had a negative impact on Bulgaria's GDP. By 1997, the cumulative fall in real GDP as compared to 1989 was 33.5 per cent.

In mid-1996 through to the first quarter of 1997, a severe banking crisis reached its peak in Bulgaria, with the value of deposits in the banking system falling from the equivalent of USD 7.4 billion at the end of 1995 to USD 1.8 billion in March 1997. The crisis caused the closure of many banks in Bulgaria and the depreciation of Bulgaria's currency, the Lev. Beset by the financial crisis, the Bulgarian Socialist Party resigned from Government at the end of 1996.

1997 to present

Bulgaria underwent its transition into a market economy during this period. Characteristic features of the economy at this time were the privatisation of large state-owned companies, the establishment of a currency board, the adoption of a conservative fiscal policy, the harmonisation of Bulgarian legislation with EU regulations and the attracting of foreign investment. In 2004, Bulgaria became a member of NATO and in 2007 it joined the EU.

During the period between May 1997 and January 2016, Bulgaria had eight governments: the UDF Government (May 1997–July 2001); the coalition between the Simeon II National Movement and the Movement for Rights and Freedoms Government (July 2001–August 2005); the coalition between the Bulgarian Socialist Party, Simeon II National Movement, the Movement for Rights and Freedoms Government (August 2005–July 2009); the Citizens for European Development of Bulgaria Party (the "**GERB Government**") (July 2009 – March 2013); the caretaker government led by Marin Raykov (March 2013–May 2013); the Coalition for Bulgaria Party Government (the "**BSP Government**") (May 2013–July 2014); the caretaker government led by Georgi Bliznashki (August 2014–November 2014); and the second GERB Government with the support of a large coalition, as further described below (November 2014 – present day).

Following parliamentary elections held on 5 October 2014, Boyko Borisov, the leader of GERB, was given a mandate by the President to form a new government. GERB held a series of political consultations with the political parties represented in the 43rd National Assembly. On 7 November 2014, the National Assembly voted for the pro-European reformist government, formed under a coalition agreement between GERB and the Reformist Bloc. The cabinet, led by Boyko Borisov, was supported by the ABV coalition and the Patriotic Front.

Political System

Legislature

Bulgaria is a parliamentary republic. The legislative power of Bulgaria is vested with the National Assembly which is a unicameral parliament. The National Assembly consists of 240 members who are elected for a period of four years by proportional representation. The next parliamentary election is due to be held in 2018. On 5 March 2014, a new Electoral Code took effect.

To qualify for a seat in the National Assembly, a party or coalition must achieve at least 4 per cent. of the national vote. Any Bulgarian citizen who: (i) does not hold citizenship from another country; (ii) is above the age of 21; (iii) is not under judicial interdiction; and (iv) is not serving a prison sentence is eligible for election to the National Assembly. Early parliamentary elections may be held if: (i) no agreement on the formation of a government can be reached, (ii) if the government loses a vote of confidence or (iii) a no-confidence vote succeeds or the government resigns and no successor with the support of the existing National Assembly can be found.

The National Assembly has many roles: it passes, amends, supplements, and repeals laws; adopts the State Budget and the budget implementation report; establishes the types of taxes and the rate of state taxes in Bulgaria; passes resolutions on the holding of a national referendum; schedules the presidential elections; elects and removes the Prime Minister and, on his recommendation, the members of the Council of Ministers; elects the governor and the three deputy governors of the BNB; effects changes in government on a motion from the Prime Minister; takes part in the constitution of other key agencies and

other bodies of the state (Constitutional Court, Supreme Judicial Council, Financial Supervision Commission ("FSC") among others); approves state loan agreements and ratifies international treaties (where applicable); and has certain other rights and powers incorporated into the Constitution of Bulgaria. The National Assembly also exercises parliamentary control over the executive branch of government. Certain issues, like adopting a new Constitution and deciding on any changes to the territory of the Republic, are beyond the powers of an ordinary National Assembly and are reserved for a 400 member Grand National Assembly.

Elections for the 43rd National Assembly were held on 5 October 2014 on a proportional representation basis with ballot lists of political parties and coalitions registered in 31 multi mandate constituencies. In all, 29 parties and coalitions took part in the elections.

Eight political parties passed the 4 per cent. electoral threshold for participation in the National Assembly. The GERB Party achieved the highest number of votes (32.67 per cent.) followed by the Bulgarian Socialist Party-Left Bulgaria (15.40 per cent.), the Movement for Rights and Freedoms Party (14.84 per cent.), Reform Bloc (8.89 per cent.), Patriotic Front (7.28 per cent.), Bulgarian Democratic Centre (5.69 per cent.), the Ataka Party (4.52 per cent.), and the ABV Party (4.15 per cent.).

Parties and Coalitions – Mandates as at 31 January 2016

GERB Party	84
BSP-Left Bulgaria.....	38
Movement for Rights and Freedoms Party (DPS in Bulgarian)	30
Reform Bloc	23
Patriotic Front	18
BDC.....	14
Ataka Party	11
ABV.....	11
Independent MPs	11
Total.....	240

Source: National Assembly of the Republic of Bulgaria (<http://www.parliament.bg/en/parliamentarygroups>)

President

The President of Bulgaria (the "**President**") is the Head of State, elected under a system of majority representation by direct popular vote for a term of five years and for a maximum of two five year terms. To be eligible for the position of President, a candidate must be a Bulgarian citizen born in Bulgaria, over 40 years of age, have resided in the country for the five years preceding the election and be eligible for election to the National Assembly. The President is elected with a majority of the valid votes, provided that a majority of all eligible voters took part in the election. If none of the candidates for President receives the required majority in the first round, a second round vote is held within seven days between the two leading candidates. The candidate who wins the majority of the vote is declared a winner.

The current President is Mr. Rosen Plevneliev. He was elected with 52.58 per cent. of the votes in the last presidential election held on 23 October 2011, with a runoff held on 30 October 2011. The inauguration of Mr. Plevneliev as President took place on 20 January 2012. Pursuant to the Constitution of Bulgaria the next presidential election shall be held not earlier than three months and not later than two months before the expiry in January 2017 of the term of office of the incumbent President. As such, the next presidential election will be held later this year.

The President symbolises the unity of the nation and represents Bulgaria in its foreign affairs. The President is also the commander-in-chief of the armed forces and the Chairman of the Consultative National Security Council. The President instructs the prime ministerial candidate, who is nominated by the party holding the highest number of seats in the National Assembly, to form a government. If such nominee does not succeed in forming a cabinet, the President assigns the mandate to a nominee from the second largest party in the National Assembly and if such nominee is also unsuccessful, the President assigns the mandate to one of the other parties. If the third attempt to form a government fails, the President appoints a caretaker government, dissolves the National Assembly and schedules new elections. The President also has the power of a delaying veto over legislation. If the Parliament votes for a second time on a bill that the President has vetoed, the President must sign it. The President schedules the elections for a National Assembly and for the bodies of local self-government and sets the date for national referendums pursuant to a resolution of the National Assembly. His powers also include

awarding orders and medals, the naming of towns, villages and geographical places, granting asylum and citizenship and exercising the right to pardon. A Vice-President assists the President.

Government

The executive power of Bulgaria is vested in the Council of Ministers. The Council of Ministers consists of the Prime Minister, Deputy Prime Ministers and ministers.

The Council of Ministers directs and implements the state's domestic and foreign policy in accordance with the Constitution and the laws of Bulgaria. It ensures public order and national security and exercises overall guidance over state administration and the armed forces. The Council of Ministers informs the National Assembly on issues concerning the obligations of Bulgaria resulting from its membership in the EU. The Council of Ministers manages the implementation of the State Budget, organises the management of the state's assets and concludes, confirms or denounces international treaties when authorised to do so by law. As the supreme executive body, the Council of Ministers adopts and promulgates certain acts of delegated legislation, including decrees, resolutions and orders. The Council of Ministers is also entitled to initiate the adoption of laws by drafting, deliberating and forwarding bills to the National Assembly.

The President assigns a mandate for the formation of a new government. Once the prime ministerial candidate forms a government, the Prime Minister and the Government are formally elected by the National Assembly.

The Prime Minister takes charge of, coordinates and bears responsibility for the overall policy of the Government. He appoints and removes deputy ministers and may suggest changes in the cabinet to the National Assembly. The Prime Minister or the minister concerned countersigns the President's decrees with certain exceptions, such as decrees vetoing legislative Acts of Parliament, decrees for dissolving the Parliament and for the appointment of a caretaker government. Ministers implement state policy in their respective fields.

The powers of the Council of Ministers shall terminate if: the National Assembly passes a vote of no confidence with regard to the Prime Minister or the Council of Ministers; if the Prime Minister loses a vote of confidence; if the National Assembly accepts the resignation of the Prime Minister or the Council of Ministers; or if the Prime Minister dies. Once a newly elected National Assembly is formed, the Prime Minister and the Council of Ministers are to submit their collective resignation. However, the Council of Ministers shall continue performing its functions until the election of a new Council of Ministers.

Judicial Branch

The judicial branch of the government is independent from the legislative and executive branches of the state. The civil and criminal justice system has three levels: trial courts, appellate courts and the Supreme Cassation Court. In civil cases, an appeal to an appellate court is as of right, while an appeal to the Supreme Cassation Court is by leave. In criminal cases, appeals to both appellate courts and the Supreme Cassation Court are as of right. In 2011, a specialised criminal court was established. It has jurisdiction over cases related to organised crime. Its judgments are subject to appeal to the Specialised Criminal Court of Appeals and the Supreme Cassation Court.

The administrative justice system has two levels: specialised administrative courts and the Supreme Administrative Court. In some cases the Supreme Administrative Court acts both as a first instance court and a cassation court.

The martial justice court system has three levels – courts martial, the Martial Court of Appeals, and the Supreme Cassation Court.

Judges may acquire permanent tenure after five years in office, a performance appraisal and the requisite decision by the Supreme Judicial Council. After that, they may only be discharged from office in particular circumstances.

Judges have criminal and civil immunity for acts performed in discharge of their official duty, unless the act constitutes an intentional crime.

The Constitutional Court is separate from the civil, criminal and administrative justice system.

As is the case with other constitutional democracies, Acts of Parliament are occasionally subject to challenge in the Constitutional Court. The Constitutional Court is composed of 12 judges appointed in equal quotas by the National Assembly, the President, and the judges of the Supreme Cassation and Administrative Courts. Each judge is appointed for a single term of nine years.

The Supreme Judicial Council (the "**SJC**") is the key institution governing the Bulgarian judicial branch, and is independent from the executive and legislative branches. It consists of the Chairpersons of the Supreme Cassation Court and the Supreme Administrative Court, the Chief Prosecutor and 22 other jurists of high professional and moral integrity, each with at least 15 years of professional experience. They are appointed by the National Assembly and by the judiciary itself, and have a term of five years. The SJC appoints, promotes, demotes, transfers and discharges all judges from office. It also approves the budget of the judicial branch.

As part of the implementation of the Judicial System Reform Strategy, which is discussed in detail below at "*The Republic of Bulgaria – Reports from the Commission under the CVM*", on 16 December 2015, the National Assembly adopted amendments to the constitution of the Republic of Bulgaria, promulgated in State Gazette No. 100 from 18 December 2015. In order to strengthen the independence and effectiveness of the SJC, and to ensure transparent appointments to the judiciary, the constitutional changes were aimed at making structural and organisational changes to the SJC. As a result of these changes, 11 of the members of the SJC will be elected by the National Assembly by a two-thirds majority of the Members of Parliament and 11 will be elected by the judicial authorities.

In addition, the SJC's powers will now be carried out in two diverse ways: either through a plenum (consisting of all members of the SJC) or through two separate decision-making chambers (judges and prosecutors), so that they can take independent decisions on career development and appraisal for judges and prosecutors respectively. The SJC's plenum is entitled to take all necessary decisions relevant to the entire judicial system (e.g. to adopt the draft budget of the judicial system, to manage its immovable property, to propose the nomination and the resignation of the Chairpersons of the Supreme Cassation Court, the Chairperson of the Supreme Administrative Court and the Chief Prosecutor, etc), while the judges' and prosecutors' chambers in general are empowered to decide on the career development and all related matters, as well as for other organisational aspects relevant to the respective part of the judicial system (i.e. for the judges and prosecutors, respectively). The Judges' chamber includes 14 members: the Chairpersons of the Supreme Cassation Court and the Supreme Administrative Court, six members, directly elected by the judges and six members elected by the National Assembly. The Prosecutor's chamber consists of 11 members and includes the Chief Prosecutor, four members elected directly by prosecutors, one member elected directly by the investigators, and five members elected by the National Assembly. In line with the recommendations of the European Commission for Democracy through Law (Venice Commission to the Council of Europe), the concept of a secret vote within the SJC has been removed and a requirement for a qualified majority of two-thirds of the Members of the Parliament who will elect the Members of the SJC was introduced.

The Judicial Inspectorate (the "**Inspectorate**") was established in 2007 and is administratively attached to the SJC. It consists of 11 members elected by the National Assembly. Its task is to check the activity of the judicial system bodies without interfering with the independence of the judges. The members carry out their work independently.

In order to enhance the institutional capacity of the Inspectorate, and to ensure the accountability and integrity of the judiciary and the effective prevention of conflict of interest and undue influence, following the adoption of the constitutional amendments above, the Inspectorate is now tasked with carrying out inspections on the integrity and conflict of interests of judges, prosecutors and investigators, on their property declarations, as well as determining actions which undermine the integrity of the judiciary and actions related to violations of the independence of judges, prosecutors and investigators.

The amendments to the Constitution described above also need to be implemented via legislative amendments to the Judicial Systems Act. A draft to amend and supplement the Judicial Systems Act was approved by the Council of Ministers on 2 March 2016. Its first reading in the National Assembly is expected to be on 22 March 2016.

The Commission established a mechanism for cooperation and verification of the Bulgarian legal system pursuant to Article 4(3) of the Treaty of Accession of Bulgaria to the EU by a decision dated 13 December 2006. This mechanism aims to ensure that the Bulgarian legal system meets the standards of the EU and requires Bulgaria to address specific benchmarks in the areas of judicial reform and the fight against corruption and organised crime. This decision also empowers the Commission to take appropriate measures in the case of imminent risk to the implementation and application of, *inter alia*, mutual recognition in civil law matters, including the suspension of the obligation of EU Member States to recognise and execute Bulgarian judgments and judicial decisions.

This mechanism is an ongoing process and involves the publication of progress reports by Bulgaria and the Commission. Despite the criticism of the Commission in certain reports, no measures have been imposed. See "*Risk Factors – Changes in Bulgaria's relationships with Western governments and institutions may have a negative impact on Bulgaria's economy*".

Since Bulgaria's accession to the EU, judgments originating in another EU Member State are recognised and enforced in Bulgaria pursuant to simplified rules established by, among others:

- Brussels I Regulation (recast) Regulation (EC) No. 805/2004 of the European Parliament and of the Council of 21 April 2004 creating a European Enforcement Order for uncontested claims; and
- Regulation (EC) No. 805/2004 of the European Parliament and of the Council of 21 April 2004 creating a European Enforcement Order for uncontested claims; and
- Regulation (EU) 2015/2421 of the European Parliament and of the Council of 16 December 2015 amending Regulation (EC) No 861/2007 establishing a European Small Claims Procedure and Regulation (EC) No 1896/2006 creating a European order for payment procedure.

Reports from the Commission under the CVM

The action plan (the "**Action Plan**") for 2015 for the Implementation of the Recommendations of the European Commission within the framework of the Cooperation and Verification Mechanism (the "**CVM**") was approved by the Council of Ministers pursuant to Decision No 162 of 13 March 2015. The plan addresses specific recommendations of the European Commission's Report on the Progress of Bulgaria published in January 2015 (the "**2015 CVM Report**"). Legislative, organisational and analytical measures and actions of the competent institutions are included in the Action Plan.

Following the format of the findings of the 2015 CVM Report, the principal objectives set out in the Action Plan are as follows:

- Independence, accountability and integrity of the judicial system;
- Reform of the judicial system;
- Efficiency of the judicial system;
- Counteracting corruption; and
- Combating organised crime.

In line with the EU publication "A Digital Agenda for Europe", the Cybersecurity Strategy of the European Union of 2013 and the proposal for a directive of the European Parliament and of the Council concerning measures to ensure a high common level of network and information security across the Union, the adopted E-Governance Development Strategy 2014 – 2020 (the "**E-Governance Strategy**") in the Republic of Bulgaria addresses the need to maintain a secure, sustainable and reliable cyber environment in order to reduce and overcome the risks present when using information and communication technologies.

A roadmap has been drafted for the implementation of the strategy and the measures which have been planned to be implemented in the period from 2017 to 2020 are to result in the strongest possible level of cybersecurity.

Some of the measures will be implemented by the Executive Agency "Electronic Communication Networks and Information Systems" (EA "ECNIS") to the Ministry of Transport, Information Technology and Communications ("MTITC") as a key participant in the deployment, operation and development of information technologies and systems related to e-governance in the Republic of Bulgaria. The tasks of EA "ECNIS" also include building and maintaining a response centre (the "**Computer Security Incidents Response Centre**") in case of incidents related to information security as well as to assist MTITC and various interinstitutional working groups on cybersecurity in the Republic of Bulgaria. An information portal has been developed for management of the activities of the Computer Security Incidents Response Centre.

In accordance with the Ordinance on the Interoperability and Information Security under the E-Governance Strategy, there is also a standing council for network and information security chaired by the Deputy Minister of Transport, Information Technology and Communications.

E-Justice is viewed as a method to improve judicial cooperation between Member States. As a tool for increasing the efficiency of the judicial authorities and facilitating the access to justice for citizens and businesses, an action plan for implementing e-Justice in the period until 2018 is being implemented. A future framework after 2018 will be developed. The aim is to support the transformation of the European e-Justice Portal into a more effective tool for providing electronic services and supporting the work of the representatives of the legal professions.

The Updated Strategy to Continue the Reform of the Judicial System (the "**Judicial System Reform Strategy**") was adopted by the Council of Ministers on 18 December 2014. The Judicial System Reform Strategy was developed by the Ministry of Justice and aims to further develop the partially implemented Judicial Reform Strategy of 2010.

The overall objective of the strategy is to continue the modernisation of the judiciary and to complete its reform within seven years. The more detailed objectives are:

- to achieve effective guarantees of independence of the court and the judiciary;
- to ensure good governance of the judicial authorities and their highly effective functioning;
- to unlock the potential of human resources in the judiciary and guarantee the high motivation, competence and social responsibility of judges, prosecutors and investigating magistrates;
- to implement a modern and effective criminal policy through the necessary institutional and regulatory reforms; and
- to ensure a full-fledged right to a fair trial to each citizen and effective protection of human rights.

The strategy provides for the creation of a council to monitor its implementation. On 13 January 2016, the Council of Ministers adopted a decree for the creation of such a council.

The members of the council are representatives of the judiciary and the executive authorities, representatives of professional organisations of judges, prosecutors, investigators, court officers, representatives of non-governmental organisations and the academic community. When discussing issues that would require amendments to the legislation or the adoption of a decision of the National Assembly, the Chairman of the Committee on Legal Affairs in the National Assembly and Chairman of the parliamentary groups or their representatives are invited to participate. At its first meeting held on 29 January 2016, the Council adopted a report on the implementation of the Judicial System Reform Strategy for 2015 and debated on a draft action plan for implementation of the recommendations from the 2016 CVM Report.

The first step in implementing the Judicial System Reform Strategy and in achieving the objectives of the 2015 CVM Report is the adoption of amendments to the Constitution, which is to remove all ambiguities regarding the independence and accountability of the judicial system. The implementation of the amendments to the Constitution were adopted by the National Assembly in December 2015 and are discussed above in "*The Republic of Bulgaria – Political System – Judicial Branch*".

On 27 January 2016, the European Commission published its annual report on progress in Bulgaria under the CVM (the "**2016 CVM Report**"). The 2016 CVM Report summarises the steps taken over the past

year and provides recommendations for the future. The 2016 CVM Report notes the two comprehensive reform strategies that have been launched, the Judicial System Reform Strategy and the National Strategy for Prevention of Corruption in the Republic of Bulgaria (discussed below). The election of a new Chief Inspector of the Judiciary by the National Assembly is listed as a positive development in the 2016 CVM Report due to the different steps of the procedure involving more transparency and an invitation for citizens to nominate candidates. Another positive development relates to the fact that in October 2015 the SJC launched a new centralised information technology system for the entire Judiciary.

The National Strategy for Prevention of Corruption in the Republic of Bulgaria (2015 – 2020) was adopted by the Council of Ministers on 9 April 2015. Counteracting high-level corruption is a high priority for the Government. The National Council for Anti-Corruption Policies has been established with advisory, coordination and control functions regarding the formulation and implementation of the policies in the field of prevention and counteracting corruption. The Council is chaired by the Deputy Prime Minister for European Policies Coordination and Institutional Affairs, and his Deputy is the Minister of Justice. The members of the Council are the Deputy Ministers of Justice, Interior, Economy and Finance, Vice-President of the State Agency for National Security, Deputy Prosecutor General, the Chief Inspector from the Inspectorate to the SJC and the Head of the Chief Inspectorate to the Council of Ministers. The Deputy Prime Minister for European Policies Coordination and Institutional Affairs has also been appointed as National Coordinator for Anti-Corruption Policies.

The National Council for Anti-Corruption Policies adopted an action plan for implementation of the priorities from the National Strategy for Prevention and Counteracting Corruption in the Republic of Bulgaria (2015 – 2020) on 8 July 2015.

On 3 September 2015, a draft law on the prevention of corruption among persons holding high state positions (the "**Anti-corruption Bill**") was rejected by the National Assembly. A revised version of the Anti-corruption Bill has been drafted, which contains proposals for new solutions to controversial issues from the original proposal. The proposals are to provide additional guarantees for the independence and efficiency, while maintaining the basic idea of creating a unified operating authority to combat high levels corruption.

In December 2015, consultations with parliamentary groups on the new proposals were launched. The aim is to better inform the Members of Parliament of the new proposals and the necessary guarantees to be provided to ensure the revised bill receives the necessary political support. The legislation has the full support of the EU and if passed will create a new body, the 'Bureau for Fighting High End Corruption'.

On 2 March 2016, the Council of Ministers adopted a draft law amending and supplementing the Judicial Systems Act ("**LAS JSA**"). The draft provides for the most urgent legislative amendments due to be made in accordance with the Constitutional amendments passed in December 2015. Its first reading in the National Assembly is expected on 22 March 2016 and the second reading continuing from 2 April 2016.

Regional Government Structure

The Constitution of Bulgaria sets out the principles for administrative division and local self-governance within the country:

- The territory of Bulgaria is divided into municipalities and regions;
- Municipalities are the main administrative and territorial units that are responsible for local governance;
- Municipalities are independent legal entities with property rights and their own budgets;
- Citizens can participate in the municipal government indirectly through local elections and directly through referendums and general meetings; and
- Sofia is the capital of Bulgaria.

The administrative structure of Bulgaria and the public relationships connected with local self-governance and local administration within the country are further governed by the Territorial Administration of Bulgaria Act and the Local Self-Government and Local Administration Act, as well as a number of Acts of Parliament regulating self-governance of municipalities.

Since 1998 Bulgaria has been divided into 28 regions. Regional boundaries, administrative centres and changes thereto are determined by Presidential decrees, subsequent to a proposal by the Council of Ministers. Regions are named after their administrative centres. Each region is governed by a Regional Governor, who is a representative of the executive branch and is appointed and dismissed by a resolution of the Council of Ministers.

The regions of Bulgaria are currently sub divided into 264 municipalities. Municipalities are established by a resolution of the Council of Ministers, which is confirmed by a presidential decree. Municipalities are the main administrative territorial units through which local self-government is exercised. Each municipality is governed by a Mayor and a Municipal Council.

Municipalities are in turn divided into mayoralties. Mayoralties are settlements with a population exceeding 100 inhabitants. Cities with a population of more than 300,000 people (i.e. Sofia, Plovdiv and Varna) are sub divided into districts. Mayors are also elected in mayoralties, as well as in the districts of Sofia, Plovdiv and Varna.

The Local Self-Government and Local Administration Act empowers Bulgarian citizens to resolve issues of local importance directly by means of a referendum or a general assembly of the local community or indirectly through their elective bodies, in the fields of:

- municipal properties, municipal enterprises, municipal finance, taxes and fees, and municipal administration;
- planning and development of the territory of the municipality and settlements therein;
- education, health, culture, public works and utilities;
- social welfare services;
- protection of the environment and the reasonable use of natural resources;
- maintenance and conservation of cultural, historical and architectural monuments; and
- development of sports, recreation and tourism.

The population in each municipality elects its Municipal Council, as well as the Mayors of the municipalities, mayoralties and districts of Sofia, Plovdiv and Varna. The elections are carried out in compliance with the provisions of the Electoral Code of Bulgaria, promulgated in 2014.

A Municipal Council is responsible for formulating and implementing the policy of the municipality's growth and development in connection with the activities described above and is empowered, among other things, to:

- set the internal structure and bodies of the local administration and appoint the Chairman of the Municipal Council;
- adopt and amend the budget of the municipality, as well as exercise control over its implementation and approve the relevant report;
- determine the rate of local taxes and fees within the limits established by the Parliament;
- make decisions on the acquisition, management, and disposal of municipal property;
- decide on bank loans, and other municipal debt, issuance of municipal securities and guarantees;
- enact decisions concerning the territorial development plans, as well as adopt municipal development strategies, projections, programmes and plans which also reflect European policies for development of local communities; and
- resolve other issues of local importance that do not fall within the exclusive competence of other bodies.

The acts of a Municipal Council are subject to control by the relevant Regional Governor and can be appealed against before the competent administrative court. The Mayor of the Municipality is entitled to call for further discussion on acts which do not comply with the law of the Republic or that go against the best interests of the municipality; the Mayor of the Municipality can also appeal acts of the Municipal Council before the relevant administrative court.

Mayors of municipalities, mayoralities and districts are officers of the local executive authorities and manage the implementation of executive activities of municipalities. The acts of a Mayor are subject to control by the respective Regional Governor and the Municipal Council, and can be appealed before the competent administrative court. The last elections for self-government bodies were held on 25 October 2015.

Legal Proceedings

Dispute between Atomstroyexport and the National Electricity Company

In July 2011, Atomstroyexport JSC ("**ASE**") commenced arbitration proceedings against the National Electricity Company ("**NEK**") under the Arbitration Rules of the International Court of Arbitration of the International Chamber of Commerce based in Paris claiming damages. ASE claims losses, with claimed interest and alleged lost profits, of just over EUR 1 billion, arising from the termination of the project to develop the Belene Nuclear Power Plant. NEK disputes the amount of ASE's claimed losses and has counterclaimed losses of EUR 100 million. NEK disputes the vast majority of ASE's claims on the ground that ASE's claims do not fall within the scope of the existing contract rights. Accordingly, NEK has presented multiple defences with respect to each of ASE's claims, including that ASE overstates its losses, seeks lost profits to which it is not entitled, and claims damages in categories not contemplated by the parties' agreement.

The arbitration proceedings are at an advanced stage although there is no fixed time frame within which an award must be issued by the arbitral tribunal. However, it is expected that the tribunal's decision, referred to as an award, may be issued sometime in 2016. The award will not be subject to ordinary appeal, but may be subject to limited post-award remedies available in set aside proceedings in the place of arbitration and recognition and enforcement proceedings in the place of enforcement.

The continuing operation of NEK is important for Bulgaria's electricity system. If ASE is awarded the full amount claimed in the arbitration, it may require Government support to prevent an impact on NEK's ability to continue operations.

As explained above, NEK denies the merits of the vast majority of ASE's claims and defends its position vigorously. However, NEK is unable to form an opinion as to the outcome of the arbitration with ASE.

Dispute between ASE and the Republic of Bulgaria

In a letter dated 17 October 2014, ASE filed notice of claims against the Republic of Bulgaria under the Agreement between the Government of the Russian Federation and the Government of the Republic of Bulgaria on the Promotion and Reciprocal Protection of Investments (the "**Russia-Bulgaria BIT**"). It alleges that the actions of Bulgaria, in relation to the termination of the project to develop the Belene Nuclear Power Plant, breach the obligations to provide treatment of foreign investment in accordance with the standards set out in the Russia-Bulgaria BIT, causing damage to ASE. ASE has not commenced arbitration as at the date of this Offering Circular and has not specified the amount of damages claimed. The subject matter of ASE's claims against the Republic of Bulgaria overlaps with its claims against NEK described above. Bulgaria denies the merits of the claims and intends to defend itself vigorously. However, the State is unable to form an opinion as to the outcome of Atomstroyexport's claims.

Disputes related to the Corporate Commercial Bank AD ("**KTB**")

On 20 July 2014, the BNB placed KTB under special supervision and on 6 November 2014 revoked its banking licence. Following the revocation, the shareholders and bondholders of KTB, including the State General Reserve Fund of the Sultanate of Oman, Rhodium Capital Management LLP, Observatory Capital Management LLP, VR Advisory Services Ltd., Vienna Insurance Group and EZ Trader Inc. sent letters stating that the actions of the Bulgarian state with regards to KTB were contrary to the standards for treatment established under various bilateral investment treaties and that they intended to protect their rights as investors. In September 2015, the State General Reserve Fund of the Sultanate of Oman (who

was also a shareholder with two directors on the board) commenced an international arbitration case against Bulgaria before the International Centre for Settlement of Investment Disputes. It contends that the actions of Bulgaria in regard to the revocation of the banking licence of KTB are contrary to the standards for treatment established under the agreement between the Government of the Sultanate of Oman and the Government of the Republic of Bulgaria on the Promotion and Reciprocal Protection of Investments. The claimant has not quantified its claim precisely, but it has indicated that it will exceed EUR 150 million plus pre- and post-award interest. Bulgaria denies the merits of the claims and intends to defend itself vigorously. However, the State is unable to form an opinion as to the resolution of the disputes regarding KTB.

Disputes with electricity companies

Dispute between EVN AG and the Republic of Bulgaria

EVN AG commenced an international arbitration case against Bulgaria before the International Centre for Settlement of Investment Disputes. It contends that the actions of the State Energy and Water Regulatory Commission, the sector regulator in Bulgaria, with regards to setting electricity prices, and certain changes in the law regarding electricity price setting, are contrary to the standards for treatment established under the agreement between the Republic of Austria and the Republic of Bulgaria on the Mutual Promotion and Protection of Investments ("**Austria-Bulgaria BIT**") and the Energy Charter Treaty and that they caused damage to both its electricity distribution company and its electricity supply company. EVN AG has claimed losses in the amount of EUR 576 million. The arbitration remains pending. Bulgaria denies the merits of the claims and defends itself vigorously. However, the State is unable to form an opinion as to the outcome of the arbitration with EVN AG.

Dispute between Energo-Pro a.s. and the Republic of Bulgaria

In May 2015, Energo-Pro a.s. commenced an international arbitration case against Bulgaria before the International Centre for Settlement of Investment Disputes. It contends that the actions of the State Energy and Water Regulatory Commission, the sector regulator in regards to setting electricity pricing, are contrary to the standards established under the agreement between the Czech Republic and the Republic of Bulgaria for the Promotion and Reciprocal Protection of Investments (the "**Czech-Bulgaria BIT**") and the Energy Charter Treaty. Energo-Pro a.s. has not quantified its claim precisely, but indicated that it will be above EUR 54.3 million plus pre-and post-award interest. Bulgaria denies the merits of the claims and intends to defend itself vigorously. However, the State is unable to form an opinion as to the resolution of the dispute with Energo-Pro a.s.

Dispute between ČEZ, a.s. and the Republic of Bulgaria

In November 2015, ČEZ, a.s. sent a notice of dispute pursuant to Article 9 of the Czech-Bulgaria BIT, and the Energy Charter Treaty concerning companies incorporated and existing under the laws of Bulgaria operating in the electricity generation, supply and distribution business, of which ČEZ, a.s. claims to be a majority shareholder. ČEZ, a.s. alleges that, through various omissions, legal and administrative acts taken by Bulgarian state institutions, including with regards to setting electricity prices, Bulgaria violated its obligations under the Czech-Bulgaria BIT and the Energy Charter Treaty. ČEZ, a.s. has not quantified its potential claim. Bulgaria denies the merits of the claims and intends to defend itself vigorously. However, the State is unable to form an opinion as to the resolution of the dispute with ČEZ, a.s.

International Relations

Bulgaria is a member of a large number of international organisations which include: the United Nations; the Organisation for Security and Cooperation in Europe; the Council of Europe; the WTO; the International Labour Organisation; the Central European Initiative; the Organisation of the Black Sea Economic Cooperation ("**BSEC**"); the International Monetary Fund; the World Bank; the European Investment Bank; the Council of Europe Development Bank; the European Bank for Reconstruction and Development ("**EBRD**"); and the Black Sea Trade and Development Bank ("**BSTDB**"). Although Bulgaria is not currently a member of the Organisation for Economic Co-Operation and Development ("**OECD**"), it has already implemented a number of OECD measures such as the OECD Anti Bribery Convention. Bulgaria's top priority is the strengthening of its relations with and integration within the EU.

Relationship with major Supranational Financial Institutions

International Monetary Fund ("IMF")

Bulgaria joined the IMF in 1990. At present Bulgaria has no active agreement with the IMF and all its obligations to the IMF are fully settled. The IMF holds regular Article IV consultations with the country on a 12 month cycle and makes unscheduled staff visits. The last IMF regular Article IV mission was conducted from 4 March 2015 to 13 March 2015. The last IMF staff mission visited Sofia over the period between 4 November 2015 and 9 November 2015 to discuss the economic outlook and government policies with the Bulgarian authorities. Currently Bulgaria's quota share in the IMF is 0.27 per cent. of the total IMF quota.

World Bank

Since Bulgaria joined the World Bank in 1990, the World Bank, through the International Bank for Reconstruction and Development ("**IBRD**"), has provided significant financial support for structural reforms and development in the infrastructure, social, health, environment, telecommunications and energy sectors. As at 31 December 2015, the World Bank had authorised approximately USD 3.0 billion in IBRD loans to Bulgaria, of which only approximately USD 0.06 billion were undisbursed. These amounts apply to both government loans and loans guaranteed by Bulgaria. IBRD's total debt exposure to Bulgaria as at 31 December 2015 amounted to approximately USD 0.8 billion.

*European Investment Bank ("**EIB**")*

Bulgaria signed its first framework agreement with the EIB in 1991 and became a full member of the EIB upon its accession to the EU in January 2007.

During the period 2011–2015, the EIB has provided funds totalling EUR 1.3 billion to finance investment projects that are considered important for Bulgaria's economic development. Operations of the EIB in Bulgaria cover all major economic sectors, ranging from basic infrastructure such as transport, communications, energy and the environment to manufacturing and services, including support for SMEs through local financial institutions and the development of a knowledge-based economy.

*Council of Europe Development Bank ("**CEB**")*

Bulgaria has been a member of CEB since May 1994. Since the beginning of its operations in Bulgaria, CEB has committed around EUR 315 million in socially oriented projects for increasing employment in SMEs, environmental protection, health and public infrastructure.

*European Bank for Reconstruction and Development ("**EBRD**")*

Bulgaria is a founding member of the EBRD. As of 31 December 2015, the EBRD has committed over EUR 3.0 billion to corporates, financial institutions, infrastructure projects, and the energy sector, of which EUR 0.4 billion was granted to the public sector and EUR 2.6 billion to the private sector.

*Black Sea Trade and Development Bank ("**BSTDB**")*

Bulgaria is a founding member of the BSTDB. As of 31 December 2015, the BSTDB has approved funding for 30 projects in Bulgaria totalling EUR 286.6 million for SMEs, financial sector, materials, telecommunications, transport, and renewable energy projects.

European Union

Bulgaria became a full member of the EU on 1 January 2007. Bulgaria first submitted its application for EU membership in December 1995. Following the Helsinki European Council's decision in December 1999, the accession negotiations between Bulgaria and the EU lasted for four years, commencing in 2000 and concluded by the European Council of 17 December 2004. The European Parliament gave its support to Bulgaria's EU membership on 13 April 2005. The Accession Treaty of Bulgaria to the EU (the "**Accession Treaty**") was signed on 25 April 2005. Bulgaria is a Member State with derogation as it has not yet joined the Euro area.

