



***Bulgaria's Peaks and Climate From 10,000 Feet ...***

***... Or From The Perspective of The Long Term Investor***

***Presented by***

***Atanas Goranov***

**Panel Discussion - Investment Climate  
Capital Link Conference  
Bulgaria In New Era  
Mar 9 2007**

**Rila Mountain**

This presentation reflects solely my personal opinions and observations. It does not reflect the position of any particular company. It is intended to discuss the investment climate in Bulgaria in general and does not represent any solicitation to purchase any securities. This does not represent investment advice. Investment decision should not be made relying upon this presentation. Investments carry risk of losing principal. Prior performance is not an indication of future performance. Any investor should independently consider all relevant risk factors before making an investment decision.

# The Success Story ...

**From ... 1997**

**To ... 2007**

<input type="checkbox"/> Country Rating	Not Rated	Investment Grade
<input type="checkbox"/> Taxation	Not Friendly	Investor Friendly
<input type="checkbox"/> Foreign Investment	Record Lows	Record Highs
<input type="checkbox"/> Capital Markets	Not functioning	Emerging
<input type="checkbox"/> Legal System	Problematic	Reformed
<input type="checkbox"/> Political Risk	High	Low

# The Equity Markets Reflected It ...



## Sofix Performance

Source: InvestorBG

Pirin Mountain



***What About The Credit Markets ?***

***Sredna Gora***

# History of Credit Upgrades From All Major Rating Agencies ...

## Moody's

Baa3 3/06  
Ba1+ 12/05  
Ba1 11/04  
Ba3+ 8/04  
Ba3 6/03  
B2 12/01  
B3 12/97  
Caa1 7/97  
Caa 9/96

## S&P

BBB+ 10/06  
BBB 10/06  
BBB - 6/04  
BB+ 5/03  
BB 10/02  
BB - 11/01  
B+ 5/00  
B 11/98

## Fitch

BBB 8/05  
BBB - 8/04  
BB+ 7/04  
BB 10/02  
BB - 1/02  
B+ 4/98

An Investment Made  
About 2000 Years Ago  
By the Romans

# Bulgaria's Credit Profile- Investment Grade

<HELP> for explanation.  
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P164 Govt CSDR

## CREDIT PROFILE

Republic of Bulgaria

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### MOODY'S

- 1) Outlook POS
- 2) CC LT Foreign Bank Depst Baa3
- 3) CC LT Foreign Curr Debt A1
- 4) CC ST Foreign Bank Depst P-3
- 5) CC ST Foreign Curr Debt P-1
- 6) LC Curr Issuer Rating Baa3
- 7) FC Curr Issuer Rating Baa3
- 8) Foreign Currency LT Debt Baa3
- 9) Local Currency LT Debt Baa3

### STANDARD & POOR'S

- 10) Outlook STABLE
- 11) Foreign Currency LT Debt BBB+
- 12) Local Currency LT Debt BBB+
- 13) Foreign Currency ST Debt A-2
- 14) Local Currency ST Debt A-2

### FITCH

- 15) Outlook STABLE
- 16) LT Issuer Default Rating BBB
- 17) LT FC Issuer Default BBB
- 18) LT LC Issuer Default BBB+
- 19) Foreign Currency LT Debt BBB
- 20) Local Currency LT Debt BBB+
- 21) Short Term F3

### JAPAN CREDIT RATING AGENCY

- 22) Foreign Currency LT Debt BBB+
- 23) Local Currency LT Debt A-

### THOMSON BANKWATCH

- 24) FC Sovereign Risk WR

# ***Credit Default Swaps Are a Thermometer of The Market*** ***(The Lower The Spread – The Lower The Perceived Credit Risk)***

**CBULG1U5**      **18.630Y** as of close 3/ 2 CMAN      Curncy **DES**

## **DESCRIPTION**

USD CDS/BGARIA SEN 5 YR

### **SECURITY INFORMATION**

Company Name: Republic of Bulgaria

Corporate Ticker: BGARIA

Currency: USD

Debt Type: SENIOR

Maturity: 5 YR

Day Count: ACT/360

Frequency: SemiAnn

Recovery Rate: 0.25

### **QUICK STATISTICS**

52Wk High

52Wk Low

History Since 10/ 1/04

Value Date 3/ 7/07

### **LINKS**

- 1) Corporate Securities
- 2) Credit Default Swap Spread Curve
- 3) RED Information

### **CDS SPREAD**

The Par Credit Default Swap Spread for a given maturity is the deal spread (as in the function CDSW<GO>) that makes the Credit Default Swap of that maturity price to par.

An aerial photograph of a mountain range, likely the Stara Planina. The terrain is rugged with steep slopes. The upper parts of the mountains are covered in green grass, while the lower slopes and valleys are a mix of green and brown, suggesting different vegetation or perhaps a forest fire. Several white, fluffy clouds are scattered across the landscape, some resting on the mountain peaks and others in the valleys. The lighting is bright, creating strong shadows and highlights on the terrain.