Between 22 and 25 of May 2014, the eighth European elections were held, with 28 member states voting. For the first time, European political parties presented official candidates for the top post of the Commission, the EU's executive body in charge of formulating and enforcing the EU policies that have to be approved by the Parliament and the national governments. The results of the 2014 European election resulted in the European People's Party ("**EPP**") winning 221 seats in the European Parliament, ahead of Progressive Alliance of Socialists and Democrats in the European Parliament ("**S&D**") (191 seats), the European Conservatives and Reformists ("**ECR**") (70 seats), Alliance of Liberals and Democrats for Europe ("**ALDE**") (67 seats), the Greens/European Free Alliance (50 seats), the European United Left/Nordic Green Left (52 seats) and Europe of freedom and democracy Group (48 seats).

Bulgaria currently holds 17 seats in the European Parliament. After the recent European Parliamentary elections of 2014, the GERB Party (EPP member) holds six seats, the Movement for Rights and Freedoms Party (ALDE member) and the Coalition for Bulgaria Party (S&D member) each hold four seats, and the Bulgaria Without Censorship Coalition Party (ECR member), VMRO (ECR member) and the Reformers Bloc Coalition Party (EPP member) each hold one seat.

Economic Relations with the EU

Full membership of the European Economic and Monetary Union and the adoption of the single currency are both required by the Accession Treaty and these have been set as objectives by the Government. The Treaty on the Functioning of the European Union requires the Commission and the European Central Bank ("**ECB**") to report to the Council at least once every two years on the progress made by the Member States in fulfilling their obligations regarding the conditions of Euro area membership. In the 2012 Convergence Report, the Commission stated that Bulgaria fulfilled the price stability criterion, the interest rate criterion and would meet the fiscal criterion. Bulgaria did not fulfil the exchange rate criterion since the Bulgarian Lev is not participating in the Exchange Rate Mechanism (ERM II). The Commission noted however that during the two year assessment period the Bulgarian Lev remained fully stable relative to the Euro, in line with the operation of the currency board. Full legal compatibility has not yet been achieved, in particular the Law on the Bulgarian National Bank and the Conflict of Interest Prevention and Ascertainment Act.

As a non-Euro area Member State, Bulgaria did not contribute to the capital of the European Financial Stability Facility, a mechanism established in 2010 between the Euro area countries with the objective of providing temporary financial assistance to Euro area member states. Bulgaria did not participate in any European Financial Stability Facility support activities through bilateral loans. Bulgaria is not involved in the activities of the European Financial Stabilisation Mechanism since the Commission borrows the funds in financial markets under an implicit EU budget guarantee.

A new permanent crisis resolution mechanism for the countries of the Euro area – the European Stability Mechanism – has been operational since October 2012, assuming the functions of the European Financial Stability Facility. As a non-Euro area Member State, Bulgaria does not contribute to the European Stability Mechanism.

As an EU Member State, Bulgaria is subject to multilateral surveillance by the European Council. Bulgaria is obliged to prepare an annual Convergence Programme covering fiscal policy, Bulgaria's main assumptions underlying its economic outlook and an assessment of economic policy measures and their budgetary impact. Bulgaria also sends annual updates of the National Reform Programme which is another element of European Semester surveillance. This information must cover the current and previous year and include forecasts for at least the next three years. In December 2011, the European Parliament and the Council adopted a package of six new legislative acts (the so called "**six-pack**"), which aim to strengthen economic governance in the EU. Part of the six-pack is the Macroeconomic Imbalance Procedure to detect and correct risky economic developments in EU Member States. In the 2014 in depth review ("**IDR**") published on 5 March 2014, the Commission stated that Bulgaria is experiencing some imbalances, but they are not excessive. It acknowledged that positive developments were observed regarding the external position and corporate deleveraging and advised that further attention should be paid to the labour market adjustment process. In the 2015 IDR, the Commission stated that Bulgaria is experiencing excessive macroeconomic imbalances, which require decisive policy action and specific monitoring. The 2015 IDR focused on the soundness of the financial system following the "turmoil in the summer of 2014", the indebtedness of the country's non-financial corporations and labour market imbalances. The 2016 IDR stated that the financial system has shown resilience. However, it noted the financial system still harbours risks stemming from high corporate debt and barriers to deleveraging. The

external position of the country as a whole has improved, but weaknesses in the labour market continue to hinder growth and limit the adjustment capacity of the economy.

On 2 March 2012, Bulgaria signed the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union ("**TSCG**") aimed at strengthening fiscal discipline and introducing stricter surveillance, in particular by establishing a "balanced budget rule". Following the ratification of the treaty by the National Parliament in November 2013, Bulgaria has been obliged to apply Part III "*Fiscal Compact*" of the Treaty (effective from 1 January 2014). Bulgaria has already transposed all the fiscal rules envisaged in the six-pack, and further elaborated in the TSCG, into Bulgarian law.

The EU provided funds to Bulgaria through the pre accession instruments PHARE, Cohesion Fund (Regulation 1164/94)/ISPA and SAPARD. These instruments focused on improving the administrative capacity of Bulgaria's institutions, accelerating the development of the country's infrastructure, ensuring stable growth within the farming industry and promoting the economic and social development of rural areas. By way of these instruments Bulgaria received more than EUR 1.9 billion in funding.

Within Article 32 of the 2005 Accession Act, the Schengen Facility was created as a temporary instrument to help beneficiary EU Member States to finance actions at the new external borders of the EU, for the implementation of Schengen acquis and external border control between the date of accession and the end of 2010. The funds allocated to Bulgaria through Schengen Facility Instrument were fully utilised.

During the First Programme Period ("**FPP**") 2007 – 2013, Bulgaria was also supported by the three non-structural EU funds for agriculture and fisheries – European Agricultural Fund for Rural Development ("**EAFRD**"), European Agricultural Guarantee Fund ("**EAGF**") and European Fisheries Funds ("**EFF**"). EAGF provided proceeds for direct payments and market support measures which represent the first pillar of the Common Agricultural Policy ("**CAP**"). EAFRD financed the Operational Programme for Rural Development ("**RDP**"), which represents the second pillar of the CAP. EFF secured the Operational Programme (as defined below) for the Fisheries Sector Development ("**FSDP**"). Proceeds from the state budget (national co-financing) were also allocated to complete the two Bulgarian Operational Programmes, RDP and FSDP.

The table below shows the payments under the CAP for the period between 1 January 2007 and 30 June 2015 or 31 December 2015, as identified below.

Schemes/Measures	EAFRD (EUR)	EAGF (EUR)	National contribution (EUR)	Total (EUR)
Direct payments 2007 – 30 June 2015.....	-	2,999,063,242	-	2,999,063,242
National top-up to direct payments 2007–30 June 2015	-	-	768,391,521	768,391,521
Market support 2007 – 31 December 2015	-	208,247,461	31,198,905	239,446,366
RDP 2007- 31 December 2015	2,476,055,212	-	596,936,416	3,072,991,628
TOTAL	2,476,055,212	3,207,310,703	1,396,526,842	7,079,892,757

Source: Ministry of Agriculture and Food

The total amount paid under measures of the Operational Programme for the Bulgarian Fisheries Sector for the period between 1 January 2007 and 31 December 2015 totalled EUR 76,963,207 of which EUR 19,240,802 was from national contributions and EUR 57,722,405 was from EU contributions.

The EU structural assistance for the period between 2007 and 2013 was rendered by the European Social Fund, the European Regional Development Fund and the Cohesion Fund. It was provided under Operational Programmes ("**OPs**") elaborated by EU Member States and approved by the Commission. The OPs were designed to improve working and living conditions in EU Member States in different economic sectors, including transport and environment protection infrastructure, investments in business, sustainable development, information society, energy efficiency, direct and indirect assistance to research and development and enhancement of public administration capacity. The strategic priorities in EU funds absorption in Bulgaria were set out in the National Strategic Reference Framework 2007 – 2013. The following seven OPs have been implemented within this framework: "Transport", "Regional

Development", "Environment", "Development of the Competitiveness of the Bulgarian Economy", "Human Resources Development", "Administrative Capacity" and "Technical Assistance".

From its accession into the EU until 31 December 2015, Bulgaria received EUR 5,621.34 million in funds by way of the EU Structural and Cohesion Funds ("SCF").

For the period 2014 - 2020, the total EU assistance allocated to Bulgaria under the European Structural Funds, namely the European Social Fund, the European Regional Development Fund and the Cohesion Fund, amounts to EUR 7.5 billion, of which EUR 159 million has been received by Bulgaria up to 31 December 2015. It will be distributed between the following OPs: "Transport and Transport Infrastructure", "Environment", "Regions in Growth", "Innovations and Competitiveness", "Human Resources Development", "Science and Education for Intelligent Growth", "Good Governance" and "Small and Medium Enterprises Initiative". The Partnership Agreement has been approved by the Commission as well as all OPs, which are all currently in their initial stage of implementation. In addition a programme for food and/or basic material assistance, co-financed by the Fund for European Aid for the most deprived, was approved.

The following table sets out the current status of the OPs co-financed by the SCF as of 31 December 2015:

OPs	Programme Budget Total	Contracted		Payments	
		Total as of 31 December 2015	Implementation (per cent.)	Total as of 31 December 2015	Implementation (per cent.)
<i>(EUR millions, except percentages)</i>					
Transport.....	1,911.15	1,911.15	100.00	1,659.34	86.82
Environment	1,739.94	1,739.94	100.00	1,668.13	95.87
Regional Development.....	1,601.27	1,601.27	100.00	1,557.39	97.26
Competitiveness.....	1,162.22	1,162.22	100.00	1,105.66	95.13
Human Resources	1,213.87	1,213.87	100.00	1,196.42	98.56
Administrative Capacity	174.06	174.06	100.00	163.51	93.94
Technical assistance.....	54.66	54.66	100.00	50.19	91.82
Total SCF:	<u>7,857.17</u>	<u>7,857.17</u>	<u>100.00</u>	<u>7,400.63</u>	<u>94.19</u>

Source: Ministry of Finance

The Bulgarian contribution to the EU budget was EUR 3,658.37 million for the period between 1 January 2007 and 31 December 2015. The following table sets out the resources paid by Bulgaria to the EU Budget for the period between 2007 and 2015:

	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total 2007- 2015
<i>(EUR millions)</i>										
Traditional Own Resources.....	60.78	86.30	52.89	42.43	49.17	45.94	54.79	56.64	59.86	508.79
Customs Duties.....	60.78	85.90	52.48	42.03	48.77	45.38	54.39	56.24	59.45	505.42
Sugar Levies	-	0.40	0.40	0.40	0.40	0.56	0.40	0.40	0.40	3.36
Total National Contribution	243.54	281.90	328.63	300.01	349.21	367.86	422.83	431.58	424.03	3,149.59
VAT based resources	46.23	52.55	50.96	45.99	51.20	52.84	59.97	62.58	57.26	479.58
GNI based resource.....	176.54	200.71	250.18	237.08	277.24	292.13	336.04	341.40	334.15	2,445.49
UK rebate.....	20.76	28.64	25.07	14.71	18.35	20.18	24.02	27.59	32.62	211.95
Gross reduction in favour of the Netherlands and Sweden	-	-	2.42	2.23	2.42	2.71	2.80	-	-	12.57
Total Own Resources and National Contribution.....	<u>304.32</u>	<u>368.20</u>	<u>381.51</u>	<u>342.44</u>	<u>398.38</u>	<u>413.80</u>	<u>477.61</u>	<u>488.22</u>	<u>483.89</u>	<u>3,658.37</u>

Source: Ministry of Finance

North Atlantic Treaty Organisation

Bulgaria became a member of NATO on 29 March 2004, and has since then been an active member of the Alliance. Bulgaria contributes to NATO missions through crisis response and the development of the alliance's military capabilities. The Bulgarian armed forces are currently contributing 110 troops to the NATO led International Security Assistance Force in Afghanistan. Bulgaria contributes to NATO permanent maritime groups with one military officer and participates in operations abroad with mobile communication modules by contributing 18 military personnel.

Bulgaria maintains its commitment to the security of Kosovo through its participation in KFOR with 10 military personnel and in Bosnia and Herzegovina through its participation in the EU led Operation ALTEA with 10 military personnel. The country participates with military observers in EU and UN missions and operations as follows: in Georgia (EU led) with five military observers, EU operation Atlanta in Somalia with one officer, EU mission in Central African Republic with one officer and UN operations with two military observers. Republic of Bulgaria contributes to the EU training mission in Mali (EUTM) with four medical personnel.

In 2015, the national contribution to Operation Active Endeavour, aimed at combating terrorism in the Mediterranean region, was 131 personnel. Bulgaria participates in South East Europe Brigade (SEEBRIG) with six personnel according to the international arrangements.

Bulgaria's defence expenditure, directly connected to its participation in NATO led missions and operations for the years 2010 – 2015, is shown below:

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	Total 2010- 2015
				<i>(EUR millions)</i>			
Total expenditure	25.46	27.65	28.63	21.24	17.59	7.08	127.65

Bulgaria highly values the role of NATO as an important international forum for dialogue and consultation. The country is an active participant in many initiatives and programmes of the Alliance, such as the NATO Russia Council, NATO Ukraine Commission, NATO Georgia Council, NATO's Mediterranean Dialogue and Istanbul Cooperation Initiative.

Black Sea Economic Cooperation ("BSEC")

Bulgaria was one of eleven countries to sign the Summit Declaration and the Bosphorus Statement in Istanbul on 25 June 1992 giving rise to the BSEC. The BSEC is a multilateral political and economic initiative which aims to foster interaction and harmony among its Member States and ensure peace, stability and prosperity by encouraging good relations with neighbouring countries in the Black Sea region.

Many countries, including seven EU Member States, the United States, Egypt and Tunisia have observer status, while the Commission and the Energy Charter are among the BSEC's partner organisations.

Organisation for Security and Cooperation in Europe ("OSCE")

Bulgaria has been a participating state since 1975. In 2004 Bulgaria took over the OSCE chairmanship for one year after receiving unanimous approval in the 10th Meeting of the Ministerial Council in Porto, Portugal in 2003.

Double Taxation Agreements

To date, Bulgaria has concluded bilateral agreements on the avoidance of double taxation with 68 countries, including Austria, Belgium, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Russia, Spain, the United Kingdom and the United States.

Foreign Investment Treaties

Bulgaria has entered into 70 bilateral investment treaties ("**BITs**") with countries including Austria, China, France, Germany, Russia, the United States and the United Kingdom. BITs have been signed with

all European countries except the Republic of Ireland, Norway, Estonia, Montenegro, Andorra, Bosnia and Herzegovina, Liechtenstein and Monaco. In North and South America, BITs have only been concluded with the United States, Cuba and Argentina. In Africa, BITs have been concluded with Algeria, Egypt, Morocco and Tunisia. In Asia, BITs have been concluded with China, Vietnam, Indonesia, Singapore, Thailand, India, Mongolia, South Korea, Iran, Armenia, Kazakhstan, Qatar, Bahrain, Kuwait, Israel, Jordan, Lebanon, Syria and Yemen.

THE ECONOMY

Background

Since the introduction of the currency board in July 1997, Bulgaria has achieved sustainable economic growth resulting from macroeconomic stability and structural reforms. The annual growth for the period between 2000 and 2008 was 5.6 per cent. on average. The high rates of investment in fixed capital were among the main factors for the accelerated economic growth before the crisis. Household consumption was also strong due to extensive financial flows into the Bulgarian economy. For the period 2010 to 2015, the economy grew on average by 1.3 per cent. annually (with gross domestic product ("GDP") growth reaching 3 per cent. in 2015).

Since Bulgaria's accession to the EU in 2007, reforms have been made for the improvement of the business environment. The country's macroeconomic stability, consistent economic and prudent fiscal policies, improvement of institutional environment and continuous cuts in taxes and social security contributions have been at the core of Bulgaria's strong economic performance, increased investment activity, higher employment and real income growth.

Currently, the Government is committed to completing key structural reforms, which have a growth enhancing impact in the medium and long-term. Efforts are directed towards strongly improving the competitiveness of the economy, increasing employment and improving the sustainability of public finances.

Recent Economic Developments and Trends

After a decline in GDP of 4.2 per cent. in 2009, the economic recovery began during 2010 and annual growth was 0.1 per cent., mainly due to an increase in exports. The weakening of domestic demand led to a quick adjustment in the current account balance and low core inflation in the period 2009 to 2011. Growth for 2011 was 1.6 per cent., and HICP inflation was 3.4 per cent. The recovery in domestic demand started in 2012 with growth in investment and a continued increase in consumption. Nevertheless, due to a decrease in exports, triggered by the recession across the EU, GDP growth decelerated to 0.2 per cent. in 2012. In 2013, exports recovered and were again the main driver of growth, with GDP growth registering at 1.3 per cent. In 2014, GDP growth of 1.5 per cent. was attributed to the increase in domestic demand while in 2015 GDP growth of 3.0 per cent. was mainly attributed to an increase in exports.

The recent economic crisis provided an opportunity to restructure the Bulgarian economy and optimise labour costs. The process of optimisation led to the improved competitiveness of the economy and a significant increase in rates of real exports, which was the primary driver of growth. The composition of Bulgaria's exports to EU markets also improved with the rising share of capital intensive and skilled labour products, although such share is still considered low compared to other EU countries. Bulgaria's exports increased significantly and surpassed their pre-crisis levels in 2010. This positive trend continued in the period 2011 – 2015 and the annual exports of goods and services growth averaged 5.8 per cent. in that period.

In 2009, the budget deficit (on an accrual basis) of Bulgaria reached 4.1 per cent. of GDP. In response, the Government tightened its fiscal policy to restore macroeconomic stability. Accordingly, the budget deficit (on an accruals basis) fell over the course of the 2010-2012 period from 3.2 per cent. of GDP in 2010 to 2.0 per cent. of GDP in 2011 and to 0.6 per cent. in 2012. On 30 May 2012, the Commission supported a Council decision to abrogate the Excessive Deficit Procedure (the "EDP") for Bulgaria. In 2013, the budget deficit (on an accruals basis) was 0.8 per cent. of GDP and in 2014 this worsened to 5.8 per cent. The sharp deficit increase in 2014 was largely driven by the one-off support to the financial sector (see "*Public Finance – Fiscal Policy*"). For 2015, the budget deficit (on an accruals basis) is estimated to shrink below 2.5 per cent. of GDP due to higher revenues as a result of the enhanced tax compliance and also savings on the expenditure side. In the 2016 Budget, the deficit (on an accruals basis) is expected to decrease to 1.9 per cent. of GDP (see "*Public Finance – Fiscal Policy*").

The data for GDP and its components for the period 1999 – 2015 was revised in October 2015, as a result of the introduction of methodological improvements on reservations that were introduced by the European Commission, as well as additional statistical information. The GDP data for 2015 (and any

components thereof) that is contained in this Offering Circular is based on preliminary data published by the NSI on 8 March 2016. The final GDP data for 2015 is expected to be published in October 2016.

The following table sets out certain macroeconomic data regarding the Bulgarian economy for the period 2011 to 2015:

	2011	2012	2013	2014	2015**
	<i>(EUR billions, except for percentages)</i>				
Nominal GDP	40,955	41,693	41,912	42,751	44,162
Real GDP (growth in per cent.)*	1.6	0.2	1.3	1.5	3.0
Real exports (growth in per cent.)*	11.5	0.8	9.2	(0.1)	7.6
Real imports (growth in per cent.)*	8.5	4.5	4.9	1.5	4.4
Unemployment (LFS***, per cent.)	11.3	12.3	13.0	11.4	9.2
Consumer prices (average growth in per cent.) ..	3.4	2.4	0.4	(1.6)	(1.1)
Domestic producer prices (average growth in per cent.)	8.6	5.3	(1.3)	(0.9)	(1.7)
General government surplus (deficit)	(0.8)	(0.3)	(0.3)	(2.5)	
as a percentage of GDP	(2.0)	(0.6)	(0.8)	(5.8)	
Total revenues	13.2	14.2	15.5	15.5	
as a percentage of GDP	32.1	34.0	36.9	36.3	
Total expenditures	14.0	14.5	15.8	18.0	
as a percentage of GDP	34.1	34.7	37.6	42.1	

Source: Eurostat, NSI, Ministry of Finance

* Calculated with not seasonally adjusted data.

** 2015 GDP data is preliminary.

*** Labour Force Survey.

Gross Domestic Product

After contraction in 2009, Bulgarian economic growth resumed in 2010 and this upward trend continued in 2011 principally as a result of increases in exports across a broad range of sectors. As a result of the debt crisis deepening in some Euro area countries, the European economy shrank by 0.5 per cent. in 2012. Reduced economic activity across the EU resulted in a weakening of economic growth in Bulgaria, most visibly by a decline in export of goods. However, by the end of 2012, domestic demand had begun to recover and investments started to rise after three years of decline.

In 2013, Bulgarian exports returned to a positive trend, growing at a rate of 9.2 per cent., reaching the highest levels since 1995 in constant prices. Imports of goods and services also strengthened compared to the previous year, reaching a growth rate of 4.9 per cent. This was driven largely by export-oriented economic activity. The negative contribution of domestic demand amounted to 1.3 percentage points. Gross fixed capital formation increased by 0.3 per cent. in 2013 but final consumption shrank by 0.7 per cent. during the same period. Household expenditure made the largest negative contribution to GDP growth (0.9 percentage points) with high unemployment and a lack of consumer confidence restraining consumer spending.

In 2014, GDP grew by 1.5 per cent. as a result of increased domestic demand. Growth of 2.7 per cent. in household consumption was attributed to higher consumer confidence at the beginning of the year, and positive developments in the labour market. Public capital expenditures supported the 3.4 per cent. increase in gross fixed capital formation for 2014. Exports decreased by 0.1 per cent. while imports were up by 1.5 per cent.; this led to a negative contribution of net exports to the economic growth for the year.

In 2015, GDP growth reached 3.0 per cent. This is the highest growth figure recorded since the economic crisis in 2009. The main contributor to this growth was the increase in exports by 7.6 per cent. due to high demand from EU trading partners (mainly Germany and Italy). The contribution of domestic demand to the growth was also positive due to an increase in gross fixed capital formation of 2.5 per cent. This increase was driven by government capital expenditures financed by EU funds. For the first half of the year, household consumption was subdued but in the third quarter and fourth quarter of the year, a growth of 2 per cent. and 2.4 per cent., respectively, was registered, which was supported by real income growth.

The following table sets out the components of real GDP in the period 2011 to 2015:

	2011	2012	2013	2014	2015 ⁽²⁾
	<i>(EUR billions, using constant prices⁽¹⁾, except for percentages)</i>				
Total consumption expenditure	30,489	31,260	31,044	31,729	31,938
<i>of which:</i>					
Private	24,388	25,189	24,836	25,517	25,710
Government.....	6,100	6,071	6,208	6,212	6,227
Gross fixed capital formation.....	8,115	8,261	8,285	8,568	8,778
Export of goods and services.....	22,605	22,781	24,874	24,847	26,744
Less: Import of goods and services	23,119	24,160	25,345	25,736	26,870
Real GDP	38,321	38,412	38,905	39,507	40,680
Percentage change (per cent.)	1.6	0.2	1.3	1.5	3.0

⁽¹⁾ Constant prices are chain linked with 2010 as the reference year. Includes structural changes in the economy which have occurred within the period under observation, however the sum of component data does not necessarily equal the value acquired in calculation of the aggregate. Therefore data for total real GDP presented in the above table may not be equal to the sum of the components presented in the table.

⁽²⁾ 2015 GDP data is preliminary.

Source: Eurostat

The following table sets out nominal GDP and the annual percentage shares of nominal GDP by sector in the period 2011 to 2015:

	2011		2012		2013		2014		2015 ⁽¹⁾	
Industry (except construction).....	8,310	20.3	8,516	20.4	8,194	19.6	8,437	19.7	8,663	19.6
Construction.....	2,295	5.6	2,116	5.1	1,750	4.2	1,649	3.9	1,757	4.0
Agriculture, forestry and fishing.....	1,896	4.6	1,913	4.6	1,928	4.6	1,955	4.6	1,939	4.4
Services.....	23,272	56.8	23,438	56.1	24,214	57.8	25,084	58.6	25,377	57.5
Taxes less subsidies on products.....	5,182	12.7	5,711	13.7	5,826	13.9	5,626	13.2	6,426	14.6
Nominal GDP.....	40,955	100.0	41,693	100.0	41,912	100.0	42,751	100.0	44,162	100.0
Nominal gross value added ("GVA")	35,774	87.3	35,983	86.3	36,085	86.1	37,125	86.8	37,737	85.4

⁽¹⁾ 2015 GDP data is preliminary.

Source: Eurostat

The following table sets out real annual growth of GDP by sector in the period 2011 to 2015:

	2011	2012	2013	2014	2015 ⁽¹⁾
	<i>(real growth, percentage change on previous year)</i>				
Industry (except construction).....	9.1	2.5	0.0	1.7	3.1
Construction.....	(4.1)	(5.9)	1.1	(2.6)	1.4
Agriculture, forestry and fishing	(1.6)	(7.3)	3.2	5.2	(1.4)
Services.....	0.5	(0.8)	1.3	1.9	1.2
GVA.....	1.8	(0.7)	1.1	1.8	1.5
Taxes less subsidies on products	0.2	6.9	2.5	(0.0)	12.7
Real GDP	1.6	0.2	1.3	1.5	3.0

⁽¹⁾ 2015 GDP data is preliminary.

Source: Eurostat

Principal Sectors of the Economy

On the supply side, GVA, which is a measure of the total value of final products and services produced in a sector of an economy, increased by 1.8 per cent. in 2011 with the main contribution to growth coming from the industrial sector (excluding construction). GVA decreased by 0.7 per cent. in 2012 but growth resumed in 2013 (with a reported increase of 1.1 per cent.) as all sectors of the economy contributed positively to the reported increase. The upward trend in GVA continued in 2014, with an increase of 1.8 per cent., mainly driven by the services sector, which together with industry, except construction, were the major sectors for the reported growth of 1.5 per cent. in GVA during 2015.

Services

The service industry is the biggest sector of the Bulgarian economy and, for the four-year period between 2011 and 2014, it represented on average 57.4 per cent. of nominal GDP. GVA of the service sector reported an increase of 0.5 per cent. in 2011 and decreased by 0.8 per cent. in 2012 mainly as a result of the decline in financial and insurance activities. In 2013, the growth rate in services recovered as a result of increased wholesale and retail trade, transportation and storage, accommodation and food service activities. The growth of GVA in services accelerated to 1.9 per cent. in 2014 with all sub-sectors, except financial and insurance activities contributing to the reported increase. GVA in services increased by 1.2 per cent. during 2015 with real estate activities contributing the most to reported growth, followed by wholesale and retail trade, transportation and storage, accommodation and food service activities.

Industry

In 2015, the industrial sector (which includes mining and quarrying; manufacturing; electricity, gas, steam and air conditioning; water supply; and sewerage, waste management and remediation activities) accounted for 23.6 per cent. of nominal GDP as compared to 25.9 per cent. in 2011. At the same time, the construction industry's share of total nominal GDP fell from 5.6 per cent. in 2011 to 4.0 per cent. in 2015.

Industry (excluding construction)

Manufacturing was the first sector of the Bulgarian economy to be adversely affected by the global financial and economic crisis with the sector starting to register a decline in real growth during the last quarter of 2008. This negative trend in manufacturing was largely due to a sharp decline in industrial sales to overseas markets. In 2010, manufacturing started to recover and, after two years of decline, the industry (excluding construction) registered real growth of 9.1 per cent. in 2011. Weak external demand in 2012, however, caused real growth to slow again to 2.5 per cent. In 2013, the industrial sector's contribution to GVA was neutral. However, the recovery of domestic demand resulted in an increase in real growth in industry (excluding construction) to 1.7 per cent. in 2014 while strong export performance was the main contributor to the reported growth of 3.1 per cent. in 2015.

Construction

In the 2006-2008 pre-crisis period, a large share of FDI in Bulgaria was directed at the construction and real estate industries because of the strong demand from both foreign and domestic consumers for property. An increase in real household income, credit facilities and real estate prices following Bulgaria's accession to the EU precipitated a boom in the construction industry. However, during the fourth quarter of 2009, GVA in the construction industry started to fall as a consequence of the knock-on effect of the global financial and economic crisis; although the early signs of decline in the construction sector were already apparent at the end of 2007 when the total number of building permits being issued began to fall. This negative trend in the construction industry resulted in the cumulative decline of average annual house prices to the level of 36.5 per cent. over the course of the 2009-2013 period. After three consecutive years of reported declines, the construction sector returned to growth in 2013 with an increase of 1.1 per cent. and investment in the sector also started to rise during this period. Although civil engineering reported a strong performance and house prices increased, GVA in the construction sector decreased by 2.6 per cent. in 2014 as a result of continuing weak performance of the building construction sub-sector. GVA in the construction sector reported an increase of 1.4 per cent. during 2015 with civil engineering continuing to support the sector as a result of the construction of roads and environmental and utility projects, supported through the use of EU funds.

Agriculture

The GVA in real terms in the agricultural sector declined over 2009-2012 but experienced growth of 3.2 per cent. during 2013 and the trend continued in 2014 with an increase of 5.2 per cent. Investment in the agricultural sector has also been growing, in particular through investment in general machinery and farming equipment. The value of crop production has gradually increased over the period from 2009 to 2014 and its share in the production of agricultural commodities increased from 63.4 per cent. in 2009 to 71 per cent. in 2014. The cultivation of cereals and industrial crops increased in 2014, which continue to constitute a large share of the agricultural products exported by the country. The effectiveness of the sector has improved as the sector showed high levels of consolidation over the past few years. According to the 2013 census, the number of farms has decreased by 31.4 per cent. in Bulgaria compared to the number reported in the 2010 census. At the same time, farmers' utilised agricultural area has increased by 4.9 per cent. over the period 2010-2013 and this positive trend is supported by a higher number of farmers possessing more than 100 acres of utilised agricultural area. GVA in agriculture decreased by 1.4 per cent. in 2015, affected negatively by weather conditions in the country. The introduction of a new system for application for subsidies by the farmers also limited the development of the sector over the past year.

Energy Market

In 2011, the Commission recommended the further liberalisation of the electricity and gas markets in Bulgaria. Bulgaria is one of the last remaining EU Member States that has not fully liberalised its electricity market because of the continuing policy of electricity price regulation. The transition to full market liberalisation of the electricity market is a priority for the Government, as set out in the Programme of the Government for the Sustainable Development of Bulgaria 2014-2018 – Energy Sector.

A key part of the liberalisation process is the operation of an organised and independent electricity market. Independent Bulgarian Energy Exchange EAD ("**IBEX**") has been appointed to operate the power exchange market and was licensed by the regulator in December 2014. A cooperation agreement with Nord Pool Spot, Europe's leading power market, was signed in April 2015. The operation of the first market segment, the "day ahead" market started testing in December 2015, and the first full trading session was held on 19 January 2016. IBEX expects to launch two more platforms in the future. The segment for bilateral (OTC) trading, which is scheduled to commence in the third quarter of 2016, should provide the necessary market liquidity with sales of base power. An intraday platform is scheduled to be implemented by the first quarter of 2017. The provision of minimum liquidity on the power exchange market over the first five years of operation has been backed by commitments given by the state-owned enterprises that generate electricity. In the future, IBEX also expects to develop a segment for trading with natural gas.

As an additional step in the liberalisation process, in August 2015, the World Bank was invited and contracted to propose options to facilitate the financial stabilisation of the sector and for the transition towards full liberalisation, after which Bulgaria shall select the most appropriate model for implementation. The World Bank was also asked to propose a compensatory mechanism to cover the deficit of the public supplier that would emerge from the difference between market prices and feed-in tariffs. The World Bank will also analyse possible options designed to protect vulnerable customers of the energy market. A joint working group, comprised of representatives from the Bulgarian ministries of Energy and of Labour and Social Policy and the Energy and Water Regulatory Commission, with the support of experts from the Commission, is currently developing a definition for vulnerable customers and is working on the appropriate criteria for their identification and the respective protective measures.

The dependence on a single source of natural gas and a single supply route for the import of natural gas is also a risk that was identified in the Commission's European Energy Security Strategy (2014) and Bulgaria is currently one of four EU Member States that have not secured alternative sources of natural gas and routes of supply and which depend on the supply of natural gas from one country (namely, Russia). The Commission has identified the diversification of external supplies of energy and related infrastructure as a key pillar of the EU Energy Security Strategy (2014) and, in line with this, Bulgaria has set, as its main objective in the energy sector, to guarantee the security of gas supply through the diversification of the sources and routes of supply. This objective is intended to be achieved by creating interconnections with neighbouring countries and by providing assistance and support to complete projects relating to the Southern Gas Corridor which will, in turn, provide access to gas supplies from the Caspian region and the Middle East. Bulgaria also has proposed the creation of a gas hub for South-

Eastern Europe on its territory, in light of its strategic geographical position and developed transmission network.

Actions with respect to the construction of gas interconnections between Bulgaria and Romania, Bulgaria and Serbia, Bulgaria and Greece, and Bulgaria and Turkey have already been taken. Given the importance of the diversification of the sources and routes for the supply of natural gas, the Bulgarian Government in 2015 initiated a project for a gas hub "Balkan" in Bulgaria. The idea behind this project is that significant natural gas quantities from different sources should reach a real physical point near the city of Varna in Bulgaria for further transportation and at this point a trading venue for gas shall be set up. The project was included in the Ten-Year Network Development Plan 2015-2024 of The European Network of Transmission System Operators for Gas in April 2015. The gas hub in Bulgaria was also included in the list of Projects of Common Interest of the European Union, as part of Cluster 6.25 "Cluster infrastructure to bring new gas to the Central and South-Eastern European region with the aim of diversification". A joint working group between Bulgaria and the European Commission was established on 10 December 2015 to evaluate the legal and financial aspects of the project. The project will mitigate the energy dependence of the region and will be a prerequisite for the development of a competitive gas market.

In addition, on 10 December 2015, the final investment decision for the construction of the gas interconnector between Greece and Bulgaria was signed by the shareholders of the joint company ICGB AD whose shareholders include Bulgarian Energy Holding EAD ("**BEH**") (50 per cent.) and IGI Poseidon S.A., whereby they committed to provide the necessary funding for the construction of the pipeline. This document was the final step before the commencement of construction which is scheduled for the second half of 2016. The pipeline is expected to be commissioned by the middle of 2018. The amount of the available sovereign guarantee given by Bulgaria for the project was increased from EUR 80 million in the 2015 state budget to EUR 110 million in the 2016 budget.

In December 2015, Bulgaria concluded the activities of the first phase of the project for the reverse gas interconnector between Bulgaria and Serbia, co-financed by the European Regional Development Fund through the Government's Operational Programme 'Development of the Competitiveness of the Bulgarian Economy 2007-2013'. The actual construction works are to be implemented with the financial support from the Government's Operational Programme 'Innovation and Competitiveness 2014-2020' and should be completed by the end of 2018. This is a technical project with a cost estimate of €49 million and will be developed by Bulgaria. Serbia's share of the cost is to be funded by the EU.

In December 2015, the gas transmission operator also obtained grant funding from the European Commission to conduct a feasibility study for a gas interconnector between Bulgaria and Turkey. The study will provide the basis for the final parameters of the project.

The construction of the gas interconnector between Bulgaria and Romania is at its final phase of transition under the Danube river, for which a contractor has been selected. The pipeline is expected to be commissioned in the second half of 2016.

Russian Gas Supplies

The Energy and Water Regulatory Commission ("**EWRC**"), which is the independent regulator in Bulgaria is closely following the situation that has arisen in respect of the supplies of natural gas by Gasprom Export to Overgas Inc. after 1 January 2016. Bulgargas EAD and Overgas Mrezhi AD have informed the EWRC that an agreement has been achieved that guarantees the uninterrupted supplies of natural gas for the households and business clients of Overgas Mrezhi AD. The EWRC has begun a special check of the licence requirements performance and the financial situation of Overgas Mrezhi AD.

NEK

Natsionalna Elektricheska Kompania EAD ("**NEK**") is a subsidiary of BEH. BEH is the holding company for a group of companies in Bulgaria which are principally engaged in electricity generation, supply and transmission, natural gas transmission, supply and storage and coal mining. NEK is responsible for the public supply of electricity to the electricity supply companies in Bulgaria. NEK is also the owner of a number of hydro power plants and is the single buyer of the electricity, generated under feed-in tariffs, long-term power purchase agreements and highly-efficient co-generation of heat and power. By the end of 2015, the liabilities of NEK amounted to BGN 3.42 billion (as compared to BGN 3.48 billion as at the end of 2014). These liabilities are related to unrecovered costs of major investment projects, NPP Belene

and Tsankov Kamak Dam (approximately BGN 2.3 billion), and to a tariff deficit (more than BGN 1.4 billion). The tariff deficit was accrued as a consequence of the regulatory policy over recent years and the obligations which NEK has to purchase power at preferential prices pursuant to the Energy Act, the Energy from Renewable Sources Act and the long-term agreements NEK has with thermal power plants.

In February and July 2015, the Bulgarian Parliament adopted amendments to the Energy Act. The new provisions are aimed at the financial stabilisation of the energy sector, the maintenance of an appropriate balance between sector stakeholders and ensuring the independence of the energy regulator. The changes excluded co-generation power plants that do not generate power in a highly-efficient manner from the regulated power price mix, including a number of "factory" plants. The power generated by such plants in excess of the regulator's decision, would not receive preferential prices. The amendments also abolished feed-in tariffs for new producers from renewable energy sources ("**RES**") and imposed a cap on the quantities of power from RES producers, which NEK has to buy at feed-in tariff levels. The law also sets limits to the production from biomass and strengthens the control over all generators that benefit from feed-in tariffs.

The amended Energy Act established a "Security of the Electrical Power System Fund" to cover the costs of NEK arising from its obligations to purchase electricity at preferential prices. The fund would receive contributions from all power producers, as well as traders that import electricity, equal to 5 per cent. of their monthly revenue from power sales. The fund also receives 71 per cent. of the proceeds from auctions of carbon allowances to the industry.

NEK also negotiated a reduction in the prices under two long-term power purchase agreements with foreign-owned thermal power plants. The value of savings is expected to reach BGN 1 billion for the remaining duration of the power purchase agreements, or approximately BGN 100 million per annum. In order to make the agreements effective, BEH is seeking bridge financing and to issue a long-term bonds of up to EUR 650 million. The proceeds of this financing will be down-streamed to NEK for payment of its commercial liabilities to the two power plants, and in parallel, to cover the power plants' late payments for supply of coal to Mini Maritsa Iztok EAD.

In 2015, NEK generated revenues totaling BGN 3,243 million which is an increase of 6.9 per cent. compared to 2014. In the same period, expenses reduced by 4.4 per cent. to BGN 3,463 million. As a result, NEK reduced its loss by BGN 365 million to BGN 221 million in 2015, compared to a loss of BGN 586.5 million in 2014.

South Stream Pipeline

South Stream Bulgaria AD was established as a joint venture between BEH and OAO Gazprom, the Russian Federation, for the construction of the Bulgarian section of the "South Stream" pipeline project to transport natural gas from Russia through the Black Sea to Central Europe and Italy.

This project is currently suspended due to controversies surrounding the alleged breach by Bulgaria of EU laws, allegations of corruption within Bulgaria and the continuing imposition of sanctions by the EU against Russia. There can be no assurance as to whether construction of the South Stream pipeline will recommence.

Following the delivery of a formal notice from the Commission investigating matters relating to the construction of the South Stream gas pipeline, Former Prime Minister Oresharski stated in a press release that the project will be suspended until such investigation is complete. On 1 December 2014, the President of the Russian Federation further announced the termination of the South Stream pipeline project.

However, as at the date of this Offering Circular, neither South Stream Bulgaria AD nor Bulgarian Energy Holding EAD have received written notification from the Russian Federation to effect the cancellation. See also "*Risk Factors—Large-scale economic sanctions by the EU against Russia triggered by its actions in Ukraine may have a material adverse effect on Bulgaria's ability to meet its energy consumption needs which could have a negative effect on the Bulgarian economy*".

The Commission's Investigation in relation to the South Stream Pipeline

On 5 June 2014, the Commission delivered a formal notice to the Republic of Bulgaria. The letter of formal notice is the first step in the pre-litigation stage. It specifies the obligations which, in the Commission's view, the Republic of Bulgaria has failed to fulfil.

The concerns identified by the Commission are:

- Bulgaria's competence for entering into the Intergovernmental agreement between the Republic of Bulgaria and the Russian Federation regarding the South Stream project;
- establishment of "South Stream Bulgaria" AD as a project company;
- procurements assigned by "South Stream Bulgaria" AD.

The notice recommended the Government suspends awarding tender procedures and to refrain from signing contracts related to the South Stream project.

Bulgaria's response to the alleged infringements was approved by a Resolution of the Council of Ministers on 25 June 2014 and subsequently delivered to the Commission. In its response, Bulgaria denied the alleged violations of EU law.

Subsequently, Bulgaria has entered into a dialogue with the Commission which is ongoing. The matter remains unresolved as at the date of this Offering Circular. The Commission is under no obligation to issue a reasoned opinion, and it may decide to close the case at this stage. The decision to issue a reasoned opinion is adopted at the level of the College of Commissioners. There is no particular deadline by which such a decision must be taken.

Case AT.39767 BEH Electricity

On 27 November 2012, the Commission opened formal proceedings to investigate whether BEH may be abusing its dominant market position in the wholesale electricity market in Bulgaria and issued a statement of objections in August 2014. BEH's initial commitments were market tested in June 2015. In a separate investigation, the Commission is investigating whether BEH, its gas supply subsidiary Bulgargaz and its gas infrastructure subsidiary Bulgartransgaz, might be preventing competitors from accessing key gas infrastructures in Bulgaria, in breach of EU antitrust rules. The Commission opened formal proceedings in July 2013 and sent a statement of objections in March 2015.

To address the Commission's concerns, BEH has committed to offer certain volumes of electricity on an independently-operated day-ahead market on a newly-created power exchange in Bulgaria. Power exchanges ensure anonymous trading of electricity (i.e. the seller cannot trace the electricity it sells). This prevents the seller from enforcing territorial restrictions on resale. More specifically, BEH will set up a power exchange with the assistance of an independent third party with expertise in the area, and transfer control of the ownership of the new power exchange to the Bulgarian Ministry of Finance. These measures will ensure the independence of the power exchange.

The European Commission has adopted a decision that renders the commitments offered by Bulgarian Energy Holding (BEH) legally binding to end competition restrictions on Bulgaria's wholesale electricity market.

Case AT.39849 BEH Gas

On 5 July 2007, the Commission brought a case against BEH under a breach of Art. 102 TFEU relating to alleged acts of BEH EAD and its subsidiaries Bulgartransgaz EAD and Bulgargaz EAD in 2007 concerning possible territorial restrictions in BEH's electricity supply contracts with traders on the nonregulated Bulgarian wholesale electricity market.

Meetings were held with the Commission and letters were exchanged with DG "Competition". The Ministry of Energy has expressed the desire to complete the work on the case through commitments under Art. 9 of Regulation 1/2003. It may involve a commitment to the structural unbundling of "Bulgargaz" EAD from BEH EAD.

LT PPAs with AES TPP Maritsa East I and Contour Global TPP Maritsa East 3

The Ministry of Energy has submitted three replies to the Commission questions under the SA.39101 (2014/CP) case concerning alleged state aid in the form of long-term power purchase agreements and at the same time a series of meetings have been held with Commission representatives. Technical meetings with the Commission and the parties to the contracts were held to clarify some of the issues raised. The outcome of the alleged state aid is pending the decision of the Commission.

Energy projects

Other possible projects aimed at reducing Bulgaria's energy dependency on Russian gas include the expansion of the country's existing gas storage "Chiren" from the current capacity of 550 million cubic meters to 1 billion cubic meters of natural gas by 2017 and an increase of the injection and withdrawal daily capacity to 8-10 million cubic meters per day compared to the 4.2 million cubic meters per day at present, by 2018, as well as the construction of new gas storage facilities. There are also plans to strengthen the country's energy security by increasing the local supply of energy resources, developing concessional fields, as well as new concessions for the exploration and extraction of oil and gas. The focus is on offshore blocks in the Black Sea. On 29 August 2012, an exploration agreement was signed for the Han Asparuh offshore block with Total, OMV and Repsol (under a JOA agreement). The first deep water rig is expected in 2016. During 2015, Bulgaria held two tenders for prospecting and the exploration of oil and gas in the Black Sea shale – offshore blocks 1-22 Teres and 1-14 Silistar. On 23 February 2016, the offshore block Silistar was granted to Shell. The Government explores additional opportunities by intensifying cooperation with the countries from the Southern Gas Corridor, as well as with countries that are potential suppliers of natural gas, namely from the Caspian region, Eastern Mediterranean and the Middle East.

Bulgaria is also in the process of extending the life of units 5 and 6 of the Kozloduy nuclear power plant. According to the current estimates of the Kozloduy nuclear power plant management, a licence for another 10 years of operation of unit 5 will be received by 2017 and a similar licence for unit 6 is expected to be received by 2019. The Government programme in the energy sector promotes the construction of a new nuclear capacity under market conditions without state guarantee or commitment to buy the electricity produced.

Despite such measures, Bulgaria is still largely reliant on Russia for its gas supply and any delay or failure by Bulgaria to successfully secure access to further sources at favourable prices could have a material adverse effect on the Bulgarian economy. See "*Risk Factors—Large scale economic sanctions by the EU against Russia triggered by its actions in Ukraine may have a material adverse effect on Bulgaria's ability to meet its energy consumption needs which could have a negative effect on the Bulgarian economy*".

Procedures for revocation of the licences of electricity supply companies

The operation of low and medium voltage grids and the supply of electricity in Bulgaria are carried out by Bulgarian subsidiaries of EVN AG, Energo-Pro a.s. and ČEZ a.s. The electricity grid companies (EVN Bulgaria Electrorazpredelenie EAD, Energo-Pro Mrezhi AD and CEZ Razpredenie Bulgaria AD) own and operate the low and medium voltage electricity grids in different regions of Bulgaria, whereas the electricity supply companies (EVN Bulgaria Electrosnabdiavane EAD, Energo-Pro Prodzahbi AD and CEZ Electro Bulgaria AD) sell electricity to end consumers in the same regions. Each company has a separate licence for the distribution of electricity or the sale of electricity, respectively.

There are pending procedures before the Energy and Water Regulation Commission (the "**Regulator**") for revocation of the licences of all three electricity supply companies. The Regulator considers that the three companies failed to observe the regulatory regime as stated in the law and in the decisions of the Regulator. The electricity supply companies dispute this view of the Regulator.

The Regulator has not yet completed its investigation and the analysis of all received evidence, opinions and objections. Therefore, the licence revocation procedures of the electricity supply companies are still pending.

Labour Market

Economic growth during the years preceding the global financial and economic crisis resulted in strong employment growth of approximately 3 per cent. per annum in 2007 and 2008, while the unemployment rate fell to a record low value of 5.6 per cent. for the whole period of conducting the EU Labour Force Surveys ("LFS") (Bulgaria has been included in the EU LFS since 2000). However, these positive trends reversed during 2009, creating a ten-year peak in unemployment of approximately 13 per cent. in 2013. In 2014, the labour market began recovering with an employment growth of 0.4 per cent. and a 1.5 percentage point decrease in unemployment. This recovery gained further momentum in 2015. The unemployment rate in Bulgaria decreased from 11.4 per cent. in 2014 to 9.2 per cent. in 2015 and it is expected to follow a downward trend in the medium term. See "*Risk Factors –Bulgaria suffers from high levels of unemployment*".

The table below sets out the primary indicators and developments in the labour market for the five year period between 2011 and 2015.

	2011	2012	2013	2014	2015
Employment (ESA ⁽¹⁾ , thousands).....	3,524.6	3,436.4	3,421.6	3,434.2	3,446.2
Employment (ESA ⁽¹⁾ , per cent. year on year)	(2.2)	(2.5)	(0.4)	0.4	0.4
Unemployment (LFS ⁽²⁾ , thousands)	376.2	410.3	436.3	384.5	305.1
Unemployment (LFS ⁽²⁾ , per cent.)	11.3	12.3	12.9	11.4	9.2
Unemployment (Employment agency, thousands).....	332.6	364.5	371.4	366.5	330.8
Unemployment (Employment agency, per cent.)**	10.1	11.1	11.3	11.2	10.1
Participation rate (Ages 15–64, per cent.).....	65.9	67.1	68.4	69.0	69.3

⁽¹⁾ European System of Accounts 2010

⁽²⁾ Labour Force Survey

* 2011 registered unemployment rate was recalculated using the 2011 Census working age population.

Source: NSI Employment agency

With the fall in external demand at the end of 2008 and the contraction of capital inflows, local employers had to cut expenditure, including labour costs. Employment started to decrease in mid-2009 and continued on this downward trend until 2013. The overall employment loss for the period between 2009 and 2013 totalled 393,070 which corresponded to a rate of decrease of 10.3 per cent. and was mainly concentrated within the manufacturing industry, construction, and some service sub-sectors, in particular the trade, transport, catering and leisure, and public administration sub-sectors, due to costs consolidation measures.

In 2014, the employment sector began recovering and registered an upward growth in employment of 0.4 per cent. primarily as a result of employment growth in the agricultural sector, and to a lesser extent, due to employment growth in the service sector. An increase in economic activity in 2015 further assisted the recovery, and employment increased by a further 0.4 per cent. The main contributors to this increase were both the industry and services sectors, where employment grew by 2.1 per cent. and 0.6 per cent., respectively. Manufacturing employment growth was sustained by the strong export performance of the economy, while civil construction activities underpinned the employment recovery in construction. The service sector employment increase was driven by factors such as developments in technology, positive developments in trade and transport activities, gradual domestic demand recovery and export growth.

After its peak in 2013, the unemployment rate has gradually decreased, falling to 9.2 per cent. in 2015, according to the LFS. Hiring capacity in the period 2009 - 2012 remained low, which prevented inactive individuals from re-entering the labour market and delayed those who had recently been laid-off from being re-hired. In 2013, however, the labour force increased due to increasing numbers of people actively seeking employment. As a result, the participation rate of the population aged 15 to 64 rose to 68.4 per cent. in 2013, not only on account of the shrinking population but also due to more activity amongst the labour force. In 2014 and 2015, the participation rate of the population aged 15 to 64 increased to 69 per cent. in 2014 and 69.3 per cent. in 2015, but this was principally due to a slower rate of decrease in the labour force compared to the population decrease during that period. The contraction of the economically active population is a result of negative demographic developments which have led to a decline in the working age population, and a retirement age freeze during 2014 and 2015 has also affected the size of the labour force. According to the NSI figures, the number of retired people in 2015 went up by 8.5 per cent., which follows a 22.2 per cent. increase in 2014. Demographic trends are among the main risks for

both the labour market and overall economic development as they undermine the potential for economic growth. In response, the Government has introduced a package of measures and reforms in the pensions sector, which includes measures aimed at a gradual increase and equalisation of the retirement age between men and women, and adding restrictions to early retirement schemes for certain categories of worker (see "*Public Finance – Recent pension reforms*").

Although the global financial and economic crisis affected many participants in the labour market, job losses were more widespread amongst the young and those in low-skilled positions. Since 2014, however the Bulgarian labour market has been reporting an improvement of its structural characteristics.

The unemployment rate amongst the young (15-24 year olds) increased by over 15 percentage points from 2008 to 28.4 per cent. in 2013, mostly as a result of the lack of experience of young people in the labour market. In 2014, the youth unemployment rate decreased to 23.8 per cent. This trend continued in 2015, with the youth unemployment rate at 21.7 per cent. In the first nine months of 2015, the youth unemployment rate was 0.8 percentage points higher than the EU average, a positive development as compared to 2013 (where the youth unemployment rate was approximately five percentage points above the EU average), while it was 3.2 percentage points higher per annum in the period from 2010 to 2014, on average. These positive developments are partly as a result of targeted Government policies that were aimed at increasing training and employment among youths, following the measures presented in the Youth Guarantee Scheme 2014-2020. The measures are aimed at addressing the challenges and the imbalances in the following areas: improving the balance between existing job vacancies and the qualifications, better targeting the youth unemployed persons with a focus on youth "neither in employment nor in any education nor training" (NEET).

Low-skilled labour was also adversely affected during the crisis due to the reallocation of jobs towards more productive employment. The share of those unemployed with only primary and lower secondary education amounted to 29.9 per cent. in 2013, doubling from 2008, and further increased in the period to 2015 to 35.5 per cent. This increase reflects the faster rate at which unemployment among people with upper secondary and higher education decreased as compared to those with lower secondary or only primary education. The layoffs of low qualified workers, along with the economic periods of restructuring were the main factors behind structural unemployment. Long-term unemployment (periods of unemployment over 12 months) increased to 7.4 per cent. in 2013 from 2.9 per cent. in 2008. As a result of the gradual economic recovery and the Government's targeted active labour market programmes and measures, long-term unemployment decreased in 2014 and 2015 and reached 5.6 per cent. in 2015.

Since mid-2014 registered unemployment has also started to decrease and reached 10.1 per cent. on average in 2015. The downward trend reflects the fact that employee terminations have slowed and that a higher number of persons found employment in the primary labour market which, in turn, reflects the increased demand of labour in the real sector of the economy.

Wages

Following labour cost adjustments made by employers in the years following the global financial and economic crisis, real labour productivity in Bulgaria grew at a rate of 2.4 per cent. on average over the period between 2011 and 2014. The largest contribution to productivity growth was made by the industrial sector (excluding construction), which increased by 4.8 per cent., while the productivity of the service sector grew by 1.2 per cent. in the same period. Whilst productivity increased over the period, compensation per employee growth also increased, contributing to a rise in real unit labour costs ("**RULC**"), up by 2.8 per cent. per annum in 2011-2014, on average. The RULC increase indicates that labour cost adjustments have been achieved through employment decline rather than a decrease in wages. However, manufacturing, which is directly exposed to external competition and is a driver of economic growth in the country, has succeeded in maintaining cost competitiveness. During the period 2011–2014, RULC in manufacturing decreased by 0.8 per cent. per annum on average. In 2015, positive employment trends were accompanied by a further increase in Bulgaria's real labour productivity to 2.6 per cent., up from 1.2 per cent. in 2014. Real labour productivity grew at a faster rate than the nominal growth of compensation per employee and this led to a decrease in RULC for 2015. The rate of growth of compensation per employee decelerated to 1.8 per cent. in 2015 (as compared to 5.6 per cent. in 2014), as a result of a decrease in compensation in part of the activities within the service sector. In 2015, unit labour costs decreased by 0.7 per cent. in nominal terms and 1.1 per cent. in real terms.

The following table sets out real labour productivity and RULC growth in the period 2011 - 2015:

	2011	2012	2013	2014	2015
Real labour productivity growth (percentage change year-on-year).....	3.9	2.8	1.7	1.2	2.6
RULC growth (percentage change year-on-year).....	(3.8)	3.2	7.8	3.9	(1.1)

Source: NSI, Ministry of Finance

During 2011 to 2014, the rate at which wages grew slowed down, increasing by a nominal 6.1 per cent. on average while real wages, deflated by the HICP, grew by 5.0 per cent. These figures were largely influenced by public sector wages which experienced lower growth rates for the same period, owing to the Government's adoption of a conservative fiscal policy. In 2015, wage growth in the private sector increased, following a sustained recovery of the labour market for high skilled workers in certain service sector's activities and in manufacturing). As a result, Bulgaria's average wage growth was 8.8 per cent. in nominal terms in 2015. Given the ongoing negative price dynamics, in 2015 real wage growth, deflated by HICP, reached 9.9 per cent., pointing toward a higher purchasing power of average incomes. With respect to the low-wage earners, in 2015 the Government increased the minimum wage to BGN 360 from 1 January 2015, to BGN 380 as of 1 July 2015 and to BGN 420 as of 1 January 2016. This policy was aimed at achieving a nominal growth of wages of the lowest income groups in the labour market. In 2015, the rate of increase of the minimum wage reached 8.8 per cent., while the minimum to average ratio was 41.4 per cent.

The following table sets out average monthly wage, nominal and real annual wage growth in the public and private sectors for the five year period between 2011 and 2015:

	2011	2012	2013	2014	2015
Average monthly wage (EUR)					
Total economy	350.7	373.8	396.3	420.1	456.9
Public sector	389.1	404.6	427.2	453.9	475.5
Private Sector.....	337.7	363.4	385.8	409.1	450.8
Nominal wage growth (percentage change year-on-year)					
Total economy	5.8	6.6	6.0	6.0	8.8
Public sector	1.7	4.0	5.6	6.3	4.8
Private Sector.....	7.6	7.6	6.2	6.1	10.2
Real wage growth (percentage change year-on-year)					
Total economy	2.4	4.1	5.6	7.7	9.9
Public sector	(1.7)	1.5	5.2	8.0	5.9
Private Sector.....	4.1	5.1	5.8	7.8	11.4

Source: NSI, Ministry of Finance

Inflation

While economic growth in Bulgaria during 2007 and 2008 was strong, the inflation rate (measured by the HICP), with a peak of 14.7 per cent. in mid-2008, was mainly driven by large increases in international food and oil prices, a poor agricultural harvest in 2007, higher excise rates on tobacco and increases in administered prices². In addition, the acceleration in wage growth increased the pressure of unit labour costs on consumer prices and strengthened consumer demand. In the second half of 2008, international prices started to fall as a result of the global financial and economic crisis and this had an effect on domestic prices. As a result, annual inflation decelerated at the end of 2008, followed by a clear disinflation trend during 2009.

The following table sets out the rate of annual inflation for the period 2011-2015:

	2011	2012	2013	2014	2015
	<i>(percentage change year on year, end of period)</i>				
All items HICP	2.0	2.8	(0.9)	(2.0)	(0.9)
Food and non-alcoholic Beverages	4.5	4.6	(0.8)	(0.8)	0.8

² "Administered prices" cover all goods and services prices which are fully set or mainly influenced by the Government (central, regional, or local government including national regulators).

	2011	2012	2013	2014	2015
	<i>(percentage change year on year, end of period)</i>				
Alcoholic beverages, tobacco.....	0.2	0.5	1.9	0.7	0.8
Non energy industrial goods	(0.2)	(1.0)	(2.1)	(2.1)	(1.3)
Energy	3.3	8.6	(2.9)	(6.4)	(7.4)
Services.....	2.3	2.3	0.3	(1.3)	0.5
Core inflation ⁽¹⁾	1.3	0.9	(0.7)	(1.6)	(0.3)

⁽¹⁾ Overall index excluding energy, food, alcohol and tobacco.

Source: Eurostat

Given the high trade openness of the Bulgarian economy (measured by the ratio of foreign trade to GDP) and the fixed exchange rate of the Lev to the Euro, consumer price dynamics in Bulgaria are largely driven by external factors, particularly by changes in energy and food prices on the international markets and partially by the exchange rate of the Euro to the USD. Core inflation has followed a pronounced downward trend since late 2008 and has moved below the headline rate since the beginning of 2010. The downward trend reflected the historically low levels of inflation for services during this period which was driven by subdued consumer demand and declines in non-energy industrial goods prices. Increases in administered prices had a more substantial impact on the overall annual inflation at the end of 2010 and the end of 2012, contributing 0.70 percentage points and 0.78 percentage points, respectively.

Headline inflation slowed significantly in 2013, recording a deflation of 0.9 per cent. largely due to reductions in administered prices, the downward trend in international prices of food and energy, a strong agricultural harvest and the appreciation of the Euro since mid-2013. In 2013, administered prices contributed negatively both to annual average and end-of-period inflation (-0.68 percentage points) as a result of the reductions in the price of electricity for households since March of that year. Core inflation decreased, reaching a deflation of 0.7 per cent. at the end of 2013 (compared to the end of 2012), principally as a result of lower import prices and weak consumer demand for services. In 2014-2015, consumer prices continued to reflect the ongoing decline in international oil prices which had a negative effect both directly and indirectly (through lowering production costs for firms) on domestic prices. The decline of non-energy industrial goods gradually decelerated in 2015, mainly as a result of the weakening Euro. The price decline in services also accelerated during the second half of 2014, reflecting to a great extent, a one-off effect from the administrative cut in roaming tariffs caps in the entire EU, which led to a drop in the prices of services related to communication. Administrative cuts in healthcare services prices and methodological changes in airfares reporting have also influenced price dynamics of services throughout 2014.

As the effect of these factors lessened in 2015, services inflation returned to a positive level of 0.5 per cent. Overall inflation was negative with a deflation rate of 0.9 per cent. at the end of 2015 as compared to a deflation rate of 2.0 per cent. at the end of 2014.

Tourism

The Ministry of Tourism was formally established by a decision of the National Assembly in November 2014.

A total of 9,316,624 foreigners visited Bulgaria in the year ended 31 December 2015 (a decrease of 1.0 per cent. compared to the year ended 31 December 2014). Out of those, a total of 7,098,794 were tourists, which is a decrease of 2.9 per cent. compared to the year ended 31 December 2014. This decrease is mainly due to a serious decrease in the number of tourists from Russia and Ukraine conditioned by the political and economic circumstances in these markets. During 2015, the number of Russian citizens who travelled to Bulgaria for tourist purposes was 484,558. This is a 26.2 per cent. decrease compared to 2014. The drop in numbers is not entirely due to the sanctions that have been introduced but also to other factors including the lower petrol price, the devaluation of the Russian ruble, easier tourist access to the Crimean peninsula and others. The table below shows the breakdown of the origins of the tourists from the top 15 countries in 2015 as well as a comparison against the figures from the year ended 31 December 2014:

	Number of Tourists	Change from 31 December 2014	Change in per cent. from 31 December 2014
Romania	986,596	39,231	4.1

Greece	972,971	(59,010)	(5.7)
Germany	622,751	(91,444)	(12.8)
Turkey	519,050	80,744	18.4
Russia	484,558	(171,896)	(26.2)
Macedonia	473,548	65,327	16.0
Serbia	346,923	34,586	11.1
Poland	260,622	8,119	3.2
United Kingdom	244,353	(2,665)	(1.1)
Ukraine	241,559	(28,087)	(10.4)
Moldova.....	164,155	37,156	29.3
Israel	154,504	25,123	19.4
Czech Republic	152,082	(14,505)	(8.7)
France	140,806	(8,199)	(5.5)
Austria.....	139,942	(34,957)	(20.0)

Source: Ministry of Tourism

Balance of Payments from Tourism

According to the data from the BNB, revenues from international tourism for 2015 totalled EUR 2,873.06 million (a 3.6 per cent. decrease as compared to 2014). The expenditures of Bulgarian citizens while travelling abroad for 2015 totalled EUR 1,006.57 million (a 11.4 per cent. increase compared to 2014). A further increase in visitors is expected from Russia this year following changes in the geopolitical relations between Russia and other tourist destinations such as Turkey and Egypt, which is supported by early bookings for this summer season.

PUBLIC FINANCE

Under the European System of Accounts 2010 ("**ESA 2010**"), the public finance system in Bulgaria comprises the central government subsector, the local government subsector, and social security funds, which together comprise the "general government". The rules defining the general government are harmonised internationally and are updated regularly. The fiscal year applicable to the general government is the calendar year.

The NSI is responsible for compiling both the public finance data reported to the Commission under the ESA transmission programme and the fiscal notification tables reported twice a year to Eurostat in accordance with the Council Regulation No. 479/2009 of 25 May 2009 (on the application of the Protocol on the Excessive Deficit Procedure annexed to the Treaty Establishing the European Community, as amended, and the Statements contained in the Council minutes of 22 November 1993).

With the Organic Budget Law (the "**OBL**") entering into force in 1996, the OBL became the prime instrument for managing the budgetary process and for regulating the relationship between the state and municipal budgets; however, the OBL has recently been superseded by the new Public Finance Act (the "**PFA**").

As part of the wide-ranging reforms which were conducted to address the weaknesses in the budgetary process in Bulgaria, the PFA was adopted in 2013 and came into effect on 1 January 2014. It transposed Directive 2011/85/EU of the Council of 8 November 2011 which concerned the new budgetary framework requirements for EU member countries; however, the PFA was also a product of the recommendations given by the National Audit Office.

In addition to the adoption of the PFA into Bulgarian law, the EU regulation of Chapter III ("**Fiscal Compact**") of the Treaty on stability, co-ordination and governance within the Economic and Monetary Union signed on 2 March 2012 in Brussels, was also adopted into law by Bulgaria.

The PFA has been designed to bring various elements of EU and Bulgarian law under one law. It serves to consolidate all aspects of budgetary management both on a national and a municipal level so as to facilitate the best use of public funds. As a consequence of the consolidation of budgetary management under the PFA, the Organic Budget Law and the Municipal Budgets Act were repealed and a number of other acts were amended to reflect necessary adjustments. The PFA applies strict fiscal rules and has created a permanent regulation for the reporting and forecasting of current and future budgets on a multi-annual basis.

Included in the PFA are the fiscal rules, the regulations which co-ordinate the structures of current and future budgets, budgetary relations between national and municipal government, and the use of and contribution to EU funds. The PFA sets out in detail the functions, responsibilities and the timelines for assembling, adopting and executing state budgets as well as the reporting requirements for consolidated fiscal programmes ("**CFP**") and annual reports. The regime for EU funds and other external funds is also regulated under the PFA.

The PFA also contains a summary of the country's fiscal rules for, among other things, the structural deficit, the consolidated fiscal programme (calculated on a cash basis), and the costs of government and public administration. These rules also set out the restrictions on fiscal policy in the long-term, including the imposition of restrictions on basic budgetary aggregations. The rules also comply with internationally-adopted definitions and criteria as well as with the requirements of the Stability and Growth Pact.

Another purpose of the PFA has been to strengthen the interaction between the legislative, executive, and judicial arms of the state when it comes to the adoption of a prudent fiscal policy. The PFA has been designed to ensure compliance with EU and Maastricht criteria with respect to budget deficits and consolidated debt.

To ensure the sustainability of public finances along with budgetary discipline by successive governments, the PFA also includes a series of rules for all the bodies and funds which are not part of the regular budget; these bodies are subject to evaluation and review in strategic and annual budget documents.

The PFA rules restrict the ability of social security funds to incur debt and issue guarantees. Similar restrictions have also been set for the budgetary organisations whose budgets are not part of the State

Budget but are included in the consolidated fiscal programme. The PFA also foresees that budgetary expenditure will increasingly be classified through economic and financial indicators as well as being moulded by future EU regulations. The budget procedure has also been synchronised to strengthen the co-ordination of the country's economic policies.

According to the PFA, all spending units and other legal entities which receive budgetary funds as well as those legal entities controlled by the state and/or the municipalities must participate in the budget procedures set out in the PFA. Additionally, they must also adhere to those recommendations made by the Commission for the purposes of ensuring that the country's finance remains balanced.

In order to increase transparency with regard to budgetary procedures, provision has also been made under the PFA to widen access to budgetary information as well as improving the quality and scope of existing information.

The procedure governing the municipal budget is, to a large extent, still within the scope of the repealed Municipality Budget Act. The criteria by which municipal budgets are assembled and adopted remain the same. Moreover, the rights of the Council of Ministers, the Minister of Finance and the first-level spending units for the State Budget are also set out in the PFA.

The procedure for the promulgation of budgetary reports in the National Assembly has also been set out in the PFA, with the Minister of Finance being mandated to present the annual report on the State Budget to the assembly. Equally, each minister is responsible for presenting his/her department's annual report and for implementing their department's budgetary policies. In the case of the municipal budget, the scope of the information required in the annual report is much broader.

The PFA also regulates, among others, the EU funds account regime, the regime of the foreign fund accounts, and any centralised payment schemes.

The Fiscal Council and Automatic Corrective Mechanisms Act, for the purposes of creating an independent body to monitor the budgetary framework (pursuant to Article 6 of Directive 2011/85/EU of the Council of 8 November 2011), was adopted by the Parliament on 8 April 2015 and came into force on 21 April 2015.

In January 2016, the Ministry of Finance prepared a draft law amending the PFA which was submitted by the Council of Ministers to the Parliament for approval on 11 February 2016. The draft law is expected to be approved by the National Assembly.

Fiscal Policy

Fiscal performance 2008-2015

The prudent fiscal policy adopted by all levels of Government after the introduction of the currency board in 1997 has been supported by the implemented reforms in the area of budgeting and public finance management.

In the first two years after its accession to the EU, Bulgaria's fiscal policy was based on promoting sustainable economic growth while maintaining the stability of its public finances. The main priorities were the implementation of measures to encourage investment and the reduction of tax rates and social security contributions. One of the main challenges faced by the Government was counteracting the increasing trade deficit and the deficit of the current account by targeting sizable surpluses in the budget and accumulating a buffer in the Fiscal Reserve Account.

Bulgaria was well-prepared for the global financial and economic crisis, owing to its strong budgetary position, budget surpluses, and hitherto falling public debt. In 2008, the general government surplus reached 1.6 per cent. of GDP; however, this positive trend has subsequently been undermined and since 2009 the Government has continued to run a deficit.

During 2010 and 2011, Bulgaria took stringent measures to bring down its deficit (on an accruals basis) to 3.2 per cent. and 2.0 per cent. of GDP respectively. To improve fiscal efficiency and reduce public expenditures, the Government implemented a series of measures such as improving the process of tax collection (see "*Risk Factors – Risk Factors Relating to Bulgaria – Risks relating to the collection of*

taxes"), freezing public sector spending on wages, increasing departmental efficiency through various cost-cutting exercises and improving the rules and procedures for public finance management.

This fiscal consolidation continued in 2012 with the general government deficit (on an accruals basis) decreasing to 0.6 per cent. of GDP in 2012. The improvement was achieved by reducing fiscal expenditures, bolstering fiscal control mechanisms and enhancing tax collection initiatives. Since 2011, the Republic's budget has corresponded fully with the EU Council's recommendations and in June 2012 the Council removed the EDP for the country.

The political instability following the 2013 parliamentary elections, coupled with weak economic recovery, led to a slight fiscal easing in 2013 (the 2013 general government deficit (on an accruals basis) widened by 0.2 per cent. to 0.8 per cent. of GDP) and a further widening of the deficit in 2014. External factors also contributed negatively to the widening of the deficit in 2014, such as the crisis in Ukraine, the weaker than projected growth in the EU and the floods in Bulgaria. The bank run in late June 2014 also had a negative economic and fiscal impact. As a result of these developments, the widening of the deficit (on an accruals basis) for 2014, based on the data of the NSI, accounted for 2.8 per cent. of GDP. Due to a statistical change in the sector classification of the Bulgarian Deposit Insurance Fund (the "**BDIF**"), the 2014 general government deficit (on an accruals basis), according to the October 2015 fiscal notification tables of Bulgaria, was revised from 2.8 per cent. to 5.8 per cent. of GDP. Despite this revision, the Commission decided not to launch an excessive deficit procedure against Bulgaria, as the liabilities assumed by the BDIF in 2014 are considered to be a one-off occurrence and are not expected to impact the deficit in the coming years. The fiscal target set in the Convergence Programme of the Republic of Bulgaria (2016-2018) for 2015 was a deficit (on an accruals basis) of 2.8 per cent. of GDP. According to the 2016 Winter European Economic Forecast of the European Commission, the general government deficit (on an accruals basis) for 2015 is expected to decrease to 2.5 per cent. of GDP and the gradual fiscal consolidation is expected to continue in 2016 and 2017.

The main priority in 2015 was the successful completion of projects financed by the EU for the First Programme Period 2007-2013, with such projects placing significant additional pressure on the expenditure side of the budget. In order to complete such projects, it was necessary to apply additional national resources to pre-finance the expenditure under the projects until their reimbursement from the European Commission and also for the Government to co-finance some of the projects. To address this, the Government proposed changes in the Annual Budget Law for 2015 (on a cash basis) in order to allocate additional resources for this purpose. The revised expenditure framework for 2015 also took into account the challenges relating to the inability to significantly reduce wages and salaries in some sectors. The Government also proposed changes to the revenue side of the budget to reflect the positive developments in tax income, with a higher than expected level of tax revenues as compared to the initial forecasts. The amendments to the Annual Budget Law for 2015, together with an updated medium-term budgetary forecast for the period 2016-2018, was approved by the National Assembly on 2 December 2015 as a part of the State Budget Law for 2016. As a result of these changes, the forecast general government deficit (on a cash basis) for 2015, as set out in the amended 2015 Budget, increased slightly from 3.0 per cent. of GDP to 3.3 per cent. of GDP. The preliminary data for 2015 indicates a deficit level (on a cash basis) of 2.9 per cent. of GDP, representing a decrease as compared to the original forecast of 3.0 per cent. set in the Annual Budget Law for 2015 and the revised forecast of 3.3 per cent. of GDP set out in the amended 2015 Budget.