***... So What Is the Climate Like in the Credit Market ?***

***Stara Planina***

# Credit Default Swap Spreads on the 5 Year Bulgarian USD Bond

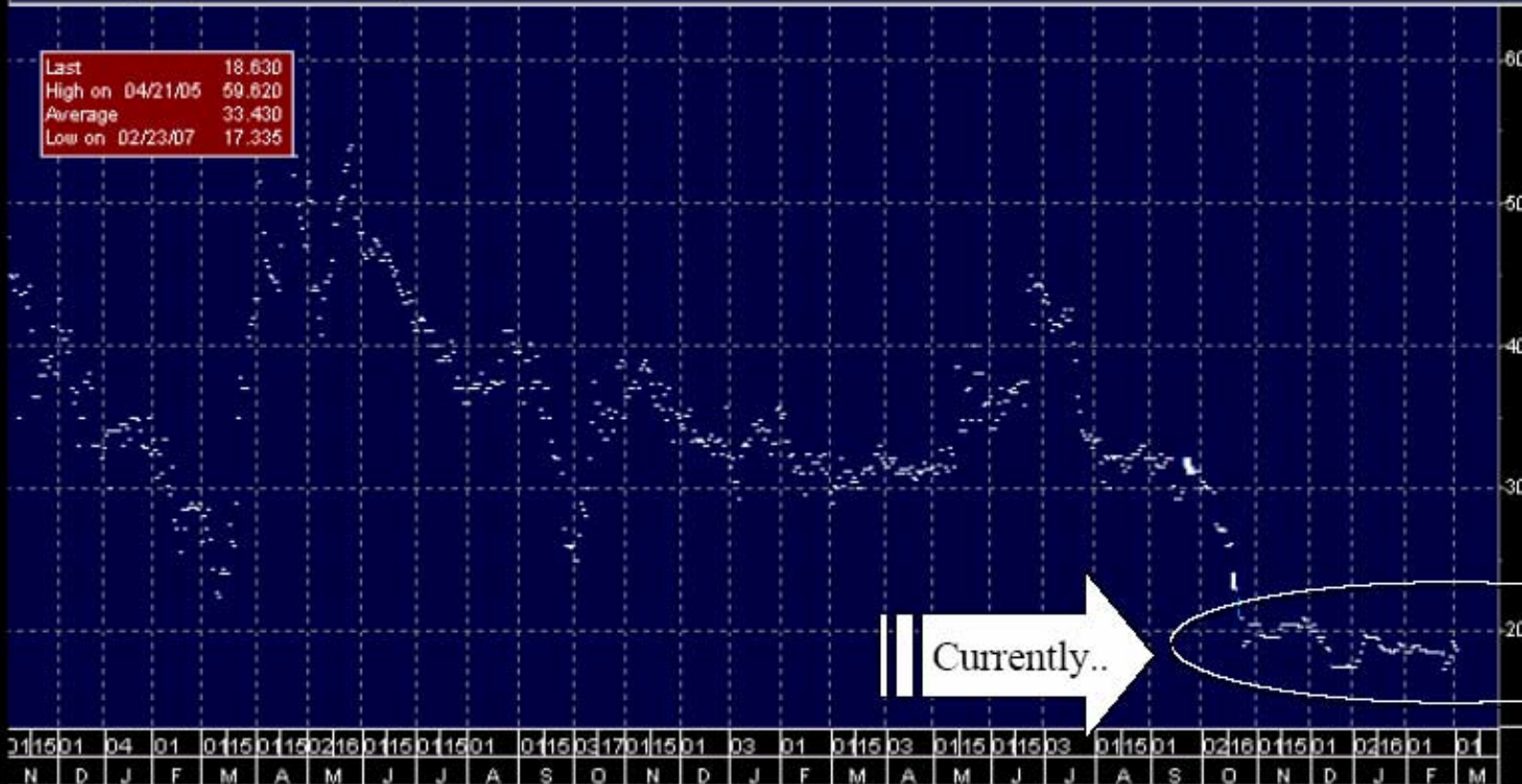
CBULG1U5

18.630Y as of close 3/ 2 CMAN

Currency GP

CBULG1U5 CMAN CURRENCY GPC - Candle Chart Page 1/42  
Range: 11/01/04 - 03/02/07 Upper: Candle Chart Mov. Avgs: Currency: USD  
Period: Daily

Last 18.630  
High on 04/21/05 59.820  
Average 33.430  
Low on 02/23/07 17.335



High Risk

Low Risk

Source: Bloomberg

# Looking Ahead ...

## Sovereign Risk:

- Continued fiscal surpluses,
- Rising FX reserves

Stable **BBB**

## Currency Risk:

- Persistently large CA deficit (est. 16% of GDP in 2006) - increased dependence On foreign capital inflows
- However **austere fiscal policy** and **strong direct investment inflows** will help maintain the currency board

Stable **BBB**

## Banking Sector risk:

- Competitive pressure on **profit margins** may drive further **consolidation**
- With removed credit restrictions in 01/2007 **rapid Credit growth could present a risk** to financial stability

Stable **BBB**

## Political risk:

- Robust Political institutions
- Main parties – **broadly centrists** in their economic policy orientation

Stable **A**

## Economic Structure risk:

- Large **current account deficit**.
- **Imports of capital goods** accelerated in recent years which will boost future exports

Stable **BB**

A photograph of a snowy mountain slope under a bright sun. A ski lift tower and chairs are visible in the foreground. The text "Welcome to the Panel" is overlaid in the center.

*Welcome to the Panel*