Tax Policy

Bulgaria's tax strategy after 2007 has been characterised by continuity and predictability. The main focus has been to support macro-economic stability in both the medium and the long-term and to provide the necessary financial resources to meet budgetary requirements, promote economic growth, attract foreign investment and increase long-term fiscal stability.

Fiscal policy in recent years has helped to mitigate the negative impact of the global financial and economic crisis on the Bulgarian economy, improve the business environment, stimulate investment activity, promote employment and reduce the grey economy.

The main priorities for tax policy are:

- increasing budget revenues;

- reducing the administrative burden and costs for businesses and individuals;
- ensuring a stable tax environment and stimulating investment activity and employment (i.e. one in which tax rates remain stable and low to encourage investment, growth and jobs); and
- increasing tax rates for certain excise goods according to EU tax legislation (tax rates in terms of direct taxation remain unchanged at 10 per cent. for corporations (one of the lowest in the EU) and 10 per cent. for individuals which is the lowest in the EU).

The development of Bulgarian tax policy since 2007 has been in line with EU law requirements and those international treaties to which Bulgaria is a party.

Improving Tax Collection and Ensuring the Fiscal Reserve Level

The Government has taken legislative and administrative measures in order to implement policies aimed at enhancing the effectiveness and efficiency of the revenue agencies and increasing budget revenues through effective measures for prevention and addressing tax fraud and smuggling of excisable goods, as well as implementing specific recommendation 1 of the Council of the European Union. Some of these measures include:

- Within the context of implementing the Council's country specific recommendation No 1 for 2014 and for 2015, a "Unified national strategy for strengthening the revenue collection, tackling the shadow economy and reducing the compliance costs 2015-2017", with an accompanying action plan, was adopted by a Decision of the Council of Ministers No. 806 of 15 October 2015. The plan deepens institutional coordination and cooperation and enhances risk assessment and audit capacity.
- Following the amendments to the Law on Value Added Tax, as of 1 January 2014, a reverse charge mechanism for VAT will be applied to supplies of cereals and industrial crops. This mechanism aims at limiting abuse in the trade in cereals and will come into force by the end of 2018.
- The National Revenue Agency ("**NRA**") has been exercising effective fiscal control on goods with high fiscal risk and has developed a comprehensive strategy for introducing fiscal controls on the movement of goods with high fiscal risk. This policy became effective at the beginning of 2014 with amendments to the Tax and Social Security Procedure Code. Measures were taken to enhance the administrative capacity of the tax control authorities by setting up the specialised "Fiscal Control" directorate at the Central Division of the NRA and by the strategic placement of permanent fiscal control teams at a total of 20 specially designated fiscal control points near border checkpoints and at specified indoor locations where high risk goods are unloaded. In 2015, in order to enhance the effectiveness of fiscal controls on goods, 41 new indoor fiscal control points were established (bringing the total number to 138) and the scope of goods subject to fiscal control was expanded.
- Every year targeted campaigns are held to collect overdue public liabilities. In 2015, the monitoring of debtors with overdue public obligations (taxes and statutory social security contributions) of over BGN 100,000 continued. Concrete measures designed to address this issue have been implemented, including: holding face-to-face meetings with debtors aimed at obtaining explicit commitments to provide collateral and/or make full or partial payment of overdue debts; and increased monitoring of commitments taken by debtors and the timely monitoring of their treatment by the authorities (which includes carrying out assessments of the economic status of the relevant debtor, issuing permits for urgent payments and performing *ad hoc* inspections and audits on the debtor).
- A legal framework to provide liable individuals facing temporary financial difficulties with the opportunity to service their overdue liabilities for tax and social security contributions over a longer period.
- Measures to strengthen the ability of the revenue authorities to curtail "shadow" practices and their negative effect on tax collection.

- Road and railway controls have been improved and strengthened with regard to the illegal transportation of tobacco products.
- The Customs Agency has taken specific measures to improve the Bulgarian Excise Centralised Information System ("**BECIS**"), in order to further enhance the collection of excise duties and VAT.
- A joint analytical and information centre has been set up for exchanging information and increasing cooperation between the National Revenue Agency, the Customs Agency, the General National Police Directorate, the General Border Police Directorate and the State Agency for National Security.

See "*Risk Factors – Risk Factors Relating to Bulgaria – Risks relating to the collection of taxes*".

Revenues

The principal source of revenue in the State Budget is taxation, particularly VAT, excise duties, corporate income tax and personal income tax. A number of significant tax reforms have been introduced which aim to shift the taxation burden from direct to indirect taxes to achieve proportional taxation and the tax base has been broadened by removing exemptions and by reducing activities in the grey economy.

Corporate income tax

The following table shows the rate of corporate income tax ("**CIT**") and CIT revenues as a percentage of GDP in the period as at 31 December 2010 to 31 December 2015:

	As at 31 December					
	2010	2011	2012	2013	2014	2015
	<i>(EUR millions, except for percentages)</i>					
Total Revenues from CIT.....	691.9	764.9	755.7	794.0	858.6	951.2
Tax Rate (per cent.).....	10	10	10	10	10	10
Total Revenues from CIT as percentage of GDP.....	1.8	1.9	1.8	1.9	2.0	2.2

Source: Ministry of Finance

Personal income tax

In 2008, significant changes to personal taxation were made by which a flat tax rate of 10 per cent. was introduced and the requirement for a non-taxable minimum was abolished.

There were no significant legislative amendments between 2008 and 2015. Revenues for this period rose gradually from EUR 1,008 million in 2008 to EUR 1,396.5 million in 2015. However, at the same time, the unemployment rate increased from 5.6 per cent. in 2008 to 11.4 per cent. in 2014, according to the latest annual NSI data.

The following table shows the rate of personal income tax ("**PIT**") and the revenue from PIT as a percentage of GDP in the period as of 31 December 2010 to 31 December 2015:

	As at 31 December					
	2010	2011	2012	2013	2014	2015
	<i>(EUR millions, except for percentages)</i>					
Total Revenues from PIT.....	1,038.5	1,114.4	1,174.8	1,200.8	1,327.6	1,396.5
Tax rate (per cent.).....	10	10	10	10	10	10
Total Revenues from PIT as a per cent. of GDP	2.8	2.7	2.8	2.9	3.1	3.2

Source: Ministry of Finance

Excise duties

In order to implement EU requirements, excise duties on some products are being increased gradually whereas others remain constant.

The following table sets out revenues from excise duties (including as a percentage of GDP) in the period as of 31 December 2010 to 31 December 2015:

	As at 31 December					
	2010	2011	2012	2013	2014	2015
	<i>(EUR millions, except for percentages)</i>					
Excise duties						
Tobacco products.....	777.3	866.0	921.9	922.3	913.8	1,064.5
Fuels	911.4	956.8	988.5	996.9	996.7	1,083.0
Alcoholic beverages and beer	115.4	134.2	136.9	135.2	133.8	142.4
Other stock.....	20.0	16.6	22.2	19.3	20.7	23.7
Total Revenues from Excise duties.....	1,824.1	1,973.6	2,069.5	2,073.7	2,065.0	2,313.6
Total Revenues from Excise duties						
as a per cent. of GDP	4.8	4.8	5.0	4.9	4.8	5.3

Source: Ministry of Finance

Revenues from excise duties have remained stable despite the impact of the global economic crisis. This is primarily as a result of the legislative measures introduced to curtail tax avoidance and improvements in customs administration.

VAT

VAT levied on the supply of goods and services and other activities in Bulgaria complies with the rules of Council Directive 2006/112/EC on the common system of value added tax. The following VAT rates have applied since 1 January 2014: a standard rate of 20 per cent.; a reduced rate of 9 per cent. applicable to accommodation provided at hotels and similar establishments, including the provision of vacation accommodation and letting out of places for camping sites or caravan sites; and a reduced rate of 0 per cent. for export and selected services such as international transport.

Furthermore, the VAT system provides for exemptions (without the right to deduct the input tax) for certain services, such as educational, healthcare and welfare and financial services.

The following table sets out the revenues from VAT as a percentage of GDP as of 31 December 2010 to 31 December 2015:

	As at 31 December					
	2010	2011	2012	2013	2014	2015
	<i>(EUR millions, except for percentages)</i>					
Total Revenues from VAT.....	3,204.3	3,380.5	3,656.7	3,766.4	3,714.2	3,957.4
Tax rate (per cent.).....	20	20	20	20	20	20
Total Revenues from VAT as a per cent. of GDP	8.5	8.3	8.8	9.0	8.7	9.0

Source: Ministry of Finance

During the European economic crisis in 2009 and 2010, the ratio of VAT revenues to GDP decreased, but in 2011 VAT revenues reversed this negative trend after several measures to improve the collection of VAT were undertaken, and the rate continued to increase over 2012-2013. These measures included: an increase in the number of on-site inspections, improvement of performance of mobile units, more frequent and more thorough audits, the introduction of more rigorous accounting rules and judicial prosecution of unlawful practices inflicting losses on the budget, the implementation of on line

connections between the cash registers of traders and the National Revenue Agency ("NRA"), remote connection of fiscal devices with the NRA and the automatic exchange of information between the NRA and the Customs Agency. See "Risk Factors – Risks Factors Relating to Bulgaria – Risks relating to the collection of taxes".

Fiscal decentralisation

Legislative amendments in the municipality laws in 2006 gave municipalities the power to determine and collect the following local taxes: real estate, inheritance, donation, vehicle, lump-sum and tourist tax, as well as tax on the acquisition of property.

Municipalities also have the power to collect fees in a number of local matters including the disposal of waste and administrative services.

Since 2008, property tax has been determined by the municipal councils within limits set by the law.

Fiscal goals

Bulgaria's tax policy is oriented towards the maintenance of economic stability during periods of crisis, the promotion of business investments and employment. Some of these goals are reached through the implementation of the following measures: tax reliefs for business and achievement of the minimum excise tax rates of the EU; simplification of the tax system and precision of the tax laws in order to eliminate inconsistencies and imperfections in the practice of taxation and to obtain transparency and understanding for taxpayers; maintaining direct tax rates in combination with a lower social insurance burden on employers in support of economic growth and employment; and maintaining a higher share of indirect taxes as compared to direct taxes.

General Government

The table below sets out the revenues, expenditure and net lending/borrowing for the general government of Bulgaria, and the second table represents the net lending/net borrowing by sub-sector for the years as of 31 December 2010 to 31 December 2014 and for the nine month period ended 30 September 2015 (under ESA 2010 methodology whereby, data is calculated on an accruals basis):

ESA 2010 code	General government	As at 31 December					As at 30 September
		2010	2011	2012	2013	2014	2015
		<i>(EUR millions)</i>					
OTR	Total Revenue	12,615.3	13,155.3	14,196.5	15,450.3	15,518.2	12,682.0
OTE	Total Expenditures	13,805.6	13,968.1	14,456.4	15,777.6	17,985.8	12,118.4
B9	Net lending (+) Net borrowing (-).....	(1,190.3)	(812.8)	(259.9)	(327.3)	(2,467.6)	563.6
		<i>(per cent. of GDP)</i>					
OTR	Total Revenue	33.4	32.1	34.0	36.9	36.3	39.6
OTE	Total Expenditures	36.6	34.1	34.7	37.6	42.1	37.8
B9	Net lending (+) Net borrowing (-).....	(3.2)	(2.0)	(0.6)	(0.8)	(5.8)	1.8

ESA 2010 code		As at 31 December					As at 30 September
		2010	2011	2012	2013	2014	2015
		<i>(EUR millions)</i>					
S.1311	Central government	(774.4)	(850.8)	(404.4)	(455.8)	(2,488.7)	534.7
S.1313	Local government.....	(4.5)	(9.8)	103.9	164.0	(13.2)	(37.4)
S.1314	Social security funds....	(411.4)	47.7	40.5	(35.5)	34.3	66.3
S.13	General government	(1,190.3)	(812.8)	(259.9)	(327.3)	(2,467.6)	563.6

ESA 2010 code	As at 31 December					As at 30 September
	2010	2011	2012	2013	2014	2015

ESA 2010 code	As at 31 December					As at 30 September
	2010	2011	2012	2013	2014	2015
	<i>(per cent. of GDP)</i>					
S.1311 Central government....	(2.1)	(2.1)	(1.0)	(1.1)	(5.8)	1.7
S.1313 Local government	0.0	0.0	0.2	0.4	0.0	(0.1)
S.1314 Social security funds ..	(1.1)	0.1	0.1	(0.1)	0.1	0.2
S.13 General government...	(3.2)	(2.0)	(0.6)	(0.8)	(5.8)*	1.8

Source: Eurostat and NSI

* On the basis of Bulgaria's October 2015 fiscal notification tables, the general government deficit (on an accruals basis) for 2014 was revised to 5.8 per cent. of GDP. The difference between the April and October 2015 fiscal notification tables data (general government deficit (on an accruals basis) of 2.8 per cent. of GDP in April and 5.8 per cent. in October) is mainly due to a change in the sector classification of the BDIF as part of the general government sector. Until 2013, the methodological criteria placed BDIF as a unit classified in the financial institutions sector, its balance sheet thereby having no impact on the general government sector deficit.

Bulgaria's public debt to GDP ratio of 26.8 per cent. at the end of the third quarter of 2015 was the third lowest in the EU, after Estonia and Luxembourg. Successive governments have shown a commitment to fiscal prudence, resulting in a decline in the public debt to GDP ratio from over 100 per cent. in 1997. Prudent fiscal policy has been based on targeting the fiscal stance on surpluses during expansionary economic periods and accumulating a buffer in the Fiscal Reserve Account against potential shocks and strong fiscal consolidation after the global crisis and economic recession. Prudent fiscal policy is extremely important for the sustainability of the currency board and long-term fiscal sustainability. The sizeable fiscal and financial buffers accumulated in the high-growth pre-crisis years following the EU accession, proved to be important cushions to support the economy through the downturn. Please see "Public Finance – Fiscal Policy – Fiscal Performance 2008 – 2015" above for a description of the fiscal performance in the period 2008 – 2015.

Consolidated Fiscal Programme – Cash Basis

Although ESA 2010 is the prime methodology used for the general government budget, the National Assembly approves the Annual Budget Law compiled under the national budget methodology, which is on a cash basis.

The following table sets out the sub-category of revenues and expenditures under the CFP in the period between 31 December 2010 and 31 December 2015 (preliminary data) on a cash basis:

	2010	2011	2012	2013	2014	2015
	<i>(EUR millions)</i>					
Consolidated Fiscal Programme						
Total revenues	12,236.6	12,975.6	14,044.9	14,815.9	15,036.6	16,466.2
Tax revenues	9,721.9	10,529.7	11,007.6	11,437.8	11,773.9	12,708.9
Direct taxes	1,730.5	1,879.2	1,930.5	1,994.8	2,186.2	2,347.7
Corporate income tax	691.9	764.9	755.7	794.0	858.6	951.2
Income tax	1,038.5	1,114.4	1,174.8	1,200.8	1,327.6	1,396.5
Social security contributions ..	2,541.0	2,817.0	2,861.2	3,098.5	3,297.2	3,551.7
Indirect taxes	5,089.4	5,432.3	5,799.5	5,926.3	5,870.0	6,365.8
VAT	3,204.3	3,380.5	3,656.7	3,766.4	3,714.2	3,957.4
Excise duties	1,824.2	1,973.6	2,069.6	2,073.7	2,064.9	2,313.6
Insurance premium tax		11.0	13.0	11.4	12.5	13.6

	2010	2011	2012	2013	2014	2015
	(EUR millions)					
Customs duties.....	60.9	67.1	60.2	74.7	78.3	81.3
Others	360.4	400.4	415.9	417.6	419.9	443.1
Sugar Levy	0.5	0.7	0.5	0.5	0.5	0.5
Non tax revenues	1,695.1	1,697.8	1,826.8	2,019.9	1,769.0	1,894.4
Grants	819.6	748.1	1,210.5	1,358.2	1,493.7	1,863.0
Total Expenditure with the EU contribution	13,679.8	13,736.7	14,228.4	15,552.4	16,607.8	17,730.6
Total Expenditure	13,337.4	13,338.3	13,814.6	15,074.8	16,119.6	17,246.7
Total noninterest expenditure	13,089.0	13,058.6	13,521.8	14,722.7	15,823.1	16,889.5
Current noninterest expenditures	11,214.1	11,486.2	11,639.7	12,619.7	13,296.3	13,390.9
Compensation.....	2,120.1	2,123.1	2,167.4	2,331.4	2,419.5	2,433.9
Wages and salaries.....	2,078.2	2,080.6	2,116.8	2,277.1	2,355.3	2,384.7
Scholarships.....	41.9	42.5	50.6	54.3	64.2	49.2
Social security contributions..	502.5	537.5	545.8	700.0	722.4	725.4
Maintenance and operating....	2,271.0	2,277.2	2,291.4	2,401.0	2,416.1	2,302.9
Subsidies.....	759.3	815.5	630.5	724.1	793.1	849.9
Social expenditures.....	5,561.2	5,732.8	6,004.5	6,463.1	6,945.2	7,078.9
Pensions.....	3,576.8	3,634.2	3,698.8	3,968.8	4,159.9	4,311.5
Social assistance.....	991.5	980.6	1,057.1	1,124.7	1,203.0	1,239.2
Health Insurance fund.....	993.0	1,118.1	1,248.6	1,369.7	1,582.3	1,528.2
Capital expenditures	1,874.8	1,572.4	1,882.1	2,103.0	2,526.8	3,498.6
Interest.....	248.4	279.7	292.8	352.2	296.5	357.2
External.....	171.9	178.9	191.2	247.6	172.2	220.5
Domestic.....	76.6	100.8	101.6	104.5	124.2	136.7
Contribution to the EU budget	342.4	398.4	413.8	477.6	488.2	483.9
Primary balance	(1,194.8)	(481.4)	109.3	(384.5)	(1,274.7)	(907.2)
Deficit/Surplus (-/+)	(1,443.3)	(761.1)	(183.5)	(736.6)	(1,571.2)	(1,264.4)

Source: Ministry of Finance

The fiscal buffers accumulated in the growth years provided important protection for the economy during the recent crisis. The Bulgarian economy entered recession in 2009 with the fiscal stance of the Government shifting towards addressing the deficit. During the next few years, the Government focused on a fiscal consolidation programme to reduce expenditures and control public finance. As a result of such fiscal prudence, the budget deficit (on a cash basis) decreased to 0.4 per cent. of GDP in 2012. After several years of fiscal consolidation, the focus of the fiscal policy was changed. It shifted from gradual fiscal consolidation towards slight fiscal easing and policies supporting growth. In 2013 the deficit (on a cash basis) widened to 1.8 per cent. of GDP but growth generally remained weak. The political environment deteriorated in 2013, continued to worsen further in 2014 and the government resigned in July 2014. The political crisis, together with some unfavourable external factors such as the crisis in Ukraine, the weaker than projected growth in the EU, freezing of two EU Operational programmes and several floods during the year, led to the need for amendment of the 2014 Budget Law. The overestimated effects of the measures to improve revenue collection, the deflationary processes in the economy and the bank run in June 2014 also had a negative effect. These factors, together with the additional financing needed to meet the expenditure commitments in a number of budget systems, widened the budget deficit (on a cash basis) for 2014 to 3.7 per cent. of GDP. The consistent policy for a gradual deficit reduction in the medium term pursued by the Government in 2015 (as discussed above in "Public Finance – Fiscal Policy – Fiscal Performance 2008 – 2015") led to a budget deficit (on a cash basis) of 2.9 per cent. of GDP in 2015. This reduction in the deficit comes against the backdrop of some significant challenges to the budget execution, including the final deadline for the EU projects for the 2007-2013 programme period. As a result of measures taken by the revenue administrations to improve revenue collection in 2015, a nominal growth of CFP revenues compared to 2014 was reported. The CFP revenues in 2015 grew by EUR 1.4 billion, due to tax and non-tax proceeds under the national budget. The increase in revenues has, to an extent, offset increases in expenditure principally resulting from the EU programmes and funds, including national co-financing and financial shortage for some of the budgetary systems.

The composition of spending has improved during the period 2010-2015 through an increase in the share of investment spending as a consequence of the accelerated absorption of the funds under the EU programmes along with increases in social protection spending. On the revenue side, the main tax rates have remained unchanged. This has provided both a stable and predictable environment for businesses and investors, conducive to the recovery of domestic demand and economic growth. The Government is

determined to preserve low tax rates to encourage private investment both within the country and from abroad.

Bulgaria exercised prudence in the pre-crisis high growth years, running fiscal surpluses and creating a large fiscal reserve. The annual budget law for 2015 sets a minimum fiscal reserve amount of EUR 2.3 billion.

The following table sets out the fiscal reserve account for the period between 31 December 2010 and 31 December 2015:

	2010	2011	2012	2013	2014*	2015
Fiscal reserve account						
EUR millions	3,073.8	2,555.8	3,109.2	2,393.1	4,688.8	4,025.3
per cent. of GDP	8.1	6.2	7.5	5.7	11.0	9.1

Source: Ministry of Finance

* The scope of the fiscal reserve starting from 2014 includes the receivables from EU funds for certified expenditure, advance payments and others in accordance with par. 1, p. 41 of the Additional Provisions of The Public Finance Act.

Approved Annual Budget Law for 2016 and medium-term perspectives

A policy of fiscal consolidation will be applied over the next three years and the budget deficit under the CFP (on a cash basis) is estimated to gradually reduce to 2.0 per cent. of GDP in 2016, to 1.4 per cent. of GDP in 2017 and 1.0 per cent. of GDP in 2018. The average annual rate of fiscal consolidation up until 2018 is estimated to be approximately 0.5 per cent. of GDP, which will align the deficit to the reference value set out in the Stability and Growth Pact and the EU convergence criteria. It is anticipated that this reduction will provide medium and long-term economic growth in Bulgaria. Bulgaria continues to consider the convergence of its economy with the average levels of economic development across the EU as a key priority, particularly by making the most of EU development funds. The main expenditure priorities set in the 2016 Budget are the investment in human capital, mainly through the funding of targeted measures in the field of secondary education, and the investment in infrastructure.

According to the medium-term budgetary forecast for the period 2016-2018, which was included in the 2016 Budget, the deficit (on a cash basis) for 2015 was expected to reach 3.3 per cent. of GDP but the preliminary data for 2015 indicated a deficit (on a cash basis) of 2.9 per cent. of GDP, which on an ESA basis does not violate the Maastricht criteria regarding the maximum level of budget deficit.

The main priority of the fiscal policy in the medium term is to preserve the stability of public finances. In this context, setting the parameters of the budgetary framework for the forecast period requires ongoing efforts to effect gradual fiscal consolidation, with the average annual rate of fiscal consolidation estimated to be 0.5 per cent. of GDP between 2016 and 2018.

The steps to achieve fiscal consolidation for the period 2016-2018 reflect the development of policies in the last medium-term budgetary forecast, taking into account the data contained in the revised 2015 Budget and the macroeconomic developments in the coming years.

Privatisation

The privatisation process in Bulgaria started in 1992. Most of the major sectors of the economy have been privatised and the resources of state-owned companies still available for privatisation are limited.

Until 31 December 2009, the proceeds from privatisation were distributed according to the Privatisation and Post Privatisation Control Act, respectively 10 per cent. to the Privatisation and Post Privatisation Control Expenditures Fund and the remaining 90 per cent. were channelled to the central budget (from 2008 allocated to the benefit of the State Fund for Guaranteeing the Stability of the State Pension System (the "**Silver Fund**")). Since 1 January 2010 the proceeds from privatisation are allocated entirely to the Silver Fund.

As of 31 December 2014, the total amount (in terms of value) of privatised assets amounted to 66.31 per cent. of all state assets. Shares in 5,264 state enterprises have been sold, including 2,939 enterprises and 2,325 separate parts of companies. 4,247 sales of minority stakes have also been completed. The total

financial effect of privatisation transactions amounted to US\$12,543 million, including US\$6,493 million in payments, US\$1,192 million in assumed liabilities and US\$4,857 million in investment commitments.

The largest number of privatised enterprises operate in the industry sector, followed by trade, agriculture, construction and lastly, tourism.

A total of 174 privatisation transactions that have taken place in Bulgaria since the beginning of the privatisation process were made involving foreign investors, which has contributed substantially to the financial results provided above. As a result of its privatisation programme, Bulgaria has attracted large investors from the Czech Republic, Russia, Austria, Germany, Belgium, Greece and other countries.

Some of the largest enterprises in Bulgaria have already been privatised such as: the former state-owned banks (with the exception of the Bulgarian Development Bank which has remained state-owned); the Bulgarian Telecommunications Company EAD; Kremikovtzi EAD; TPP Bobov Dol EAD; Neftochim EAD; Bulgarian Maritime Fleet (Navibulgar) EAD; Sodi Devnya EAD; SOMAT EAD; Arsenal EAD; Asarel Medet EAD; Bulgartabac Holding AD; energy distributing companies; and many others.

Privatisation in the period 2009 to 2015

The following table summarises the results of the privatisation process in the period between 2009 and 2015:

Report Year	Revenues	Primary Divestitures
	<i>(EUR millions)</i>	
2009.....	23.3	TPP Bobov Dol-partial payment ("p.p.") EDC Plovdiv and Stara Zagora - p.p. Hotel Vitosha and Riga Hotels - p.p.
2010.....	13.4	KCM EAD-p.p. EDC Sofia Region - p.p. EDC Pleven EAD - p.p. TPP Bobov Dol - p.p. TPP Varna EAD - p.p. Bulgarian Maritime Fleet EAD - p.p.
2011.....	164.8	Bulgartabac Holding AD Arsenal AD Industrial Construction Holding EAD EVN EDC companies - minority stakes
2012.....	138.9	Technoexportstroy EAD MDK Pirdop – p.p. IPK Rodina Energopro EDC – minority stakes CEZ EDC – minority stakes
2013.....	9.1	IPK Rodina – p.p.
2014.....	0.8	Post-privatisation control
2015.....	2.2	Post-privatisation control

Source: Ministry of Finance

Pension System

The pension system in Bulgaria has undergone substantial structural reform since the late 1990s. The traditional pay-as-you-go system was transformed into a three-pillar system through the introduction of mandatory and voluntary fully funded pensions. The current Bulgarian pension system came into force with the Mandatory Social Insurance Code on 1 January 2000 (renamed the Social Security Code in 2003). It is based on the principle of security through diversity and includes the following:

Mandatory pension insurance (Pillar I)

The public system of mandatory pension insurance of the pay-as-you-go type (Pillar I) ensures linkage of the pension amounts with contribution periods and earnings. New, more restrictive eligibility criteria on

the basis of length of service and age were introduced in 2000. Promoting the principle of mandatory participation and universality, the first pillar covers all economically active persons. There is differentiation among the categories of insured persons, depending on the number and types of included social insurance risks. These include: mandatory social security for all social risks; compulsory social security for disability, old age, death, accidents at work and occupational disease; and compulsory social security for disability due to general disease, old age and death.

The first pillar is financed through contributions from employers and employees, as well as through transfers from the State Budget for covering all non-contributory pension benefits and some non-contributory periods, which are regarded as insurance periods. Since 2009, the state has become a "third party insurer" and pays contributions equal to 12 per cent. of the total insurance income for the respective year.

The first pillar is administrated by the National Social Security Institute, which is responsible for entitlement to and payment of pensions and other social insurance benefits in the event of temporary incapacity to work, maternity and unemployment. The pension policy is formulated and implemented by the Ministry of Labour and Social Policy.

Inflows to the first pillar are allocated into separate and financially independent public social insurance funds being: the Pensions Fund; the Pensions fund for persons under Art. 69 of the Social Insurance Code; the Accidents at Work and Occupational Disease Fund; the General Disease and Maternity Fund; and the Unemployment Fund. The sixth fund for pensions not related to labour activities is financed through transfers from the central budget. The deficit of the funds is covered by subsidy from the government budget on an annual basis.

In 2015, the rate of social security contributions to annual social insurance income for the third labour category (labour without risk for which employer pays no financial contribution in Professional Pension Funds ("PPFs")), is as follows: 17.8 per cent. for the Pension Fund (for persons born after 1 January 1960, 5 per cent. of this 17.8 per cent. are transferred to Pillar II); 40.8 per cent. for the Pensions fund for persons under Art. 69 (for persons born after 1 January 1960, 5 per cent. of this 40.8 per cent. are transferred to Pillar II); between 0.4 per cent. and 1.1 per cent. for the Accidents at Work and Occupational Disease Fund (differentiated by type and degree of risks for main groups of economic activities; these contributions are only at the employers expense); 3.5 per cent. for the General Disease and Maternity Fund and 1 per cent. for the Unemployment Fund.

Supplementary mandatory pension schemes (Pillar II)

The supplementary mandatory pension schemes are capital based schemes with defined social security contributions, accumulated and capitalised in individual pension accounts. They do not replace the first pillar pensions and allow for receiving more than one pension, thus increasing the replacement rate without any increase of the social insurance burden.

The scope of the second pillar is narrower than that of the first pillar and it covers only old-age and death risks. It is also more limited because it covers two categories of persons. First, it covers any person subject to mandatory social insurance in a universal pension fund; these are all persons insured under the first pillar and born after 31 December 1959. Second, all persons subject to mandatory social insurance in a professional pension fund (all persons working under the conditions of labour "at risk" requiring employers to make additional payments into professional pension fund in order to acquire the right to a time limited pension for early retirement, which precedes the pension based on the length of service and age, without any cumulative effect on the two pensions).

The supplementary mandatory pension schemes are based on monthly contributions to a universal and/or professional pension fund in amounts set out in the Social Security Code. Currently, the contribution to a universal pension fund is 5.0 per cent. (paid in the same ratio as the other part of the social security contributions), which is transferred from the first pillar Pension Fund contributions. The contribution to a professional pension fund has been 7.0 per cent. for the second labour category (labour "at risk" for which the employer pays additional contributions into PPFs each month) and 12.0 per cent. for the first labour category, at the sole expense of the employer.

As at 30 September 2015, the second pillar of the pension system had approximately 3.8 million participants. Total assets of this pillar comprise over EUR 4.1 billion. In the period between 1 January

2007 and 30 September 2015, the number of insured persons increased by around 42.6 per cent., and the assets of the second pension pillar rose from EUR 0.52 billion to EUR 4.13 billion.

Supplementary voluntary pension insurance schemes (Pillar III)

The supplementary voluntary pension schemes are also capital based. They involve voluntary contributions at the expense of insured persons, their employers and or third parties in order to provide life or fixed-period pension for old age or disability, as well as survivor pensions. They are organised and administered by shareholding companies with pension licences.

As of 1 January 2007, occupational pension schemes were introduced into this pillar. The contributions paid by employers (up to EUR 30.7 per month) and insured persons (up to 10 per cent. of the taxable income) are tax exempt, while the benefits to be paid include fixed-period pensions, programmed withdrawals and lump sum payments.

Recent pension reforms

Recent amendments to the pension legislation have been made to improve the financial stability of the pension system and to improve the adequacy of pension benefits. In August 2015, the following measures were adopted by the National Assembly and are reflected in the Social Insurance Code.

- As of 1 January 2016, the state participation as a "third insurer" (12 per cent. state contribution) has been abolished. The contribution rate for the State Pension Fund (Pillar I) will be increased by 1 percentage point in 2017 and further by 1 percentage point in 2018. The planned increase of the contribution to the Universal Pension Fund (Pillar II) as of 2017 has been cancelled and the contribution rate remains 5 per cent.
- Gradual increase and equalisation of the standard retirement age for women and men at 65 years of age in 2037 (initially, the retirement age for women will be increased by two months each calendar year until 2029, and by three months from 2030 to 2037 whereas the retirement age for men will be increased by two months in 2016 and 2017, and as of 2018 - by one month each year till 2029). After that, an automatic mechanism for increasing the retirement age according to the changes in the life expectancy will be introduced.
- The required period of service for qualifying retirement for workers in the normal work conditions (Pillar III) is gradually increased by two months annually until it reaches 40 years for men and 37 years for women by 2027.
- Gradual increase of the retirement age in case of shortage of insured length of service for men to 67 years, keeping the minimum required length of service unchanged (15 years actual length of service for men and women).
- Introduction of the possibility to grant a reduced pension for persons who are up to 12 months' short of the retirement age, with the pension being reduced for the lifetime by 0.4 per cent. for each month that the person is below the retirement age.
- Limitation on early retirement by the gradual increase of the retirement age for the first and second category of workers (age of 55 for workers in first category and age of 60 for workers in second category (hazardous and unhealthy jobs)).
- As of January 2016, limitation of early retirement by the introduction of a minimum retirement age of 52 years and 10 months for persons working in the "Defence and Security" sector and its gradual increase by two months annually until the minimum retirement age is 55.
- As of January 2017, gradual increase of the percentage for one year insured length of service in the pension formula, which is currently 1.1 per cent. (as for the newly granted pensions as well as for those already granted), and will increase to 1.5 per cent. Pensions in payment will be recalculated in July every year with the new accrual rate and this will replace the annual indexation.

- A special amendment to the Social Insurance Code gives the opportunity to the members of universal pension funds (Pillar II) to shift their individual privately managed savings to the public, Pillar I pension fund, with this decision also being reversible.

Health Insurance

Bulgaria has a mixed system of healthcare financing. Healthcare is financed in a large part as a compulsory social health insurance system funded from wage-related contributions of employed individuals and from general tax revenues which covers the contributions of the non-working population (children, pensioners, unemployed, people taking care of disabled members of the family, people with right to social welfare etc.). Another important source of revenues are the subsidies allocated by the Ministry of Health.

Mandatory health insurance is income based and amounts to 8 per cent. (increasing insurance contributions from 6 per cent. to 8 per cent. in 2009) of the payroll paid in 40/60 parts between the employee and the employer. The contributions are collected by the regional branches of the NRA which pools them and allocates to the accumulation account of the National Health Insurance Fund (the "NHIF"), which in turn distributes the funds to the Regional NHIFs. The NHIF was established in 1999 and is regulated by the Health Insurance Act of Bulgaria. It guarantees healthcare services to eligible persons and reimburses the costs related to such services, including medicines and medical aid equipment. In order to be covered, a person either has to personally make contributions or have contributions made on his/her behalf.

With respect to employed persons, the employer deducts insurance contributions from the monthly payroll and transfers these amounts to NHIF accounts. In the case of children, pensioners, students, soldiers, unemployed and other dependent categories the insurance contributions are transferred from the state budget. The self-employed persons pay into NHIF accounts directly.

Healthcare expenditure in Bulgaria is below the average amount spent in the EU. According to the World Health Organisation database in 2011, total spending amounted to 7.3 per cent. of GDP, compared to the EU average of 9.6 per cent. Public spending as a percentage of GDP was 4 per cent. in 2011, well below the EU average of 7.3 per cent. In 2012 and 2013, public expenditure on healthcare represented 4.3 per cent. of GDP and 4.53 per cent. of GDP, respectively, and in 2014 it reached 4.85 per cent. of GDP.

MONETARY AND FINANCIAL SYSTEM

Bulgarian National Bank

The BNB is the central bank of Bulgaria. It was established on 25 January 1879.

Primary Objective, Tasks, and Reporting

The primary objective and the tasks of the BNB are stipulated in the Law of the BNB (the "**LBNB**"), adopted by the 38th National Assembly on 5 June 1997. The BNB is independent from the state and is accountable to the National Assembly. The BNB's independence from the state is guaranteed by the LBNB, the Treaty on the functioning of the European Union and by the Statute of the European System of Central Banks ("**ESCB**") and the ECB. Since 1 January 2007, the BNB has been a fully-fledged member of the ESCB and participates in the decision making process in the area of banking and finance in the European Union. The BNB Governor is a member of the General Council of the European Central Bank and a member of the General Board of the European Systemic Risk Board. The primary objective of the BNB is to maintain price stability through ensuring the stability of the national currency and implementing monetary policy as provided for by the LBNB. The BNB acts in accordance with the principle of the open market economy with free competition, targeting an efficient allocation of resources.

The tasks and responsibilities of the BNB also include:

- maintaining full foreign exchange cover of the total amount of monetary liabilities of the BNB, by taking actions needed for the efficient management of the BNB's gross international reserves;
- investing the gross international reserves in accordance with the principles and practices of prudent investment, with investments in securities being limited to liquid debt instruments satisfying the provisions of the LBNB;
- regulating and supervising credit institutions' activities in the country for the purpose of ensuring the stability of the banking system and protecting depositors' interests;
- contributing to the establishment and functioning of efficient payment systems and overseeing them;
- regulating and supervising the activities of payment system operators, payment institutions and electronic money institutions in Bulgaria;
- issuing banknotes and mint coins in Bulgaria (an exclusive right of the BNB);
- acting as the fiscal agent and depositary of the state by virtue of concluded contracts at market conditions and prices of services; and
- compiling balance of payments, monetary and interest rate statistics as well as the quarterly financial accounts statistics of Bulgaria.

According to the LBNB, the BNB cannot extend credits or guarantees to the Government and governmental institutions, municipalities and municipal institutions, organisations and enterprises. The BNB cannot provide credit to banks except in the case of a liquidity risk threatening to affect the stability of the banking system and only in accordance with the requirements set out in the LBNB.

The BNB keeps accounts and records in compliance with the Accountancy Act and in accordance with IFRS. The expenditure of the BNB is in accordance with the annual budget approved by the Governing Council of the BNB and published in Darjaven Vestnik ("**State Gazette**"). The reports on the budget expenditures of the BNB are examined by the National Audit Office, which prepares a special report on the results of the examination; the reports are also submitted to the National Assembly along with the annual report.

The BNB publishes the balance sheet of the Issue Department on a weekly basis, showing the position of its assets and liabilities, inclusive of the gross international reserves and the total amount of the BNB's monetary liabilities. The BNB publishes the position of its assets and liabilities in the State Gazette at the

end of each month, presenting separate balance sheets of the Issue and Banking Departments, an annual financial statement and the profit and loss account of the BNB.

The consolidated financial statements of the BNB are certified by an independent international auditor and published together with the auditor's report in accordance with the requirements of IFRS. The BNB prepares annual and semi-annual reports which review and assess the BNB's activities. These reports are submitted to the Parliament and are made public.

Governance

The management of the BNB is carried out by the Governing Council, the Governor and the three Deputy Governors. The Governing Council consists of seven members: the Governor of the Bank, the three Deputy Governors, and three non-executive members. The Governor of the BNB is elected by the National Assembly. The National Assembly elects the Deputy Governors heads of the main departments, defined by the LBNB upon a proposal by the Governor. The non-executive members of the Governing Council are appointed by the President of the Republic. The term of office of the members of the Governing Council is six years. The replacement of the Governing Council follows a staggered schedule with a mandate expiring every year.

Structure of the BNB

The LBNB establishes three main departments at the BNB: an Issue Department, a Banking Department and a Banking Supervision Department. Each department is headed by a Deputy Governor elected by the National Assembly.

The main function of the Issue Department is to maintain full foreign exchange cover of the total amount of monetary liabilities of the BNB, by taking actions needed for the efficient management of the BNB's gross international reserves.

The head of the Banking Department is responsible for the supervision over payment system operators, payment institutions and electronic money institutions, in accordance with applicable rules and regulations. This Deputy Governor is also responsible for enforcement measures and sanctions as provided for by law.

Supervision over the banking system is exercised by the Deputy Governor heading the Banking Supervision Department, in accordance with the rules provided for by law and the regulations for its enactment.

The BNB concentrates the powers and responsibilities on monetary policy and bank supervision, which equips the BNB with macro-prudential tools in addition to the standard micro prudential tools. The general strategy followed by the BNB is to address the relevant policy issues and other systemic risk issues via calibrated counter-cyclical changes in both macro and micro prudential policy tools.

Currency Board

The primary objective of the BNB to maintain price stability through ensuring the stability of the national currency has been achieved since July 1997 within the framework of the currency board, provided for by the LBNB.

Legal Framework

The functioning of the currency board in Bulgaria is based on three major principles laid down in the LBNB, namely:

- a fixed exchange rate of the Lev to the Euro which is BGN 1.95583 per EUR 1;
- the total amount of BNB monetary liabilities is fully covered by high quality foreign reserves. The aggregate amount of the monetary liabilities of the BNB consists of: all banknotes and coins in circulation issued by the BNB; any balances on accounts held by other parties with the BNB, with the exception of the accounts held by the International Monetary Fund. The gross international reserves of the BNB shall be equal to the market value of the following assets of the Bank: (a) banknotes and coins held in freely convertible foreign banknotes and coins held in

freely convertible foreign currency; (b) funds in freely convertible foreign currency held by the BNB on accounts with foreign central banks or with other foreign financial institutions, whereof obligations are assigned one of the two highest ratings by two internationally recognised credit rating agencies; (c) the Special Drawing Rights ("SDRs") of the International Monetary Fund held by the BNB; (d) debt instruments held by the BNB and issued by foreign countries, central banks, other foreign financial institutions or international financial organisations, whereof obligations are assigned one of the two highest ratings by two internationally recognised credit rating agencies, and which are payable in freely convertible foreign currency with the exception of debt instruments given or received as collateral; (e) the balance on accounts receivable and accounts payable on forward or repurchase agreements of the BNB, concluded with or guaranteed by foreign central banks, public international financial organisations or other foreign financial institutions, whose obligations are assigned one of the two highest ratings by two internationally recognised credit agencies, as well as futures and options of the BNB, binding foreign persons and payable in freely convertible foreign currency; and (f) the monetary gold held by the BNB as a component of foreign reserves; and

- the reserve currency is treated on equal terms with the national currency and the BNB has the obligation to unconditionally and irrevocably sell and purchase Levs against the Euro at the exchange rate fixed by the BNB. Hence, the BNB does not intervene on the foreign exchange market but the BNB exchanges on demand domestic currency against the anchor currency and vice versa at the fixed rate. The national currency is issued solely against providing reserve currency at the fixed exchange rate without a spread.

In addition to the above principles:

- The BNB cannot extend loans and guarantees in any form whatsoever, including through purchase of debt instruments, to the central government, municipalities, as well as to other government and municipal institutions, organisations and enterprises.
- The BNB may not provide loans to banks except in the case of a liquidity risk threatening to affect the stability of the banking system. The terms and procedure for extending such loans, and the criteria for identifying the existence of liquidity risks are set by an ordinance of the BNB. The total loan amounts extended shall not be greater than the amount of the excess of the Lev equivalent of the gross international reserves over the total amount of BNB monetary liabilities. This provision has never been used since the introduction of the currency board in Bulgaria.
- The BNB invests its gross international reserves in accordance with the principles and practices of prudent investment.
- The BNB combines typical monetary policy functions (money issuance, regulation over the minimum reserve requirements, oversight of the payment systems) with banking supervision (both regulatory and supervisory powers), and fiscal agency functions. The BNB has both a macro and micro-prudential mandate.

Operational Framework

The currency board framework contributes towards maintaining overall macroeconomic and financial stability and the implementation of strict fiscal policies. Bulgaria weathered the global financial and economic crisis relatively well which indicates the strength of the country's policy framework and policy implementation.

The legal framework of the currency board guarantees an automatic mechanism of balancing national currency demand and supply at the fixed exchange rate determined by the law. Under the currency board, it is impossible that the issue of national currency exceeds the level of the gross international foreign exchange reserves, which could, otherwise, lead to erosion of the fixed exchange rate (a key difference between a currency board regime and one of a standard fixed exchange rate). The change in the level of BNB gross international reserves reflects the net result of the change in the demand for national currency by economic agents, the Government and banks, as well as changes in the market value of gold (as part of international reserves) and the financial assets in which these reserves are invested (see table below).

Under the conditions of the fixed exchange rate against the Euro and a free movement of capital, the BNB exercises no control over the interest rates and therefore, monetary conditions in Bulgaria follow to a great extent those in the Euro area. Thus, the currency board largely reproduces the monetary conditions in which the Euro area economy is functioning. With the outbreak of the global financial and economic crisis resource availability declined worldwide. The competition for local resources intensified, interest rates on deposits in Bulgaria were decoupled from that of the Euro area and domestic deposit rates increased. Rising funding costs and tightened credit conditions were reflected in the upward movement of interest rates for loans over the course of 2008-2009. Driven by high global liquidity, the downward interest-rate cycle and domestic factors such as the confidence in the banking system, the robust savings rate and improved liquidity and capital adequacy ratio ("**CAR**"), average interest rates of loans started to fall at the end of 2009 and this trend continued in 2015. The BNB's latest forecast envisages a continuation of this moderate downward movement of interest rates on loans over 2016-2018, based on the expected high savings rate of households and, with that, the steady increase in locally-held deposits. Another factor which is expected to contribute to the downward trend of interest rates is ECB's monetary policy of keeping interest rates at low levels for a prolonged period of time and providing liquidity through unconventional measures.

The main policy instrument used by the BNB to influence domestic monetary conditions is the regulation of minimum reserve requirements which banks maintain with the central bank. As the minimum reserve requirements held at the BNB are not remunerated, their rate implicitly affects the overall cost of funding of banks and thus influences the banks' policies in setting their lending rates. For example, the reduction of the minimum reserve requirements rate since early 2009 has boosted liquidity in the banking system and contributed to falling interest rates in the interbank money market. It is also possible for the BNB to indirectly influence the monetary conditions in Bulgaria by applying macro-prudential and micro-prudential tools as well as administrative measures. Nonetheless, the objective of those measures is mainly financial stability rather than affecting monetary conditions.

In the years preceding the global financial and economic crisis the steady increase of bank deposits at the BNB reflected both BNB policy and the increase of financial intermediation in the economy. From 2004 to 2007, the BNB introduced a number of measures aimed at curbing the rapid credit expansion which took place during that period and at building counter-cyclical buffers in banks. One of the macro-prudential tools implemented in this period was the increase to the banks' short-term liquidity requirements which entailed broadening the deposit base for the calculation of minimum reserve requirements and increasing the rate from 8 to 12 per cent. In late 2008 and early 2009, the reduction of the minimum reserve requirements rate provided liquidity to banks at the time of a contraction in global liquidity. Changes to the banks' reserves at the BNB also affect the level of international reserves. In the period running from 2009 to 2015, the changes to the banks' reserves reflected not only the heightened savings rate of domestic economic agents and the increasing confidence in the banking system, but also subdued credit demand and the banks' policy of managing their assets. Banks managed their liquidity by reducing their foreign liabilities, investing in foreign assets, purchasing Government securities and holding excess reserves at the BNB. These developments have resulted in a positive balance of net foreign assets of banks since August 2013. Since 2012, Bulgarian banks have increased their excess reserves and funds on settlement accounts in the TARGET2 BNB payment system as part of their overall deposits at the BNB. Substantial reduction of banks' balances in TARGET2 BNB was observed since the third quarter of 2013. After the introduction by the ECB of a negative interest rate on the ECB's deposit facility and on bank accounts in TARGET2 in June 2014 (thereby charging a higher rate for the balances in TARGET2 of participating non-euro area central banks), Bulgarian banks significantly increased the excess reserves on their accounts with the BNB. The daily volatility of excess reserves also increased as Bulgarian banks tried to explore any short-term opportunity for a higher yield.

In November 2015, the BNB adopted a new Ordinance No 21 on the Minimum Required Reserves Maintained with the Bulgarian National Bank by Banks, which came into force on 4 January 2016. With the new ordinance, the BNB introduced a definition of excess reserves for bank accounts held with the BNB and introduced (i) negative interest rates on excess reserves if the interest rate on the ECB deposit facility is negative and (ii) a zero interest rate if the ECB deposit facility interest rate is positive. For the period from 4 to 20 January 2016, banks' excess reserves on their accounts with the BNB declined by BGN 3 billion to BGN 5.8 billion, but remained relatively high (BGN 8.8 billion at 31 December 2015). Banks' reserves in excess of the minimum required reserves declined from 128 per cent. on an average daily basis in December 2015 to 104 per cent. on the same basis for the period 4 to 20 January 2016. Since the beginning of 2016, the volumes of overnight deposits traded on the interbank money market remained low and close to the levels observed in the second half of December 2015. For the period 4 to

26 January 2016 the weighted average overnight Lev deposit interest rate on the interbank money market declined to -0.02 per cent. from 0.02 per cent. in December 2016. As of 26 January 2016, the bid interest rates at the interbank money market became negative for maturities up to five months and the ask rates became negative for maturities up to one week.

The level of gross international reserves shifted upwards in 2009 by SDR 610.9 million; this represented Bulgaria's quota-based SDR allocation by the IMF. The SDR allocation formed part of BNB's gross international reserves and was duly included in the Banking Department Deposit item within the Issue Department balance sheet. The BNB Governing Council resolved to keep the SDRs in the BNB's IMF account for the long term. This not only protects them from risks (interest, currency, credit, etc.) but also ensures that their market value in the original currency is maintained, and that the international reserve currency structure is diversified.

Fiscal policy may also affect the level of gross international reserves, reflecting the changes in the Government deposits on the BNB's balance sheet. During the years of high economic growth, the Government was running fiscal surpluses and accumulating fiscal reserves which were largely deposited at the BNB. The adverse cyclical conditions in 2009 led to a sharp decline in government revenues, which in turn resulted in a budget deficit of 4.1 per cent. of GDP. In this period Bulgaria took advantage of the readily available fiscal buffers generated during the pre-crisis years, which allowed policymakers to minimise the negative effects of the financial market tensions on the Government budget. This caused a decrease in Government deposits at the BNB in the period of 2009-2011. Despite this decrease, year-end international reserves did not fall over the period due to positive changes in the other components of the Issue Department balance sheet. During the course of 2012-2014, the fluctuations in the amount of Government deposits held at the BNB were influenced by the country's Eurobond issues in July 2012 and June 2014; both Eurobond issues were aimed at pre-financing the outstanding government bonds which matured and were repaid on 15 January 2013 and on 15 January 2015 respectively. In March 2015, the government issued new Eurobonds in an aggregate amount of EUR 3.1 billion. Funds withdrawn from the government deposit at the BNB in order to repay short-term bridge financing obtained in December 2014 and later in 2015 to partly finance the budget deficit and the negative net government bond issue on the domestic market led to a decline in Government deposit levels on an annual basis.

The BNB's gross international reserves reached EUR 20.3 billion (46.2 per cent. of GDP) as at December 2015, increasing by 22.7 per cent. on an annual basis. This rise in international reserves, compared to 31 December 2014, was mainly a consequence of the increase in Bulgarian banks' excess reserves. As at 31 December 2015, the gross international reserves covered 8.6 months of imports of goods and non-factor services, while their ratio to short-term external debt amounted to 256.6 per cent.

The following table sets out international reserves as at 31 December in each year for the period 2011-2015:

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
	<i>(EUR millions, end of period)</i>				
International reserves	13 348.7	15 552.5	14 425.9	16 534.1	20,285.4
International reserves growth, year on year (per cent.)	2.9	16.5	(7.2)	14.6	22.7
Coverage of monetary base. (per cent.)	175.1	174.9	162.9	168.1	144.3
Coverage of short term ext. debt. (per cent.)	132.0	150.2	150.9	165.9	256.6
Coverage of imports. months. annually	6.3	6.7	6.1	7.1	8.6

Source: BNB.

The following table sets out the total assets and liabilities of the BNB's Issue Department for the period between 31 December 2011 and 31 December 2015:

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
	<i>(per cent. of GDP, end of period)</i>				
Cash and foreign currency denominated deposits	8.4	11.5	7.7	7.8	12.7
Monetary gold and other monetary gold instruments	3.8	3.9	2.7	2.9	2.9

	2011	2012	2013	2014	2015
	<i>(per cent. of GDP, end of period)</i>				
Investments in securities	20.4	21.9	24.0	27.9	30.6
Total Assets	32.6	37.3	34.4	38.7	46.2
Notes and coins in circulation	10.9	11.7	12.5	13.9	14.8
Liabilities to banks.....	7.7	9.6	8.6	9.6	17.2
Liabilities to Government and to government budget institutions.....	5.4	7.1	5.4	8.0	7.0
Liabilities to other depositors.....	1.3	1.5	1.9	0.7	0.9
Banking Department deposit.....	7.3	7.3	6.0	6.5	6.3
Total Liabilities	32.6	37.3	34.4	38.7	46.2

Source: BNB (Balance of Issue Department), NSI, Ministry of Finance for 2015 GDP projection.

The BNB's latest forecast envisages moderate growth of gross international reserves in 2016 and a gradual decline over the period 2017-2018. The forecast assumes no changes in the price of gold, SDR exchange rate and banks' balances in TARGET2 BNB and reflects expectations for a gradual reduction in banks' excess reserves and in Government deposits due to introduced negative rates on excess reserves starting 1 January 2016. The forecasts of the BNB are also in line with the expectations that Bulgaria will experience a relatively high savings rate over the whole forecast period.

The following tables set out monetary and credit developments as at 31 December in each year for the period 2011-2015:

	2011	2012	2013	2014	2015
	<i>(EUR millions, end of period)</i>				
Broad money.....	29,104	31,558	34,377	34,771	37,815
MI	10,751	11,767	13,825	15,907	18,391
Quasi money	18,292	19,733	20,515	18,829	19,389
Claims on non-government sector.....	27,743	28,507	28,587	26,389	25,960
Non-financial corporations	17,413	18,226	18,281	16,082	15,818
Financial corporations.....	665	710	752	907	866
Households and NPISHs*	9,665	9,570	9,554	9,399	9,276
Net foreign assets of other MFIs**.....	(1,792)	(1,864)	794	2,157	1,322
Foreign assets	4,638	5,128	6,961	7,815	5,440
Foreign liabilities.....	6,431	6,992	6,167	5,658	4,118

* Non-profit institutions serving households (NPISHs).

** Monetary financial institutions (MFIs).

Source: BNB Monetary Survey and Analytical Reporting of Other MFIs.

	2011	2012	2013	2014	2015
	<i>(annual growth, end of period, per cent.)</i>				
Broad money.....	12.2	8.4	8.9	1.1	8.8
MI	14.4	9.5	17.5	15.1	15.6
Quasi money	10.8	7.9	4.0	(8.2)	3.0
Claims on non-government sector.....	3.8	2.8	0.3	(7.7)	(1.6)
Non-financial corporations	6.1	4.7	0.3	(12.0)	(1.6)
Financial corporations.....	7.9	6.8	5.8	20.7	(4.6)
Households and NPISHs.....	(0.4)	(1.0)	(0.2)	(1.6)	(1.3)
Net foreign assets of other MFIs					
Foreign assets	13.8	10.6	35.7	12.3	(30.4)
Foreign liabilities.....	(15.2)	8.7	(11.8)	(8.3)	(27.2)

Source: BNB Monetary Survey and Analytical Reporting of Other MFIs.

	2011	2012	2013	2014	2015
	<i>(per cent. of GDP, end of period)</i>				
Broad money.....	71.1	75.7	82.0	81.3	86.0
MI	26.3	28.2	33.0	37.2	41.8
Quasi money	44.7	47.3	48.9	44.0	44.1
Claims on non-government sector.....	67.7	68.4	68.2	61.7	59.1
Non-financial corporations	42.5	43.7	43.6	37.6	36.0
Financial corporations.....	1.6	1.7	1.8	2.1	2.0
Households and NPISHs.....	23.6	23.0	22.8	22.0	21.1

	2011	2012	2013	2014	2015
	<i>(per cent. of GDP, end of period)</i>				
Net foreign assets of other MFIs	(4.4)	(4.5)	1.9	5.0	3.0
Foreign assets	11.3	12.3	16.6	18.3	12.4
Foreign liabilities	15.7	16.8	14.7	13.2	9.4

Note: Due to the revocation of the banking licence of KTB, the bank has been excluded as a reporting agent from the monetary statistics data since November 2014. As a result, KTB's assets and liabilities have been removed from the balance sheet of Other monetary financial institutions and thus have affected the dynamics of the main monetary, deposit and credit indicators since November 2014.

Source: BNB Monetary Survey and Analytical Reporting of Other MFIs, NSI, Ministry of Finance for 2015 GDP projection.

The following table sets out annual average interest rates for the period between 1 January 2011 and 31 December 2015:

	2011	2012	2013	2014	2015
	<i>(period average, per cent.)</i>				
LEONIA	0.20	0.10	0.02	0.03	0.01
SOFIBOR 1M.....	2.08	1.15	0.52	0.41	0.30
SOFIBOR 3M.....	3.76	2.25	1.14	0.78	0.54
Interest rate on time deposits*	4.40	4.01	3.33	2.57	1.32
Lending interest rate (NFC)**	8.76	8.34	8.01	7.47	6.38
Long term interest rate***	5.36	4.50	3.47	3.35	2.49

Notes:

* Interest rate of new business on time deposits, weighted average across non-financial corporations and households and NPISH sectors, currencies and maturities.

** Interest rate of new business on loans to non-financial corporations (NFC), weighted average across currencies and maturities.

*** Long term interest Rate for Convergence Assessment Purposes.

Source: BNB.

The adoption of the single currency by Bulgaria is required under the Accession Treaty. Bulgaria will retain a "derogation" with respect to participation in the single currency until it fulfils all the criteria for joining the Euro; once fulfilled, the existing derogation will be abrogated and Bulgaria will start the accession procedure for joining the Euro area.

Joining the single currency remains a primary objective for Bulgaria, as well as a matter of consensus and policy continuity for the Bulgarian authorities. The Government has reiterated its commitment to maintaining the currency board regime and the existing fixed Euro/Lev exchange rate until the Euro is adopted. Consequently, joining the Euro area remains the only exit strategy from the currency board regime.

At present the Bulgarian authorities have not set a target date for adopting the Euro. Nor have they announced a time frame for taking a decision on setting a target date for adopting the Euro.

The primary objective of the BNB, as stipulated under Article 2, paragraph 1 of the LBNB, is to maintain price stability by ensuring the stability of the national currency. This objective has continued to be achieved through the operation of the currency board since 1997. The Bulgarian authorities, including the BNB and the political parties, are committed to maintaining the currency board and the fixed exchange rate until the state becomes a member of the Euro area.

The Banking System

The total assets of the financial system in Bulgaria as at 31 December 2015 amounted to EUR 59.6 billion, the predominant part of which consisted of the assets of the banking sector.

The following table provides a summary of the structure of the financial system in Bulgaria as at 31 December 2015:

	Total Assets EUR million	per cent.
Total financial system	59,582	
Banking sector	44,750	75.11
Total Non-banking financial sector	14,832	24.89

	Total Assets EUR million	per cent.
Insurance sector	2,970	4.98
Pension funds	4,803	8.06
Financial institutions	3,471	5.83
Institutional investors	3,588	6.02

Source: BNB, Financial Supervision Commission.

The Structure and Development of the Bulgarian Banking System

The banking sector accounted for 101.8 per cent. of GDP during 2015 and consists of 22 banks (nine of which are domestically controlled) and six foreign bank branches.

The following table provides an overview of the ownership structure of the Bulgarian banking system as at 31 December 2015:

Type of credit institutions	Per cent. of Total Assets
EU Subsidiaries	71.3
EU Branches	3.7
Domestic Banks	23.6
Non-EU Banks	1.3
Non-EU Branches	0.1

Source: BNB

As of 29 January 2016, a total of 255 credit institutions licensed in European Economic Area countries have filed a Notification in Bulgaria from the relevant competent authority to carry out activities on a cross-border basis. These activities are subject to mutual recognition according to the rules of the European Banking Directives – the so-called Single European Passport or Passport Notifications.

The total assets of banks in Bulgaria amounted to EUR 44.8 billion as of 31 December 2015 and registered an increase of 2.8 per cent. as compared to 31 December 2014 based on aggregated balance sheet information submitted by credit institutions to the BNB Banking Supervision Department.

The following table sets forth the aggregate assets, liabilities and balance capital of the banking system as at the dates indicated:

Banking System - Balance Sheet

Banking system – balance sheet data	2010	2011	2012	2013	2014*	2015
	<i>(end of period, EUR millions)</i>					
Cash	3,747.8	3,891.5	4,832.6	4,546.1	5,000.6	9,336.6
Securities	2,776.1	3,032.4	4,876.9	5,336.0	5,609.8	5,690.8
Loans and advances to credit institutions	3,914.2	4,247.9	3,520.1	4,921.9	5,591.9	3,608.5
Corporate loans	16,469.8	17,230.5	17,943.9	17,778.7	15,618.6	15,006.8
Residential Mortgage Loans	4,548.5	4,509.4	4,506.8	4,435.9	4,384.1	4,204.8
Consumer Loans	4,280.7	4,104.7	4,127.9	4,195.6	4,110.4	4,000.0
Total Assets	37,688.4	39,219.9	42,122.2	43,752.0	43,515.2	44,750.4
Attracted funds from credit institutions	6,943.7	5,122.5	5,482.5	4,665.7	4,070.9	2,592.1
Attracted funds from non-credit institutions	9,836.2	11,025.0	11,283.0	12,073.8	11,858.9	12,715.2
Deposits (households)	14,335.1	16,311.0	18,340.1	20,067.5	20,964.2	22,705.0
Subordinated Debt	900.1	923.4	775.4	608.7	372.3	n.a.**
Debt/Equity (Hybrid) Instruments	200.7	223.7	265.7	360.1	330.4	174.3
Total Liabilities	32,567.7	33,935.2	36,595.0	38,132.6	37,989.9	38,858.7
Issued Capital	1,766.5	1,913.4	1,964.4	1,992.2	1,913.8	1,916.0
Reserves	3,047.6	3,128.9	3,294.2	3,369.4	3,247.9	3,516.3
Profit	306.6	242.3	268.5	257.7	363.4	459.4
Total Equity	5,120.7	5,284.6	5,527.1	5,619.2	5,525.2	5,891.7

Notes:

* The data for 2014 is influenced by the exclusion of KTB as a reporting agent due to the revocation of its banking licence in November 2014.

** The financial information regarding Subordinated Debt provided by credit institutions to supervisors was modified with the introduction of Regulation (EU) No 680/2014 which prescribes implementing technical standards ("ITS") with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013. The reporting of such financial information has been harmonised within the EU through the ITS.

Source: BNB, Banking Supervision

Banking system indicators

	2010	2011	2012	2013	2014*	2015
	<i>(end of period, per cent.)</i>					
Return on assets (ROA)	0.8	0.6	0.7	0.6	0.9	1.0
Return on equity (ROE)	6.6	4.9	5.3	4.9	7.1	7.8
Capital adequacy	17.5	17.6	16.6	17.0	22.0	22.2
Tier I	15.2	15.7	15.1	16.0	20.0	20.5
Profit (EUR million)	307.0	242.0	268.0	257.7	363.4	459.4
NPL (more than 90 days overdue)	11.9	15.0	16.6	16.9	16.8	20.4**
Net NPL (more than 90 days overdue) to Total Net Loans (excluding those to credit institutions)	8.0	9.6	10.6	10.1	9.4	11.6**
Net NPL (more than 90 days overdue) to Total Assets	5.5	6.5	6.8	6.3	5.5	6.4**
Liquidity	24.4	25.5	26.0	27.1	30.1	36.7
Gross loan portfolio growth (year-on-year)...	2.7	4.1	3.2	1.2	(5.0)	(2.6)
Loans/Total Deposits	113.9	104.8	99.8	93.1	86.6	78.1
Loans/Residents Deposits	118.8	109.8	105.7	98.1	91.1	82.1
Primary capital leverage (units of assets in proportion of one unit of Tier 1 capital)	9.6	9.3	9.9	9.7	8.6	8.7
Leverage (units of assets in proportion of one unit of balance sheet capital)	7.4	7.4	7.6	7.8	7.9	7.6

* The data for 2014 is influenced by the base effect from the exclusion of KTB as a reporting agent due to the revocation of its banking licence in November 2014.

** For December 2015, the data definition of "non-performing" set out in the ITS on NPLs and forbearance, issued by the EBA as a part of the implementation of harmonised reporting for credit institutions under Regulation (EU) No 680/2014, has been applied and this affects the comparability of the asset quality indicators relative to the previous periods.

Source: BNB, Banking Supervision

Attracted funds

The main source of financing of the banking sector is residents' deposits. Household deposits account for 58 per cent. of total liabilities of the banking sector, and funds from the corporate and non-banking sector account for 33 per cent. The funding from credit institutions accounts for 7 per cent. of total liabilities, with more than two-thirds of these resources provided by parent banks, a number of which are overseas, illustrating that there is no reliance on wholesale funding from the external markets.

Over recent years, deposits from households have steadily increased allowing subsidiaries in Bulgaria to gradually substitute parent funding with local deposits, thus reducing their dependence on parent group financing. As of 31 December 2015, deposits attracted from households in the banking system increased by EUR 2.5 billion (or 8.3 per cent.) as compared to 31 December 2014. The funding from corporate and non-credit institutions increased by 7.2 per cent. during 2015.

Credit growth

The composition of the banking sector's assets reflects the traditional business model: loans and advances accounting for 62 per cent. of total assets and debt securities accounting for 13 per cent. as at 31 December 2015. The loan portfolio composition is dominated by loans to non-financial corporations with a 65 per cent. share, while mortgages and consumer loans each have an 18 and 17 per cent. share respectively.

In recent years, credit growth rates have been aligned with the major drivers of macroeconomic development in Bulgaria and in the EU. The rapid credit growth in 2004 to 2008 was stalled by the global financial crisis in 2008 to 2009. Since 2010, the rate of credit growth has been slow and reflects the gradual recovery of the Bulgarian economy in line with that of the EU as its major trading partner, as well as continued uncertainty following the global financial crisis. In 2014, the rate of credit growth was at - 5 per cent., reflecting the exclusion of the fourth largest bank KTB from the scope of the data. According to

the latest balance sheet information submitted to the BNB Banking Supervision Department, and illustrated in the table entitled "*Banking System – Balance Sheet*" above, credits to the private sector decreased over the course of 2015 and negative trends were also registered for loans to non-financial corporations, as well as residential mortgage loans and consumer loans.

Asset quality

Following the 2008 to 2009 global financial crisis, the level of non-performing loans ("**NPLs**") in the Bulgarian banking system began to increase. After this initial increase, credit risk has remained consistent throughout 2010-2015 and the currently stabilised NPL levels are illustrated in the table entitled "*Banking System Indicators*" above.

In 2015, the definition of NPLs was broadened to include additional debtors "unlikely to pay that are not past due or that are past due less than 90 days". The increase in NPLs between 2014 and 2015 is entirely attributable to this methodological change, and a decrease would have been shown during the same period should the change not have been adopted. For December 2015, the data definition of "non-performing" set out in the ITS on NPLs and forbearance, issued by the EBA as a part of the implementation of harmonised reporting for credit institutions under Regulation (EU) No 680/2014, has been applied and this affects the comparability of the asset quality indicators relative to the previous periods.

As at 31 December 2015, the volume of gross NPLs was EUR 5.6 billion and remained stable in 2015. At the same time, provisions for gross NPLs have gradually increased, thereby keeping the coverage ratios at levels above 50 per cent. As at 31 December 2015, the coverage of gross NPLs with total accumulated impairments was 51.5 per cent. As a result, the residual credit risk in the banking system's balance sheet is lower. The adequate coverage and collateralisation, as well as the existing capital surplus, are factors mitigating the credit risk. The net balance sheet value of the NPLs portfolio exposures is EUR 2.8 billion, while the available surplus of capital above the minimum requirements of 8 per cent. amounts to EUR 3.6 billion.

Profitability

Over the course of 2015, the banking sector registered an improvement in the profitability indicators as compared to the same period in 2014. As of 31 December 2015, the banking system's profit was EUR 459 million, an increase of EUR 96 million as compared to the same period in 2014. The return on assets ratio as of 31 December 2015 was 1.0 per cent. (as compared to 0.9 per cent. as of 31 December 2014). The faster growth rate of profit as compared to equity contributed to the improvement of the return on equity to 7.8 per cent. as of 31 December 2015 (as compared to 7.1 per cent. as of 31 December 2014).

Compliance with the regulatory requirements

As of 31 December 2015, the total own funds of the banking system amounted to EUR 5.6 billion. The capital adequacy ratio was 22.19 per cent. and the Tier 1 capital adequacy ratio was 20.48 per cent. These indicators evidence a strong capacity to absorb risks. The majority of Tier 1 own funds was held in common equity with the aggregate common equity tier 1 ratio equalling 20 per cent. As at 31 December 2015, all Bulgarian banks had total capital adequacy ratios above the required minimum of 8 per cent.

The relatively high household savings rate continues to boost the growth of attracted fund deposits which, coupled with a comparatively low demand for loans, has ensured sufficient liquidity in the banking sector. The total liquid assets held by the banking system reached EUR 14.2 billion as of 31 December 2015 and the ratio of liquid assets to attracted funds, calculated in accordance with BNB Ordinance No. 11, was 36.7 per cent.

The BNB has issued a regulatory recommendation to credit institutions to maintain, on an ongoing basis, a ratio of liquid assets to core deposits of greater than 20 per cent.; as at 31 December 2015, this minimum ratio is respected by all the banks.

*Corporate Commercial Bank ("**KTB**")*

On 6 November 2014, the BNB Governing Council revoked KTB's licence for conducting banking activities due to insolvency. The BNB then filed a petition for the opening of bankruptcy proceedings for KTB before the competent national court, the Sofia City Court (the "**Bankruptcy Court**"). On 22 April 2015, the Bankruptcy Court declared the insolvency of KTB and determined that its initial date of

insolvency was 6 November 2014. The Bankruptcy Court subsequently opened bankruptcy proceedings against KTB, declared it to be in bankruptcy and terminated the activity of its enterprise. The part of the judgment regarding the initial date of the insolvency of the bank was appealed before the Sofia Court of Appeal. On 3 July 2015, the Sofia Court of Appeal revoked the judgment of the Bankruptcy Court regarding the initial date of the insolvency of the bank and specified 20 June 2014 as the initial date of the insolvency of KTB. After the Bankruptcy Court initiated the bankruptcy proceedings against KTB, the BDIF appointed three persons as assignees in bankruptcy (administrators in the bankruptcy proceedings) that will manage and represent KTB during the bankruptcy proceedings.

According to information provided by BDIF, as at 26 January 2016, a total of 110,676 depositors with KTB had been repaid their deposits by application of the guarantee scheme. A total of BGN 3,668 million (EUR 1,875 million), which is 99.3 per cent. of the total amount, has been paid out.

First Investment Bank ("FIB")

In the days following the placement of KTB under special supervision on 20 June 2014, speculation in public and the media caused increased deposit outflows. The liquidity pressures spread to several banks including subsidiaries of Eurozone banking groups, FIB was the target of a large degree of the speculation and the peak of deposit outflows was reached on 27 June 2014 when, compared to the previous day, 10.49 per cent. of the attracted funds were withdrawn.

On 27 June 2014, FIB managed to withstand these substantial deposit outflows with its own financial resources. However, it became evident that it would not be able to continue normal business operations on the next working day and FIB requested liquidity support from the competent authorities.

During the weekend of 28 to 29 June 2014 the Ministry of Finance and DG Competition at the European Commission agreed upon the main parameters of state liquidity support framework for the banking sector in Bulgaria. On 30 June 2014, the EC announced that it had approved as being compatible with the EU state aid rules a government liquidity support framework for the Bulgarian banking sector limited to BGN 3,300 million (EUR 1.7 billion) aiming to preserve the stability of the financial system in Bulgaria.

FIB participated in the liquidity support scheme, borrowing part of the total allowed limit at the national level in order to recover its liquidity position to levels prior to the crisis period.

As prescribed by the applicable rules for state liquidity support the bank signed an agreement with the Ministry of Finance in Bulgaria and agreed to prepare a restructuring plan. The restructuring plan was presented to the Bulgarian authorities and approved by the EC DG Competition in November 2014.

Subsequently, on 29 June 2014, the Bulgarian government granted FIB liquidity support in the amount of BGN 1.2 billion at a market-based interest rate as part of the Liquidity Support for Bulgarian Banks – Bulgaria Programme No. SA.38994 (2014/N), approved by the Commission. Due to constraints in the state budget, this deposit was short-term and matured on 28 November 2014. The FIB returned BGN 300 million of the provided amount at maturity and Bulgaria applied for an extension of the maturity for the remaining BGN 900 million for an additional 18 months effective from this date. For this purpose, the Ministry of Finance notified the Commission and received a positive decision on the measure for new aid No. SA.39854 (2014/N) "Restructuring Plan for First Investment Bank", with a deadline for repayment of the State aid being 28 May 2016.

In 2015, FIB prepaid BGN 450 million of the state aid received. As provided for in the plan approved by the European Commission, the remaining BGN 450 million is due by the end of May 2016. In January 2016, FIB prepaid an additional BGN 100 million. Therefore, the remaining amount due, as of the date of this Offering Circular, is BGN 350 million.

Deposit guarantee scheme

On 14 August 2015 the new Law on Bank Deposit Guarantee (the "**Deposit Guarantee Law**") entered into force, implementing the provisions of Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes (the "**Directive**").

Alongside the Bulgarian Deposit Insurance Fund's (the "**BDIF**") main mandate to make payments of guaranteed deposits, the BDIF was also tasked, pursuant to the newly-adopted resolution legislation (see below), with making contributions to credit institutions. Such contributions are limited up to the amount

of the hypothetical loss that guaranteed depositors would incur if the respective credit institution was to become insolvent.

In accordance with the Deposit Guarantee Law, the BDIF shall guarantee full repayment of deposit amounts of up to BGN 196,000 per depositor per bank regardless of the bank's size. The Deposit Guarantee Law provides a higher protection for a particular category of deposits related to transactions relating to individuals such as the sale of property for residential purpose, divorce and retirement of up to BGN 250,000 and for a maximum term of protection of three months.

The Deposit Guarantee Law defines three triggers for the activation of the pay-out procedure, which are:

- a BNB decision revoking a banking licence;
- a BNB decision establishing non-availability of deposits for reasons directly related to the financial standing of the credit institution; and
- an act of a judicial authority by force of which, for reasons directly related to the financial standing of the credit institution, precludes the claiming of deposits from the credit institution.

The major source of funding of the BDIF is the payment of premium contributions from banks, which are calculated by reference to the size of guaranteed deposits and the degree of risk assumed by the relevant bank. The methodology for the calculation of risk-based premium contributions is proposed by the BDIF and shall be subject to approval by the BNB in the form of an ordinance. The BNB Governing Council approved, on 21 January 2016, Ordinance No 30 of the BNB on calculation of the amount of the premium contributions due by banks under the Deposit Guarantee Law.

The Deposit Guarantee Law provides for several methods for financing a potential shortage of funds and for securing liquidity, including extraordinary premium contributions, the issuance of debt securities and loans from the state budget. Any loans are subject to approval by the Council of Ministers.

Bank Resolution Framework

The provisions of Directive 2014/59/EU were transposed into the Bulgarian law in August 2015 by the adoption by the Parliament of the Law on the Recovery and Resolution of Credit Institutions and Investment Firms (the "**Recovery and Resolution Law**").

According to the Recovery and Resolution Law, the BNB is the authority responsible for resolution of banks to which it has issued a licence for banking activities and which are subject to the supervision or consolidated supervision by the BNB. The BNB Governing Council makes the decisions of the BNB as a resolution authority. The BNB Governing Council has established a dedicated structural unit to assist it in exercising the resolution function, which acts separately and independently from the structural units engaged in the tasks related to banking supervision and the other functions of the BNB. The BNB Governing Council shall promptly inform the Minister of Finance of its decisions for undertaking resolution actions and applying resolution tools. These decisions are enforceable upon the approval of the Minister of Finance: when (1) they have or may lead to adverse effects on public finances; (2) there is a reasonable need for using government financial stabilisation tools; or (3) they are taken in a systemic crisis affecting several institutions or the entire financial sector. The Minister of Finance may approve the decision or reject it.

Pursuant to the Recovery and Resolution Law, a Bank Resolution Fund (the "**BRF**") has been established for financing the application of the resolution tools and powers in relation to banks. The BRF is managed by the management board of the BDIF. The BNB as a resolution authority takes decisions regarding the use of the BRF. The decisions relating to the use of the BRF may be taken only in accordance with the resolution objectives and principles specified in the Recovery and Resolution Law.

The target level of the resources collected in the BRF is 2 per cent. of the amount of covered deposits of all the banks licensed in Bulgaria (such level to be reached within a 10 year period). The amount of contribution from each bank shall take into account the risk profile of the bank or branch and shall be calculated in accordance with rules set by the Delegated Regulation (EU) 2015/63 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regards to ex-ante contributions to resolution financing mechanisms. In November 2015, the BNB Governing Council determined the total amount of the contribution to the BRF for 2015 (BGN 82 million) and its allocation

to the banks. All banks completed the payment of their contributions in December 2015. The individual bank contributions to the BRF for 2016 will be collected by the end of May 2016.

When the resolution actions involve the granting of state aid, including the use of funds from the BRF, the BNB Governing Council shall submit the necessary information to the Minister of Finance, who is the competent state aid authority, so that the Minister of Finance can make application to the European Commission for a decision on state aid compatibility with the internal market. Based on such decision, the BNB will decide whether to undertake a resolution action.

Regulatory and Policy Developments

The Recovery and Resolution Law mandated the BNB to conduct, with the involvement of independent external consultants, an asset quality review ("**AQR**") of the Bulgarian banking system, including a review of the quality and adequacy of estimates used to value assets, collateral received, impairment and provisioning practices.

The AQR will be followed by a stress test. Both the AQR and the stress test will cover the entire banking system of Bulgaria (all 22 banks licensed by the BNB, though excluding the six foreign bank branches). The deadline for completion of the overall exercise is mid-August 2016. The AQR will be conducted based on the ECB methodology, modified as necessary, which was applied in the run-up to the launch of the Single Supervisory Mechanism in the euro area in 2014.

On 30 July 2015, the BNB Governing Council approved the initiation of an open public procurement procedure for the selection of an independent external consultant for the AQR process. The documentation for the tender was published on 10 August 2015. The tender offer submitted by Deloitte Bulgaria EOOD ("**Deloitte**") received the highest score and was awarded the contract on 25 November 2015.

On 28 December 2015, the BNB published the guidelines for the selection by the banks of AQR providers and collateral and real estate appraisers. The design of the overall AQR/stress test process involves the appointment of such third-party AQR providers and appraisals by the banks. By analogy with the ECB's Comprehensive Assessment Exercise for the euro area in 2014, the banks' consultants will be an integral part of the process, working alongside Deloitte and the BNB.

On 12 February 2016, the preparatory stage of the AQR and stress test of banks was completed. The BNB, jointly with the Deloitte team, assessed the proposals submitted by the AQR providers, which was followed by a confirmation and a public disclosure of the AQR providers. The BNB also published a procedural document, providing initial guidance to the AQR. In accordance with internationally accepted practices, interim findings from the AQR will not be disclosed. Final results of the AQR will be disclosed after the completion of the final stage of the comprehensive assessment of the banking system. The results from the AQR and the stress test will serve as inputs into an overall in-depth assessment of the financial sector in Bulgaria.

On 5 October 2015, the BNB Governing Council adopted a detailed plan on reforms and development of banking supervision. The plan describes a list of high-priority activities and the time-frame for implementing them over a period until the end of 2016. This plan was the result of a year-long process comprising two main phases: an internal analysis and assessment of the procedures and practices of the BNB Banking Supervision Department, and an independent external assessment carried out by a team from the International Monetary Fund and the World Bank. The banking supervision reform aims to ensure that the supervisory practices in Bulgaria are compliant as fully as possible with the current international standard: the 2012 Basel Core Principles for Effective Banking Supervision.

At its meeting on 12 December 2015, and pursuant to Article 5, paragraphs 3 and 4 of BNB Ordinance No. 8 on Banks' Capital Buffers, the BNB Governing Council made the decision to set the countercyclical buffer, applicable to credit risk exposures in the Republic of Bulgaria, at a rate of 0 per cent. from the first quarter of 2016. This decision was based on the absence of evidence suggesting a build-up of cyclical systemic risk in the economy, in light of the negative deviation of the credit/GDP ratio from its long-term trend. In accordance with Ordinance No.8, from 1 January 2016, the BNB shall assess and set the appropriate countercyclical capital buffer rate for banks in the country on a quarterly basis.

The International Monetary Fund and the World Bank have confirmed that they are planning to conduct a Financial Sector Assessment Programme ("FSAP") in Bulgaria in the second half of 2016. The FSAP in Bulgaria will include two major components: a financial stability assessment and a financial development assessment.

Money Laundering and Terrorist Financing Regulations

The money laundering and terrorist financing prevention framework of Bulgaria is based on Law on the Measures against Money Laundering and the Law on Measures against Financing of Terrorism, which is fully compliant with Directive 2005/60/EC of the European Parliament and of the Council of 26 October 2005 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing. The preventive measures against money laundering and terrorist financing are of key importance for the financial sector. While the State Agency for National Security is the body with overall competency in the matters relating to combating money laundering and terrorist financing, the BNB plays a key role in carrying out inspections on banks and financial institutions for compliance with the AML/CFT legislation and checks the overall adequacy and effectiveness of the policies and procedures, including stringent 'know your customer' rules which prevent banks from being used intentionally or unintentionally for criminal activities. The current money laundering and terrorist financing prevention framework facilitates cross-border co-operation between Bulgaria and the other members of the EU. In addition, the BNB has issued various letters and guidelines for enhancing the prevention against money laundering and terrorist financing.

Non-Bank Financial Institutions

The non-banking financial sector in Bulgaria has proved to be stable, accounting for 21.2 per cent. of the country's GDP and 16.9 per cent. of total assets of the financial sector as of 30 September 2015. The further development of the non-banking financial sector will be impacted by the slow growth of the real economy and the comparatively weaker economic development of the euro area and the EU. The development of the non-banking financial sector is also influenced by the global financial trend of low interest rates and by the low risk appetite of foreign investors due to geopolitical instability in neighbouring regions.

Financial Supervision Commission

The FSC is a specialised body for regulation and integrated supervision over different segments of the non-banking financial sector – capital markets, insurance markets (including voluntary health insurance) and supplementary pension insurance market. The main objectives of the FSC are to provide for the integrity, transparency and credibility of the financial markets and the protection of the interests of investors, insurance policy holders and pension fund members.

When performing its functions and exercising its powers, the FSC lays down clear priorities and guidelines for market development in compliance with internationally recognised principles and standards for regulation and supervision. The institution follows a consistent policy aimed at the establishment of optimal conditions for the realisation of the economic potential of the non-banking financial intermediation. The consumer protection and enhancement of the public confidence in the use of financial products and services is one of the strategic objectives of the FSC.

Similar to the BNB, the FSC enjoys organisational and functional independence from other state bodies and, therefore, such bodies may not instruct the FSC as to the conduct of its activities and the exercise of its powers. The Chairperson and the other four members of the FSC are elected by the National Assembly and may not be removed prior to the end of their term unless in accordance with the grounds set out in the Law on the FSC.

The FSC is the authority which issues licences which are required for carrying out certain types of activities in the financial markets. As a competent authority in relation to the non-banking financial sector, the FSC has the necessary tools and powers to enforce the legislation.

As a result of the global financial and economic crisis, the European System of Financial Supervision, which is the EU supervisory framework for the banking, securities, insurance, and occupational pensions sectors, came into operation on 1 January 2011. This system functions on the basis of a single set of harmonised rules which are compulsory for the supervisory authorities of all EU Member States. The

FSC is also an important part of this system as it is responsible for the supervision of the capital markets, insurance, and supplementary social security sectors.

Capital Markets

Following the global financial and economic crisis in 2008, the negative effects of foreign capital outflows impacted the recovery of the capital markets in Bulgaria. The capital markets showed positive results only during 2011 and 2013, when the market capitalisation increased respectively by 15.6 per cent. and 1.4 per cent. on an annual basis. However, the market capitalisation for the period 2011 to 2015 overall had decreased by an average geometric rate of 4.4 per cent. per annum. At the end of 2015, overall market value of publicly traded companies amounted to BGN 8,587 million (EUR 4,391 million), registering a decrease of 12.0 per cent. on an annual basis.

During 2015, all market indices decreased: the main market index SOFIX lost 11.7 per cent. of its value, whereas BGBX40, BGTR30 and BGREIT decreased by 11.3 per cent., 5.8 per cent. and 1.7 per cent., respectively.

Currently, there are 64 investment intermediaries in Bulgaria of which 21 are banks. The assets of the non-bank investment intermediaries ("IIs") broadly follow domestic capital market dynamics. As a result of their diversified investment decisions, from 2011 to 2015 their assets increase by an average geometric rate of 3.9 per cent. per annum. There are 30 management companies, supervised by the FSC, which manage 111 collective investment schemes ("CIS"), of which one is an open-ended investment company and 110 are contractual funds. There are also two closed-end national investment funds ("NIF"), which were closed-end investment companies before the amendment of the Law on the Activities of Collective Investment Schemes and Other Collective Investment Undertakings in 2014. The assets of the CISs and NIFs have been growing since 2008 despite the difficult economic climate in recent years. After the slight slowdown of their performance in 2011, the assets of the CISs have bounced back and returned to a positive trend, growing by 47.4 per cent. in 2013 and by another 11.8 per cent. in 2014. During 2015, the value of the total assets decreased by 0.05 per cent. Following the decrease in real estate prices, the assets of the Special Purpose Investment Companies ("SPIC") exhibited negative dynamics declining by 12.0 per cent. in 2013 and by another 3.7 per cent. in 2014. Currently there are 67 SPICs which are licensed and supervised by the FSC, eight of which are specialised in securitisation of receivables. Among the remaining 59 SPICs, which are involved in real estate securitisations, seven are specialised in agrarian land. In 2015, the downward tendency of the assets of the SPICs seemed to have come to an end as they increased by 4.4 per cent., reflecting, predominantly, an increase in the asset value of the residential real estate being securitised.

Insurance Market

As a result of the negative effects of the global financial and economic crisis and the depressed economic activity at home, the insurance market in Bulgaria recorded a decrease in its gross premium income of 6.8 per cent. in 2009. Since then, the negative growth rate of the premiums has been declining, reflecting gradual recovery of its segments. During the crisis and the recovery period, the funds of insurance companies, reduced by intangible assets, were maintained well above the solvency margin. Life insurance business line started to recover first, recording an increase in gross premium income of 6.9 per cent. in 2012. In 2013 both segments – life and non-life, increased by 14.0 per cent. and 6.5 per cent. respectively. In 2013, the insurance market was subject to a structural change whereby all voluntary health insurance companies were obliged to acquire a licence to provide certain insurance products, in order to align them with the insurance regulation of the European Union. This partly reflected on the annual increase of the gross premium income of non-life insurance market in 2013 as most voluntary health insurance companies were licensed to provide non-life insurance products. The positive trend of increasing gross premium income of the whole insurance market continued in 2014 and 2015.

As at 31 December 2015, the total number of insurance undertakings with their legal headquarters in Bulgaria was 44 (15 life insurers and 29 non-life insurers). The gross premiums written as at 31 December 2015 amounted to BGN 1,866 million (EUR 954 million), representing a growth of 5.6 per cent. on an annual basis. The gross premium written by non-life insurers at the end of 2015 is BGN 1,495 million (EUR 764 million), increasing by 4.1 per cent. with respect to its end-of-2014 value. Gross premium income of life insurers increased by 21.1 per cent., amounting to BGN 371 million (EUR 189 million) at 31 December 2015. While life insurance is still the smaller business line on the domestic market, as a result of its double digit annual growth rates for the last three years, it has enlarged its share

of the overall gross premium written by insurers from 15 per cent. in 2011 to 20 per cent. at the end of 2015, providing an alternative for long-term savings investment.

The assets of insurers increased gradually as they represented an average share of 4.1 per cent. of GDP for the period 2011-2015, constituting them as one of the main institutional investors in Bulgaria. In 2015, the sum of insurance companies' assets increases by 4.6 per cent., amounting to BGN 3,705 million (EUR 1,894 million) at the end of the year, of which BGN 2,255 million (EUR 1,153 million) of non-life insurance companies and BGN 1,450 million (EUR 741 million) of life insurers.

Pension Funds

The assets managed by the nine Pension Insurance Companies ("**PICs**") in Bulgaria have been growing since 2009, reflecting the increase in the number of members and the growth in earned investment income. The net assets of the 29 Supplementary Pension Insurance Funds ("**SPIFs**") have recorded an annual average increase of 21.0 per cent. in the last five years, reaching BGN 8,165million (EUR 4,174 million) in 2014. The net assets of the SPIFs amounted to BGN 9,338 million (EUR 4,774 million) as at 31 December 2015 having recorded an increase of 14.4 per cent. . The continuous accumulation of assets is mainly a result of the contributions made in the Supplementary Mandatory Pension Insurance (Second Pillar of the Bulgarian pension system) and the prudent investment decisions. The modified, weighted rate of return (on an annual basis for a two-year period) for SPIFs remains positive, reflecting the development of the capital markets and the diversification of their portfolios.

	31 December 2011 - 31 December 2013	31 December 2012 - 31 December 2014	31 December 2013 - 31 December 2015
SPIFs			
Universal Pension Funds Second Pillar (per cent.)	6.22	5.45	3.78
Professional Pension Funds Second Pillar (per cent.)	6.27	5.62	3.78
Voluntary Pension Funds Third Pillar (per cent.).....	7.22	6.42	4.33

Source: Bulgarian FSC

Apart from its social function, the net assets of the SPIFs are the most important contributor to the non-banking financial sector in Bulgaria in terms of financial intermediation, representing 10.8 per cent. of GDP as at 31 December 2015.

The following table sets out the performance of the non-banking financial sector in Bulgaria for the five-year period between 1 January 2011 and 31 December 2015.

	2011	2012	2013	2014	2015
	<i>(per cent. of GDP^a)</i>				
Capital market capitalisation.....	15.5	12.1	12.2	11.7	9.9
Assets of Insurance (and voluntary health insurance) companies.....	3.8	3.9	4.0	4.2	4.3
Net assets of the Supplementary Pension Insurance Funds(SPIFs).....	5.7	7.0	8.3	9.8	10.3
Non-banking financial sector (total)	25.0	22.9	24.5	25.7	25.0
	<i>(EUR millions)</i>				
Assets of the non-banking sectors					
Capital market capitalisation.....	6,358	5,025	5,093	4,988	4,391
Assets of non-bank Investment Intermediaries (IIs)	2,383	2,330	2,412	2,628	2,397
Assets of Collective Investment Schemes (CISs).....	245	268	396	442	442
Assets of Special Purpose Investment Companies (SPICs).....	882	877	772	743	776
Assets of Insurance (and voluntary health insurance) companies.....	1,564	1,628	1,680	1,810	1,894
Net assets of the Supplementary Pension Insurance Funds(SPIFs).....	2,338	2,905	3,481	4,174	4,774
	<i>(per cent.)</i>				
Annual rate of change					
Capital market capitalisation.....	15.6	(21.0)	1.4	(2.1)	(12.0)**
Assets of non-bank Investment Intermediaries (IIs)	21.0	(2.2)	3.5	9.0	(9.5)**
Assets of Collective Investment Schemes (CISs).....	0.1	9.3	47.4	11.8	(0.05)**
Assets of Special Purpose Investment Companies (SPICs).....	12.4	(0.6)	(12.0)	(3.7)	4.4**

	2011	2012	2013	2014	2015
	<i>(per cent. of GDP*)</i>				
Assets of Insurance (and voluntary health insurance) companies.....	1.8	4.2	3.2	7.8	4.6
Net assets of the Supplementary Pension Insurance Funds (SPIFs).....	14.7	24.3	19.8	19.9	14.4
Relative structure of financial intermediation	<i>(shares. per cent.)</i>				
Assets of non-bank Investment Intermediaries (IIs).....	5.1	4.6	4.6	4.9	4.3
Assets of Collective Investment Schemes (CISs).....	0.5	0.5	0.8	0.8	0.8
Assets of Special Purpose Investment Companies (SPICs).....	1.9	1.7	1.5	1.4	1.5
Assets of Insurance (and voluntary health insurance) companies.....	3.3	3.2	3.2	3.4	3.4
Net assets of the SPIFs.....	5.0	5.8	6.6	7.8	8.7
Non-banking financial sector (total)	15.9	16.6	16.6	18.4	18.7

* Preliminary data.

Source: Bulgarian FSC, BNB, BSE-Sofia.

Bulgarian Stock Exchange Sofia ("BSE-Sofia")

In July 1991, the first Bulgarian stock exchange was established with the introduction of the Commercial Law in Bulgaria. At that time no specific legal framework existed and the exchange operated on the grounds of the general regulatory framework applicable to all privately held companies.

In July 1995, the first Securities, Stock Exchanges and Investment Companies Act was adopted. The Bulgarian capital markets operate within the framework of the following main legal provisions: Public Offering of Securities Act of December 1999, Markets in Financial Instruments Act of June 2007, Act on the Activities of Collective Investment Schemes and other Undertakings for Collective Investment of October 2011, Commerce Act of June 1991, Measures Against Market Abuse With Financial Instruments Act of October 2006, Special Investment Purpose Companies Act of May 2003, Law on Credit Institutions, Supplementary Supervision of Financial Conglomerates Act of July 2006, Privatisation and Post privatisation Control Act of March 2002, Financial Supervision Commission Act of January 2003, the Recovery and Resolution Law of 2015, Ordinances of the FSC and Rules and Regulations of BSE-Sofia. The current regulatory framework is harmonised with EU regulations in the financial markets area. Access to the market is on a non-discriminatory basis and foreign investors may trade on the BSE-Sofia under the same terms as all domestic investors.

Between 2004 and 2007, the BSE-Sofia grew in terms of both liquidity and market performance and became a venue of choice for capital raising purposes. The indices and the overall liquidity of the exchange sharply declined, however, as a result of the financial and economic crisis. In order to revive the market, the Government announced an ambitious privatisation programme for the state's share in strategic companies through the stock exchange. As a result of this, the Government successfully sold its minority stake in the energy distributors (EVN Bulgaria Elektrorazpredelenie AD, EVN Bulgaria Elektrosnabdyavane AD, Energo-Pro Grid, Energo-Pro Sales, CEZ Electro Bulgaria, CEZ Distribution Bulgaria) between December 2011 and November 2012.

On 15 December 2010, BSE-Sofia went public and its shares were admitted to trading on the BSE-Sofia from 6 January 2011. Currently, the Bulgarian Ministry of Finance holds a majority stake of 50.05 per cent. in the BSE-Sofia's capital, with the remaining shares being held by brokerage firms and banks, other legal and natural persons and institutional investors. As a result of a strategic decision of the Government in the first half of March 2012, the Ministry of Finance empowered the Privatisation Agency to initiate the privatisation procedure of its stake both in the exchange and in the Central Securities Depository where it also holds a controlling share. In 2015, the Privatisation Agency selected a consortium of companies to prepare a legal status analysis, privatisation appraisal and information memorandum for BSE-Sofia. As at the date of this Offering Circular, the privatisation process had not started.

Since 16 June 2008, BSE-Sofia has used the Xetra trading platform of Deutsche Boerse. On exchange trading is carried out on a continuous trading basis with opening and closing auctions. Since 1 March 2012, BSE-Sofia operates the Main Market BSE and the Alternative Market BSE. The following financial instruments are traded on BSE-Sofia: stocks (common and preferred), corporate and municipal bonds, UCITS, compensatory instruments, subscription rights and warrants. The number of issues admitted to

trading on BSE-Sofia amounted to 433 as at 31 December 2015, which constituted a decrease of 10 issues as compared to 31 December 2014.

SOFIX, BSE-Sofia's main index, was launched on 20 October 2000. The index performed well in 2013 increasing by 42.28 per cent. on an annual basis and continued its good performance in 2014, adding 6.22 per cent. However, in 2015, the index decreased by almost 12 per cent. which was the first annual decline for SOFIX since 2011. The decrease was in line with the overall negative trend of the markets in South-Eastern Europe. In addition, BSE-Sofia maintains three other indices, one of which, BG REIT, is a sector index tracking the performance of seven listed REITs. The overall market capitalisation of BSE-Sofia was EUR 4.4 billion at the end of December 2015, which was a decrease of 11.98 per cent. as compared to the end of December 2014. The total turnover decreased by 47 per cent. in 2015 reaching EUR 210 million. The BSE-Sofia performance during 2015 has been negatively affected by the general volatility of the international markets and the low activity of local and international investors.

Since September 2011, BSE-Sofia has acted as a calculation agent of the National Corporate Governance Commission, with respect to the first Bulgarian index, tracking seven selected companies that implemented the best corporate governance practices in their business operations. As of 31 December 2015, 55 stock exchange members (37 investment firms and 18 banks) were admitted to trading.

The settlement cycle is T+2 and settlement is conducted on a mandatory delivery-versus-payment basis for all on-exchange trades via the computerised book-entry system of Bulgaria's Central Securities Depository. The depository recently started an ambitious technological and regulatory overhaul. The primary purpose of this is to turn the institution into a fully functional clearing and settlement organisation that supports the entire financial market.

BALANCE OF PAYMENTS AND FOREIGN TRADE

The following table sets out Bulgaria's balance of payments in millions of EUR for the period 2011 to 2015:

	2011	2012	2013	2014	2015
	<i>(EUR million)</i>				
Current and Capital Account	878.9	437.6	1 234.5	1 454.8	1 960.1
Current Account	375.1	(108.4)	765.2	495.2	541.6
Current Account - Credit.....	28 348.1	29 944.6	31 988.1	30 917.8	32 293.9
Current Account - Debit.....	27 973.0	30 053.0	31 222.9	30 422.5	31 752.3
Goods and Services - Net	251.5	(1 215.7)	(155.5)	(204.6)	665.3
Goods and Services - Credit.....	25 526.3	26 512.8	28 067.5	27 765.2	29 009.2
Goods and Services - Debit.....	25 274.8	27 728.5	28 223.0	27 969.8	28 343.9
Goods - Net	(2 648.0)	(3 947.2)	(2 890.7)	(2 734.6)	(1 885.0)
Goods - Credit (f.o.b.).....	19 055.7	19 667.6	21 208.0	21 016.5	22 264.8
Goods - Debit (f.o.b.).....	21 703.7	23 614.8	24 098.7	23 751.2	24 149.8
Services - Net	2 899.5	2 731.5	2 735.1	2 530.0	2 550.2
Services - Credit.....	6 470.6	6 845.2	6 859.4	6 748.6	6 744.4
Manufacturing services on physical inputs owned by others	1 347.8	1 236.4	1 200.3	261.3	267.0
Maintenance and repair services not included elsewhere (n.i.e.).....	41.2	47.8	56.2	73.0	79.9
Transportation.....	1 108.3	1 153.6	1 244.9	1 594.1	1 539.4
Travel.....	2 720.5	2 787.0	2 924.7	2 980.2	2 873.1
Other services	1 252.8	1 620.5	1 433.3	1 840.0	1 985.0
Services - Debit.....	3 571.1	4 113.7	4 124.3	4 218.6	4 194.1
Manufacturing services on physical inputs owned by others	1 066.3	946.9	927.8	42.6	36.5
Maintenance and repair services not included elsewhere (n.i.e.).....	24.3	36.0	30.9	48.0	53.9
Transportation.....	797.6	1 072.2	1 052.9	1 545.6	1 519.3
Travel.....	647.3	721.4	840.0	903.4	1 006.0
Other services	1 035.7	1 337.2	1 272.7	1 679.1	1 577.9
Primary Income - Net	(1 538.6)	(991.4)	(1 474.9)	(915.7)	(1 712.7)
Primary Income - Credit	623.5	723.6	873.8	885.5	924.2
Compensation of employees	291.8	327.7	406.8	440.3	499.9
Investment income.....	321.6	385.7	452.6	435.2	409.1
Other primary income.....	10.1	10.2	14.4	10.0	15.2
Primary Income - Debit	2 162.1	1 715.0	2 348.7	1 801.2	2 636.9
Compensation of employees	10.3	16.4	10.1	12.5	10.3
Investment income.....	2 134.4	1 654.8	2 325.8	1 771.3	2 609.2
Other primary income.....	17.5	43.9	12.8	17.4	17.5
Secondary income - Net	1 662.2	2 098.7	2 395.6	1 615.6	1 589.0
Secondary income - Credit.....	2 198.2	2 708.1	3 046.8	2 267.1	2 360.5
General government.....	1 364.6	1 793.7	2 113.5	1 308.4	1 365.2
Other sectors	833.7	914.5	933.3	958.7	995.3
Secondary income - Debit.....	536.0	609.5	651.1	651.5	771.4
General government.....	493.0	549.4	609.2	566.7	677.7
Other sectors	43.0	60.1	42.0	84.8	93.7
Capital Account	503.8	546.0	469.3	959.6	1 418.5
Gross acquisitions/disposals of non-produced non-financial assets - Net	32.4	22.7	(66.8)	(37.5)	125.7
Capital transfers - Net	471.3	523.3	536.0	997.1	1 292.8
Capital transfers - Credit.....	480.5	655.2	537.6	1 045.9	1 301.5
Capital transfers - Debit.....	9.2	132.0	1.5	48.8	8.6
Financial account - Net	1 350.9	957.3	889.8	183.0	2 758.2
Financial account - Assets.....	1 378.9	3 219.7	2 050.0	4 043.7	2 530.3
Financial account - Liabilities.....	28.0	2 262.4	1 160.3	3 860.6	(705.2)
Direct investment - Net	(1 189.2)	(1 067.9)	(1 243.1)	(836.0)	(1 510.2)
Direct investment - Assets	348.0	314.9	266.0	650.4	62.3
Direct investment - Liabilities.....	1 537.2	1 382.8	1 509.2	1 486.3	572.5
Portfolio investment - Net	363.9	890.8	132.4	(1 212.2)	(961.4)
Portfolio investment - Assets.....	51.2	1 453.5	646.5	329.5	(396.1)
Portfolio investment - Liabilities.....	(312.7)	562.7	514.1	1 541.7	565.3
Financial derivatives - Net	92.4	(3.1)	106.0	43.3	24.0
Other investment - Net	1 920.9	(983.7)	2 426.4	377.6	1 476.2
Other investment - Assets	724.4	(666.8)	1 563.4	1 210.2	(1 366.8)
Other investment - Liabilities.....	(1 196.6)	316.9	(863.0)	832.6	(2 843.0)
BNB Reserve Assets	162.9	2 121.1	(531.8)	1 810.4	3 729.7
Monetary gold.....	0.2	1.3	2.1	2.5	4.4
Special drawing rights.....	(0.2)	0.1	0.6	(0.0)	(0.0)
Reserve position in the IMF.....	0.2	(0.0)	0.0	0.0	0.0

	2011	2012	2013	2014	2015
	(EUR million)				
Other reserve assets	162.6	2 119.8	(534.5)	1 807.9	3 725.3
Balancing Items	0.0	0.0	0.0	0.0	
Current and Capital Account Balance.....	878.9	437.6	1 234.5	1 454.8	1 960.1
Financial Account Balance	1 350.9	957.3	889.8	183.0	2 758.2
Net errors and Omissions	472.0	519.7	(344.7)	(1 271.8)	798.1

Source: BNB. Ministry of Finance for 2015 GDP projection. Standard presentation in accordance with the sixth edition of the Balance of Payments Manual (IMF, 2008). Preliminary data as of 17 February 2016.

The following table sets out the balance of payments for Bulgaria as a percentage of GDP for the period between 2011 to 2015:

	2011	2012	2013	2014	2015
	(per cent. of GDP)				
Balance of Payments Data					
Current and Capital Account	2.1	1.0	2.9	3.4	4.5
Current Account	0.9	(0.3)	1.8	1.2	1.2
Trade Balance	(6.5)	(9.5)	(6.9)	(6.4)	(4.3)
Services, net.....	7.1	6.6	6.5	5.9	5.8
Primary Income, net.....	(3.8)	(2.4)	(3.5)	(2.1)	(3.9)
Secondary Income, net.....	4.1	5.0	5.7	3.8	3.6
Capital Account	1.2	1.3	1.1	2.2	3.2
Financial Account	3.3	2.3	2.1	0.4	6.3
Direct investment, net	(2.9)	(2.6)	(3.0)	(2.0)	(3.4)
Portfolio investment, net.....	0.9	2.1	0.3	(2.8)	(2.2)
Financial derivatives, net	0.2	(0.0)	0.3	0.1	0.1
Other investment, net.....	4.7	(2.4)	5.8	0.9	3.4
BNB Reserve assets	0.4	5.1	(1.3)	4.2	8.5
Net errors and omissions	1.2	1.2	(0.8)	(3.0)	1.8

Source: BNB. Ministry of Finance for 2015 GDP projection. Standard presentation in accordance with the sixth edition of the Balance of Payments Manual (IMF, 2008). Preliminary data as of 17 February 2016.

Current Account

Before the global financial and economic crisis, Bulgaria's current account balance was driven by a rapidly expanding trade deficit. Foreign trade dynamics were largely shaped by a boost in investment activity, strong local consumption fostered by real income growth, global price changes and increased bank lending. In addition, Bulgaria's full membership in the EU led to the removal of trade barriers and market expansion and attracted significant FDI from mainly Euro area countries. Merchandise exports and imports increased in 2007 and 2008 before falling significantly in 2009. After 2009, the economy went through a phase of orderly adjustment with decreasing levels of FDI and a shrinking deficit on the current account. Exports started to recover in early 2010 with growth continuing throughout 2011-2013. This increase in exports was underpinned by the gradual recovery of Bulgaria's major trading partners. Furthermore, the growth rates of exports for 2010, 2011 and 2013 were higher than the EU average, thus confirming the strong competitive position of the Bulgarian economy. The share of Bulgarian exports in intra-EU imports and world imports continued to increase in the years after the global crisis. At the same time the growth rate of exports outstripped that of imports, with the exception of 2012. The rebound in imports started in March 2010; this was driven by the demand for raw materials amongst the country's export-oriented manufacturers. After expanding over the course of 2007-2008, the trade deficit pursued a downward trend since 2009. An exception to this trend was in 2012, when adverse weather conditions negatively affected the export levels and contributed to the widening of the trade deficit. In 2015, the trade deficit was reduced as a result of export growth and favourable terms of trade, following the fall in commodity prices (in particular crude oil). As a percentage of nominal GDP, Bulgaria's trade deficit was 6.5 per cent. in 2011, 9.5 per cent. in 2012, 6.9 per cent. in 2013, 6.4 per cent. in 2014 and 4.3 per cent. in 2015.

The services sector balance has been positive since 2007, with revenues from tourism accounting for more than 40 per cent. of the total revenue from the export of services. After a drop in 2009, the number of non-residents visiting Bulgaria has been increasing, bringing in an annual year-on-year increase in receipts. In 2015, the services sector balance remained in line with 2014. The export of services for 2015 decreased by EUR 4.2 million which was a decrease of 0.1 per cent. as compared to 2014. This decrease

followed a decline in revenues from tourism after the worsening of the economic situation in Russia and Greece, which are significant trade partners for Bulgaria in terms of tourism.

The primary income balance was negative in the period 2010 to 2014. The deficit was due to repayment of investment income mostly related to the FDI inflows in the country. For 2015, the deficit on the primary income account widened sharply as a result of higher outflows related to investment income. The positive balance on secondary income has been steadily increasing since Bulgaria's accession to the EU in 2007. As Bulgaria improved its EU funds transfer management, EU transfers showed a steady annual increase in the period between 2011 and 2013. In 2014, EU current transfers to Bulgaria fell by 8.1 per cent. as a result of delays in the disbursement of funds related to certain EU programmes. However, in 2015, inflows related to EU funds increased by 4.3 per cent. In 2016, the BNB expects the combined current and capital account to decrease as a percentage of GDP compared to 2015, mainly due to a decrease in the surplus on the capital account. At the same time, the BNB expects the surplus on the current account to increase due to a further reduction of the deficit on the balance of goods.

Downside risks for the current account forecast are associated with a potentially lower than projected external demand for Bulgarian goods and services, particularly given the prospects for weak global economic growth in 2016.

Exports and Imports of Goods by Region

The following tables set out the percentage shares of exports and imports of goods by region for Bulgaria for the period between 2011 and 2014 and the eleven-month period between 1 January 2015 and 30 November 2015:

	Exports				Eleven months ended 30 November 2015
	2011	2012	2013	2014	
	<i>(per cent.)</i>				
EU ⁽¹⁾	62.20	58.54	59.95	62.27	64.22
Euro area ⁽⁵⁾	45.12	43.11	44.14	45.37	46.30
<i>of which:</i>					
Germany.....	11.62	10.24	12.31	12.01	12.62
Italy.....	8.69	8.49	8.64	8.96	9.33
Greece.....	7.02	7.20	6.94	6.70	6.44
France.....	4.22	4.00	4.31	4.29	4.25
Belgium.....	4.93	3.69	2.89	4.09	3.68
EU Member States not members of the Euro Area ⁽⁴⁾	17.08	15.43	15.80	16.90	17.93
<i>of which:</i>					
Romania.....	9.54	8.06	7.72	7.91	8.17
Balkan countries ⁽²⁾	14.36	14.49	12.97	13.40	12.90
<i>of which:</i>					
Turkey.....	8.55	9.43	9.00	9.39	8.65
Serbia.....	2.36	2.13	1.67	1.65	1.80
Macedonia.....	2.28	1.89	1.58	1.62	1.64
Other European countries ⁽³⁾	8.40	8.81	7.67	5.25	3.75
<i>of which:</i>					
Russia.....	2.68	2.71	2.62	2.38	1.71
Ukraine.....	1.43	1.18	1.92	0.86	0.83
Gibraltar.....	3.08	3.53	1.81	0.74	0.06
Asia	7.68	10.30	11.64	11.60	10.27
<i>of which:</i>					
China.....	1.45	2.86	2.92	2.41	2.37
Singapore.....	0.19	0.23	1.49	2.57	1.56
America	2.32	2.78	2.08	1.93	2.32
<i>of which:</i>					
USA.....	1.31	1.79	1.37	1.40	1.60
Other countries	5.04	5.08	5.69	5.56	6.53

	Imports				Eleven months ended 30 November 2015
	2011	2012	2013	2014	
	<i>(per cent.)</i>				
EU⁽¹⁾	48.4	47.6	48.7	50.6	52.8
Euro Area⁽⁵⁾	34.3	33.5	34.1	35.3	36.8
<i>of which:</i>					
Germany.....	9.7	9.7	10.0	11.3	11.7
Italy.....	7.2	6.6	7.3	7.0	7.4
Greece.....	5.0	5.3	4.9	4.5	4.0
France.....	3.3	3.0	3.0	3.1	3.2
EU Member States not members of the Euro Area⁽⁴⁾	14.2	14.1	14.7	15.3	16.0
<i>of which:</i>					
Romania.....	5.8	5.5	5.3	5.4	5.3
Poland.....	2.0	2.3	2.9	2.9	3.3
Other European countries⁽³⁾	20.9	24.1	21.3	18.7	15.4
<i>of which:</i>					
Russia.....	16.6	20.3	18.1	15.5	12.1
Ukraine.....	3.0	2.2	2.0	1.8	1.7
Asia	15.5	13.9	14.0	14.6	14.8
<i>of which:</i>					
China.....	6.0	6.5	5.9	6.8	7.2
Balkan countries⁽²⁾	7.0	7.0	7.6	7.8	8.1
<i>of which:</i>					
Turkey.....	4.6	4.7	5.3	5.3	5.5
America	7.2	6.5	6.3	6.0	6.0
<i>of which:</i>					
USA.....	1.6	1.5	1.7	2.0	1.9
Chile.....	1.3	1.0	1.6	1.4	1.2
Other countries	1.0	1.0	2.0	2.3	2.9

1. EU-27 up to 2012, EU-28 from 2013 including Croatia.

2. Includes Turkey, Serbia, Macedonia, Albania, Montenegro, Kosovo and Bosnia and Herzegovina. The data for Croatia are included until 2012. The data for Serbia until April 2008 includes the data for Kosovo.

3. Includes Russia, Switzerland, Ukraine, Gibraltar (GB), Moldova, Belarus, Norway, Liechtenstein, Iceland, San Marino, Andorra, Faroe Islands and the Vatican.

4. By country of origin.

5. Changing composition.

Source: BNB.

Data is provided by the NSI. Data for the period between 2011 and 2014 is final. The data for 2015 is preliminary, including Intrastat system data as of 29 January 2016 and customs declarations data as of 6 January 2016.

Trade balance by region

EU Member States constitute Bulgaria's main trading partners. Exports to the Euro area and non-Euro area EU countries accounted for 44.1 per cent. and 15.8 per cent. respectively of total exports in 2013 compared to 44.6 per cent. and 16.2 per cent. respectively in 2010. In 2014, Germany was Bulgaria's major export market followed by Turkey, Italy and Romania. On the import side, Russia is Bulgaria's main trading partner, followed by Germany and Italy. A significant amount of Bulgaria's imports from Russia derive from its importation of crude oil, which is directed to the Lukoil Oil Refinery. Among non-EU countries, most trade relations are with countries from the Balkan region, although their relative share in total exports has been decreasing. In the period January – November 2015, nominal exports to EU countries increased by 8.3 per cent. on an annual basis, despite falling international commodity prices, driven mainly by increases in exports to Germany, Italy and Romania. At the same time, nominal exports to countries outside the EU increased at a slower rate on an annual basis (0.4 per cent.) as compared to those for the EU, mainly because of the lower nominal export of mineral products and fuels. In the period January – November 2015, nominal imports from EU countries increased by 6.2 per cent. on an annual basis, driven mainly by increases in the imports from Germany. Nominal imports from countries outside the EU fell by 3.5 per cent., which was almost entirely due to the reduced import of petrol products from Russia.

Composition of trade

The following table sets out the composition of trade for the period between 2011 and 2014 and the eleven-month period between 1 January 2015 and 30 November 2015:

	Exports				Eleven months ended 30 November 2015
	2011	2012	2013	2014	
	(per cent.)				
Consumer goods	22.24	23.22	23.40	25.95	26.34
Food	4.45	4.76	4.89	5.41	5.70
Tobacco	0.76	1.04	0.96	1.02	0.89
Beverages	0.44	0.48	0.46	0.39	0.39
Clothing and footwear.....	7.53	7.01	6.98	7.28	6.83
Medicines and cosmetics	3.14	3.37	3.61	4.20	4.16
Furniture and household appliances	3.23	3.60	3.48	3.98	4.33
Others	2.68	2.94	3.03	3.67	4.04
Raw materials	46.40	43.17	43.46	41.26	40.93
Iron and steel	4.44	3.47	2.78	2.48	1.81
Other metals	12.27	11.03	10.81	10.09	10.08
Chemicals	1.61	1.66	1.40	1.51	1.64
Plastics and rubber	2.49	2.65	2.95	3.25	3.52
Fertilisers	0.99	0.98	0.76	0.87	1.06
Textiles	1.96	1.79	1.80	1.91	2.08
Raw materials for the food industry	9.06	8.34	10.37	8.34	7.47
Wood products, paper and paperboard	1.91	1.94	1.98	2.15	2.13
Cement	0.07	0.13	0.10	0.08	0.11
Raw tobacco	0.81	0.64	0.75	0.60	0.52
Others	10.80	10.53	9.77	9.97	10.51
Investment goods	17.43	16.82	17.83	19.46	21.44
Machines and equipment	4.70	4.82	5.13	5.47	5.54
Electrical machines	2.72	2.18	2.46	2.27	2.48
Vehicles	1.93	1.79	1.84	1.86	2.05
Spare parts and equipment	3.78	4.14	4.77	5.20	5.59
Others	4.31	3.88	3.63	4.67	5.77
Mineral fuels, oils and electricity	13.89	16.76	15.20	13.17	11.11
Petroleum products	10.98	14.10	13.04	10.72	8.30
Others	2.91	2.66	2.16	2.45	2.81
Other Exports	0.04	0.04	0.12	0.15	0.18
TOTAL EXPORTS /FOB (EUR millions)	20 264.32	20 770.18	22 271.44	22 104.95	21 431.31

Source: BNB.

Data is provided by the NSI. Data for the period between 2011 and 2014 is final. The data for 2015 is preliminary, including Intrastat system data as of 29 January 2016 and customs declarations data as of 6 January 2016.

	Imports				Eleven months ended 30 November 2015
	2011	2012	2013	2014	
	(per cent.)				
Consumer goods	18.1	17.3	18.5	19.6	21.0
Food, drinks and tobacco	5.9	5.9	6.0	6.1	6.6
Furniture and household appliances (per cent.).....	2.7	2.5	2.7	2.9	3.0
Medicines and cosmetics	3.9	3.7	4.0	4.3	4.6
Clothing and footwear	2.0	1.9	2.1	2.3	2.4
Automobiles	1.0	0.9	1.1	1.2	1.4
Others	2.5	2.4	2.6	2.8	3.1
Raw materials	37.5	34.4	35.4	34.7	37.1
Ores	6.4	5.4	6.2	5.1	5.3
Iron and steel	4.1	3.2	3.2	2.9	3.2
Other metals	2.9	2.8	2.8	2.6	2.7
Textiles	4.7	4.2	4.3	4.5	4.5
Wood products, paper and paperboard	1.8	1.8	1.7	1.8	1.9
Chemicals	2.0	2.0	2.0	2.2	2.5
Plastics and rubber	4.8	4.7	5.0	5.3	5.7

	Imports				Eleven months ended 30 November 2015
	2011	2012	2013	2014	
	<i>(per cent.)</i>				
Raw materials for the food industry	2.4	2.2	2.3	2.1	2.6
Raw skins.....	0.4	0.4	0.3	0.4	0.4
Raw tobacco	0.4	0.5	0.5	0.4	0.3
Others	7.6	7.2	6.9	7.3	8.1
Investment goods	21.3	22.9	22.3	25.2	25.4
Machines and equipment	6.7	6.7	8.0	8.3	8.5
Electrical machines	3.3	3.2	3.1	3.4	3.7
Vehicles	3.7	4.0	4.0	4.4	4.8
Spare parts and equipment	4.6	5.5	3.7	3.8	4.1
Others	3.0	3.4	3.5	5.2	4.3
Mineral fuels, oils and electricity	22.9	25.2	23.4	20.1	16.0
Fuels	17.9	20.4	18.0	14.7	12.4
Crude oil and Natural gas.....	16.4	18.8	16.8	13.7	11.3
Coal	1.3	0.9	0.5	0.6	0.4
Others	0.2	0.6	0.6	0.5	0.7
Others	5.1	4.9	5.4	5.3	3.6
Oils	5.1	4.9	5.4	5.3	3.6
Electricity	0.0	0.0	0.0	0.0	0.0
Other Imports	0.2	0.2	0.4	0.5	0.5
TOTAL IMPORTS /CIF (EUR millions).....	23 406.2	25 459.1	25 828.1	26 125.7	24,221.4

Source: BNB.

Data is provided by the NSI. Data for the period between 2011 and 2014 is final. The data for 2015 is preliminary, including Intrastat system data as of 29 January 2016 and customs declarations data as of 6 January 2016.

Imports into Bulgaria are diverse with raw materials and fuels making up the largest share. The swift rise of the construction industry and the up and downstream industries during the pre-crisis period saw the growth in the importation of iron products, non-alloy steel, metal construction, and spare parts. The pre-crisis period was also characterised by increased imports of high-value goods. This was due to the country's integration into the EU common market, which called for the implementation of rigid standards of manufacturing and sizable investment amounts. In addition, significant FDI inflows into the local economy gave further impetus to the importation of investment goods. With the global financial and economic crisis and subdued economic activity, however, the share of investment goods declined. The negative growth of imports of investment goods decelerated gradually in 2010 and total imports have grown on an annual basis since then (with the exception of 2013). In 2014, total imports grew by 1.1 per cent. and in the period January to November 2015, imports increased marginally compared to the same period in 2014, with raw materials and consumer goods having the largest positive contribution to import growth.

The composition of Bulgaria's export basket has seen a shift in focus to the export of higher value added items. Prior to the global financial and economic crisis, base metals (including copper, iron and steel) and their products, and mineral fuels and oils were important components of Bulgaria's exports. Among the main contributors to growth were also textiles, clothing and footwear. With Bulgaria's accession to the EU and increased competition, however, their relative share of total exports declined. Meanwhile the share of investment goods such as machines (including electric machines, machines for general use, energy production machines, automobiles, bicycles and other vehicles) has been increasing. In 2014, the export basket consisted of raw materials, having the largest share (41.3 per cent.), followed by consumer goods (25.9 per cent.), investment goods (19.5 per cent.) and mineral fuels, oils and electricity (13.2 per cent.). Total exports in 2014 declined by 0.7 per cent., principally as a result of the lower export of mineral products and fuels. In the period from January to November 2015, exports increased on an annual basis by 5.3 per cent., driven mainly by the higher export of machinery.

Foreign Direct Investment

The years before the global economic and financial crisis were marked by high economic growth and an accelerated real convergence of the Bulgarian economy following the country's accession to the EU in 2007. In those conditions, the expectations for relatively high returns on investment and high growth encouraged financial inflows, primarily in the form of FDI. Since 2005, FDI in export-oriented sectors

such as the processing industries increased considerably, while FDI in real estate and construction peaked dramatically in the run-up prior to the global financial and economic crisis. The decline in FDI flows in those sectors following the 2008 global financial and economic crisis contributed to the substantial drop in real estate prices. In 2010, FDI inflows in manufacturing were the largest in Bulgaria and were principally aimed at upgrading and expanding existing production units. The low overall FDI level in the period after 2010 reflected lower capital inflows due to investor risk aversion and net repayment of intercompany loans as a result of the lower investment demand on the local market. According to preliminary data, the inflow of foreign direct investment in Bulgaria for 2015 increased by 22.5 per cent. to EUR 1,575.1 million, as compared to 2014. These inflows were mainly concentrated in financial intermediation (EUR 437.2 million) and wholesale and retail trade (EUR 388.1 million).

The fluctuations of net portfolio investments in the period after the global financial and economic crisis have been influenced mainly by one-off transactions. The net portfolio investment in 2015 was mainly driven by the government bond issuance in March 2015 and the repayment of international government bonds in January 2015.

The following tables include data for the FDI stock in Bulgaria (grouped by country of origin of investment and annual flows by economic activity):

	Total FDI stock by country of origin				Nine months ended 30 September 2015
	2011	2012	2013	2014	
	<i>(EUR millions, end of period)</i>				
EU⁽¹⁾	30 189.8	30 011.4	29 876.0	30 459.0	31 298.8
Euro area⁽²⁾	25 324.0	25 202.1	25 323.9	25 200.3	26 104.0
<i>of which:</i>					
The Netherlands	7 230.6	7 165.5	7 473.8	6 070.9	6 717.4
Austria.....	5 822.9	5 534.6	5 345.8	5 365.1	5 356.4
Greece	2 857.6	2 756.6	2 688.1	2 412.3	2 394.1
Cyprus.....	2 118.6	2 057.4	1 973.2	2 215.9	2 269.6
Germany.....	1 842.0	1 758.6	1 858.3	2 328.5	2 533.5
Luxembourg.....	1 284.0	1 363.3	1 519.7	1 415.3	1 412.0
Spain	877.2	966.2	937.6	1 176.4	1 164.0
France.....	848.4	965.9	960.4	956.0	943.9
Italy	724.0	783.4	734.0	840.7	875.5
Ireland.....	738.1	686.4	666.2	683.4	662.9
EU Member States not members of the Euro Area⁽²⁾	4 865.8	4 809.3	4 552.1	5 258.7	5 194.7
<i>of which:</i>					
UK.....	2 334.9	2 188.0	1 991.9	2 371.4	2 380.8
Hungary.....	1 020.6	1 060.4	956.4	969.4	925.0
Non-EU	6 429.1	7 429.6	7 246.4	8 553.5	8 516.8
<i>of which:</i>					
Russia.....	1 424.1	1 741.3	1 771.3	1 993.7	1 999.4
Switzerland.....	980.4	1 173.5	1 110.6	1 334.7	1 268.5
USA.....	957.3	1 008.7	992.8	1 023.6	1 052.1
British Virgin Islands	894.6	849.8	780.5	930.6	873.1
TOTAL	36 619.0	37 441.0	37 122.4	39 012.5	39 815.6

⁽¹⁾ EU-27 up to 2012, EU-28 from 2013 including Croatia.

⁽²⁾ Changing composition in accordance with the sixth edition of the Balance of Payments Manual (IMF, 2008). Preliminary data as of 17 February 2016.

	Annual FDI flow by economic activity				
	2011	2012	2013	2014	2015
	<i>(EUR millions)</i>				
Total	1 330.2	1 141.7	1 446.3	1 285.4	1 575.1
Agriculture, hunting and forestry	13.5	5.8	(9.)5	13.1	(41.6)
Construction.....	(90.)5	254.8	53.2	274.0	58.9
Education.....	0.9	0.7	0.0	6.1	0.2
Electricity, gas and water supply.....	450.7	737.1	67.6	404.1	53.3
Financial intermediation	257.2	(158.1)	(48.4)	212.3	437.2
Fishing.....	5.6	2.2	0.4	0.0	0.0

Annual FDI flow by economic activity					
	2011	2012	2013	2014	2015
	(EUR millions)				
Health and social work.....	(3.6)	9.2	0.9	(0.1)	0.8
Hotels and restaurants.....	141.2	65.5	(3.6)	(29.0)	(0.1)
Manufacturing.....	283.5	529.8	343.1	(357.9)	282.0
Mining and quarrying.....	150.4	231.7	119.1	(13.2)	(33.3)
Not allocated.....	(8.9)	6.5	193.9	197.1	259.3
Other community, social and personal service activities.....	140.8	0.5	78.4	56.9	22.2
Real estate, renting and business activities.....	(251.8)	(443.3)	(91.5)	92.2	72.2
Transport, storage and communication.....	203.1	(363.6)	495.1	199.1	75.9
Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods.....	38.1	262.8	247.5	230.7	388.1

Source: BNB. Data in accordance with the sixth edition of the Balance of Payments Manual (IMF, 2008). Preliminary data as of 17 February 2016.

Gross external debt

The following table sets out the stock of gross external debt ("GED") of Bulgaria by institutional sectors as at 31 December for the years ended 2011 to 2015:

GED (end of period)										
	2011		2012		2013		2014		2015	
	EUR mln	per cent. GDP	EUR mln	per cent. GDP						
GED	36,294.9	90.5	37,713.6	92.2	36,935.6	88.1	39,356.5	92.1	34,143.6	77.7
General Government Debt ⁽¹⁾ ...	2,788.4	7.0	3,580.0	8.7	3,412.0	8.1	6,026.5	14.1	5,576.3	12.7
Short term.....	0.0	0.0	0.0	0.0	0.0	0.0	984.0	2.3	0.0	0.0
Long term.....	2,788.4	7.0	3,580.0	8.7	3,412.0	8.1	5,042.5	11.8	5,576.3	12.7
Banks.....	5,648.7	14.1	6,544.5	16.0	5,851.3	14.0	5,467.2	12.8	4,126.4	9.4
Short term.....	4,065.4	10.1	4,813.1	11.8	4,305.9	10.3	4,277.4	10.0	3,066.6	7.0
Long term.....	1,583.3	3.9	1,731.4	4.2	1,545.4	3.7	1,189.9	2.8	1,059.8	2.4
Other Sectors Debt ⁽²⁾	12,331.4	30.7	11,960.7	29.2	12,239.3	29.2	11,984.4	28.0	11,764.0	26.8
Short term.....	6,048.7	15.1	5,544.1	13.5	5,252.5	12.5	4,707.7	11.0	4,837.9	11.0
Long term.....	6,282.7	15.7	6,416.7	15.7	6,986.8	16.7	7,277.3	17.0	6,926.2	15.8
Direct investment: intercompany lending.....	15,526.4	38.7	15,628.3	38.2	15,433.1	36.8	15,877.8	37.1	12,676.9	28.8
Memo items:.....										
Long term debt.....	26,180.8	65.3	27,356.4	66.8	27,377.3	65.3	29,387.4	68.7	26,239.2	59.7
Short term debt.....	10,114.1	25.2	10,357.1	25.3	9,558.4	22.8	9,969.0	23.3	7,904.4	18.0

Notes:

⁽¹⁾ General Government Debt includes central government debt, local government debt, debt of social security funds and debt of all non-market, non-profit institutions that are controlled and mainly financed by government units.

⁽²⁾ Other Sectors Debt includes debt of private and state-owned non-bank enterprises and debt of households.

Source: BNB and Ministry of Finance for 2015 GDP projection. Data in accordance with the External Debt Guide (IMF, 2003). Preliminary data as of 26 February 2016.

Bulgaria's GED is mostly private debt as the expansion of the economy prior to the crisis attracted substantial capital inflows in the form of direct investment (intercompany lending) and support from parent banks to local subsidiaries. With the contraction in economic activity in 2009, the need for external financing decreased. The moderate recovery that followed was accompanied by subdued domestic demand and growth in domestic savings. As a result, the liquidity position of the banking sector improved and banks reduced their external indebtedness mainly through repayment of short-term loans.

The total external debt of the banking sector shrank from 14.1 per cent. of GDP at the end of 2011 to 9.4 per cent. of GDP as of 31 December 2015. General government external debt increased in the period between December 2011 and December 2015, but Bulgaria retained its low external public debt levels at 12.7 per cent. of nominal GDP as of 31 December 2015. Intercompany lending as percentage of GDP has been generally stable in the period 2011-2014. However, in mid-2015, the stock of external debt relating to intercompany lending fell sharply, due to a unilateral debt write-off on the part of a foreign parent creditor. As a result, at the end of December 2015, Bulgaria's total gross external debt fell significantly as a percentage of GDP as compared to its 2011 level. Average maturities of GED have also increased with

the share of short-term GED in total GED falling steadily in the years after the global financial crisis. The share of short-term GED has fallen from 25.2 per cent. as at 31 December 2011 to 18.0 per cent. as at 31 December 2015.

INDEBTEDNESS

Management of State Debt

The Government Debt Act was adopted in 2002 to unify existing regulatory arrangements and ensure clarity with regard to procedures and the authority to issue debt.

For the purpose of transposing the main requirements of Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the EU Member States and on establishing the framework for implementation of the respective regulations, the PFA was enacted in 2013 and became effective on 1 January 2014. The PFA regulates the development and management of public finance, so that the mid-term budget framework may be relied upon as an instrument for mid-term forecasting and planning. The PFA applies strict fiscal rules to be observed by central and local governments as well as the general government. The PFA sets the development of reliable practices of projecting and monitoring of the subsectors of the general government. The legislation summarises the national fiscal rules for the balance of the general government and for the budget of the consolidated fiscal programme (calculated on the cash-based principle); it also sets out the maximum limit of expenditure under the consolidated fiscal programme and the nominal value of consolidated debt for the general government.

The provisions of the Government Debt Act and the PFA include the following:

- a comprehensive definition of different types of debt;
- an outline of debt-related powers;
- restrictions as to debt growth;
- an obligation to announce a medium-term debt management strategy and publish an annual report on its implementation;
- regulation of the powers and procedures for the project proposals financed by government loans and for issuing government guarantees; and
- regulation of the fiscal agency of the BNB.

A new definition of the consolidated debt of the general government was introduced in accordance with the requirements of Council Regulation (EC) No 479/2009 of 25 May 2009. This regulation addresses the application of the Protocol on the EDP. Besides the debt undertaken in accordance with the Government Debt Act, the scope of government debt also includes other forms of debt, including, in some instances, funds received from the EU. The PFA also calls for adherence to the Maastricht criterion on the ratio of general government debt against GDP (which may not exceed 60 per cent. at the end of each year), and it also provides for specific measures which limit the possibilities of exceeding this benchmark.

The conservative approach to defining the value of the consolidated debt of the general government is also applied in setting a debt threshold of 40 per cent. of GDP in regards to mid-term budget target. This threshold sets a limitation concerning the structural deficit which must not exceed 0.5 per cent. of GDP on a year-on-year basis.

The Council of Ministers is the body which approves debt on behalf of the state and issues government guarantees in accordance with the requirements of the Constitution. The authority to issue government securities ("**GS**") and to negotiate and sign government loan agreements and government guarantee agreements within the ambit of the State Budget Law is delegated to the Minister of Finance. The Ministry of Finance manages and monitors debt and provides official information on debt performance.

The BNB is the agent for state debt. The BNB is responsible for maintaining systems for registering and servicing state debt, organising and holding auctions of GS, registration of transactions with GS in the secondary market and other mutually agreed activities. See "*Monetary and Financial System – Structure of the BNB*".

Government policy regarding the primary market of GS contributes to the efficiency and transparency of both the primary and secondary market of GS, and ensures the provision of accurate information in

relation to such GS. Some decisions that are particularly relevant to primary market development include the choice of auction system and the establishment of a system of primary dealers.

The Government Securities Auction System

The Government Securities Auction System (the "**GSAS**") was initially developed by the BNB in 1991 as part of the Electronic System for Registration and Trade in Government Securities ("**ESROT**"). The system has been developed and updated on multiple occasions.

In 2004, the BNB introduced a new auction system. It was developed as an independent system ensuring a fully automated direct execution of auction bids in line with the provisions of Ordinance No. 5 of Ministry of Finance and BNB on the Procedure and Terms for Acquisition, Registration, Redemption and Trade in Government Securities ("**Ordinance No.5**"). The replaceable technical devices used by GSAS for communication with GS auction participants (SWIFT and WEB-based interface in applying universal electronic signature) comply with international procedures and standards and enable the integration of new users regardless of their location at minimum costs.

The updated system reduces the auction time and the time for communicating auction results to bidders. This is an open auction system and can be updated to keep up with the GS market developments and regulatory amendments.

GSAS functionality meets issuers' requirements for technical support of debt management operations by allowing auctions of different types to be held simultaneously. The interest rate conventions set up in the system are aligned with those of EU Member States.

Auctions are conducted pursuant to Chapter Two and Chapter Six (dealing with repurchases) of Ordinance No. 5. Participation in these auctions is performed by competitive bids. By decision of the Minister of Finance, some of the GS selling auctions also allow non-competitive bids. Bidders may change their bids in an auction until closing bid time, after which the bid becomes irrevocable. The last quotation of each relevant bidder is considered to be their final bid.

The Minister of Finance approves which bids are acceptable. Based on that approval, an auction is closed and the auction data is transferred directly to ESROT through a dedicated interface. The competitive bids are paid up at the price quoted in the bid and this is a rule followed in the so-called multiple price auction. Non-competitive bids are paid up at the weighted average price of approved competitive bids.

The System of Primary Dealers

The System of Primary Dealers was established in Bulgaria in 1996 in line with the practice in other European countries with developed financial markets. The requirements with which GS primary dealer applicants should comply are set out in Chapter Two of Ordinance No. 15 of Ministry of Finance and BNB on the Control over Transactions in Government Securities, which stipulates the selection procedure. The list of the primary dealers of GS is approved by the Minister of Finance. The investment intermediaries and banks which are included in the list sign a contract for primary dealership in GS with the Ministry of Finance. This contract defines the contractual obligations of the parties. The system of primary dealers ensures non-discriminatory access to the GS market and is strictly abided to by the Ministry of Finance and the BNB.

The primary dealers of GS for the period between 1 January 2016 to 31 December 2016 include Allianz Bank Bulgaria AD, DSK Bank EAD, United Bulgarian Bank AD, Municipal Bank AD, First Investment Bank, Raiffeisen Bank (Bulgaria) EAD, Cibank EAD, Citibank Europe PLC. – Bulgaria Branch, Société Générale Expressbank AD, Unicredit Bulbank AD, Central Cooperative Bank AD and Eurobank Bulgaria AD.

In addition to the above, the Ministry of Finance maintains an active dialogue with participants in the government debt market.

Secondary market of GS

In accordance with the Law on the Government Debt and the Government Debt Agency Agreement between the Ministry of Finance and BNB, the latter develops and organises a GS settlement system ("**Settlement System**") with members, who can be primary dealers, sub-depositories of GS or other

persons determined pursuant to Article 3 of Ordinance No. 5 under common rules ensuring the fulfilment of obligations by the system participants based on an agreement. The Settlement System comprises of the ESROT and a System of Government Securities Settlement Accounts ("GSSA") connected through a direct interface for automated data exchange. The ESROT participants are also participants in GSSA.

The Settlement System functions in compliance with the recommendations for the GS settlement systems developed by the Committee on Payment and Settlement Systems and the Technical Committee of the International Organisation of Securities Commissions, the recommendations of the Committee of European Securities Regulators/ESCB, and the ECB standards of using securities settlement systems in the EU for the credit operations of the ESCB. The settlement of GS is accomplished through the Real Time Gross Settlement System of the BNB in central bank money. Settlement cycle is T+0 and the settlement model is delivery versus payment. By the end of 2013, the Settlement System had become an auxiliary system (TARGET2 BNB), which ensures real time transaction-by-transaction processing (DVP Model 1 settlement), irrespective of the government debt instrument's currency denomination.

The BNB operates the Central Securities Depository ("CSD") for GS. Participants in ESROT are primary dealers of GS; GS sub-depositaries; investment intermediaries other than GS primary dealers, whose licence covers investment services under the Law on the Markets in Financial Instruments, including those from other EU Member States, banks other than primary dealers or sub-depositaries of GS and other CSDs. The system is designed as a two tier model. In the first level of holding, the CSD maintains the accounts of the GS sub-depositaries in the system and the second level comprises GS sub-depositaries who maintain the accounts of their clients.

On 2 December 2013, a direct link between the Government Securities Depository of the BNB and the Luxembourg-based International Central Securities Depository ("ICSD") was established, thus allowing the direct participants in the Settlement System to effect cross-border transfers of government debt instruments issued in the domestic market (irrespective of their currency denomination). This is expected to ensure better protection of domestic and foreign investments in Bulgarian government debt instruments, and facilitate the Settlement System's successful integration into European market infrastructure.

At the end of 2014, the Ministry of Finance commenced work on a project aimed at introducing a platform for secondary market government bond trading. For this purpose, a joint working group with BNB was established. Furthermore, measures related to development and modernisation of the government securities market in Bulgaria have been included in the Government programme for sustainable development of Bulgaria for the period 2014-2018, which demonstrates the commitment of the Government to make further developments in this sector.

The working group has outlined and defined all the necessary measures that should be undertaken to modernise the secondary market of government securities, in order for it to be compliant with all the disclosure requirements and pre/post trading transparency and liquidity, according to MiFID II. As a result, in November 2015, the working group selected the electronic platform of Bloomberg – E-Bond as the trading venue and to list local government securities on the Bulgarian Stock Exchange – Sofia.

Key responsibilities of the Ministry of Finance in relation to the debt issue policy

The Ministry of Finance is responsible for measures regarding domestic and external government debt management and planning, organising and controlling activities related to implementation of the issue policy in the domestic market.

As part of the debt issue policy, the Ministry of Finance carries out activities related to the announcement of any forthcoming auctions for GS issuance on the basis of Ordinance No. 5.

The Ministry of Finance is also responsible for scheduling the monthly and annual calendars for domestic GS issues, including monitoring and analysing domestic debt instruments market developments, especially the quotations of the respective issues on the secondary market.

The BNB and the Ministry of Finance are together responsible for transparency of the government debt market by providing public disclosure (on the website of the Ministry of Finance and the BNB) of:

- debt management strategy;

- monthly issue calendars;
- monthly bulletins with extensive government debt statistics and analysis;
- annual review of government debt;
- legal acts;
- detailed information about the status and tendencies of government debt (including forthcoming issues and the level of state guarantees; and
- the official information on consolidated general government debt shall be disclosed by the Ministry of Finance in the month following the month of publication of that data by the Commission (Eurostat).

In 2003, the State Budget Law introduced for the first time annual limits on the maximum volume of new government and government guaranteed debt that may be assumed as well as the maximum amount of outstanding government debt as of the end of the year.

The local government debt, debt of social security funds, the BNB, and other local entities shall not be government debt and shall not entail any obligations for the state except where a government guarantee was issued.

In accordance with the PFA, the nominal amount of consolidated general government debt at the end of every year may not exceed 60 per cent. of the GDP. If the debt exceeds 60 per cent. of GDP, the medium-term budgetary forecast and the State Budget Act shall set out measures aimed at reducing that debt by at least 5 per cent. of the excess ascertained per annum until reaching the ratio of 60 per cent. The consolidated general government debt at the end of every year, as a proportion of GDP, may not exceed the ratio of the preceding year if that ratio is higher than 60 per cent. In the event that consolidated general government debt exceeds 60 per cent. of GDP, State Budget legislation for the relevant year may set out additional constraints on the municipalities and social security funds accruing further debt.

The Minister of Finance develops a three year government debt management strategy (the "**Strategy**"), which is approved by the Council of Ministers. The Strategy is updated annually and this update will be approved by the Council of Ministers together with the medium term budgetary forecast. This allows for the timely and adequate redefinition of part of the objectives and measures in accordance with economic development, market indicators and results achieved in the course of the implementation of the Strategy.

The Strategy is a fundamental document aimed at summarising the main priorities of the Government in the area of medium term government debt management and defining the tools used for its implementation. Its main purpose is to assess and limit as much as possible the various risks generated by the debt structure and profile. The main objective of the Strategy is to ensure smooth financing of the budget and refinancing of the debt at an optimal cost and degree of risk.

In 2003, by decree of the Council of Ministers, an Ordinance was adopted for the purposes of setting out the requirements for investment projects financed by Government loans. The Ordinance was further developed in response to the new legal requirements for more efficient and effective planning and management of public finances. At the end of 2015, the Council of Ministers by decree adopted the new "Ordinance on the requirements to be met by the investment projects financed by government loans and the projects applying for financing by a sovereign guarantee and on the procedure of their consideration", which came into force on 1 January 2016 and affects all ministries. Under this new Ordinance, it is expected that Government loans will only be available for investment projects for which there is no other alternative source of financing and provided that such investment projects are a priority under the Bulgarian Cabinet Governance Programme on the stable development of the country for the period 2014-2018.

According to the Government Debt Act, the Minister of Finance shall sign on behalf of the Government the government loan agreements on the basis of a Council of Ministers decision according to the procedure set out in the International Treaties of the Republic of Bulgaria Act. The Council of Ministers may also assign this authority to other government authorities so that they may also participate, together with the Minister of Finance, in the negotiations for government loans. Government guarantees are issued

by the Council of Ministers in line with the requirements of the Constitution and the ratification procedures contained therein. The negotiation and signing of guarantee agreements and letters of guarantee is delegated to the Minister of Finance. Projects financed by government loans or by government guarantees shall be approved by the Council of Ministers in accordance with the legally defined procedure. Approved projects constitute a part of the State Budget Act for the respective year.

Methodology

Bulgaria uses its national methodology for reporting purposes with international financial institutions ("IFI") and for comparison with other countries. The state debt under national methodology is only the debt incurred directly by the state under the provisions stipulated in the State Debt Act. Local authorities and Social Security Funds issue debt under special regulations, namely the Municipal Debt Act and Social Insurance Code, which impose specific terms and conditions when undertaking debt. However, the debt figures for all are included within the reporting provisions found stipulated in the PFA, Eurostat and the EDP.

The national methodology, in accordance with the PFA, also provides full coverage of the financial instruments used in preparing the debt statistic figures for the country. Further to this, it also sets out the statistics under Eurostat methodology requirements, as defined in Council Regulation (EC) No. 479/2009 and its amendment, Regulation (EC) No. 679/2011.

As a member of the EU, Bulgaria reports on the consolidated debt of the general government to Eurostat, the statistical body of the Commission (in compliance with the ESA 2010 methodology for comparisons with other countries in EU – 28). The general government in Bulgaria consists of Central Government, Local Government and the Social Security Funds subsector. See "*Public Finance*" for more information on ESA 2010 methodology. The introduction of ESA 2010 through Council Regulation (EC) No. 549/2013, effective from September 2014, has no impact on the reporting requirements for the consolidated debt of the general government.

Eurostat's methodology differs from the national methodology for state debt as the former requires the inclusion of debt incurred under financial leasing contracts, cessions, factoring without recourse provisions, and those financial obligations of the state which are not connected with real financial instruments or the debt of non-financial public entities.

The following table sets out general government debt and its subsectors as reported under Eurostat's requirements for the four year period between 1 January 2011 and 31 December 2014 and the nine month period between 1 January 2015 and 30 September 2015:

	As at 31 December				As at 30 September
	2011	2012	2013	2014	2015
	<i>(EUR millions, except for percentages)</i>				
General Government Debt	6,284.2	7,356.6	7,532.0	11,535.0	11,818.8
General Government Debt (as a percentage of GDP)	15.3	17.6	18.0	27.0	26.8
Central Government Debt	6,052.4	7,172.1	7,417.2	11,411.8	11,677.0
Central Government Debt (as a percentage of GDP)	14.8	17.2	17.7	26.7	26.4
Local Government Debt	481.4	502.5	475.2	522.7	590.2
Local Government Debt (as a percentage of GDP)	1.2	1.2	1.1	1.2	1.3
Social Security Funds Debt	8.3	6.7	4.9	3.1	2.1
Social Security Funds Debt (as a percentage of GDP)	0.0	0.0	0.0	0.0	0.0
Nominal GDP (annual data).....	40,955.1	41,693.3	41,911.8	42,750.9	44,161.8

⁽¹⁾ General Government Debt under Eurostat methodology is not equal to the arithmetical sum of the three sub-sector debts due to consolidation between the sub-sectors.

⁽²⁾ Final data as of 31 December 2014 (October Notification Tables for Eurostat) and preliminary GDP for 2015.

Source: Eurostat, Ministry of Finance, NSI

With respect to the Eurostat requirements and ESA 2010 methodology, Bulgaria's ratio of general government debt to GDP was ranked third lowest in the EU, standing at 26.8 per cent. as at the end of September 2015 (see table above).

The classification of Bulgaria's external and internal debt depends on the governing law of the debt issued. All issuances under Bulgarian law are classified as internal debt and all debt issuance under foreign law, including debt incurred abroad in the form of loans (such as from IFIs or bilateral credit agreements), are classified as external debt.

State Debt

State debt under Bulgaria's national methodology comprises only debt incurred directly by the state under the provisions stipulated in the State Debt Act. State debt discussed in this section differs from the definition of General Government Debt and Central Government Debt which are defined in accordance with Eurostat methodology. See "*Indebtedness – Methodology*".

According to the Ministry of Finance, the nominal amount of state debt as at 31 December 2015 was EUR 11,613.5 million, of which EUR 7,889.7 million was external debt and EUR 3,723.9 million was domestic debt (see table below). In nominal terms the state debt increased by EUR 312.8 million compared to the level registered at the end of 2014. As at 31 December 2015, the relative share of domestic state debt was 32.1 per cent., and of external state debt was 67.9 per cent. The state debt to GDP ratio at the end of 2015 remains at the same level reported at the end of 2014: 26.3 per cent.

As at 31 December 2015, the state debt structure (currency, interest rate, type of instruments and maturity) was well balanced. The share of state debt denominated in EUR and BGN at the end of 2015 was 98.9 per cent. (23.0 per cent. in BGN and 75.9 per cent. in EUR, respectively). Fixed rate state debt was 93.3 per cent. and floating rate state debt was 6.7 per cent. of the total. At the end of 2015 the residual maturity of the state debt is 8 years, 3 months and 28 days.

Of the outstanding state debts at 31 December 2015, 32.1 per cent. were government securities issued on the domestic market, 48.1 per cent. are bonds issued in the international capital markets and 19.8 per cent. are external loans. Moreover, 7.4 per cent. of these external loans are in the form of government investment loans intended for the implementation of investment projects which are a priority for Bulgaria's economy.

The domestic market noted the following positive trends:

- During the last several years there has been a clear tendency in domestic debt market for yield reduction. The weighted average annual yield of issued government bonds and bills was 1.06 per cent. in 2015 (with a coverage coefficient of 2.05), 1.34 per cent. in 2014 (with a coverage coefficient of 2.00), 1.75 per cent. in 2013 (with a coverage coefficient of 2.33), 3.54 per cent. in 2012 (with a coverage coefficient of 2.75), 4.21 per cent. in 2011 (with a coverage coefficient of 2.4) and 5.06 per cent. in 2010 (with a coverage coefficient of 3.31);
- The yield on the primary market for six month GS offered in 2015 is 0.32 per cent. with a coverage coefficient of 2.99;
- The yield on the primary market for three year GS offered in 2015 is 0.53 per cent. with a coverage coefficient of 1.81;
- The yield on the primary market for five year GS offered in 2015 is 0.97 per cent. with a coverage coefficient of 1.75;
- The yield on the primary market for 10 year GS offered in 2015 is 2.50 per cent. with a coverage coefficient of 2.18; and
- On 14 January 2016, the ECB published data for the harmonised long-term interest rate for convergence purposes. The indicator for Bulgaria as of December 2015 was 2.43 per cent. compared with 2.96 per cent. as of December 2014.

The following table sets out state debt (excluding state guaranteed debt) in accordance with the Ministry of Finance methodology for the five year period between 1 January 2011 and 31 December 2015:

	As at 31 December				
	2011	2012	2013	2014	2015
	<i>(EUR millions, except for percentages)</i>				
Domestic State debt	2,458.3	2,546.7	3,215.8	4,219.1	3,723.9
Domestic State debt (as a percentage of nominal GDP).....	6.0	6.1	7.6	9.8	8.4
External State debt	3,487.6	4,444.5	4,002.8	7,081.7	7,889.7
External State debt (as a percentage of nominal GDP)	8.5	10.7	9.6	16.6	17.9
Total State Debt	5,945.9	6,991.2	7,218.7	11,300.7	11,613.5
Total State Debt (as a percentage of nominal GDP).....	14.5	16.8	17.2	26.4	26.3
Nominal GDP	40,954.5	41,692.6	41,911.1	42,750.1	44,161.8

Source: Ministry of Finance, NSI

At the end of 2015, state guaranteed debt ("**SGD**") amounted to EUR 299.7 million and the majority of this was composed of external SGD. The ratio of SGD to state and state guaranteed debt was 2.5 per cent. (see table below).

Compared to the end of 2014, SGD fell by EUR 34.7 million in nominal terms by 31 December 2015. The ratio of SGD to GDP at the end of 2015 was 0.7 per cent. which represents a decrease of 0.1 percentage point compared to the end of 2014.

The relatively low values of these indicators are a prerequisite for low vulnerability of the debt portfolio to shocks driven by contingent liabilities. At the end of 2015, there were 10 government guaranteed loans, which were mainly divided between the transport (26.2 per cent.) and energy (56.5 per cent.) sectors.

The following table sets out SGD in accordance with the Ministry of Finance methodology for the five year period between 1 January 2011 and 31 December 2015:

	As at 31 December				
	2011	2012	2013	2014	2015
	<i>(EUR millions, except for percentages)</i>				
State Guaranteed Debt	611.8	515.4	395.0	334.4	299.7
State Guaranteed Debt as a percentage of total state and state guaranteed debt.....	9.3	6.9	5.2	2.9	2.5
State Guaranteed Debt as a percentage of GDP	1.5	1.2	0.9	0.8	0.7
State Guaranteed Debt currency structure:					
in JPY (as a percentage of SGD)	56.2	53.1	48.2	49.8	52.6
in EUR (as a percentage of SGD).....	39.8	41.9	45.0	41.5	36.6
in BGN (as a percentage of SGD)	1.0	2.3	4.5	7.2	9.9
in USD (as a percentage of SGD).....	3.0	2.7	2.3	1.6	0.9
State Guaranteed Debt interest rate structure:					
with fixed interest rate (as a percentage of SGD)	64.3	62.8	61.2	65.6	70.9
with variable interest rate (as a percentage of SGD)	35.7	37.2	38.8	34.4	29.1
Average interest rate of SGD (as a percentage)	2.5	1.9	1.8	1.8	1.8
Residual maturity of SGD (in years).....	10.1	9.2	8.3	7.9	7.5

Source: Ministry of Finance

State Debt Service

The following table sets out state debt service in accordance with the Ministry of Finance methodology for the years 2011 to 2015:

	Actual				
	2011	2012	2013	2014	2015
	<i>(EUR millions)</i>				
Domestic State Debt					
1 Interest of domestic State bonds.....	86.6	80.6	92.3	109.7	117.9

	Actual				
	2011	2012	2013	2014	2015
	<i>(EUR millions)</i>				
2 Cost of cash management	0.2	0.2	0.3	0.3	0.3
3 Interest of domestic loans	0.0	3.0	0.0	0.0	0.0
4 Fees.....	0.0	0.0	0.0	0.0	0.0
Total Domestic State Debt	86.8	83.8	92.6	110.0	118.2
Foreign State Debt					
1 Interest of foreign state bonds	126.5	133.3	197.7	106.0	148.4
2 Interest of domestic bonds - non residents	0.8	1.0	1.2	2.6	5.3
3 Cost of foreign cash management	0.3	0.7	0.8	7.6	4.1
4 Interest of foreign loans	45.2	50.4	42.3	57.9	62.8
5 Fees.....	1.0	1.1	0.9	0.1	0.3
Total Foreign State Debt	173.8	186.4	243.0	174.2	220.9
Total State Debt	260.6	270.2	335.6	284.2	339.1

Source: Ministry of Finance

CLEARING AND SETTLEMENT

Book-Entry Ownership

Bearer Notes

The Issuer may make applications to Euroclear and/or Clearstream, Luxembourg for acceptance in their respective book-entry systems in respect of any Series of Bearer Notes. In respect of Bearer Notes, a Temporary Global Note and/or a Permanent Global Note in bearer form without coupons may be deposited with a common depository for Euroclear and/or Clearstream, Luxembourg or an Alternative Clearing System as agreed between the Issuer and the relevant Dealer. Transfers of interests in such Temporary Global Notes or Permanent Global Notes will be made in accordance with the normal Euromarket debt securities operating procedures of Euroclear and Clearstream, Luxembourg or, if appropriate, the Alternative Clearing System.

Registered Notes

The Issuer may make applications to Euroclear and/or Clearstream, Luxembourg for acceptance in their respective book-entry systems in respect of the Registered Notes to be represented by an Unrestricted Global Certificate. Each Unrestricted Global Certificate deposited with a common depository for, and registered in the name of, a nominee of Euroclear and/or Clearstream, Luxembourg will have an ISIN and a Common Code.

The Issuer, and a relevant U.S. agent appointed for such purpose that is an eligible DTC participant, may make application to DTC for acceptance in its book-entry settlement system of the Registered Notes represented by a Restricted Global Certificate. Each such Restricted Global Certificate will have a CUSIP number. Each Restricted Global Certificate will be subject to restrictions on transfer contained in a legend appearing on the front of such Global Certificate, as set out under "*Transfer Restrictions*". In certain circumstances, as described below in "*Transfers of Registered Notes*", transfers of interests in a Restricted Global Certificate may be made as a result of which such legend may no longer be required.

In the case of a Tranche of Registered Notes to be cleared through the facilities of DTC, the Custodian, with whom the Restricted Global Certificates are deposited, and DTC, will electronically record the nominal amount of the Restricted Notes held within the DTC system. Investors may hold their beneficial interests in a Restricted Global Certificate directly through DTC if they are participants in the DTC system, or indirectly through organisations which are participants in such system.

Payments of the principal of, and interest on, each Restricted Global Certificate registered in the name of DTC's nominee will be to, or to the order of, its nominee as the registered owner of such Restricted Global Certificate. The Issuer expects that the nominee, upon receipt of any such payment, will immediately credit DTC participants' accounts with payments in amounts proportionate to their respective beneficial interests in the nominal amount of the relevant Restricted Global Certificate as shown on the records of DTC or the nominee. The Issuer also expects that payments by DTC participants to owners of beneficial interests in such Restricted Global Certificate held through such DTC participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such DTC participants. Neither the Issuer nor any Paying Agent or any Transfer Agent will have any responsibility or liability for any aspect of the records relating, to or payments made on account of, ownership interests in any Restricted Global Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

All Registered Notes will initially be in the form of an Unrestricted Global Certificate and/or a Restricted Global Certificate. Individual Certificates will only be available, in the case of Notes initially represented by an Unrestricted Global Certificate, in amounts specified in the applicable Pricing Supplement, and, in the case of Notes initially represented by a Restricted Global Certificate, in minimum amounts of US\$100,000 (or its equivalent rounded upwards as agreed between the Issuer and the relevant Dealer(s)), or higher integral multiples of US\$1,000, in certain limited circumstances described below.

Payments through DTC

Payments in U.S. dollars of principal and interest in respect of a Restricted Global Certificate registered in the name of a nominee of DTC will be made to the order of such nominee as the registered holder of such Note. Payments of principal and interest in a currency other than U.S. dollars in respect of Notes evidenced by a Restricted Global Certificate registered in the name of a nominee of DTC will be made or procured to be made by the Paying Agent in such currency in accordance with the following provisions. The amounts in such currency payable by the Paying Agent or its agent to DTC with respect to Notes held by DTC or its nominee will be received from the Company by the Paying Agent who will make payments in such currency by wire transfer of same day funds to the designated bank account in such currency of those DTC participants entitled to receive the relevant payment who have made an irrevocable election to DTC, in the case of payments of interest, on or prior to the third business day in New York City after the record date for the relevant payment of interest and, in the case of payments of principal, at least 12 business days in New York City prior to the relevant payment date, to receive that payment in such currency. The Paying Agent will convert amounts in such currency into U.S. dollars and deliver such U.S. dollar amount in same day funds to DTC for payment through its settlement system to those DTC participants entitled to receive the relevant payment who did not elect to receive such payment in such currency. The Agency Agreement sets out the manner in which such conversions are to be made.

Transfers of Registered Notes

Transfers of interests in Global Certificates within Euroclear, Clearstream, Luxembourg and DTC will be in accordance with the usual rules and operating procedures of the relevant clearing system. The laws of some states in the United States require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Restricted Global Certificate to such persons may be limited. Because DTC can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a Restricted Global Certificate to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

Beneficial interests in an Unrestricted Global Certificate may only be held through Euroclear or Clearstream, Luxembourg. In the case of Registered Notes to be cleared through Euroclear, Clearstream, Luxembourg and/or DTC, transfers may be made at any time by a holder of an interest in an Unrestricted Global Certificate to a transferee who wishes to take delivery of such interest through a Restricted Global Certificate for the same Series of Notes **provided that** any such transfer made on or prior to the expiration of the distribution compliance period (as used in "*Subscription and Sale*") relating to the Notes represented by such Unrestricted Global Certificate will only be made upon receipt by any Transfer Agent of a written certificate from Euroclear or Clearstream, Luxembourg, as the case may be, (based on a written certificate from the transferor of such interest) to the effect that such transfer is being made to a person whom the transferor, and any person acting on its behalf, reasonably believes is a QIB within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States. Any such transfer made thereafter of the Notes represented by such Unrestricted Global Certificate will only be made upon request through Euroclear or Clearstream, Luxembourg by the holder of an interest in the Unrestricted Global Certificate to the Fiscal Agent of details of that account at DTC to be credited with the relevant interest in the Restricted Global Certificate. Transfers at any time by a holder of any interest in the Restricted Global Certificate to a transferee who takes delivery of such interest through an Unrestricted Global Certificate will only be made upon delivery to any Transfer Agent of a certificate setting forth compliance with the provisions of Regulation S and giving details of the account at Euroclear or Clearstream, Luxembourg, as the case may be, and DTC to be credited and debited, respectively, with an interest in each relevant Global Certificate.

Subject to compliance with the transfer restrictions applicable to the Registered Notes described above and under "*Transfer Restrictions*", cross-market transfers between DTC, on the one hand, and directly or indirectly through Euroclear or Clearstream, Luxembourg accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Custodian, the Registrar and the Fiscal Agent.

On or after the Issue Date for any Series, transfers of Notes of such Series between accountholders in Euroclear and/or Clearstream, Luxembourg and transfers of Notes of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary

arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Euroclear or Clearstream, Luxembourg and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Euroclear and Clearstream, Luxembourg, on the other, transfers of interests in the relevant Global Certificates will be effected through the Fiscal Agent, the Custodian, the relevant Registrar and any applicable Transfer Agent receiving instructions (and where appropriate certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. Transfers will be effected on the later of (i) three business days after the trade date for the disposal of the interest in the relevant Global Certificate resulting in such transfer and (ii) two business days after receipt by the Fiscal Agent or the Registrar, as the case may be, of the necessary certification or information to effect such transfer. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

For a further description of restrictions on transfer of Registered Notes, see "*Transfer Restrictions*".

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Registered Notes (including, without limitation, the presentation of Restricted Global Certificates for exchange as described above) only at the direction of one or more participants in whose account with DTC interests in Restricted Global Certificates are credited and only in respect of such portion of the aggregate nominal amount of the relevant Restricted Global Certificates as to which such participant or participants has or have given such direction. However, in the circumstances described above, DTC will surrender the relevant Restricted Global Certificates for exchange for Individual Certificates (which will, in the case of Restricted Notes, bear the legend applicable to transfers pursuant to Rule 144A).

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a "banking organisation" under the laws of the State of New York, a member of the U.S. Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between participants through electronic computerised book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Direct participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC direct participant, either directly or indirectly.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in the Global Certificates among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither the Issuer, nor any Paying Agent nor any Transfer Agent will have any responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations.

While a Restricted Global Certificate is lodged with DTC or the Custodian, Restricted Notes represented by Individual Certificates will not be eligible for clearing or settlement through Euroclear, Clearstream, Luxembourg or DTC.

Individual Certificates

Registration of title to Registered Notes in a name other than a depository or its nominee for Clearstream, Luxembourg and Euroclear or for DTC will be permitted only (i) in the case of Restricted Global Certificates in the circumstances set forth in "*Summary of Provisions Relating to Notes in Global Form—Exchange—Restricted Global Certificates*" or (ii) in the case of Unrestricted Global Certificates in the circumstances set forth in "*Summary of Provisions Relating to Notes in Global Form—Exchange—Unrestricted Global Certificates*". In such circumstances, the Issuer will cause sufficient individual Certificates to be executed and delivered to the Registrar for completion, authentication and despatch to

the relevant Noteholder(s). A person having an interest in a Global Certificate must provide the Registrar with:

- (i) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Individual Certificates; and
- (ii) in the case of a Restricted Global Certificate only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange, or in the case of a simultaneous resale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A. Individual Certificates issued pursuant to this paragraph (ii) shall bear the legends applicable to transfers pursuant to Rule 144A.

Pre-issue Trades Settlement

It is expected that delivery of Notes will be made against payment therefor on the relevant Issue Date, which could be more than three business days following the date of pricing. Under Rule 15c6-1 of the Exchange Act, trades in the U.S. secondary market generally are required to settle within three business days ("T+3"), unless the parties to any such trade expressly agree otherwise. Accordingly, in the event that an Issue Date is more than three business days following the relevant date of pricing, purchasers who wish to trade Registered Notes in the United States between the date of pricing and the date that is three business days prior to the relevant Issue Date will be required, by virtue of the fact that such Notes initially will settle beyond T+3, to specify an alternative settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices and, in the event that an Issue Date is more than three business days following the relevant date of pricing, purchasers of Notes who wish to trade Notes between the date of pricing and the date that is three business days prior to the relevant Issue Date should consult their own adviser.

TRANSFER RESTRICTIONS

Restricted Notes

Each purchaser of Restricted Notes, by accepting delivery of this Offering Circular, will be deemed to have represented, agreed and acknowledged that:

1. It is (a) a QIB, (b) acquiring such Restricted Notes for its own account, or for the account of one or more QIBs, and (c) aware, and each beneficial owner of the Restricted Notes has been advised, that the sale of the Restricted Notes to it is being made in reliance on Rule 144A.
2. (i) The Restricted Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it, and any person acting on its behalf, reasonably believes is a QIB purchasing for its own account or for the account of one or more QIBs, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, or (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available) in each case in accordance with any applicable securities laws of any State of the United States and (ii) it will, and each subsequent holder of the Restricted Notes is required to, notify any purchaser of the Restricted Notes from it of the resale restrictions on the Restricted Notes.
3. The Restricted Notes, unless the Issuer determines otherwise in accordance with applicable law, will bear a legend in or substantially in the following form:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "**QIB**") THAT IS ACQUIRING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER RULE 144 UNDER THE SECURITIES ACT, IF AVAILABLE, OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 FOR REALES OF THE NOTES.

4. It understands that the Issuer, each Registrar, the relevant Dealer(s) and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. If it is acquiring any Notes for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.
5. It understands that the Restricted Notes will be represented by a Restricted Global Certificate. Before any interest in a Restricted Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Unrestricted Global Certificate or as the case may be, Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Unrestricted Notes

Each purchaser of Unrestricted Notes and each subsequent purchaser of such Unrestricted Notes in resales prior to the expiration of the distribution compliance period, by accepting delivery of this Offering Circular and the Unrestricted Notes, will be deemed to have represented, agreed and acknowledged that:

1. It is, or at the time Unrestricted Notes are purchased will be, the beneficial owner of such Unrestricted Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate.
2. It understands that such Unrestricted Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Unrestricted Notes except (a) in accordance with Rule 144A under the Securities Act to a person that it and any person acting on its behalf reasonably believes is a QIB purchasing for its own account, or for the account of one or more QIBs or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.
3. It understands that the Unrestricted Notes, unless otherwise determined by the Issuer in accordance with applicable law, will bear a legend in or substantially in the following form:

"THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND NEITHER THIS NOTE NOR ANY PORTION HEREOF MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT."
4. It understands that the Issuer, each Registrar, the relevant Dealer(s) and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.
5. It understands that the Unrestricted Notes will be represented by an Unrestricted Global Certificate, or as the case may be, a Global Note. Prior to the expiration of the distribution compliance period, before any interest in an Unrestricted Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Restricted Global Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

TAXATION

The following is a general description of certain material Bulgarian and EU tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes. This summary does not take into account or discuss specific double taxation treaties, the individual circumstances, and financial situation or investment objectives of an investor in the Notes. Prospective purchasers of Notes should consult their tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the Republic of Bulgaria of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes. This summary is based upon the law in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date, including changes which could have retroactive effect.

Bulgaria Taxation

Individuals

Principal amounts. Payment of principal on the Notes to individuals is not subject to taxation in Bulgaria.

Interest on Notes admitted to trading on a regulated market. Insofar as the Notes are admitted to trading on a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments (a "**Regulated Market**" and, for the avoidance of doubt, the Luxembourg Stock Exchange's regulated market is a "Regulated Market" for these purposes), interest on the Notes received by an individual is exempt from taxation in Bulgaria, irrespective of whether the individual is a Bulgarian tax resident or not and irrespective of the place where the individual is established for tax purposes.

Interest on Notes not admitted to trading on a Regulated Market. In case that the Notes are not admitted to trading on a Regulated Market, interest on the Notes, received by an individual who is a Bulgarian tax resident, or who is a non-Bulgarian tax resident established for tax purposes in an EU Member State and/or in the European Economic Area, or who is a non-Bulgarian tax resident acting through a fixed base in Bulgaria, is exempt from taxation in Bulgaria too. In such case, in order to avail of this relief, non-resident European Union and/or European Economic Area individuals should present before the Issuer an official document, issued by the relevant foreign tax administration, evidencing the tax residency status, as well as an affidavit stating that the circumstances qualifying the interest income as tax exempt are met (in the particular case the affidavit should state that the interest income originates from government Notes).

In case that the Notes are not admitted to trading on a Regulated Market, interest on the Notes received by an individual who is a non-Bulgarian tax resident and is established for tax purposes outside of a EU Member State and outside the European Economic Area is subject to a one-time tax in Bulgaria at the rate of 10 per cent. (unless treaty relief applies).

Capital gains realised on a Regulated Market. Capital gains realised from the sale or exchange of Notes on a Regulated Market by an individual who is a Bulgarian tax resident, or who is a non-Bulgarian tax resident established for tax purposes in an EU Member State and/or in the European Economic Area, or who is a non-Bulgarian tax resident acting through a fixed base in Bulgaria, are exempt.

Capital gains realised from the sale or exchange of Notes on a Regulated Market by an individual who is a non-Bulgarian tax resident, and is not falling into the categories of non-Bulgarian residents referred to in the preceding sentence, have not been explicitly exempt from taxation. Therefore, they could be subject to a one-time tax in Bulgaria at the rate of 10 per cent., levied on the positive difference between the sale price and the documented acquisition price of the Notes (unless treaty relief applies). The tax is to be reported in a tax return and paid by such individual before the end of the month following the quarter in which the capital gains are actually received. Any such prospective holders of Notes who are in any doubt as to their position should consult their own independent tax advisers.

Capital gains realised off a Regulated Market. Capital gains realised from the sale or exchange of Notes not on a Regulated Market by an individual who is a Bulgarian tax resident, or who is a non-

Bulgarian tax resident acting through a fixed base in Bulgaria is included in his or her annual taxable income and is subject to personal income tax in Bulgaria at the rate of 10 per cent.

Capital gains realised from the sale or exchange of Notes not on a Regulated Market by an individual who is a non-Bulgarian tax resident, irrespective of the place where the individual is established for tax purposes, is subject to a one-time tax in Bulgaria at the rate of 10 per cent., levied on the positive difference between the sale price and the documented acquisition price of the Notes (unless treaty relief applies). The tax is to be reported in a tax return and paid by such individual before the end of the month following the quarter in which the capital gains are actually received.

Special treatment of sole proprietors. An individual who is a Bulgarian tax resident and with regards to the Notes is acting as sole proprietor within the meaning of the Bulgarian Commerce Act, whether registered or not, is subject to taxation for any interest or capital gains as a legal entity at the rate of 15 per cent.

Legal Entities

Principal amounts. Payment of principal on the Notes to a legal entity is not subject to taxation in Bulgaria.

Interest on Notes admitted to trading on a regulated market. Interest on the Notes received by a legal entity, which is a Bulgarian tax resident or which is a non-Bulgarian tax resident acting through a permanent establishment in Bulgaria is included in the corporate income taxable base of the recipient and is subject to corporate income tax in Bulgaria at the rate of 10 per cent. Interest on the Notes received by a legal entity, which is a non-Bulgarian tax resident (unless acting through a permanent establishment), irrespective of the place where it is established for tax purposes, is exempt from taxation in Bulgaria.

Interest on Notes not admitted to trading on a Regulated Market. Interest on the Notes received by a legal entity, which is a Bulgarian tax resident or which is a non-Bulgarian tax resident acting through a permanent establishment in Bulgaria is included in the corporate income taxable base of the recipient and is subject to corporate income tax in Bulgaria at the rate of 10 per cent. Interest on the Notes received by a legal entity which is a non-Bulgarian tax resident (unless acting through a permanent establishment), irrespective of the place where it is established for tax purposes, is subject to a one time withholding tax in Bulgaria at the rate of 10 per cent., unless treaty relief applies.

Capital gains realised on a Regulated Market. Capital gains realised from the sale or exchange of Notes on a Regulated Market, received by a legal entity, which is a Bulgarian tax resident, or which is a non-Bulgarian tax resident acting through a permanent establishment in Bulgaria, are not treated as income for Bulgarian corporate tax purposes. Capital losses realised from the sale or exchange of Notes on a Regulated Market, received by the categories of legal entities referred to in the preceding sentence, are not treated as expense for Bulgarian corporate tax purposes. Capital gains realised from the sale or exchange of Notes on a Regulated Market by a legal entity, which is a non-Bulgarian tax resident (unless acting through a permanent establishment), irrespective of the place where it is established for tax purposes, are exempt from taxation.

Capital gains realised off a Regulated Market. Capital gains from the sale or exchange of Notes realised not on a Regulated Market, received by a legal entity which is a Bulgarian tax resident or which is a non-Bulgarian tax resident acting through a permanent establishment in Bulgaria is included in the corporate income taxable base of the recipient and is subject to corporate income tax in Bulgaria at the rate of 10 per cent.

Capital gains from the sale or exchange of Notes not on a Regulated Market, realised by a legal entity, which is a non-Bulgarian tax resident (unless acting through a permanent establishment), irrespective of the place where it is established for tax purposes, are subject to a one-time withholding tax in Bulgaria at the rate of 10 per cent. (unless treaty relief applies). Although the law names this tax on capital gains as "withholding" tax, it is payable by the recipient of the income. The tax on capital gains is levied on the positive difference between the sale price and the documented acquisition price. The tax on capital gains is to be reported in a tax return and paid by such non-resident legal entity before the end of the month following the quarter in which the respective income is actually received.

Gross-up

In addition to the above, in accordance with the terms and conditions of the Notes, if withholding or deduction for or on account of any taxes is or becomes payable in Bulgaria in respect of any payments of principal and/or interest in respect of the Notes, Bulgaria shall pay such additional amounts as will result in the receipt by the holders of the Notes of such amounts as would have been received by them had no such withholding or deduction been required, subject to the exceptions set out in Condition 8 of the terms and conditions of the Notes.

Bilateral Treaties for Avoidance of Double Taxation

As at the date of this Offering Circular, Bulgaria is a party to 68 bilateral treaties on the avoidance of double taxation. In cases where Bulgarian law imposes tax on interest received or capital gains realised in relation to the Notes (see the sections above, "- *Individuals*" and "- *Legal Entities*"), these treaties may provide different forms of tax relief. The application of any treaty relief in respect of income exceeding BGN 500,000 for the calendar year is subject to obtaining a tax clearance from Bulgarian revenues authorities under a special procedure, requiring filing of standard forms and tax residence certificate following receipt of respective income and before the deadline for payment of tax. Clearance statement should be issued within 60-day term, where the expiry of such term without any refusal is deemed a tacit approval of treaty relief application.

Prospective purchasers of Notes should consult their own tax advisers with regard to the applicability and effect of such treaties, and to treaty clearance procedures.

Other taxation

No Bulgarian VAT, stamp duty, registration, transfer, or similar tax is payable in connection with the acquisition, ownership, sale or disposition of the Notes by Bulgarian or non-Bulgarian investors in or holders of the Notes.

The Proposed Financial Transactions Tax ("FTT")

On 14 February 2013, the Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

Notes may be sold from time to time by the Issuer to the Dealers. The Dealers have, in a dealer agreement (the "**Dealer Agreement**") dated 6 February 2015 agreed with the Republic a basis upon which the Issuer may from time to time agree to sell Notes and upon which the Dealers may agree to purchase Notes. Any such agreement will extend to those matters stated under "*Terms and Conditions of the Notes*".

The Republic will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. The Republic has agreed to reimburse the Arrangers for certain of their expenses incurred in connection with the establishment of the Programme and the Dealers for certain of their activities in connection with the Programme.

The Republic has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement entitles the Dealers to terminate any agreement that they made to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Republic.

Certain of the Dealers and their respective affiliates may, from time to time, engage in further transactions with, and perform services for, the Republic in the ordinary course of their respective businesses. The Republic may apply all or part of the proceeds of any Notes issued pursuant to the Programme in repayment of all or part of any such credit facilities.

The Dealer Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche.

Selling Restrictions

United States of America

The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and, subject to certain exceptions, may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to United States persons, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this section of the Offering Circular have the meanings given to them by the U.S. Internal Revenue Code of 1986 and the Treasury regulations promulgated thereunder.

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to agree that, except as permitted by the Dealer Agreement, it has not offered, sold or delivered and will not offer, sell or, in the case of Notes sold in Bearer form, deliver the Notes of any identifiable Tranche (i) as part of their distribution at any time or (ii) otherwise until 40 days after completion of the distribution of such Tranche as determined, and certified to the Issuer, by the Fiscal Agent, or in the case of Notes issued on a syndicated basis, the Lead Manager, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes during the distribution compliance period (other than resales pursuant to Rule 144A) a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

Dealers may arrange for the resale of Notes to QIBs pursuant to Rule 144A and each such purchaser of Notes is hereby notified that the Dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

Any issuance of Dual Currency Notes and/or Index Linked Notes will be subject to such additional U.S. selling restrictions as the Republic and the relevant purchaser(s) may agree, as indicated in the applicable Pricing Supplement. Each Dealer has agreed and each purchaser will be required to agree that it will offer, sell or deliver such Notes only in compliance with such additional U.S. selling restrictions.

United Kingdom

Each Dealer has severally represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Bulgaria

Each Dealer has severally, warranted, represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) the Notes have not been and will not be registered for a public offer and/or admitted to trading in a regulated market in the Republic of Bulgaria; and
- (b) neither it nor any of its affiliates, nor any persons acting on its or its affiliates behalf, have publicly offered or sold, or will publicly offer or sell, any Note within the Republic of Bulgaria, other than in accordance with the laws of the Republic of Bulgaria.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No.25 of 1948, as amended; the "FIEA") and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

General

No action has been or will be taken in any jurisdiction by the Republic, the Arrangers or the Dealers that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Offering Circular or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Offering Circular comes are required by the Republic and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Offering Circular or any other offering material relating to the Notes, in all cases at their own expense.

None of the Republic and the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the Republic and the relevant Dealer shall agree and as shall be set out in the applicable Pricing Supplement.

Certain of the Dealers and their affiliates have engaged, are currently engaged and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer in the ordinary course of business. Such persons may have received, or may continue to receive, customary compensation. In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or its agencies. Certain of the Dealers or their affiliates

that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such short positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

GENERAL INFORMATION

Authorisation

The Republic has obtained all necessary consents, approvals and authorisations in the Republic of Bulgaria in connection with the establishment and update of the Programme and the issue and performance of the Notes under it. The establishment and update of the Programme and the issue of Notes from time to time under it was authorised by the 2015 State Budget Act of the Republic of Bulgaria, the 2016 State Budget Act of the Republic of Bulgaria, the resolution No. 84 of the Council of Ministers of the Republic of Bulgaria dated 9 February 2015, and by the law on ratification of the Agency Agreement, the Dealer Agreement and the Deed of Covenant, adopted by Parliament on 25 February 2015, sealed by the President on 25 February 2015 and published by the State Gazette Issue No. 16 on 27 February 2015, in force as of 27 February 2015.

Listing and admission to trading of Notes

Application has been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange.

Legal and Arbitration Proceedings

Save as disclosed in the section headed "Legal Proceedings" in this Offering Circular, Bulgaria is not involved in any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Bulgaria is aware) which may have, or have had during the 12 months preceding the date of this Offering Circular, a significant effect on the financial position of Bulgaria.

No Significant Change

There has been no significant change in the tax and budgetary systems, gross public debt, foreign trade and balance of payments, foreign exchange reserves, financial position and resources and income and expenditure figures of Bulgaria since 31 December 2015.

Documents Available

For a period of 12 months following the date of this Offering Circular, copies of the following documents will, when published, be available for inspection from the specified office of the Fiscal Agent and of the Listing Agent for the time being in Luxembourg:

- (a) the Agency Agreement, the Deed of Covenant and the forms of the Global Notes, the Notes in definitive form, the Coupons and the Talons;
- (b) a copy of this Offering Circular and any supplements to it; and
- (c) any future offering circulars, prospectuses, information memoranda or statements and supplements to this Offering Circular and any other documents incorporated herein or therein by reference.

In addition, copies of this Offering Circular and each Pricing Supplement relating to Notes which are admitted to trading on the Luxembourg Stock Exchange's regulated market are available on the website of the Luxembourg Stock Exchange at *www.bourse.lu*.

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg which are the entities in charge of keeping the records. The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Pricing Supplement. In addition, the Republic may make an application for any Notes in registered form to be accepted for trading in book-entry form by DTC. The CUSIP numbers for each Tranche of such Registered Notes, together with the relevant ISIN and (if applicable) Common Code, will be specified in the applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Pricing Supplement.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels. The address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of DTC is 55 Water Street, New York, New York 10041, United States of America.

Dealers transacting with the Republic

Each of the Dealers and their affiliates have or may have engaged, and may continue to engage, in investment banking and/or commercial banking transactions with, and may perform services for the Republic and its agencies in the ordinary course of business. See "*Subscription and Sale – General*" for further information.

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